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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 11, Iss.4, pp 1354 – 1366, December 20, 2024. www.strategicjournals.com, © Strategic Journals

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Accepted: December 9, 2024

DOI: http://dx.doi.org/10.61426/sjbcm.v11i4.3162

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.

Key Words: *Concentric Market Diversification Strategy, Performance of Microfinance Banks.*

CITATION: Mwariri, J. W., Kiplagat, N. & 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), 1354 – 1366. http://dx.doi.org/10.61426/sjbcm.v11i4.3162

INTRODUCTION

Concentric market diversification strategy refers to a corporate growth approach where organizations introduce new products or services closely related to their existing portfolio, targeting either the same or slightly different customer segments, (Abrar, Hasan & Kabir, 2023). This strategy capitalizes on existing competencies, such as market knowledge or technological expertise, minimizing risks compared to unrelated diversification ((Jayathilake, 2021). For microfinance banks, performance is typically evaluated through their ability to deliver financial services sustainably to underserved populations. Key performance indicators include profitability, loan recovery rates, customer retention, and the breadth of outreach to low-income segments (Ahmed et al., 2022).

The significance of concentric market diversification lies in its ability to enhance revenue streams, mitigate risks, and leverage existing operational strengths to address evolving market demands, (Jayathilake, 2021). Organizations adopting this strategy often experience increased customer loyalty and improved competitiveness by catering to related needs within their market (Jayathilake, 2021). For microfinance banks, concentric diversification may involve expanding into areas such as microinsurance, education financing, or digital payment solutions. These initiatives are typically measured by improved financial performance metrics, including operational efficiency, portfolio growth, and enhanced client satisfaction levels (Kumar & Singh, 2021). When effectively implemented, diversification helps microfinance institutions achieve both financial sustainability and broader social impact.

India's microfinance sector has adopted concentric diversification strategies to navigate its highly regulated and competitive market. Indian MFIs have diversified into microinsurance, agricultural loans, and digital payment systems to address the diverse financial needs of their largely rural client base. According to Sharma and Gupta (2020), MFIs with diversified portfolios demonstrated a 15% improvement in loan recovery rates and increased client loyalty. However, issues such as over-indebtedness and technology access disparities in rural regions pose challenges to the successful implementation of these strategies.

In South Africa, concentric market diversification strategies have focused on addressing socio-economic disparities by expanding into educational loans, small business funding, and affordable housing finance. These initiatives target marginalized communities and aim to foster financial inclusion. Moyo and Sibanda (2022) observed that diversification efforts in South African MFIs have contributed to a 20% increase in outreach and loan repayment rates over five years. However, economic instability and high unemployment have challenged sustained success, underscoring the need for robust policy support and innovative solutions.

Kenya’s dynamic microfinance sector has leveraged concentric diversification to capitalize on the country’s robust mobile money ecosystem and growing demand for green financing. Microfinance institutions have introduced products such as solar financing, mobile-based loans, and microinsurance tailored to underserved households and small businesses. A report by Ndungu and Mwangi (2023) highlights that diversified MFIs in Kenya have achieved a 25% increase in operational efficiency and improved financial sustainability. Nonetheless, competition from commercial banks and frequent regulatory changes have presented challenges, necessitating continuous innovation and adaptation.

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 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.

LITERATURE REVIEW

Theoretical Review

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 outperforms 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.

Empirical Review

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.

Conceptual Framework

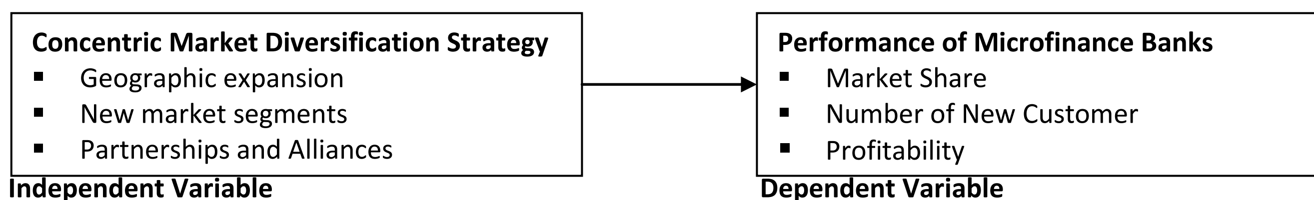

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study adopted descriptive survey research design. Descriptive survey studies enable researchers to identify relationships and patterns between concentric diversification strategies and performance outcomes. Specifically, the study focused on 14 microfinance banks headquartered in the Nairobi Central Business District. 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. 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. Sampling was not applied in this study; a census approach was used since the population is manageable. For this study, the questionnaire was closed ended, allowing the researcher to obtain as much quantifiable data as possible. The pilot study was conducted in two microfinance banks operating in Kiambu County. These are U & I Microfinance Bank and Kenya Women Microfinance Bank. 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 d ata was done using Statistical Package for Social Sciences (SPSS 23.0). Tables were used to present the findings.

DATA ANALYSIS AND FINDINGS

The study issued 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 1: Response Rate

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

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 2.

Table 2: 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.

The study sought to examine relationship between concentric market diversification strategy on the performance of microfinance banks in Nairobi. The results were as shown in Table 3.

Concentric Market Diversification Strategy

Table 3: Concentric Market Diversification Strategy

Concentric Market Diversification Strategy Statement	**SA 5**	**A 4**	**N 3**	**D 2**	**SD 1**	**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**

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.

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 4

Table 4: Performance of Microfinance Banks

Performance of Microfinance Banks	SA 5	A 4	N 3	D 2	SD 1	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**

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 e xtend 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 while10% 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.

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 5: Summary Correlations

		Concentric Market Diversification Strategy
Performance of Microfinance Banks	Pearson Correlation	.704**
	Sig. (2-tailed)	.000
	N	57

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.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.235	.425		2.903	.005
	Concentric Market Diversification Strategy	.375	.115	.340	3.258	.002

Table 6 shows the overall significant test results for the hypothesized research model. The interpretations of the findings indicated follow the following regression model.

$Y= \beta_0 + \beta_1X_1$

Therefore,

$Y= 1.235+ 0.375 X_1$

The study sought to test the hypothesis that: **H_{01}:** 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_{01}**)** and concluded that concentric market diversification strategy has a statistically significant effect on the performance of microfinance banks in Nairobi.

CONCLUSION AND RECOMMENDATIONS

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 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.

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.

Recommendations

The study recommended 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.

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.

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