AN INVESTIGATION OF THE EFFECTS OF INCOME SOURCE DIVERSIFICATION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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MASTER OF SCIENCE IN COMMERCE FINANCE AND ACCOUNTING

KCA UNIVERSITY

2013

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD MASTER OF SCIENCE COMMERCE FINANCE AND ACCOUNTING AT KCA UNIVERSITY

OCTOBER 2013

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: Student Number:

BENTER AKINYI **KCA/09/00272**

Sign…………………… Date ……….................

I do hereby confirm that I have examined the master's dissertation of Benter Akinyi And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign…………………… Date ……….................

Dr. Ambrose Jagongo

Dissertation Supervisor

Sign………………………… Date…………………

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ABSTRACT

The profitability of commercial banks depends heavily on the net of income generating activities and the related activities expense. Due to the problem of profitability and stiff competition in the industry, commercial banks have changed their behavior of income sources, by increasingly diversifying into non-intermediation income generating activities as opposed to the traditional inter-mediation income generating activities. The purpose of this study was to establish the effects of income source diversification on financial performance of commercial banks in Kenya. The study sought to establish the effects of foreign exchange trading income, bank charges, commission on government securities and agency banking on financial performance of commercial banks in Kenya. The research adopted a descriptive survey research design. The target population was the 43 registered Commercial banks and respondents were the 43 finance mangers at the head offices. Due to the population size of finance managers at the head offices of the 43 registered commercial banks, the research took a census approach. Primary data was obtained through self-administered questionnaires. The researcher used multiple regression model to analyze the relationship between the independent and dependent variables. The findings were presented using tables and figures. The study found that foreign exchange had the highest effect on banks financial performance followed by commission from loans and advances, then government securities while agency banking had the least effect on banks financial performance (r= 0.793, p= 0.0214). A majority of the respondents (70%) indicated that foreign exchange trading affects financial performance of Commercial banks to a great extent. From the findings, exchange rate margins and volume of foreign exchange transactions affected the financial performance of the banks to a great extent as shown by a mean of 3.975 and 3.609 respectively. A majority of the respondents (65%) reported that bank charges affected financial performance of Commercial banks to a great extent. According to the findings, interest rates earned on the loans, credit cards fees and number of loans/advances affected the financial performance of the banks to a great extent as shown with a mean of 3.959, 3.859 and 3.781respectively.From the findings, number of transactions and commission from Agency banking affected the financial performance of the commercial banks with a mean of 3.892 and 3.781 respectively. A conclusion can be drawn from the study that ‘Income source diversification affects financial performance of commercial banks in Kenya’. The banks should increase their foreign exchange trading by increasing volume of foreign exchange transactions, and ensuring that positive trade flows are maintained. Accounts opening fees should be eliminated to attract more customers.Banks should invest on government securities to earn more commission from Treasury Bonds and Treasury Bills to increase their profit.

Key words: foreign exchange, bank charges, diversification, commission, agency banking

ACKNOWLEDGEMENT

First and foremost is my gratitude to the Almighty God for the gift of life, resources, a sound mind and everything else that enabled me go through the course. I will be forever grateful.

This Work could not have been a reality without the scholarly assistance, guidance, patience and self-sacrifice by my supervisor Dr. Ambrose Jagongo**.** I will forever be grateful for his genuine support.

May our dear Lord richly bless you!

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DEDICATION

I dedicate the project work to my entire family, for the support and especially for the encouragement and cheering me up throughout the period. The co-operation, inspiration and spiritual support from my workmates and to my supervisor, for the understanding, patience and guidance.

May God bless you all abundantly

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ACRONYMS AND ABBREVIATIONS

ATMs	-	Automated Teller Machine
CBK	-	Central Bank of Kenya
CBK	-	Central Bank of Kenya
CFROI	-	Cash Flow Return On Investment
EU	-	European Union
EVA	-	Economic Value Added
KBA	-	Kenya Bankers Association
KCA	-	Kenya Collage of Accountancy
MPT	-	Modern Portfolio Theory
NIM	-	Net Interest Margin
PEX	-	Palestine securities exchange
ROA	-	Return on Asset
ROE	-	Return on Equity
SPSS	-	Statistical Package for Social Sciences
SVA	-	Shareholder Value Approach
USA	-	United State of America

TERMS AND DEFINITIONS

Agency Banking

This refers to the points of service where clients from a bank can conduct their transactions receive their payments and access their bank accounts. It is a bank that acts in some capacity on behalf of another bank.

Bank charges

A fee levied on an account by a financial institution. A bank charge can result from the account holder not maintaining a minimum balance, for overdrafts, or from any of a wide variety of other banking activities and actions.

Diversification

This is a risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

Financial institution

This is an institution that provides financial services for its clients or members. It is an establishment that focuses on dealing with financial transactions, such as investments, loans and deposits. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers.

Financial Liberalization

This refers to reduction of any sort of regulations on the financial industry of a given country. It usually refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities.

Financial performance

This is the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. It can also mean gauging the results of a company’s policies and operations in financial terms. These results are depicted in the firm's return on investment, return on assets, value added, etc.

Foreign exchange market

This refers to global decentralized trading of international currencies.

Government Securities

These areTreasury Bonds and Treasury Bills issued by the government through the Central Bank of Kenya (CBK), which is the banker to the government.

Profitability

The state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The profitability of Commercial banks depends heavily on the net of income generating activities and the related activities' expense. As a result of problem associated with earnings along with rigid levels of competition in the industry, Commercial banking companies include improved their own conduct associated with income places, by significantly diversifying into non-intermediation income making things to do compared to the regular inter-mediation income making things to do. The progress associated with non-intermediation income things to do recommends intermediation things to do have become less crucial a part of financial business methods along with strategically, banking companies include changed their own revenue mixture by diversifying inside income places. Banks really exist for you to inter-mediate the dealings in between demanders along with companies associated with dollars with a offered concern. Profits from these types of dealings form bank's standard income making things to do. Even so, vital research associated with personal assertions intended for Commercial banking companies show some other pattern, wherever over 40% with their world wide web managing income emanates from non-intermediation income making things to do (Stiroh, 2004). The progress associated with non-intermediation income things to do recommends intermediation activities have become less crucial a part of financial business methods along with strategically, banking companies include changed their own revenue mixture by diversifying inside income places.

Financial institutions generate increased portion of their income from non-intermediation activities (DeYoung and Rice, 2004) and this could be associated to financial liberalization policies. Deregulation and new technology have wrinkled banks' competitive advantages and made it easier for non-bank rivals to venture these markets, necessitating banks to shift their sales mix and diversify towards non-interest income sources. Findings from USA studies show that in 1990"s non-interest income grew rapidly to be a large part of banks operating profits. Non-interest income accounts for 43% of U.S.A Commercial banks net operating income (Stiroh 2004).

Financial liberalization of early Nineteen Nineties in Kenya opened the banking business to various avid gamers leading to stiff competition and weakening of economic efficiency of quite a few business banks resulting in cave in of some. In reaction, commercial banks have changed their behaviour of income sources by means of diversifying as a conceivable means of bettering performance.

Diversification in banking can take on dissimilar dimensions. Whilst there are a selection of research that examine diversification within loan portfolio, diversification of income resources, extra specifically interest and non-interest source of revenue, has attracted increasing attention in academic research. Usually, it's believed that diversification of source of revenue property must scale back general probability, as diversification must stabilize running income if source of revenue streams are negatively or imperfectly correlated. at the same time as this argument is apparent from a standard standpoint, DeYoung and Roland (2001) supply 3 reasons why non-interest income may increase volatility. Indeed, Stiroh (2004) unearth empirical evidence that reliance on non-interest activities increases the volatility of large U.S.Commercial banks.

De Young and Rice (2004) revealed the theoreticalrelation between commercial banks' non-interest proceeds, business strategies, market circumstance, technological transform and financial performance for U.S. Commercial banks between 1989 and 2001. They display that smartly managed commercial banks, degreed by means of a relative ROE degree, are much less engaged in non-interest revenue whilst large banks and banks that focal point more on dating banking are extra dependent on non-interest income. They also establish that trivial increases in non-interest income producesuperior, but more unstable profits, and a turn down in risk-adjusted profits. Craigwell and Maxwell (2006) additionally discover a positive impact of non-interest income on ROA and its volatility for Barbados banks between 1985 and 2001. On the contrary to other studies, however, they establish no proof that relative performance helps to clarify non-interest income. Astonishingly, in the Barbados study non-interest proceeds - in relative terms - plays a larger role for smaller banks.

1.1.1 Commercial Banks In Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking segment was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance's docket, is liable for formulating and implementing monetary policy and promotion the liquidity, solvency and appropriate functioning of the financial system. The CBK publishes data on Kenya's Commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have united under the Kenya Bankers Association (KBA), which function as a lobby for the banks' interests and addresses issues affecting its members (Kenya Bankers Association annual Report, 2008).

The industry consist of forty three banks, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty three of the banks, most of which are small to medium sized, are locally owned and thirteen are foreign owned. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions. The financial services industry has been, and continues to be, radically altered by applications of new technology in Kenya. The development of the banking industry has presented both challenges and opportunities for Commercial banking institutions. Over the last few years, financial transformation, deregulation, industry consolidation, the rise of novel institutions, changing trends in borrowing and lending, globalization and budding technology have influenced and affected how Commercial banks function.

Driven by revelry brought about by globalization, information technology and managerial advancement, the banks have attempted to fit their operations and systems to a customer focused strategy. The banking sector has embraced changes occurring in Information Technology with most banks having already achieved branchless banking as a result of the adoption of communications options. According to The Central Bank Annual Supervision report (2003), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures. When the changes are on a larger scale and involve numerous individuals and subunits such as the ones encountered by banks, it is a challenge to manage modifyconcurrently across functional and managerial levels.

Commercial banking institutions in Kenya are classified in three tier groups based on the value of bank assets. Tier group one comprise of Commercial banks with an asset base of more than Ksh40 billion, tier group two comprise ofCommercial banks with asset base of between Ksh40 billion and Ksh10 billion while tier group three are commercial banks with an asset base of less than Ksh10 billion. Based on the 2009 Banking Survey, there are eleven Commercial banks in tier group one, eleven Commercial banks in tier group two and twentyoneCommercial banks in tier group three comprising to a total of forty three Commercial banks.

1.2 Problem Statement

Research findings from developed (USA and Europe) markets on effect of income source diversification on banks financial performance contradict greatly. It degenerates risk-return trade-off in USA while it increases risk return trade-off in Europeans banks. Stiroh and Rumble (2006) show a worse risk-return trade-off for U.S.A Commercial banks undertaking income source diversification.Chiarozza Milani and Salvini (2008) demonstrate that income source diversification augment risk-return trade-off for European banks. According to Stiroh (2004), diversification benefits banks from changing into non-interest revenue in U.S.A banks increases bank income and reduces volatility of bank profits. Diversification worsens the risk- return trade-off for USA banks(Rumble and Stiroh,2006) and earnings gained from diversification caused by growth in non-interest revenue is outweighed by the volatility increases, resulting in a non-commensurate increase in stock returns. Non-interest revenue and Interest revenue were increasingly growing highly correlated over time in USA banks (De Young and Rice, 2004) and exists along with, rather than replace each other.

Birya (2009) conducted a study to investigate the effect of privatization on financial performance of Commercial banks listed at the NSE. The study established that the performance of these banks improved after privatisation. Further, Auka (2006) conducted a study to determine factors influencing the practice of corporate social responsibility of financial institutions in

Kenya. The study indicated that the financial institutions sampled were influenced by the need to be market leaders to participate in corporate citizenship.

Many studies conducted in Kenya including:- Maithulia (1995) conducted a study on portfolio diversification: an empirical investigation of Commercial banks in Kenyaand found that the main internal determinants forcing banks to diversify such as risk, cost of production, regulatory cost and technological transformation; Wakwoma (2007) did a survey of product diversification strategies adopted by firms in the banking industry in Kenya and found that the banks had diversified by trading in stocks, bonds, real estate, private equity and commodities; and Mulwa (2009) who studied diversification strategies in the banking industry in Kenya and established that the banking industry is steadily increasing its reliance on nontraditional business activities that generate fee revenue, trading revenue, and other types of noninterest revenue. Yet scanty systematically documented information exists on the effect ofrevenue source diversification on financial performance of Commercial banks in Kenya. The study therefore seeks to investigate the effect of diversification of sources of income on the financial performance ofCommercial banksin Kenya.

1.3 Objectives of the study

The study aimed at investigating the effects of income source diversification on financial performance of Commercial banksin Kenya.

1.3.1 Specific Objectives

The study was guided by the following specific objectives.

i. To establish the effects ofincome from foreign exchange trading on financial performance of Commercial banks in Kenya

ii. To establish the effects of bank charges on financial performance of Commercial banks in Kenya
iii. To establish effects of commission on government securities on financial performance of Commercial banks in Kenya
iv. To establish the effects of agency banking on financial performance of Commercial banks in Kenya

1.3.2 Research Questions

i. How does foreign exchange trading affect financial performance of Commercial banks in Kenya?
ii. To what extent do bank charges affect financial performance of Commercial banks in Kenya?
iii. How does commission on government securities affects financial performance of Commercial banks in Kenya
iv. To what extent does agency banking affect financial performance of Commercial banks in Kenya

1.4 Significance of the study

The study is important to the management of Commercial banks as it would provide an insight on the diversifications that can be made to improve the performance of the organisation. The results of this study would provide information to policy makers and other stakeholders in the financial sector (especially the banks) to come up with strategies that help in income diversification and thus improve on the financial performance of the organisation.

The research results would also be important to scholars and researchers as it would add to the existing pool of knowledge. Further, this study is also significant in that, academically it would add to the existing knowledge on income diversification strategies that can be used to maintain and improve organisation financial performance thus forming part of academic reference.

1.5 Scope of the study

The study looks at the effect of various source of income for the banks including foreign exchange trading, loans and advances commissions, government securities and agency banking on the performance. The banks financial performance was measured using profitability (ROA). The study targets employees in Commercial banks who are financial managers at the bank headquarters. Therefore, the data was collected from these employees who are considered to be knowledgeable on the subject matter. These are considered as major respondents of the study since they are the target group of this study.

1.6 Limitations of the study

The researcher foresees a challenge in securing the staffvaluable time bearing in mind their busy working schedules. The researcher made proper arrangements with employees to avail themselves for the study off-time hours as well as motivating the employees on the value of the study. The researcher also exercised utmost patience and care and in view of this the researcher has to make every effort possible so as to acquire sufficient data from respondents. Alternatively the researcher foresees that he was faced with a shortage of literature on income source diversification and performance more so in the local context. This handicap is attributed to lack of extensive research in the field of income source diversification. The researcher countered this by visiting the available libraries in the country and also online research sites.

1.7 Assumptions of the study

In the study, it is assumed that the respondents were cooperative enough to give the required information. This assumption disregards the fact that most of them usually have busy schedules and time to fill the questionnaire might be regarded as wasted. The researcher also assumed that selected respondents werewiling to give information as sought by the study. The researcher assumes that there was adequacy of resources intended to facilitate data collection, and that the information collected was a representation of the whole for inference. Finally, the researcher also assumes that the data collected from the respondents was credible and reliable to be analysed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a assessment of interrelated literature on the subject under study presented by various researchers, scholars, analyst and authors. The research has drawn materials from several sources which are closely related to the theme and the objectives of the study. The specific area covered here include the theoretical underpinnings of the study such as the modern portfolio theory (MPT), classic finance theory and uncovered interest parity theory; the empirical review on foreign exchange, loans and advances commissions, government securities and agency banking and finally a section on the conceptual framework.

2.2 Theoretical Literature

2.2.1 Resource Based View (RBV) Theory

Proponents of the RBV argued that resources that are precious, heterogeneous, at a halt, owned exclusively by the institution, and hard to copy by competitors, were likely to present positive outcomes, such as abridged costs or augmented revenue (Lenderer & Zhuang, 2006). According to the RBV, the relationships between resources and results could be determined by causal uncertainty that represented the relative complexity of understanding causal links between a company resources and outcomes. Causal uncertainty was considered the main strength of this theory because it comprises a major obstruction to imitation. Barney, Fuerst and Mata (1995) applied the resource based view to four characteristics of IT that may be sources of unrelenting competitive advantage; capital requirements, proprietary technology, technical IT skills, and managerial IT skills and concluded that managerial IT skills are the only ones that can provide sustainability. In the case of electronic business solutions, companies allocate resources to get IT associated products, assuming that investments in these resources offer economic returns to a company. Company efficiency due to this fact depended at the synergy createdfrom the integration of organizational, industry, and technological instruments. Although tools from themselves may just serve as the elemental units of analysis, organizations created aggressive benefit by assembling those tools in numerous and unique ways to create specific skills. While purposively constructed round tacit organization particular knowledge, and embedded in organizational approaches, these abilities were more likely to become “ambiguous,” and because of this, supply advantages that had been in the form of above reasonable financial returns (Rodriguez & Rodriguez, 2005).

The resource based view interpreted the company as package of resources. instruments had been regularly outlined broadly, for instance as brand names, patents, data infrastructure, managerial abilities or corporate tradition. Wernerfelt (1984) introduces resources as the rest which could be thought of as a energy or weak point of a given firm. Barney (1991) added a strategic focal point while he defined useful resources as assets allowing a firm to conceive of or put into effect strategies that strengthen the company’s potency and effectiveness. tools as tangible and intangible assets, that enabled a firm to formulate and enforce its technique neatly incorporated corporate reputations, human skills or financial endowments.

The resource based view also used the concept of organizational capabilities.Capabilities in their most basic form were thought to arise from the interaction of resources. The ID of capabilities could be carried out through analyzing the practical actions of the corporate, as they have been most likely being developed in functional areas (Amit & Schoemaker, 1993). A extra dynamic thought defined organizational functions to be dynamic workouts that governed the ability of a company to learn, adapt, change and renew over time. Dynamic capabilities had been embedded within the methods and exercises of the firm and could thus neither be separated from the firm nor may just they be correctly formulated. expertise were thus defined as combination of interacting resources. in step with the framework of the resupply based view a number of criteria have been required for resources and functions to be the source of such benefit:price contribution to technique, Rareness, Inimitability, Non substitutability (Barney, 1991) .

2.2.2 Financial Liberalization Theory

Economy theorists like Rajan and Zingales (1998), Chinn and Ito (2006) basically insist that financial liberalization helps in enhancing financial intermediation proxied by lower spreads as it dismantles the perfect rent seeking environments created by financial institutions that operate in repressed financial regimes. They further contend that beginning up of the capital account helps attract overseas players within the household capital markets that\'s a prerequisite for augmentation of creating market. moreover that is strengthened by Guiso et al, (2006) who within their have a look at, to find that monetary liberalization in Italy was once proceeded by way of easier get admission to to budget and important slowdown within the rate of interest spreads.

Rather, Guiso,Paola and Zingales (2006) positive relationship between financial liberalization and narrow spreads in Italy could be due to the fact that this is a developed country with strong political and legal institutions that constrain expropriation while ensuring maximum contract enforcement and protection of creditors' rights. For example, Tressel and Detragiache (2008) discovered that monetary liberalization policies do increase financial intermediation proxied by means of slender interest spreads ultimately, however handiest in countries with smartly-evolved political institutions that can prohibit the facility of the manager. they don\'t in finding any sustained impacts of banking reforms in other nations. This evidence means that making sure sufficient checks and balances on political power as a necessary step to enhance the protection of belongings rights is also an essential condition for the banking machine's functioning to enhance after liberalization. this is in line with Acemoglu and Johnson (2005), who find that more stringent constraints on the executive has a vital certain effect on expansion, investment, and monetary development. The understanding here is that political checks and balances shield citizens from expropriation from politically influential elites, thereby conserving property rights which in turn, ensures that potentially all agents in the economy can access financial sector loans when they qualify culminating into lower risk and spreads.

In among the empirical research on financial liberalization and pastime spreads underlies the truth that more controlled/repressed monetary systems are neither the way to narrowing spreads as this leads to opacity, corruption and crony capitalism all of which might be wasteful and set the root for wider spreads (Jayati, 2005). This justifies the multisectoral way adopted through countries like China, and the opposite Asian tigers which gives for self correction mechanisms that cater for better financing at the same time as protective the economic system right through and after the reforms.

2.2.3 Modern Portfolio Theory

Modern portfolio theory (MPT) is a theory of finance which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. MPT is a mathematical formulation of the notion of diversification in investing, with the goal of selecting a set of investment assets that has jointly lower risk than any individual asset. That this is probable can be seen instinctively because different forms of assets often change in value in contradictory ways (Markowitz, 1959).

But diversification lessens risk even if assets' returns are not negatively correlated—indeed, even if they are positively correlated. More theoretically, MPT models an asset's return as a normally distributed function (or more commonly as an elliptically dispersed random variable), defines risk as the standard deviation of revenue, and models a portfolio as a weighted mixture of assets, so that the revenue of a portfolio is the weighted combination of the assets' returns (Sabbadini, 2010). By merging different assets whose returns don~~\~~'t appear to be totally definitely correlated, MPT seeks to reduce the full variance of the portfolio return. MPT additionally assumes that investors are rational and markets are environment friendly.

An investor can cut back portfolio chance simply by maintaining mixtures of tools which don\'t seem to be perfectly undoubtedly correlated. In other phrases, buyers can cut back their publicity to particular person asset risk by means of keeping a different portfolio of belongings. Diversification might allow for a similar portfolio expected go back with scale backd possibility (Koponen, 2003). the fundamental idea behind MPT is that the belongings in an funding portfolio must now not be selected for my part, each on their very own merits. rather, it is important to believe how every asset adjustments in worth relative to how each and every other asset in the portfolio adjustments in price.

With regard to loan portfolio diversification, we additionally concept different effects across banking teams from the two-degree least squares regressions. According to portfolio theory returns should be more volatile for banks with specialized loan portfolios; well capitalized banks and banks with less risky loan portfolios enjoy more stable returns. Consistent with portfolio theory, an augmenteddependence on non-interest revenue is related with higher volatility of returns, but a more highly diversified returns portfolio is related with lesser volatility. While revenue from non-interest bearing activitiesis likely to be much less steady than those from interestearning actions, there could also be a diversification receive advantages in the type of decreased volatility for banks with the next proportion of non-interest revenue in total earnings (Koponen, 2003).

This study is hinged on the modern portfolio theory because by diversifying the revenue sources, the banks seek to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Thus the banks are increasing their reliance on nontraditional business activities that generate fee revenue, trading revenue, and other types of noninterest revenue. These are meant to reduce portfolio risk by holding combinations of instruments which are not perfectly positively correlated.

2.3 Empirical Literature on Revenue Sources Diversification and Financial Performance

The question of whether or not varied monetary institutions outperform their more concentrated peers is a topic of active research. DeYoung and Roland (2001) and Stiroh (2004) all provide particular reviews of the literature, so this segment focuses on the most relevant papers in order to highlight the contributions of the current study. The extent that diversification will increase or lessen shareholder price in benefit-orientated corporations is uncertain. Various research propose that diversification results in a discount in shareholder value, related to dysfunctional investments in marginally lucrative routines, move-subsidization associated with loss-making activities, or even the search for non-profit managerial goals (Siggelkow, 2003). Not long ago many experts have recommended of which a few of these scientific studies are usually governed by a great endogeneity disadvantage. The finding of which different firms are usually more lucrative compared to non-assorted businesses is not data regular of which variation enhances success; it' will duplicate a great tendency pertaining to diverse firms for you to sporadic using their non-diversified counterparts previous to the variation quality. In the event the endogeneity of the variation varied is usually handled pertaining to, there's some data of which just about any relationship in between variation and benefit fades away (Campa and Kedia, 2002; Villalonga, 2004).

Along with reference to variation for the a part of economic organizations specifically, in recent times competitive stress on profits avenues relative to charges, credited to a certain extent for economic deregulation, has brought on monetary organizations to focus on non-interest earnings, and fee-paying and commission-paying products and services, bancassurance and off balance sheet business. One of several advantages for variation, Santomero and Eckles (2000) cite extension, consciousness of potency revenue by means of economic climates associated with scale and setting, aid associated with idiosyncratic probability, and strengthening of the financial system.

DeYoung and Roland (2001) proved that relationship-primarily based cash flow revenues, together with interest on loans and securities and service fees on financial institution deposits, were extra strong than non-interest income for large US banks. A transfer versus fee-based measures was previously associated with greater revenue volatility and also better power, just one which recommend greater cash flow volatility. Stiroh (2004a) detects some income to help diversification within great things to do (corresponding to help credit and also noninterest activities), but zero take advantage of diversification all over broad things to do, for US community financial institutions. A larger centerpiece about non- attention income seemed to be once linked to a decrease in possibility -adjusted productivity. Stiroh (2004b) deduced that the volatility of the online functioning income of people finance institutions dropped above the time period 1984–2001. Conversely, the actual noninterest income element seemed to be more hazardous, and also a growing variety of correlated having attention income, progressively.

Villalonga (2004) disclosed an increase within the portion connected with non-interest income seemed to have a decrease within the earning of US banks. Non-interest earnings could possibly improve the volatility connected with overall revenue for 3 reasons. First, many bank loans are generally relationship-based and have towering switching fees, many fee-paying services usually are not relationship-based. Accordingly, interest income from financial loans may be less fickle than income from fee-paying services. 2nd, the major input to generate financial loans can be interest output, that's erratic, while the key input to generate fee-paying services can be time, that's quasi-fixed. Thus fee-paying services may possibly include higher working control than financing, making earnings much more prone to any cry off in income. 3rd, many fee-paying services involve little if any regulating capital. Thus fee-paying services tend to use higher fiscal control than financing. Hirtle and Stiroh (2007) discover that the enhanced concentration of US banks on retail store consumer banking on the time period 1997–2004 seemed to be linked to considerably reduce money and data processing results for all those banks, however having reduce volatility for substantial banks simply. Stiroh and Rumble (2006) discover that diversity benefits can be found among US fiscal having firms. Even so, most of these increases are generally outweighed by means of enhanced contact with non-interest actions, which are much more erratic although not always much more worthwhile. Within fiscal having firms, enhanced diversity isn't going to increase earning.

A less uniform picture comes out from scientific studies intended for places other than the USA. Smith, Staikaouras, Christos and Wood(2003) deduce that non-interest profits can be a smaller amount constant than interest profits for the a part of banking companies from 15 European union (EU) places. Nonetheless, there exists negative relationship between interest along with non-interest profits. DeYoung and Rice (2004~~a~~) shows that this difference in between US along with European banking companies may be a result of the inexperience of countless US banking companies (small community banking companies especially) throughout fee-paying companies. On the contrary, widespread bank would be the historical usual in many European Union places. Carbo-Valverde and Fernandez (2007) demonstrate that throughout European bank, industry electrical power can enhance seeing that banking companies part out in non-traditional activities. Nonetheless, Lepetit,Rumble and And Wensveen (2007) demonstrate that banking companies diversifying in non-interest activities are at remarkable chance associated with financial distress than banking companies focused on traditional retail store activities.

Mercieca et al. (2007) look at the rewards from diversity for the trial connected with small Western banks, which are short of the actual size to adopt the actual universal bank model. Because in the US, there are no convey diversity advantages in and around small business lines, and there is certainly a converse relationship concerning non-interest earnings andprosperity. Laeven and Levine (2007) review the effects connected with diversity on the market importance connected with substantial banks from 42 countries. This market ideals connected with diversified banking institutions have been reduced than those people in their targeted counterparts. That submit that this doable gains from companies connected with range usually are inferior to make improved market place worth. Diversification may possibly enhance agency complications.

Templeton and Severiens (1992) look at 54 lender holding banks from 1979 to 1986 and also set up that diversification (as measured through the share of market value not accredited to lender assets) is usually related to lower difference connected with shareholder earnings. Kwan (1998) look at earnings connected with banks Portion 20 subsidiaries and also their Commercial lender associates and also recognized that Portion 20 subsidiaries usually are normally much more hazardous but not routinely much more worthwhile compared to their Commercial lender affiliates. On the other hand, Kwan deduced that numerous diversification benefits could exist for Commercial banks due to the stumpy return connection concerning securities and also lender subsidiaries. Cornett et al. (2002) additionally report that evidence of results from Portion 20 subsidiaries because the industry-adjusted functioning cashflow return in belongings rises, though questions will not transform drastically. These studies paint a mixed picture about the performance effects of diversificationin banking. This study focused on the effect of diversification into foreign exchange, loans and advances commissions, government securities and agency banking on performance of Commercial banks

2.3.1Commission from Foreign Exchange

The foreign exchange market is a type of exchange for the international decentralized trading of international currencies. Financial centers around the globe serve as anchors of buying and selling among a wide range of various kinds of consumers and dealers around the clock, excluding weekends. The foreign currencies market determines the relative values of different currencies.

An vital part of this marketplace comes from the monetary activities of companies in search of foreign currency exchange to pay for goods or products and services. Business companies regularly business somewhat small quantities compared to those of banks or speculators, and their business frequently have little short time period affect on marketplace fees. Then again, trade flows are the most important factor within the long term route of a currency's trade fee. Exchange charge is an important microeconomic variable and determination of alternate (Smith et al, 2003). An adaptation of change rate performs a very powerful role in determination of stability of business. Unstable trade fee slows down the process of industry, destabilizes the capital movements, and shatters the investor's confidence to invest in a rustic with top trade rate volatility which in turn slows the process of growth.

Although top and sustained economic growth is without doubt one of the key financial goals in many nations, attaining it is likely to be stimulated through appropriate macroeconomic insurance policies aimed toward common macroeconomic balance. among the tools which might be an important in economic control and balance of fundamental values is the change fee. As a relative worth the exchange fee is very important in making spending and investment choice (Logue, 2007). This brings the exchange rate into focus.

2.3.2 Loans and Advances Commissions

Lending is the major trade task for most industrial banks. The loan portfolio is in most cases the most important asset and the predominate income. As such, it is without doubt one of the largest assets of risk to a financial institution's protection and soundness. Whether or not because of lax credit score standards, poor portfolio chance management, or weakness in the financial system, loan portfolio problems have traditionally been the main cause of bank losses and failures. Effective control of the mortgage portfolio and the credit score function is fundamental to a bank's protection and soundness. Lending has been, and still is, the mainstay of banks' industry, and this is truer to rising economies like Kenya where capital markets are not but well evolved. To a number of the transition economies, however, and Kenya specifically, lending actions had been debatable and a troublesome topic (Richard, 2006).

For countless years, outstanding home loan profile professionals have aimed so much in their work on prudently approving loans and very carefully following bank loan proficiency. Actually these activities are mainstays involving home loan profile administration, study involving credit worthiness concerns, a lot like those regarding gas and oil loaning, farm loaning, and business precise house loaning in the eighties, have made it clear which profile professionals have to perform extra (Von Stauffenberg, 2002). Standard routines depend excessive on trailing signs involving credit worthiness good quality corresponding in order to delinquency, nonaccrual, and threat credit score traits. Financial institutions have found why these indications never present enough lead time regarding corrective actions although there's systemic gathering in probability.

2.3.3 Government Securities

The banks also spend money on government securities together with treasury bills and bonds. By and large, the money the government is provided with by income taxes seriously isn't ample to hide paying. In many cases, the government must be lent money both for financing its paying. To do this, this troubles Treasury Provides along with Treasury bills (each are generally jointly known as government securities) through the Central Bank of Kenya (CBK), that is the banker to the govt. The CBK is the government’s broker with regards to funding through Treasury installments along with Treasury bonds.

Fundamentally, the government has a bank loan by everyone that purchases government securities, along with some other bank loan, there exists a reimbursement period along with mortgage specific to the next bank loan. Buying government securities essentially can be adequate to financing income to the government.

A government bond is a bond issued by a national government, commonly promising to pay a definite amount (the face value) on anassured date, as well as sporadic interest payments. Bonds are debt investments whereby an investor loans a certain amount of money, for a certain amount of time, with a certain interest rate, to a company or country. Government bonds are habitually denominated in the country's own currency.

2.3.4 Agency Banking

Agency banking was initiated in India in 2006 when banks were permitted to appoint MFIs and post offices as trade correspondents for inter alia small deposit-taking. Elsewhere, bureau bank identifies the particular points connected with services numerous through post offices inside outback connected with Australia where buyers through every one of the banking institutions can easily execute their particular deals, to help countryside People from France the place that the standard bank Credit rating Agricole works by using place retailers to make available monetary products and services, to help diminutive lottery stores and also buyers can get their particular interpersonal repayments and also accessibility their particular standard bank balances (Porteous, 2006).

According to FinAccess Nation's Review (2009), banking institutions get millions at their particular expense however most of this goes to major management and business establishments and also web while the bulk of Kenyans keep on being barred, using simply 3 % of the country's population old preceding 17 several years having standard bank balances. A current World bank study into Kenya's monetary segment, showthat thirty four percent of the population will be omitted through having access to monetary products and services, nevertheless it sets Kenya ahead of her colleagues inside East African region (Beck, Cull, Fuchs and Getenga, 2010). To improve financial market access, Banking Act was amended to pave way for agency banking.

Agency banking in Kenya was institutionalized in 2010 through Guideline on Agent Banking, issued by the Central Bank of Kenya (CBK). The document lays down the manner that agent banking business should be conducted in Kenya in order to make sure the supervision, safety and soundness of the banking sector. According to the agent banking regulation, agent shall be an that has an existing entrenched commercial activity which has been operational for at least 18 months directly preceding the date of the suitability assessment, has not been classified as a lacking, doubtful or non-performing borrower by an institution in the last 18 months preceding the date of signing the contract and possesses appropriate physical infrastructure and human resources to be able to offer the services with the required degree of efficiency and security (CBK, 2010).

2.3.5 Financial Performance

Financial performance is described by La Porta *et al*, (2002) as the level of performance of a business over a certain time frame, expressed with regards to overall earnings and losses all the way through that time. It is consequentlygauging the results of a firm's policies and operations in financial terms. Profit making is the elementary dimension for aventure to sustain, perform and grow to maximize wealth. Social responsibility is the deep-seated accountability of the state that focuses on social mobilization in its totality (La Porta *et al*, 2002). The performance of an organization is the result of its general strategy, innovation, quality, market position and long term view. Hence firms are constantly seeking new and improved products, processes, and organizational structures that lessen their costs of production, better satisfaction of the customer demands, and superior profits. Finance is the life blood of any organization; improvements in the financial sector have positive direct implication throughout the economy. The capacity of an organization to create and sustain organizational wealth depends on the competitive effectiveness of its value chain that in turn, is determined by the firm's relationships with clients, shareholders, employees and other stakeholders (Kotter and Heskett, 1999). Consequently, financial performance of an organisation is of extreme importance in determining it success.

According to Helen and Keasey (1999), episodic measurement of firm performance is conducted for numerous reasons: it helps investors to devise their expectations concerning the future earning potential of companies; it supplies a reasonable feedback on how well the firm has achieved its goals; it furnishes the basis of an sufficient bonus plan that gives incentives to achieve the firm's goals and rewards the results of suitable decisions.

Financial performances measurements have been explained by many authors. Birya (2009) conducted a review of the main value-based measures: the economic value added (EVA) the cash flow return on investment (CFROI) and the shareholder value approach (SVA) described byLogue (2007). It has been said that you must measure what you expect to manage and accomplish to create a reference to work with. One way of establishing references and managing the financial affairs of an organization is to use ratios. Ratios are simply relationships between two financial balances or financial calculations. These relationships establish references to understand financial performance. The main application of these ratios is return on equity, liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios.

By the usage of this financial link it has been conceivable to decide whether or not investment could be justified, a product was made obsolete, or go back on capital was applicable

(Stiroh, (2004). In fairness financial performance measurement is traditionally a recording machine that's now being used extra regularly to improve and guide funding.

2.3.6 Bank Performance Indicators

Profit could be the conclusive objective regarding business oriented banking institutions that's why the many methods usually are recommended for this purpose and great target. To be able to measure productivity of the banking institutions, one can find range of ratios employed which of which Return on Asset, Return on Equity and Net Interest Margin usually are the most important ones (Alexandru et al., 2008).

Alkhatib (2012) understanding the economic performance regarding Palestinian business oriented banking institutions listed on Palestine investments swap (PEX) calculated economic performance employing several indications; Internal–based performance calculated by Return on Assets (ROA), Market-based performance calculated by Tobin’s Q (Price / Book value of Equity) and Economic–based performance calculated by Economic Value add. The study usedthecorrelation and multiple regression analysis of yearly time series data from 2005-2010 to show the impact of bank size, credit history possibility, in business efficiency and advantage supervision on economic performance calculated from the several indications, and to generate a good-fit regression model in order to predict the near future economic performance of those banking institutions. The study turned down the theory proclaiming which “there persisted statistically insignificant impression regarding financial institution dimensions, credit history possibility, in business efficiency and advantage supervision on economic performance regarding Palestinian banks”.

i. **Return on Equity (ROE)**

ROE is a financial ratio that refers to how much profit a firm earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders get in return for their investment. A company that has a soaring return on equity is more likely to be one that is able of making cash on the inside. Thus, the higher the ROE the healthier the firm is in terms of profit making. It is further described by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It stands for the rate of return received on the funds invested in the organization by its stockholders. ROE shows how efficiently a firm management is using shareholders' funds. Thus, it can be concluded from the above statement that the superior the ROE the more efficient the management in using the shareholders capital.

ii. **Return on Asset (ROA)**

ROA is also another key ratio that shows the profitability of a company. It is a ratio of Income to its overall asset (Khrawish, 2011). It measures the capability of the firm management to make income by using the organizations assets at their disposal. In other words, it shows how professionally the resources of the organization are used to create the revenue. It further indicates the competence of the management of a firm in generating net revenue from all the resources of the company (Khrawish, 2011).

iii. **Net Interest Margin (NIM)**

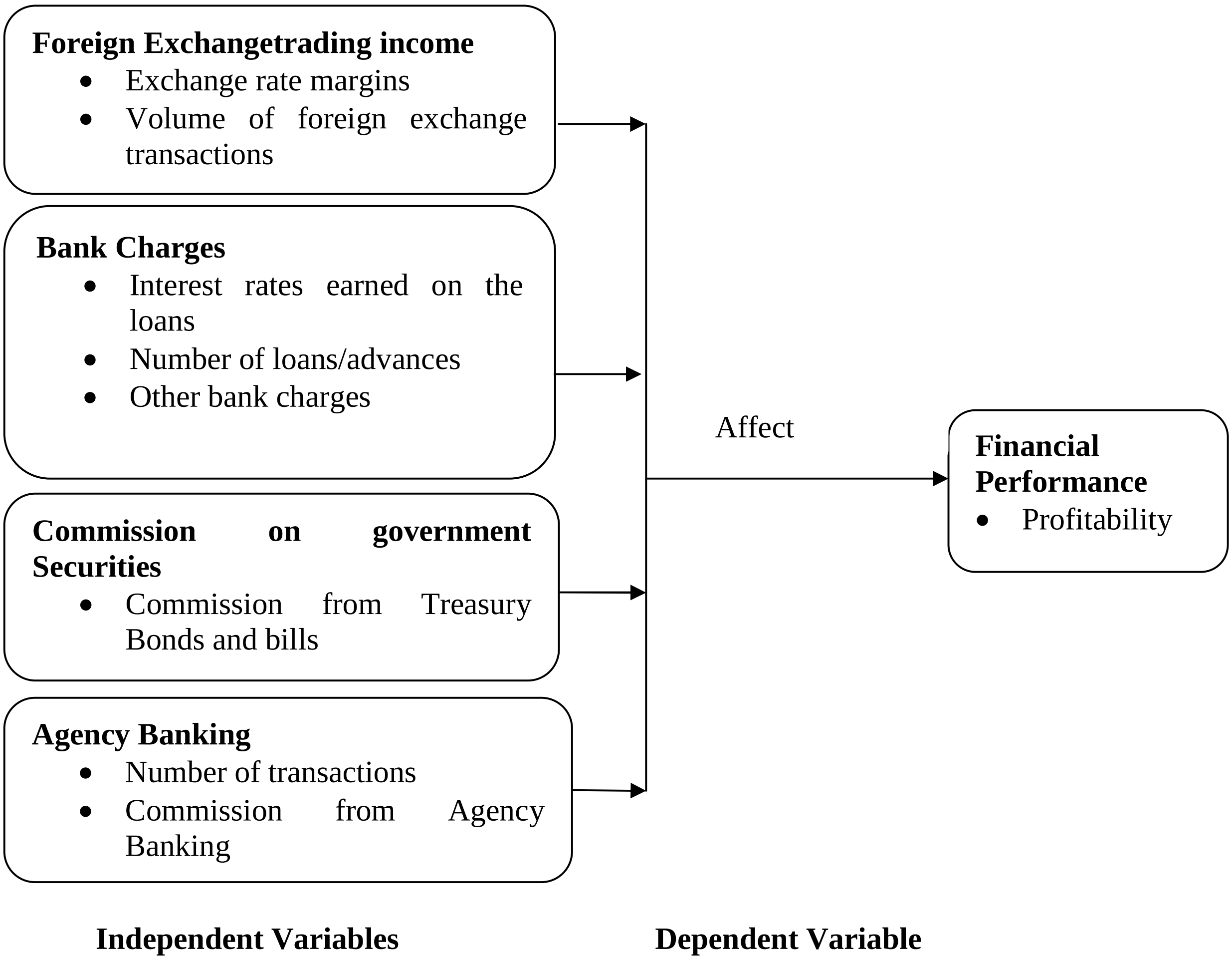
NIM can be a way of measuring the distinction between awareness earnings earned simply by finance institutions and the quantity of awareness paid out for their lenders (for example, deposits), in accordance with the quantity of their particular (interest- earning) belongings. Most commonly it is articulated being a proportion associated with just what the financial institution brings in with lending options inside a certain time period and other belongings minus the awareness compensated with lent finances broken down from the average number of this belongings on which this received earnings for the reason that time period (the average getting assets). This NIM varying pertains to websites awareness earnings broken down simply by overall cash flow belongings (Gul et al., 2011). World wide web awareness border methods this gap between awareness earnings the financial institution gets with lending options and sec and awareness charge associated with their lent finances. This shows the cost of bank intermediation products and services as well as the competence on the corporation. This enhanced websites awareness border, this exceptional this bank's income as well as the a lot more continuous the organization can be. Therefore, this is probably the chief methods associated with finance institutions fiscal overall performance. Nevertheless, a larger web awareness border may reveal riskier lending procedures linked with considerable bank loan loss convention (Khrawish, 2011).

This specific study looks for to research consequences associated with earnings diversity in to non-interest earnings with fiscal overall performance associated with Professional finance institutions in Kenya. It is therefore going to investigate how diversification into foreign exchange trading, fees and commissions on loans and advances, government securities and sale and lease of assets owned by the banks influences banks financial performance. In order to assess the interior performance of a commercial bank, financial pointers are calculated from the bank financial statements. Financial ratios like ROA, asset utilization, and operational efficiency are computed, Also, measures such as assets size, and the interest income size are used to assess the performance of a commercial bank. However, the most commonly used measures are profitability, ROA and ROE (CBK, 2010).

2.4 Conceptualization

FIGURE 1

Conceptual Framework



Source: Author (2013)

The above figure shows the independent and dependent variables. Foreign exchange is very important in enhancing the financial performance of the banks. Foreign exchange was measured under exchange rate margins and volume of foreign exchange transactions. On the other hand, bank charges were measured under interest rates earned on the loans, number of loans/advances and other bank charges. Government securitieswere measured under commission from treasury bonds and commission from treasury bills while agency bankingwas measured under number of transactions and commission from agency banking. On the other hand, financial performancewas measured under profitability.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in the collection of data pertinent in answering the research questions. It is divided into research design, study population, sample design, data collection, data analysis methods, ethical issues and expected output.

3.2 Research Design

The chieffocal point of this study is quantitative. However some qualitative approach was used in order to get anenhanced understanding and probably enable a superior and more perceptiveunderstanding of the results from the quantitative study. The research adopted a descriptive survey research design. The design was chosen since it is more precise and accurate since it involves description of events in a carefully planned way. It also portray the characteristics of a population fully (Babbie, 2002). According to Cooper and Schindler (2003), a descriptive study concentrates with finding out the what, where and how of anobservable fact. Further, Mugenda and Mugenda (2003) opined that the descriptive research collects data in order to answer questions concerning the present status of the subject under study. Because this study is concerned with finding out whether diversification of sources of income have an influence on the financial performance of Commercial banks then descriptive research design was best suited for it.

3.3 Target Population

The target population of this study was the 43 financial officers at the head offices of the 43 registered Commercial banks in Kenya. The study focused more on the section and particularly on the top management staff who are directly dealing with the day to day management of the company since they are the ones conversant with the subject matter of the study. Mugenda and Mugenda (1999) explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. Due to the population size of financial managers at the head offices of the Commercialbanks, the research took the census approach. A census is where data is collected from all members of the population (Hair, Celsi, Money, Samouel, & Page, 2011).

3.4 Data CollectionInstruments and Procedures

3.4.1 Data Collection Instruments

The study used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions. A 5-point likert scale was used to assess the effects of income source diversification on performance in the banks where 1=Very great extent, 2= Great extent, 3 = Moderate extent, 4 = Little extent and 5 = No extent. The questionnaires included structured and unstructured questions and was administered through drop and pick method to respondents. The closed ended questions enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaire was divided into two sections. Section one is concerned with the general information about respondents, while section two deals with the issues of income source diversification and performance. Secondary data was collected by use of desk search techniques from published reports and other documents for a period of ten years from 2000 to 2010. Secondary data includes the governments' publications, journals, banking survey reports, annual reports of the Commercial banks in Kenya and periodicals.

3.4.2 Data Collection Procedures

The self administered questionnaires were hand delivered at the respondents' place of work to ensure objective response and reduce non-response rate. The researcher booked appointments with the respondents, to fill in the questionnaire. This helped in clarification where need be and it avoid inconveniences. Nevertheless, where it proved difficult for the respondents to complete the questionnaires immediately, the questionnaires were left with the respondents and picked later. An introductory letter from KCA University was taken along to enable the administering of the questionnaire. The questionnaires weredistributed using the drop and pick later method.

3.5 Testing for Validity and Reliability

3.5.1 Validity Testing - Piloting

To ascertain the validity of the questionnaire, a pilot test was carried out (Cronbach, 1971). The content validity of the research instrument was evaluated through the actual administration of the pilot group. In validating the instruments, 14 managers wereselected. The population units used in the pilot study wasnot included in the final sample. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items are sent to the pilot group to obtain suggestions for modification. Content validity draws an inference from test scores to a large domain of items similar to those on the test (Polkinghorne, 1988). Content validity was concerned with sample-population representativeness i.e. the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

The instrument wasadministered by the researcher after which a discussion wasmade to determine the suitability, clarity and relevance of the instruments for the final study. Ambiguous and inadequate items wererevised in order to elicit the required information and to improve the quality of the instruments. To establish the content validity of the research instrument the student sought opinions of experts in the field of study especially the lecturers in the department of business management to ensure that the tool wasmeasuring what is supposed to be measured.

3.5.2 Reliability Testing

Reliability can be improved by numerous comparable things on a gauge, by examining a new assorted test of individuals and by employing uniform examining techniques. The researcher selected a pilot group of 15 individuals from the target population to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques were applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda, 2008). The pilot data was not included in the actual study.

3.6 Data Analysis

Before digesting the responses, the filledquestionnaires were checked for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Both descriptive analysis and inferential analysiswere employed. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data.Inferential statistics such as correlation analysis, regression analysis were also used. The researcher used multiple regression model to analyze the relationship between the independent and dependent variables. The regression equation estimation was employed to analyze how the independent variable affected the dependent variable using Statistical Package for Social Sciences (SPSS V.21). The regression equation was

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$$ ……………………………………..…..Equation 1.

Whereby Y = banks financial performance (measured using profitability (ROA))

X1 = Foreign Exchange

X2 = Loans and Advances Commissions

X3 = Government Securities

X4 = Agency Banking

ε = Error Term

The findings were presented using tables and figures to summarize responses for further analysis and facilitate comparison.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the analysis on the effects of income source diversification on financial performance of Commercial banks in Kenya. The chapter also provides the major findings and results of the case study and discusses those findings and results against the literature review chapter.

4.1.1 Response Rate

The study targeted a total of 43 respondents. However, only 40 respondents responded and returned their questionnaires contributing to 93.02% response rate. According to Mugenda and Mugenda (1999) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate is adequate for analysis and reporting. The researcher made use of frequency tables, graphs and charts to present data.

4.1.2 Reliability Analysis

Prior to the actual study, the researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument.

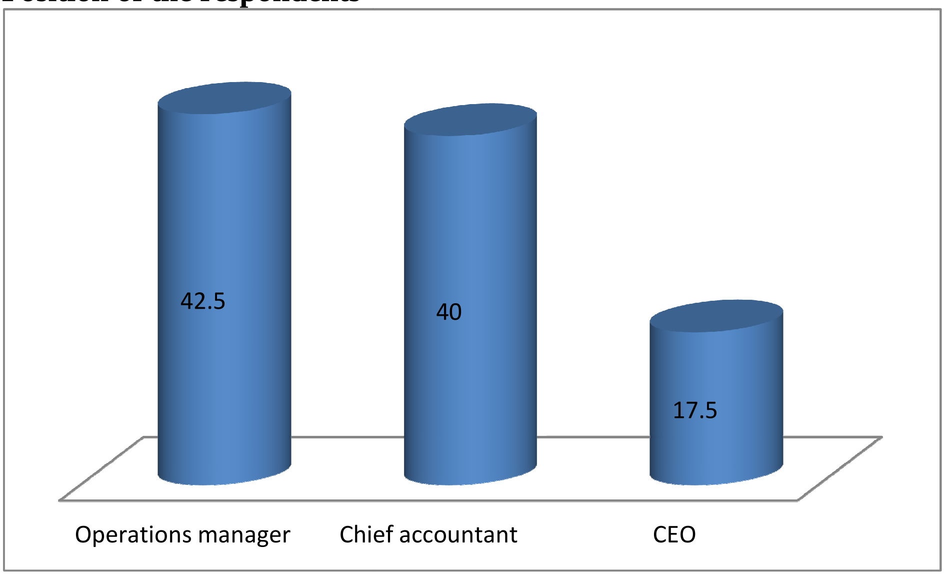
TABLE1
Reliability Coefficients

Scale	Cronbach's Alpha	Number of Items
Foreign exchange	0.894	5
Bank charges	0.909	7
Commission on government securities	0.725	2
Agency banking	0.613	5

The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain item measures the same construct. Cronbach's Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The findings of the pilot study shows that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2003).

4.2 General Information

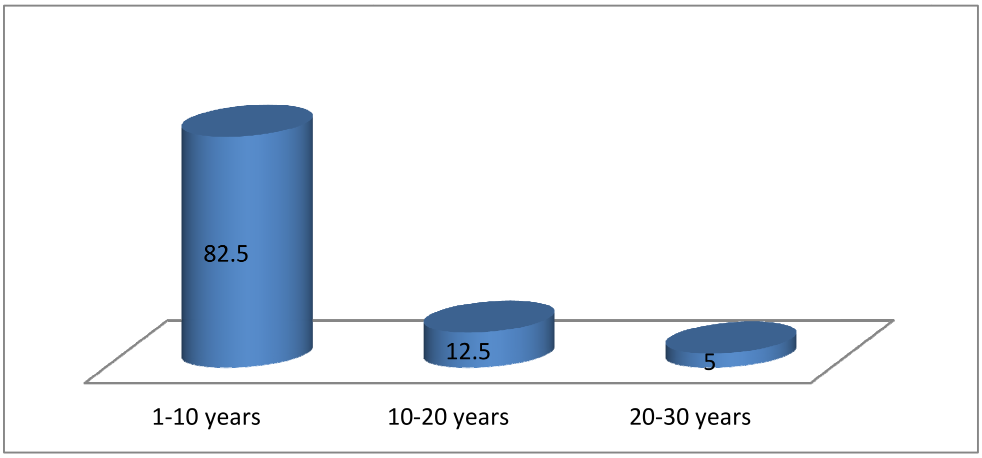
FIGURE 1
Position of the respondents



The study sought to find out the position of the respondents. According to the findings, 42.5% of the respondents were operations managers, 40% were accountants and 17.5% were CEOs.

FIGURE 2

Period the respondents had been on their positions



The study sought to find out the period the respondents had been on their positions. From the findings, 82.5% of the respondents had been on their positions for 1-10 years, 12.5% of the respondents had been on their positions for 10-20 years and 5% of the respondents had been on their positions for 20-30 years.

4.3Diversification of Sources of Income and the Financial Performance

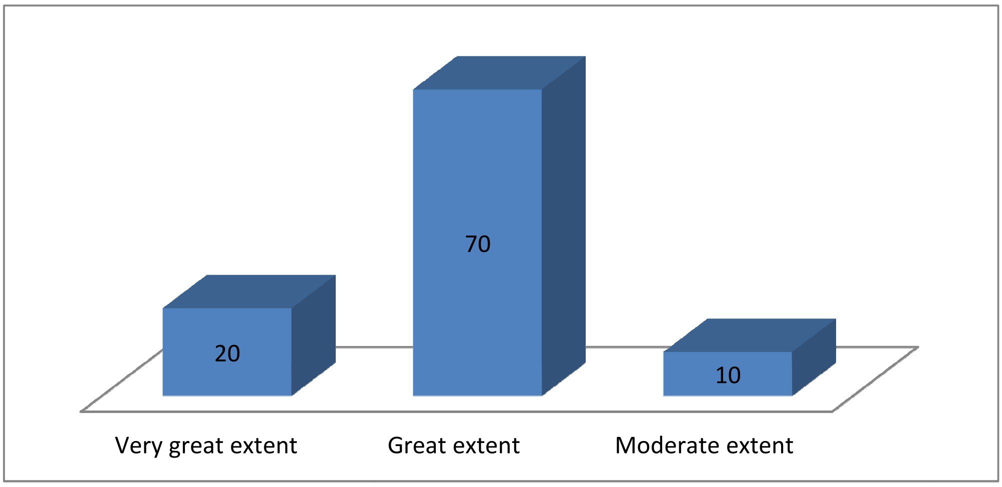
Diversified companies are more lucrative than non-diversified organization is not evidence per se that diversification augments profitability; it could reflect a propensity for diversified companies to do better than their non-diversified equivalents prior to the diversification resolution. Demsetz and Strahan (1997) deduced that while big banks were more diversified than smaller banks, they also held less capital and approved riskier loans. DeYoung and Roland (2001) established that relationship-based revenue streams, such as interest on loans and securities and service charges on commercial bank deposits, were steadier than non-interest revenue for big US banks.

4.3.1 Foreign Exchange Trading

The foreign exchange market is a form of exchange for the global decentralized trading of international currencies. The foreign exchange market determines the relative values of different currencies.

FIGURE 3

Effects offoreign exchange trading on financial performance of Commercial banks



The study sought to find out the extent to whichforeign exchange trading affected financial performance of Commercial banks. According to the findings, 70% of the respondents indicated that foreign exchange trading affected financial performance of Commercial banks to a great extent, 20% of the respondents indicated that foreign exchange trading affected financial performance of Commercial banks to a very great extent and 10% of the respondents indicated that foreign exchange trading affected financial performance of Commercial banks to a moderate extent.Exchange rate is a very important microeconomic variable and backbone of Trade (Smith *et al.* , 2003).

TABLE 2

Effects of foreign exchange trading on the financial performance of theCommercial banks

	Mean	**Stdev**
Exchange rate margins	3.975	1.175
Volume of foreign exchange transactions	3.609	1.177

The study sought to find out the extent that aspects of foreign exchange trading affected the financial performance of the bank. From the findings, exchange rate margins and volume of foreign exchange transactions affected the financial performance of the banks to a great extent as shown by a mean of 3.975 and 3.609 respectively.Among the instruments that are crucial in economic management and stability of basic prices is the exchange rate. As a virtual price the exchange rate is significant in making spending and investment judgment (Logue, 2007).

TABLE 3

Foreign exchange trading and its effect on financial performance of Commercial banks

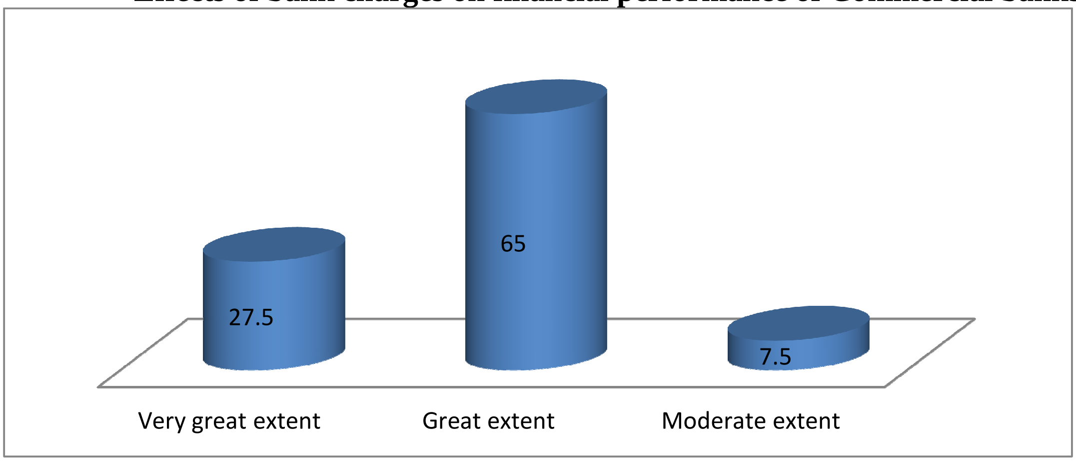
	Mean	**Std dev**
Trade flows are an important factor in the long-term direction of a currency's exchange rate which is a major determinant of the bank performance	3.578	1.378
Exchange rate is crucial in economic management and stability of basic prices in the bank	3.328	1.404
As a relative price, the exchange rate is important in making spending and investment decision	3.422	1.245

The study sought to find out the respondents' agreement level with statements that relate to foreign exchange trading and its effect on financial performance of Commercial banks. According to the findings, the respondents agreed that trade flows are an important factor in the long-term direction of a currency's exchange rate which is a major determinant of the bank performance as shown by a mean of 3.578. In addition, the respondents were neutral that as a relative price, the exchange rate is important in making spending and investment decision and exchange rate is crucial in economic management and stability of basic prices in the bank as shown by a mean of 3.422 and 3.328 respectively.Mercieca et al. (2007) look at the rewards from diversity for the trial connected with small Western banks, which are short of the actual size to adopt the actual universal bank model. Because in the US, there are no convey diversity advantages in and around small business lines, and there is certainly a converse relationship concerning non-interest earnings and prosperity.

4.3.2 Bank Charges

The loan portfolio is typically the largest asset and the predominate source of revenue. Financial centers around the globe serve as anchors of buying and selling among a wide range of various kinds of consumers and dealers around the clock, excluding weekends.

FIGURE 4
Effects of bank charges on financial performance of Commercial banks



The study sought to find out the extent that bank charges affected financial performance of Commercial banks. From the findings, 65% of the respondents indicated that bank charges affected financial performance of Commercial banks to a great extent, 27.5% of the respondents indicated that bank charges affected financial performance of Commercial banks to a very great extent and 7.5% of the respondents indicated that bank charges affected financial performance of Commercial banks to a moderate extent.

TABLE 4

Effects of bank charges onthe financial performance of Commercial banks

	Mean	**Stdev**
Interest rates earned on the loans	3.959	0.924
Number of loans/advances	3.781	1.076
Service charges on bank withdrawals/deposits	3.453	1.321
Current Accounts Fees	3.719	1.091
Account maintenance fee	3.625	1.202
Credit Cards Fees	3.859	1.052
Other bank charges	3.734	1.116

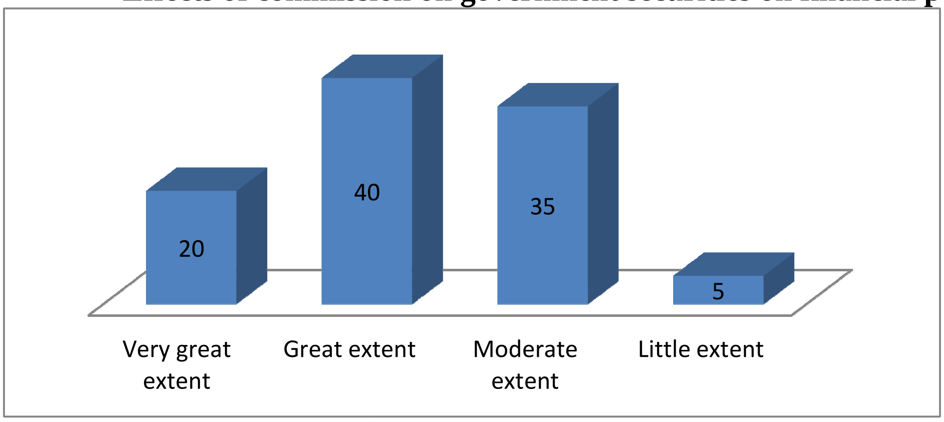
The study sought to find out the extent that aspects of bank charges affected the financial performance of the banks. According to the findings, interest rates earned on the loans, credit cards fees and number of loans/advances affected the financial performance of the banks to a great extent as shown by a mean of 3.959, 3.859 and 3.781respectively. In addition, other bank charges, current accounts fees and account maintenance fee affected the financial performance of the banks to a great extent as shown by a mean of 3.734, 3.719 and 3.625 respectively. Moreover, service charges on bank withdrawals/deposits affected the financial performance of the banks to a moderate extent as shown by a mean of 3.453.Even supposing these actions stay mainstays of mortgage portfolio management, research of earlier credit score issues, similar to those relatedto oil and gas lending, agricultural lending, and business actual estate lending in the

Eighties, has made it transparent that assortment managers will have to do extra (Von Stauffenberg, 2002).

4.3.3 Commission on Government Securities

The banks also spend money on government securities together with treasury bills and bonds. By and large, the money the government is provided with by income taxes seriously isn't ample to hide paying. In many cases, the government must be lent money both for financing its paying. To do this, this troubles Treasury Provides along with Treasury bills (each are generally jointly known as government securities) through the Central Bank of Kenya (CBK), that is the banker to the govt. The CBK is the government's broker with regards to funding through Treasury installments along with Treasury bonds.

FIGURE 5
Effects of commission on government securities on financial performance



The study sought to find out theextent that commission on government securities affected financial performance of Commercial banks. According to the findings, 40% of the respondents indicated that commission on government securities affected financial performance of Commercial banks to a great extent, 35% of the respondents indicated that commission on government securities affected financial performance of Commercial banks to a moderate extent, 20% of the respondents indicated that commission on government securities affected financial performance of Commercial banks to a very great extent and 5% of the respondents indicated that commission on government securities affected financial performance of Commercial banks to little extent.Essentially, the government takes a loan from everyone who purchases government securities, and like with any other loan, there is a reimbursement period and an interest rate explicit to that loan (CBK, 2010).

TABLE 5

Effects of commission on government securities on the financial performance of the Commercial banks

	Mean	**Stdev**
Commission from Treasury Bonds	3.891	1.086
Commission from Treasury Bills	3.781	1.24

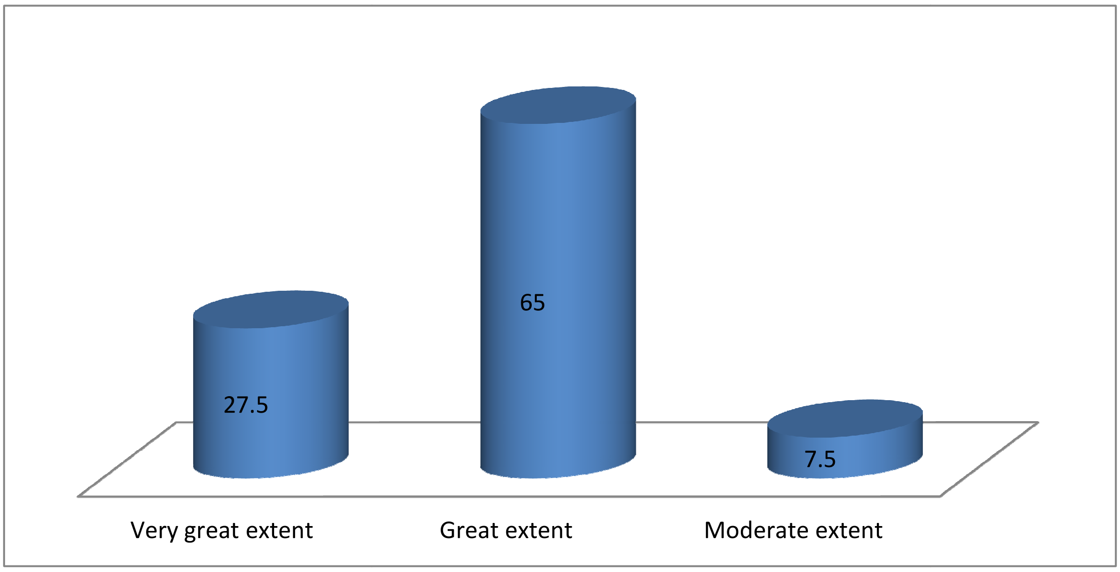
The study sought to find out theextent that aspects of commission on government securities affected the financial performance of the banks. From the findings, commission from Treasury Bonds and commission from Treasury Bills affected the financial performance of the banks to a great extent as shown by a mean of 3.891 and 3.781 respectively.DeYoung and Roland (2001) established that relationship-primarily based earnings streams, together with interest on loans and securities and service fees on financial institution deposits, were extra strong than non-interest revenue for big US commercial banks. A move against fee-based actions used to be related with higher income instability and better leverage, either one of which suggest higher earnings volatility.

4.3.4 Agency Banking

Agency banking refers to the points of service varying from post offices in the outback of Australia where customers from every one of the banks can carry out their business, to countryside France where the bank Credit Agricole uses corner stores to present financial services, to diminutive lottery outlets and clients can obtain their social payments and reach their commercial bank accounts (Porteous, 2006).

FIGURE 6

Effects ofagency banking on financial performance of Commercial banks



The study sought to find out theextent that agency banking affected financial performance of Commercial banks. According to the findings, 65% of the respondents indicated that agency banking affected financial performance of Commercial banks to a great extent, 27.5% of the respondents indicated that agency banking affected financial performance of Commercial banks to a very great extent and 7.5% of the respondents indicated that agency banking affected financial performance of Commercial banks to a moderate extent.According to

FinAccess Nation's Review (2009), banking institutions get millions at their particular expense however most of this goes to major management and business establishments and also web while the bulk of Kenyans keep on being barred, using simply 3 % of the country's population old preceding 17 several years having standard bank balances. A current World bank study into Kenya's monetary segment, show that thirty four percent of the population will be omitted through having access to monetary products and services, nevertheless it sets Kenya ahead of her colleagues inside East African region (Beck, Cull, Fuchs and Getenga, 2010).

TABLE 6

Effects of agency banking onthe financial performance of theCommercial banks

	Mean	Stdev
Number of transactions	3.891	1.086
Commission from Agency Banking	3.781	1.24
Savings on cost of construction of bank premises and leasing costs when banks are using the Agency premises	3.813	1.233
Reduction on Human Resource expenses as the banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum.	3.547	1.194
Savings on equipment like furniture and computers.	3.641	1.089

The study sought to find out theextent that aspects of agency banking affected the financial performance of the bank. From the findings, number of transactions, savings on cost of construction of bank premises and leasing costs when banks are using the agency premises and commission from agency banking affected the financial performance of the banks to a great extent as shown by a mean of 3.891, 3.813 and 3.781 respectively. In addition, savings on equipment like furniture and computers and reduction on human resource expenses as the banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum affected the financial performance of the banks to a great extent as shown by a mean of 3.641 and 3.547 respectively.According to the agent banking regulation, agent shall be an that has an existing entrenched commercial activity which has been operational for at least 18 months directly preceding the date of the suitability assessment, has not been classified as a lacking, doubtful or non-performing borrower by an institution in the last 18 months preceding the date of signing the contract and possesses appropriate physical infrastructure and human resources to be able to offer the services with the required degree of efficiency and security (CBK, 2010).

4.3.5 Banks Performance

The study sought to find out the trend of aspects of financial performance of the banks.

TABLE 7

Trend of aspects of financial performance of the banks

measure	Mean	Stdev
Profitability	3.797	1.184
Sales turnover	4.063	1.233
Market share	3.938	1.194
Return on assets	3.797	1.211
Stock returns	4.125	1.241
Dividend payout	3.656	1.072

According to the findings, the trend of stock returns, sales turnover and market share had improved as shown by a mean of 4.125, 4.063 and 3.938 respectively. In addition, the trend of profitability, return on assets and dividend payout had improved as shown by a mean of 3.797, 3.797 and 3.656 respectively.Agency banking refers to the points of service varying from post offices in the outback of Australia where clients from every one of the banks can carry out their transactions, to rural France where the bank Credit Agricole uses corner stores to offer financial services, to diminutive lottery outlets and clients can obtain their social payments and access their bank accounts (Porteous, 2006).

The study further sought to establish the trend of the Return on Assets (ROA) ratio for five years. From the secondary data, it was clear that the banks registered an increasing trend.

TABLE 8

Return on Assets (ROA) ratio

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Return on Assets (ROA) ratio	4.07	4.51	5.64	7.03	7.28	5.71

Source: Financial and Central bank reports (2012)

4.4 Inferential Statistics

4.4.1 Correlation Analysis

TABLE 9

Correlation Matrix

		Financial performance	Foreign exchange	Government securities	Agency banking	Loans and advances commission
Financial performance	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Foreign exchange	Pearson Correlation	.218	1			
	Sig. (2-tailed)	.039	.			
Government securities	Pearson Correlation	.264	.123	1		
	Sig. (2-tailed)	.027	.016	.		
Agency banking	Pearson Correlation	.122	.243	.197	1	
	Sig. (2-tailed)	.043	.012	.028	.	
Loans and advances commission	Pearson Correlation	.129	.233	.220	.131	1
	Sig. (2-tailed)	.017	.009	.002	.014	.

Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The Pearson correlation in table 4.8 indicates that there is no significant correlation between the independent variables. That is, none of the correlation coefficients are greater than 0.5 hence no problem of multicollinearity. This means that all the four predictor variables could be used.

4.4.2Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions.

TABLE 10

Results of multiple regression of income source diversification indicators and financial performance of Commercial Banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793	.726	.678	.2076

a. Predictors: (Constant), Foreign exchange, Government securities, Agency banking, Loans and advances commission.

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 67.8% of the changes in the bank financial performancevariables could be attributed to the combined effect of the predictor variables.

TABLE 11

ANOVA results between banks financial performance and predictor variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.223	4	3.556	3.785	0.012
	Residual	32.876	35	0.939		
	Total	47.099	39			

a. Predictors: Foreign exchange, Government securities, Agency banking, Loans and advances commission.

b. Dependent Variable: financial performance.

The probability value of 0.012 indicates that the regression relationship was highly significant in predicting how foreign exchange, government securities, agency banking, loans and advances commission influenced banks financial performance. The F calculated at 5% level of significance was 3.785 since F calculated is greater than the F critical (value = 2.6060), this shows that the overall model was significant.

TABLE 12

Regression coefficients of the relationship between banks financial performance and the four predictive variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	+2.770	0.451		6.142	0.000
	Loans and advances commission	+0.332	0.121	0.146	2.744	0.025
	Foreign exchange	+0.433	0.079	0.126	5.481	0.022
	Government securities	+0.248	0.073	0.045	3.397	0.032
	Agency banking	+0.142	0.073	0.142	3.302	0.021

a. Dependent Variable: banks financial performance

The regression equation above has established that taking all factors into account (foreign exchange, government securities, agency banking, loans and advances commission) constant at zero banks financial performance will be 2.770. The findings presented also show that taking all other independent variables at zero, a unit increase in foreign exchange would lead to a 0.433 increase in the bank's financial performance. Further, the findings shows that a unit increases in loans and advances commission would lead to a 0.332 increase in banks financial performance. In addition, the findings show that a unit increase in government securities would lead to a 0.248 increase in banks financial performance. The study also found that a unit increase in the scores of agency banking would lead to a 0.142 increase in banks financial performance. Overall, foreign exchange had the highest effect on banks financial performance followed by loans and advances commission, then government securities while agency banking had the least effect on banks financial performance. This notwithstanding, all the variables were significant since the P values were less than 0.05.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter presents summary of findings,conclusions, policy recommendations of the research based on the findings obtained and interpreted from the data collected and suggestions for further research. The objective of the study was to establish the effects of income source diversification on financial performance of Commercial banks in Kenya.

5.2 Summary of Findings

The study found that foreign exchange had the highest effect on banks financial performance followed by commission from loans and advances, then government securities while agency banking had the least effect on banks financial performance(r= 0.793, p= 0.0214). A majority of the respondents (70%) indicated that foreign exchange trading affects financial performance of Commercial banks to a great extent. From the findings, exchange rate margins and volume of foreign exchange transactions affected the financial performance of the banks to a great extent as shown by a mean of 3.975 and 3.609 respectively. A majority of the respondents (65%) reported that bank charges affected financial performance of Commercial banks to a great extent. According to the findings, interest rates earned on the loans, credit cards fees and number of loans/advances affected the financial performance of the banks to a great extent as shown with a mean of 3.959, 3.859 and 3.781respectively.Commission from Treasury Bonds and Treasury Bills affected the financial performance of the banks to a great extent with a mean of 3.891 and 3.781 respectively.The study found that agency banking affected financial performance of

Commercial banks to a great extent. From the findings, number of transactions and commission from Agency banking affected the financial performance of the commercial banks with a mean of 3.892 and 3.781 respectively. A conclusion can be drawn from the study that ‘Income source diversification affects financial performance of commercial banks in Kenya’. The banks should increase their foreign exchange trading by increasing volume of foreign exchange transactions, and ensuring that positive trade flows are maintained. Accounts opening fees should be eliminated to attract more customers.Banks should invest on government securities to earn more commission from Treasury Bonds and Treasury Bills to increase their profit.

According to the findings, trade flows are an important factor in the long-term direction of a currency's exchange rate which is a major determinant of the bank performance as shown by a mean of 3.578. In addition, the respondents were neutral that as a relative price, the exchange rate is important in making spending and investment decision and exchange rate is crucial in economic management and stability of basic prices in the bank as shown by a mean of 3.422 and 3.32. According to the findings, interest rates earned on the loans, credit cards fees and number of loans/advances affected the financial performance of the banks to a great extent as shown by a mean of 3.959, 3.859 and 3.781respectively. In addition, other bank charges, current accounts fees and account maintenance fee affected the financial performance of the banks to a great extent as shown by a mean of 3.734, 3.719 and 3.625 respectively. Moreover, service charges on bank withdrawals/deposits affected the financial performance of the banks to a moderate extent as shown by a mean of 3.453.

The study found that commission on government securities affected financial performance of Commercial banks to a great extent (40%). From the findings, commission from

Treasury Bonds and commission from Treasury Bills affected the financial performance of the banks to a great extent as shown by a mean of 3.891 and 3.781 respectively.

The study found that agency banking affected financial performance of Commercial banks to a great extent (65%). From the findings, number of transactions, savings on cost of construction of bank premises and leasing costs when banks are using the agency premises and commission from agency banking affected the financial performance of the banks to a great extent as shown by a mean of 3.891, 3.813 and 3.781 respectively. In addition, savings on equipment like furniture and computers and reduction on human resource expenses as the banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum affected the financial performance of the banks to a great extent as shown by a mean of 3.641 and 3.547 respectively. According to the findings, the trend of stock returns, sales turnover and market share had improved as shown by a mean of 4.125, 4.063 and 3.938 respectively. In addition, the trend of profitability, return on assets and dividend payout had improved as shown by a mean of 3.797, 3.797 and 3.656 respectively.

The Pearson correlation in table 4.8 indicates that there is no significant correlation between the independent variables. That is, none of the correlation coefficients are greater than 0.5 hence no problem of multicollinearity. This means that all the four predictor variables could be used. The study deduced that 67.8% of the changes in the bank financial performance variables could be attributed to the combined effect of the predictor variables. The probability value of 0.012 indicates that the regression relationship was highly significant in predicting how foreign exchange, government securities, agency banking, loans and advances commission influenced banks financial performance. The F calculated at 5% level of significance was 3.785

since F calculated is greater than the F critical (value = 2.6060), this shows that the overall model was significant.

The regression established that taking all factors into account (foreign exchange, government securities, agency banking, loans and advances commission) constant at zero banks financial performance will be 2.770. The findings presented also show that taking all other independent variables at zero, a unit increase in foreign exchange would lead to a 0.433 increase in the bank's financial performance. Further, the findings shows that a unit increases in loans and advances commission would lead to a 0.332 increase in banks financial performance. In addition, the findings show that a unit increase in government securities would lead to a 0.248 increase in banks financial performance. The study also found that a unit increase in the scores of agency banking would lead to a 0.142 increase in banks financial performance. Overall, foreign exchange had the highest effect on banks financial performance followed by loans and advances commission, then government securities while agency banking had the least effect on banks financial performance. This notwithstanding, all the variables were significant since the P values were less than 0.05.

The associated P-Value (Asymptotic significance) is 0.0214. This value is less than 0.05 (5% level of significance) indicating that there is evidence to support the hypotheses and therefore we accept it. The researcher accepts the alternative hypothesis that there exist a significant relationship between income source diversification and financial performance. A conclusion can be drawn from the study that 'Income source diversification affects financial performance of commercial banks in Kenya'

5.3 Conclusions

The study concludes that foreign exchange trading affected financial performance of Commercial banks to a great extent. Commercial companies often trade fairly small amounts compared to those of banks or speculators, and their trades often have little short term impact on market rates. Trade flows are an important factor in the long-term direction of a currency's exchange rate. Exchange rate is a vital microeconomic variable and backbone of Trade. A variation of exchange rate plays an important role in determination of balance of trade. Volatile exchange rate slows down the process of trade, destabilizes the capital movements, and shatters the investor's confidence to invest in a country with high exchange rate volatility which in turn slows the process of growth.

The study concludes that bank charges affected financial performance of Commercial banks to a great extent. Loan portfolio problems have historically been the major cause of bank losses and failures. Effective management of the loan portfolio and the credit function is fundamental to a bank's safety and soundness.

The study concludes that commission on government securities affected financial performance of Commercial banks to a great extent. The performance of a company is the result of its overall strategy, innovation, quality, market position and long term view. The capability of a firm to create and sustain organizational wealth depends on the competitive effectiveness of its value chain that in turn, is determined by the firm's relationships with clients, shareholders, employees and other stakeholders.

The study concludes that agency banking affected financial performance of Commercial banks to a great extent. Banks have billions at their disposal yet most of this goes to big corporate organizations and high net worth clients. Profit making is the fundamental dimension for an enterprise to sustain, perform and grow to maximize wealth. Social responsibility is the fundamental accountability of the state that focuses on social enlistment in its totality.

The study finally concludes that income source diversification affects financial performance of commercial banks in Kenya. It can therefore be deduced that foreign exchange had the highest effect on banks financial performance followed by loans and advances commission, then government securities while agency banking had the least effect on banks financial performance.

5.4Policy Recommendations

The study recommends that the Commercial banks should increase their foreign exchange trading by increasingvolume of foreign exchange transactions and ensuringthat positive trade flows are maintained.

That the Commercialbanks should decrease their charges so as to increase volume of sales.Accounts opening fees should be eliminated to attract more customers. Interest rates and the credit cards fees should be reviewed frequently to attract more customers and to encourage economies of large scale on the volume of customers.

Banks should invest in on government securities to earn moreCommission from Treasury Bonds and Treasury Bills.

To increase the number of transactions, the Commercial banks should motivate the agents through incentives to improve agency banking commissions.

5.5 Suggestions for Further Research

Other studies should be carried out in other organizations to find out the effects of income source diversification on financial performance of those specific organizations. The study focused on banking industry thus another study should be carried out to find out the effect of asset management on financial performance of commercial banks in Kenya.

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APPENDIX I

Letter of Transmittal

Akinyi Benter

P.O. Box 504 - 00520

Ruai.

May, 1st, 2013

Dear Sir/Madam,

RE: REQUEST FOR PARTICIPATION IN A RESEARCH STUDY

I am a final Master of Science Commerce, Finance and Accounting student at the KCA University. My area of specialization is Finance and Accounting. I am currently undertaking a research thesis on "AN INVESTIGATION OF THE EFFECTS OF INCOME SOURCE DIVERSIFICATION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA".

I would be grateful if you could spare some time from your busy schedule and complete the enclosed questionnaire. All the information provided was be used purely for academic purposes and was be treated with utmost confidentiality.

Thank you for your cooperation.

Yours faithfully,

Akinyi Benter

APPENDIX II

Questionnaire

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

SECTION A: GENERAL INFORMATION

1. What is the position you hold in the bank?..
2. 'How long have you been on the above position?'

1-10 years	[ ]	10-20 years	[ ]
20-30 years	[ ]	Over 30 years	[ ]

SECTION B: DIVERSIFICATION OF SOURCES OF INCOME AND THE FINANCIAL PERFORMANCE

FOREIGN EXCHANGE TRADING

3. To what extent does foreign exchange trading affect financial performance of Commercial banks in Kenya?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

4. What is the extent to which the following aspects of foreign exchange trading affect the financial performance of your bank?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Exchange rate margins					
Volume of foreign exchange transactions					

5. To what extent do you agree on the following statement as they relate to foreign exchange trading and its effect on financial performance of Commercial banks?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Trade flows are an important factor in the long-term direction of a currency's exchange rate which is a major determinant of the bank performance					
Exchange rate is crucial in economic management and stability of basic prices in the bank					
As a relative price, the exchange rate is important in making spending and investment decision					

BANK CHARGES

6. To what extent do bank charges affect financial performance of Commercial banks in Kenya?

   Very great extent [ ]
   Great extent [ ]
   Moderate extent [ ]
   Little extent [ ]
   No extent [ ]

7. What is the extent to which the following aspects of bank charges affect the financial performance of your bank?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Interest rates earned on the loans					
Number of loans/advances					
Service charges on bank withdrawals/deposits					
Current Accounts Fees					
Account maintenance fee					
Credit Cards Fees					
Other bank charges					

8. What were your bank charges for the last five years?"

	2008	2009	2010	2011	2012
Interest rates earned on the loans					
Number of loans/advances					
Current Accounts Fees					
Account maintenance fee					
Credit Cards Fees					
Other bank charges					

COMMISSION ON GOVERNMENT SECURITIES

9. To what extent does commission on government securities affect financial performance of Commercial banks in Kenya?

   Very great extent [ ]   Great extent [ ]
   Moderate extent [ ]   Little extent [ ]
   No extent [ ]

10. What is the extent to which the following aspects of commission on government securities affect the financial performance of your bank?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Commission from Treasury Bonds					
Commission from Treasury Bills					

AGENCY BANKING

11. To what extent does agency banking affect financial performance of Commercial banks in Kenya?

Very great extent [ ]
Great extent [ ]
Moderate extent [ ]
Little extent [ ]
No extent [ ]

12. What is the extent to which the following aspects of agency banking affect the financial performance of your bank?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Number of transactions					
Commission from Agency Banking					
Savings on cost of construction of bank premises and leasing costs when banks are using the Agency premises					
Reduction on Human Resource expenses as the banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum.					
Savings on equipment like furniture and computers.					

13. What is the trend of the following aspects of financial performance of your firm?

Financial performance measure	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
Profitability					
Sales turnover					
Market share					
Return on assets					
Stock returns					
Dividend payout					

14. What is the trend of the following for the last five years?"

Financial performance measure	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
Profitability					
Sales turnover					
Market share					
Return on assets					
Stock returns					
Dividend payout					

THANK FOR YOUR PARTICIPATION

APPENDIX III

List of the Registered Commercial Banks

1. African Banking Corporation Limited
2. Bank of Africa (K) Ltd.
3. Bank of India
4. Citibank N.A. Kenya
5. Habib Bank A.G. Zurich
6. Habib Bank Ltd.
7. Bank of Baroda (K) Ltd.
8. Barclays Bank of Kenya Ltd.
9. Diamond Trust Bank Kenya Ltd.
10. K-Rep Bank Ltd.
11. Standard Chartered Bank (K) Ltd.
12. Ecobank Ltd
13. Gulf Africa Bank (K) Ltd
14. First Community Bank
15. Consolidated Bank of Kenya Ltd.
16. Development Bank of Kenya Ltd.
17. Kenya Commercial Bank Ltd.
18. National Bank of Kenya Ltd.
19. Savings and Loan Kenya Ltd.
20. CFC Stanbic Bank Ltd.
21. African Banking Corporation Ltd.
22. City Finance Bank Ltd.
23. Commercial Bank of Africa Ltd.
24. Co-operative Bank of Kenya Ltd.

25. Credit Bank Ltd.
26. Charterhouse Bank Ltd.
27. Chase Bank (K) Ltd.
28. Dubai Bank Kenya Ltd
29. Equatorial Commercial Bank Ltd.
30. Equity Bank Ltd.
31. Family Bank Ltd.
32. Fidelity Commercial Bank Ltd.
33. Fina Bank Ltd.
34. Giro Commercial Bank Ltd.
35. Guardian Bank Ltd.
36. Imperial Bank Ltd.
37. NIC Bank Ltd.
38. Oriental Commercial Bank Ltd.
39. Paramount Universal Bank Ltd.
40. Prime Bank Ltd.
41. Southern Credit Banking Corporation Ltd.
42. Trans-National Bank Ltd.
43. Victoria Commercial Bank Ltd.

Source: CBK, 2010, http://www.centralbank.go.ke