



**EFFECT OF DIVERSIFICATION STRATEGIES ON THE
MARKET PERFORMANCE OF SMALL AND MEDIUM-TIER
DEPOSIT-TAKING SACCOs IN KENYA**

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ABSTRACT

Purpose: The aim of the research was to evaluate the effect of diversification strategies on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.

Design: The study used a positivist approach and descriptive research design, with data collected from CEOs through questionnaires. Descriptive and inferential statistics, including regression and correlation analyses, were used to examine relationships between variables.

Findings: The study revealed a robust positive linear correlation between diversification strategies ($\beta = 0.179, p=0.000$) and market performance, signifying that these strategies account for a considerable portion of the market performance variance.

Conclusion: Diversification strategies have a statistically significant positive effect on performance.

Recommendation: SACCOs should prioritize strategic partnerships to boost overall growth.

Keywords: *diversification strategies, market performance, deposit-taking SACCOs, regression analysis, descriptive research design*

INTRODUCTION

The dynamic business environment requires leaders to manage responsibilities strategically for long-term survival and growth (Njuguna & Mwilu, 2020). Global competition and increasing stakeholder demands have pressured businesses to reevaluate growth strategies for improved market performance (Mbugua, 2020). SACCOs have globally evolved, creating employment opportunities and contributing to economic and social development (WOCCU, 2021; UN, 2020). In Africa, financial reforms, trade liberalization, and technological advancements have opened business development opportunities (Abofaied, 2017). In Kenya, despite deposit-taking SACCOs showing growth, challenges like liquidity issues persist, leading to closures and disparities between large-tier and small-to-medium-tier SACCOs (SASRA Report, 2021; Njuguna, 2021).

This study addresses the gap in understanding how growth strategies impact market performance in small and medium-tier deposit-taking SACCOs in Kenya. While previous research has explored business performance and growth strategies across various sectors in Kenya and Nigeria, including telecommunications, steel, financial services, and manufacturing, a focused examination of SACCOs remains underexplored (Sang et al., 2021; Bulle, 2020; Auma & Waithaka, 2020). This research aims to fill this contextual gap by offering insights into how diversification strategies can enhance market performance within Kenya's SACCO sector.

Statement of the problem

Despite global recognition of the growth of Kenya's deposit-taking SACCO (DT-SACCO) sector, small and medium-tier DT-SACCOs face stiff competition from large-tier counterparts, evidenced by a high failure rate of 51% and 42.8% license revocations (Ndegwa et al., 2020). Additionally, 70% suffer from poor strategic management, with 85% lacking dedicated strategic management departments (SASRA, 2017). This has led to a decline in their market share, affecting their competitiveness and sustainability (SASRA, 2021). Inability to implement growth strategies has pushed many DT-SACCOs into receivership or liquidation for failing to comply with capital requirements, with licenses revoked for 2 SACCOs in 2018 and 3 more unrenewed in 2019 (FSD, 2018). Fraud and non-compliance cases rose from 8.64% in 2017 to 9.64% in 2020 (SASRA, 2021). The lack of focused research on growth strategies for small and medium DT-SACCOs in Kenya highlights contextual and methodological gaps. Previous studies in Kenya and Nigeria

(Sang et al., 2021; Bulle, 2020; Ommala, 2021; Iheanachor et al., 2021; Muchele, 2019) mainly focused on other sectors and adopted qualitative approaches with potential biases. This study aims to address these gaps by quantitatively assessing how diversification strategies impact market performance in small and medium-tier DT-SACCOs.

Objectives of the study

The general objective of this study was to evaluate the effect of diversification strategies on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.

Research hypotheses

H₀₁: Diversification strategies do not have a statistically significant effect on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.

LITERATURE REVIEW

Theoretical Framework: Ansoff's Product/Market growth model

Ansoff's Growth Matrix provides a strategic framework for organizations to bridge the gap between current performance and desired objectives through market and product choices (Proctor, 1997; Lynch, 2003). It outlines four strategies—market penetration, product development, market development, and diversification—that guide decision-making for growth. In the context of diversification, the matrix helps assess the risks and rewards of related versus unrelated diversification, aiding small and medium-tier deposit-taking SACCOs in Kenya in determining whether to expand current services, explore new markets, or introduce innovative products for optimal market performance (Ansoff, 1965; Oladimeji & Udosen, 2019).

Diversification Strategies and Market Performance of small and medium size tier Deposit-taking SACCOs in Kenya

Maragia and Kemboi (2021) investigated the effects of diversification strategy on the organizational performance of manufacturing companies in Uasin Gishu County. They targeted a population of 5662 employees from selected manufacturing firms, using a sample of 374 employees chosen through stratified, proportionate, and simple random sampling techniques. Their findings indicated that horizontal diversification significantly influences organizational performance. Paul and Wachira (2021) examined the influence of service diversification strategy on the growth of registered hotels in Kitui Town. Employing a descriptive research design, they targeted 385 employees from 30 hotels,

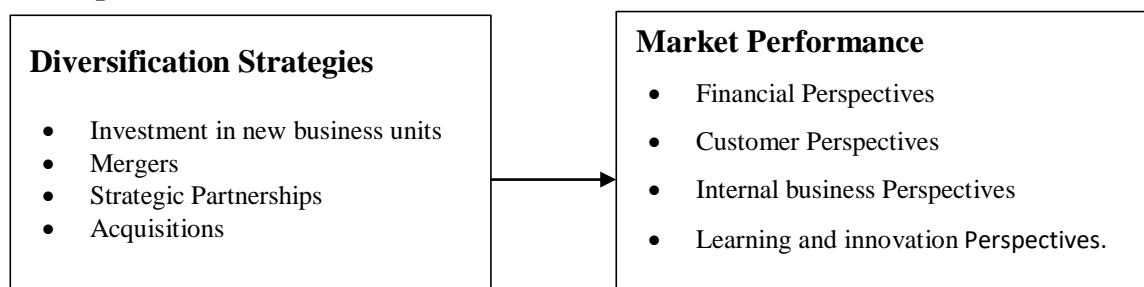
collecting data using questionnaires and an interview guide. The study found that concentric and conglomerate diversification significantly correlated with organizational growth. Horizontal and geographical diversification were also significantly associated with organizational growth.

Thirathon and Meeprom (2020) explored the influence of diversification approaches and operational competencies on the profitability of Thai professional enterprises. They surveyed 96 service businesses listed on the Thai Stock Exchange. Operational capabilities negatively impacted financial performance, indicating that global diversification strategies might not benefit Thai professional service firms in leveraging local market advantages. Njuguna (2019) studied the impact of diversification techniques on the profitability of non-financial enterprises listed on Kenya's NSE. Using a descriptive survey approach, 45 non-financial enterprises were engaged, and data was collected from 135 managers. The study concluded that portfolio diversification techniques are critical for increasing profit levels, emphasizing the strategic nature of these techniques.

Ojwaka and Deya (2018) examined the effect of diversification strategy on the performance of commercial printers in Nairobi. Surveying 25 firms and 75 managers, they used questionnaires administered through a drop-and-pick method. The study found a positive relationship between diversification strategy, sales, and profit growth, indicating that increasing diversification leads to better performance. Mwania (2017) and Mwangi (2016) conducted studies on Kenyan commercial banks, finding a positive association between diversification strategies and performance. Mwania's study used a census of 43 banks, while Mwangi's study used a census of 42 banks. Both studies highlighted the positive impact of diversification, particularly in product, market, and internal growth diversification, although a negative relationship was found between performance and product/market diversification in Mwangi's study.

H₀₄: Diversification strategies do not have a statistically significant effect on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.

Conceptual Framework



Independent Variables

Dependent Variable

Figure 1: Conceptual framework

Source: Adapted from (Ansoff,1965).

RESEARCH METHODOLOGY

This study adopted a positivist philosophy to analyze the relationship between diversification strategies and market performance of small and medium-tier deposit-taking SACCOs in Kenya. Guided by established frameworks like Ansoff's Matrix and the Balanced Scorecard, it rigorously tested theories to identify cause-and-effect relationships through systematic investigation (Alharahsheh & Pius, 2020). A descriptive research design was employed to systematically outline attributes of the target population, consisting of 141 licensed small and medium-tier SACCOs. Utilizing a census approach, data was collected from the CEOs of these SACCOs using semi-structured questionnaires covering organizational profiles, market performance, growth strategies, and technology adoption, with responses recorded on a Likert scale.

Data collection involved physical and electronic distribution of questionnaires across Kenya's 47 counties, with follow-ups to ensure completion. The collected data was checked for completeness, consistency, and reliability, then coded for analysis using SPSS version 26.0. Descriptive and inferential statistics, including correlation and regression, were used to assess relationships and predictions among variables. The study presented results through frequency tables, pie charts, and bar charts. A linear regression model was employed to test the hypothesis that diversification strategies have no statistically significant effect on the market performance of small and medium-tier SACCOs in Kenya.

FINDINGS AND DISCUSSION

Descriptive analysis

Descriptive analysis results for diversification strategies and market performance of small and medium tier DT-SACCOs in Kenya

All the weighted scores measuring diversification strategies were summed and divided by the overall number of respondents to obtain the mean values. In contrast, the difference in scores from the mean was obtained and squared to obtain the standard deviation. Percentages were obtained by dividing individual scores by the total responses and

multiplying the resultant by 100. The results of the measures (i.e., percentages, mean values, and standard deviations) were presented as shown in Table 1.

Table 1: Descriptive analysis results for diversification strategies

Statements	1	2	3	4	5	M	SD
	%	%	%	%	%		
Investment in new business units							
1. Investment in new business units contributes to revenue growth.	6.7	9.7	14.2	34.3	35.1	3.81	1.21
2. Investment in new business units enhances the growth of new customers' enrollment.	10.4	10.4	17.2	32.1	29.9	3.60	1.30
3. New business units have necessitated excellence in service delivery.	17.9	4.5	17.9	23.9	35.8	3.55	1.46
4. Investment in new business units has contributed to more innovations.	8.2	3.0	8.2	32.1	48.5	4.10	1.19
	10.8	6.9	14.4	30.6	37.3	3.77	1.29
Mergers							
5. The decision to Merge contributes to the growth of innovations.	8.2	3.0	11.2	36.6	41.0	3.99	1.18
6. The decision to Merge leads to growth in new customers' enrollment.	4.5	9.0	29.9	38.1	18.7	3.57	1.04
7. The decision to Merge with other DT-SACCOs can be attributed to growth in service distribution excellence.	4.5	3.7	10.4	51.5	29.9	3.99	0.98
8. Merger with other DT-SACCOs has contributed to revenue growth.	6.0	2.2	9.7	48.5	33.6	4.01	1.03
	5.8	4.5	15.3	43.7	30.8	3.89	1.06
Strategic partnerships (e.g., Bank ATMs)							
9. Strategic partnerships contribute to the growth of revenue.	6.0	1.5	17.2	38.8	36.6	3.99	1.07
10. Strategic partnerships lead to growth in the attraction of new customers.	3.7	1.5	12.7	37.3	44.8	4.18	0.97
11. Strategic partnerships boost the growth of service delivery excellence.	8.2	4.5	5.2	37.3	44.8	4.06	1.19
12. Strategic partnerships can be attributed to investment in technology.	7.5	6.7	17.2	55.2	13.4	3.60	1.05
	6.4	3.6	13.1	42.2	34.9	3.96	1.07
Acquisitions							

13. Acquisitions of other firms contribute to the growth of revenue	11.9	15.7	17.9	26.1	28.4	3.43	1.36
14. Acquisition of other firms has resulted in the growth of a broader customer base.	11.2	9.7	19.4	25.4	34.3	3.62	1.34
15. Acquisition of other firms boosts growth in the level of ICT integration	3.0	1.5	5.2	45.5	44.8	4.28	0.87
16. Acquisition of other firms contributes to an increase in innovation	3.0	0.7	9.7	47.8	38.8	4.19	0.87
	7.3	6.9	13.1	36.2	36.6	3.88	1.11
Overall Mean						3.87	1.13

Note: 5=Strongly Agree 4=Agree 3=Not Sure 2=Disagree, 1=Strongly Disagree, M=Mean, S D = Standard Deviation

The findings indicate that investment in new business units is crucial for growth, as 69.4% of respondents noted its contribution to revenue increase, supported by a mean of 3.81 and standard deviation of 1.21. Similarly, 62% agreed it leads to customer enrollment, while 59.7% associated it with enhanced service delivery, though with higher variation (SD 1.46). Regarding the merger strategy, 77.6% of respondents linked mergers to growth in innovations (mean 3.99, SD 1.18), and 81.4% saw support for service distribution excellence (mean 3.99, SD 0.98). Mergers also contributed to revenue growth (82.1%), indicating their potential as a diversification strategy for improving market performance among small and medium-tier DT-SACCOs.

Strategic partnerships, such as using bank ATMs, significantly contribute to market performance, with 75.4% indicating revenue growth and 82.1% recognizing the growth in customer base (mean 4.18, SD 0.97). Additionally, strategic partnerships enhance service distribution, technology leadership, and product diversification (average score 77.05%), suggesting their critical role in boosting market presence. Gilmore (2018) supports the idea that firms enhance market performance through strategic partnerships by acquiring and exploiting external knowledge. Phantasmal (2019) adds that technical partnerships can positively influence a firm's capabilities, which is essential for meeting market needs.

Acquisitions were found to have mixed effects, with 54.4% uncertain about their impact on revenue growth (mean 3.43, SD 1.36), but 59.7% agreeing on increased customer enrollment. Moreover, acquisitions played a significant role in ICT integration (90.3%, mean 4.19, SD 0.87) and innovation growth (86.6%, mean 3.88, SD 1.11). This aligns with Njambi and Kariuki's (2018) finding of a positive association between a company's capital

base before and after acquisitions and its competitiveness. The overall mean of 3.87 across diversification strategies reflects a general agreement on their effectiveness in improving market performance, though with moderate variability in responses.

Descriptive analysis results for the market performance of small and medium-tiered DT-SACCOs in Kenya

The dependent variable in question was market performance, which was determined based on balance scorecard metrics related to the financial perspective, customer perspective, internal business processes, and innovation. The variable is assessed using financial metrics such as market share size, revenue growth percentage, customer retention rate, customer acquisition cost, churn rate, and average revenue per user (ARPU). Thus, the descriptive statistics involved the percentages, mean values, and standard deviations for the primary information (Table 6).

The market performance strategies were assessed based on twelve statements across four perspectives. The weighted scores were utilized to compute mean values and standard deviations, and the subsequent results are showcased in Table 2.

Table 2: Descriptive analysis results for market performance

Statements	1	2	3	4	5	M	S D
	%	%	%	%	%		
Financial Perspectives							
1. Incremental growth in customer deposits has contributed to excellent market performance.	9.7	14.9	34.0	36.6	9.7	3.89	1.14
2. An increase in the number of loans disbursed to customers resulted in growth in the market performance.	4.5	18.7	24.6	39.6	4.5	3.74	1.36
3. Revenue growth effectively boosts DT-SACCO's market performance	17.9	18.7	26.1	29.1	17.9	3.5	1.30
	8.5	10.7	17.4	28.3	35.1	3.71	1.27
Customer Perspective							
4. The business has been recording growth in new membership enrollment.	8.2	10.4	17.2	32.8	31.3	3.69	1.25

5.	The business can handle customer complaints effectively.	5.2	8.2	14.2	38.1	34.3	3.88	1.13
6.	Effective customer retention strategy contributes towards better market performance.	16.4	14.2	12.7	25.4	31.3	3.41	1.47
		9.9	10.9	14.7	32.1	32.3	3.66	1.28
Internal Business Processes								
7.	The business reputation for service delivery excellence has boosted market performance.	17.2	9.7%	11.9	29.1	32.1	3.49	1.46
8.	The firm can constantly leverage information communication technology in all business processes.	14.2	15.7	19.4	23.9	26.9	3.34	1.39
9.	The ability to meet SASRA licensing requirements has been critical to the growth of the market performance.	9.7	9.7	20.1	25.4	35.1	3.66	1.31
		13.7	11.7	17.1	26.1	31.4	3.50	1.39
Innovation								
10.	The business can offer new products innovatively, creating entirely new markets.	3.0	6.0	14.9	37.3	38.8	4.03	1.03
11.	The firm's position as a market leader in technology has boosted market performance.	14.2	15.7	19.4	23.9	26.9	3.34	1.39
12.	Innovation in new service delivery processes has boosted market performance.	7.5	9.7	20.9	25.4	36.6	3.74	1.26
		8.2	10.5	18.4	28.9	34.1	3.70	1.23
Overall Mean/Std Dev							3.64	1.29

Note: 5=Strongly Agree 4=Agree 3=Not Sure 2=Disagree, 1=Strongly Disagree, M= Mean, S D = Standard Deviation

The study's results on the financial perspective show that 80.3% of participants agreed that incremental growth in customer deposits contributes to market performance, with a mean value of 3.89. Additionally, 68.7% indicated that increased loan disbursement led to market performance growth (mean 3.74), while 55.2% highlighted revenue growth as an effective boost to performance (mean 3.50). Regarding customer perspective, 64.1% of respondents

noted growth in new membership, and 72.4% confirmed effective complaint handling (mean 3.88), indicating their positive effect on market performance. Effective customer retention strategies were also acknowledged, though with a lower agreement (mean 3.41). For internal business processes, 61.2% of respondents believed service delivery excellence enhances market performance (mean 3.49), and 50.8% recognized the leveraging of ICT in processes (mean 3.34). Meeting SASRA licensing requirements was deemed critical by 60.5% of respondents (mean 3.66). From an innovation perspective, 76.1% indicated that offering new products can create new markets (mean 4.03), and 62% saw innovation in service delivery processes as boosting market performance (mean 3.74). However, the perception of being technology leaders had moderate support (mean 3.34).

Overall, financial perspectives had the highest mean score (3.71), followed closely by innovation (3.70), customer perspective (3.66), and internal business processes (3.50). This suggests a strong agreement among participants on the impact of financial performance on market success, possibly reflecting managers' belief in finance's strategic role. The findings align with Maithya (2021), who found growth strategies significantly affect profitability, and with Mwilu and Njuguna (2020), showing that expansion strategies positively impact SACCOs' productivity. Studies on various industries, such as steel, sugar, and financial services (Bulle, 2020; Ommala, 2021; Iheanachor et al., 2021; Muchele, 2019), also highlight the positive influence of growth strategies on market performance.

Regression Analysis Results

All the weighted scores measuring diversification strategies were regressed against weighted scores of market performance in a linear regression model, and the results are presented in tables 13 to 15.

Table 3: Model of Fitness for diversification strategies

Model	R	R ²	Adjusted R Square	Std. Error of the Estimate
1	.611	0.374	0.369	0.369

Table 13 displays a correlation coefficient (R) of 0.611 and an associated R² value of 0.374. These findings suggest that approximately 61.1% of the variations in the market performance of small and medium-tiered deposit-taking SACCOs in Kenya can be attributed to developing market strategies. However, it is essential to note that around 38.9% of the variation in market performance cannot be accounted for by diversification strategies.

In addition to the model fitness for diversification strategies, ANOVA statistics for diversification strategies and results are presented in Table 4.

Table 4: ANOVA for diversification strategies

	Sum of Squares	df	Mean Square	F-Value	Sig.
Regression	10.719	1	10.719	78.731	.000
Residual	17.971	132	0.136		
Total	28.69	133			

The ANOVA results in Table 4 reveal an F value of 78.731 and a corresponding p-value of 0.000. These statistics indicate that diversification strategies significantly predict the market performance of small and medium-tiered deposit-taking SACCOs in Kenya. Based on these findings, diversification strategies have a positive and statistically significant effect on the market performance of small and medium-tiered deposit-taking SACCOs in Kenya. Consequently, the null hypothesis (H_3) that diversification strategies do not have a statistically significant effect on the market performance of small and medium-tiered deposit-taking SACCOs in Kenya is rejected.

Similarly, regression coefficients for diversification strategies were generated, and the results are presented in Table 5

Table 5: Regression coefficients for diversification strategies

Variable	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
	β	Std. Error	Beta		
(Constant)	1.519	0.246		6.173	0.000
Diversification strategies	0.559	0.063	0.611	8.873	0.000

Table 5 shows that diversification strategies have a constant with a β value of 1.519 and an associated P-value of 0.000. Furthermore, diversification strategies as a variable have a β value of 0.559 and an associated P-value of 0.000. The findings mean that both the constant and diversification strategies coefficients are statistically significant in the model and hence, the model can be stated as follows:

$$MP = 1.076 + 0.559 DS$$

Where:

MP =Market Performance.

DS = Diversification strategies.

This model means that changes in the market performance of 1 unit are associated with 0.559 units, an increase in new product management strategies. The results are consistent with Paul and Wachira (2021), who states that the proportion of an organization's investment in product diversification significantly affects its growth. Ojwaka and Deya (2018) also observed that performance, measured by sales growth and profit growth, increased whenever firms used a diversification strategy. The findings are also consistent with Njuguna (2019), who concluded that there is a positive association between diversification, integration, and the profitability of Kenyan-listed non-financial enterprises. Thus, portfolio diversification techniques are critical for corporations to increase profit. According to the analysis, financial leverage significantly affects the association between diversifying methods and the profitability of Kenyan-listed non-financial enterprises. Thirathon and Meeprom (2020), Ojwaka and Deya (2018), and Paul and Wachira (2021) also concluded that the proportion of an organization's investment in horizontal product diversification significantly affects the growth of an organization.

Similarly, a heteroscedasticity test was carried out using the Breusch Pagan test, as shown in Table 6, to determine whether the assumption of constant variance (homoscedasticity) is maintained in the regression model.

Table 6: Heteroscedasticity test for diversification strategies

Variables	df	Criteria	p-value	Conclusion
Diversification strategies	1, 132	P>0.05	0.279	Homoscedastic

Table 6 shows that ICT had a P value of 0.279, greater than the significance level of 0.05. The results indicate constant variance; thus, the null hypothesis of homoscedasticity was accepted. Therefore, diversification strategies demonstrated homoscedasticity when regressed upon market performance.

Hypothesis Testing

The hypothesis was assessed by examining the regression coefficients and the corresponding p-values. The decision to accept or reject the null hypothesis was based on the p-value. The null hypothesis is rejected if the p-value is less than 0.05, indicating a significant relationship. Conversely, if the p-value is greater than 0.05, the null hypothesis is accepted, suggesting no significant relationship.

Table 7: Hypotheses Test Results

Research objective	Tested Hypothesis	Regression Model	Decision Rule	P-value (results)	Results/Decision
To assess the effect of diversification strategies on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.	H ₀₁ : Diversification strategies do not have a statistically significant effect the market performance of small and medium-tier deposit-taking SACCOs in Kenya.	$MP = \beta_0 + \beta_4 DS + \epsilon$ Where: MP =Market Performance. β_0 = constant and β_4 = Regression co-efficient. DS = Diversification strategies. ϵ = Error Term.	p-value < 0.05, null hypothesis not adopted	0.000	Reject H ₀₁

In light of the outcomes presented in Table 7, it is noteworthy that diversification strategies had a p-value of 0.000, signifying a positive and significant effect on market performance, resulting in rejecting the null hypothesis, **H₀₁**.

SUMMARY OF FINDINGS

The study found that diversification strategies positively impact the market performance of small and medium-tier deposit-taking SACCOs in Kenya, with strategic partnerships having the most significant effect on product development. Assumptions for regression analysis, including outliers, multicollinearity, autocorrelation, linearity, and heteroscedasticity, were tested and met. A strong positive correlation was identified, and ANOVA results confirmed the statistical significance of diversification strategies on market performance. Regression analysis reinforced these findings, concluding that diversification strategies play a crucial role in enhancing market performance.

CONCLUSION OF THE STUDY

This study tested the hypothesis that diversification strategies have no statistically significant effect on the market performance of small and medium-tier deposit-taking SACCOs in Kenya. The ANOVA for market penetration showed significance; H₀₄ was rejected and thus confirmed a statistically significant effect of diversification strategies on the market performance of small and medium-tier deposit-taking SACCOs in Kenya.

RECOMMENDATIONS OF THE STUDY

The study confirmed a statistically significant relationship between diversification strategies and market performance among small and medium-tier deposit-taking SACCOs

in Kenya. Although approximately 72% of these SACCOs had a mean score of 3.77 for diversification efforts like investing in new businesses, strategies such as strategic partnerships and mergers showed higher mean scores (3.96 and 3.89, respectively). Thus, the study recommends these SACCOs prioritize strategic partnerships and mergers to enhance market performance. Additionally, policymakers should consider reforms and clear cooperative development policies to align with Kenya Vision 2030, potentially improving the economic landscape by addressing challenges like unemployment, poverty, and weak growth.

For practical applications, successful diversification can enable revenue growth, market share expansion, new revenue streams, and increased profit margins, helping SACCOs better adapt to market changes. Strategic partnerships can further assist these SACCOs by allowing them to acquire necessary skills, external knowledge, and capabilities for growth. Further research is recommended to assess large-tier deposit-taking SACCOs to compare whether similar growth strategies yield consistent or differing outcomes, contributing to a broader understanding of market performance across SACCO sizes.

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