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INFLUENCE OF DIVERSIFICATION STRATEGIES ON COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

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Abstract

Purpose: This study examined the influence of diversification strategies on competitive advantage of commercial banks in Kenya by utilizing theoretical approaches of Market Power Theory, Portfolio Theory, Transaction Cost Theory, Resource Based View Theory and Diffusion of Innovation Theory. The specific objectives of the study included: to establish the influence of asset diversification strategy, technological diversification strategy, portfolio diversification strategy and revenue diversification strategy on competitive advantage of commercial banks in Kenya.

Methodology: The stud adopted a descriptive research design. The target population of the study comprised of all the 43 commercial banks in Kenya. However, the study focused on the 39 commercial banks which were operational at the time of the study. The target respondents were the director of the corporate section, the head of strategy department and the strategy manager from each of the 39 commercial banks who made a total of 117 respondents. The study used a census method on all the 39 commercial banks. The study mainly relied on primary data. The primary data was collected using questionnaires which comprised open and closed- ended questions. Data was quantitatively analyzed using (SPSS V20) for both descriptive and inferential statistics.

Results: The study findings showed that all the four variables, that is asset diversification strategy, technological diversification strategy, portfolio diversification strategy and revenue diversification strategy have a positive and significant influence on competitive advantage of commercial banks in Kenya.

Recommendations: The study recommends that commercial banks should aim to increase their asset diversification strategies. The study also recommends that commercial banks should also aim to increase their technological diversification strategies. The study also recommends that commercial banks should also invest more resources in expanding their revenue generation activities. The study finally recommends that commercial banks should also invest more resources in expanding their portfolios as to diversify their risks.

Key Words: *Asset Diversification Strategy, Technological Diversification Strategy, Portfolio Diversification Strategy, Revenue Diversification Strategy and Competitive Advantage*

INTRODUCTION

In the contemporary competitive business environment, one of the key areas that have emerged is diversification strategy adopted by organisations globally to improve their performance (Benartzi, & Thaler, 2001). The concept of diversification has been embraced by the organisations of the purpose of creating value. There is need for organisations to reconsider their productivity and survival tactics given that they are functioning in environments characterized by incessant competition, operational complexities as well as erratic fluctuations (By *et al.,* 2009). According to Cusumano, Kahl and Suarez (2015), diversification can be understood as penetration into new markets and production of new products and enhancing high level of relatedness of products. Firms diversify in response to environmental changes; search for market power and to spread risk while others consider diversification as an avenue to extend the boundaries of a firm as a result of problems that arise from internal co-ordination processes (Grossmann, 2007). On the same note, the benefits arising from positive spillovers to other industries is another reason why firms opt to diversify. When firms engage in diversification, they stand a chance of reaping from economies of scale through involvement in resource and capacity dissemination. Imperfections in the financial markets that force managers to allocate funds more efficiently may also lead to diversification (Klein & Lien, 2009).

In line with increased competition in the banking industry, more and more banks are engaging in diversification strategy (Tan, 2016). Diversification guides the organization in finding new markets/product that enhance its competitiveness. Despite the adoption of these strategies, a number of banks in Kenya that have adopted diversification still performed dismally hence the need to establish whether commercial banks in Kenya become more competitive as a result of adopting diversification strategies (Mathuva, 2016). In the banking industry, competitive advantage creates an edge above competitors in winning over customers and fending off other forces of competition. Commercial banks therefore consistently scan their business or competitive environment in which they operate and their own strategy. Proper scanning of the competitive environment enables commercial banks to adopt diversification strategies that ensure they perform very well in the industry (Amidu, & Wolfe, 2013). Industrial competition is an increasingly important theme in banking industry. Banking industry has been characterized by related and unrelated diversification, stimulating innovation and expanding services (Kotabe, & Kothari, 2016). Once the firm performs environmental scanning the bank should go on to select its diversification strategies.

Statement of the Problem

The banking sector has encountered increasing competition as a result of innovation by existing players as well as banks entering the market (Chiorazzo, Milani & Salvini, 2008; Gathungu & Mwangi, 2012). The sector is facing new regulations and problems prompted by global financial crisis as well as government regulations (Onuonga, 2014). Reacting to these changes, some studies for instance Wasike (2010); Njeri (2010) have suggested that there is a need for advanced strategies for competition such as diversification strategy which spreads the portfolio risks and increases profits (Chiorazzo, Milani & Salvini, 2008). Onuonga (2014) indicated poor commercial bank performance in Kenya citing examples of a decrease in profits before tax to below 20% change in the year 2013 and a further decrease by 5% in the year 2016 as a result of the stiff market competition.

However, poor performance of commercial banks has resulted from their failure to adopt diversification. According to Porter, (2008), greater performance and sustainable competitive advantage is a consequence of successful strategies. This study sought to find out how diversification strategy can be used by commercial banks in Kenya as a means of gaining sustainable competitive advantage since competition has become cut throat with no bank retaining a monopoly of any new innovations for long before other banks perfect the same innovation.

Research objectives

i. To assess the influence of asset diversification strategy on competitive advantage of commercial banks in Kenya
ii. To establish the influence of technological diversification strategy on competitive advantage of commercial banks in Kenya
iii. To determine the influence of revenue diversification strategy on competitive advantage of commercial banks in Kenya
iv. To determine the influence of portfolio diversification strategy on competitive advantage of commercial banks in Kenya

LITERATURE REVIEW

Theoretical Review

Market Power Theory

The proponent was Porter (1980) and the argument has been presented regarding a firm's position relative to competitors based on a set of strategies. According to Salman (2007), poor performance of a bank is a consequence of cut-throat competition posed by competitors present in a market niche. Barney (1991) therefore proposes diversification efforts to overcome competition as well financial challenges as firms are able to create market power, a means to attaining conglomerate powers. By diversifying, firms are not dependent on the outcomes of the market they are currently involved in but by the outcomes and positions of other markets they partake of. Attainment of individual power by a firm in the market is a prerequisite towards attainment of conglomerate status (Gribbin, 1976). Market power results from three ways including cross subsidization whereby profits from one market are utilized in another market to reinforce predatory pricing; mutual restraint of competition by rivals; and reciprocal buying. In support of this, Palich *et al.,* (2000) argues that organisations that have market power often use such means as discounts, cross subsidies and reciprocal buying to control market prices. This is in an attempt to prevent potential competitors from entering the market. Therefore market power theory suggests adoption of diversification for the purpose of enhancing competitive advantage.

Portfolio Theory

Developed by Harry Markowitz (1952), this theory approaches investment from identification, ordering, approximation as well as controlling amount expected to an investment in terms of risk and returns. This theory therefore provides a means of assessing the benefits and risk that could accrue to a firm facing investment decisions (Cochrane, 2013). The firms therefore have to make a decision on how to invest so as to make optimum returns.

This is done by carefully assessing benefits and settling for the best investment though choosing proportions of various assets (Fabozzi, Gupta, & Markowitz, 2002). In the banking industry, the aim of this theory is to decrease the total variance of the portfolio return by upholding the assumptions of rationality of investors. Mathematically, the portfolio theory frames diversification as choosing investment that has collectively lower risks than any (Van Greuning, & Iqbal, 2007). With regards to assets diversifications, the portfolio theory aids the listed banks in describing investment options (Reilly, & Brown, 2011). The theory provides a basis upon which to measure the risks associated with investing in each type of asset. According to the theory, assets that exhibit high return volatility are considered to be very risky and may not be appropriate for investment whereas assets with low return volatility are thought to be safe to invest in (Cochrane, 2013). Applied in diversification of firms, the theory assists firms to choose the best form of assets investment that enables them to reap optimum returns from the chosen form of diversification and therefore relevant to this study as it links asset and portfolio diversification strategy and competitive advantage of the commercial banks in Kenya.

Transaction Cost Theory

This theory is concerned with the cost of conducting transactions in the banking industry. Importantly, costs are a key consideration in making majority of decisions. It determines if a transaction can be undertaken at a lower cost via the market or within the hierarchy of the firm. The process involves discussing, observing, and enforcements cost as a result of a transaction between two or more parties (Jones & Hill, 2008). This process enables banks to minimize the cost of trading their resources. Absence of transaction costs would theoretically render diversification non-value maximization venture as they resources a firm wants to obtain can be purchased in the market. This is often not the case as there are inefficiencies in the market setup that yield transaction costs that necessitate integration. According to Jones and Hill (2008), transaction costs encountered during business operations may lead a bank towards a diversification strategy. There are various factors that cause transaction cost difficulty including: bounded opportunism, rationality, uncertainty, small numbers, information impactedness, and asset specificity. As already pointed out, absence of transaction costs would theoretically render diversification non-value maximization venture. The importance of the theory in this context lies in its provision of diversification as a way to reduce transaction costs particularly among the commercial banks. Through adoption of such technological diversification strategy, banks are able to significantly reduce the transactional costs. Transaction cost theory therefore links technological diversification and competitive advantage among commercial banks in Kenya.

Resource Based View

Proposed by Penrose in 1959 RBV emphasizes the capacity of a firm to make use of possible collaborations between resources to produce higher performance. By applying Porter's five competitive forces, RBV outlines cases where a firm can utilize its resources to make high returns in the long run. RBV explains the synergies between resources of a firm and its benefits. Accordingly, firms that are in possession of certain resources can maintain competitive advantage in contrast to others because ownership of the resources accords the firm a better position by adversely affecting the costs and revenues of others (Barney, 2001). 4

According to the theory, the origin of competitive advantage of a firm results from internal resources whereby these resources as well as capabilities drive the strategies of the firm. Diversification therefore results from efforts of a firm to leverage non-tradable firm-specific resources (Ray, Barney, & Muhanna, 2004). It is better use of firm-bound resources that generate the effectiveness of a firm's strategies. There thus lies unexploited resources within a firm that create opportunities for superior performance. Diversification is one such strategy for exploiting existing firm-specific resources.

Diffusion of Innovation Theory

This theory was developed and popularized by Rogers in 1962 after empirically analyzing more than 508 studies on technology diffusion across various fields. According to Rogers (1962) the Diffusion of Innovations (DoI) theory was as a result of contributions from the pioneering efforts in the implementation of innovations. In line with this theory, the decision to take up innovations is determined by five issues regarding the features of the innovation. These are the perceived usefulness, matching needs, intricacy, testability and visibility with the social system adopting the technology. The theory also holds that the adopters can be clustered into several categories.

Importantly, the theory holds that customers in the innovation adoption phases differ dramatically in their features. In the proposed study how the bank managers, employees and customers perceive the five salient features identified to indicate adoption and use of different banking services such as e-banking and mobile banking. Further, within the banks in Kenya not all banks diversify their services such as -banking and mobile banking and those that diversify do not adopt at the same time as per the theory. The categorization of the adopters as per the theory are the innovators, fast adopters, earlier mainstream, late mainstream and the laggards and that would be used to prove or explain why some banks adopt internet banking before others. The theory therefore explains the contributions from the pioneering efforts in the implementation of banking services innovations in the banking sector. This therefore understates its relevance to the study.

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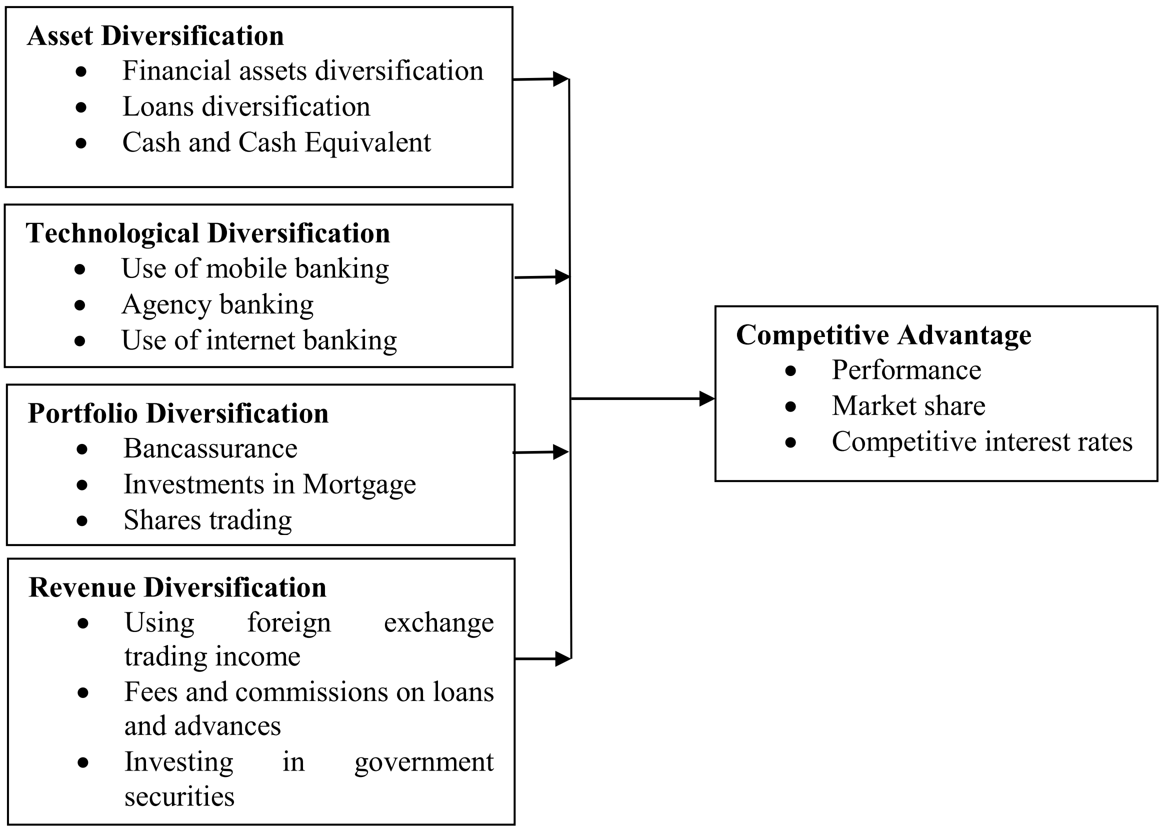
Conceptual Framework



Independent variables **Dependent Variable**

Figure 1: Conceptual Framework

Asset Diversification

Asset diversification is a group strategy joining together more than one asset so as to lower the whole investment portfolio risk (Mochabo, Benedict & Ondiek, 2017). It is the practice of dividing a portfolio into key asset class of equities, cash equivalents, fixed income and alternatives (Derek, 2015). Asset diversification is the share of a portfolio spread through various classes of assets, regions and markets. Mochabo *et al.* (2017) acknowledge asset diversification as a fundamental principle of sound investing. The aim of asset diversification is to realize revenues for allowed risk margin by combination of different classes of asset in a way that is well calculated. This allow for smoothening the variability in returns achieved in each asset class. According to Perez (2015), bank assets include loans, financial assets, cash, other assets and premises. Perez (2015) contends that asset diversification within banks can be measured through examining loans, financial assets; other investments made and cash equivalents. Asset diversification has been adopted widely a strategy aimed at mitigating the turbulent markets and operational environments for investors. The major benefit associated with this move is lowering the portfolio volatility and losses and is generally very crucial especially when there is increased uncertainty (Dimitriou, 2012).

Asset diversification can be in form of financial assets diversification, cash and cash equivalents and loan diversification. According to Laurie (2013), financial assets are intangible asset whose value is a derivative of contractual claim, such deposits of a bank. Financial assets mostly include financial claims which originate from contractual dealings ventured into when funds are provided to an institutional unit by another. Such contracts initiate creditor relationship with debtor and asset owners acquire unconditional claims on economic resources of other institutional units. Commercial banks can diversify their financial assets as a way of diversifying their risk. Loans diversification also helps a commercial bank to manage credit risk. Perez (2015) acknowledges that loans ranks as the key and the most valuable types of asset that is held by banks because it's from them that banks receive income. According to Morsman (2003), loan portfolio constitutes the major asset and the predominant basis of income. Diversification of cash and cash equivalents of a commercial bank is also key. Cash and cash equivalents are presented on company's balance sheet and show the worthy of company's assets that are already in cash or can be straight way changed into cash. Cash and cash equivalents' constitutes asset of a business, presented on the financial statement revealing the business financial situation and comprises of currency a firm holds (in hand and in bank accounts) and cash equivalents. As pointed out by Harold (2014), cash and cash equivalents comprise of coins, currency, petty cash, checking and savings accounts, money market accounts, checks that have not yet been banked despite being received and investments that are highly liquid and short-term, having maturity period not exceeding three months from the buying time. Harold (2014) further argues that cash and cash equivalents are leading in terms of the ability to be liquidized in comparison with all other assets. Therefore, cash equivalents assets are readily changeable into cash and are different compared to other investments, they have maturity of within three months whereas, their existence is short-term of about twelve month or a lesser period, different from long-term investments which matures with a period exceeding twelve months.

Technological Diversification

Technological diversification refers to application of technology to diversify the services and products of an organization (Berger & Ofek, 2005; Wan, 2005). The higher the levels of diversification that a firm delves in the consequent improvement of a firms position financially and in the market. This goes hand in hand with company missions and visions of most companies if not all whereby growth and eventual success are the ultimate aims. Diversification as a strategy serves this path well (Lynch, 2008).One aspect of technological diversification is agent banking where a business is carried out by an authorized and approved agent on behalf of a financial institution (Jansen, 2010). Agency business has a tradition and history in developed markets through the use of outlets such as post offices, retail stores etc. This has found its way to developing countries like Kenya whereby services through authorized agents are becoming the norm of the day with companies such as Kenya Power, Nairobi Water using Nakumatt and Posta to collect bills from their consumers. The business of agency in the banking industry began not so long ago and has been largely welcome by customers due to the convenience it has brought in a service characterized by long queues and delays (Tuwei, 2016). Mobile banking is also another area where commercial banks have embarked on. It involves completing bank activities through the mobile phone (Onsomu *et al.,* 2015; Tiwari, Buse & Herstatt, 2006). Basically, it is the provision of bank related services through the mobile phone (Sohail & Shanmugham, 2003).

It has become imperative that banks consider the use of technology to adapt to the changing requirements of technology and customer sophistication particularly in developing countries where self-service channels like ATMs, cellphone/mobile banking and online banking have become the preferred channel for banks and bankers (Searll, 2014). Adapa (2011) argues that despite the fact that online banking has not yet boomed particularly in most developing economies, the trend for banks is still to offer and encourage customers to use virtual channels as these are more cost-effective by virtue of being "self-service. For customers, cellphone banking (including using smart-phones and phablets) will remain the mainstream channel since the cellphones are more affordable and accessible- especially within the developing countries. Despite the fact that branch banking is declining, it still remains a preference for some clients who prefer human-engagement with the branch teller, especially for more complex transactions, as well as due to fear of online fraud (Maduku, 2013).

Revenue Diversification

Revenue diversification is the increasing noninterest revenue of a bank. The outcome of this kind of diversification is reduction in risk level as well as higher risk adjusted performance. Given the fact that there is correlation between the above stated variables and net interest income, when a firm diversifies its sources of revenue, net operating income is stabilized. This is not the outcome of other studies that indicated that diversification results to erratic operating income of banks (DeYoung & Roland, 2001). This is explained through the need for higher switching costs by loan based operations relative to fee-based activities, lower operating leverage of lending activities relative to fee-based activities. This variable is supported by the Portfolio theory which argues that there is a need for a business to diversify its portfolio as a way of diversifying risk. When a commercial bank ventures in to a number of activities to generate income, both interest and non interest, it helps it to spread risk and in the long run, improve performance. It is argued that when the risk is diversified, the commercial banks don't suffer from income volatility because it can be compensated with another venture (Chiorazzo, Milani & Salvini, 2008). Nisar, Peng, Wang and Ashraf (2018) argued that different types of non-interest income-generating activities have different impacts on bank performance and stability. While fees and commission incomes have a negative impact on the profitability and stability of commercial banks, other non-interest income has a positive impact. Furthermore, commercial banks can benefit from revenue diversification if they diversify into specific types of non-interest income-generating activities.

Diversification in different types of non-interest activities may have a different impact on bank profitability and stability depending on the exact nature of non-interest income. For example, it may be fee and commission income from different non-financial services such as issuing bank guarantees, letters of credit, shipping guarantees, making import payments, advising letters of credit, handling export documents and export proceeds and credit card fee. The other non-interest income sources may include charges for any kind of services provided by a bank to customers, like providing safe deposit lockers, issuing demand drafts, check book charges, clearing checks, underwriting initial public offerings (IPOs), capital gains from dealing in government securities and equity markets, trading income, gains from foreign exchange markets, revaluation of fixed assets such as office buildings, selling miscellaneous assets, monthly or annual account maintenance charges and income from selling insurance (Syriopoulos, 2005).

Portfolio Diversification

Portfolio diversification is a way of managing a given portfolio by diminishing instability and risk of a given set of portfolio of a given set of unlike investments, assets or products (Mutega, 2015). It entails the process of bringing together diverse assets to lower the general risk associated with the entire portfolio of an organization. Diversification of an organization's portfolio is necessary for maximum revenue realization given some minimum risk is allowed by a combination of different classes of elements of a particular portfolio. Banking diversification is pursued to mitigate the turbulent markets and operational environments and further to lower portfolio volatility and losses. Every bank seeks to enhance their financial performance by diversifying their incomes from both interest financial gains and non-interest income in their respective portfolios. The non-interest income elements that are often considered for portfolio diversification include share trading financial gains, Bancassurance income, dividend financial gains, commercialism activities gains, and fees as well as commissions on banking products other than loan-related interest charges (Makokha, Namusonge & Sakwa, 2016). The major advantage of any portfolio diversification is that it diversifies various investments along diverse categories of financial tools, whereby each has its own magnitude of risk-return. This diversification type is done with key objective being lowering the expected risk that may arise from having all resources put in one investment type only (Syriopoulos, 2005). Through a careful strategy of diversification, commercial banks may prosper, rather than falling victim to the consolidation trend in the industry.

Competitive Advantage of Commercial Banks

Pe'er, and Keil (2013) define competitive advantage as the added value in operational circumstance by competing firms or institutions. Competitive advantage may occur in financial stability, asset accumulation, innovativeness and development, or the client support and retention ability. Companies with higher competitive advantage are known to employ progressive strategies to sustain the lead in a given market. Commercial banks which are customer and deposit led employ varied strategies (operational, business or financial) in ensuring the scale of sustainability is at par in the market. Financial and services sector industry is volatile with unchecked liquidity levels and speculative inclusions in the industry, the firms competing may develop strategies to mitigate the consequences and volatility (Bátiz-Lazo, 2004). The tangible the resources in the industry the sustainable the competitive advantage would be in the industry. The innovation and technological advancement are in direct relation to the competitive advantage in the industry (Kimotho, 2016).

The banking sector has occasioned drastic transformation with increase in the technological innovations that have increased the profitability and influenced the competitive advantage of the leading financial institutions (Krishnaswamy, 2017). A bank will have a competitive advantage if it creates an edge above its competitors in winning over customers and guarding itself against forces of competition (Thompson & Strickland, 2002). Organizations therefore have to consistently scan its business or competitive environment in which they operate and their own strategy. Proper scanning of the competitive environment enables commercial banks to adopt diversification strategies that ensure they perform very well in the industry. Industrial competition is an increasingly important theme in banking industry.

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Banking industry has been characterized by related and unrelated diversification, stimulating innovation and expanding services (Saeidi *et al.,* 2015). Once the firm performs environmental scanning the bank should go on to select its diversification strategies (Kumar, 2001).
Diversification results to growth since it entails pursuing entry into new products and new markets concurrently (Thompson, Strickland, Gamble, & Zeng'an, 2008). In most cases, it entails a complete migration away from core product offering to other forms of related business line. It generally entails pursuit of either familiar or unfamiliar ground. This four items drive industry competition by giving companies a relative competitive advantage over others so each company must work hard to outdo the others in the industry. Such a strategy entails moving new products into new markets concurrently. Existence of substitute intensify competition, within industries which limit profitability by placing a pricing limits that can be charged by firms hence tightening the lid on industry profits (Thompson *et al.,* 2008). Schmutzler (2013) made significant effort in illustrating the process of ascertaining the value of a competitive advantage. Looking at the benefits derived from the good by consumers willing to pay for those benefits not obtainable elsewhere (Dishon, 2016). Sources of competitive advantage include but not limited to technology, resources, superior skills and mergers this to the ability of the organization to either do more of something or do something better than can possibly be done by its competitors. Thus the conception of competitive advantage is achieved when a firm is more competitive than its peers in the market. The firms should ensure that it achieves a strategic fit by matching its capabilities and resources with the opportunities available in the external business environment (Helfat *et al,* 2009).

RESEARCH METHODOLOGY

The study adopted a descriptive research design. The study's target population comprised of 39 operational commercial banks in Kenya with the unit of observation being the director of the corporate section, the head of strategy department and the strategy manager from each of the 39 commercial banks, a total of 117 respondents. The study used semi-structured questionnaire with open and closed questions. Inferential and descriptive statistics was used to analyze data. Results of the analysis were presented by use of tables and figures. Inferential statistics was used to establish the association between independent variables and dependent variable. The study used the regression model presented below;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where; Y= Competitive Advantage, β_0= constant, X_1= Asset Diversification, X_2= Technological Diversification, X_3= Portfolio Diversification, X_4= Revenue Diversification, ε = Error term and $\beta_1 \ldots \beta_4$= regression coefficient of four variables.

RESULTS

The study administered 117 questionnaires to the respondents and 89 questionnaires were filled and returned. This represented a response rate of 76.06% which is consistent with Mugenda (2008) and Babbie (2004) that any response above 50% is good enough for a survey.

Descriptive Findings and Analysis

Asset Diversification

Respondents were requested to indicate the level of agreement with statements regarding the influence of asset diversification on the competitive advantage of commercial banks in Kenya based on a scale of 1-5 where 5= Strongly Agree (SA), 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD). As shown in Table 1, majority of the respondents strongly agreed that the bank has adopted financial assets diversification (Mean = 4.62). There was low variation in responses provided as shown by a value of 0.79. Majority of the study's respondents also strongly agreed that the bank has adopted loans diversification (Mean = 4.93). There was low variation in responses provided as shown by a value of 0.25. Majority of respondents also agreed that the bank has adopted cash and cash equivalent diversification (Mean = 3.31), strongly agreed that adoption of asset diversification has lowered portfolio volatility and losses (mean = 4.45). There was low variation in responses provided as shown by a value of 0.50. The results of the study finally indicate that majority of respondents agreed that the quality of assets has improved financial performance of the bank (Mean = 3.13). The results on average indicated that majority of respondents agreed that asset diversification strategy leads to an improvement in competitive advantage of commercial banks in Kenya (Mean= 4.09). The findings agreed with Turkmen and Yigit (2012) who posited that diversifying credit portfolios influenced the risk level of banks with losses in one sector or one location being compensated from the gains obtained from the other sectors or locations.

Table 1: Asset Diversification

Statements	Mean	Std Dev.
The bank has adopted financial assets diversification	4.62	0.79
The bank has adopted loans diversification	4.93	0.25
The bank has adopted cash and cash equivalent diversification	3.31	1.13
Adoption of asset diversification has lowered portfolio volatility and losses	4.45	0.50
The quality of assets has improved financial performance of the bank	3.13	1.24
Average	**4.09**	**0.78**

Technological Diversification

Respondents were requested to indicate the level of agreement with statements regarding the influence of technological diversification on the competitive advantage of commercial banks in Kenya based on a scale of 1-5 where 5= Strongly Agree (SA), 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD). As shown in Table 2, majority of the respondents agreed that there is use of mobile banking which has exposed new services (Mean = 3.99). There was low variation in responses provided on this statement as shown by a value of 1.34. The results also show that majority of participants agreed that there is use of internet banking which has exposed new services which have technological or commercial synergies with current products (Mean = 3.52). Similarly, there was a high variation in responses provided on this statement as shown by a value of 1.51. The results of the study on technological diversification further indicated that majority of respondents strongly agreed that there is marketing of new services that are technologically or commercially unrelated to current products (Mean = 4.10).

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There was low variation in responses provided on this statement as shown by a value of 1.32. On the statement that the bank has adopted agency banking model, the respondents neither agreed not disagreed (Mean= 3.33). There was low variation in responses provided on this statement as shown by a value of 1.39. Correspondingly, on average the respondents neither agreed nor disagreed that the use mobile banking has resulted to technological/ commercial synergies with current products (Mean = 3.46). The results on average indicated that majority of respondents agreed that technological diversification strategy leads to an improvement in competitive advantage of commercial banks in Kenya (Mean = 3.68). The findings agreed with Kim, Hoskisson, and Lee (2015) who showed an increasing trend towards adoption of portfolio diversification strategy among financial institutions.

Table 2: Technological Diversification

Statements	Mean	Std Dev.
There is use of mobile banking which has exposed new services	3.99	1.34
There is use of internet banking which has exposed new services which have technological or commercial synergies with current products	3.52	1.51
There is marketing of new services that are technologically or commercially unrelated to current products	4.10	1.32
The bank has adopted agency banking model	3.33	1.39
Use of mobile banking has resulted to technological/ commercial synergies with current products	3.46	1.12
Average	**3.68**	**1.33**

Revenue Diversification

Respondents were requested to indicate the level of agreement with statements regarding the influence of revenue diversification on the competitive advantage of commercial banks in Kenya based on a scale of 1-5 where 5= Strongly Agree (SA), 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD). As shown in Table 3, majority of the respondents agreed that the bank invests in different types of non-interest activities (Mean = 3.83). There was low variation in responses provided on this statement as shown by a value of 1.32. Further, majority strongly agreed that the bank invests in foreign exchange trading income (Mean = 4.27). On the statement that the bank charges on loans and advances, majority agreed (Mean = 3.48) while there was low variation in responses provided on this statement as shown by a value of 1.18. Moreover, majority strongly agree that there are commissions on loans and advances (Mean = 4.42) and majority agreed that the bank invests in government securities (Mean = 3.65). There was low variation in responses provided on this statement as shown by a value of 1.33. The results on average indicated that majority of respondents agreed that revenue diversification strategy leads to an improvement in competitive advantage of commercial banks in Kenya (Mean = 3.93). The findings agreed with Sissy, Amidu and Abor (2017) an increasing trend towards adoption of revenue diversification strategy among financial institutions.

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Table 3: Revenue Diversification

Statements	Mean	Std Dev.
The bank invests in different types of non-interest activities	3.83	1.32
The bank invests in foreign exchange trading income	4.27	1.07
The bank charges on loans and advances	3.48	1.18
There are commissions on loans and advances	4.42	0.50
The bank invests in government securities	3.65	1.33
Average	**3.93**	**1.08**

Portfolio Diversification

Respondents were requested to indicate the level of agreement with statements regarding the influence of Portfolio diversification on the competitive advantage of commercial banks in Kenya based on a scale of 1-5 where 5= Strongly Agree (SA), 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD). As shown in Table 4, majority of respondents strongly agreed that the bank participates in share trading financial gains (Mean = 4.62). There was low variation in responses provided on this statement as shown by a value of 0.79. Majority of the respondents also strongly agreed that the bank has invested in mortgage (Mean = 4.44). A standard deviation value of 0.50 is an indication of low variation. The results also show that majority strongly agreed that the bank has invested in dividend financial gains (Mean = 4.60) with standard deviation value of 0.49 which is an indication of low variation. Majority also strongly agreed that the bank has invested in commercialism activities gains and that the bank gets commissions on banking products (Mean = 4.79 and 4.57 respectively). There was low variation in responses provided on this statement as shown by a value of 0.50. The results on average indicated that majority of respondents strongly agreed that portfolio diversification strategy leads to an improvement in competitive advantage of commercial banks in Kenya (Mean = 4.60). The findings agreed with the study by Yan, Talavera and Fahretdinova (2016) which revealed an increasing trend towards adoption of portfolio diversification strategy among financial institutions.

Table 4: Portfolio Diversification

Statements	Mean	Std Dev.
The bank participates in share trading financial gains	4.62	0.79
The bank has invested in mortgage	4.44	0.50
The bank has invested in dividend financial gains	4.60	0.49
The bank has invested in commercialism activities gains	4.79	0.41
The bank gets commissions on banking products	4.57	0.50
Average	**4.60**	**0.54**

Competitive Advantage

Respondents were requested to indicate the level of agreement with statements regarding competitive advantage of commercial banks in Kenya based on a scale of 1-5 where 5= Strongly Agree (SA), 4 = Agree (A); 3= Neutral (N); 2= Disagree (D) and 1= Strongly Disagree (SD). As shown in Table 5, majority of the respondents strongly agreed that competitive cost (Interests on loan) has been attained (Mean = 4.62). The results also show that majority of respondents strongly agreed that there has been an improvement in financial performance (ROA) (Mean = 4.88). A standard deviation value of 0.42 is an indication of low variation on responses to this statement. The results further show that majority strongly agreed that the bank has attained an increase in market share and lower operational costs (Mean = 4.66 and 4.49). A standard deviation value of 0.5 is an indication of low variation on responses to this statement. Majority also agreed that flexibility in service delivery has been attained (mean=3.54). The results on average indicated that majority of respondents strongly agreed that competitive advantage of commercial banks in Kenya had improved (Average Mean = 4.44).

Table 5: Competitive Advantage

Statements	Mean	Std Dev.
Competitive cost (Interests on loan)	4.62	0.79
Financial performance (ROA)	4.88	0.42
Market share	4.66	0.54
Lower operational costs	4.49	0.50
Flexibility in service delivery	3.54	1.50
Average	**4.44**	**0.75**

The study further established the financial performance of the commercial banks in terms of ROA and ROE. The trend analysis of the mean annual ROA as well as mean annual ROE for the commercial banks was established. The trend analysis for mean ROA is as presented in Figure 2. The study also collected secondary data on the performance of the commercialbank. The retuns on assets and returns on equity were collected from the CBK reports between 2013 and 2017. The study findings indicated unsteady trends in the performance of commercial banks in Kenya in the study period in terms of ROA. The mean ROA for all the commercial banks in the year 2013 was 2.45%. The mean ROA decreased to 2.2% in the year 2014 before decreasing further to 2.17% in the year 2015. The highest mean ROA recorded within the study period was in the year 2016 where 2.37% was recorded and in the year 2017, a mean ROA of 1.95% was recorded by the commercial banks. This was an indication of unsteady trends in the ROA across the commercial banks in the study period thus revealing usteady performance of commercial banks. The findings are consistent with Onuonga (2014) who revealed that the performance of the banking sector in Kenya over the last decade has not been impressive.

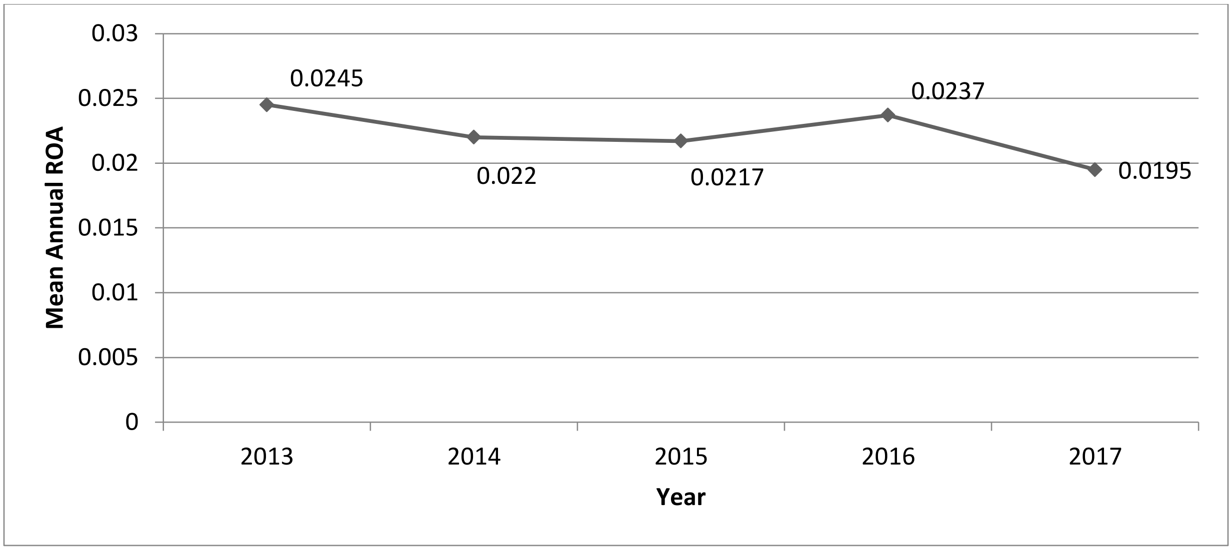

Figure 2: Trend Analysis of Returns on Asset

The study also established the trends of Returns on equity for the commercial banks in Kenya in the study period and five years back.The findings are presented in Figure 4.5. Unsteady trends in the performance of commercial banks in Kenya in the study period in terms of Returns in Equity were also observed. The mean ROE for all the commercial banks in the year 2013 was 74.27% which was higher than the year 2014 which was 69.76%. The mean ROE in the year 2015 increased up to 97.44% which was the highest for the study period before showing a slight decrease to 88.74% in the year 2016. In the year 2017, there was a further drop in the mean ROE to 83.75% for the commercial banks operating in Kenya in the study period. The findings are consistent with Onuonga (2014) who revealed that the performance of the banking sector in Kenya over the last decade has not been impressive.

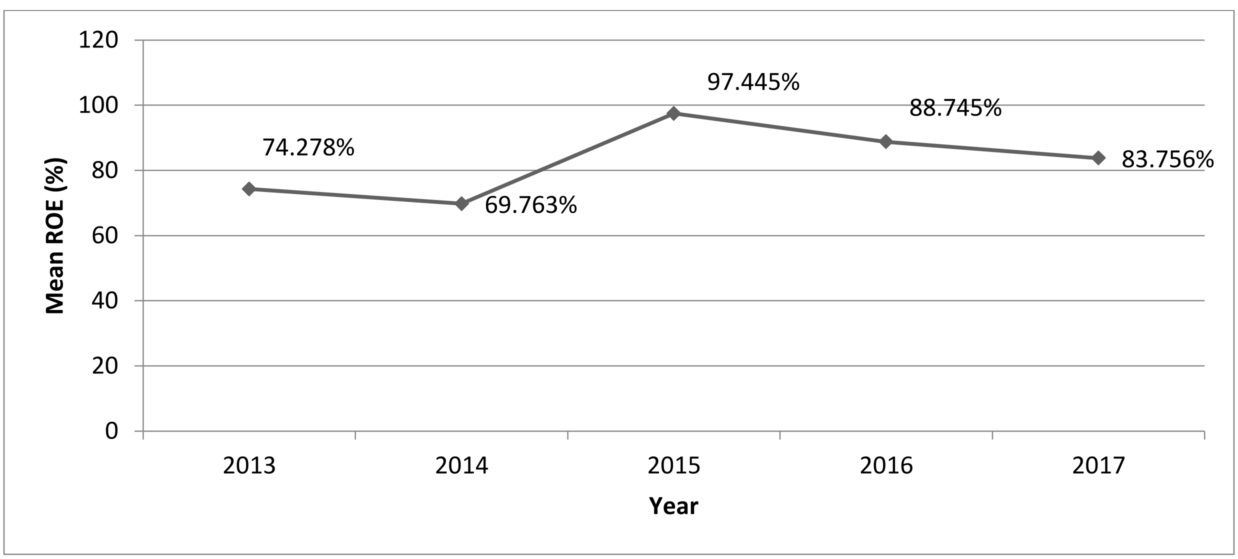

Figure 3: Trend Analysis of Returns in Equity

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Correlation Results

The Pearson correlation findings as presented in Table 6 were used to show how the variables related. The results indicated a positive and significant association between asset diversification strategy and competitive advantage of commercial banks in Kenya (R = 0.565, P = 0.000<0.05). This means that an increase in asset diversification strategy results to significant improvement in competitive advantage of commercial banks in Kenya. The findings agreed with Thiong'o (2016) who similarly revealed that asset diversification improved performance. The results also indicated a positive but insignificant association between technological diversification strategy and competitive advantage of commercial banks in Kenya (R =0.181, P=0.089 > 0.05). It shows that an increase in technological diversification strategy results to insignificant improvement in competitive advantage of commercial banks in Kenya. The findings agreed with Yaser (2010) who posited similar findings.The results further indicated a positive and significant association between revenue diversification strategy and competitive advantage of commercial banks in Kenya (R =0.363, P=0.000<0.05). This shows that an increase in revenue diversification strategy results to significant improvement in competitive advantage of commercial banks in Kenya. The findings are congruent to Chiorazzo, Milani and Salvini (2008). The results finally showed a positive and significant association between portfolio diversification strategy and competitive advantage of commercial banks in Kenya (R =0.599, P=0.000<0.05). It shows that portfolio diversification strategy results to significant improvement in competitive advantage of commercial banks in Kenya. The findings are congruent to a Makokha, Namusonge, and Sakwa (2016) who similarly established consistent findings.

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Table 6: Correlation Results

Correlations		Asset Diversification	Technological Diversification	Revenue Diversification	Portfolio Diversification	Competitive Advantage
Asset Diversification	Pearson Correlation	1				
	Sig. (2-tailed)					
Technological Diversification	Pearson Correlation	-0.058	1			
	Sig. (2-tailed)	0.59				
Revenue Diversification	Pearson Correlation	-0.154	-.263*	1		
	Sig. (2-tailed)	0.151	0.013			
Portfolio Diversification	Pearson Correlation	.323**	0.102	.271*	1	
	Sig. (2-tailed)	0.002	0.342	0.01		
Competitive Advantage	Pearson Correlation	.565**	0.181	.363**	.599**	1
	Sig. (2-tailed)	0.000	0.089	0.000	0.000	
	N	89	89	89	89	89

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

* Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

The results of model summary in table 7 show that R= 0.837 indicating a strong relationship between asset diversification, revenue diversification, technological diversification and portfolio diversification and competitive advantage of commercial banks in Kenya. The results also show that R-square= 0.701 implying that asset diversification, revenue diversification, technological diversification and portfolio diversification explain 70.1% of the variation in competitive advantage of commercial banks in Kenya. This suggests that 29.9% of the variation in competitive advantage of commercial banks in Kenya is explained by other factors not included in the model of the study.

Table 7: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.837	0.701	0.687	0.24147

a Predictors: (Constant), Portfolio Diversification, Technological Diversification, Asset Diversification, Revenue Diversification

The model established was determined to be fit as indicated by a significant F statistic (0.000) as well as an F calculated value of 49.276 greater than a F critical value of 2.4803). It can therefore be argued that the model was fit can be relied on given a random sample from the same target population. The results of the study are as shown in table 8.

Table 8: Analysis of Variance (Model Significance)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.492	4	2.873	49.276	.000
Residual	4.898	84	0.058		
Total	16.39	88			

a Dependent Variable: Competitive Advantage
b Predictors: (Constant), Portfolio Diversification, Technological Diversification, Asset Diversification, Revenue Diversification

The regression results as shown in Table 9 indicated that asset diversification strategy positively and significantly influenced competitive advantage of commercial banks in Kenya (Beta = 0.493, $p=0.000<0.05$). This implies that a unit improvement in asset diversification results to 0.493 unit improvement in competitive advantage of commercial banks in Kenya. This is consistent with the argument by Turkmen and Yigit (2012) who posited that diversifying credit portfolios influenced the risk level of banks with losses in one sector or one location being compensated from the gains obtained from the other sectors or locations. The regression results also showed that technological diversification strategy positively and significantly influenced competitive advantage of commercial banks in Kenya (Beta = 0.122, $p=0.000<0.05$). This implies that a unit improvement in technological diversification strategies results to 0.122 unit improvement in competitive advantage of commercial banks in Kenya. This is consistent with the argument by Kim, Hoskisson, and Lee (2015) that payoff created by diversification may be magnified when MNCs capitalize on technological advancements. Results further showed that revenue diversification strategy positively and significantly influenced competitive advantage of commercial banks in Kenya (Beta = 0.244, $p=0.000<0.05$). This implies that a unit improvement in revenue diversification results to 0.244 unit improvement in competitive advantage of commercial banks in Kenya. This is consistent with the argument by Sissy, Amidu and Abor (2017) that revenue diversification leads to more stable net operating income and superior risk-adjusted financial performance. The regression results finally indicate that portfolio diversification strategy positively and significantly influenced competitive advantage of commercial banks in Kenya (Beta = 0.49, $p=0.000<0.05$).

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This implies that a unit improvement in portfolio diversification results to 0.49 unit improvement in competitive advantage of commercial banks in Kenya. This is consistent with the study findings of Yan, Talavera and Fahretdinova (2016) which found that deposit-based diversification had a significant and positive correlation with profitability of the banks.

Table 9: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.242	0.527		2.359	0.021
Asset Diversification	0.493	0.057	0.571	8.577	0.000
Technological Diversification	0.122	0.025	0.31	4.834	0.000
Revenue Diversification	0.244	0.036	0.463	6.769	0.000
Portfolio Diversification	0.490	0.132	0.257	3.715	0.000
Dependent Variable: Competitive Advantage					

Optimal regression model

Competitive Advantage = 1.242 + 0.493Asset Diversification + 0.49 Portfolio Diversification + 0.244 Revenue Diversification +0.122 Technological Diversification

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study findings led to the conclusion that an increase in asset diversification strategy practices such as adoption of financial assets diversification, loans diversification, cash and cash equivalent diversification and asset diversification leads to a significant improvement in the competitive advantage of commercial banks in Kenya. The study findings also led to the conclusion that an increase in technological diversification strategy practices such as use of mobile banking, internet banking, marketing of new services that are technologically or commercially unrelated to current products and use of mobile banking leads to a significant improvement in the competitive advantage of commercial banks in Kenya. Another conclusion made by the study is that an increase in revenue diversification strategy practices such as investing in different types of non-interest activities, foreign exchange trading income, charges on loans and advances, commissions on loans and advances and investment in government securities leads to a significant improvement in the competitive advantage of commercial banks in Kenya. Lastly, it was concluded that an increase in portfolio diversification strategy practices such as participation in share trading financial gains, provision of banc assurance services, investment in dividend financial gains, investment in commercialism activities gains and getting commissions on banking products leads to a significant improvement in the competitive advantage of commercial banks in Kenya.

Recommendations

Based on the findings that asset diversification strategy has a positive and significant influence on competitive advantage of commercial banks in Kenya, the study recommends that commercial banks should aim to increase their asset diversification strategies. Some areas that need strengthening are financial assets diversification, loans diversification, cash and cash equivalent diversification and asset diversification. On the basis that technological diversification strategy has a positive and significant influence on competitive advantage of commercial banks in Kenya, the study recommends that commercial banks should also aim to increase their technological diversification strategies. Some areas that the commercial banks need to focus on are mobile banking, internet banking, marketing of new services that are technologically or commercially unrelated to current products and use of mobile banking.

Since the results showed that revenue diversification strategy has a positive and significant influence on competitive advantage of commercial banks in Kenya, the study recommends that commercial banks should also invest more resources in expanding their revenue generation activities by investing in different types of non-interest activities, foreign exchange trading income, charges on loans and advances, commissions on loans and advances and investment in government securities. Since the results showed that portfolio diversification strategy has a positive and significant influence on competitive advantage of commercial banks in Kenya, the study recommends that commercial banks should also invest more resources in expanding their portfolios as to diversify their risks. The commercial banks can do so by participation in share trading financial gains, provision of banc assurance services, investment in dividend financial gains, investment in commercialism activities gains and getting commissions on banking products.

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