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EFFECT OF DIVERSIFICATION STRATEGY ON PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCOS) IN THARAKA NITHI COUNTY, KENYA

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ABSTRACT
Many enterprises adopt diversification strategy for the sole purpose of expansion and growth. The success of the diversification of an enterprise mainly depends on the choice and implementation of a strategy. Choosing an organizational structure that fits the type of diversification strategy used is fundamental to improving financial performance. This study established the effect of diversification strategy on performance of Sacco's in Tharaka-Nithi. The studied population was 47 registered Sacco's in Tharaka-Nithi according to SASRA Act 2010, with a sample size of 47 chairpersons of SACCOs. It adopted descriptive survey research design and data was collected through administered questionnaires to the respondents. Data was subjected to simple and multiple regression analysis using SPSS version. Diversification strategy was 3.62, indicating that the respondents agreed with the statements regarding adoption of diversification strategy in their SACCOs and if properly implemented, diversification strategy increased sales volumes and improved SACCO performance. There were increased products and services range offered by the SACCOs, reduced costs of transactions and increased customer base.
Keywords: Diversification strategy; Dividends pay out; Performance

INTRODUCTION
A growth strategy usually starts by identifying and accessing opportunities within a competitive market. Growth strategies go beyond business and marketing plans, and details how businesses meet specific targets (Lee & Jang, 2007). The strategies address how a firm is going to evolve to meet the challenges of today and in the future by giving a purpose and how to deal with the long-term plans on a firm business performance (Aosa, 2011). Some of business growth strategies applicable to business organizations include mergers and acquisition, diversification strategy, product development strategy, market expansion strategy, market penetration strategy, market segmentation, alliances and partnerships. All these business growth strategies are geared towards improving performance of an organization (Ansoff, 2009). Diversification is the entry into new markets with new items. It goes for extending the measure of the business, accomplishing an economy of scale in assembling and in this manner producing synergic impacts for general operation of firms.

According to Chen and Huang (2011) organizations diversify to exploit the economies of extension in different assets including substantial and impalpable resources. In SACCOs, diversification has been observed to be a conceivable reason for an increase in cost of generation. The assumption is that diversification raises economic benefits through a more efficient utilization of organizational resources across multiple markets (Kotler, 2015). According to a study by Benito and Zúñiga (2015) some of the specific evidence available from the research on diversification shows that a firm's profitability increases with diversity but only up to the limit of complexity. General Electric is one of the famous success stories of diversification and in order to expand and grow their business the General Electric moved into financing and financial services, which in 2005 accounted for about 45% of the company's net earnings (Absanto & Elsifa, 2013).

SACCOs have diversified their products and services where they provide loans to their members, offer investment opportunities, agricultural facilities for farmers, create employment, housing solutions, and so much more. This is in turn causing increased socio-economic development in the country (Cytonn, 2020). Hitt, Hoskisson and Kim (2011) did a study and found out that firms that have diversified into products that use the existing internal resources or capabilities of the firm will benefit from economies of scale thus earn higher return and improve on performance. SACCOs that have conducted related diversification are expected to gain economies of scale hence improve on performance. When SACCOs have diversified products, it can act as a tool to attract and retain new customers hence existing customers will have a one stop shop and hence create loyalty and a favorable customer experience.

Thus study established the effect of diversification strategy on performance of SACCO's in Tharaka Nithi County. A study by Doaei, Anuar and Ismail (2015) on 102 manufacturing firms listed in Busra Malaysia revealed that there existed a negative relationship between product diversification and efficiency and international diversification and efficiency. A study by Njoka (2016), found out that through implementation of diversification strategy, SACCOs were able to utilize all its capabilities or resources, and be able to venture into new business market segments not catered for earlier. The study found out that SACCOs have diversified into unrelated ventures. Diversification strategy by SACCOs was aimed at enhancing their revenue base and also cater for the different needs of the customer base and this led to improved performance.

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METHODOLOGY

The study was carried out in Tharaka Nithi, Kenya. Descriptive research design was used in this study. Primary data was collected without changing the environment by use of questionnaires. The population of the study was forty-seven (47) registered SACCOs in Tharaka Nithi County. According to Kothari (2008) a sample is a collection of units chosen from the universe to represent the entire population. This study undertook a census of the 47 Chairpersons of the registered SACCOs in Tharaka Nithi.

The questionnaires were delivered to the forty-seven (47) Chairpersons of the registered SACCOs in Tharaka Nithi County by the researcher assisted by a research assistant and then picked after two (2) weeks. Primary data was collected by administering a questionnaire to the chairpersons of SACCOs. For purposes of data collection, a permit from National Commission for Science, Technology and Innovation (NACOSTI) was presented together with introductory letter to build confidence that the information being collected was to be used for the sole purpose of the study. Data collection was done after getting ethical clearance from Chuka University's ethics committee and a research permit from National Commission for Science, Technology and Innovation (NACOSTI). The researcher was obligated to carry out the research in the best interest of the respondents.

Ethical issues were considered which included; informed consent which was obtained by explaining to the respondents the purpose of the study and given freedom to participate. Respondents were assured confidentiality of the data collected from them. According to Mugenda & Mugenda (2003) validity is the accuracy and meaningfulness of inferences which are based on the research results. It can also refer to the extent to which a research instrument measures what it is designed to (Kothari, 2004). Validity helped to infer how accurately the data obtained in the study represents the variables of the study (Kombo & Tromp, 2006). The researcher made use of the feedback from the supervisors who scrutinized the research instrument~~s~~ for its validity.

Reliability regards the degree to which the research instrument can produce consistent results from repeated trials (Mugenda and Mugenda, 2003). The reliability test was done using the internal consistency test based on Cronbach Alpha coefficient. The purpose of this pilot study was to determine whether the questionnaires items possessed the desired qualities of measurement and identify deficiency in the instrument. A preset sample of between 0.1% and 10% of the study sample is recommended (Mugenda & Mugenda, 2003). The questionnaires were tested with five (4) respondents from the chairmen and chief executive officers of SACCOs from neighboring County of Meru. Data was analyzed using both descriptive and inferential statistics with the aid of Statistical Package for Social Science (SPSS). Multiple linear regression analysis was undertaken to test the relationship expressed in the hypotheses.

Data Analysis

The researcher distributed forty-seven (47) questionnaires to all the registered SACCOs in Tharaka Nithi, and forty-one (41) usable questionnaires were returned in good time, giving a response rate of 87.23%. In this study, diversification strategy was measured concerning the performance of SACCOs in Tharaka Nithi County. The respondents were asked to indicate the extent to which the SACCOs had applied diversification strategy (Table 1).

RESULTS AND DISCUSSION

The findings in Table 2 shows the impact of diversification strategy on performance of SACCOs. The results pointed out that most participants showed a great extent on the market penetration strategy that Growth in Sales volume improves performance of SACCOs (58.5%), a very great extent that diversified products improve performance of SACCOs (56.1%) and diversified services improve performance of SACCOs (58.5%), a great extent that diversification of market improves performance of SACCOs (39.0%), and a great extent that extending credit facilities nonmembers improves performance of SACCOs (61.0%).

Table 1: Diversification strategy

Strategy Statement	Very great extent	Great extent	Moderate extent	Less extent	Not at all	N(%)
Growth in Sales volume improves performance of SACCOs	9(22.0%)	24(58.5%)	8(19.5%)	0(0.0%)	0(0.0%)	41(100%)
Diversified products improve performance of SACCOs	23(56.1%)	8(19.5%)	8(19.5%)	2(4.9%)	0(0.0%)	41(100%)
Diversified services improve performance of SACCOs	24(58.5%)	17(41.5%)	0(0.0%)	0(0.0%)	0(0.0%)	41(100%)
Diversification of market improves performance of SACCOs	17(41.5%)	16(39.0%)	8(19.5%)	0(0.0%)	0(0.0%)	41(100%)
Extending credit facilities nonmembers improves performance	0(0.0%)	25(61.0%)	16(39.0%)	0(0.0%)	0(0.0%)	41(100%)

The study determined the effect of diversification on the performance of SACCOs in Tharaka Nithi. The coefficient obtained from regression was 0.333 with a p-value of 0.002<0.05. This means a unit increase in diversification would result in a 0.333 increase in the performance of SACCOs. Therefore, the null hypothesis was rejected, which implied a statistically significant relationship between diversification and the performance of SACCOs. The findings of this study implied that growth in sales volume and diversified products and markets improved the performance of SACCOs. This concurs with studies by Njoka (2014), who found out that diversification improved performance. These findings show that an increase in diversification strategy improves the performance of SACCOs. This finding concurs with the Dynamic capabilities theory, which emphasizes that core competencies should be used to modify short-term competitive positions in building longer-term competitive advantage for firms. Policies and regulations was hypothesized as moderating variable. Moderation implied an interaction effect, where introducing a moderating variable changes the direction or magnitude of the relationship between two variables. The test of significance of the moderating variable is presented in Table 2.

Table 2: Model summary

Model 1	Coefficients	Std error	t-statistic	p-value
(Constant)	-0.528	0.699	-0.755	0.455
Policies and regulations	0.070	0.140	0.500	0.620
Combined growth strategies	1.090	0.219	4.980	0.000
Model 2				
(Constant)	-1.863	2.160	-0.862	0.394
Policies and regulations	0.473	0.632	0.748	0.459
Combined growth strategies.	1.463	0.612	2.392	0.022
Policies and regulations. growth strategies	-0.11	0.168	-0.654	0.517

R^2 for model 1=0.510. R^2 for model 2=0.516

The results in Table 2 show that model 1 is insignificant at a 5% significance level without the interaction effect; that is, it had a t-statistic of -0.755 and a p-value of 0.455>0.005. Model 2 had a t-statistic of -0.862 a p-value of 0.394>0.05, also insignificant at a 5% significance level. The results show that policies and regulations do not moderate the relationship between business growth strategies and the performance of SACCOs.

Model 1 $Performance = -0.528 + 0.070PP + 1.090GS$

Model 2 $Perfromance = -1.863 + 0.473PP + 1.463GS + -0.11PP.GS$

The R^2 of model 1 was 0.510, indicating a model where 51 % of the changes in performance could be accounted for by the predictor variables, while 49% of the changes being attributed to other factors not included in the model and the error term. The R^2 of model 2 was 0.516, indicating a model where 51.6 % of the changes in performance could be accounted for by the predictor variables, while 48.4% of the changes being attributed to other factors not included in the model and the error term.

Diversification strategy was noted to be significant in determining performance. This resulted in the rejection of the null hypothesis that the Diversification strategy had no statistically significant effect on the performance of SACCOs, whereby it was found to be a pivotal contributor to changes in performance. This indicates that a rise in Diversification strategy results in an increase in performance, and therefore, growth in sales volume and diversified products and markets affect performance. Similarly, product development strategy was found not to affect performance; hence, the null hypothesis that product development strategy had no statistically significant influence on performance. This implies that changes in product development strategy in the market do not directly affect performance. However, policies and regulations were established to significantly not affect performance and therefore accept the null hypothesis that policies and rules have no statistically significant moderating influence on the relationship between business growth strategies and performance. This implies that policies and regulations do not alter the relationship between business growth strategies and performance.

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