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**THE EFFECT OF BUSINESS GROWTH STRATEGIES ON ORGANIZATIONAL
PERFORMANCE: A CASE OF TIER III COMMERCIAL BANKS IN NAIROBI
CITY COUNTY, KENYA**



**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR MASTER IN BUSINESS ADMINISTRATION,
STRATHMORE BUSINESS SCHOOL, STRATHMORE UNIVERSITY**

2024


DECLARATION

This dissertation my original work and has not been submitted for examination in any other institution.

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Olivia Ong'ele

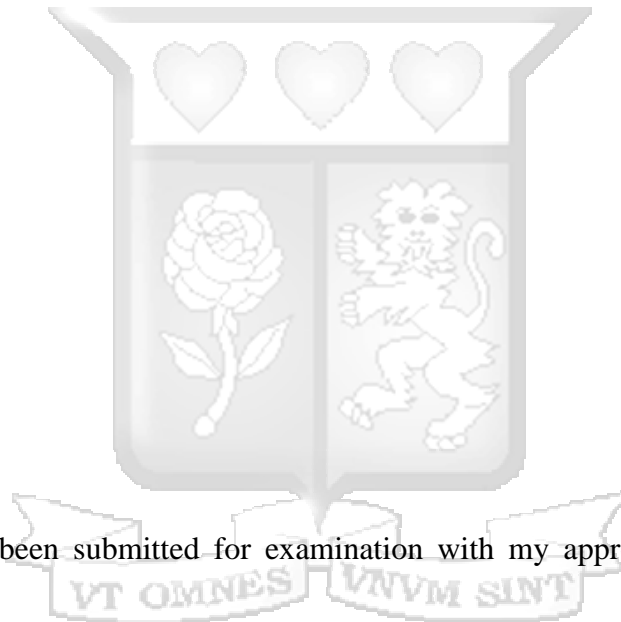
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Date: 22nd January 2024

Approval

This dissertation has been submitted for examination with my approval as the university supervisor



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ABSTRACT

Industry statistics have shown that continuously Tier-III commercial banks in Kenya have suffered from intense competition within the industry. This has resulted in a drop in the performance of the firms and the placement of several institutions under receivership. Further, most of the Tier III banks have failed to meet the prudential requirements as advanced by the regulator. It is from this backdrop that this research sought to determine if business growth strategies do influence the performance of the banks. The research specifically focused on product development strategies, diversification strategies, market penetration strategies, and market development strategies. The organization performance of the banks was measured using the balance scorecard perspective. The study used both the Ansoff Growth Matrix and the resource-based view to inform how business growth strategies can be leveraged to foster competitiveness and performance within the industry. The research implemented a descriptive cross-sectional design in the conduct of the study. This allowed for the examination of the study variables within a particular period. The population of the study was the 22 operational Tier III banks with 5 senior managers being considered for the study. The sample size for this study was 105 participants drawn from the banks. Structured questionnaires were applied in the data collection. The study analyzed the data using a quantitative approach; descriptive, correlation and regression analysis. The findings were presented using charts and tables. The research obtained a 75% response rate from the selected participants. The correlation tests showed there was positive relation between product development strategies, diversification strategies, market penetration strategies, market development strategies, and organization performance of Tier III commercial banks. Overall, the regression established that 78.5% of changes in the organization performance of Tier III commercial banks in Kenya are determined by the business growth strategies. The coefficient findings showed that market penetration and diversification strategies did have a significant positive influence on organization performance while market development and product development did not significantly impact the banks' performance. The research concluded that business growth strategies have significant positive effects on the organizational performance of Tier III commercial banks in Kenya. Findings also supported the conclusion that only market penetration and diversification strategies had a significant positive effect on the performance of the banks. The study recommends that the bank management constantly review existing products, develop new products, and align product decisions with expected earnings and wealth maximization objectives. The study recommends that the banks adapt digital marketing strategies and strategic partnerships with fintech firms as this would allow them to market services at lower costs and leverage newly developed fintech products. With market development and product development strategies exhibiting insignificant effects on organizational performance, this study calls on Tier III banks to establish unique channels where they can strategically cooperate with customers and industry players in the development of products and services that would cater to market needs.

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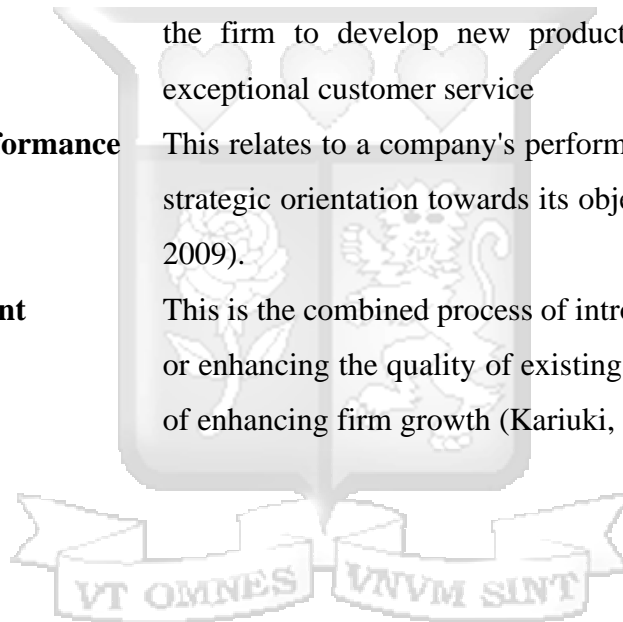
ABBREVIATIONS AND ACRONYMS

ATM	Automatic Teller Machine
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
KBA	Kenya Bankers' Association
RBV	Resource-Based View
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
UBA	United Bank of Africa
TBL	Triple Bottom Line
BSC	Balance Score Card



DEFINITION OF TERMS

Innovation	This is defined as the production of products and services by significantly improving functionality using technology (Forcadell, Aracil, & Úbeda, 2019).
Market development strategy	This is the approach used by organization to achieve its objective to increase in size, volume, and turnover (Egberi & Osio, 2019).
Market penetration strategies	The process of entering new markets (Ansoff,1957)
Organization capabilities	Rehman, Mohamed, and Ayoup (2019) define organizational capabilities as an organization's capacity to deploy strategic assets to improve performance and enable the firm to develop new products, innovate or offer exceptional customer service
Organizational Performance	This relates to a company's performance in relation to its strategic orientation towards its objectives (Kaplan R. S., 2009).
Product Development	This is the combined process of introducing new products or enhancing the quality of existing products with a view of enhancing firm growth (Kariuki, 2012).



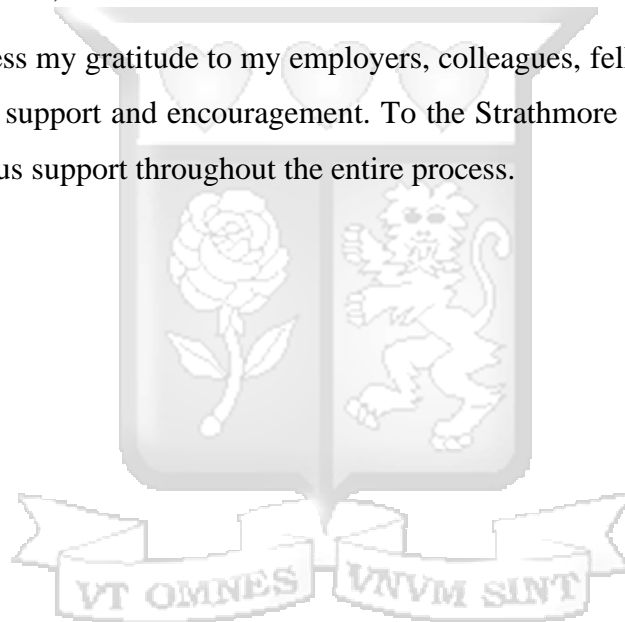
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DEDICATION

I dedicate this Dissertation to God Almighty, my pillar and source of inspiration, wisdom and inspiration. I also dedicate this dissertation to my family, my husband Jeff and children Giselle, JB and Jasmine and my house manager. Thank you for your support and encouragement throughout my academic journey.

I also dedicate this dissertation to my father and my mother who have loved me, encouraged me and believed in my capabilities. To my siblings, I truly thank you for your support and encouragement.



CHAPTER ONE

INTRODUCTION

This section introduces the study's concepts. It includes the background to the study, presents a conceptualization of the study's variables, the statement of the problem, the research objective and questions, and concludes by providing the scope and significance of the study.

1.1 Background to the Study

The dynamic business environment, changing customer needs and technological development are forcing firms to evaluate and experiment on the various ways they can stimulate growth in their business operations. Growth is exciting and according to Mwanja (2017), an indicator of success. Mwanja (2017) confirmed that growth presents an opportunity to attain economies of scale, expand their market share, and gain influence, power, and survivability. Organizations are crafting and implementing strategies to improve their annual revenue generation, number of customers, and operational capability (Danisman, 2018). In the financial sector, banks are having to contend with the needs of both Gen Z and Gen X customers as Zhao, Noman, and Hassan (2023) report, currently, up to 32 percent of bank customers are open to switching their primary bank. High fees, poor rates on deposits and loans, negative reputation, and poor customer experience were among the main sources of disgruntlement. To grow and become competitive, they must adapt appropriate strategies that would ensure they strengthen their product and service offering even when faced with challenges (Daihani & Kristaung, 2018).

Khaing (2023) considers growth to be the quantitative and qualitative development of a business, improving in terms of product and service quality, as well as in current output, sales revenue, product range, and resource productivity. Growth strategies aim to ensure firms create an edge above their competitors and win a larger market share through product and market development, diversification, and market penetration, even if they sacrifice short-term earnings (Gacanja, 2023). However, while important, Zheng and Escalante (2020) contend, and provide evidence linking aggressive growth strategies to bank failure. In the study, it was ascertained that it is important that banks adopt a conservative business growth stance which requires that banks carry out regular assessments of their business and operating environment and identify opportunities to exploit. Khaing (2023) asserts that good growth strategies ensure banks

capitalize on economies of scale, achieve higher profits, grow faster, and improve the perception of their brand.

Stambaugh et al. (2020) confirm that there exist multiple growth strategies that businesses can implement to grow and expand their operations and assert that all growth strategies are not appropriate for every business. In the study, Stambaugh et al. (2020) asserted that adopting the wrong strategy would have significant negative effects on business operations and affirmed that it is paramount that management match the strategy to the specific operating environment and business need. Banks use different types of strategies too (Benmelech, Yang, & Zator, 2023). In the United States and China, Benmelech, Yang, and Zator (2023) report that JPMorgan Chase Bank and the Industrial and Commercial Bank of China have achieved faster deposit growth through an aggressive strategy of new branch expansion alongside the enrolment of digital products at an accelerated pace. In Saudi Arabia where competition is fierce, strategic positioning of products and services was reported by Rabbani (2020) to have a significant impact on banks' competitiveness.

Ahmad et al. (2019) in their research highlighted the impact of the use of digital tools on firms' ability to improve communication, create real customer value, and generate financial returns. Candy, et al. (2022) concede that digital technology became especially valuable during the COVID-19 pandemic when business interruptions caused significant negative hiccups in business operations. Another strategy linked to bank performance was new product and design innovation which increased banks' product portfolio (Ameraldo, Saiful & Husaini, 2019). The study that evaluated Islamic banks confirmed that banks must continually innovate as they design and improve existing products to meet the needs of different types of customers. Indeed, Tarazi and Abedifar's (2020) research on Islamic banking affirmed that Internet and banking applications have emerged as important tools to enhance service delivery and expand the customer base. In the study by El-Massah (2020), gender-specific marketing strategies were shown to attract female customers in the UAE.

The banking industry is also becoming more concentrated in developing economies in Africa and according to Mmanyi (2020), smaller-rated firms in these regions are likely to struggle to expand their scope through branch expansion. Nevertheless, In Africa, the banking industry is fast-growing despite increased competition from foreign banks, tight laws, and institutional deficiencies (Asongu & Biekpe, 2018). Currently, retail banking in Africa has only a 38 percent penetration rate of the Gross Domestic Product (GDP); half of the worldwide average for

emerging markets (Chironga, Cunha, De Grandis, & Kuyoro, 2018). Banks in this region, however, encounter blocks such as low income and revenue rates, extensive money utilization in most economies, and limited credit bureau coverage (Rouse, 2017). Some banks are already exploiting the possibilities intrinsic to these problems, and the key is to harness the extensive emerging technologies in Africa to generate low-price products and creative distribution models (Rouse & Verhoef, 2016). Obi (2022) avers that in Nigeria, banks were leveraging financial inclusion strategies such as segmentation, product pricing, branch expansion, and the use of agents as well as ATMs to grow. According to Chironga et al. (2018), increased investment in financial innovations and expansion through branch networks significantly improves banks' profitability.

In Kenya's present banking scenario, barriers such as high operating costs and political interference have fragmented markets, and reduced profits due to non-performing loans, shifting regulatory frameworks, customer expectations, and rapid technological changes (Waithaka & Kimencu, 2018). According to the Central Bank of Kenya (2021), Kenya's banking sector is in the recovery phase after the 2020-2021 Covid-19 pandemic. The CBK (2021) report indicates that the sector is responding positively with the asset base growing by 11 percent, the capital adequacy ratio increasing from 19.0 percent to 19.5 percent in 2021, and profitability increasing by 75.7 percent to Ksh.197.0 billion from Ksh.112.1 billion in 2020. However, most of these positives were for larger banks as during the same period, large banks increased their combined market share to 74.76 percent, to the detriment of medium and small banks. Moreover, large banks accounted for 86.9 percent of the sector's profits and 74.2 percent of total deposits as small banks only made 0.8 percent in pre-tax profits and accounted for 8.6 percent of total deposits (CBK, 2021).

1.1.1 Business Growth Strategies

Reynolds and Yetton (2015) define growth strategies as those plans that companies institute to increase in size, turnover, and market presence. The researchers opine that growth and expansion can be used interchangeably since they both mean an increase in business activities. Spacey (2018) defines a business development strategy as a systematic plan focused on growing the business through the adoption of a new strategic direction. This is executed within a firm to find new growth opportunities and manage competitive threats within the market. Lee (2020) defines business growth as all the processes that are utilized in identifying, nurturing, and acquiring new clients and business opportunities that will stimulate growth and

profitability within the firm. Growth is a vital indicator of a healthy business, and researchers use factors such as market position, product quality, and consumer goodwill are among the indicators of a growing business (Khan & Wang, 2021). Capital adequacy, sales turnovers, profitability, assets growth, dividend payments, business earnings, and liquidity are among the parameters used to measure growth (El-Massah, 2020).

Burvill, Jones-Evans and Rowlands (2018) opined that businesses grow by increasing sales of existing products or services, introducing new products to existing markets and by entering new markets with new products. Spacey (2018) identified attracting new talent, improving the business and operating model, improving facilities and infrastructure, fostering firm capabilities, innovation, improving customer experience, and adopting new distribution, sales, promotional and branding channels as growth strategies. Akotch (2018) delineated internal from external growth strategies while Muchele (2019) identified new product development, market penetration, market development, and diversification as important growth strategies that enhance organizational performance. According to Khan and Wang (2021), diversification, product innovation, market penetration, and development strategy are the main strategies impacting the performance of Kenyan telecommunication firms. Muriuki and Kiiru (2019) also identified innovative product, price, service, and market development strategies as the most adopted strategies by Kenyan firms.

Primary theories examining business growth include Barney's (2002) resource-based view (RBV), the knowledge-based theory, the dynamic capabilities theory, and the upper echelon theory. The RBV looks at resource utilization capacity to generate uniqueness in product and service delivery while Porter's (1980) generic strategies of cost leadership, differentiation, and focus have been linked to organizational competitiveness. Dynamic capabilities theory helps in the identification and the development of strategies that companies can use to adapt to radical discontinuous change by integrating, building, and reconfiguring internal and external competencies to compete in rapidly changing environments (Ali, Hussin, Haddad, Alkhodary, & Marei, 2021). According to Ali et al. (2021), in the banking sector, the RBV and Dynamic Capability Strategy can assist in the selection of appropriate strategies to implement in their business as they show how companies can leverage tangible and intangible resources to achieve growth. They call for internal and external innovation to achieve growth and as per Kankkunen's (2022), assertions, among banks, product, service, and market innovation are among the most important growth strategies. Therefore, this study will focus on product

development, market penetration, market development, and diversification strategies and assess their influence on the performance of Tier III banks.

Market penetration rests on growth of current markets of operation, whereby firms improve profitability by increasing the volume of sales to existing customers, or by increasing the volume of their customer base in the existing market. Tien, Dana, Jose, Van Dat and Duc (2020) opine that market penetration strategies such as product strategy, promotion strategy and price strategy significantly influenced the entry of Mc Donald's into the Vietnam fast food industry. However, according to (Umashankar, Bahadir, & Bharadwaj, 2022), while mergers improve efficiency, in India, they reduce firm value by hurting customer satisfaction.

Market development leverages the entry of existing products into new markets, and from this perspective, existing products and services are made available to new markets. Lan (2023) opines that companies use development strategies to identify and develop opportunities to increase their product presence in markets that were previously unexplored. The study identified company communication, strategic advertising and dynamic pricing as the market-development strategies. Khatami, Asgarimehr and Mortaz-Hejri (2018) showed how banks leverage digital channels in marketing and communication to improve performance outcomes.

Product development rests on the development of new products for existing markets, and companies develop new products to serve the existing market. Product development is an innovative strategy whereby firms seek to understand their customer's needs and develop products that will meet their desires. The study by Fairouz and Wickramasinghe (2019) highlights innovative development of digital finance products as key to the competitiveness of Sri Lankan banks. In Ghana, (YuSheng, 2019) revealed that service innovation improves service delivery and loyalty among bank customers. Lee, Li, Yu, and Zhao (2021) show how fintech innovation increased the efficiency of Chinese banks.

Diversification, on the other hand, rests on the development of completely new products for entirely new markets (Kankkunen, 2022). Diversification is the act of increasing business diversity, whereby, businesses enlarge or vary the range of their products or field of operation. Diversification strategies calls for a business to identify and place products for specific markets. Firms seek diversity when they identify a niche market or when they want to mitigate risk and maximize returns by allocating investment funds across a variety of investments. Diversity promises new income-generating opportunities as well as a reduction in over-reliance of existing markets. The study by Luu, Nguyen, Vu and Tuan (2020) revealed a positive

relationship between income diversification and bank performance; Ripain and Ahmad (2018) agreed that service and product diversification were key to the outcome of the financial institution while (Ndungu & Muturi, 2019) found a positive effect of income, geographical and product diversification on bank performance in Kenya. Muriuki and Kiiru (2019) established a link between product, process, market, service and organization diversification with performance of Sacco institutions.

Banks are always looking to expand their market share, in addition to trying to grow the size of the total market by appealing to larger demographics or by reducing operating costs (Khatami, Asgarimehr, & Mortaz-Hejri, 2018). This research borrowed from Ansoff's (1965) matrix to investigate business growth strategies in the banking industry. The study focused on establishing the effect of market penetration, product development, market development and diversification strategies on the performance of Tier III commercial banks in Kenya.

1.1.2 Organizational Performance

Organizational performance (OP) has many interpretations in the literature such as George, Walker and Monster (2019) who defined OP as an organization's ability to attain its goals through efficient resource utilization while according to Abubakar, et al., (2019), organizational performance is simply the organization's ability to achieve its goals and objectives. Akpa, Asikhia and Nneji (2021) opine that OP is the degree to which organizational goals are attained and can be measured in terms of work outcome, intangible assets, customer link, and service quality. According to Plouffe (2018), organizational performance relates to the realization of core objectives, arguing that organizational performance is the interplay of the organization's attributes, actions, and environment that eventually results in an economic outcome. Hamann, Schiemann, and Bellora (2013) opined that organization performance corresponds to measurements such as organization's market effectiveness, growth in market share, quality products, filing of patents, or effectiveness in the market. Al Khajeh (2018) argues that organizational performance measurement has to focus on the financial aspects, shareholder aspects and product or service market performance.

The above definitions spur various ways of looking at organizational performance, but the primary elements remain the realization of business goals while having a minimum impact on the environment, with Tate and Bals (2018) arguing that companies must ensure they play a role in conserving the environment. Thus, two models emerged: the Triple Bottom line (TBL) by Elkington (1994) and the Balanced Scorecard (BSC) by Kaplan and Norton (2007). The

TBL is focused on assessing the performance of an organization from a non-traditional standpoint focusing on social, environmental, and financial measurements (Elkington, 2013). Specifically, it focuses on the planet, people, and profits (Elkington, 1994). From the planet's point of view, the theory implores firms to operate sustainably and have a positive impact on the planet. It then calls for the firms to recognize their responsibility to people.

Kaplan and Norton's (2007) Balanced Scorecard is a useful performance-measuring tool that identifies the financial metric (profits and overheads), customer metric (customer lifetime value, acquisitions, and satisfaction), internal process (efficiency and effectiveness of operations), and people metrics (learning and growth) as vital key performance measurements that determine a firm's utility and desirability of its functions in complex and dynamic environments. Kaplan and Norton (2007) argue that a high-performing organization is characterized by employee empowerment, involvement, participation, and a sound learning environment. Researchers label this a more holistic model since it provides a balance between financial performance aspects and all other stakeholder perspectives on performance (Yadav & Bhojanna, 2020; Alemayehu, 2020; Moges, 2021).

The Balanced Scorecard framework is widely used to measure the performance of organizations, including banks (Yadav & Bhojanna, 2020). The use of a Balanced Scorecard urges managers to have a better understanding of how to respond to the shareholders (financial perspective), how customers view the firm (customer perspective), what internal operations to adopt for competitive advantage (internal perspective), and what it can continue to improve and create value to grow (learning and growth perspective).

This study assessed the performance of Tier III commercial banks using financial, customer, and internal processes, and learning and growth perspectives based on the Balanced Scorecard approach developed by Kaplan and Norton (2007).

1.1.3 Tier III Commercial Banks in Kenya

The Central Bank of Kenya (CBK) groups commercial banks into three different tiers based on their market share, asset base, deposits, customer base, and financial strength (Kimathi & Mungai, 2018). Currently, CBK oversees the activities of 43 banks, with large banks having a different structural requirement to smaller banks. Fourteen of these banks are foreign-owned and provide sufficient competition to the local operators (Maingi, 2019). Tier I commercial banks comprise the 8 largest banks in Kenya (8) that control at least 65.99% of the market share, 66.7% of the total deposits, and 66% of the total assets. Tier II commercial banks are

medium size banks (11) banks control 26.1% of the market share and 26.01% of the total deposits, while Tier III banks (22) control 7.91% of the market share, 8.2% of total deposits, 1.8% of deposit accounts, and 1.8% of loan accounts (Central Bank of Kenya, 2020). To qualify as Tier III, capital assets must be limited to 250% of a bank's tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years (CBK, 2020).

Kenya's banking sector has witnessed robust growth in recent years. However, when categorized by tier classification, Kimathi and Mungai (2018) report that tier III banks' profit-generating ability was rapidly declining, with the banks reporting a loss of profit by 2.2% between 2015 and 2017. The CBK (2016; 2017) reports that more than five banks in this category have reported significant losses, including Jamii Bora bank, which reported a Ksh. 490 million loss, Consolidated Bank which reported a Kshs. 277.0 million loss and First Community bank which reported a Ksh 44 million loss. Dubai bank and Imperial bank were both placed under receivership for failing to meet capital and liquidity ratios, large non-performing loans and weak corporate governance structures. Further, the total assets of tier three banks reduced by 20.2% from Ksh 2.01 trillion in 2014 to 1.68 trillion by 2016 (Kamau, 2016).

CBK (2022) reports that 80% of tier III banks are struggling to sustain themselves in the increasingly competitive environment. While between 2015 and 2020 the banking sector exhibited strong growth, tier III commercial banks' pre-tax earnings declined by 2.2 percent as five banks in the category reported negative earnings (Gacanja, 2023). Currently, they account for 8.9 percent of the market share, 8.2 percent of reserves, 1.8 percent of savings accounts, and 1.8 percent of consumer loans. Gacanja (2023) asserts that their struggles have made them targets of mergers and acquisitions with Jamii Bora Bank, Spire Bank, Spire Bank, Trans National Bank, and MayFair Bank being recently acquired. This highlights the necessity of adopting appropriate business growth strategies to ensure that these banks can compete and remain operational in an increasingly competitive business environment. This study, therefore, focused on the 22 tier III commercial banks in Kenya in its analysis of how the growth strategies adopted by these banks influence their performance.

1.2 Statement of the Problem

Central Bank of Kenya (2018) report indicated that Tier III commercial banks had seen a dip in their profitability by 2.2% between 2015 and 2016. Further, banks within the tier, such as First Community Bank and Jamii Bora Bank, had posted losses running into 500 million

shillings. Furthermore, Consolidated Bank had posted a loss of 277 million, with both Dubai Islamic Bank, Chase Bank, and Imperial Bank being put under receivership. Maingi (2019) reveals that the growth in profit before tax of these banks was less than 20%, signifying a worrying decline. The industry reports further showed that most of the banks within Tier III have been facing problems in meeting their capital requirements, liquidity and non-performing benchmarks, poor corporate governance structures, and customer retention, which has resulted in persistent performance problems (Kimathi & Mungai, 2018). Amollo (2016) reports that bad returns within the banking sector have seen firms lose their value.

For banks to survive, improve performance, and become competitive in this environment, they must design, adopt, and successfully implement appropriate strategies (Chironga, Cunha, De Grandis, & Kuyoro, 2018). However, the Kenya Bankers' Association (2017) concludes that as much as 37% of formulated strategies, these banks never achieve their predetermined objectives. This is further supported by Muriuki (2016), who reviewed the adoption of cost leadership, differentiation, and focus and found out that most banks were not successful in the implementation process, and this resulted in poor performance. This is evidenced by some banks that have experienced unsatisfactory performance, with others such as Chase Bank and Imperial Bank ending up in receivership.

Research shows that growth strategies may influence operational performance. Luu, Nguyen, and Vu (2019), for instance, aver that although income diversification improves larger banks' performance in Vietnam, smaller regional banks did not realize significant benefits from diversifying their income portfolio. Al-Dmour, Asfour, Al-Dmour, and Al-Dmour (2020) determined that Jordanian banks were using marketing knowledge as assets and capabilities for developing expansion strategies that had seen the banks increase their market share. Haabazoka (2018) affirms that Zambian banks are adopting emerging technological innovations such as Internet Banking, Mobile Banking, and Automated Teller Machines (ATMs) to increase their profit-generating ability while according to Agolla, Makara, and Monametsi (2018), aver that commercial banks in Botswana leverage product and service innovation as customer retention strategies. A Tanzanian study collaborated with these findings and reported that electronic banking strategies have a significant impact on banks' customer attraction, market penetration, and financial outcomes (Ntyama & Maziku, 2020). Muthaura and Kinyua (2021) revealed a significant effect of technology integration on service delivery and customer satisfaction among in commercial banks.

The above studies show that different factors affect banks' performance in different ways, from customer attraction, retention, market development and penetration to financial growth. However, research focused on lower ranked banks is scarce. In the reviewed studies, Luu, Nguyen, and Vu (2019) only looked at one diversification strategy, Haabazoka (2018) specified financial performance metrics and Agolla, et al., (2018), only assessed innovation as a competitive strategy rather than a growth strategy. Thus, there is a need to address the gap and improve on available results that can be applied in both policy and practical solutions for commercial banks. Further, with the current Covid-19 pandemic continuing to impact various industries, it is expected that Tier III commercial banks faced a strenuous period. The study sought to address the gaps and establish the effect of business growth strategies on the performance of Tier III Commercial Banks in Kenya.

1.3 Objective of the Study

The study was guided by both main objective and specific objectives as follows.

1.3.1 Main Objective of the Study

The main purpose of the study was to establish the effect of business growth strategies on the performance of Tier III Commercial Banks in Kenya

1.3.2 Specific Objectives

- i. To determine the effect of market penetration strategies on the performance of Tier III Commercial Banks in Kenya
- ii. To determine the influence of market development strategies on the performance of Tier III Commercial Banks in Kenya.
- iii. To determine the influence of product development strategies on the performance of Tier III Commercial Banks in Kenya.
- iv. To establish the influence of diversification strategies on the performance of Tier III Commercial Banks in Kenya.

1.4 Research Questions

- i. What is the effect of market penetration strategies on the performance of Tier III Commercial Banks in Kenya?
- ii. What is the effect of market development strategies on the performance of Tier III Commercial Banks in Kenya?

- iii. What is the effect of product development strategies on the performance of Tier III Commercial Banks in Kenya?
- iv. What is the effect of diversification strategies on the performance of Tier III Commercial Banks in Kenya?

1.5 Scope of the Study

The study scope focused on the organizational performance of Tier III banks in Kenya and its relationship to business growth strategies. The conceptual scope of the study reviewed market penetration, market development, product development and diversification strategies. The theoretical scope of the research was limited to the resource-based view and the dynamic capabilities theory. The study adopted a quantitative approach to establish the relationship between the research variables. It will target managers from various departments within the banks. The study used a descriptive cross-sectional approach in its analysis and was conducted between March 2023 and January 2024.

1.6 Significance of the Study

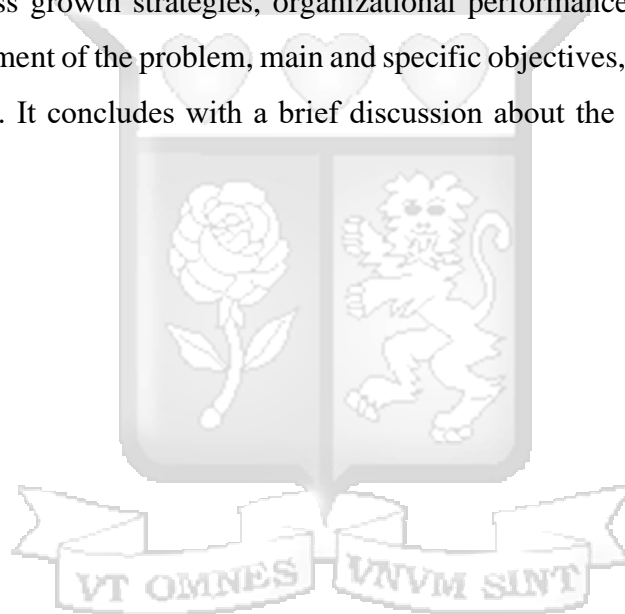
The study was significant to policymakers, practitioners and researchers. The study results were beneficial to the regulator as the findings of the study can be adopted in developing new policies that can be utilized to stimulate performance within Tier III banks in the country. Through the analysis, this study will contribute to policy development by providing evidence that the government will use in developing a benchmark of standards that will enable the smaller Tier III to improve their performance.

The findings were beneficial to the management of Tier III commercial banks in developing new strategies that can help in expanding their position within the market. This was quite critical within the current period when most firms are suffering from a downturn in economic activity because of the global pandemic. Hence, business growth strategies can be critical to improving business resilience within commercial banks in the country. The findings will also be of importance to managers responsible for strategy who may use the findings of this study to formulate effective monitoring and control systems to mitigate against the challenges while formulating and adopting business growth strategies that enhance market share growth and organization performance.

The study will further be beneficial in expanding the available empirical evidence on the performance of commercial banks in Kenya; as source material for future research work. The study is significant as it will build an understanding of the best strategies that commercial banks can employ to realize better performance outcomes. The study will also identify existing gaps that may interest future researchers. Scholars will also benefit as this study will provide theoretical development by incorporating the Resource-Based View and the Balanced Scorecard to explain the relationship between business growth strategies and organizational performance.

1.7 Chapter Summary

This was the study's introduction. It includes the background, a brief about the study variables, which include business growth strategies, organizational performance, and tier III banks. It then presents the statement of the problem, main and specific objectives, the research questions, and the study's scope. It concludes with a brief discussion about the study's significance to various stakeholders.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter detailed the study literature related to the connection between business growth strategies and commercial banks' performance. A theoretical review, review of previous empirical studies and conceptual framework were also outlined in this chapter.

2.2 Theoretical Foundation of the Study

This section presents the theories that underpin this study. This study was guided by the Resource-based view theory and the dynamic capabilities theory.

2.2.1 Resource-Based View

The resource-based view was postulated by Wernerfelt (1984) and according to Wernerfelt (1984), the way a firm allocates its resources determines performance. Adequate resources can be a source of competitive advantage (Taher, 2012). Resources are important in setting pace and improving ways of doing business (Kraaijenbrink, Spender & Groen, 2010). Resource-Based View involves the prudent and efficient use of the available resources to achieve organizational goals and objectives. Organizational resources include financial and human resources (Foss & Stieglitz, 2010). An organization that can allocate and use its resources efficiently can perform well and create value when they implements strategies by exploiting their internal resources and capabilities. The analysis of an organizations internal strengths and weaknesses is critical in attaining competitive advantage (Williams, 1992).

Resource-based theory is developed from the principle that the source of an organization's competitive advantage lies in their general internal resources, as opposed to their positioning in the external market (Hitt, Xu & Carnes, 2016). This means that rather than evaluating environmental opportunities in carrying out business, competitive advantage and growth depends on the unique resources and capabilities that an organization possesses (Barney & Arikan, 2005). This theory predicts that certain types of resources owned and controlled by organizations are necessary for the development and selection of strategies that can generate competitive advantage (Gallego-Álvarez, Prado-Lorenzo & García-Sánchez, 2011). In dynamic environments, tier III banks' ability to strategically deploy resources to gain more customers is essential to competitiveness. This study informs the importance of strategies that can lead to growth such as diversification strategies which focus on allocating resources to realize specific objectives. It emphasizes that the unique ability to manipulate resources is key

to growth and relates to this study since it explains the relationship between the ability to develop business growth strategies and sustained competitiveness.

2.2.2 The Dynamic Capabilities Theory

The dynamic capabilities theory was articulated by Teece, Pisano, and Shuen (1997) and is a strategic management framework that emphasizes that an organization's ability to adapt, integrate, and reconfigure internal and external competencies in response to rapidly changing environments is essential to competitiveness. The theory contrasts traditional opinions of the sources of competitive advantage which highlight the value of static resources and market positions (Singh & Rao, 2017). It instead asserts that dynamic capabilities are a critical source of long-term competitive advantage and suggests that competitive organizations have to continually develop new skills and capabilities to sense, and shape opportunities and threats, seize opportunities, and maintain competitiveness through efficient asset reconfiguration (Lawrence, 2015). According to Daihani and Kristaung (2018), dynamic capabilities strategies explain how the banking sectors can embark on different strategies to adapt to changes in their business environments while achieving sustainable competitive advantage.

According to Teece et al. (1997) competitive businesses strive to innovate and create new products and services, as well as markets as they recognise that this would increase their competitiveness and ability to satisfy their stakeholders' demands. In supporting this assertion, Valdez-Juárez and Castillo-Vergara (2021) call on firms to develop the ability to design and develop new processes and products, develop, utilize, and deploy knowledge and human capital towards growth, and transform knowledge into valuable products and services to increase organizational performances. The theory calls on banks to develop new innovative and sustainable business strategies and was used in the study by Lawrence (2015) to examine how the National Commercial Bank Jamaica sensed threats, mobilized resources to seize the opportunity, and transformed for corporate turnaround. The theory was used by Akram and Hilman (2018) to highlight how knowledge management, innovation, and diversification influence competitiveness in the banking sector. Locally, Kiarie (2019) used the theory in analysis of how organizational culture and DCs influence the performance of the State Bank of Mauritius.

Despite its value, the dynamic capabilities theory has been criticized for lacking clarity in its main constructs, resulting in challenges to operationalization and measurement. Bledy, Ali and Ibrahim (2018) argue that its focus on firm-specific capabilities may overlook industry

structure and external forces which can also influence firm performance. Furthermore, the theory has been criticized for failing to address how firms can sustain long-term competitive advantage in rapidly changing business environments. Kamau, Senaji, Eng, and Nzioki (2019) responded by confirming that dynamic capabilities highlight the value of continuous redevelopment of internal capabilities and resources to achieve specific goals. The key principle of the theory is that firms' unique capability to create and provide structures that improve creativity and innovation is the source of competitiveness (Teece, Pisano, & Shuen, 1997). Thus, dynamic capabilities are suited to dynamic markets. As per Teece et al. (1997), market, product, process, and service innovations are the main determinants of continued competitiveness. This theory, therefore, supports the role of market development, and product and service innovation and will anchor these growth strategies in examination of their impact on the performance of tier III commercial banks in Kenya.

2.2.3 The Ansoff Growth Model

Ansoff Matrix (Ansoff Growth Model) traces its roots from Igor Ansoff's (1957) article "Strategies for Diversification," and it has since been used extensively to study expansion strategies for multiple businesses. It is a strategic planning tool that provides a framework that improves executives, senior managers, and marketers' ability to devise growth strategies (Ansoff, 1987). Loredana (2016) confers that Ansoff identified two growth approaches; diversifying products and targeting new customers, noting that business managers determine growth by how they market new or existing products in new or existing markets. From this expanded definition, the Ansoff matrix, with four strategic options, emerged, each with its own associated risks. The model identifies market penetration strategies, product development, diversification, market development, and penetration strategies (Muriithi & Waithaka, 2020)

Market penetration is the first strategy and entails the entry of products, whether new or old, to a new market. Companies seek to capture customers with products that are entirely new to the market (Faith, 2019). This strategy aims to increase market share and has the lowest risks since these products can be developed to meet the taste of the new market. Market penetration rate informs product reception. A low market penetration rate represents significant growth opportunities (Sande, 2019). Market development is the next strategy which involves the use of existing resources and competencies or expanding product offerings into other markets. Expansion can be through opening new branches in different regions, establishing new customer bases, or targeting different parts of the market (Seelos & Mair, 2007).

New product development/ innovation involves the creation of new products and services and introducing them into the market. This strategy involves firms creating a new product that may or may not already exist in the market (Loredana, 2016). It extends a product's range (Nath, Nachiappan, & Ramanathan, 2010). Firms develop new products through research and development, acquisition of manufacturing/production rights, and strategic mergers and acquisitions (Hussain, Rizwan, & Latif, 2013). Product diversification, on the other hand, is the concept of developing new products and introducing them to new markets. Diversification also involves incremental improvements in existing products or services carried out to increase product value and customer satisfaction. Innovation is essential when firms must replace existing products or expand the product range (Loredana, 2017).

All organizations seek growth, although the approach to growth varies significantly. Ansoff's growth model has received worldwide recognition due to its influence on strategic growth, both in literature and practice (Boone, 2013). The model has been used to examine business expansion (Sande, 2019), the creative industry (Prasetyo & Rahman, 2018), in the food processing industry (Soltani-Fesaghandis & Pooya, 2018), among others. Typically, organizations start with their products and in specific markets. Business managers must choose whether to expand by developing new products, increasing the quality of existing products, increasing concentration in a single market, or moving into new markets. They can also introduce new products in new markets, the riskiest and most rewarding strategy. The Ansoff matrix explicitly explores growth options (Ansoff, 1965), making it essential in this paper which explore banks' business growth strategies. This study used it to examine the effect of product development strategies, diversification strategies, market penetration strategies, and market development strategies on the performance of Tier III banks in Kenya.

2.3 Empirical Review

The empirical section reviewed how the previous researcher have examined business growth strategies and their effect on performance. The section was guided by the objectives of the research.

2.3.1 Market penetration strategies and Organization Performance

Market penetration strategies are those approaches that companies use to sell existing products into existing markets. Market penetration strategies enable firms to target underserved

customer segments and increase their market presence. Companies use market mix elements such as discounts and promotions as penetration strategies. Asiedu (2016), in a study of commercial banks in Colombia, examined the impact of market segmentation practices on bank performance. The research employed an exploratory research design with both primary and secondary data being collected. The statistical tests adopted in the study were both descriptive and inferential in nature. The study showed that segmentation practices had a significant effect on the performance of selected commercial banks. The study indicated that reliance on psychographic, geographic, socio-cultural behavior, and demographic segmentation in the marketing practices of the bank are critical to driving bank performance. The study was, however, not conducted locally, thus creating an empirical gap that was studied.

Ejor, Okechukwu, and Iroegbu (2018) carried out a study with similar goals. The researchers adopted an ex-post facto research design and focused on three banks. The study used data reported between 2007- 2016. Multiple regression analyses were applied to the data revealing that mergers and acquisitions were effective strategies that banks had employed as a growth strategy. Mergers and acquisitions improved bank performance through increasing income, improving the value of the banks' securities, associated synergies (elimination of unnecessary facilities and runs), and increasing economies of scale, which is associated with increased efficiency. The study asserted that banks should have a strategically integrated acquisition program that would ensure successful mergers/acquisitions.

Nyoike (2015) reviewed the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African market. The study employed a case study research design with interviews conducted among senior managers within the bank. The research utilized content analysis, and findings showed that banks mainly created a competitive edge through improving their subsidiary network, enhancing their branch outreach, reliance on emerging technologies, and forming a strategic alliance with local banks. The study focuses on competitive advantage, while current research studied the performance of Tier III banks in Kenya.

Muthengi (2015) explored the effects of marketing strategies on the sales performance of commercial banks in Kenya. The target population was the 43 commercial banks registered by the Central Bank of Kenya. The researcher collected data using semi-structured questionnaires. The study indicated that increased competition in the industry has resulted in commercial banks increasing their investments in marketing activities. The findings showed there is a significant

effect of marketing strategies on the sales performance within banks. The study showed that an increase in promotional activities, increased branch network, internet marketing, pricing strategies, relationship marketing, and market segmentation are vital to improved sales performance. The current study however, reviewed the organization's performance within Tier III commercial banks in Kenya.

Faith (2019) studied the effect of expansion strategies on the performance of the insurance industry in Kenya. The study was based on the resource-based view and porter's competitive strategy theory. The research applied a correlation research design with a census of the 52 insurance firms in the country being adopted. The study applied both correlation and regression analysis. The findings established there is a significant influence of diversification strategy, market development strategy, and penetration strategy on the performance of insurance firms in Kenya. The research is centered on the insurance industry, while the current examination reviews the performance of Tier III banks in Kenya.

2.3.2 Market development strategies and Organization Performance

Market development strategies refer to those strategies that businesses use when introducing existing products to new markets. Market development strategies call on firms to identify previously unexplored territory and introduce their products as solutions.

Klus, Lohwasser, Holotiuk, and Moormann (2019) sought after the effect of strategic alliances between FinTech firms and financial institutions. The study also sought to shed light on the motivations of such alliances. The study involved 19 banks that had recently undertaken alliances with 29 FinTech firms within Germany's financial services industry. The study collected data from various institutions' management through interviews. The Gioia methodology was employed in analyzing the qualitative data. The study results showed that the bank-fintech alliance benefits both firms. Banks, primarily financial institutions, benefit from the technical expertise in technology development offered by financial technology firms, while these benefit from the financial assurances offered by financial institutions. The researchers assert that such alliances are essential in the modern environment characterized by digitalization. The study focused on fintech-bank relationships and did not explore other business growth strategies. The study also used primary data. The current study's use of secondary data provided a clearer relationship between the two variables.

In China and India, Reddy, Qamar and Yahanpath (2019) examined the influence of M&As on bank value with specific focus on the post-M&A performance period. The study collected data from banks that had engaged in mergers and used ordinary least squares adjusted return models in analysis. Findings were that M&A announcements have insignificant effects on the value of Chinese and Indian banks. However, in China, it was observed that mergers had positive effects on the performance of state-owned firms. This was an exploration into cross-country mergers while the current study focused on local banks' strategies.

Hameed and Anwar (2018) looked into the relationship between intellectual capital and private banks' organizational performance in Erbil. The study specified determining whether human capital, structural capital, and relational capital have any impact on Indonesian banks' performance. Random sampling was used in the selection of 144 respondents from the various banks. Correlation and regression analysis demonstrated that the relationship between intellectual capital and selected private banks' performance is strong, positive, and significant. The study asserts that banks can improve their performance by ensuring that they acquire highly qualified personnel, adopt effective information and communication systems and employ customer-oriented strategies. These three elements of intellectual capital were determined to improve banks' customer attraction and retention ability.

Anderibom and Obute (2015) examined the effects of mergers and acquisitions on the performance of commercial banks in Nigeria. The study adopted a case study review of the United Bank for Africa (UBA) plc with panel data being utilized for the period 2000-2010. The study findings showed that mergers and acquisitions had positive, significant effects on the performance of commercial banks in Nigeria. The study showed that improving banking standards, increasing employee training, improving marketing promotions will lead to better firm performance. The study relied on panel data, while the current study studied the performance of Kenyan banks using cross-sectional research data.

Musah, Abdulai and Baffour (2020) researched on the effect of mergers and acquisitions on bank performance in Ghana. The study specified the influence of M&A on banks' net profit margin, return on assets and return on equity. The study used secondary data and relied on regression analysis which revealed that while mergers and acquisitions have significant negative effects on net profit margin, they have insignificant effects on ROA and ROE. This study measured bank performance in financial terms presenting a conceptual gap as the current study focuses on growth aspects of performance.

Ndiege (2019) researched on marketing channels and their effect on the strategic positioning of small and medium-sized enterprises in Kenya. The study used an exploratory research design that collected data from small business owners and upon analysis, it was revealed that technologies are having significant impacts on expansion and strategic positioning of small businesses. The study, however, reports that firms were adopting social media marketing due to customer and competitor pressure, rather than internally driven. This study informed of the importance of social media in small businesses while these findings was questioned in the context of banks which are highly service-oriented.

Ndegwa (2021) specified electronic marketing strategies adopted by Equity Bank and their impact on the bank's performance using a descriptive cross sectional census survey. The study utilized comparative analysis which revealed that bank performance is significantly influenced by the type of electronic marketing strategy selected. Kisa, Mwaura and Tanui (2021) specified the influence of market mix strategies on bank performance in Kwale, Kenya with specific focus on product, pricing, placement and promotion on sales performance. The study used a descriptive design and regressions in analysis. Findings were that cumulatively, promotion strategies have more impact on performance than the other strategies. Placement strategy was singled out as having minimal impacts on bank sales. Despite the insights from the study, it only looked at sales volume as an indicator of organizational performance.

2.3.3 Product Development Strategies and Organization Performance

Product development entails the approaches used to bring new or tweaked products to existing or new markets. Product development builds on rigorous research and development, testing, launching and marketing. Product development strategies rely on user satisfaction to influence organizational performance.

Saghi-Zedek (2016) examined product diversification and bank performance in 710 European commercial banks. The study relied on panel data and cross-sectional data that was collected from senior staff within the banks. The findings showed that product diversification was critical to enhancing the performance of commercial banks. The study also showed that ownership structure positively mediated the relationship between product diversification and performance. The research revealed that enhancing the skills of personnel to manage diverse products was key to improved profitability and minimal earnings volatility. The current study, however, examined the performance of smaller (Tier III) commercial banks in Kenya.

Yang, Li, Ma, and Chen (2018) explored the impact of e-banking adoption on Chinese banks' performance in terms of profitability and cost-efficiency. The study sourced data from financial statements of five large banks in China. Bank performance was measured in terms of ROA, ROE, net interest margin (NIM), operating margin (OM), and efficiency ratio. The study sought to examine how performance evolved before, during, and after full e-banking systems adoption. It was affirmed that ROA, ROE, and OM all improved. However, with respect to NIM and efficiency ratio, there was minimal influence. The cost of acquiring and implementing e-banking technologies and other associated risks such as organizational incompatibility resulted in higher costs to banks, especially smaller banks that had to dedicate a large portion of their income to ensure successful integration. Further, the constant emergence of new e-banking technologies, underqualified IT staff, and employees also increased the cost of acquiring e-banking systems. However, this relationship becomes profitable in the long run, assuring bank managers that effective e-banking implementation through strategic integration is key to successful e-banking adoption.

Narteh (2018) carried out a study in the Ghanaian banking industry to establish whether brand equity has an impact on banks' financial performance. The study also sought whether brand likability moderated the relationship between the above variables. The survey methodology was adopted, and respondents were chosen randomly from the bank customers. Structuring equation modeling using AMOS was used to analyze the data that was collected. Analysis revealed that service quality, brand association, brand loyalty, and brand relevance all improved performance of the country's retail banks. The study also determined that it is essential that banks manage customer and supplier relationships to maintain a positive and likable brand image which ultimately results in improved financial performance. Branding was noted to increase product differentiation, profitability, customer loyalty, and competitive advantage. The study also determined that developing a system for employee and customer loyalty rewards would strengthen the image of the banks' brand. This study explored brand recognition strategies; the current study explored market, development, penetration and diversification strategies using secondary data.

Orji, Andah, Chima, and Abba's (2017) research sought to determine the impact of new product development on the profitability of Nigerian Deposit Money Banks. The study applied a mixed research methodology with both primary and secondary data being utilized in the study. The research employed both descriptive and inferential analysis. The results showed that new

product development had a significant effect on the profitability of the banks. The study showed that product innovation, development of customer-centric, product pricing, product testing, and improving customer knowledge on new products are key to increased profitability. The current study, however, did not review the financial profitability of Kenyan commercial banks.

Tukundane, Kibuuka, and Sunday (2020) examined the relationship between new product development practices and the growth of small and medium enterprises in the Greater Kampala Metropolitan Area, Uganda. The study applied a cross-sectional research design with 226 top administrators selected to participate in the study. The research employed both primary and secondary research data. The findings showed that new product development practices explained 31.92% of the growth within small and medium enterprises. The study showed that screening new product ideas, improving existing product lines, allocating funds for product development, and obtaining client feedback on product range are key to growth in sales, customer base, and profitability within the firms. The study focuses on SMEs, while the current study studied the performance of commercial banks in Kenya.

Kariuki (2012) conducted a study to determine the effect of product development on the financial performance of commercial banks in Kenya. This study categorized determinants of commercial banks' financial performance into two categories, namely internal and external factors where internal determinants of profitability, which are within the control of bank management, and external factors are those factors that are considered to be beyond the control of the management of a bank. The study found out that new product development impacted positively on the financial performance of commercial banks in Kenya. The study, however, does not focus explicitly on Tier-III banks in Kenya, which have faced performance challenges in the recent past.

Ngure, Kimani, and Kariuki (2017) research examined the association between product innovations and financial performance of savings and credit co-operatives societies in Kirinyaga County, Kenya. The study adopted stratified sampling in selecting 60 Saccos in the study population. The study relied on both questionnaires and panel data, with quantitative analysis being used. The results showed product innovations were positively correlated to financial performance. The study indicated that the introduction of new deposit accounts, offering a wider product range, and introducing electronic funds transfer can be key to revenue growth and profitability of the institutions. The current study studied the organizational

performance of Tier III commercial banks, which was not taken into consideration in the earlier study.

2.3.4 Diversification Strategies and Organization Performance

Diversification involves the practice of introducing new products into a new market or industry. Diversification as a strategy aims to create unique products specific to certain market segments and businesses using these strategies aim to generate revenue from the sales of new/differentiated products.

Forcadell, Aracil, and Úbeda (2019) studied the influence of innovation on corporate sustainability in the international banking industry. The study considered large banks across the globe, with panel data being reviewed for the period 2003-2016. The study adopted quantitative analysis techniques, and findings showed that service innovation performance was a significant predictor of corporate sustainability of the commercial banks. The study showed that the development of technologically-centered financial services, sustainable banking practices, and the provision of customer-driven digital services was key to improving sustainability within the banks. The study focuses on corporate sustainability while this research reviews the organizational performance of Kenyan banks.

Ripain and Ahmad (2018) carried out a literature review to examine the relationship between financial innovation and bank performance. The study extracted previous researchers' literature from online resources such as Google Scholar, Google, Emerald Insight, and Science Direct. These studies were limited to the period 2004 - 2018. The study found comprehensive evidence that innovations in the financial sector were having a significant impact on organizations in the finance sector. FinTech innovations such as mobile banking, Blockchain banking, electronic fund transfer at the point-of-sale, internet banking, Bitcoin wallet, international electronic fund transfer, Electronic Data Interchange (EDI), and crowd funding were some of the identified innovations that had a positive influence on bank's marketing capability and service provision. These technologies were determined to increase efficiency and ease of carrying out financial transactions, thereby increasing customer satisfaction and financial generation.

Lisin et al. (2021) examined the impact of digital trading applications on bank profitability. The study sought to determine whether brokers with mobile trading applications performed better than banks with no mobile applications. Hence, the study explored the effectiveness of brokers compared to banks. T-tests and linear and polynomial regression analysis were applied

to the collected data. The analysis showed that brokers with trading applications reported higher returns than banks without trading applications. The study also determined that financial institutions should develop applications that would enable customers to access credit services, deposit funds, as well as invest in the stock market or securities. The study also showed how digital trading apps could be used in Robo advising, smart contracts, simplifying the international money transfer system, and personal insurance. Brokers' digital trading applications were also successful in increasing transparency, discouraging fraud, accelerating and simplifying business processes. Due to the multiple applications possible, the researcher specified the necessity of ensuring proper industry alignment.

Theogene, Musa, and Grace's (2017) survey focussed on the effect of the innovation process on the performance of the banking sector in East Africa Region Perspectives. The study employed a descriptive correlational research design with 324 employees from KCB Bank Rwanda Ltd, forming the study population. The study relied on primary research data with descriptive and regression analysis being applied. The study found out that innovation explains 87.9% of the performance of commercial banks. The study revealed that financial innovation, product innovation, and process innovation are significant predictors of bank performance. The study adopted a case study review of a single commercial bank, while current research examined the link between business growth strategies and the performance of Tier III banks in Kenya.

Mutoni (2018) sought to establish the effect of digital marketing diversification on the performance of commercial banks in Rwanda. The study utilized a cross-sectional research design with responses being obtained from bank customers and staff. The study illustrated that commercial banks were utilizing Google ads, Facebook, Instagram, Twitter, and emails as the main digital marketing tools. The findings indicated that the utilization of digital marketing tools helped in reducing marketing costs, improving customer satisfaction, customer convenience, and service provision. The study found a significant effect of digital marketing on the performance of commercial banks in Rwanda. The current study studied the impact of diversification e strategies on the performance of commercial banks in Kenya.

Muriuki and Kiiru (2019) examined the effect of diversification strategies on the performance of savings and credit co-operatives in Nyeri County, Kenya. The research applied a descriptive research design with six licensed Saccos forming the unit of analysis. The study utilized structured questionnaires in the data collection, and the findings showed a positive effect of

product innovation, organizational innovation, process innovation, and marketing innovation on the performance of Saccos. The study indicated that firms should improve their creativeness, enhance product innovation, improve employee innovativeness, and meet customer needs in order to foster performance attainment. The study is only limited to diversification strategies, while the current study sought to review the influence of various business growth strategies on the performance of commercial banks.

Ahmed and Wamugo (2019) studied the effect of financial diversification and the performance of commercial banks in Kenya. The study employed a quantitative approach focusing on 16 commercial banks selectively chosen for the study. The research utilized both primary and secondary research data. The study showed that agency banking, mobile banking, internet banking, as well as utilization ATM (Auto-Teller Machine) had a positive and statistically significant effect on the performance of commercial banks in Kenya. The findings indicated that financial innovations could be key to improving profitability, service access, reducing banking costs, enhancing efficiency and productivity, improving customer outreach, and relationship management within banks. The study only focuses on financial innovation, while this study expanded to cover more diversification strategies in Kenyan Tier III banks.

2.4 Summary of Research Gaps

The studies reviewed provide insights into how different growth strategies influence firm performance. However, they fail to establish a direct link between growth strategies and organizational performance. Klus, Lohwasser, Holotiuk, and Moormann (2019), for instance only addressed one market penetration strategy- alliances. These findings were enhanced through an analysis of multiple growth strategies. The studies by Anderibom and Obute's (2015), and Nyoike (2015) were all case studies that examined the growth strategies unique to UBA bank and Standard Chartered bank. This study expounds on these factors through an analysis of the general industry.

Ejor, Okechukwu, and Iroegbu (2018), who focused on multiple bank alliances, employed an ex-post facto research design, presenting a methodological gap as the current study used a descriptive design. Further, this study only presented evidence from three banks that had undergone successful mergers. The same gap emerges in Ndiege's (2019) study which used an exploratory design. Muriuki and Kiiru (2019) provided insights into the diversification-performance link but used data from cooperatives.

These studies did not investigate other business growth strategies that banks can employ, such as product development. It is essential to note that most of these studies explore strategies employed by banks of all sizes. These gaps in literature motivated the researcher to investigate how business growth strategies impact the performance of tier III commercial banks in Kenya.



Table 2.1 Summary of Research Gap

Study	Focus of Study	Findings	Research Gap	The focus of current Research
Saghi-Zedek (2016)	The Influence of product diversification on bank performance	Product diversification improved firm performance	This study relied on panel data in its analysis	The study relied on primary data
Yang, Li, Ma, and Chen (2018)	The influence of e-banking adoption on Chinese banks' performance in terms of profitability and cost-efficiency.	e-banking adoption improves banks' profitability and efficiency	This study involved five of the largest banks in China	This study investigated third-tier banks in Kenya and considers more business growth strategies
Tukundane, Kibuuka, and Sunday (2020)	The relationship between new product development and SME growth	SMEs grow at a faster rate if they can develop new products	The study investigated SMEs and used a cross-sectional design	This study focused on commercial banks
Ripain and Ahmad's (2018)	The relationship between financial innovation and bank performance	Financial innovations have a significant positive impact on bank performance	The study carried out a literature review	The study did not consider cross-sectional observation in determining how business growth strategies affect bank performance. This was applied in this research.
Asiedu (2016)	The impact of segmentation practices on bank performance	Market segmentation improves banks' customer outreach	This study was based in Colombia	The current study investigated the same within the local context
Orji, Andah, Chima, and Abba's (2017)	The impact of new product development on bank profitability	Banks report higher returns after introducing new products and services	The study used only financial measures of performance	The current study incorporated multiple measures of bank performance

Anderibom and Obute (2015)	The effects of mergers and acquisitions on the performance of commercial banks	Mergers and Acquisitions improved banks' market share, operational capacity, and overall knowledge	This was a case study focusing on a single bank	The current study was not focused on a case study research design.
Faith (2019)	Effect of expansion strategies on performance of insurance Industry in Kenya.	Diversification and product development improve market outreach within insurance firms.	This study investigated the insurance industry and not the banking industry	This study investigated Tier III banks
Muthengi (2015)	The effects of marketing strategies on the sales performance of commercial banks in Kenya.	Increased digital promotional activities improve bank performance	This study did not explore how product development strategies impact bank performance	This study included other tenets of Ansoff's model
Hameed and Anwar (2018)	Analyzing the Relationship between Intellectual Capital and Organizational Performance: A Study of Selected Private Banks in Kurdistan.	Intellectual capital significantly improves bank performance	This study did not specify banks business growth strategies.	This study was specific to business growth strategies in commercial banks

Source: Researcher (2023)

2.5 Conceptual Framework

The below conceptual framework identifies the hypothesized effect of business growth strategies and organizational performance. The framework identifies the abstract concepts for each of the research variables as captured in previous studies.

Figure 2.1 Conceptual Framework

Independent Variables

Business Growth Strategies

Market development strategies:

- New geographical markets
- New marketing channels
- Differentiated pricing

Market penetration strategies:

- Strategic alliance
- Mergers and acquisition
- Differentiated pricing

Product development strategies:

- Digital products
- Product design
- Customer-centric products

Diversification strategies:

- Service diversification
- Product diversification
- Market diversification

Dependent Variable

Organization Performance:

- Financial Perspective
- Customer Perspective
- Internal Perspective
- Learning & Growth Perspective

Source: Researcher (2023)

The above conceptualization shows the hypothesized interaction between business growth strategies, product development, diversification strategies, market development and penetration strategies and the organization performance of Tier III banks measured by customer, learning, growth, and internal perspectives. The organization's capabilities was assessed by the coordination and resource capabilities within the firm.

2.6 Operationalization of the Study Variables

The table of operationalization depicts an indication of the variables, conceptual definitions, operational definitions, dimensions, indicators, and the measurement scale of the study's main variables. the independent variables will be the four main business growth strategies and the dependent variable will be organizational performance. The constructs, operational definitions, the measurements, and indicators that this study will use will be provided in this section.



Table 2.2 Operationalization of the Study Variables

Variable	Construct	Operational Definition	Measurement Scale	Indicators	Source(s)
Independent Business Growth Strategies	Product Development	The process of delivering and commercializing new bank products and services such as green business loans	5-point Likert scale	<ul style="list-style-type: none"> ● Digital products ● Brand image ● Customer-centric products ● Product quality 	Ansoff (1957)
	Diversification strategies	The product and systems re-engineering process results in improved products and services such as online payment services	5-point Likert scale	<ul style="list-style-type: none"> ● Service diversification ● Product diversification ● Market diversification ● Process diversification 	Ansoff (1957)
	Market penetration strategies	The process of entering into new markets	5-point Likert scale	<ul style="list-style-type: none"> ● Strategic alliance ● Mergers and acquisition ● Differentiated pricing ● Franchising 	Ansoff (1957)
	Market development strategies	business growth strategy that focuses on introducing	5-point Likert scale	<ul style="list-style-type: none"> ● New geographical markets ● New marketing channels 	Ansoff (1957)

		existing products to new markets.		<ul style="list-style-type: none"> • Differentiated pricing • Promotional strategies 	
Dependent Variable Organizational Performance	Financial Perspective	Banks' financial performance in terms of ROA, ROE, or NIM.	5-point Likert scale	<ul style="list-style-type: none"> • ROA • ROE • NIM 	(Kaplan R. S., 2009)
	Customer	Banks' performance from the perspective of the customer	5-point Likert scale	<ul style="list-style-type: none"> • Quality services • Customer satisfaction • Feedback 	(Kaplan R. S., 2009)
	Internal Perspective	Banks' performance in terms of efficiency, reflected in the quality of its products and services	5-point Likert scale	<ul style="list-style-type: none"> • Efficiency • Effectiveness of employees • Employee working relationships 	(Kaplan R. S., 2009)
	Learning and Growth	Banks' human capital cultural and technological competencies are key to strategic goal realization.	5-point Likert scale	<ul style="list-style-type: none"> • Training • Mentoring • Appraisal 	(Kaplan R. S., 2009)

Source: Researcher (2023)

2.6 Chapter Summary

This chapter presented the theoretical underpinnings of the study and previous researchers' findings on the relationship between different business growth strategies and bank performance. The section also presented a summary of study gaps, the conceptual framework, and a table showing how the variables were operationalized.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The third chapter of the study presents the methodology that was applied during the research work. The chapter specifically contained the design of the study, the population of the study, the data collection instruments, procedures, and the data analysis and presentation methods.

3.2 Research Philosophy

The philosophical paradigm in research is defined as the development of knowledge, the nature of that knowledge, and important assumptions on the way researchers view the world (Kothari & Gaurav, 2014). This study was anchored on an epistemological paradigm, which focuses on acceptable knowledge in any given field and how that knowledge develops or is acquired. The two main epistemological branches in social sciences research are positivism and phenomenology (Mugenda, 2012). This research adopted the positivism branch as it focuses on seeking facts of a social phenomenon and solving hypotheses using a quantitative approach (Bell, Bryman, & Harley, 2018). Further, the philosophy is ideal for this study as it applies a quantitative approach and objective reality in examining the area of interest. Thus, the study used quantitative approaches to predict the effect of business growth strategies and organization capabilities on the performance of Tier III commercial banks in Kenya.

3.2.1 Research Design

According to Cooper and Schindler (2014), a research design is a plan for selecting the source and type of information used to answer the research question. This study adopted a descriptive cross-sectional study. A descriptive research design is adopted in study where the aim is to describe the population or phenomena in question. The design focuses on answering the question of what, when, and where rather than focusing on why a phenomenon is occurring (Mugenda & Mugenda, 2012). A descriptive survey allows the participants to review the study phenomena in its' natural state and supports the use of a quantitative approach in the research. This research shall be undertaken between March and May 2023.

Kombo and Tromp (2009) supported descriptive cross-sectional design as a tool that helps collect information that describes, explores, and helps the investigator understand the subject (problem) of the study. The study utilized this design in determining the effect of business

growth strategies on the organization performance of Kenyan Tier III commercial banks in Kenya.

3.3 Population of Study

According to Kothari and Gaurav (2014), the population items in the field of inquiry constitute a universe or population. Target population comprises all lists of items on which the researcher wishes to generalize the study findings (Mugenda, 2012). The population for this study was drawn from the Tier III commercial banks operating in Kenya. The study targeted all the 22 Tier III commercial banks that are fully in operation in Kenya (Central Bank of Kenya, 2021).

Table 3.1 Target Population

Category	No of Banks	Population
Marketing Manager	22	22
Technology Manager	22	22
Business Development Manager	22	22
Operations manager/ Relationship managers	22	22
Finance manager	22	22
Total		110

Source: Researcher (2023)

3.4 Sampling Design

A sampling frame is defined by Cooper and Schindler (2014) as a list of the original source of entities from which a sample is selected. It comprises the members of a population who may qualify to be selected for a study. The sampling frame for this study was derived from the 22 Tier III commercial banks operating within the country as at December 2020 as per the 2020 annual banking supervision report by the Central Bank of Kenya. Kothari and Gaurav (2014) suggested that sampling refers to the entire methodologies applicable in the selection of the representatives of an entire population to select a specific sample adequate for a given study. Sampling is one of the most important components of research involving the selection of a specific section of the entire population and which is adequate in a research process (Bell, Bryman, & Harley, 2018).

The study adopted a census survey due to the small number of the tier III banks in Kenya. Purposive sampling was used to determine the respondents where only the relevant managers with relevant information responsible for Marketing, Technology, Business Development, Operations, and Finance was considered for the study. All the 110 respondents from the banks were considered as respondents in this study. This ensured equal representation of study participants. The study focuses on the above departmental heads who due to their roles within the commercial banks where they are expected to have adequate knowledge on how the selected business growth strategies have been implemented and the performance of the banks.

3.5 Data Collection

This study relied predominantly on primary research data. The study used structured questionnaires in the data collection process. Questionnaires are written set of tasks to which the subjects respond (Creswell, 2014). The research questionnaire adopted a 5-point Likert scale approach. The first section of the questionnaire contained background information of the respondents. The second section contains questions based on the independent variables, and the third section of the instrument contained statements for the dependent research variable. The research instrument was developed based on the reviewed research literature.

The questionnaires were administered using a drop and pick later method. All the respondents were reached out individually as per the sample of the study. A register was maintained, which was used to track the movement of the questionnaires that are administered to the respondents. The researcher made use of trained research assistants to assist in the data collection which helped in enhancing the response rate. This ensured there was no bias in the selection of participants for the survey.

3.6 Research Quality

This section entails Piloting, Validity and Reliability Tests

3.6.1 Piloting

Kothari and Gaurav (2014) indicated that a sample of 5% to 10% of the sample size is a reasonable number of participants to consider enrolling in a pilot. The pre-test of the study instrument was conducted among 10% (n=11) of the study sample respondents. The pre-test study findings were not used in the final study. The responses from the pilot study were used to adjust the questionnaire accordingly. The response was from managers of similar roles within tier 1 and tier 2 banks. Resulting feedback to be used to fine tune the research instrument.

3.6.1 Validity Test

Mohajan (2017) notes that validity gives information in relation to the degree to which a test adopted by a researcher measure that which it is expected to measure. It helps in ensuring that the tests adopted are not distorted hence affecting research outcome. Lakshmi and Mohideen (2013) noted that this can be ensured by engaging a qualified person known as an expert to provide his or her opinion prior to the main study. Validity test was done through sharing the documents with the supervisor who has a vast experience in supervising projects of this nature. The supervisor helped in checking the content validity of the study instrument and ensuring that the research instrument is developed in line with the literature and conceptualization of the study variables. Thus, 8 participants drawn from tier II banks was involved in the pilot test. Tier II banks tend to share similar business growth models with tier III and thus most appropriate.

3.6.2 Reliability Test

Reliability as defined by Mugenda and Mugenda (2012) as the level of consistency of an instrument in providing same result if the study is repeated under similar conditions or circumstances. It represents the ability to replicate a study within similar conditions without changing the outcome. The measure of Cronbach coefficient ensures the instrument can maintain the internal consistency standard that is required. The Cronbach alpha tests are interpreted using the following scale; “ > .9 – Excellent, > .8 – Good, > .7 – Acceptable, > .6 – Questionable, > .5 – Poor, and < .5 – Unacceptable” (Brown, 2002). As per above a threshold of above 0.7 indicates the variable is reliable. Hence the study applied the threshold of 0.7 and above in testing for internal consistency in the four variables selected in the research.

Table 3.2 Reliability Results

Variable	Cronbach's Alpha	N of Items	Verdict
Market development	.848	7	Accepted in the main research
Market penetration	.925	7	Accepted in the main research
Product development	.875	6	Accepted in the main research
Diversification strategies	.915	6	Accepted in the main research
Organization performance	.939	13	Accepted in the main research

Source: Research Data (2024)

3.7 Diagnostic Tests

The research conducted diagnostics tests which are a set of pre-estimation procedures that are conducted prior to conducting linear regression. The following tests was used in this study.

3.7.1 Multicollinearity Tests

The study used collinearity tests to examine whether the independent variables selected in the study are linearly related with each other. The researcher employed the Variance inflation test on the predictor variables to test multicollinearity. Variance inflation factors (VIF) assesses the extent of variance of the estimated regression coefficients relative to when these variables do not have a linear relationship (Midi, Sarkar, & Rana, 2010). The rule of thumb is that the VIF value should be below 10 and this was used as the decision rule in this study. The findings on Table 3.3 show that all the variables considered in the study were able to meet the standard values on the VIF and tolerance value thus showing no collinearity problem.

Table 3.3 Collinearity Results

Model	Collinearity Statistics	
	Tolerance	VIF
1		
(Constant)		
Market Development	.258	3.877
Market Penetration	.212	4.708
Product Development	.192	5.205
Diversification Strategies	.190	5.274

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

3.7.2 Normality Tests

To test whether data are normally distributed or not; the research applied the normal p-p plot as recommended by Ghasemi and Zahediasl, (2012). This test was applied to ascertain those observations included in the model fitted within the normality line. The Normality P-P plot showed that the study met the normality requirements as the observation were within the normality plot which confirmed normal distribution in the responses utilized as shown in Figure 3.1

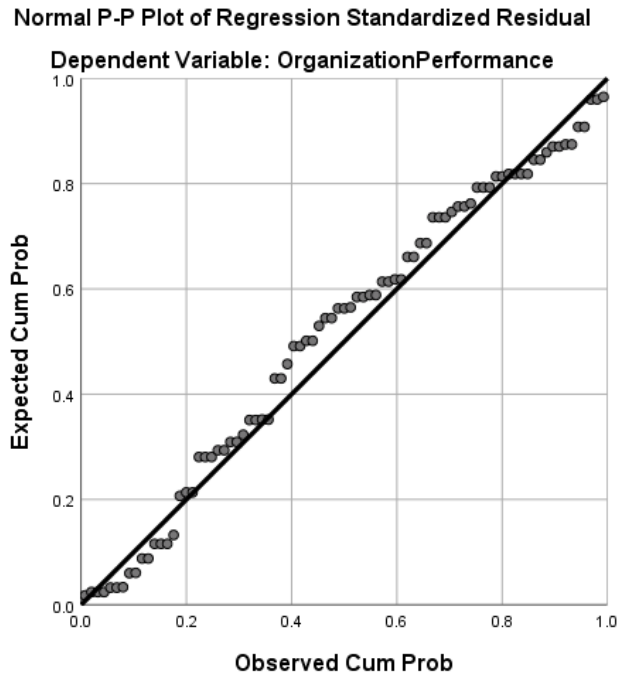


Figure 3.1 Normality Plot

Source: Research Data (2024)

3.7.3 Autocorrelation Tests

Autocorrelation can be described as an occurrence that sets in once the error terms of regression variables for consecutive periods are interrelated (Chatterjee & Simonoff, 2013). Using the Durbin-Watson test for auto correlation; the research checked whether the data for this research has any autocorrelation problem. A D-W test result of between 1.5-2.5 is considered acceptable in the regression model and this was used as the decision rule in the research (King, 2018). The regression findings had a D-W value that was within the prescribed range thus indicating there was no serial correlation violations within the regression model adopted in the study as shown in Table 3.4 below.

Table 3.4 Autocorrelation Result

Model	Durbin-Watson
1	2.017

a. Predictors: (Constant), Diversification Strategies, Market Development, Market Penetration, Product Development

b. Dependent Variable: Organization Performance

Source: Research Data (2024)

3.7.4 Heteroscedasticity Tests

Heteroscedasticity in a study normally occurs when the variance of the errors varies across observation (Rosopa, Schaffer, & Schroeder, 2013). Breusch-Pagan was applied to test the null hypothesis, it states that the error variances are all equal versus the alternative and that the error variances are a multiplicative function of one or more variables (Rosopa, Schaffer, & Schroeder, 2013). If P-value is less than 0.05, reject the null hypothesis. A large chi-square value greater than 9.22 would indicate the presence of heteroscedasticity (Hasler, 2014). Findings from the Breusch Pagan test confirmed there was no heteroscedasticity violations in the model thus there were no errors in the prediction of the relation between the variables.

Table 3.5 Heteroscedasticity Result

Modified Breusch-Pagan Test for Heteroskedasticity^{a, b, c}		
Chi-Square	df	Sig.
5.679	1	.017

a. Dependent variable: Organization Performance

b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.

c. Predicted values from design: Intercept + Market Development + Market Penetration + Product Development + Diversification Strategies

Source: Research Data (2024)

3.8 Data Analysis and Presentation

The questionnaires were examined, cleaned, and sorted to ensure that all the relevant data was coded, categorized, and stored for analysis using a statistical package for social science (SPSS) Version 25. The quantitative data that was collected from the close-ended questions was analyzed using descriptive statistics. The descriptive statistics of the study was presented through percentages, means, standard deviations, and frequencies to summarize the various responses obtained from the structured research questionnaire. The study further applied Spearman Rank correlation to determine the association between the research variables. The study adopted inferential analysis to establish the effect of the independent variables on the dependent variable. The study further employed multiple regression analysis to determine the relationship between business growth strategies and organization performance of commercial banks. The study adopted the following regression equation;

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

Where: Y = Dependent Variable (organization performance of commercial banks)

Independent variables, which include:

X₁ is market penetration strategies

X₂ is market development strategies

X₃ is product development

X₄ is diversification strategies

α = the constant

β_{1-3} = the regression coefficient or change included in Y by each X

ε = error term

3.9 Ethical Considerations

The study ascertained that necessary ethical guideline is observed in the course of the research. First, the study obtained research approvals from Strathmore University Ethical Review Committee and NACOSTI. The study also sought authorization from the respective bank's management before approaching the institution officials. The study made sure that the confidentiality of the study participants is observed in the research process. The study upheld the anonymity of the participants was observed and that their willingness to participate was voluntary. The research developed a participant informed consent form detailing the aims of the study and any risks that may impact the participants in the course of the study. Further, all the research data that was obtained in the course of this study was focused solely on the academic purposes of this study.

3.10 Chapter Summary

This chapter presented the methodological plan that was the basis for conducting the current research. The chapter dwelt on the philosophy and design that was employed in the study process. Further, the population for the study is identified as well as the steps and approach in data collection process. Lastly, the chapter introduced the data analysis plans and the ethical guidelines that was followed in conducting the study.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The aim of this chapter in the project work is to present the results emanating from the analysis of the collected study data. The main sections in the chapter presented findings on the background information, the descriptive analysis and the inferential results (both correlation and regression analysis). The findings were presented using figures and tables.

4.2 Response Rate

The study was focused on employees drawn from business units within Tier-III commercial banks in Kenya. A census survey was conducted among the 110 employees and the research was able to obtain 83 responses translating to 75% response rate which was considered acceptable for conducting representative analysis on the whole population. This response rate was within the range of above 60% that is deemed adequate when conducting quantitative analysis for a sample (Bell, Bryman, & Harley, 2018).

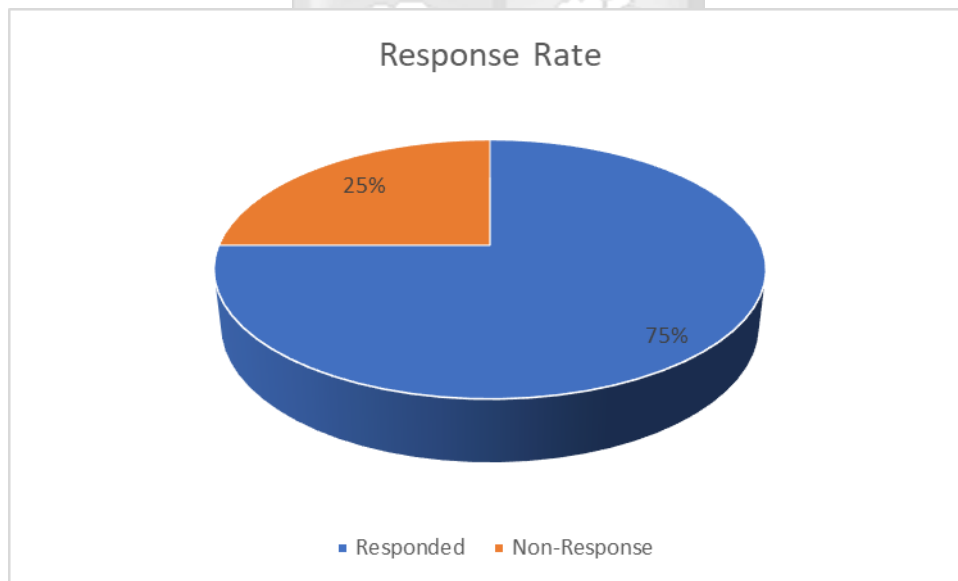


Figure 4.1 Response Rate

Source: Research Data (2024)

4.3 Demographic Characteristics

The research reviewed the respondent's demographic characteristics based on their gender, age and education attainment. The results are shown in Table 4.1 below.

Table 4.1 Demographic Results

		Frequency	Percent
Age of respondent	25 – 35 years	23	27.7
	36 – 45 years	44	53.0
	56 and above	16	19.3
	Total	83	100.0
		Frequency	Percent
Gender of respondent	Male	47	56.6
	Female	36	43.4
	Total	83	100.0
		Frequency	Percent
Education of respondent	Diploma	7	8.4
	Graduate	58	69.9
	Post graduate	18	21.7
	Total	83	100.0

Source: Research Data (2024)

Analysis showed that majority of the employees within the commercial banks were between the age 36-45 years (53%) and 28% were of the age 25-35 years. The findings implication was that employees within the banking sector were older members thus will have gained experience within the work stations thus can provide reliable information as compared to a younger employee pool. Further results indicated that 57% (n = 47) of participants were male with 43% identifying as female showing there was parity in representation of both genders within top positions in the business units of the Tier III commercial banks in Kenya. Findings on education of respondents noted that 70% of participants had a graduate degree with 22% having a post graduate degree which points to high education qualification among top executives within the commercial banks.

4.3.1 Work Position and Experience Level

The research was interested in identifying the head of departments represented in the survey and how long the officials have worked within the Tier III commercial banks. The results are shown in Table 4.2

Table 4.2 Respondent Work Position and Experience

		Frequency	Percent
Position in the organization	Marketing manager	10	12.0
	Information Technology Manager	16	19.3
	Business Development Manager	14	16.9
	Relationships Manager	22	26.5
	Operations manager	17	20.5
	Finance manager	4	4.8
	Total	83	100.0
		Frequency	Percent
Number of years in the bank	Less than 5 years	17	20.5
	5-9 years	29	34.9
	10-15 years	28	33.7
	Over 15 years	9	10.8
	Total	83	100.0

Source: Research Data (2024)

Most of the respondents 26% were relationship managers, 20% were operations managers and 19% were drawn from information technology managers. The findings illustrated that the various business units were represented in the survey showing that results were obtained from a diverse pool thus providing relevant information to answering the study problem. Analysis further revealed that 35% of the participants have worked for 5-9 years, 33% have been with the bank for 10-15 years with only 11% of respondents working for over 15 years. This showed that respondents had adequate experience within the banks that have reliable information that can be utilized in this survey.

4.4 Descriptive Analysis

Data for the main research variables were collected using structured questionnaires with a 5-point Likert scale utilized in the survey. The research data was analyzed using descriptive tests such as means and standard deviation and the summary of the responses is presented in line with the variables of the study in this section.

4.4.1 Market Development in Tier III Commercial Banks

The research reviewed the market development in the Tier III commercial banks and a summary of the participants responses is shown in Table 4.3 below.

Table 4.3 Results on Market Development Strategies

	N	Mean	Std. Deviation
The commercial bank has established new and different businesses entry strategies across different regions to improve the performance	83	4.2048	.77710
The commercial bank is focused on its products serving different needs in the markets which will greatly improve the bank performance	83	3.9157	.79946
The commercial bank is actively involved in product upgrading to suit the changing needs of customers to support attainment of performance goal	83	4.0482	.77936
The commercial bank uses different channels to communicate to customers about their products which could be key to enhancing performance	83	4.1566	.70680
The commercial bank actively engages in strategic alliances with other firms within the financial industry to improve our performance	83	4.2048	.79263
The commercial bank undertakes market promotion strategies with view of expanding its market base	83	3.9759	.92362
The commercial bank has been contemplating expanding to new geographical locations within the east and central Africa Region	83	3.7470	1.04582
Overall Scores		4.0361	0.8321

Source: Research Data (2024)

Results demonstrated strong agreement (mean = 4.204, dev = .777) the commercial banks have established new and different businesses entry strategies across different regions to improve the performance. The respondents further strongly agreed that the commercial banks actively engage in strategic alliances with other firms within the financial industry to improve our performance (mean = 4.204, dev = .793). The analysis showed agreement that the commercial

banks use different channels to communicate to customers about their products which could be key to enhancing performance (mean = 4.157, dev = .707). The findings indicated participants agreed (mean = 3.747) the commercial bank has been contemplating expanding to new geographical locations within the east and central Africa Region. Overall the research showed agreement (4.0361) among respondents the banks have put great emphasis on formulation and utilization of market development strategies which are key to improving the firms outcome.

4.4.2 Market Penetration in Tier III Commercial Banks

The respondents were presented with various statements on the market penetration strategies in the commercial banks and the findings are shown in Table 4.4

Table 4.4 Results on Market Penetration Strategies

	N	Mean	Std. Deviation
The bank focuses at enhancing performance by offering competitive prices for its customers	83	3.9759	.79596
The bank elaborates the pricing of its products and services	83	4.0964	1.01950
The commercial bank has expanded branch network for better performance of the institution	83	4.0361	.98086
The bank provides premier products and services that meet customer needs	83	3.9398	.86037
The bank develops customer tailored products to suit the needs of different customers	83	3.8675	.86632
The commercial bank undertakes M&A activities to foster the performance of the institution	83	3.8675	1.10178
The commercial bank matches the pricing of its products with competitors in the market	83	4.1446	.87140
Overall Scores		3.9896	0.9280

Source: Research Data (2024)

The study indicated there was agreement (mean = 4.145, dev = .871) the commercial bank matches the pricing of its products with competitors in the market. Further, respondents agreed that the commercial bank has expanded branch network for better performance of the institution (mean = 4.036, dev = .981). A mean of 3.867 indicated the banks develop customer tailored products to suit the needs of different customers. Participants further agreed the banks provides premier products and services that meet customer needs (mean = 3.939, dev = .860). An overall mean of 3.9896 showed there was considerable attention given to market penetration strategies which can lead to better market outreach and customer mobilization thus improving firm performance.

4.4.3 Product Development in Tier III Commercial Banks

The study concentrated on the adoption of product development strategies in the commercial banks and the summary of how respondents provided their responses is shown in Table 4.5

Table 4.5 Results on Product Development Strategies

	N	Mean	Std. Deviation
The commercial bank reviews product attributes to provide more value to the customer by improving service quality	83	4.0482	.71403
The bank continuously invests adequately to promote new product development which is key to better performance	83	3.6867	.81042
The commercial bank staff members are encouraged to give unique ideas when developing a product that gives a bank competitive edge over other market operators	83	3.8916	.95012
The commercial bank carries out quarterly customer feedback assessments to improve product modification which can contribute to the bank performance	83	3.8916	1.01227
The commercial bank is continuously introducing new digitalized product offers that can improve the bank performance	83	4.0120	.83365
The commercial bank has increased its investment in research and development for new products which is central to improved performance	83	3.6627	.96622
Overall	83	3.8654	0.8811

Source: Research Data (2024)

The findings revealed agreement among respondents that commercial bank reviews product attributes to provide more value to the customer by improving service quality (mean = 4.048, dev = .714). The analysis showed respondents agreed the (mean = 4.012) the commercial bank is continuously introducing new digitalized product offers that can improve the bank performance. Further respondents agreed the commercial bank has increased its investment in research and development for new products which is central to improved performance (mean = 3.662, dev = .966). The overall mean score for the variable was 3.8654 implying there was high consideration for product development, reviewing customer feedback, digitalization within the bank which enhances the range of product and services as well as improves customization which is key to improving performance in the firm.

4.4.4 Diversification Strategies in Tier III Commercial Banks

The fourth variable reviewed the execution of diversification strategies in the Tier III banks and summary of the responses was analyzed and presented in Table 4.6

Table 4.6 Results on Diversification Strategies

	N	Mean	Std. Deviation
The commercial bank invests more in modern technology to reach new markets and enhance the performance of the institution	83	3.9880	.81889
Market innovation strategy has helped the organization to achieve its performance goals	83	4.0602	.96714
The commercial bank directly involves customers in the creation of innovation products which will lead to better performance	83	3.8554	1.08350
The bank has developed digital banking which gives prompt services to customers that can stimulate better performance	83	3.9277	.89420
The bank is relying on technological innovations to provide customers with relevant, timely information about their bank accounts & transactions which is vital to bank performance	83	3.9277	.89420
The commercial bank has adopted social media marketing tools to enhance the performance of the banking institution	83	3.7952	.94687
The commercial bank promotes the brand image of the firm through digital channels which is key to improved performance	83	3.8795	.92917
Overall Scores		3.9191	0.9334

Source: Research Data (2024)

Participants in the study indicated that the agreement (mean = 4.060, dev = .967) there is a market innovation strategy has helped the organization to achieve its performance goals. Findings further indicated agreement the bank has developed digital banking which gives

prompt services to customers that can stimulate better performance (mean = 3.928, dev = .894). Analysis showed agreement the commercial bank promotes the brand image of the firm through digital channels which is key to improved performance (mean = 3.879, dev = .929). The research noted agreement the commercial bank directly involves customers in the creation of innovation products which will lead to better performance (mean = 3.855, dev = 1.083). Include overall scores, findings and implications to the study. The overall score was 3.9191 showing participants were in agreement the bank has been pursuing diversification through modernization of our services and introduction of new technologies that revolutionize service offering thus significantly contributing to performance.

4.4.5 Organization Performance of Tier III Commercial Banks

The dependent variable was the organization performance that was conceptualized using financial perspective, customer perspective, internal perspective and learning & growth perspective adopted from the balance scorecard. The findings are presented in the Table 4.7 below.

Table 4.7 Results on Organization Performance

	N	Mean	Std. Deviation
The bank has witnessed a reduction in the number of complaints being submitted by our customers	83	3.7590	.75853
The bank has been able to attain an improvement in customer loyalty	83	3.9157	.95259
The bank is able to maintain the level of customer satisfaction	83	3.8916	.97546
There is an improvement in the number of customer referrals within the bank	83	3.8072	.90335
The bank has enhanced the level of efficiency in completing customer service provision through supporting the staff	83	3.7590	.83506
The bank conducts routines surveys to identify training gaps for employee professional development	83	3.8554	.96440
There is an improvement in the timely delivery of new products and services within the firm by employees	83	3.8795	.94220
The firm has witnessed an improvement in the level of employee satisfaction	83	3.7590	.82033
The bank engages all employees to spur innovation and quality service provision	83	3.6265	.77634
There is an improvement in the employee productivity within commercial bank	83	3.5783	.88511

The bank has improved investments in emerging information systems	83	3.7229	.91483
There is improved revenue generation within the commercial bank	83	3.8795	.87510
The firm has enhanced cost efficiency which has reduced operational expenses leading to better profit margins	83	3.6988	.76086
Overall score		3.7794	0.8742

Source: Research Data (2024)

The study found out agreement among respondents the bank has witnessed a reduction in the number of complaints being submitted by our customers (mean = 3.759). Further, respondents agreed the bank has seen an improvement in the number of customer referrals as indicated by mean of 3.807. The analysis pointed to agreement among respondents the bank conducts routines surveys to identify training gaps for employee professional development (mean = 3.855, dev = .964). The study showed agreement the bank has enhanced the level of efficiency in completing customer service provision through supporting the staff (mean = 3.759, dev = .835).

The analysis showed agreement the bank engages all employees to spur innovation and quality service provision (mean = 3.626). The research noted agreement among respondents there is an improvement in the employee productivity within commercial bank as revealed by mean of 3.578 and deviation of .885. The results showed agreement the bank has enhanced cost efficiency which has reduced operational expenses leading to better profit margins (mean = 3.699, dev = .761). Further respondents agreed the bank has improved investments in emerging information systems (mean = 3.723, dev = .915). Overall, the research showed respondents confirmed there was an improvement in the performance of the commercial banks (mean = 3.7794) from a customer, financial, learning/growth and internal perspective of the institution.

4.5 Correlation Analysis

Correlation analysis forms a basis for regression analysis; thus, it is appropriate to analyze in research. Through correlation we can quantify the strength of the linear relationship between the variables as well as the direction of the relation. Table 4.8 presents the findings of the Spearman rank correlation analysis.

Table 4.8 Results of Correlation Analysis

			Organization Performance	Market Development	Market Penetration	Product Development	Diversification Strategies
Spearman's rho	Organization Performance	Correlation Coefficient	1.000				
		Sig. (2-tailed)	.				
		N	83				
	Market Development	Correlation Coefficient	.606**	1.000			
		Sig. (2-tailed)	.000	.			
		N	83	83			
	Market Penetration	Correlation Coefficient	.781**	.665**	1.000		
		Sig. (2-tailed)	.000	.000	.		
		N	83	83	83		
	Product Development	Correlation Coefficient	.694**	.751**	.715**	1.000	
		Sig. (2-tailed)	.000	.000	.000	.	
		N	83	83	83	83	
	Diversification Strategies	Correlation Coefficient	.624**	.654**	.661**	.867**	1.000
		Sig. (2-tailed)	.000	.000	.000	.000	.
		N	83	83	83	83	83

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

Source: Research Data (2024)

Findings on the first objective established there was a moderate positive relation between market development strategies and organization performance of Tier III commercial banks in Kenya ($\rho = .606^{**}$, $\text{Sig} = .000 < (.05)$). The results further indicated there was strong positive effect of market penetration strategies on the organization performance of Tier III commercial banks in Kenya ($\rho = .781^{**}$, $\text{Sig} = .000 < (.05)$). The study confirmed a moderate positive relation of product development strategies on the organization performance of Tier III commercial banks in Kenya ($\rho = .694^{**}$, $\text{Sig} = .000 < (.05)$). Lastly, the survey established a

positive and significant relation between diversification strategies on organization performance of Tier III commercial banks in Kenya ($\rho = .624^{**}$, $\text{Sig} = .000 < (.05)$).

4.6 Regression Analysis

4.6.1 Effect of Market Development on Organization Performance of Tier III Banks

The survey conducted a simple linear regression to determine the effect of market development on organization performance of Tier III commercial banks in Kenya. The results are shown in the Table 4.9 below;

Table 4.9 Regression between Market Development on Organization Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764 ^a	.584	.579	.43143

a. Predictors: (Constant), Market Development

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.171	1	21.171	113.745	.000 ^b
	Residual	15.077	81	.186		
	Total	36.248	82			

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Market Development

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.395	.320		1.232	.222
	Market Development	.837	.079	.764	10.665	.000

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

The regression findings on the Table above showed the value of R square is 0.584. This suggests that at least 58.4% variation in the performance of Tier III commercial banks are predicted by the market development strategies implemented. The remaining 41.6% suggests that there are other factors that can be used to explain variation in the organization performance

of the commercial banks. The Analysis of Variance was used to test the significance of the effect independent variables on the dependent variables and to establish existence of variations in the variables. The test result revealed F-statistic of 113.745 was greater than (F- critical = 1.162), with significance value at 0.000 ($P < 0.05$). This implied there was a positive and significant relationship between market development strategies and organization performance of Tier III commercial banks. The coefficient results revealed a $\beta_1 = .837$; $t = 10.665$; $sig = .000 < .05$; which showed that changing market development strategies will yield a positive improvement in the organization performance of commercial banks by 0.837

4.6.2 Effect of Market Penetration Strategies on Organization Performance of Tier III Banks

The second simple linear regression sought to determine the effect of market penetration on organization performance of Tier III commercial banks in Kenya. The results are shown in the Table 4.10

Table 4.10 Regression between Market Penetration Strategies and Organization Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.875 ^a	.766	.763	.32369

a. Predictors: (Constant), Market Penetration

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.761	1	27.761	264.961	.000 ^b
	Residual	8.487	81	.105		
	Total	36.248	82			

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Market Penetration

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.780	.187		4.165	.000
	Market Penetration	.750	.046	.875	16.278	.000

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

The findings above showed a coefficient of determination value of R square is 0.766. This suggests that at least 76.6% variation in the performance of Tier III commercial banks are

predicted by the market penetration strategies. The remaining 23.4% suggests that there are other factors that can be used to explain variation in the organization performance of the commercial banks. The Analysis of Variance was used to test the significance of the effect independent variables on the dependent variables and to establish existence of variations in the variables. The test result revealed F-statistic of 264.961 was greater than (F- critical = 1.162), with significance value at 0.000 ($P < 0.05$). This implied there was a positive and significant relationship between market penetration strategies and organization performance of Tier III commercial banks. The coefficient results revealed a $\beta_2 = .750$; $t = 16.278$; $sig = .000 < .05$; which showed that changing market penetration strategies will yield a positive improvement in the organization performance of commercial banks by 0.750

4.6.3 Effect of Product Development Strategies on Organization Performance of Tier III Banks

The third simple linear regression sought to determine the effect of product development strategies on organization performance of Tier III commercial banks in Kenya. The results are shown in the Table 4.11

Table 4.11 Regression between Product Development Strategies and Organization Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 ^a	.601	.596	.42273

a. Predictors: (Constant), Product Development

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.773	1	21.773	121.840	.000 ^b
	Residual	14.475	81	.179		
	Total	36.248	82			

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Product Development

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.911	.263		3.458	.001
	Product Development	.741	.067	.775	11.038	.000

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

The regression findings on the Table above showed the value of R square is 0.601. This suggests that at least 60.1% variation in the performance of Tier III commercial banks are predicted by the product development strategies implemented. The remaining 39.9% suggests that there are other factors that can be used to explain variation in the organization performance of the commercial banks. The Analysis of Variance was used to test the significance of the effect independent variables on the dependent variables and to establish existence of variations in the variables. The test result revealed F-statistic of 121.840 was greater than (F- critical = 1.162), with significance value at 0.000 ($P < 0.05$). This implied there was a positive and significant relationship between product development strategies and organization performance of Tier III commercial banks. The coefficient results revealed a $\beta_3 = .741$; $t = 11.038$; $sig = .000 < .05$; which showed that changing product development strategies will yield a positive improvement in the organization performance of commercial banks by 0.741

4.6.4 Effect of Diversification Strategies on Organization Performance of Tier III Banks

The last simple linear regression sought to determine the effect of diversification strategies on organization performance of Tier III commercial banks in Kenya. The results are shown in the Table 4.12

Table 4.12 Regression between Diversification Strategies and Organization Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.810 ^a	.656	.652	.39239

a. Predictors: (Constant), Diversification Strategies

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.776	1	23.776	154.422	.000 ^b
	Residual	12.472	81	.154		
	Total	36.248	82			

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Diversification Strategies

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.005	.227		4.431	.000
	Diversification Strategies	.706	.057	.810	12.427	.000

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

The regression findings on the Table above showed the value of R square is 0.656. This suggests that at least 65.6% variation in the performance of Tier III commercial banks are predicted by the diversification strategies implemented. The remaining 44.4% suggests that there are other factors that can be used to explain variation in the organization performance of the commercial banks. The Analysis of Variance was used to test the significance of the effect independent variables on the dependent variables and to establish existence of variations in the variables. The test result revealed F-statistic of 154.422 was greater than (F- critical = 1.162), with significance value at 0.000 ($P < 0.05$). This implied there was a positive and significant relationship between diversification strategies and organization performance of Tier III commercial banks. The coefficient results revealed a $\beta_4 = .706$; $t = 12.427$; $sig = .000 < .05$; which showed that changing diversification strategies will yield a positive improvement in the organization performance of commercial banks by 0.706

4.7 Business Growth Strategies and Organization Performance of Tier III Banks

Multiple regression analysis was done between dependent variable and independent variables that were measured on a quantitative scale. The regression findings between business growth strategies and organization performance are presented in the Table below.

Table 4.13 Regression Model for Business Growth Strategies and Organization Performance

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.886 ^a	.785	.774	.31614	2.017

a. Predictors: (Constant), Diversification Strategies, Market Development, Market Penetration, Product Development

b. Dependent Variable: Organization Performance

Source: Research Data (2024)

The findings on Table 4.13 showed that the combined predicted effect of the business growth strategies accounted for at least 78.5% of changes in the organization performance of Tier III commercial banks in Kenya ($R^2 = .785$). Thus, the regression model was fit in predicting a positive relationship between business growth strategies and organization performance in Kenya.

Table 4.14 ANOVA Summary for Business Growth Strategies and Organization Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.452	4	7.113	71.171	.000 ^b
	Residual	7.796	78	.100		
	Total	36.248	82			

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Diversification Strategies, Market Development, Market Penetration, Product Development

Source: Research Data (2024)

The ANOVA results in Table 4.14 indicated that the overall models were a good fit since the variable for business growth strategies, were found to have a value of F-statistic of 71.171 and the p-value was found to be 0.000 which is less than the critical value of 0.05. Thus, we can confirm a positive and statistically significant relation between business growth strategies and organization performance in Tier III commercial banks in Kenya.

Table 4.15 Regression Coefficients for Business Growth Strategies and Organization Performance

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	.586	.238		2.466	.016
Market Development	.047	.113	.042	.411	.682
Market Penetration	.550	.098	.641	5.630	.000
Product Development	-.002	.114	-.002	-.017	.986
Diversification Strategies	.208	.105	.238	1.973	.05

a. Dependent Variable: Organization Performance

Source: Research Data (2024)

Using the resulting coefficients, the overall regression model can be plotted as shown below;

To determine the effect of market development strategies on the performance of Tier III Commercial Banks in Kenya.

The results on the first objective had a coefficient of $\beta_1 = .047$, $sig = .682$ which showed that market development strategies had a positive and insignificant effect on the organization performance of Tier III commercial banks in Kenya.

To determine the influence of market penetration strategies on the performance of Tier III Commercial Banks in Kenya.

The findings on the second variable reviewed market penetration strategies and yielded a coefficient $\beta_2 = .550$, $sig = .000 < (.05)$ signifying a positive and statistically significant relation between the variables. The survey showed that atleast 55% of the changes in organization performance in the banks can be predicted through improving market penetration strategies.

To determine the influence of product development strategies on the performance of Tier III Commercial Banks in Kenya.

The regression analysis on the third objective had a coefficient of $\beta_3 = -.002$, $sig = .986$ which showed that product development strategies had a negative and insignificant effect on the organization performance of Tier III commercial banks in Kenya.

To establish the influence of diversification strategies on the performance of Tier III Commercial Banks in Kenya.

On the fourth objective the research indicated a coefficient for diversification strategies and yielded a coefficient $\beta_4 = .208$, $sig = .05 < (.05)$ signifying a positive and statistically significant relation between the variables. The survey showed that atleast 20.8% of the changes in organization performance in the banks can be predicted through improving diversification strategies.

4.8 Chapter Summary

The fourth chapter focused on the presentation of the findings derived from the analysis of the collected survey data. The study targeted different categories of managers in the banks and was able to obtain a 75% response rate (83 out of 110). The survey was able to establish positive correlation between market development, market penetration, product development and diversification strategies on the organization performance of the banks. The overall regression found out that 78.5% of changes in the organization performance of Tier III commercial banks in Kenya are determined by the business growth strategies.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This is the last chapter of the research and it will focus on presenting the summary, discussion, conclusions and recommendations that can be inferred from the results of the study. The chapter will then conclude by making suggestions business growth strategies that future researchers can explore.

5.2 Summary of the Study

Industry reports indicate that commercial banks, especially the lowly ranked banks are grossly underperforming and facing problems in meeting their capital requirements, liquidity and non-performing benchmarks, have poor corporate governance structures, and are rapidly losing customers to larger banks, resulting in persistent performance problems. Such a situation entails that these institutions focus on improving core their performance outcomes through strategic growth strategies. Previously, these strategies were shown to direct firms through growth stages and can be instrumental in the current operating environment where banks are facing competition from other financial service providers such as FinTech firms, SACCOs and mobile money lenders. Therefore, the focus of this research was to assess the association between business growth strategies and operational performance of Tier III commercial banks in Kenya.

The study adopted a quantitative descriptive research design that relied on the resource-based view, the dynamic capabilities, and Ansoff Growth model. These theories aver that firms can achieve superior growth by configuring their unique resources and knowledge to four main areas of growth; product and market development, market penetration and diversification. The study targeted different categories of managers in the banks and was able to obtain a 75% response rate (83 out of 110). Most of the respondents were relationship and operations managers, information technology and business development managers, and marketing managers. Only four were finance managers but this was an indication that the research was able to obtain responses from all categories of managers whose experience is invaluable to this type of research. Moreover, most of the respondents had been working in the bank for more than five years and between 10-15 years, signifying their accumulated knowledge in the industry.

Research analysis involved regression analysis and findings of the regression results were that the business growth strategies adopted by the banks account for 78.5% of changes in their organization performance. This implies that the banks can increase the performance of their organization by adopting more effective business growth strategies. This finding confirms to the assertions in Ansoff's growth model that through growth strategies, firms can expand their operations, market share, product and service offering.

Specifically, while market development and product development strategies had insignificant effects on the organization performance of Tier III commercial banks in Kenya, market penetration and diversification strategies positive and statistically significant effects. It can also be inferred that despite being insignificant, the effect of market development strategies was slightly positive but new product development strategies exhibited negative associations, signifying the importance of focusing on strategies that would increase customer satisfaction with the new products developed.

5.3 Discussion of Results

This section discusses the results of the study in relation to the literature that was reviewed in chapter two. These will be discussed independently and be related to the predictions of the theories underpinning the research. Below is a detailed discussion of the findings.

5.3.1 Market Development Strategies and Organization Performance of Tier III Banks

The first objective of the research was to assess the effect of market development strategies on the organization performance of Tier III banks and the findings were that these strategies have positive significant effects on the organizations' performance. These findings affirm the dynamic capabilities' view that selling existing products into new markets is a relatively low risk strategy that businesses can use to expand their market share and achieve growth. According to secondary literature analysis, businesses can grow their market presence by targeting a niche customer segment, by entering a new domestic market or by entering a foreign market. Ansoff considers this strategy to be less risky since the businesses can use these markets as testing grounds to determine performing and underperforming products.

The findings that market development strategies have positive significant effects on the organizations' performance can be observed in the research by Reddy et al. (2019) and Musah et al. (2020) whose analysis revealed that mergers and acquisitions have significant negative effects on net profit margin and value of banks. In the study by Reddy et al. (2019), however, mergers were successful among state owned banks and Musah et al. (2020) studied the

acquisition of underperforming banks and specified financial performance after acquisition which is often negative due to the assumed costs. The respondents had showed strong agreement that the banks actively engage in strategic mergers, acquisitions and alliances to improve performance.

On the other hand, according to Anderibom and Obute (2015), in Nigeria, mergers and acquisitions had positive, significant effects on the performance of commercial banks. The study, however, confirmed that these acquisitions have to be accompanied by staff training, new technologies' adoption and aggressive marketing and promotions. There was agreement that the banks have established new and different businesses entry strategies across different regions to improve the performance. Ndegwa's (2021) analysis revealed that banks can increase their market share by developing new marketing structures and adopting electronic promotion strategies. Indeed, Ndiege (2019) observed that the incorporation of digital technologies and social media marketing has significant impacts on expansion and strategic positioning of new and existing businesses. Aside from marketing, analysis from Klus et al. (2019) revealed that banks can form strategic partnerships with fintech firms to increase their service offering and take advantage of these firms' technological competence. Accordingly, Hameed and Anwar (2018) revealed that acquisition of intellectual knowledge would have significant positive impacts on banks' organizational performance.

5.3.2 Market Penetration Strategies and Organization Performance of Tier III Banks

The second objective was on market penetration strategies and the results were that these strategies have positive and statistically significant effects on the organization performance of Tier III banks. These findings conform to Ansoff's (1957) prediction that increasing the sales of high performing products into an existing market is key to improving market and business expansion. Ansoff considered this strategy to be the least risky way for businesses to grow and expand their market share. For banks, empirical literature reveals that market penetration can be achieved by acquiring competitors, reducing prices for goods and for accessing services to attract new customers, and by streamlining distribution processes and marketing through diverse channels (Cankurtaran, Langerak, & Griffin, 2013). Ansoff opined that this strategy is least risky since it poses no significant costs and can be used to attract new customers as well as reinforce commitment of existing customers.

The finding that Market Penetration Strategies have positive and statistically significant effects on the organization performance of the banks can be corroborated by evidence from Asiedu (2016) which revealed that reliance on psychographic, geographic, socio-cultural behavior, and demographic segmentation in the marketing practices of the bank are critical to driving bank performance. Similarly, according to Ejoor et al, (2018), penetration of new markets through strategic partnerships of takeovers are strategic ways for banks to expand their market share and economies of scale. In the study by Nyoike (2015), banks improved competitiveness by forming a strategic alliance with local banks, integrating new technologies into operations and improving their subsidiary network.

There was also agreement among respondents that the banks are customizing products and services to target specific customers and markets and Faith (2019), banks that introduce successful products into new markets are likely to realize similar levels of success. Moreover, Faith (2019) revealed that these products can be offered at more attractive prices in new markets to increase customer attraction. Indeed, this fact was also observed in the current research where Muthengi (2015) revealed that differentiated pricing, promotion and market development strategies have significant influences on organizational performance. The study however presents evidence from insurance firms.

5.3.3 Product Development Strategies and Organization Performance of Tier III Banks

The third objective of the research was to assess the effect of product development strategies on organization performance and the findings were that these strategies have positive and significant effects on the banks' organization performance. Ansoff (1957) had predicted that introducing new products to an existing market would increase performance through the ability of new products to address the needs of specific customers or for innovative products to simplify existing processes. Moreover, firms that can continually reconfigure capabilities are likely to introduce more competitive products as per the Dynamic capabilities' theory. This finding therefore are in line with the predictions of the Ansoff's Growth Matrix. Literature analysis revealed that product development strategies involve the development of new products, the acquisition of rights to produce existing products, and the new product offering through partnership projects (Ejoor, Okechukwu, & Iroegbu, 2018).

The findings are supported by Kariuki (2012) and Ripain and Ahmad (2018) confirm that developing new products and making strategic innovations to existing products is important

for banks operating in highly technologized environments. Evidence from Orji et al. (2017) also reveals that product innovation, development of customer-centric, product pricing, product testing, and improving customer knowledge on new products are key to increased profitability. Saghi-Zedek's (2016) findings were that service diversification is critical to enhancing the performance of commercial banks and argued that banks can achieve higher competitive positions by offering unique services that are not available to other consumers in the market.

There was also agreement that the banks were expanding their branches through innovative ways including ATMs and agency banking and in China, Yang et al (2018) established that adopting digital technologies is one way for banks to increase their product and service offering, as well as address the expectations of new customers and increase profitability. There was agreement among the respondents that the banks are developing customer tailored products to suit the needs of different customers and these findings are observed in Ghana where Narteh (2018) established that through customer-centric approaches, banks can develop products and services tailored to address the needs of specific customer or market segments and increase profitability. The researcher also revealed that banks can leverage the quality of their products to create a recognizable brand that is key to sustained competitiveness. Tukundane et al. (2020) also called on a product development strategy that focuses on customer input, feedback and ownership to increase acceptance and performance of new products.

5.3.4 Differentiation Strategies and Organization Performance of Tier III Banks

The final objective was on the effect of diversification strategies on the banks' organization performance and findings were that these strategies have positive and statistically significant effects on the banks' organization performance. Ansoff (1957) considered diversification to be the riskiest engagement that firms can engage but confirmed that successful introduction of new products into new or existing markets, or introducing existing products into new markets would significantly improve organizational performance. According to Ansoff, this strategy is the riskiest and most complicated strategy to execute given it requires new product and market development, both of which require careful consideration and analysis of suitability. As per the DC theory, differentiation is a means to achieve uniqueness in product and service delivery, expand market presence and achieve sustained competitiveness. Therefore, this finding supports both Ansoff and Teece et al.'s (1997) DC theory.

The finding that Differentiation Strategies have positive and statistically significant effects on the banks' organization performance has been collaborated in the examined literature. The

study by Forcadell, Aracil, and Úbeda (2019) revealed that service and customer diversification strategies have significant impacts on organizational innovation which in turn influences performance in terms of profitability and customer satisfaction. Ripain and Ahmad (2018) also revealed that product and service diversification through the integration of fintech technologies has significant impacts on bank's marketing capability and service provision. Further, respondents agreed that the banks have developed digital banking which gives prompt services to customers that can stimulate better performance. These observations were also made by Lisin et al. (2021) in research that revealed that digital trading applications are emerging as alternative means for customers to access financial services and for banks to offer previously inaccessible services such as crowdfunding.

Respondents agreed that the commercial banks promote their brand image through digital channels which is key to improved performance and according to Theogene, Musa, and Grace's (2017), such innovations can explain up to 87.9% of the performance of commercial banks. Mutoni (2018) also observed that the utilization of digital marketing tools reduces marketing costs, improves customer satisfaction, convenience, and service provision. Muriuki and Kiiru (2019) also called on banks to adapt flexible management and create innovative products and services to ensure they differentiate themselves from their competitors. Similarly, Ahmed and Wamugo (2019) reported that developing products for specific markets and introducing them into the marketplace significantly enhances customer outreach, and relationship management, efficiency and productivity.

5.4 Conclusions

On the first objective, the study concludes that market development strategies have positive and significant effect on the organization performance of Tier III commercial banks in Kenya. This suggests that the commercial banks' efforts to establish new and different business entry strategies across different regions are contributing to improved performance. Additionally, actively engaging in strategic alliances with other firms within the financial industry and using various channels to communicate with customers about their products also showed positive associations with bank performance. Furthermore, the study found that focusing on products serving different needs in the markets and undertaking product upgrading to suit changing customer needs, also presented a favourable perception of these strategies, which could potentially contribute to improved performance. However, the study also revealed that the

intention to expand to new geographical locations within the East and Central Africa region will not necessarily lead to improved performance.

Regarding the second objective, the study concludes that market penetration strategies exhibited a positive and significant effect on the organization performance of Tier III commercial banks in Kenya. Specifically, the findings indicate that the bank's focus on enhancing performance by offering competitive prices, elaborating the pricing of its products and services, and matching the pricing of its products with competitors in the market are positively associated with bank performance. Moreover, the study concludes that market penetration strategies, such as expanding the bank's physical presence and offering high-quality products and services, contribute to improved performance. The study however suggests that strategies such as developing customer-tailored products to suit the needs of different customers and undertaking mergers and acquisitions (M&A) indicated a potentially weaker relationship with bank performance.

The study also concluded that product development strategies had a positive and significant effect on the organization performance of Tier III commercial banks in Kenya. The study also found that investing adequately in research as well as new product development contributed to improved bank performance. Additionally, the findings indicate that the bank's focus on enhancing performance through efforts to review product attributes, encouraging staff members to provide unique ideas, conducting customer feedback assessments and introducing new digitalized product offers are key factors for improving service quality and gaining a competitive edge over other market operators indicating their potential contribution to improved bank performance.

Lastly, the study concludes that diversification strategies have a positive and significant effect on the organization performance of Tier III commercial banks in Kenya. The study suggests that innovative strategies including involvement of customers in the creation of innovative products as well as the adoption and reliance on market and technological innovations positively influenced the banks performance. Additionally, the development of digital banking for prompt services, the adoption of social media marketing tools, and the promotion of the bank's brand image through digital channels are all positively associated with bank performance.

Overall, the conclusions that can be drawn from the analysis are that business growth strategies have significant positive effects on the organizational performance of Tier III commercial

banks in Kenya. This can be observed through the impact of the strategies on the banks' profitability, product and service development, market penetration and customer satisfaction. Within Tier III commercial banks in Kenya, the conclusions that can be drawn is that market penetration and diversification strategies have significant positive effects on bank performance while market development and product development strategies are having insignificant impacts on organizational performance.

5.5 Recommendations

Based on the findings, it is clear that the Tier III banks are struggling to keep up with the economies of scale characteristic of larger banks and as a result are struggling to achieve their performance targets. However, the analysis reveals that there are several strategies that the banks can adopt to improve their organizational performance and realize growth outcomes. First, the study recommends that the bank managements constantly review existing products, develop new products and align product decisions with expected earnings and wealth maximization objectives. The study also recommends that the leaders adopt flexible leadership approaches that prepare the organization for new technologies and skills necessary to compete in the digital economy. Moreover, the study calls on these managements to focus on leveraging these technologies to promote geographical, corporate and operational diversification which is essential if the banks want to compete in competitive markets with less finances.

With market development and product development strategies exhibiting insignificant effects on organizational performance, this study calls on Tier III banks to establish unique channels where they can strategically cooperate with customers and industry players in development of products and services that would cater to their target market. This would not only improve their constitution, but also provide local ownership for innovations within the sector. This would also be key to acquiring customers with needs that differ from those that larger banks are accessing. For instance, women-led or youth-initiated products can provide a higher level of market differentiation that has been reported to be key to improved performance. This would also improve these banks' understanding of their target market which can further refine how they customer and price segmentation, all significant determinants of product acceptance and uniqueness.

Given the banks are struggling to penetrate into new markets, this study recommends that in addition to rigorous market analysis, the banks establish a research and marketing team dedicated to analysing markets and marketing all products and services offered by the

institution in these new markets. This is important as a means to increase customers' awareness of the existing and developed innovations. Moreover, given the cost of marketing, the study recommends that the banks adapt digital marketing strategies and strategic partnerships with fintech firms as this would allow them to market services at lower costs and leverage newly developed fintech products. This would also create new revenue channels since the banks would benefit from the resultant transaction costs.

The study calls on policies to be developed to guide innovation of products and services within the financial sector and in relation to the performance of smaller sized banks. Policies should also be formulated to guide stability indicators for banks and ensure adequate enforcement of the instituted policies. Moreover, policies surrounding the development of digital technologies should be implemented to ensure the digital products introduced by commercial banks satisfy customer needs and address the changes in the environment.

5.6 Limitations of the study

This study encountered various limitations. The study limited itself to four main strategies yet other growth strategies can be adopted by banks. The study further focused on tier III banks which are the smallest class of banks operating in Kenya. The study was also limited to the RBV, the DC theory and Ansoff's growth strategies. The study encountered difficulties obtaining data as some of the managers were unwilling to submit data about their performance. However, this limitation was countered by providing official letters from the school and the national commission for science and technology. Moreover, the managers were informed that the data collected will be used for academic purposes.

5.7 Area for Further Research

The study used the resource-based view to carry out assessment of the effect of business growth strategies on the organizational performance of Tier III banks in Kenya. It did not examine whether these organisations have the capacity to effectively compete with higher ranked institutions. Therefore, in addition to the growth strategies adopted, this study recommends further examination into how internal capabilities influence these firm's ability to effectively implement the growth strategies. This research would fill the gap with regards to what competencies need to be developed to ensure effective strategy implementation and eventual firm performance.

The study also recognizes that growth strategies can be applied at different scales and the study recommends further research into how specific strategies influence specific performance targets such as customer acquisition, satisfaction or profitability. This would be important as it would inform managements of the expected outcomes of specific adopted strategies.



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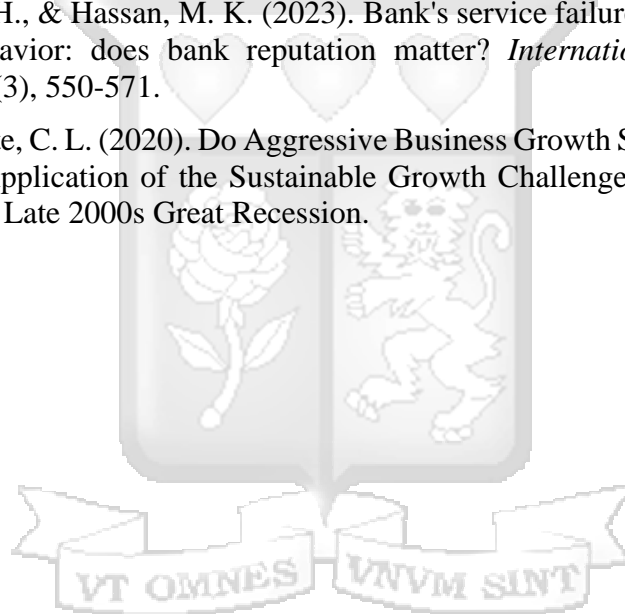
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APPENDICES

Appendix I: Introduction Letter

Ole Sangale Rd, Madaraka Estate,
P.O Box 59857 00200, Nairobi, Kenya.
Cell: +254 703 414/6/7, Twitter: @SBSKenya
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



17th October 2023

To Whom It May Concern.

Dear Sir/ Madam.

RE: FACILITATION OF RESEARCH – OLIVIA ATIENO ONGÉLE

This is to introduce Olivia Atieno Ongéle who is a Master of Business Administration student at Strathmore University Business School, admission number MBA/136506/20. As part of our MBA Program, Olivia is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MBA course. To this effect, she would like to request for appropriate data from your organisation.

Olivia is undertaking a research paper on “**The Effect of Market Growth Strategies on Organizational Performance: A case of Tier III Commercial Banks in Nairobi City County, Kenya**”. The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MBA seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to be "Alois Njenga".

Alois Njenga.
Manager – Graduate Programs.
Strathmore University Business School.

Association of African
Business Schools



Strathmore Business School is a Proud member of:



AACSB

EFMD

Appendix II: Research Questionnaire

Hello, the attached questionnaire is aimed at getting information from personnel within commercial banks *'The Effect of Business Growth Strategies on Organizational Performance: A Case Of Tier III Commercial Banks In Nairobi City County, Kenya'*

I kindly request your assistance in answering the attached questions to the best of your ability.

Thank you for your participation in this research work.

PART A: GENERAL INFORMATION

1) Please indicate your age bracket?

Below 25 years

25 – 35 years

36 – 45 years

46 – 55 years

56 and above

2) Please indicate your gender?

Male

Female

3) Please indicate your highest Education Level?

O- Level

Diploma

Graduate

Post graduate

Others (Specify).....

4) Please indicate your position in the organization?

Marketing manager

- Information Technology Manager []
- Business Development Manager []
- Relationships Manager []
- Operations manager []
- Finance manager []

5) Please indicate your number of years in this department/position?

- Less than 5 [] 5-9 [] 10-15 [] Over 15 []

PART B: THE EFFECT OF BUSINESS GROWTH STRATEGIES ON ORGANIZATIONAL PERFORMANCE

Please indicate in the table with a tick (√) or across (×) with a scale of

5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree

No	Market development strategies	1	2	3	4	5
1.	The commercial bank has established new and different businesses entry strategies across different regions to improve the performance					
2.	The commercial bank is focused on its products serving different needs in the markets which will greatly improve the bank performance					
3.	The commercial bank is actively involved in product upgrading to suit the changing needs of customers to support attainment of performance goal					
4.	The commercial bank uses different channels to communicate to customers about their products which could be key to enhancing performance					
5.	The commercial bank actively engages in strategic alliances with other firms within the financial industry to improve our performance					
6.	The commercial bank undertakes market promotion strategies with view of expanding its market base					

7.	The commercial bank has been contemplating expanding to new geographical locations within the east and central Africa Region					
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Please indicate in the table with a tick (√) or across (×) with a scale of

5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree

No	Market penetration strategies	1	2	3	4	5
8.	The bank focuses at enhancing performance by offering competitive prices for its customers					
9.	The bank elaborates the pricing of its products and services					
10.	The commercial bank has expanded branch network for better performance of the institution					
11.	The bank provides premier products and services that meet customer needs					
12.	The bank develops customer tailored products to suit the needs of different customers					
13.	The commercial bank undertakes M&A activities to foster the performance of the institution					
14.	The commercial bank matches the pricing of its products with competitors in the market					

Please indicate in the table with a tick (√) or across (×) with a scale of

5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree

No	Product Development Strategies	1	2	3	4	5
15.	The commercial bank reviews product attributes to provide more value to the customer by improving service quality					

16.	The bank continuously invests adequately to promote new product development which is key to better performance					
17.	The commercial bank staff members are encouraged to give unique ideas when developing a product that gives a bank competitive edge over other market operators.					
18.	The commercial bank carries out quarterly customer feedback assessments to improve product modification which can contribute to the bank performance					
19.	The commercial bank is continuously introducing new digitalized product offers that can improve the bank performance					
20.	The commercial bank has increased its investment in research and development for new products which is central to improved performance					

Please indicate in the table with a tick (√) or across (×) with a scale of

5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree

No	Diversification Strategies	1	2	3	4	5
21.	The commercial bank invests more in modern technology to reach new markets and enhance the performance of the institution					
22.	Market innovation strategy has helped the organization to achieve its performance goals					
23.	The commercial bank directly involves customers in the creation of innovation products which will lead to better performance					

24.	The bank has developed digital banking which gives prompt services to customers that can stimulate better performance					
25.	The bank is relying on technological innovations to provide customers with relevant, timely information about their bank accounts & transactions which is vital to bank performance					
26.	The commercial bank has adopted social media marketing tools to enhance the performance of the banking institution					
27.	The commercial bank promotes the brand image of the firm through digital channels which is key to improved performance					

SECTION C: ORGANIZATION PERFORMANCE

Please indicate in the table with a tick (√) or across (×) with a scale of

5= strongly agree 4= Agree 3= Neither agree nor disagree 2= Disagree 1= Strongly Disagree

No	Organization Performance	1	2	3	4	5
Customer perspective						
28.	The bank has witnessed a reduction in the number of complaints being submitted by our customers					
29.	The bank has been able to attain an improvement in customer loyalty					
30.	The bank is able to maintain the level of customer satisfaction					
31.	There is an improvement in the number of customer referrals within the bank					
Learning & Growth Perspective						

32.	The bank has enhanced the level of efficiency in completing customer service provision through supporting the staff					
33.	The bank conducts routines surveys to identify training gaps for employee professional development					
34.	There is an improvement in the timely delivery of new products and services within the firm by employees					
Internal Perspective						
35.	The firm has witnessed an improvement in the level of employee satisfaction					
36.	The bank engages all employees to spur innovation and quality service provision					
37.	There is an improvement in the employee productivity within commercial bank					
Financial perspective						
38.	The bank has improved investments in emerging information systems					
39.	There is improved revenue generation within the commercial bank					
40.	The firm has enhanced cost efficiency which has reduced operational expenses leading to better profit margins					




Thank you for your time.

Appendix III: List of Tier III Commercial Banks

- 1 HFC Ltd
- 2 Victoria Commercial Bank Limited
- 3 Guaranty Trust Bank
- 4 Bank of Africa Ltd
- 5 Gulf African Bank
- 6 Sidian Bank Ltd
- 7 African Banking Corporation Ltd
- 8 Habib Bank AG Zurich 0
- 9 Credit Bank Ltd
- 10 First Community Bank Ltd
- 11 Guardian Bank Limited
- 12 Development Bank of Kenya Ltd
- 13 Mayfair CIB Bank Limited
- 14 Kingdom Bank Limited
- 15 DIB Bank Kenya Ltd
- 16 M-Oriental Commercial Bank
- 17 Consolidated Bank of Kenya Limited
- 18 Paramount Bank Ltd
- 19 Access Bank (Kenya) PLC
- 20 UBA Kenya Bank Ltd
- 21 Middle East Bank (K) Ltd
- 22 Spire Bank Limited



Appendix IV: NACOSTI Research Permit

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 673626	Date of Issue: 26/October/2023
RESEARCH LICENSE	
	
This is to Certify that Ms.. Olivia Ongele of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: THE EFFECT OF MARKET BUSINESS GROWTH STRATEGIES ON ORGANIZATIONAL PERFORMANCE: A CASE OF TIER III COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA for the period ending : 26/October/2024.	
License No: NACOSTI/P/23/30614	
673626 Applicant Identification Number	 Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code 
NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.	
See overleaf for conditions	



29th September 2023

Ms Ong'ele Olivia,
olivia.ongele@strathmore.edu

Dear Ms Ong'ele,

RE: The Effect of Market Growth Strategies on the Performance of Tier III Commercial Banks in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC1833/23**. The approval period is from **29th September 2023 to 28th September 2024**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,
Chairperson; SU-ISERC**





1833 Ms Ong'ele
approval letter.pdf

