



SURVIVAL PRIORITY FOR NIGERIAN BANKS: INVESTIGATING THE NEED FOR DIVERSIFICATION STRATEGIES IN A DOWNTURN ECONOMY

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Abstract:

This study examined diversification strategies from a different perspective by evaluating the survival indicators from sampled of Nigerian banks through the exploitation of new product tactics, related and unrelated diversification options. Using survey design to sift data from 372 sampled respondents of five randomly selected money deposit banks in Oyo and Ogun states Nigeria; and by adopting the triangulation analytical technique involving combination of questionnaires and interviews, it was found that there was a significant positive effect of new product/service strategies on the profit growth of selected banks in Nigeria; further it was discovered that unrelated diversification strategies influenced positively on the banking firms' ability to outperform their competing rivals; and also, banking firms in Nigeria that considered related or unrelated diversification grow faster and perform better than those who remain undiversified. The regression analysis was used to test the three hypothesized questions and results showed significant figures on the variables. The study concludes that the corporate survival of Nigerian banking organizations would be significantly affected by the mode of diversification utilized by such firms. It was advised that the Nigerian banking organizations should pay greater attention to the new-products, related and unrelated diversifications in order to enjoy continuing successful operations. Further, the study admonished that the banking firms need to enhance and improve on their quality design, innovations and unique features. Due to

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the forces faced from domestic and international competition, a strategy of diversification would be a more viable option for Nigerian banks than strategies based on efficiency and price.

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1. Introduction

In an environment of high velocity change, short products life cycle, mass customization, and narrowing customer niches, the successful integration of technology and marketing capabilities for a given product conveys little long term strategic advantage to firms (Fowler, King, Marsh & Victor, 2000). Competitive survival has a wide definition range of dimensions of as stated by Clark, Hayes and Wheelwright (1988) model. As they suggested that firms compete in the marketplace by virtue of one or more of the following competitive priorities: Time, quality, and cost, along with flexibility which is the basic measurements for assessing all business activities (Clark et al., 1988). However, diversification may was not within the original dimensions of Clark, Hayes, & Wheelwright definition though it is known as a critical factor for firms to create value and sustain competitive advantage in today's highly complex and dynamic environment (Ranjit, 2004).

Most of the earlier approaches consider mainly the influence of external factors as determinants of organization performance and the firm's ability to respond to challenges of competition and customer demand. Opposing this approach, Hunt (1997) and Barney (2002) proposed the resource based view of the firm. According to these authors, the forms of competitiveness and their sustainability come from the firm's ability to develop strategies that can generate value which is difficult to be imitated or that is costly. Chandler (2009) stated that competitiveness comes from the ability to create economy of scale and economy of scope. His studies enhanced the relation between the structure, the position and the technology of multiple business companies, generating economy of scale and scope, impacting transaction costs and competitiveness of firms. Chandler (2009) also analyzed industries that grew and became strong in the domestic and in the international market using integration, achieving economy of scale and using diversification strategies to distribute on mass scale, achieving economy of scope.

There is widespread consensus in the strategy literature that a driving force behind firm survival and growth is the firm's resources and capabilities that can be deployed to new market opportunities. In particular, scholars have long argued that firms should diversify into more related industries to pursue synergies (Wernerfelt & Montgomery, 1988).

Diversification is one significant method that firms use to maintain their competitiveness and enhance their profitability. Firms seek diversification strategy in order to achieve value creation through economic of scope, financial economies, or market power (Chen & Yu, 2012). Since the 70th the academic research tried to check the relation between diversification and firm performance (Kahloul, 2010). Previous studies showed different findings about the relation between diversification and firm performance. Some studies found a negative relation between diversification strategy and performance (Berger & Ofek, 1995; Wernerfelt & Montgomery, 1988) while others found a positive relation (Maksimovic & Phillips, 2007; Villalonga, 2004).

Diversification strategy is seen as expanding or entering in new markets which are different from the firm's existing product lines or markets (Gery & Scholes, 2002; Rumelt, 2002). Another view see diversification as a strategy implemented by the top executives in order to achieve business growth by entering new businesses and attaining above-average returns by taking advantage of the incoming opportunities (Ülgen & Mirze, 2004). Considered as a growth strategy, the rationale of diversification is for a company to explore new business areas that promise greater profitability. For a company to diversify, it needs to enter/expand in new markets or product lines which are related or/and unrelated to its existing businesses. Diversification strategy can be regarded as a basic growth strategy due to the quantitative increase it generates in a company's business operations (Ülgen & Mirze, 2004), though it is sometimes adopted as survival tactics. The diversification processes followed by companies that choose this strategy are not, however, equal. Writings from several authors such as Wood (1971), Tachizawa and Rezende (2000), Rumelt (2002), and Marreiros and Gomes (2008) find several types of diversification, and the eventual choice of typology can mean the difference between the strategic hit or error with good or bad consequences for the company seeking diversification. Among these, Marreiros and Gomes (2008) identify two models of diversification: totally or partially related to the company business, and the non-related to company activities.

The study of diversification has long attracted the interest and attention of strategic management scholars and is one of the most frequently researched areas of business (Channon, 1983; Constable, 1986; Reed and Luffman, 1986; Ituwe, 2005). Among others, researchers have examined the antecedents of diversification and the financial performance outcomes of these strategies (Rumelt, 2002, Elango, Ma and Pope, 2008).

Despite the assumed benefits of diversification such as the spreading of risks and cost, the advantage of synergy arising from economics of scope and the pooling and/leveraging of resources, the organizational, managerial and investment challenges of diversification appear enormous for companies in a third world nation such as Nigeria to bear. Companies in third world nations can ill afford the experiences of corporate product-market diversification failure. At almost every political dispensation in Nigeria since the country returned to the democratic system of government, banks have been facing incessant financial capital base policies (Bank Recapitalization) from

the Central Bank of Nigeria (CBN) hence, banks that were unable to meet up merged with each other, some were acquired while others went into extinction. Banking firms could be incapacitated to grow, survive or sustain for a longer period as a result of different factors which could be low patronage of customers, low sales turnover, and government policies (financial capital base) to mention but few. Thus, an empirical investigation of the impact of diversification strategy offers the potential benefit of adding to the existing body of knowledge on this subject in addition to generating information that can assist managers to improve policy decisions especially in the context of developing countries where resource allocation and utilization is a major challenge.

It is against this background the researcher was motivated to investigate what would be the effect of diversification strategies on the reformation of financial capital base which in the long run could have effects on the survival and growth of the banks. This research is to systematically inquire into how inadequate financial base could hinder the growth, survival and sustainability of banks in Nigeria. Much of the work that has been done to date on diversification and performance has largely taken the form of anecdotal reports and case study analysis. Large sample studies are needed to demonstrate how diversification strategies may or may not enhance the performance (survival or growth) of organizations. The present study aims to bridge the gap by examining how diversification strategies could impact on the organizational survival in a sampled of selected banks in Nigeria. Hence, the study examines the effect of new product/service strategies on the profit growth of deposit money banks in Nigeria; ascertains the influence of unrelated diversification strategies on the banking firms' ability to outperform their competing rivals; and assesses if banking firm that consider related or unrelated diversification grows faster and perform better than those who remain undiversified.

2. Review of Related Literature

Companies diversify for a host of reasons. In some cases, it's a growth-survival strategy. For instance, if the company makes the bulk of its sales at a particular time of year, it makes sense to consider diversification. By extending the company portfolio of products or services, you can ensure a regular revenue stream from January through to December. However, there are plenty of other good reasons for diversification, not least by extending the company's range of goods or services it can either sell more products to its existing customers or reach out to new markets. This can supercharge company's growth prospects. And perhaps the biggest reason for doing it is to extend a brand reputation into other markets, making the business bigger than one ever imagined (Absanto Gerald & Nnko Elisifa, 2013).

Diversification constitutes a higher level of growth than expansion growth because the process is more complex and the goals more tasking to achieve. More often than not, it demands application of new core competencies in product design and

production processes, marketing skills and brand management skills, as it involves branching out into new markets with new products (Ituwe, 2005).

Diversification is a corporate strategy to enter into a new market or industry which the business is not currently in, whilst also creating a new product for that new market. This is most risky section of the [Ansoff Matrix](#), as the business has no experience in the new market and does not know if the product is going to be successful. Diversification is one of the four main growth strategies defined by Igor Ansoff's (1968; 1999) Product/Market matrix.

Ansoff (1968; 1999) pointed out that a diversification strategy stands apart from the other strategies. Whereas, the other strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, the diversification usually requires a company to acquire new skills and knowledge in product development as well as new insights into market behavior simultaneously. This not only requires the acquisition of new skills and knowledge, but also requires the company to acquire new resources including new technologies and new facilities, which exposes the organization to higher levels of risk.

The notion of diversification depends on the subjective interpretation of “new” market and “new” product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote [product innovation](#). Product diversification involves addition of new products to existing products either being manufactured or being marketed. Expansion of the existing product line with related products is one such method adopted by many businesses. Adding tooth brushes to tooth paste or tooth powders or mouthwash under the same brand or under different brands aimed at different segments is one way of diversification. These are either brand extensions or product extensions to increase the volume of sales and the number of customers. Most literature reviewed identified two main streams of diversification, Concentric and Conglomerate. However, as Nayyar (2002) stated, concentric diversification is more complicated as it has several sub-categories with it.

Concentric diversification also known as related diversification occurs when the products or markets added to the current business are related, share common capabilities and require similar resources (Palepu, 2005). Under related diversification, the new business ventures benefit from shared Research & Development, resources, knowledge and the general brand development. Related diversification strategies is made up of vertical integration strategies; (backward and forward) and unrelated diversification is mainly concerned with horizontal integration-acquiring operations that act as compliments to current activities. Interior design is complimentary to the construction industry and so is transportation (Pablo, 2004).

Brassington and Pettit (2003) gave the following as the categories of diversification strategies: concentric or related diversification; conglomerate or unrelated diversification; horizontal diversification.

Concentric diversification (Related Diversification or New Products) entails seeking to add new products that have technological and/ or marketing synergies with existing product line; these products normally will appeal to new classes of customers. This means that additional business, product or service created is related to existing business definition of the firm either in terms of customer groups, customer functions, and production technology or product class. This strategy may be achieved through internal-start up or generation (spin-off) or the acquisition of separate businesses with synergic possibilities counterbalancing the two business strengths and weaknesses. The new businesses selected possess a high degree of compatibility with the current businesses. The combined company profits increase strengths and opportunities as well as decrease weaknesses and exposure to risk.

Concentric diversification may be of three types as show below.

1. Technology-related concentric diversification. The new product or service added is offered with the help of a related or existing organizational technology but not related to the market.
2. Marketing related concentric diversification. The new product or service added is not produced from existing technology (inputs, process/methods and skills), but is related to current markets (customer group or customer need)
3. Full concentric diversification

Related diversification offers a way to exploit what a company does best; it helps to transfer company's distinctive competence from one business to another. It allows the company to maintain a degree of unity in its business activities, gain the benefits of strategic fit and cost sharing, while at the same time spreading the risks of enterprise over a broader base.

Conglomerate diversification (Unrelated Diversification) entails a strategy that gives little concern to creating product/market synergy with existing businesses. The firm operates in business which has different product markets with the sole aim of improving overall profitability, flexibility, and top management power-base. Businesses without common theme are integrated together. Conglomerate diversification has no common thread with the firm, but concentric diversification has common thread with the firm either through marketing or technology. Ways of becoming a conglomerate include internal spin-offs into diversified portfolio of business, acquiring companies in any line of business (so long as projected profit opportunities equal or exceed minimum criteria). Also, a debt-heavy firm may seek to acquire a debt-free firm in order to balance the capital structure of the former and increase its borrowing capacity; a firm with a strong seasonal and cyclical sales patterns diversifying into areas with a counter seasonal or counter cyclical sales pattern. A cash-rich but opportunity-poor company may seek to acquire a number of opportunity-rich but cash poor enterprises, or a company may build a diversified portfolio of three or four unrelated groups of business, striving for some degree of relatedness with each group.

Horizontal diversification entails a company seeking to add new products that can appeal to current customers though technologically unrelated to its current product

line. This additional product range is related to current cement customers' (market) need but it is not related to the technology for producing cement. Horizontal diversification therefore requires another type of competence to be successful.

2.1 Theoretical Anchor: Modern Portfolio Theory (MPT)

This study was based on modern portfolio theory. The portfolio theory aims to reduce risk by spreading the investments into a variety of securities (Eiteman, Stonehill & Moffett, 2004). [Developed in the late 1950's by Harry Markowitz](#), Modern Portfolio Theory was introduced as a means of managing an investor's financial portfolio. The premise here is that it is not a good idea to invest in only one stock because if it goes down in value, it takes the entire portfolio with it. Instead, firm should invest in a series of investment instruments so that the entire portfolio isn't exposed to too much specific risk. Diversification is one of the fundamental ideas behind developing an [investment portfolio](#) and this concept comes from Modern Portfolio Theory. According to Markowitz, an investment portfolio cannot be made up of assets (or investments) that are chosen individually. Before selecting companies to invest in, there needs to be a consideration of how the portfolio as a whole unit will change in price.

Similar to a financial investor, while investing in several assets an entrepreneur has usually to optimize his portfolio of products / projects. Hence, Portfolio Theory can be applied in selection of products / projects with either higher returns given the level of risk or with lower risk given the level of return. Portfolio Theory, then, is a system of diversification. Using precise mathematical equations that determine risk and reward, along with a set of assumptions about investors and the financial markets, the Portfolio Theory provides a process of developing an optimal strategy for diversification.

3. Methods

This study adopts survey method and the study area was Oyo and Ogun states, Nigeria. Though, there were many banking institutions in the two states, the targeted population of the work consists of all employees of five randomly selected banks (Wema Bank, Unity Bank, Stanbic-IBTC Bank, Skye Bank and Union Bank) in the Ibadan and Abeokuta which are the capital city of the two selected states. The population of the staff for the selected banks in all the branches in Ibadan and Abeokuta cities was five hundred and five (505). A sample size of 372 was derived using simple random sampling technique and they were all reached. Closed-end questionnaires were self-administered on the staff of the selected banks and interviews were made where necessary. The test instrument was validated through face and content methods; and a half-split test of reliability was done. The reliability score of 0.87 was derived which indicates that the test instrument is very reliable.

4. Results and Findings

As documented in the methodology, the total sample size was 372. The pilot study reveals that most respondents were reluctant to fill and return questionnaire, therefore, a total of 500 questionnaires were distributed to the sampled population. The result is shown in Table 1.

Table 1: Questionnaire Administration and Collection

Respondents (Banks Staff)	Number of questionnaire administered	Number not returned	Number returned	Number not properly completed	Number used
WEMA	280 (56%)	76 (15.2%)	204 (40.8%)	10 (2%)	194 (38.8%)
SKYE	133 (26.6%)	29 (5.8%)	104 (20.8%)	3 (0.6%)	101 (20.2%)
STANBIC	45 (9%)	13 (2.6%)	32 (6.4%)	2 (0.4%)	30 (6%)
UNITY	23 (4.6%)	5 (1%)	18 (3.6%)	1 (0.2%)	17 (3.44%)
UNION	19 (3.8%)	5 (1%)	14 (2.8%)	1 (0.2%)	13 (2.6%)
Total	500 (100%)	128 (25.6%)	372 (74.4%)	17 (3.4%)	355 (71%)

Source: Researcher's Field Data Compilation, (2018).

A total of 500 questionnaire representing 100% of the respondents were administered to the staff of the five selected banks in all their branches in Ibadan and Abeokuta cities, the capital of Oyo and Ogun states, Nigeria. Wema Bank has 280(56%), Skye Bank has 133(26.6%), Stanbic-IBTC Bank has 45(9%), Unity Bank has 23(4.6%), and Union Bank has 19(3.8%).

Out of 280 copies of the questionnaire administered to Wema Bank Staff, 76(15.2%) were not returned, out of 133 administered to Skye bank Staff, 29(5.80%) were not returned, out of 45 administered to Stanbic-IBTC bank Staff, 13(2.6%) were not returned, out of 23 administered to Unity Bank Staff, 5(1%) were not returned, and out of 19 administered to Union Bank Staff, 5(1%) questionnaire were not returned. In sum, 128 copies of questionnaire representing (25.60%), of the total 500 (100%) numbers were not returned. From the above therefore, only 204(40.8%), 104(20.8%), 32(6.4%), 18(3.6%), and 14(2.8%) representing the quantity administered to the staff of the five selected banks respectively were returned.

However, out of the above returned number 372 of questionnaire, not all was used due to various errors. For the Wema Bank Staff, out of 204 returned, 10 (2%) were not used, from 104 returned from Skye Bank, 3 (0.6%) were not used, from 32 returned from Stanbic-IBTC bank 2(0.4%) were not used, from 18 returned from Unity Bank, 1 (0.2%) were not used, while 14 returned from Union 1 (0.2%) were not used.

The conclusion from this is that only 194(38.8%), 101(20.2%), 30(6%), 17(3.44%), 13(2.6%) from the staff of the five selected banks were useful. In summary therefore, out of 372 (74.4%) questionnaire returned, only 355 (71%) were valid. It follows therefore, that 355 respondents form the basis of the analysis.

4.1 Hypotheses

It should be noted however, that although all these variables exist in literatures, this study adopts the following variables to measure diversification strategies: new product strategies, related diversification and unrelated diversification. Firms' survival was considered along the dimensions of profit growth and competitive edge and business continuity. As such data analysis was designed to answer the following research questions which ultimately were used to determine the diversification strategies on survival of selected banking firms in a downturn economy. The following research questions and hypothesis were formulated:

(a) Research Question: what effect can new product/service strategies have on the profit growth of deposit money banks in Nigeria?; thus this hypothesis was formulated:
H₀₁ -There is no significant effect of new product/service strategies on the profit growth of deposit money banks in Nigeria.

(b) How can unrelated diversification strategies influence the banking firms' ability to outperform their competing rivals?

H₀₂ - Unrelated diversification strategies cannot influence the banking firms' ability to outperform their competing rivals; and

(c) Can banking firm that consider related or unrelated diversification grows faster and perform better than those who remain undiversified?

H₀₃ - Banking firm that consider related or unrelated diversification cannot grows faster and perform better than those who remain undiversified.

All hypotheses were tested and analyzed using simple linear regression analysis.

H₀₁: There is no significant effect of new product/service strategies on the profit growth of deposit money banks in Nigeria.

Hypothesis one shows how much of the variance in the dependent variable (profit growth) is explained by the model, which is new product service. The values 0.21 and 0.39 in the R squared column are expressed in percentage. This means that the model (new product service) explains between 21% and 39% variations in the dependent variable (profit growth). With an F value of 6.623 and a significance level 0.02, there is a significant effect of new product/service strategies on the profit growth of banks in Nigeria, therefore, the null hypothesis (**H₀₁**) rejected.

H₀₂: Unrelated diversification strategies cannot influence the banking firms' ability to outperform their competing rivals.

The analysis shows how much of the variance in the dependent variable is explained by the model. R^2 was 0.078; F value is 25.698 and a $p= 0.02$. This indicates that there is a significant relationship between diversification strategies and competitive

edge. Therefore, the null hypothesis (H_{02}) rejected and the alternate hypothesis (H_{A2}) accepted.

H_{03} : Banking firm that consider related or unrelated diversification cannot grows faster and perform better than those who remain undiversified.

$R^2 = 0.060$, F value was 19.364 with a p value of .001; show that there is a significant relationship between related/unrelated diversification and the better performance of an organization. Therefore, the null hypothesis (H_{03}) rejected and the alternate hypothesis (H_{A3}) accepted.

Table 2: Hypotheses Result Test

Hypotheses	Tools	F-value	R Square	Std. Error of the estimate	df	P-value	Decision
H_{01} - There is no significant effect of new product/service strategies on the profit growth of deposit money banks in Nigeria.	Regression Analysis	6.623	.078	.963	1	.011	H_{01} rejected H_{A1} accepted
H_{02} - Unrelated diversification strategies cannot influence the banking firms' ability to outperform their competing rivals.	Regression Analysis	25.698	.078	.974	1	.002	H_{02} rejected H_{A2} accepted
H_{03} - Banking firm that consider related or unrelated diversification cannot grows faster and perform better than those who remain undiversified.	Regression Analysis	19.364	.060	.864	1	.001	H_{03} rejected H_{A3} accepted

Source: SPSS Output.

5. Conclusion and Managerial Implications

The results findings, among other things revealed that new product/service had significant impact on the profit potentials of banking firms Nigeria. This could be attributed to paying attention to changes happening in the environment when choosing the competitive strategies. In conclusion, from the research study, it can be established that greater significance of diversification holds in relation to organizational survival in a tumbling environment. This means that banking organizations must pay greater attention to the new-products, related and unrelated diversifications in order to enjoy continuing operations. There is need for enhancement in terms of banks quality design, innovations and unique features. Finally, firms in the Nigerian banking sector faced domestic and international competition in addition to rapid shifts in customer demands whereby many banks have come to realize that to remain viable, a strategy of diversification may be a more viable option than strategies based on efficiency and price (Spencer, Joiner and Salmon, 2009). This research study further demonstrates that diversification could be used as a tool for achieving competitive survival and enhancing greater organizational performance for the contemporary Nigerian banking organizations. It is therefore crucial that banking companies should be more proactive and pay attention to changes happening in the external environment and adjust their want-satisfying offers appropriately to stay ahead of competition.

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