

**EFFECT OF CONCENTRIC DIVERSIFICATION STRATEGIES ON
PERFORMANCE OF MICROFINANCE BANKS IN NAIROBI COUNTY,
KENYA**

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**A Project Submitted to the Institute of Postgraduate Studies of Kabarak University
in Partial Fulfillment of the Requirements for the Award of Master of Business
Administration (Strategic Management) Degree**

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RECOMMENDATION

To the Institute of Postgraduate Studies:

The research project entitled **“Effect of Concentric Diversification Strategies on Performance of Microfinance Banks in Nairobi,”** written by **Jackline Wangari Mwariri** is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research project and recommend it be accepted in partial fulfillment of the requirement for award of the degree of Master of Business Administration in Strategic Management.

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DEDICATION

I wish to dedicate this work to my family for their endless effort, love, spiritual and moral support they have been giving me throughout this entire project.

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First and foremost am grateful to the Almighty God for giving me the grace and strength to successfully complete this project. It was a difficult task dividing time between work and school. I sincerely thank my supervisors Dr. Nehemiah Kiplagat and Dr. Ann Wachira for their exemplary guidance throughout my project. It was a great honor and privilege to have been supervised by you. Lastly, I would like to express my sincere appreciation to my family for encouraging and supporting me throughout the study.

ABSTRACT

According to the Central Bank of Kenya non-performing loans in the microfinance sector reached a staggering 19.8% in 2021, a sharp increase from the 15.6% reported in 2019, highlighting the strain on the sector's loan portfolios. This rising default rate has led to reduced profitability and has had adverse effect on the overall financial performance of these institutions. The inability of microfinance banks to adequately diversify their products and revenue streams has been cited as a major factor in their underperformance. It is against this backdrop that the study sought to determine the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi County. Specifically, the study sought to assess the effect of concentric product diversification strategy, concentric market diversification strategy and concentric revenue diversification strategy on the performance of microfinance banks in Nairobi County. The target population was 63 employees in the 14 Microfinance Banks headquarters in Nairobi County, comprising heads of departments and sections since the target population was small the study adopted census technique to incorporate all the 63 targeted employees. The study adopted descriptive research design. The collection of data was done by use of structured questionnaires. The pilot study was conducted in two microfinance banks operating in Kiambu County. These are U & I Microfinance Bank and Kenya Women Microfinance Bank. Descriptive and inferential statistics were used to analyze quantitative data, and results were presented using tables. The findings indicated product diversification strategy positively affects performance of microfinance banks in Nairobi ($r=0.596$, $p=0.000$). In addition, the findings indicated market diversification strategy positively affected performance of microfinance banks in Nairobi ($r=0.704$, $p=0.000$). Finally, the findings indicated that revenue diversification strategy positively affects performance of microfinance banks in Nairobi ($r=0.823$, $p=0.000$). The study concluded that microfinance bank had modified their products to attract more customers over the last five years. The study further concluded that microfinance banks have been able to venture into different market segments in the society over the last five years. The study further concluded that microfinance banks offered fee-based services which lowered the rates of lending. From the study the researcher recommends that microfinance banks within Nairobi, should formulate a policy that encourages and rewards innovation within the organization.

Keywords: *Concentric Diversification Strategies, Concentric Product Diversification Strategy, Concentric Market Diversification Strategy, Concentric Revenue Diversification Strategy and Performance of Microfinance Banks*

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ABBREVIATIONS AND ACRONYMS

AMFI	Association of Microfinance Institutions in Kenya
CBD	Central Business District
CBK	Central Bank of Kenya
CBV	Composition-Based View
GMM	Generalized Method of Moments
IMF	International Monetary Fund
IT	Information Technology
KUREC	Kabarak University Research Ethics Committee
LAC	Latin America
LCFs	Low Carbon Fuel Standard
MENA	Middle East and North Africa
MFBs	Micro Finance Banks
MPT	Modern Portfolio Theory
NACOSTI	National Commission for Science, Technology, and Innovation
OLS	Ordinary Least Squares
OSS	Operational Self-Sufficiency
PTIs	Private Tertiary Institutions
RBVs	Resource Based Views
RD	Related Diversification
ROA	Return On Assets
ROE	Return on
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
UD	Unrelated Diversification
VIF	Variance Inflation Factor
VRIN	Valuable, Rare, Inimitable and Non-Substitutable
WLS	Weighted Least Squares

CONCEPTUAL AND OPERATIONAL DEFINITION OF TERMS

Concentric Diversification: Concentric diversification is a strategic expansion approach undertaken by a company to grow its business by entering new markets or introducing new products or services that are closely related to its existing core business (Kim, Hong., Kwo, & Lee, 2017). In the context of microfinance banks, it involves expanding into new products or services that are related or complementary to the bank's existing offerings, while still targeting the same or similar customer segments within the microfinance sector.

Concentric Product Diversification: Product diversification refers to a strategic business practice in which a company expands its range of products or services offered to its customers (Nderitu, 2021). In the context of microfinance banks product diversification occurs when a microfinance institution expands its product base, thereby increasing the total number of products offered to the customers, in this study this product included credit products, savings products and bank assurance.

Concentric Marketing Diversification: Relates to branching out to new market segments, allowing a business to expand its presence and achieve greater profitability (Onyango, 2018). In the context of microfinance banks marketing diversification involves diversifying the marketing channels and tactics used by a microfinance bank to reach its target customers. In this study this involved geographic expansion, new market segments, partnerships and alliances.

Concentric Revenue Diversification: Concentric revenue diversification is a strategy where a company expands its product lines or markets by adding new products or services that are related to its existing offerings (Zouaoui & Zoghلامي., 2022). In the context of microfinance banks, revenue diversification is the extent to which a microfinance institution generates revenue from noninterest sources, such as fees and commissions, trading activities, and other services. In this study this included non-interest income, investment in real estate and interest income.

Microfinance Banks: A microfinance bank is a financial institution with a license from the central bank or other relevant authority to provide microloans and other financial services to low-income clients, with an average loan size of less than ksh100000 and an average loan term of less than one year (Abrar, Hasan& Kabir, 2023).

Performance: Performance is the degree to which a microfinance institution meets its financial and social goals. Performance indicators include profitability, outreach, and effect (Dang, 2021). In the context of microfinance banks performance refers to the ability of microfinance bank to achieve its financial and social objectives. In this study performance will include market share, number of new customer and profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

A microfinance bank is a financial institution with a license from the central bank or other relevant authority to provide microloans and other financial services to low-income clients, with an average loan size of less than ksh100000 and an average loan term of less than one year (Abrar, Hasan&Kabir, 2023). Microfinance banks play a vital role in providing financial services to underserved populations, including low-income individuals, small entrepreneurs, and marginalized communities. They offer small loans, commonly referred to as microloans, tailored to the needs of these clients who often lack access to traditional banking. In addition to credit, microfinance banks provide a comprehensive suite of financial services, such as savings accounts, insurance, and remittance services. Their innovative and flexible lending practices, such as group lending and loans without traditional collateral, enable them to serve clients effectively (Jayathilake, 2021).

Microcredit banks, also known as microfinance banks (Microfinance banks), have carved a niche for themselves in the financial landscape of the United States by offering financial services to underserved populations, including low-income individuals and small entrepreneurs. While microcredit has its roots in developing countries, its principles have been effectively adapted to meet the needs of economically marginalized communities in the U.S. One of the most significant measures of performance for microcredit banks in the U.S. is their ability to reach and positively impact underserved populations (Mia, 2022). These institutions have made considerable strides in providing access to credit for individuals who are typically excluded from traditional banking

systems. This includes low-income families, minorities, women entrepreneurs, and residents of rural areas. Microcredit banks have been successful in helping these groups start and grow small businesses, which in turn contribute to local economic development and job creation (Santandreu, López Pascual & Cruz Rambaud, 2020).

In Africa, Nigeria and Ghana were the first countries to experiment with microfinance banks (Duho & Forson, 2021). The regimes in these two nations, unlike the African majority, were in favor of free markets. This openness to trade allowed their economies to thrive, albeit for a while (Duho & Forson, 2021). As a result, the income levels across the spectrum rose steadily, and the function of microfinance banks began to change. Like in Bangladesh, microfinance banks began to provide credit to middle and high-income earners as well, and because of this, their role diversified to resemble those of commercial banks (Kiarie, 2017). This change of role and diversification of revenue and market has seen the names of these institutions change from microfinance lenders to microfinance banks.

In Kenya, after a law supporting microfinance banks was implemented in May 2009, the microfinance industry saw a sharp increase (CBK, 2018). The Kenyan microfinance sector faces intense competition brought on by advancing technology and shifting client demands. The diversification initiatives that MFBs have adopted, according to Kariuki (2016), have strained their institutional capabilities and competences. He continues by pointing out that collective diversification efforts in new markets and clientele categories may have turned out to be riskier than anticipated. Furthermore, Ngumo, Collins, and David (2020) note that while the fundamental objective of microfinance banks is to help as many low-income borrowers as possible, this objective can only be achieved if they are successful (Githaiga, 2021).

The microfinance banks began to venture into new markets, products, and revenue diversification strategies. The new products microfinance banks began to offer were micro leasing, micro franchising, micro-savings, and micro insurance. The microfinance banks have diversified their markets to include rural areas, youth, and agriculture. Despite these new ventures, however, the performance of microfinance banks has been declining over the years. Is it possible that the strategy intended to revitalize the microfinance banks has become the straw that could break the camel's back? 2019 saw an average operating ROA of -0.474%, ROE of -3%, profit before tax of -339 million, and return on shareholders' equity of -3% for microfinance banks. (CBK, 2020). Core capital to risk-weighted assets for microfinances decreased from 15% in 2019 to 14% in 2020 (CBK, 2021). The return on equity (ROE) decreased from 28% to -23%, the number of agents decreased from 1275 to 1301, and the profit before tax decreased from -399 million to -2,240 million in 2020 (CBK 2021). Additionally, the microfinance banks posted a combined loss before tax of Sh. 877 million in 2021, ROA of -1%, ROE of -10%, and a decrease in the number of agents to 1010 and branches to 115. Even though the net loss decreased from the Sh2.2 billion recorded in 2020, it was still the industry's sixth year of loss-making (CBK, 2022).

1.1.1 Performance of Microfinance Banks

Performance is the extent to which an organization achieves a set of pre-defined goals unique to its mission (Steiss, 2019). Afude (2017) points out that available resources must be used most efficiently and effectively to achieve performance measurement to determine the performance of financial institutions. To examine the effectiveness and efficiency of financial sector performance worldwide, various approaches have been employed to quantify organizational effectiveness. The traditional method tracks a company's key financial metrics over time (Njihia, 2019). Operational efficiency,

profitability, liquidity, and capitalization are financial measures. According to Alam et al.,(2017), non-financial measures include customer satisfaction, employee satisfaction, creativity, and flexibility of production and resource chains.

The performance of microfinance banks (MFBs) in any country is essential for maintaining a stable microfinance banking sub-sector and the economy (IMF, 2020). Microfinance banks across the globe depend heavily on net operating activities and related operating costs to survive. In the last decade, there has been modest growth in the global microfinance industry. The growth has been supported by continuously establishing microfinance banks globally (Microfinance et al., 2019). There are various measures of performance in microfinance banks. The first is market share. This is a critical measure of performance for microfinance banks, indicating the institution's relative strength and competitiveness within the microfinance sector. A higher market share suggests that the bank is successfully attracting and retaining clients compared to its competitors (Afude, 2017). It reflects the bank's ability to effectively serve the needs of its target market, expand its outreach, and capture a larger portion of the market demands for financial services. Monitoring market share over time allows microfinance banks to assess their growth trajectory, market positioning, and the effectiveness of their marketing and outreach efforts and ultimately contributing to strategic decision-making as well sustainable business expansion (Parmeter & Hartarska, 2021).

The second is the number of new customers which is a key indicator of the growth and outreach efforts of microfinance banks. It reflects the institution's ability to attract previously unbanked or underserved individuals and communities, expanding financial inclusion and access to formal financial services. A higher number of new customers indicate successful marketing strategies, effective product offerings, and positive word-of-mouth referrals (Bibi et al., 2018). By continuously monitoring the influx of new

customers, microfinance banks can evaluate the impact of their outreach initiatives, assess market demand, and tailor their services to better meet the needs of their expanding client base, ultimately driving sustainable growth and social impact (Kamer, 2023).

The third is profitability which is a fundamental measure of the financial health and sustainability of microfinance banks. It assesses the institution's ability to generate income from its operations while effectively managing costs and risks (Duho, 2021). Profitability indicators such as return on assets (ROA) and return on equity (ROE) provide insights into the efficiency and effectiveness of the bank's operations and investments. A profitable microfinance bank can reinvest its earnings to expand its outreach, improve service delivery, and strengthen its financial position, ultimately supporting its mission of promoting financial inclusion and poverty alleviation (Kiarie, 2017). Additionally, profitability ensures the long-term viability of the institution, enabling it to attract investors, access capital markets, and continue serving its clients and communities effectively.

1.1.2 Concentric Diversification Strategies

Diversification strategies are corporate strategies employed by companies to expand their operations by adding new products, services, markets, or industries to their existing portfolio. The primary goal of diversification is to reduce risk by spreading investments across different areas, thereby minimizing the impact of a downturn in any single area. Diversification can also drive growth by leveraging a company's existing capabilities and resources to explore new opportunities. There are three main types of diversification strategies. These are: concentric diversification strategy, conglomerate diversification strategy and horizontal diversification strategy (Hermes & Hudon, 2019). This study will focus on concentric diversification strategy which involves expanding into markets or

product lines that are closely related to the company's existing business (Duho, Duho & Forson, 2021). This relatedness ensures that the new ventures build upon the company's strengths and expertise, minimizing the need for significant investment in new resources or capabilities. By entering related markets or introducing complementary products or services, companies can create synergies between their core business and the new ventures. These synergies may result in cost savings, operational efficiencies, and enhanced value for customers. Concentric diversification allows companies to spread their risk across different areas of operation while staying within their core competencies. (Ngumo et al, 2020).

Concentric diversification occurs when a company introduces new products to the existing market, which are closely related to the original products. The strategy involves leveraging the company's existing capabilities, resources, and expertise while all the while minimizing risk while maximizing gains (Liebermann, 2020). Conglomerate diversification occurs when a company introduces new unrelated products to the existing markets. The products have no technological or commercial similarities. This strategy is adopted to reduce dependence on a singular consumer base, hence minimizing risk (Kepka, 2021). Horizontal diversification occurs when a company expands into markets that are completely unrelated to its core competencies, products, and services. The synonym for horizontal diversification is related diversification (Ndege 2018).

The focus of this study is on three concentric diversification strategies which are products, market and revenue diversification. Product diversification refers to the strategy of offering a variety of products and services within the same industry (Njuguna & Kwasira, 2018). Product diversification creates cross selling opportunities and differentiates a business from competitors. It can also help a company to adapt to changing market conditions and stay ahead in the industry. Product diversification in

microfinance banks involves the introduction of new financial products and services alongside existing offerings such as microcredit. These products may include savings accounts, insurance, payment services, remittances, financial education, and asset-building products. The goal is to provide a comprehensive suite of financial services that meet the diverse needs of clients, thereby fostering greater financial inclusion and empowerment.

Market diversification strategy is a strategic approach where a company seeks to expand its presence and reduce risk by entering new markets. It requires careful planning, resource allocation and adaptability. This strategy involves entering markets that may be geographically or demographically different from the company's current customer base. According to (Tagus and Omar 2017) it is essential for companies to strike a balance between their core market and new markets, considering both the opportunities and challenges that come with market diversification. Market diversification in the realm of microfinance banks refers to the strategic expansion of operations into new geographical areas with similar socio-economic characteristics. While microfinance banks traditionally serve specific regions or communities, market diversification allows them to reach untapped markets, broaden their client base, and enhance their impact on financial inclusion and socio-economic development. This study focused on new branches and new market segments.

According to Githaiga Yegon (2019), revenue diversification is where a company seeks to generate income from a variety of sources than relying on a single revenue stream. This strategy is often employed to reduce risk, enhance financial stability, and capture new growth opportunities. Revenue diversification in the context of microfinance banks refers to the strategic expansion of income sources beyond traditional microcredit activities. Microfinance banks serve as critical institutions in providing financial services

to underserved populations, including small-scale entrepreneurs, low-income individuals, and marginalized communities. Revenue diversification allows these banks to reduce dependency on interest income from loans, enhance financial sustainability, and expand their capacity to promote inclusive growth. (Githaiga & Yegon, 2019). This study focused on remittances, interest income and non-funded income.

1.1.3 Microfinance Banks in Kenya

The 2006 Microfinance Law was revised by removing the term institution submitted to microfinance banks certified under this law (CBK, 2006). This law allows microfinance banks to mobilize customer deposits and improve credit access. This study referred to the deposit taking microfinance banks as microfinance banks. In 2021, there were 14 microfinance banks in Nairobi, Kenya (CBK, 2021). The microfinance industry in Kenya is facing rapid competition, which is attributable to several factors, such as the adoption of modern technologies and evolving customer needs. Microfinance banks are classified into three peer groups: large, medium, and trim.

The Finance Act 2009 paved the way for licensed institutions to deliver banking services and thus create a network of banking agents for banking institutions. At the end of December 2016, five microfinance banks had conscripted 2,068 agents, (CBK, 2016). Microfinance banks have partnered with other banks and have employed agents in estates and towns to provide agency banking services to their customers. Microfinance banks started focusing on a particular consumer segment such as; farmers, women, and churches. However, with the rise of competition and appetite to remain sustainable, microfinance banks changed their customer focus to include the public. SMEs are majority of customers in Microfinance banks. The need to avail facilities to low-income owners became necessary when they needed more security to access mainstream loans.

Microfinance banks now offer several loan facilities to their customers depending on the client's needs. The financing products include assets finance, housing finance, solar finance, and school fees finance.

Since 2010, Microfinance banks have increased their market reach by opening additional branches. The leading four Microfinance banks with the highest number of branches are Faulu Microfinance Bank, which leads with 39 branches; Kenya Women Microfinance Bank, with 31; Rafiki Microfinance, with 17 and Smep, with 7 (CBK, 2020). Undoubtedly, for most microfinance banks, this represents an opportunity to increase their reach dramatically. Extending their network through physical branches is expensive, time-consuming, and requires a relatively large number of employees.

In the last decade, microfinance banks have faced tremendous advancements because of competition, modern technology, and financial innovation adoption, and changing customer needs. Kioko (2019) highlights that microfinance banks have been forced to integrate their systems and adopt more efficient and effective strategies to boost efficiency in banking operations and reduce costs. In the quest to mobilize deposits, reduce the cost of funds, and increase commission, microfinance banks have offered other services besides credit to their clients. Microfinance banks offer the product of fixed deposits at a very competitive rate than commercial banks. This has attracted many businesspeople to place funds at different Microfinance banks that yield high returns against the principal amount. The microfinance banks have been able to increase their liability base; however, they incur a cost of funds in their interest income, which eventually affects their overall income base (Kanyurhi, 2016).

Another service that has been introduced is money transfer. Microfinance banks can channel remittances and government transfer payments to poor households living in isolated areas. This was before a reserve of the commercial banks. Some services under

this are money orders, cheques, electronic funds transfer, Western Union, and money gram. Faceless banking has become a norm in the financial industry, where many customers prefer to be branchless and use their gadgets to interact. Microfinance banks have also embraced digital banking to meet customer needs from different regions in the country without necessarily visiting the bank. This includes mobile banking services, where the client can send money to themselves to others, pay bills, and make customer requests in the comfort of their homes (Kenyoru, 2016).

A microfinance bank is classified as large if it has a market share of 5 percent and above, medium if it has a market share of between 1 percent and 5 percent, and small if its market share is less than 1 percent. As of December 31, 2021, there were three (3) large microfinance banks with an aggregate market share of 80.2 percent, six (6) medium microfinance banks with a combined market share of 18.9 percent, and five (5) small microfinance banks with an aggregate market share of 0.9 percent (CBK 2021). The large microfinance banks are Faulu MFB, Kenya Women MFB, and Rafiki MFB. The medium microfinance banks are SMEP MFB, Maisha MFB, Caritas MFB, Sumac MFB and U & I MFB. The small microfinance banks are Key MFB, Uwezo MFB, Muungano MFB, Century MFB, Daraja MFB, and Choice MFB.

From the above, it is evident that microfinance banks have employed various diversification strategies to remain competitive, be effective, and meet the changing needs of their customers. Although microfinance banks have upgraded the living standards of most Kenyans through the facilitation and expansion of their economic activities, recent evidence has shown that microfinance has faced challenges in their performance since 2016 (CBK, 2019). Microfinance banks often lend to clients with limited collateral and low credit scores. There has been client downturn over indebtedness, managing and mitigating the risk of loan defaults has been a constant

challenge. Limited infrastructure has also posed operation risk that include fraud, IT failures and inadequate internal controls.

1.2 Statement of the Problem

Performing microfinance banks in Kenya play a pivotal role in driving financial inclusion and economic development however there have been indicators of non-performance of Kenyan Microfinance banks in their social and operational performance since 2015. This has been evident from the 2019, 2020 and 2021 CBK reports which have continuously indicated that the Kenyan microfinance banks' performance has not been stable due to various factors. According to the Central Bank of Kenya (CBK), non-performing loans in the microfinance sector reached a staggering 19.8% in 2021, a sharp increase from the 15.6% reported in 2019, highlighting the strain on the sector's loan portfolios (CBK, 2021). This rising default rate has led to reduced profitability and has had adverse effects on the overall financial performance of these institutions.

The inability of microfinance banks to adequately diversify their products and revenue streams has been cited as a major factor in their underperformance. A critical issue facing microfinance banks is their limited product diversification strategies, particularly in credit and savings products. Many microfinance institutions in Nairobi have traditionally focused on providing short-term loans to low-income individuals and small businesses, often at high-interest rates. However, this narrow focus has exposed them to increased risks, especially in economic downturns. For example, data from the Association of Microfinance Institutions in Kenya (AMFI) shows that about 70% of microfinance loans in 2022 were concentrated in high-risk sectors such as retail trade and agriculture, which led to significant exposure during economic downturns (AMFI, 2022). This lack of diversification in credit products has made microfinance banks more

vulnerable to sector-specific shocks, undermining their financial stability and limiting their ability to expand into more sustainable financial services.

The relationship between diversification and firm performance has been the subject of abundant research in several fields with many conceptualizing diversification strategies differently. Previous studies have focused on other study contexts such as commercial banks, Saccos, and manufacturing firms rather than microfinance banks (Kenyoru, 2016; Maina, 2018; Mwangi, 2016; Abolarinwa & Asogw, 2020) respectively which presented contextual gaps. Other studies, such as that done by Zamore, Beisland & Mersland, 2019) have focused on geographic diversification and its effects on the performance of microfinance banks in Kenya. However, these studies are focused on only two variables which are part of a wide pool; whose effects are overlapping therefore the study seeks to establish the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The study's general objective was to assess the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi County, Kenya.

1.3.2 Specific Objectives of the Study

The following specific objectives guided the study:

- i. To evaluate the effect of concentric product diversification strategy on the performance of microfinance banks in Nairobi County, Kenya.
- ii. To evaluate the effect of concentric market diversification strategy on the performance of microfinance banks in Nairobi County, Kenya.

- iii. To evaluate the effect of concentric revenue diversification strategy on the performance of microfinance banks in Nairobi County, Kenya.

1.4 Research Hypotheses

H0₁: Concentric product diversification strategy has no statistically significant effect on the performance of microfinance banks in Nairobi County, Kenya.

H0₂: Concentric market diversification strategy has no statistically significant effect on the performance of microfinance banks in Nairobi County, Kenya.

H0₃: Concentric revenue diversification strategy has no statistically significant effect on the performance of microfinance banks in Nairobi County, Kenya.

1.5 Justification of the Study

The study on the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi County, Kenya was conducted to address several important issues within the sector. Firstly, microfinance banks in the region have been facing challenges in achieving sustainable growth and profitability due to factors such as market saturation, economic instability, and heightened competition from other financial institutions. By exploring concentric diversification, the study aimed to assess whether expanding products and services closely related to the banks' existing core competencies could enhance revenue streams, expand market reach, and improve customer retention. This focus was crucial for microfinance banks looking to stabilize their financial performance and ensure long-term sustainability in a competitive financial environment.

Concentric diversification, which involves expanding a company's product lines or markets within its existing areas of competence, offers a promising avenue for microfinance banks to enhance their performance. By diversifying their services, these banks can mitigate risks, tap into new revenue streams, and better serve their customers'

diverse financial needs. For instance, microfinance banks could introduce new financial products such as micro-insurance, savings accounts, or digital banking services that complement their existing loan offerings.

Understanding the impact of these strategies is crucial for several stakeholders. For policymakers and regulatory bodies, insights from the study could inform regulations that support sustainable growth and innovation in the microfinance sector. For microfinance banks, the findings could guide strategic decisions, helping them to allocate resources effectively and improve their service delivery. Moreover, for investors and development partners, the study could highlight viable investment opportunities and areas for capacity building.

Additionally, the unique socio-economic context of Nairobi provides a rich environment for such a study. The city's diverse population, varying income levels, and entrepreneurial spirit make it an ideal setting to examine how concentric diversification can address different financial needs and contribute to overall economic development. By focusing on Nairobi, the study can generate localized insights that are directly applicable and beneficial to the microfinance banks operating in this region.

1.6 Significance of the Study

The study finding is relevant to several groups. The finding of this study is of help to microfinance banks in Kenya to identify strategies they can implement for more investment through diversification for growth and efficiency. The study's results can enable microfinance bank managers to identify appropriate dimensions for acceptance of diversification when initiating or promoting competitive strategies and risk allocation to ensure organizational effectiveness.

The finding of the study is significant to policy makers since it will enable them adopt prudent policies when regulating microfinance banks and act in the interests of the bank and the customer. Through the findings, the government agency in charge of microfinance bank supervision (Central Bank of Kenya) can find better ways to regulate diversifications among microfinance banks and those in which the banks should or should not be allowed to invest.

Future scholars, academicians, and researchers will also benefit from the findings. The study will reinforce the available literature on diversification strategies and how they influence microfinance banks' performance. Therefore, this will add reference material for future scholars and researchers who can use the findings to support their studies and, at the same time, identify gaps they ought to fill in their studies.

1.7 Scope of the Study

The study focused on establishing the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi County, Kenya. The independent variables are concentric product diversification strategy, market diversification strategy and revenue diversification strategy. The dependent variable is the performance of microfinance banks in Nairobi County, Kenya. The location was ideal since the headquarters of the targeted microfinance are all located in Nairobi County. The target population was 63 employees in the 14 Microfinance Banks headquarters in Nairobi, comprising heads of departments. The study was limited to Microfinance Banks which are registered by the CBK.

1.8 Limitations and Delimitation of the study

The study encountered various limitations. First the study's scope was confined to microfinance banks in Nairobi, which may limit the generalizability of findings to other

geographical areas or types of financial institutions. However, this limitation was addressed by ensuring a diverse sample of microfinance banks within Nairobi, representing various sizes and target demographics. By capturing a broad spectrum of institutions, the study aimed to mitigate the impact of this scope limitation on the overall applicability of findings.

Some respondents felt that the researcher sought sensitive information from microfinance banks limiting the depth of analysis. To overcome this limitation, the research team established partnerships and collaborations with participating institutions by issuing a research letter from the graduate school and research permit from National Commission for Science, Technology & Innovation (NACOSTI). This helped to foster trust and facilitating access to relevant data. Moreover, data collection methodologies were designed to prioritize transparency and confidentiality, ensuring compliance with ethical standards while maximizing information access.

Interdisciplinary challenges arose from the complex nature of the research topic, requiring expertise from multiple fields such as finance, economics, and social sciences. To address this, the research team adopted a collaborative approach, leveraging diverse skill sets and perspectives to enhance the study's robustness. Regular interdisciplinary meetings and workshops were conducted to facilitate knowledge exchange and ensure alignment across disciplinary boundaries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter outlines the theories that inform this study. The chapter further reviews previous studies on the effect of diversification strategies on the performance of microfinance banks in Kenya. In addition, the chapter outlines the conceptual framework and the research gaps.

2.2 Theoretical Review

The study was anchored on competitive forces model, modern portfolio theory, Ansoff's product/market model and resource-based view theory guided the study.

2.2.1 Competitive Forces Model

The Competitive Forces Model, also known as Porter's Five Forces, was developed by Michael E. Porter in 1979. The model states that the competitive intensity and attractiveness of an industry can be understood by analyzing five fundamental forces that shape competition: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products or services, and the intensity of competitive rivalry (Nengsih., Gayatri., Wagini, & Indriasari, 2021). Porter's model suggests that by analyzing these forces, firms can identify areas of strength and vulnerability, enabling them to develop strategies that can help them outperform competitors and improve profitability.

The proponents of Porter's Five Forces model argue that it provides a comprehensive framework for assessing industry dynamics and competition. Michael Porter himself emphasized that understanding the structure of an industry is crucial for gaining a sustainable competitive advantage (Irfan, Zhao, Ahmad, Batool, Jan, & Mukeshimana,

2019). The model has been widely used by business strategists and economists to understand market forces in various industries and create strategies for firms to navigate complex competitive environments. Its proponents appreciate its ability to go beyond just internal analysis and account for external factors that influence competition and profitability (Akçagün, Ceviz, & Yılmaz, 2023).

However, there are critiques of Porter's Five Forces model. Critics argue that the model is too static and does not account for the rapid changes in today's globalized and technology-driven industries. The rise of digital platforms, the sharing economy, and globalization has altered competitive dynamics, making the five forces model less applicable in some modern industries (Kurniawan., Tarumingkeng & Adirinekso, 2022). Others argue that the model places too much emphasis on industry structure rather than the unique resources and capabilities of firms, which are critical in gaining competitive advantage. Additionally, the theory focuses more on threats rather than opportunities, limiting its ability to provide a full picture of industry dynamics.

The model remains relevant when explaining the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi County. Concentric diversification involves expanding into related industries or markets where synergies can be realized. Porter's Five Forces can help microfinance banks assess the competitive landscape of these related industries, understanding whether diversification would expose them to high levels of competition, strong supplier or buyer power, or threats from substitutes. By analyzing these forces, microfinance banks can identify potential barriers to entry or opportunities for differentiation, thus informing their diversification strategies and enhancing their performance in Nairobi's financial sector.

2.2.2 The Modern Portfolio Theory

The modern portfolio theory was developed by Markowitz in 1952 and is the basis for income and product diversification (Githaiga, 2022). The theory argues that diversifying an investment portfolio reduces the risk level. According to MPT, an investor can achieve an optimal portfolio by considering not just the expected returns of individual assets, but also how return of each asset correlates with the returns of other assets in the portfolio, (Duho *et al.*, 2023). Modern Portfolio Theory (MPT) asserts that investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing the importance of diversification. The theory posits that risk-averse investors can achieve optimal portfolios by holding a diversified mix of assets, reducing the overall risk through the process of balancing volatile assets with stable ones. The correlation between asset returns plays a crucial role in this model, as combining assets that do not move in tandem can effectively lower the overall portfolio risk.

The MPT have been criticized because it assesses portfolios based on variance, which measures the dispersion of returns (Zhang, 2020). However, variance does not capture the entire spectrum of risk, particularly downside risk or the potential for large losses. Therefore, portfolios with similar variance may exhibit different risk levels, leading to potentially misleading conclusions. The MPT relies on the assumption that asset returns follow a normal distribution. In practice, financial markets often exhibit fat-tailed distributions and non-linear relationships, which can invalidate the assumptions of MPT and lead to inaccurate risk assessments. Additionally, the implementing MPT requires accurate estimates of expected returns, volatilities, and correlations among assets. However, these parameters are inherently uncertain and subject to estimation errors, leading to suboptimal portfolio allocations (Zilu, 2023). MPT primarily focuses on

market-related risks, such as systematic and unsystematic risks. However, it may overlook non-market risks, such as political, regulatory, or environmental risks, which can significantly impact investment outcomes but are not captured by traditional risk measures.

This theory was crucial to help understand the crucial relationship between concentric revenue diversification strategy, the distribution of revenue across a portfolio, and how that affects the availability of revenue for outreach, thus leading to a decrease or increase in the social performance of microfinance banks.

2.2.3 Ansoff's Product/Market Model

Ansoff's product/market model was proposed by Igor Ansoff in 1987. Ansoff's product/market model posits that businesses can grow by employing one of four strategic approaches: market penetration, market development, product development, or diversification, (Shah, 2022). Market penetration involves increasing sales of existing products in existing markets, typically through tactics like advertising, pricing strategies, or increasing market share. Market development refers to entering new markets with current products, either geographically or through targeting new customer segments. Product development involves creating new or improved products for the company's existing markets. Lastly, diversification entails introducing new products into new markets, which can be risky but potentially highly rewarding if successful (Sudarto & Inggriantara, 2020). This model provides a framework for companies to evaluate their growth strategies, balancing risk and opportunity based on market conditions and organizational capabilities.

While the Ansoff Matrix has been widely used and has contributed to strategic thinking in various industries, it also has several critiques (Mutia, 2013). First Ansoff Matrix

model focuses solely on product and market dimensions, neglecting other critical strategic factors such as competitive dynamics, organizational capabilities, resources, and industry trends. Strategic decisions should consider a broader range of factors beyond just product and market expansion. Ansoff Matrix also assumes that market diversification efforts will automatically lead to success without considering market dynamics, customer preferences, and insights. Effective market entry and expansion strategies require a deep understanding of customer needs, competitive landscape, and cultural nuances, which are overlooked by the matrix.(Sudarto & Inggriantara, 2020).

When applying Ansoff's product/market model to market diversification, microfinance banks focus on entering new markets while leveraging their existing products. Concentric market diversification, where microfinance banks expand into related markets, is less risky when compared to unrelated diversification. By using Ansoff's model, microfinance banks can strategically plan their entry into new geographic regions or customer segments, improving their market share and performance by capitalizing on existing strengths and minimizing potential risks associated with unfamiliar markets.

2.2.4 Resource-Based View Theory

The theory was developed by Wernerfelt in 1984. The theory states that the type, amount, and nature of an organization's resources should be considered first in selecting and establishing strategies that can lead to sustainable competitive advantage. These resources enable the production of economies of scale in a firm. Hence, from the resource-based view, a firm should try to use resources to increase overall marginal utility, guaranteeing maximum gains. According to RBV, these resources must be valuable, rare, inimitable, and non-substitutable (VRIN). This theory shifts the focus from external competitive factors to the internal resources a firm possesses, emphasizing

that the key to long-term success lies in efficiently managing and leveraging these resources.

While RBV offers valuable insights into understanding competitive advantage and firm performance, it also faces several critiques. First one of the primary criticisms of RBV is the lack of clarity in defining what constitutes organization resource and capability. The theory broadly defines resources as tangible and intangible assets that firms use to achieve competitive advantage. However, there is ambiguity about which specific resources are truly valuable, rare, inimitable, and non-substitutable (VRIN) – the key criteria for sustained competitive advantage according to RBV (Picincu, 2020). RBV emphasizes the importance of unique and valuable resources for achieving competitive advantage. However, identifying and measuring these resources objectively can be challenging. There is often subjectivity and ambiguity in determining whether a resource meets the VRIN criteria, making it difficult for firms to assess their competitive position accurately, (Picincu, 2020).

The resource-based view theory is highly relevant to product diversification strategies in microfinance banks as it emphasizes the role of internal resources and capabilities in driving competitive advantage. In the context of concentric product diversification, where microfinance banks develop new products closely related to their existing offerings, the RBV suggests that leveraging core competencies, such as financial expertise or customer relationships, can enhance performance. By utilizing their unique resources, microfinance banks can differentiate their services and tap into new revenue streams, ultimately improving overall organizational performance.

2.3 Empirical Literature Review

Below is a review of empirical on product, market and revenue diversification and their relationship to the performance of microfinance in Kenya, based on previous studies on the subject.

2.3.1 Concentric Product Diversification Strategy and Organization Performance

Wanjiru (2016) studied product diversification strategies to determine perceived firm performance among real estate companies in Nairobi City County, Kenya. The study used a balanced scorecard model to inform the study. An explanatory research design was used. Descriptive analysis was employed to describe the essential characteristics of the responses and displayed using tables. The result shows that some concentric and conglomerate diversifications were significantly correlated with firm performance. Horizontal and vertical diversifications were not significantly correlated with firm performance. The multiple linear regression model was also used for analysis. The findings indicated that concentric product diversification positively affects firm performance. However, the study used the balanced scorecard model to inform the study, thus presenting a theoretical gap. The Modern Portfolio Theory of Diversification, Ansoff's Product/Market Model, and the Resource-Based View Theory informed the current study.

Njuguna, Kwasira and Orwa (2018) studied the influence of product diversification strategy on the performance of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya. The study investigated the influence of product diversification strategy on non-financial firms' performance at the Nairobi Securities Exchange in Kenya. A descriptive correlational survey design was employed. A census of 45 non-financial firms was taken. Both primary and secondary data were collected. The study

established a significant positive relationship between product diversification and firm performance. Regression analysis revealed that firm performance was attributed to using this strategy. This study concluded that a product diversification strategy was essential for firms to widen their markets. However, the study focused on Non-Financial Firms Listed at The Nairobi Securities Exchange, Kenya, thus presenting a scope gap. The current study focused on microfinance banks in Nairobi.

Arte and Larimo (2022) studied the moderating influence of product diversification on the international diversification-performance relationship. The study did a meta-analysis to test the relationship between international diversification and firm performance and the moderating effect of product diversification. The results of our meta-analysis indicate that the relationship between international diversification and firm performance is non-linear, inverted U-shaped. The study found that performance is higher in firms with low/related product diversity and lower in firms with high/unrelated product diversity, suggesting that the dual-diversification strategy is detrimental to firm performance. However, the study adopted product diversification as a moderating variable while the current study used product diversification as an independent variable.

Azman (2020) studied product diversification and significant construction firm productivity: the effect of institutional environments in Malaysia. The generalized method of moments (GMM) estimator is used to model the PD strategies of 86 LCFs in Malaysia over 14 years and its Impact on productivity and profitability performance. Unrelated diversification (UD) decreased firm performance in 2003–2016, while related diversification (RD) had a positive impact during the more liberal 2010–2016 phase. The models show that the Impact of product diversification is highly dependent on changes in institutional dimensions. However, the study was done in Malaysia, while the current study was done in Kenya.

2.3.2 Concentric Market Diversification Strategy and Organization Performance

Tangus and Omar (2017) conducted a study on the effects of market expansion strategies on performance in Kenyan commercial banks. The study adopted descriptive research design. The study found out that there is a strong correlation coefficient between firm performance and the three market expansion strategies. Furthermore, the findings of this study substantiate the call for banking institutions to use market expansion strategies to enhance their performance. However, the study focused on commercial banks, while the current study focused on microfinance banks in Kenya.

Larusi and Muthoni (2019) examined the influence of market penetration strategy on the performance of Telkom Kenya Limited in Nairobi City County. The study adopted a descriptive research design and was a census of 75 respondents. Questionnaires were used to collect the data. The study found that market penetration study influences the performance of Telkom Kenya Limited. Furthermore, most respondents strongly agreed that market penetration allows quick diffusion and adoption of the organization's products. However this study was a case study, which limits the generalization of the findings. The current study is conducted on microfinance banks in Kenya.

Ayudo (2017) studied the effect of market penetration strategies on sugar firms' performance in the Western Region of Kenya. The study employed a cross-sectional research design and was a census study of 48 managers. Questionnaires were used to collect data. Data analysis was done through descriptive statistics, and multiple regression analysis was done to investigate the effect of market penetration strategy on the performance of the sugar industry. The findings indicate that market penetration strategy has a positive and statistically significant effect on the performance of the sugar industry. However, the study employed a cross-sectional research design, thus presenting a methodological gap. The current study adopted a descriptive research design.

Murguiyia (2018) conducted a study on the influence of market penetration strategies on organizational growth in the steel industry in Kenya. The study used a cross-sectional research design. The sample population comprised 48 steel companies operating in the Kenyan market. Questionnaires were used to collect the primary data, while secondary data was collected from published sources, which included website reviews, journals, and magazines. The findings indicate that market penetration strategies significantly influence the steel industry's organizational growth. However, the study employed a cross-sectional research design, thus presenting a methodological gap. The current study adopted a descriptive research design.

Wawira (2019) conducted a study to assess the relationship between marketing strategies and performance of large hotels in Mombasa County. The population comprises all the large hotels in Mombasa registered and licensed by the Tourism Regulatory Authority. Only five- and four-star hotels based in Mombasa were studied. This made a total of 30 hotels. Descriptive, correlation, and regression analysis were used, and results were presented in tables and figures. The study concluded that marketing strategies positively affect the performance of large hotels in Mombasa. The study also established that marketing strategies have a significant positive relation with the performance of the large hotels. The study was done in Mombasa County, while the present study was done in Nairobi County.

2.3.3 Concentric Revenue Diversification Strategy and Organization Performance

Githaiga and Yegon (2019) conducted a study on revenue diversification and performance of banks. A correlational research design was used in the study. Using 310 observations drawn from a sample of 31 commercial banks and panel data from 2008–2017, the study found that revenue diversification positively and significantly affects bank performance. Therefore, commercial banks are advised to consider investing in

non-lending activities to better their financial performance. The study adopted a correlational research design, thus presenting a methodological gap. The current study adopted descriptive research design. The findings indicated that revenue diversification affect the performance of banks

Duho, Agomor and Onumah (2021) studied the impact of revenue diversification strategy on credit risk and market risk among microfinance banks. The study utilized the weighted least squares (WLS) approach to explore the relationship. The findings revealed that Microfinance banks that hold more cash and cash equivalents tend to have high loan loss provisions and more government securities, suggesting that much attention should be paid to optimal cash management. However, the study focused on revenue diversification and performance and thus looked at only one diversification strategy, revenue diversification strategy, and left out all other diversification strategies, presenting a knowledge gap. The current study focused on three diversification strategies, which included product diversification strategy, market diversification strategy, and revenue diversification strategy.

Luu, Nguyen, and Vu (2019) did a study on revenue diversification and financial performance of commercial banks in Vietnam. The empirical results show that revenue diversification positively impacts banks' performance. However, the effect varies across different types of banks. Specifically, the authors found out that while diversification benefits state-owned and foreign banks, it negatively affects the financial performance of other non-state-owned domestic banks. In addition, the authors further found that the positive impact of diversification is more prominent for banks with more experience in the market. However, the study focused on revenue diversification and performance and thus looked at only one diversification strategy, which was the revenue diversification strategy, and left out all other diversification strategies. The current study focused on

three diversification strategies, which included product diversification strategy, market diversification strategy, and revenue diversification strategy.

Brahmana, Kontesa, and Gilbert (2018) did a study on revenue diversification and bank performance: evidence from Malaysian banks. Specifically, the study tested the link between noninterest income and risk-adjusted performance. The fixed effect panel regression results show that revenue diversification increases a bank's performance, confirming the risk reduction hypothesis and resource-based view theory. The study indicated that the less integrated financial market in Malaysia gives the advantage for Malaysian banks to achieve better diversification gains. Moreover, the surge of Islamic banking might play an essential role in the performance of revenue diversification. The study was done in Malaysia, thus presenting a scope gap. The current study was done in Kenya.

Kiptum, Koske, and Limo (2019) focused on the effects of revenue diversification and the financial performance of Kenyan Commercial Banks. The study used a sample of 31 Kenyan banks and data from 2008-2019. Data is analyzed through fixed-effect regression analysis. The study finds that revenue diversification improves bank profitability. The findings are attributable to increased noninterest income and possible risk diversification. Moreover, the study controls several banking sector-specific factors affecting financial performance. The results show that bank size, age, loan portfolio quality, lending strategy, and market share have a significant effect. The study focused on revenue diversification and performance and thus looked at only one diversification strategy, revenue diversification, and left out all other diversification strategies. The current study focused on three diversification strategies, which included product diversification strategy, market diversification strategy, and revenue diversification strategy.

Osei-Kuffour and Peprah (2020) focused on revenue diversification and financial sustainability of private tertiary institutions as moderated by institutional profile. The study utilized parametric inferential statistics by relying on the Hayes model. The study was conducted in private tertiary institutions in the Greater Accra Region of Ghana. Forty of the Region's sixty PTIs (Private Tertiary Institutions) were randomly sampled to answer the self-constructed questionnaires with the Cronbach Alpha. The study revealed a positive and moderate relationship between revenue diversification and financial sustainability. Revenue diversification predicted financial sustainability. Institutional profile significantly enhanced the moderating effect of revenue diversification and financial sustainability relationship. Denominational Private Tertiary Institutions relied more on revenue diversification for financial sustainability than Non-denominational Private Tertiary Institutions. The study focused on revenue diversification and financial sustainability, thus presenting a conceptual gap. The current study focused on three diversification strategies, which included product diversification strategy, market diversification strategy, and revenue diversification strategy.

2.4 Summary of Literature and Research Gaps

A review of previous studies revealed several research gaps the current study sought to fill. Table 1 below shows a summary of the literature review and research gaps.

Table 1*Summary of Literature Review*

Author & year	Focus of the Study	Findings	Research Gap	Focus of the current study
Tangus and Omar (2017)	Effects of market expansion strategies on performance in Kenyan commercial banks.	A strong correlation coefficient between firm performance and the three market expansion strategies	The study focused on commercial banks, thus presenting a contextual gap	The current study focused on microfinance banks in Kenya
Azman (2020)	Product diversification and significant construction firm productivity effect on institutional environments in Malaysia	The models show that the Impact of product diversification is highly dependent on changes in institutional dimensions.	The study was done in Malaysia.	The current study was done in Kenya.
Wanjiru (2016)	Product diversification strategies as a determinant of perceived firm performance among real estate companies in Nairobi City County, Kenya	Results indicated that concentric product diversification positively affects firm performance.	The study used the Balance scorecard model to inform the study, thus presenting a theoretical gap.	The Modern Portfolio Theory of Diversification informed the current study, Ansoff's Product/Market Model, and Resource Based View Theory.
Njuguna, Kwasira and Orwa (2018)	Influence of product diversification strategy on performance of Non-Financial Firms Listed at The Nairobi Securities Exchange, Kenya	Product diversification strategy was essential for firms to use in widening their markets.	The study focused on Non-Financial Firms Listed at The Nairobi Securities Exchange, Kenya, thus presenting a contextual gap.	The current study focused on microfinance banks in Kenya
Muthoni (2019)	Influence of market penetration strategy on the performance of Telkom Kenya Limited.	Market penetration allows for quick diffusion and adoption of the organization's products.	This study was a case study, which limits the generalization of the findings.	The current study was focused on Microfinance banks in Kenya

Wawira (2016)	Marketing strategies and performance of large hotels in Mombasa County.	Marketing strategies positively affect the performance of large hotels	The study was done in Mombasa	The current study was done in Nairobi County.
Duho et al. (2021)	The study focused on examining the effect of income diversification on the performance of microfinance banks in Ghana.	The study found that income diversification strategy has a negative effect on the performance of microfinance banks	The study was conducted in Ghana, which presents a contextual gap. it also presents a conceptual gap since it is restricted to examining the relationships between only income and profitability, leaving out other indicators such as product and market diversification strategies. It also presents a knowledge gap, since income diversification strategies are different from revenue diversification strategies	The current study focused on the effects of concentric diversification strategies on the social and operational performance of microfinance banks in Nairobi. The indicators of financial performance was outreach, customer satisfaction and profitability, thus covering the conceptual gap. The study included revenue diversification strategy, in place of income, also covering the knowledge gap.

2.5 Conceptual Framework

As per Kombo and Tromp (2019), a conceptual framework is a set of ideas and general principles derived from relevant research areas used in subsequent demonstrations of the presentation. The following is a demonstration of the conceptual framework. The study contained independent and dependent variables, as shown in Figure 1 below.

The relationship between the study variables can be explored by examining how diversification strategies in microfinance banks influence performance, particularly in the context of product, market, revenue diversification and government regulations. Product diversification strategy focuses on offering a variety of credit products, savings products, and bank assurance to enhance the performance of microfinance banks. By introducing diverse financial services, such as tailored credit and savings solutions, banks attract different customer segments and increase their market share. Expanding their product range also enables microfinance banks to cater to various financial needs, which leads to an increase in the number of new customers. This, in turn, boosts profitability, as offering a broader set of services encourages higher engagement and cross-selling opportunities among clients.

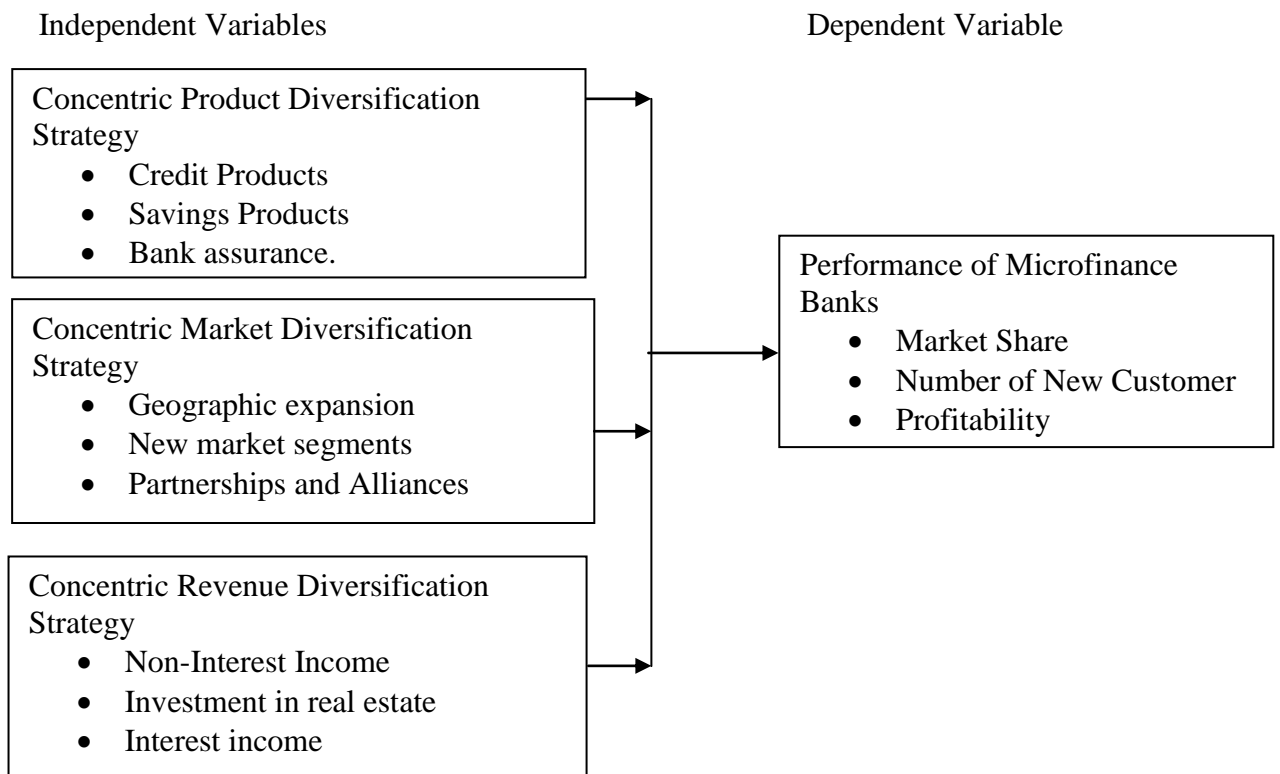
Market diversification strategy involves expanding geographic operations, targeting new market segments, and forming partnerships or alliances. Geographic expansion allows microfinance banks to penetrate underserved areas, contributing to a larger market share and customer base. Exploring new market segments, such as rural or small-scale business clients, aligns with the goal of acquiring more customers. Strategic partnerships and alliances can enhance service delivery and support business growth, directly contributing to improved profitability. Furthermore, government regulations, such as capital requirements and prudential regulations, play a crucial role in shaping these strategies. Adhering to these regulations ensures financial stability and builds trust, which is essential for long-term growth.

Revenue diversification strategy emphasizes generating non-interest income, investing in real estate, and earning from interest income to strengthen performance. By increasing non-interest revenue streams, such as fees from services like insurance or transactions, microfinance banks reduce reliance on interest-based earnings, thereby creating a more

stable income structure. Investments in real estate add another dimension of revenue growth, contributing to higher profitability while balancing the risks associated with traditional banking activities. Finally, revenue from interest income, through lending activities, remains a fundamental driver of financial success in microfinance banks, with an optimal mix of income sources leading to sustained growth and performance.

Figure 1

Conceptual Framework



Source: Author (2024)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section contains the methodology of the research. The specific aspect is the design adopted and the target population. In addition, the chapter highlights the location of the study, sample size, sampling procedure, and instrumentation, which contain the pilot study and the reliability and validity of the research instrument. This section also contains the data collection procedure, analysis, and ethical considerations.

3.2 Research Design

According to Muthoni (2019), research design is the method used by a study to collect, gauge, and analyze the collected data. The study adopted descriptive survey research design. Descriptive survey studies enable researchers to identify relationships and patterns between concentric diversification strategies and performance outcomes. By collecting detailed data on different types of diversification and performance indicators, researchers can analyze correlations and trends to understand which strategies are most effective in enhancing performance. Descriptive survey studies generate valuable insights that can inform strategic decision-making for microfinance banks. By documenting successful diversification practices and lessons learned from challenges or failures, the research helps banks optimize their strategic planning processes.

3.3 Location of the Study

The location of the study was Nairobi, the capital city of Kenya, which is the country's major commercial hub and home to the headquarters of many financial institutions. Specifically, the study focused on 14 microfinance banks headquartered in the Nairobi Central Business District (CBD). The CBD is the heart of Nairobi's financial activities,

housing most of the country's banking and corporate headquarters. The decision to target these 14 microfinance banks was based on their accessibility due to their proximity to each other within the CBD, making data collection more efficient. Furthermore, these institutions are some of the key players in Kenya's microfinance sector, representing a diverse range of services and providing a broad foundation from which insights can be generalized to smaller microfinance banks across the country. Thus, the Nairobi CBD was chosen not only for its central location but also for its role as a financial hub that influences the operations of microfinance banks throughout Kenya.

3.4 Target Population

Population of the study refers to the complete set of individuals, objects, or events that possess common characteristics and are of interest to a researcher for a specific study. It represents the total group from which a researcher aims to draw conclusions or make inferences, (Creswell 2014). The study population is the whole group of people. According to Mugenda and Mugenda (2019), population is the entire group of individuals, actions, or stuff with similar characters. The unit of analysis was 14 Microfinance Banks in Nairobi Kenya. The unit observation was 63 heads of departments in finance, marketing, product development, operations, and information technology department. The choice of department heads is justified since they are actively involved in implementing diversification strategies within their institution. Table 3.1 shows the study population.

Table 2*Population of the Study*

Microfinance Bank	Heads of Sections/ Departments
Caritas	5
Century	5
Choice	3
Daraja	4
Faulu	4
Kenya Women	6
Maisha	5
Muongano	4
Rafiki	5
Remu	4
SMEP	5
Sumac	3
U & I	6
Uwezo	4
Total	63

3.5 Sampling Procedure and Sample Size

The sample size signifies a subset of sampling units from a population (Creswell, 2019). It gives the entire population elements from which data was collected. Sampling was not applied in this study; a census approach was used since the population is manageable.

3.6 Instrumentation

This section contains an examination of the instruments, tools, and techniques that were used to obtain and measure the variables that of the study. The instrument that was used for the study was structured questionnaires. A questionnaire is a research instrument that consists of a document with questions which have a set of choices of answers (Oxford,

2023). A structured questionnaire has a variety of choices available for the respondent. For this study, the questionnaire was closed ended, allowing the researcher to obtain as much quantifiable data as possible.

3.6.1 Pilot Study

A pilot study was carried out to determine if the questionnaires are reliable and valid. This was carried out before doing the actual study. It was done to detect and correct the mistakes found in the questionnaire. A total of 10% of the sample is appropriate for pilot testing (Mugenda & Mugenda, 2019). The pilot study was conducted in two microfinance banks operating in Kiambu County. These are U& I Microfinance Bank and Kenya Women Microfinance Bank. This means the questionnaire was pilot tested to six respondents who were not to be included in the main study. The instruments were fine-tuned and rigorously refined to achieve reliable and valid results.

Kiambu County was chosen due to its proximity to Nairobi, which allowed for cost-effective and efficient testing of research instruments. Additionally, Kiambu shares similar economic characteristics and a presence of microfinance institutions, making it an appropriate environment to identify any issues with the data collection tools before applying them in Nairobi. This strategic choice ensured that the instruments would yield reliable and valid results when used in the main study area.

3.6.2 Validity of the Study Instrument

Validity is the level to which outcomes obtained from the data investigation essentially denote the phenomenon under investigation (Schonhaut et al., 2013). The study used content validity, which asserts the substance or significance of each estimation thing, which must be set up preceding any hypothetical assumptions (Golafshani, 2013). Expert judgment boosts content validity by detecting weaknesses and trying to correct them. As

a result, content validity was achieved using the expert judgment of the research supervisors.

3.6.3 Reliability of the Study Instrument

To enhance the reliability of the instrument, the researcher applied multiple strategies in addition to consulting with the supervisor. First, a pilot study was conducted with a small sample of respondents to assess the clarity and consistency of the questionnaire items. This step helped to refine any ambiguous questions and ensure that the instrument accurately measured the intended variables. Cronbach's Alpha (α) was used to determine internal consistency, which is essential for establishing reliability. Cronbach's Alpha is a statistical measure that evaluates how closely related a set of items are as a group. In this study, an alpha value of 0.7 or higher was considered acceptable, indicating that the instrument had a reliable level of internal consistency for measuring each independent variable.

However, to ensure the robustness of the reliability assessment, the researcher also employed test-retest reliability, which involves administering the same instrument to the same group of respondents at two different points in time. This helped to assess the stability of the results over time. Additionally, inter-rater reliability was considered by involving multiple raters in the interpretation of data to avoid subjective biases. These comprehensive measures ensured that the instrument not only met the threshold for Cronbach's Alpha but also demonstrated reliability through consistency and accuracy in data collection across multiple approaches.

3.7 Data Collection Procedures

Primary data was collected in the study. Questionnaires were used to collect primary data. Questionnaires were used as they are cost-effective, free from prejudice, and the

respondents have ample time to respond. Before data collection, the researcher sought approval from the Kabarak University Research Ethics Committee (KUREC) and the National Commission for Science, Technology, and Innovation (NACOSTI). The researcher hand-delivered the questionnaires to the respective offices, and made follow-up periodically through phone calls and emails to ensure a good response. Data was collected with the aid of research assistants since the study was done in a large area of Nairobi County.

3.8 Data Analysis and Presentation

Data analysis is the judgment application to understand gathering data to examine similar patterns and summaries of the critical details of the research (Zikmund et al., 2010). To analyze quantitative data, descriptive and inferential statistics was used. Descriptive comprised the standard deviations and means. Inferential comprised regression and correlations. Correlation was used to test the strength of the Association between the independent and dependent variables. Regression was used to determine the relationship between the dependent and independent variables. Multiple regressions were used. Coding and analysis of data was done using Statistical Package for Social Sciences (SPSS 23.0). Tables, diagrams, and charts further displayed the outcomes.

Regression model was presented as.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where.

Y - Performance of Microfinance Bank

β_0 - Regression constant (the value of Y when $X_1 = X_2 = X_3 = 0$)

β_i - is the coefficient for X_i (where $i = 1, 2, 3$)

$\beta_1, \beta_2, \beta_3$, = Coefficient of variables X_1, X_2, X_3 , respectively.

X_1 - Concentric Product diversification strategy

X_2 - Concentric Market diversification strategy

X_3 - Concentric Revenue diversification strategy

The study undertook preliminary diagnostic tests to ensure suitability of correlation and multiple linear regressions. The preliminary diagnostic tests include normality tests, multicollinearity test and Autocorrelation Test. Normality implies that the distribution of the test is normally distributed. The assumption of normality is especially critical when constructing reference intervals for variables. Normality tests are used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed. Normality tests were tested by determining Kolmogorov- Smirnov values.

Linearity is the relationship between the independent and dependent variables. A linear relationship means that a change in the independent variable results in a proportional change in the dependent variable. Linearity assumes that the relationship between the dependent variable and each of the independent variables is linear. Furthermore, the study conducted linearity test linearity as mean values of the outcome variable for each increment of the predictors lie along a straight line. The study used correlation analysis to test for linearity. Thus significance value smaller than 0.05, indicates that there is a linear relationship.

Multicollinearity refers to when the predictor variables are highly correlated with each other. The assumption is only relevant for a multiple linear regression, which has multiple predictor variables. Multicollinearity is a phenomenon in which one predictor variable in a multiple regression model can be linearly predicted from the others with a substantial degree of accuracy. Variance Inflation Factor (VIF) was used to check the Multicollinearity of the data. The study also conducted an autocorrelation test.

Autocorrelation refers to the correlation of a variable with itself over time. When autocorrelation is present it implies that the current value of the variable is related to its past values. Durbin Watson was used to determine the level of autocorrelation and finally the study conducted a homoscedasticity. Homoscedasticity refers to the assumption of constant variance in the errors (or residuals) of a regression. The study used scatter plot diagram to test homoscedasticity

3.9 Ethical Considerations

Informed consent of the respondents was sought while their anonymity and confidentiality of the information collected was upheld during and after the study. The researcher conformed to the principle of voluntary consent, where the respondents shall be required to take part in the examination eagerly, and the respondents uncovered the genuine reason for this exploration. The researcher likewise sought consent from significant specialists before collecting data. The researcher sought approval from the Kabarak University Research Ethics Committee (KUREC) and the National Commission for Science, Technology, and Innovation (NACOSTI).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The purpose of the study was to establish the effect of concentric diversification strategies on the performance of microfinance banks in Nairobi. This chapter presents and discusses the research findings of the respondent's profile followed by both the descriptive and inferential analyses of the study objectives. The chapter also discusses the findings and their implications to the study.

4.2 Response Rate

The study sampled 63 respondents out of which 57 filled and returned the questionnaires giving a response rate of 90%. Six questionnaires were not obtained from the respondents. Therefore, the response failure was 10%. With a 90% response rate, the study had a considerable sample size adequate for the research. According to Barbie (2014), a high response rate is advantageous since it greatly reduces non-response bias as compared to a low response rate.

Table 3

Response Rate

Sampled No. of Respondents	No. of Questionnaires Returned	Response Rate (%)
63	57	90

4.3 Demographic Characteristics

The study analyzed the demographic information of the respondents. This included, respondents' composition, length of service in microfinance, products offered.

4.3.1 Shareholder Composition of the Microfinance

The respondents were requested to indicate the shareholder composition of their microfinance. The findings of the study are shown in Table 4.

Table 4

Shareholder Composition of the Microfinance

Shareholder Composition	F	%
Majority shareholders are local	37	65
All shareholders are local	17	30
Majority shareholders are foreign	3	5
All shareholders are foreign	0	0
Total	57	100

According to the data, 65% of the respondents reported that most of the shareholders were local 30% reported that all of the shareholders were local, 5% reported that majority of the shareholders were foreign while none of the respondents reported that all of the shareholders were foreign. This implies that majority of the shareholders composition of the microfinance were local. Local shareholders typically have a vested interest in the success and stability of the microfinance bank, as it directly impacts their communities and financial interests. Their commitment to the bank's success can contribute to its long-term sustainability by providing stable capital, fostering trust and confidence among stakeholders, and supporting prudent financial management practices.

4.3.2 Length of Service in the Microfinance

The researcher sought to assess the duration respondents have been working in the microfinance. The findings were as indicated in Table 5.

Table 5*Length of Service in the Microfinance*

Age	F	%
0-5 years	9	16
6-10 years	21	37
Over 11 Years	27	47
Total	57	100

The data reveals that 16% of respondents had served in microfinance for 0-5 years, 37% for 6-10 years, and 47% for over 11 years. Deductively, this distribution indicates that a significant portion of the workforce has substantial experience, which can be viewed as a valuable resource for the organization. Employees with longer tenure typically possess a deeper understanding of the organizational culture, processes, and customer relationships. This accumulated knowledge and experience enhance the firm's capabilities in service delivery and customer engagement, which are vital in the competitive microfinance sector.

4.3.3 Products and Services Offered by the Microfinance

The respondents were requested to indicate the products and services offered by the microfinance. The findings were as indicated in Table 6.

Table 6*Products and Services Offered by the Microfinance*

Products and Services Offered	F	%
Loans	34	60
Bank assurance	1	2
Savings accounts	14	24
Investment services	5	9
Insurance	3	5
Total	57	100

The data reveals that 60% of respondents identified loans as the primary product offered by microfinance institutions, while savings accounts were cited by 24%, and smaller percentages recognized investment services (9%), insurance (5%), and bank assurance (2%). This indicates that loans are a core competency for these institutions, serving as a key resource that fulfills the financial needs of their clientele. According to RBV theory, an organization's ability to provide unique and valuable resources can lead to sustained competitive advantages. In this context, the microfinance banks' emphasis on loans aligns with their strategic objectives to support financially underserved populations, suggesting that they are effectively utilizing their resources to meet market demands.

4.4 Reliability Test Results

A statistical coefficient Cronbach's Alpha (α) was used as a measure of internal reliability using the Statistical Package for Social Sciences (SPSS) software version. The value of Cronbach's alpha coefficients ranges between 0 and 1. Reliability test. The numbers of items in the column represents the number of questions used for each variable. The results are presented in Table 7.

Table 7

Reliability Analysis Results

Variable	No. of Items	Cronbach's Alpha Value
Product Diversification Strategy	7	0.942
Market Diversification Strategy	6	0.898
Revenue Diversification Strategy	5	0.929
Performance of Microfinance Banks	5	0.851

From the findings concentric product diversification strategy had a Cronbach's alpha coefficient of 0.942. Concentric Market diversification strategy had Cronbach's alpha

coefficient of 0.898. Concentric Revenue diversification strategy had a Cronbach's alpha coefficient of 0.929. Performance of microfinance Banks had a Cronbach's alpha coefficient of 0.851. This thus shows that all the variables had a Cronbach's alpha greater than 0.7 and hence the research instrument was reliable.

4.5 Descriptive Statistics for the Study Variables

The section describes descriptive statistics for the study variables. The findings are presented in form of percentage, mean and standard deviation.

4.5.1 Concentric Product Diversification Strategy

The first objective of the study sought to establish the relationship between concentric product diversification strategy on the performance of microfinance banks in Nairobi. The findings of the study are shown in Table 8.

Table 8*Concentric Product Diversification Strategy*

Concentric Product Diversification Strategy Statement	SA 5	A 4	N 3	D 2	SD 1	N	Mean	Std
The bank has modified their products to attract more customers over the last five years.	18%	64%	6%	12%	0%	57	3.88	.849
Offering diverse credit products such as group loans, individual loans, agricultural loans, and emergency loans significantly affect the financial performance	22%	32%	22%	24%	0%	57	3.52	1.092
Offering diverse credit products reduce credit risks which positively affect the financial performance of Microfinance banks	30%	40%	18%	12%	0%	57	3.88	.982
Having diverse savings products help microfinance banks to mobilize deposits for the Microfinance banks which reduce dependency on external funding sources and achieve greater financial self-sufficiency	42%	30%	16%	12%	0%	57	4.02	1.040
Having diverse savings products improve liquidity of Microfinance banks by allowing them to fund loan disbursements and operational expenses more efficiently	36%	34%	18%	12%	0%	57	3.94	1.018
Insurance premiums collected from clients represent additional income for Microfinance banks, which can improve profitability.	44%	28%	16%	12%	0%	57	4.04	1.049
Providing remittance services have a positive impact on the performance of Microfinance banks by increasing transaction volume and fee income.	44%	30%	12%	10%	4%	57	4.00	1.161
Overall Mean and SD							3.897	1.027

Key: SA=Strongly Agree, S=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree

From the findings 18% of the respondents strongly agreed that the bank has modified their products to attract more customers over the last five years, 64% of the respondents agreed, 6% were neutral while 12% disagreed that the bank has modified their products to attract more customers over the last five years with a mean of 3.88 and std dev of 0.849. In addition, 22% of the respondents stated that offering diverse credit products such as group loans, individual loans, agricultural loans, and emergency loans significantly affect the financial performance while 32% agreed, 22% were neutral while 24% disagreed with a mean of 3.52 and a standard deviation of 1.092. The study findings are in line with the findings of Arte and Larimo (2022) which noted that offering a diverse range of credit products allows the institution to spread its risk. For example, if one sector faces economic difficulties, the institution may still have other sectors performing well, thereby balancing out the risk. Different credit products attract different types of customers. By offering a variety of loan options, the institution can appeal to a broader customer base, potentially increasing its market share and revenue streams.

Also, from the findings, 30% of the respondents strongly agreed that offering diverse credit products reduce credit risks which positively affect the financial performance of Microfinance banks, 40% agreed, 18% were neutral while 12% disagreed that offering diverse credit products reduce credit risks which positively affect the financial performance of Microfinance banks with a mean of 3.88 and a standard deviation of 0.982. Additionally, from the findings, 42% strongly agree that having diverse savings products help microfinance banks to mobilize deposits for the Microfinance banks which reduce dependency on external funding sources and achieve greater financial self-sufficiency, 30% agreed, 16% were neutral while 12% disagree having diverse savings products help microfinance banks to mobilize deposits for the Microfinance banks which

reduce dependency on external funding sources and achieve greater financial self-sufficiency with a mean = 4.02 and a standard deviation of 1.040. The study findings also conquer with the findings of Jayathilake (2018) which revealed that by diversifying their funding sources through savings mobilization, Microfinance banks can improve their overall financial position. They become less vulnerable to fluctuations in external funding availability or changes in donor priorities.

Further, 36% of the respondents strongly agree that having diverse savings products improve liquidity of Microfinance banks by allowing them to fund loan disbursements and operational expenses more efficiently, 34% agree, 18% were neutral while 12% disagree that having diverse savings products improve liquidity of Microfinance banks by allowing them to fund loan disbursements and operational expenses more efficiently with a mean of 3.94; and a standard deviation of 1.018. Additionally, 44% of the respondents strongly agree that insurance premiums collected from clients represent additional income for Microfinance banks, which can improve profitability, 28% agreed, 16% were neutral while 12% disagree with a mean of 4.04 and a standard deviation of 1.049. Furthermore, 44% of the respondents strongly agreed that providing remittance services have a positive impact on the performance of Microfinance banks by increasing transaction volume and fee income, 30% agreed, 12% were neutral while 10% disagree and 4% strongly disagreed that providing remittance services have a positive impact on the performance of Microfinance banks by increasing transaction volume and fee income with a mean of 4.00 and a standard deviation of 1.161.

The overall mean (3.897) indicates a relatively positive perception among respondents regarding the effect of concentric product diversification on the performance of microfinance banks in Nairobi. On average, respondents tend to agree that concentric product diversification has a favorable impact. Overall Standard Deviation (1.027):

suggests some variability in responses. While the mean is positive, the deviation indicates that individual opinions vary, and there might be some diversity in how respondents perceive the impact. The study findings are in tandem with those of Azman (2020) which noted that offering a wider range of financial products and services allows Microfinance banks to deepen their relationships with clients. As clients' needs evolve, they may seek additional financial solutions beyond basic microloans. By providing a broader suite of services, Microfinance banks can become more integral to their clients' financial lives, leading to increased loyalty and client retention. Diversifying product offerings enables Microfinance banks to tap into additional revenue streams. While microcredit may be a primary source of income, other financial products such as savings accounts, insurance, remittances, or financial education services can generate supplementary revenue. This diversification can help Microfinance banks achieve greater financial stability and resilience, especially during economic downturns or fluctuations in loan demand.

4.5.2 Concentric Market Diversification Strategy

The second objective of the study sought to examine relationship between concentric market diversification strategy on the performance of microfinance banks in Nairobi. The results are as shown in Table 9.

Table 9*Concentric Market Diversification Strategy*

Concentric Market Diversification Strategy Statement	SA	A	N	D	SD	N	Mean	Std
The bank has opened new branches over the last five years	42%	30%	16%	12%	0%	57	3.94	1.018
Geographic expansion presents an opportunity for Microfinance banks to tap into underserved markets and reach a larger customer base	44%	28%	16%	12%	0%	57	4.04	1.049
Geographic expansion enables Microfinance banks to improve operational efficiency, contributing to bottom-line profitability	44%	30%	12%	10%	4%	57	4.00	1.161
Expanding into new regions increase loan disbursements and revenue streams, leading to top-line growth.	22%	54%	12%	12%	0%	57	3.86	.904
Tailoring products and services to meet the needs of different market segments can attract new clients leading to increased loan demand and higher portfolio growth.	30%	30%	12%	24%	4%	57	3.58	1.263
Collaborating with fintech companies such as Mpesa through partnerships and alliances help Microfinance banks expand their reach, access new markets, and the overall financial performance	18%	54%	16%	12%	0%	57	3.78	.887
Overall Mean & SD							3.866	1.047

Key: SA=Strongly Agree, S=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree

From the findings 42% of the respondents strongly agreed that the bank has opened new branches over the last five years, 30% agreed, 16% were neutral while 12% disagreed that the bank has opened new branches over the last five years with a mean of 3.94 and a standard deviation of 1.018. In addition, 44% of the respondents strongly agreed that geographic expansion presents an opportunity for Microfinance banks to tap into underserved markets and reach a larger customer base while 28% agreed, 16% were neutral while 12% disagreed that geographic expansion presents an opportunity for Microfinance banks to tap into underserved markets and reach a larger customer base with a mean of 4.04 and a standard deviation of 1.049. The study findings are in line with the findings of Xie, Wang, and Miao (2021) which noted that many regions, especially rural or remote areas, may lack access to traditional banking services. By expanding into these areas, Microfinance banks can provide financial services to individuals and businesses that were previously excluded from the formal financial system. This not only benefits the underserved population but also creates new revenue streams for the microfinance banks.

Also, from the findings, 44% of the respondents strongly agreed that geographic expansion enables Microfinance banks to improve operational efficiency, contributing to bottom-line profitability, 30% agreed, 12% were neutral while 10% disagreed and 4% strongly disagree with a mean of 4.00 and a standard deviation of 1.161. Additionally, from the findings, 22% of the respondents strongly agree that expanding into new regions increase loan disbursements and revenue streams, leading to top-line growth 54% agreed, 12% were neutral while 12% disagree that expanding into new regions increase loan disbursements and revenue streams, leading to top-line growth with a mean of 3.86 and a standard deviation of 0.904. The study findings also concur with the findings of Larusi and Muthoni (2019) which revealed that by expanding into new geographic areas,

Microfinance banks can increase their client base and loan portfolio, leading to economies of scale. As the volume of operations grows, the average cost per transaction tends to decrease. This is because fixed costs such as administrative expenses and infrastructure can be spread over a larger base of clients and operations. As a result, the cost per unit of service provided decreases, improving operational efficiency.

Further, 30% of the respondents strongly agreed that tailoring products and services to meet the needs of different market segments can attract new clients leading to increased loan demand and higher portfolio growth, 30% agreed, 12% were neutral 24% disagreed, while 4% strongly disagree that tailoring products and services to meet the needs of different market segments can attract new clients leading to increased loan demand and higher portfolio growth with a mean of 3.58; a standard deviation of 1.263. Additionally, 18% strongly agreed that collaborating with fintech companies such as Mpesa through partnerships and alliances help Microfinance banks expand their reach, access new markets, and the overall financial performance, 54% agreed, 16% were neutral while 12% disagree that collaborating with fintech companies such as Mpesa through partnerships and alliances help Microfinance banks expand their reach, access new markets, and the overall financial performance (Mean of 3.78 and a standard deviation of 0.887).

The Overall Mean (3.866) suggests a moderately positive perception regarding the effect of concentric market diversification on the performance of microfinance banks in Nairobi. On average, respondents tend to agree that market diversification has a favorable impact. The overall Standard Deviation (1.047) implies some variability in responses. While the mean is positive, there is a degree of disagreement or diversity in individual opinions about the impact of concentric market diversification. The study also agrees with the findings of Wawira (2016) which concentric market diversification

strategy involves expanding a Microfinance Bank's (MFB) offerings within its existing market or to markets closely related to its core competency. By offering a broader range of financial products and services within its existing market, a microfinance Bank can deepen its penetration and reach more clients. This can lead to increased market share and revenue generation, ultimately contributing to improved performance.

4.5.3 Concentric Revenue Diversification Strategy

The third objective of the study sought to establish the effect of concentric revenue diversification strategy on the performance of microfinance banks in Nairobi. The results are as shown in Table 10.

Table 10*Concentric Revenue Diversification*

Concentric Revenue Diversification Strategy Statement	SA	A	N	D	SD	N	Mean	Std
Non-interest income is usually more stable and predictable, providing a steady source of revenue that contributes to the overall financial performance.	48%	28%	14%	10%	0%	57	4.140	1.010
By generating income beyond interest earned from loans, Microfinance banks can reduce dependency on interest income	38%	36%	16%	10%	0%	57	4.020	.979
Financing real estate investments increase the revenue income of microfinance banks	42%	36%	12%	10%	0%	57	4.100	.974
The appreciation nature of real estate investment enhances the institution's asset base and financial strength	54%	24%	14%	6%	2%	57	4.220	1.036
Non-funded income plays a major role in the long-term sustainability of the microfinance bank	44%	34%	34%	12%	10%	57	4.120	.982
Overall Mean & SD							3.206	0.996

Key: SA=Strongly Agree, S=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree

From the findings 48% of the respondents strongly agreed that non-interest income is usually more stable and predictable, providing a steady source of revenue that contributes to the overall financial performance, 28% agreed, 14% were neutral while 10% disagreed that non-interest income is usually more stable and predictable, providing a steady source of revenue that contributes to the overall financial performance with a mean of 4.140 and a standard deviation of 1.010. The study findings are in tandem with those of Luu, Nguyen, and Vu (2019) who asserts that on-interest income tends to be more stable and predictable compared to interest income, which can fluctuate with

changes in interest rates, economic conditions, and borrower behavior. This stability arises because non-interest income is often generated from consistent sources such as fees for banking services, transaction processing, asset management, and other non-lending activities.

In addition, 38% of the respondents strongly agreed that by generating income beyond interest earned from loans, Microfinance banks can reduce dependency on interest income. 36% agreed, 16% were neutral, 10% disagreed that by generating income beyond interest earned from loans, Microfinance banks can reduce dependency on interest income with a mean of 4.020 and a standard deviation of 0.979. From the findings 42% of the respondents strongly agreed that financing real estate investments increase the revenue income of microfinance banks, 36% agreed, 12% were neutral 10% disagreed while 4% strongly disagree that financing real estate investments increase the revenue income of microfinance banks (mean of 4.100; a standard deviation of 0.974).

Additionally, from the findings 54% of strongly agreed that the appreciation nature of real estate investment enhances the institution's asset base and financial strength, 22% agreed, 14% were neutral 6% disagree while 2% strongly disagree that non-funded income streams have shown impeccable growth in the last 5 years (mean of 4.220; a standard deviation of 1.036). The study findings are in tandem with the findings of Brahmana, Kontesa, and Gilbert (2018) which found that Microfinance banks earn interest income from the loans they provide for real estate investments. These loans often come with higher interest rates compared to other types of loans due to the long-term nature of real estate investments and the collateral involved.

Further, 44% strongly agree that non-funded income plays a major role in the long-term sustainability of the microfinance bank, 34% agreed, 34% were neutral, 12% disagreed,

while 10% strongly disagree that non-funded income plays a major role in the long-term sustainability of the microfinance bank. (Mean of 4.120; a standard deviation of 0.982). The Overall Mean (3.206) indicates a relatively high positive perception among respondents regarding the effect of concentric revenue diversification on the performance of microfinance banks in Nairobi. On average, respondents strongly agree that concentric revenue diversification has a favorable impact. Overall Standard Deviation (0.996) suggests a lower degree of variability in responses. The strong agreement among respondents indicates a more consistent view that revenue diversification positively influences performance. The study findings agree with those of Kiptum, Koske, and Limo (2019) which revealed that by diversifying revenue streams through offerings such as micro insurance, micro savings, remittances, and financial literacy programs, microfinance banks can reduce their reliance on a single source of income, such as microcredit. This reduces vulnerability to external shocks, such as changes in interest rates, borrower defaults, or economic downturns, thereby enhancing overall risk management.

4.5.4 Performance of Microfinance Banks

The dependent variable of the study was to establish the performance of microfinance banks in Nairobi. The results were as shown in Table 11.

Table 11*Performance of Microfinance Banks*

Performance of Microfinance Banks	SA	A	N	D	SD	N	Mean	Std. Deviation
The bank has recorded a gradual increase in market share	44%	28%	14%	12%	2%	57	4.000	1.125
There have been a gradual increase in the number of new customer	52%	24%	12%	10%	2%	57	4.140	1.107
The organization has opened new branches in past three years	30%	52%	8%	10%	0%	57	4.020	.892
The bank has recorded a gradual growth in assets value over the years.	32%	34%	10%	20%	4%	57	3.700	1.233
The diversification strategies have had an impact on the overall profitability of the microfinance bank.	40%	38%	12%	10%	0%	57	4.080	.966
Overall Mean & SD							3.988	1.064

Key: SA=Strongly Agree, S=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree

From the findings 44% strongly agreed that the bank has recorded a gradual increase in market share, 28% indicated agreed, 14% were neutral while 12% disagreed while 2% indicated strongly disagree that the bank has recorded a gradual increase in market share with a mean=3.840, SD=1.149. In addition, 52% of the respondents strongly agreed that there have been a gradual increase in the number of new customer while 24% agreed, 12% were neutral, 10% disagreed while 2% strongly agreed that there have been a gradual increase in the number of new customer with a mean of 3.920; a standard deviation of 1.085. According to Kenyoru (2016) diversifying loan portfolios often involves tailoring financial products to the specific needs of different market segments.

This strategy allows the microfinance bank to penetrate new markets and reach a more diverse customer base. By addressing the unique financial requirements of various clients, the bank can expand its overall outreach and extend its services to previously underserved populations.

Also, from the findings, 30% of the respondents strongly agreed that the organization has opened new branches in past three years, 52% agreed, 8% were neutral while 10% disagree that the organization has opened new branches in past three years with a mean with a mean 3.680; a standard deviation of 1.077. Additionally, from the findings, 32% of the respondents strongly agree that the bank has recorded a gradual growth in assets value over the years, 34% agreed, 10% were neutral, 20% disagreed while 4% strongly disagree that the bank has recorded a gradual growth in assets value over the years with a mean of 4.040, a standard deviation of 1.106. Further, 40% of the respondents strongly agree that the diversification strategies have had an impact on the overall profitability of the microfinance bank, 38% agreed, 12% were neutral while 10% disagree that diversification strategies have had an impact on the overall profitability of the microfinance bank with a mean of 4.020; a standard deviation of 0.958.

The overall Mean (3.988) suggests a moderately positive overall perception of the performance of microfinance banks in Nairobi. On average, respondents tend to have a favorable opinion about the performance of these banks. The overall Standard Deviation (1.064) indicates some variability in responses. While the mean is positive, there is a range of opinions, suggesting that individual perspectives on the performance of microfinance banks differ. According to Afude (2017) market share represents the portion of the total market for microfinance services that a particular institution controls. It is important because it reflects the institution's competitiveness and its ability to attract and retain clients relative to its peers. A growing market share indicates that the

institution is expanding its reach and influence in the market, which can lead to increased revenue and profitability over time.

4.6 Diagnostic Tests

For the sake of justifying the use of the regression model pre-estimation tests were carried out.

4.6.1 Normality Assumptions Test

The study conducted a normality test to determine whether the data is normally distributed. The result of the normality test is indicated in Table 12.

Table 12

Normality Assumption Test Results

Variable	Kolmogorov- Smirnov	Sig
Concentric Product Diversification Strategy	.172	.568
Concentric Market Diversification Strategy	.148	.987
Concentric Revenue Diversification Strategy	.143	.897
Performance Of Microfinance Banks	.134	.876

Normality assumption test results in Table 12 established that the data was normally distributed since the significance values for Kolmogorov-Smirnov were greater than 0.05. The study findings indicated that concentric product diversification strategy had a Kolmogorov-Smirnov significance value of $p=.568 > 0.05$ concentric market diversification strategy had a Kolmogorov-Smirnov significance value of $p=.986 > 0.05$. Concentric revenue diversification strategy had a Kolmogorov-Smirnov significance value of $p=.897 > 0.05$. The performance of microfinance banks had a Kolmogorov-Smirnov significance value of $p=.876 > 0.05$. Since the p-values were greater than the significance level (0.05), this implies that the data were normally distributed. This is in

line with Freeman (2017) who argue that when the sig value is less than the 0.05 threshold data is normally distributed.

4.6.2 Multicollinearity Test

The study conducted a multicollinearity assumption test. The study result is presented in Table 13.

Table 13

Multicollinearity Assumption Test Results

Variables	Tolerance	VIF
Concentric Product Diversification Strategy	.456	2.193
Concentric Market Diversification Strategy	.876	1.142
Concentric Revenue Diversification Strategy	.789	1.267
Performance Of Microfinance Banks	.459	2.178

The Variance Inflation Factor (VIF) is a critical statistical measure used in regression analysis to detect the presence of multicollinearity among predictor variables. Multicollinearity occurs when two or more independent variables in a regression model are highly correlated, potentially leading to unreliable coefficient estimates and affecting the overall model performance.

From the finding the tolerance and variance inflation factor value for concentric product diversification strategy (tolerance=0.456 and VIF=2.193), for concentric market diversification strategy (tolerance=0.876 and VIF=1.142), for concentric revenue diversification strategy (tolerance=0.789 and VIF=1.267) and for performance of microfinance banks (tolerance=0.459 and VIF=2.178). The study results imply that all tolerance values for the five variables under study were all above 0.10 and VIF values all less than 10, this implies that the data used had no Multicollinearity.

In this study, the VIF values for all the tested variables concentric product diversification strategy, concentric market diversification strategy, concentric revenue diversification strategy and performance of microfinance banks are well below the critical threshold of 10. This indicates that the predictor variables are not highly correlated, ensuring that the results of the regression analysis are reliable and that the model can accurately assess the relationship between the independent variables and the performance of microfinance banks. The absence of multicollinearity strengthens the validity of the study's findings, providing confidence that the effects attributed to each predictor are genuine and not confounded by high correlations among the predictors.

4.6.3 Autocorrelation Assumption Test

Autocorrelation refers to the correlation of a variable with itself over time. The results of the test of autocorrelation assumption are presented in Table 14.

Table 14

Autocorrelation Assumption Test Results

Variable	Durbin-Watson
Concentric Product Diversification Strategy	1.435
Concentric Market Diversification Strategy	2.576
Concentric Revenue Diversification Strategy	2.345
Performance of Microfinance Banks	2.867

The results as indicated in Table 14 revealed that the Durbin- Watson statistic value of concentric product diversification strategy was 1.435. In addition, the Durbin-Watson statistic value for concentric market diversification strategy was 2.576. Further, the results indicated that the Durbin-Watson statistic value for concentric revenue diversification strategy was 2.234 and for the performance of microfinance banks was 2.867. This implies that the study variables had no autocorrelation because it meets the

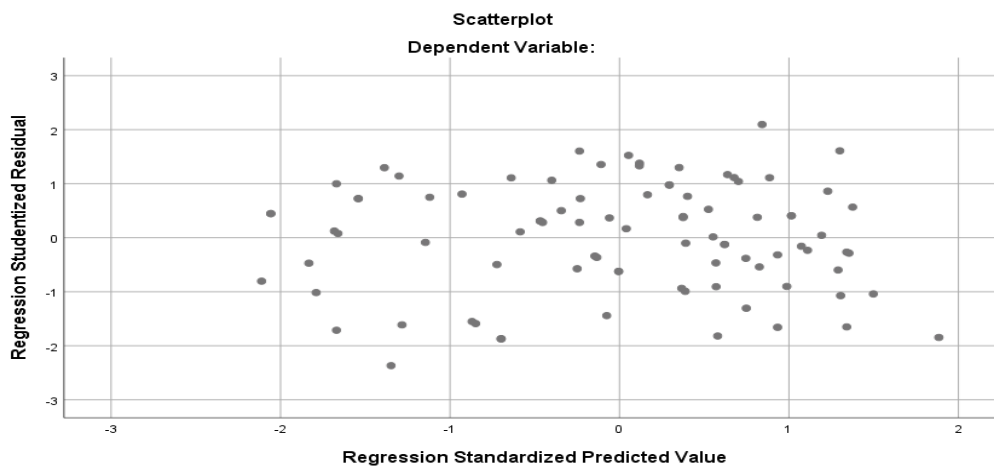
threshold of Durbin-Watson. This in line with Stock and Watson (2017) who suggest that values around 2 indicate no autocorrelation, while values below 2 suggest positive autocorrelation, and values above 2 indicate negative autocorrelation.

4.6.4 Homoscedasticity

Homoscedasticity is a statistical concept that refers to the assumption of constant variance in the errors (or residuals) of a regression. The researcher sought to determine homoscedasticity using scatter plot diagram. The findings is indicated by the Scatter plot Figure 2 below.

Figure 2

Homoscedasticity



From the findings the spots are diffused and do not form a clear specific pattern therefore the regression model does not have homoscedasticity problem.

4.7 Correlation Analysis

The researcher undertook correlation analysis to establish the nature and strength of the relationships between the independent and the dependent variables of the study.

Table 15*Summary Correlations*

		Concentric Product Diversification Strategy	Concentric Market Diversification Strategy	Concentric Revenue Diversification Strategy
Concentric Product Diversification Strategy	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	57		
Concentric Market Diversification Strategy	Pearson Correlation	.849**	1	
	Sig. (2-tailed)	.000		
	N	57	57	
Concentric Revenue Diversification Strategy	Pearson Correlation	.569**	.679**	1
	Sig. (2-tailed)	.000	.000	
	N	57	57	57
Performance of Microfinance Banks	Sig. (2-tailed)	.000	.000	.000
	N	57	57	57
	Pearson Correlation	.596**	.704**	.823**
Performance of Microfinance Banks	Sig. (2-tailed)	.000	.000	.000
	N	57	57	57

The study conducted a correlation analysis between product diversification strategy, market diversification strategy, revenue diversification strategy and on the performance of microfinance banks in Nairobi. The findings indicated that the r and p values for concentric product diversification strategy were 0.596 and 0.000 respectively. This indicated that there exists a positive and significant relationship between concentric product diversification strategy and performance of microfinance banks in Nairobi. Therefore, the findings imply that concentric product diversification strategy enhances performance of microfinance banks in Nairobi. The study findings are in line with those of Wanjiru (2016) findings which revealed that conglomerate product diversification significantly affects firm performance, and horizontal product diversification does not significantly affect firm performance.

In addition, the study conducted a correlation analysis between concentric market diversification strategy and performance of microfinance banks in Nairobi. The findings indicated that $r=0.704$ and $p=0.000<0.05$. This shows that there is a positive and significant relationship between concentric market diversification strategy and performance of microfinance banks in Nairobi. The findings implied that concentric market diversification strategy enhance performance of microfinance banks in Nairobi. The study findings are in line with Tangus and Omar (2017) findings which found a strong correlation coefficient between firm performance and the three market expansion strategies. Furthermore, the findings of this study substantiate the call for banking institutions to use market expansion strategies to enhance their performance.

The study further sought to establish the nature of the relationship between concentric revenue diversification strategy and performance of microfinance banks in Nairobi. The findings indicated that $r=0.828$ and $p=0.000<0.05$. The p value was less than the significant level of 0.05 meaning that there is positive statistically significant relationship between concentric revenue diversification strategy and performance of microfinance banks in Nairobi. This implies that concentric revenue diversification strategy has a significant statistical effect on performance of microfinance banks in Nairobi. The study findings concur with those of Githaiga and Yegon (2019) findings which revealed that revenue diversification positively and significantly affects bank performance. Therefore, commercial banks are advised to consider investing in non-lending activities to better their financial performance.

4.8 Regression Analysis

The study conducted a regression analysis helps in understanding and quantifying the relationship between a dependent variable and one or more independent variables.

4.8.1 Bivariate Regression on Product Diversification Strategy

The study conducted a bivariate regression analysis to assess the relationship between product diversification strategy and performance of microfinance banks. The study conducted a model summary analysis to determine the proportion of the variance in the dependent variable (performance of microfinance banks) that is explained by the independent variables (product diversification strategy) in the model. The findings are indicated in Table 16.

Table 16

Model Summary on Product Diversification Strategy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.589 ^a	.347	.335	.59590

a. Predictors: (Constant), Concentric Product Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

The study used the value of R-Squared. R-Squared is the percentage of the response variable variation that is explained by a linear model. The R-squared in this study was 0.347 which shows that concentric product diversification strategy explains 34.7% variation on performance of microfinance banks. The findings agree with Wambui and Kavale (2022) who revealed that concentric product diversification, allows firms to tap into new customer segments or serve existing customers more comprehensively, thus potentially boosting their financial performance.

Analysis of variance was used to determine whether the independent variable (product diversification strategy) have a significant effect on the dependent variable (performance of microfinance banks). The findings are indicated in Table 17.

Table 17*ANOVA on Product Diversification Strategy*

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.373	1	10.373	29.212	.000 ^b
	Residual	19.530	55	.355		
Total		29.903	56			

a. Predictors: (Constant), Concentric Product Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From the findings, the F-Value of (29.212) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of concentric product diversification strategy on performance of microfinance banks.

The study conducted a regression coefficient analysis to make predictions about the concentric product diversification based on new values of microfinance banks. The findings indicated in Table 18.

Table 18*Regression Coefficient son Concentric Product Diversification Strategy*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.393	.483		2.885	.006
Concentric Product Diversification Strategy	.665	.123	.589	5.405	.000

a. Predictors: (Constant), Concentric Product Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From the findings the beta coefficient for concentric product diversification strategy was 0.665. It means that the effect of concentric product diversification strategy on performance of microfinance banks is positive. The results also illustrate that, a unit change in concentric product diversification strategy would result to 0.665 times change in performance of microfinance banks. The t-value for this beta was 5.405 while the p-value was less than 0.05. Since the p-value was less than 0.05, it means the beta coefficient for concentric product diversification strategy is greater than zero and thus this variable has a statistically significant effect on performance of microfinance banks. This finding led to the rejection of the null hypothesis and the subsequent conclusion that concentric product diversification strategy has a statistically significant and positive effect on performance of microfinance banks. According to Jha, and Hui, (2019), expanding product offerings in alignment with the needs of underserved communities can have a broader social impact by increasing access to essential financial services, promoting entrepreneurship, and fostering economic development.

4.8.2 Bivariate Regression on Market Diversification Strategy and Performance of Microfinance Banks

The study conducted a bivariate regression analysis to assess the relationship between market diversification strategy and performance of microfinance banks.

The study conducted a model summary analysis to determine the proportion of the variance in the dependent variable that is explained by the independent variables in the model. The finding is indicated in Table 19.

Table 19*Model Summary on Market Diversification Strategy*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702 ^a	.493	.484	.52510

a. Predictors: (Constant), Concentric Market Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

The results indicate that the R-squared in this study was 0.493 which shows that concentric market diversification strategy explains 49.3% variation in the performance of microfinance banks. Kagwiria (2022) concluded that by entering new geographic areas or target markets that are similar to their existing market, microfinance banks can tap into additional customer segments and revenue opportunities. This expansion drives growth and increase market share.

Analysis of variance was used to determine whether the independent variable (market diversification strategy) have a significant effect on the dependent variable (performance of microfinance banks). The findings are indicated in Table 20.

Table 20*ANOVA on Concentric Market Diversification Strategy*

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.738	1	14.738	53.451	.000 ^b
	Residual	15.165	55	.276		
	Total	29.903	56			

a. Predictors: (Constant), Concentric Market Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From the findings, the F-Value of (53.451) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of concentric market diversification strategy on performance of microfinance banks.

The study conducted a regression coefficient analysis to make predictions about the concentric market diversification based on new values of microfinance banks. The findings are indicated in Table 21

Table 21

Regression Coefficients on Concentric Market Diversification Strategy

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.016	.410		2.478	.016
Concentric Market Diversification Strategy	.771	.105	.702	7.311	.000

a. Predictors: (Constant), Concentric Market Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From Table 21 the beta coefficient for concentric market diversification strategy was 0.771. It means that the effect of concentric market diversification strategy on performance of microfinance banks. The results also illustrate that, a unit change in concentric market diversification strategy would result to 0.771 times change in performance of microfinance banks. The t-value for this beta was 2.478 while the p-value was less than 0.05. Since the p-value was less than 0.05, it means the beta coefficient for capital gain is greater than zero and thus this variable has a statistically significant effect on performance of microfinance banks. This finding led to the rejection of the null hypothesis and the subsequent conclusion that concentric market diversification strategy has a statistically significant and positive effect on performance

of microfinance banks. With regards to the findings of Kariuki (2019), diversifying into related markets helps banks spread their risk, reducing their dependency on a single market or region. This diversification can enhance financial stability and resilience, as adverse events affecting one market may be offset by positive performance in others.

4.8.3 Bivariate Regression on Revenue Diversification Strategy and Performance of Microfinance Banks

The study conducted a bivariate regression analysis to assess the relationship between revenue diversification strategy and performance of microfinance banks. The study conducted a model summary analysis to determine the proportion of the variance in the dependent variable (performance of microfinance banks) that is explained by the independent variables (revenue diversification strategy) in the model. The findings are as indicated in Table 22.

Table 22

Model Summary on Concentric Revenue Diversification Strategy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.740 ^a	.548	.539	.49596

a. Predictors: (Constant), Concentric Revenue Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

The R-squared in this study was 0.548 which shows that concentric revenue diversification strategy explains 54.8% variation in performance of microfinance banks. The findings match with Mwangi (2019) who stated that expanding into related revenue streams allows microfinance banks to capture additional market opportunities and cater to a broader range of customer needs. This leads to increased revenue generation and overall business growth.

Analysis of variance was used to determine whether the independent variable (revenue diversification strategy) have a significant effect on the dependent variable (performance of microfinance banks). The findings are indicated in Table 23.

Table 23

ANOVA on Concentric Revenue Diversification Strategy

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.375	1	16.375	66.570	.000 ^b
	Residual	13.529	55	.246		
Total		29.903	56			

a. Predictors: (Constant), Concentric Revenue Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From the findings, the F-Value of (66.570) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of concentric revenue diversification strategy on competitive advantage of performance of microfinance banks.

The study conducted a regression coefficient analysis to make predictions about the concentric revenue diversification based on new values of performance of microfinance banks. The findings are as indicated in Table 24.

Table 24

Regression Coefficients on Concentric Revenue Diversification Strategy

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.212	.344		3.520	.001
Concentric Revenue Diversification Strategy	.702	.086	.740	8.159	.000

a. Predictors: (Constant), Concentric Market Diversification Strategy

b. Dependent Variable: Performance of Microfinance Banks

From Table 24 the beta coefficient for concentric revenue diversification strategy was 0.702. It means that the effect of concentric revenue diversification strategy on performance of microfinance banks is positive. The results also illustrate that, a unit change in concentric revenue diversification strategy would result to 0.702 times change in performance of microfinance banks. The t-value for this beta was 8.159 while the p-value was 0.000 which is less than 0.05, it means the beta coefficient for concentric revenue diversification strategy is greater than zero and thus this variable has a statistically significant effect on concentric revenue diversification strategy. This finding led to the rejection of the null hypothesis and the subsequent conclusion that concentric revenue diversification strategy has a statistically significant and positive effect on performance of microfinance banks. The findings agree with Bausch, and Pils, (2019) which showed that diversifying revenue sources help mitigate the risk associated with dependency on a single product or service. Offering a variety of products or services that cater to different needs of clients can enhance customer satisfaction and loyalty. Concentric revenue diversification may lead to economies of scale and operational efficiencies, especially if the additional products or services complement the existing infrastructure and expertise of the microfinance bank.

4.8.4 Overall Regression on the Effect of Concentric Diversification Strategies on Performance of Microfinance Banks in Kenya

The study conducted a model summary analysis to determine the proportion of the variance in the dependent variable (performance of microfinance banks) that is explained by the independent variables (concentric diversification strategies) in the model. The finding is indicated in Table 25. The researcher used the value of adjusted R Squared to find out the strength of the relationship between independent and dependent variables. The researcher preferred using the value of Adjusted R-squared other than R Squared

since it gives the percentage of variation explained by only those independent variables that affect the dependent variable.

Table 25

Overall Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867 ^a	.752	.730	.36261

- a. a. Predictors: (Constant), Concentric Product Diversification Strategy, Concentric Market Diversification Strategy and Concentric Revenue Diversification Strategy
- b. Dependent Variable: Performance of Microfinance Banks in Nairobi

The study conducted a regression analysis to determine the relationship between independent and dependent variables as shown in Table 25. The findings show that performance of microfinance banks in Nairobi is 75.2% as explained by the independent variables under this study while 25.2% is the variation due to other factors which have not been covered in this study. According to Alslehat and Altahtamouni, (2016) showed that diversification strategies enhance the performance o by expanding their product offerings into related sectors, penetrating new market segments, and diversifying income sources, respectively, leading to increased revenue stability, operational resilience, and competitive advantage in the microfinance industry.

Analysis of variance was used to determine whether the independent variables have a significant effect on the dependent variable. The findings are indicated in Table 26.

Table 26*Overall ANOVA*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.359	3	7.453	52.355	.000 ^b
	Residual	7.545	53	.142		
	Total	29.903	56			

- a. Predictors: (Constant), Concentric Product Diversification Strategy, Concentric Market Diversification Strategy and Concentric Revenue Diversification Strategy
- b. Dependent Variable: Performance of Microfinance Banks in Nairobi

In the ANOVA table above, the F value = 52.355 as illustrated in Table 26. Since the calculated is greater than f statistic, it infers that the model is statistically significant. Therefore, there is strong evidence that the regression results are statistically significant and the variation in the results is insignificant that cannot result to much difference in case of a change in the study units and therefore the model did for the data.

The study conducted overall regression coefficient analysis to make predictions about the concentric revenue diversification based on new values of performance of microfinance banks. The findings indicated in Table 27.

Table 27*Regression Coefficients*

Model	Unstandardized		Standardized		Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta	t	
(Constant)	1.235	.425		2.903	.005
Concentric Product Diversification Strategy	.017	.097	.018	.178	.009
Concentric Market Diversification Strategy	.375	.115	.340	3.258	.002
Concentric Revenue Diversification Strategy	.928	.132	.631	7.030	.000

- a. Predictors: (Constant), Concentric Product Diversification Strategy, Concentric Market Diversification Strategy and Concentric Revenue Diversification Strategy
- b. Dependent Variable: Performance of Microfinance Banks in Nairobi

From the results in Table 27 the given equation was answered by the values of Unstandardized Coefficients (β). The results indicate that product diversification strategy, market diversification strategy and revenue diversification strategy have a positive relationship with performance of microfinance banks in Nairobi. Thus,

$$Y = 1.235 + 0.017X_1 + 0.375X_2 + 0.928X_3 + \epsilon$$

The value the performance of microfinance banks in Nairobi, without the influence of the predictor variables is 1.235. This explains that, at any given time, the performance of microfinance banks in Nairobi will be 1.235 holding other factors constant at 0. The results also illustrate that, a unit change in product diversification strategy would result to 0.017times change in performance of microfinance banks in Nairobi. The findings concur with those of Wanjiru (2016) findings which revealed that conglomerate product

diversification significantly affects firm performance, and horizontal concentric product diversification does not significantly affect firm performance. Moreover, Njuguna, Kwasira, and Orwa (2018) found that concentric product diversification strategy was essential for firms to widen their markets.

A unit increase in market diversification strategy would result to 0.375 times increase in performance of microfinance banks in Nairobi. The findings agree with the findings of Ayudo (2017) which revealed that concentric market penetration strategy has a positive and statistically significant effect on the performance of the sugar industry.

A unit increase in revenue diversification strategy would result to 0.928 times increase in performance of microfinance banks in Nairobi. The findings are supported by Duho (2021) who maintain that revenue diversification is associated with better loan quality and credit risk management. Market risk increases with the level of revenue diversification of microfinance banks. Large Microfinance banks can manage their credit risks well and have a low default rate, depicting an overall U-shaped nexus.

4.9 Hypothesis Testing

The study carried a hypothesis testing using p-values in Table 27.

The study sought to test the hypothesis that: H_{01} : Concentric Product Diversification Strategy has no statistically significant effect on the performance of microfinance banks in Nairobi. From the findings the p-value was 0.009 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H_{01}) and concluded that concentric product diversification strategy has a statistically significant effect on the performance of microfinance banks in Nairobi.

The study sought to test the hypothesis that: H_{02} : Concentric Market Diversification Strategy has no statistically significant effect on the performance of microfinance banks

in Nairobi. From the findings the p-value was 0.002 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H_{02}) and concluded that concentric market diversification strategy has a statistically significant effect on the performance of microfinance banks in Nairobi.

The study sought to test the hypothesis that: H_{03} :Concentric Revenue diversification strategy has no statistically significant effect on the performance of microfinance banks in Nairobi. From the findings the p-value was 0.000 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H_{03}) and concluded that concentric revenue diversification strategy has a statistically significant effect on the performance of microfinance banks in Nairobi.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a detailed summary of the major findings of the actual study; it then draws conclusions and discusses implications emanating from these findings. Finally, it makes some recommendations and suggestions on areas of further study. The main aim of this study was to establish the effect of diversification strategies on the performance of microfinance banks in Nairobi.

5.2 Summary of the Findings

The researcher sought to summarize the major findings of the study. The summary was categorized in terms of specific objectives.

5.2.1 Concentric Product Diversification Strategy on the Performance of Microfinance

The findings on the relationship between concentric product diversification strategy and the performance of microfinance banks show that microfinance institutions have modified their products over the last five years to attract more customers. This suggests that product innovation is crucial in enhancing the competitiveness of microfinance banks. Offering diverse credit products, such as group loans, individual loans, agricultural loans, and emergency loans, significantly affects financial performance by catering to a variety of client needs. The diversification of credit products also helps reduce credit risks, which positively impacts the financial performance of microfinance banks by spreading risk across different loan types. The study findings are in line with the findings of Arte and Larimo (2022) which noted that offering a diverse range of credit products allows the institution to spread its risk. For example, if one sector faces

economic difficulties, the institution may still have other sectors performing well, thereby balancing out the risk. Different credit products attract different types of customers. By offering a variety of loan options, the institution can appeal to a broader customer base, potentially increasing its market share and revenue streams.

Additionally, the provision of diverse savings products is essential in mobilizing deposits, which allows microfinance banks to reduce reliance on external funding and achieve financial self-sufficiency. These savings products also improve liquidity by supporting loan disbursements and operational expenses more efficiently. The findings further indicate that insurance premiums collected from clients represent additional income, thereby improving profitability. Lastly, providing remittance services contributes to increased transaction volumes and fee income, reinforcing the positive effect on the overall financial performance of microfinance banks. The study findings also concur with the findings of Jayathilake (2018) which revealed that by diversifying their funding sources through savings mobilization, Microfinance banks can improve their overall financial position. They become less vulnerable to fluctuations in external funding availability or changes in donor priorities.

In addition, the findings indicated that there exists a positive and significant relationship between product diversification strategy and performance of microfinance banks in Nairobi ($r=0.596$ and $p= 0.000$ which is < 0.05). Therefore, the findings imply that product diversification strategy enhances performance of microfinance banks in Nairobi. The study findings are in line with those of Wanjiru (2016) findings which revealed that conglomerate product diversification significantly affects firm performance, and horizontal product diversification does not significantly affect firm performance.

5.2.2 Concentric Market Diversification Strategy on the Performance of Microfinance

The findings on concentric market diversification strategy reveal that geographic expansion plays a pivotal role in the performance of microfinance banks. The opening of new branches in various regions enables these institutions to tap into underserved markets, increasing their customer base. Geographic expansion not only helps microfinance banks reach a broader audience but also improves operational efficiency, which directly contributes to enhanced profitability. As these institutions expand into new regions, they experience an increase in loan disbursements and diversified revenue streams, which support top-line growth. The study findings are in line with the findings of Arte and Larimo (2022) which noted that offering a diverse range of credit products allows the institution to spread its risk. For example, if one sector faces economic difficulties, the institution may still have other sectors performing well, thereby balancing out the risk. Different credit products attract different types of customers. By offering a variety of loan options, the institution can appeal to a broader customer base, potentially increasing its market share and revenue streams.

Moreover, tailoring products and services to meet the specific needs of different market segments further helps attract new clients, resulting in higher loan demand and portfolio growth. Collaborating with fintech companies, such as Mpesa, through strategic partnerships and alliances allows microfinance banks to expand their reach, access new markets, and enhance their overall financial performance. This collaboration exemplifies the role of technological integration in market diversification strategies, fostering innovation and growth. The study findings also conquer with the findings of Jayathilake (2018) which revealed that by diversifying their funding sources through savings mobilization, Microfinance banks can improve their overall financial position. They

become less vulnerable to fluctuations in external funding availability or changes in donor priorities.

In addition, the findings indicated that there is a positive and significant relationship between market diversification strategy and performance of microfinance banks in Nairobi ($r=0.704$ and $p=0.000<0.05$). The study findings are in line with Tanguis and Omar (2017) findings which found a strong correlation coefficient between firm performance and the three market expansion strategies. Furthermore, the findings of this study substantiate the call for banking institutions to use market expansion strategies to enhance their performance.

5.2.3 Concentric Revenue Diversification Strategy on the Performance of Microfinance

The findings on concentric revenue diversification strategy show that non-interest income is a stable and predictable source of revenue for microfinance banks, contributing to their overall financial performance. By generating income beyond interest earned from loans, these institutions reduce their dependency on interest income, leading to more stable financial outcomes. The financing of real estate investments also plays a significant role in increasing revenue streams for microfinance banks. The appreciation of real estate investments enhances the institution's asset base and strengthens its financial position. The study findings are in tandem with those of Luu, Nguyen, and Vu (2019) who asserts that non-interest income tends to be more stable and predictable compared to interest income, which can fluctuate with changes in interest rates, economic conditions, and borrower behavior. This stability arises because non-interest income is often generated from consistent sources such as fees for banking services, transaction processing, asset management, and other non-lending activities.

Moreover, the findings suggest that non-funded income is crucial for the long-term sustainability of microfinance banks, as it diversifies income sources and protects against potential fluctuations in interest-based revenues. These diversification strategies ensure that microfinance institutions remain resilient in a dynamic financial environment, where reliance on traditional interest income may be vulnerable to external market conditions. The study findings are in tandem with the findings of Brahmana, Kontesa, and Gilbert (2018) which found that Microfinance banks earn interest income from the loans they provide for real estate investments. These loans often come with higher interest rates compared to other types of loans due to the long-term nature of real estate investments and the collateral involved.

The findings also indicated that there is positive statistically significant relationship between revenue diversification strategy and performance of microfinance banks in Nairobi ($r=0.823$ and $p=0.000<0.05$). This implies that revenue diversification strategy has a significant statistical effect on performance of microfinance banks in Nairobi. The study findings concur with those of Githaiga and Yegon (2019) findings which revealed that revenue diversification positively and significantly affects bank performance. Therefore, commercial banks are advised to consider investing in non-lending activities to better their financial performance.

5.2.4 Performance of Microfinance Banks

From the analysis the findings revealed that the bank has recorded a gradual increase in market share. The study also revealed that there has been a gradual increase in the number of new customers. According to Kenyoru (2016) diversifying loan portfolios often involves tailoring financial products to the specific needs of different market segments. This strategy allows the microfinance bank to penetrate new markets and reach a more diverse customer base. By addressing the unique financial requirements of

various clients, the bank can expand its overall outreach and extend its services to previously underserved populations.

Moreover, the study revealed that the organization has opened new branches in past three years. The study further revealed that the bank has recorded a gradual growth in assets value over the years. The study also revealed that the diversification strategies have had an impact on the overall profitability of the microfinance bank. According to Afude (2017) market share represents the portion of the total market for microfinance services that a particular institution controls. It is important because it reflects the institution's competitiveness and its ability to attract and retain clients relative to its peers. A growing market share indicates that the institution is expanding its reach and influence in the market, which can lead to increased revenue and profitability over time.

5.3 Conclusions

In general, the study concluded that concentric product diversification strategy, concentric market diversification strategy and concentric revenue diversification strategy affect the performance of microfinance banks in Nairobi, positively as follows:

Concerning the effect of concentric product diversification strategy on performance of microfinance banks the study concluded that concentric product diversification has a statistically significant effect on performance of microfinance banks in Nairobi. This implies that expanding the range of financial products offered by microfinance banks has a notable positive effect on their performance. This is likely because diversifying products allows banks to reduce reliance on any single product line, thus spreading risks across multiple offerings. Furthermore, introducing new but related products creates opportunities for cross-selling, where banks can provide additional services to existing customers. This not only enhances revenue but also fosters customer loyalty and

retention by addressing a broader range of financial needs. Ultimately, when microfinance banks diversify their product portfolios, they become more competitive, attracting a wider customer base and increasing overall profitability.

Regarding the effect of concentric market diversification strategy on performance of microfinance banks the study concluded that concentric market diversification strategy has a statistically significant effect on the performance of microfinance banks in Nairobi. Expanding into new but related markets, whether by targeting different demographic segments or entering new geographical regions, allows these banks to tap into previously underserved markets. By broadening their market reach, microfinance banks can increase their customer base and boost revenue. Market diversification also allows them to benefit from economies of scale, as they can use existing resources and infrastructure to serve new customers at lower costs. Additionally, expanding into new markets can raise brand visibility and recognition, further driving growth. This finding suggests that micro finance banks in Nairobi should strategically identify and enter new markets that complement their existing operations to maximize performance.

Concerning the effect of concentric revenue diversification strategy on performance of microfinance banks the study concluded that concentric revenue diversification strategy has a statistically significant effect on performance of microfinance banks in Nairobi. Diversifying revenue streams beyond traditional lending activities, such as offering value-added services like financial consultancy, partnering with fintech for digital banking solutions, or providing financial education and training, can increase profitability and stabilize income. By generating revenue from multiple sources, microfinance banks become less reliant on their core business, reducing vulnerability to fluctuations in loan demand or market shifts. Diversified revenue streams often encourage innovation, helping banks differentiate themselves from competitors and

attract niche markets, further improving performance. This finding underscores the importance of exploring new revenue-generating activities while ensuring they align with the bank's capabilities and core mission.

5.4 Recommendations

Based on the study findings and conclusion, the following recommendations are made. The study recommends that microfinance banks should conduct thorough market research to identify potential new financial products and services that align with the needs and preferences of customers in Nairobi. Microfinance banks should invest in developing and implementing innovative financial products that complement existing offerings and address underserved market segments. Microfinance banks should regularly assess the performance and profitability of new product launches and adjust strategies accordingly to optimize results. Also, the study recommended that regulators and policy makers should encourage microfinance banks to pursue product diversification strategies that promote financial inclusion and cater to the diverse needs of customers in Nairobi. Policy makers should provide regulatory support and guidance to ensure that new financial products adhere to consumer protection standards and contribute to the overall stability of the microfinance sector. Further, the researcher recommended that customers should benefit from a wider range of tailored financial products and services that better meet their specific needs and preferences, enhancing their overall financial well-being.

The study recommends that microfinance banks should expand operations into new geographic areas within Nairobi or target underserved market segments to increase market penetration and customer base. The study also recommended that microfinance banks should customize products and services to meet the unique needs and preferences of customers in different market segments, thereby enhancing customer satisfaction and

loyalty. Further, the study recommended that regulators and policy makers should foster an enabling regulatory environment that supports microfinance banks in expanding into new markets within Nairobi while ensuring compliance with regulatory requirements. The study also recommended that regulators and policy makers should facilitate partnerships between microfinance banks and local communities or organizations to enhance outreach and engagement in new market areas.

To the microfinance banks, the study recommended that they should explore opportunities to diversify revenue streams by offering fee-based services, investment products, or other value-added services to customers in Nairobi. They should also enhance cross-selling and upselling efforts to maximize revenue generation from existing customer relationships while maintaining a focus on customer satisfaction and retention. The study also recommended that regulators and policy makers should support microfinance banks in developing and implementing revenue diversification strategies that contribute to financial sustainability and resilience in the face of economic challenges.

5.4.1 Policy Recommendations

Government and industry associations should enhance existing capacity-building programs to help microfinance banks effectively diversify their market segments. This could include training programs on market research, segmentation, and targeting strategies. Policymakers should encourage collaboration and partnerships among microfinance banks to facilitate revenue diversification. This could involve creating incentives or platforms for banks to share resources and expertise in developing new revenue streams.

Policymakers should introduce incentives for innovation in the microfinance sector, particularly in developing new financial products and services tailored to the needs of

low-income clients. This could involve tax breaks or grants for banks investing in innovative solutions.

Finally, the study recommends that policy makers establish a knowledge-sharing platform where successful case studies and best practices in diversification strategies can be shared among microfinance banks. This could be facilitated by industry associations or regulatory bodies.

5.4.2 Recommendations for Further Research

The researcher recommends that further studies should be conducted to explore the influence of financial innovations on financial performance of microfinance banks in Kenya. Additionally, the researcher suggested that a further study should be conducted to investigate the impact of concentric diversification strategies on customer satisfaction, loyalty, and perceived value. Further the researcher suggested that a further study should be conducted to extend the study beyond Nairobi to include microfinance banks operating in other counties or regions within Kenya. Comparing the performance and outcomes of concentric diversification strategies across different local contexts can highlight variations in effectiveness and inform tailored strategies for specific markets.

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Appendix II: Questionnaire

Kindly answer the following questions as honestly as possible. The information given will be considered private and confidential. Kindly do not reveal your identity in this questionnaire. You are encouraged to give your honest opinion.

Secton A: Microfinance Bio Data

1. What is the shareholder composition of your bank?
 - a. Majority shareholders are local
 - b. All shareholders are local
 - c. Majority shareholders are foreign
 - d. All shareholders are foreign

2. How long have you worked with the microfinance bank?
 - a. 0-5 years
 - b. 6-10 years
 - c. over 11 Years

3. What are the main products and services offered by your microfinance bank?
 - a. Loans
 - b. Bank assurance
 - c. Savings accounts
 - d. Investment services
 - e. Insurance

Section B: Concentric Product Diversification Strategy

Kindly use the Likert scale to rate the extent to which you agree with the following statements on concentric product diversification strategy. Tick your answer in the box provided. **Note: SA=Strongly Agree A=Agree NS=Not Sure D=Disagree, SD=Strongly Disagree**

Concentric Product Diversification Strategy	SA (5)	A (4)	NS (3)	D (2)	SD (1)
The bank has modified their products to attract more customers over the last five years					
Offering diverse credit products such as group loans, individual loans, agricultural loans, and emergency loans significantly affect the financial performance					
Offering diverse credit products reduce credit risks which positively affect the financial performance of Microfinance banks					
Having diverse savings products help microfinance banks to mobilize deposits for the Microfinance banks which reduce dependency on external funding sources and achieve greater financial self-sufficiency.					
Having diverse savings products improve liquidity of Microfinance banks by allowing them to fund loan disbursements and operational expenses more efficiently.					
Insurance premiums collected from clients represent additional income for Microfinance banks, which can improve profitability.					
Providing remittance services have a positive impact on the performance of Microfinance banks by increasing transaction volume and fee income					

Section C: Concentric Market Diversification Strategy

Kindly use the Likert scale to rate the extent to which you agree with the following statements on concentric market diversification strategy. Tick your answer in the box provided. **Note: SA=Strongly Agree A=Agree NS=Not Sure D=Disagree, SD=Strongly Disagree**

Concentric Market Diversification Strategy	SA (5)	A (4)	NS (3)	D (2)	SD (1)
The bank has opened new branches over the last five years					
Geographic expansion presents an opportunity for Microfinance banks to tap into underserved markets and reach a larger customer base.					
Geographic expansion enables Microfinance banks to improve operational efficiency, contributing to bottom-line profitability.					
Expanding into new regions increase loan disbursements and revenue streams, leading to top-line growth.					
Tailoring products and services to meet the needs of different market segments can attract new clients leading to increased loan demand and higher portfolio growth.					
Collaborating with fintech companies such as Mpesa through partnerships and alliances help Microfinance banks expand their reach, access new markets, and the overall financial performance					

Section D: Concentric Revenue Diversification Strategy

Kindly use the Likert scale to rate the extent to which you agree with the following statements on concentric income diversification strategy. Tick your answer in the box provided. **Note: SA=Strongly Agree A=Agree NS=Not Sure D=Disagree, SD=Strongly Disagree.**

Concentric Revenue diversification strategy	SA (5)	A (4)	NS (3)	D (2)	SD (1)
Non-interest income is usually more stable and predictable, providing a steady source of revenue that contributes to the overall financial performance					
By generating income beyond interest earned from loans, Microfinance banks can reduce dependency on interest income					
Financing real estate investments increase the revenue income of microfinance banks					
The appreciation nature of real estate investment enhances the institution's asset base and financial strength.					
Nonfunded income plays a major role in the long-term sustainability of the microfinance bank.					

Section E: Performance Of Microfinance Banks

Kindly use the Likert scale to rate the extent to which you agree with the following statements on performance of microfinance banks. Tick your answer in the box provided.

Note: SA=Strongly Agree A=Agree NS=Not Sure D=Disagree, SD=Strongly Disagree

	SA	A	NS	D	SD
Performance of Microfinance Banks	(5)	(4)	(3)	(2)	(1)
The bank has recorded a gradual increase in market share					
There have been a gradual increase in the number of new customer					
The organization has opened new branches in past three years					
The bank has recorded a gradual growth in assets value over the years.					
The diversification strategies have had an impact on the overall profitability of the microfinance bank.					

Appendix III: List of Targeted Microfinance Banks

1. Century Microfinance Bank Limited
2. Caritas Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank PLC
7. Rafiki Microfinance Bank Limited
8. Remu Microfinance Bank PLC
9. SMEP Microfinance Bank Limited
10. Sumac Microfinance Bank Limited
11. U & I Microfinance Bank Limited
12. Uwezo Microfinance Bank Limited
13. Maisha Microfinance Bank Limited
14. Muungano Microfinance Bank PLC

Source: Central Bank of Kenya, 2024

Appendix IV: KUREC Clearance Letter



KABARAK UNIVERSITY RESEARCH ETHICS COMMITTEE

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OUR REF: KABU01/KUREC/001/06/10/23

Date: 17th October, 2023

Jackline Wangari Mwariri,
REG No. GMB/NE/3226/09/18
Kabarak University,

Dear Jackline,

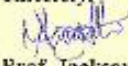
RE: EFFECT OF CONCENTRIC DIVERSIFICATION STRATEGIES ON PERFORMANCE OF MICROFINANCE BANKS IN NAIROBI.

This is to inform you that **KUREC** has reviewed and approved your above research proposal. Your application approval number is **KUREC-061023**. The approval period is **17/10/2023 – 17/10/2024**.

This approval is subject to compliance with the following requirements:

- i. All researchers shall obtain an introduction letter to NACOSTI from the relevant head of institutions (Institute of postgraduate, School dean or Directorate of research).
- ii. The researcher shall further obtain a RESEARCH PERMIT from NACOSTI before commencement of data collection & submit a copy of the permit to **KUREC**.
- iii. Only approved documents including (informed consent, study instruments, MTA/Material Transfer Agreement) will be used.
- iv. All changes including (amendments, deviations, and violations) are submitted for review and approval by **KUREC**.
- v. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **KUREC** within 72 hours of notification.
- vi. Any changes, anticipated or otherwise that may increase the risk(s) or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to **KUREC** within 72 hours.
- vii. Clearance for export of biological specimens must be obtained from relevant institutions and submit a copy of the permit to **KUREC**.
- viii. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal and;
- ix. Submission of an executive summary report within 90 days upon completion of the study to **KUREC**.

Sincerely,


For **Prof. Jackson Kitetu PhD.**
KUREC-Chairman

Cc: Vice Chancellor
DVC-Academic & Research
Registrar-Academic & Research
Director-Research Innovation & Outreach
Institute of Post Graduate Studies



As members of Kabarak University family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord (1 Peter 3:15)



Kabarak University is ISO 9001:2015 Certified

Appendix V: NACOSTI Research Permit


REPUBLIC OF KENYA


NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **377951** Date of Issue: **03/November/2023**

RESEARCH LICENSE



This is to Certify that Miss. JACKLINE MWARIRI of Kabarak 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: EFFECT OF CONCENTRIC DIVERSIFICATION STRATEGIES ON PERFORMANCE OF MICROFINANCE BANKS IN NAIROBI for the period ending : 03/November/2024.

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See overleaf for conditions

Appendix VI: Evidence of Conference Participation



KABARAK UNIVERSITY

Certificate of Participation

Awarded to

JACKLINE WANGARI MWARIRI

For successfully participating in the 14th Annual Kabarak University International Research Conference held on 2nd-4th July 2024 and presented a paper entitled ***“Effect of Concentric Product Diversification Strategy on Performance of Microfinance Banks in Nairobi.”***

Conference Theme

Empowering innovation; Nurturing Futures Through Business Incubation

Dr. Patrick Kibati
Dean, School of Business & Economics

Dr. Phillip Nyawere
Ag. Director - Research, Innovation and Outreach

Kabarak University Moral Code

As members of Kabarak University family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord.

(1 Peter 3:15)



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Appendix VII: List of Publication



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EFFECT OF CONCENTRIC MARKET DIVERSIFICATION STRATEGY ON PERFORMANCE OF MICROFINANCE BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

According to the Central Bank of Kenya non-performing loans in the microfinance sector reached a staggering 19.8% in 2021, a sharp increase from the 15.6% reported in 2019, highlighting the strain on the sector's loan portfolios. This rising default rate has led to reduced profitability and has had adverse effects on the overall financial performance of these institutions. The inability of microfinance banks to adequately diversify their products and revenue streams has been cited as a major factor in their underperformance. It is against this backdrop that the study sought to determine the effect of concentric market diversification strategy on the performance of microfinance banks in Nairobi County. The target population was 63 employees in the 14 Microfinance Banks headquarters in Nairobi County, comprising heads of departments and sections since the target population was small the study adopted census technique to incorporate all the 63 targeted employees. The study adopted descriptive research design. The collection of data was done by use of structured questionnaires. The pilot study was conducted in two microfinance banks operating in Kiambu County. These are U & I Microfinance Bank and Kenya Women Microfinance Bank. Descriptive and inferential statistics were used to analyze quantitative data, and results were presented using tables. The findings indicated that market diversification strategy positively affects performance of microfinance banks in Nairobi ($r=0.704$, $p=0.000$). The study concluded that microfinance banks have been able to venture into different market segments in the society over the last five years. From the study the researcher recommended that microfinance banks should conduct thorough market research to identify potential new financial products and services that align with the needs and preferences of customers in Nairobi.

Keywords: Concentric Market Diversification Strategy and Performance of Microfinance Banks.

CITATION: Mwariri, J. W, Kiplagat, N. K., & Wachira, A. (2024). Effect of Concentric Market Diversification Strategy on Performance of Microfinance Banks in Nairobi County, Kenya. *The Strategic Journal of Business & Change Management*, 11 (4), 1247– 1261. <http://dx.doi.org/10.61426/sjbcv.v11i4.3562>