**BANK DIVERSIFICATION STRATEGY:**

**A POLICY MEASURE FOR A SUSTANABLE BANKING SYSTEM IN POST COVID-19 FINANCIAL CRISES**

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**Abstract**

The Nigerian banking industry acknowledges diversification as a strategy for ensuring financial sustainability. However, the major question is: if this assertion is true to life even with the advent of the COVID-19 pandemic? Hence, the present study aimed at eliciting information from the research respondents on their perception on the contributory role of product, service, marketing, and internal growth oriented diversification strategy in ensuring a financially sustainable banking system with a view to formulate strategic policy to address Post COVID-19 financial crises. Accordingly, we shared 600 questionnaires distributed across selected deposit money banks situated in three (3) metropolitan cities of Delta State; the study area. However, 485 questionnaires were retrieved. Data derived from the filed survey was analyzed using the Pearson’s product-moment correlation (PPMC) while the hypotheses were tested using the 95% Pearson Correlation critical value. The result reaffirmed that, the more banks diversify their products, services, marketing activities, and internal dynamics, the more financially sustainable they become. To this end, the study advocate that for Nigerian banks to be financially sustainable in the Post COVID-19 financial crises, they have to shield themselves with product, service, marketing and internal growth oriented strategies as enunciated in this study. Again, bank management should uphold good corporate governance principles as well as frown against all forms of corrupt tendencies, which can inhibit best banking practices in Nigeria.

**Keywords:** Bank Diversification Strategy, Policy Measure, Financial Sustainability, Post COVID-19,

Financial Crises

1. **Introduction**

Financial and policy analyst before now expressed worries and fears on the fate of the banking industry in the near future.They are concerned that if the banking industry do not put in place proactive and remedial measures to curb the ills of globalization while satisfying the sophisticated yet dynamic financial needs of her customers, she might become unproductive. In addition, she might be susceptible to credit exposures and macro-economic vagaries and become less competitive, and/or obsolete. Again, with the emergence of the notion of transient advantage, Porter’s model on sustainable firm’s competitive advantage has become obsolete. More importantly, there is paradigm shift from traditional (branch) banking system to non-traditional (branchless) banking system coupled with the idiosyncratic risk, which the current novel virus (COVID 19) ushered into the banking system. It is highly imperative for policy analysts to come up with policy measures to curb the multiplier effect of this menace on the sustainability of the banking industry otherwise she might not fully recover from COVID 19 scorch during the Post-COVID 19 financial crises. Unarguably, diversification has been viewed as one of the most efficient strategies firms can adopt in order to stay afloat in a time like this.

Mwangi (2016) opined that, diversification induce bank performance as it helps in initiating policy actions by leveraging in the predominant bank’s internal and external dynamics which in turn spurs other business ventures to achieve their core mandates. However, wherein there are no efficient and resilient corporate governance mechanisms and financial structure (investment, financing, and dividend decision policies) in place, diversification strategies cannot thrive. This further suggests that:

instead of the monetary authority (Central Bank of Nigeria) to clamour for corporate restructuring and business re-organization,in order to stay afloat both in and post-COVID 19 financial crises era, they should stretch their tentacles on various diversification strategies clearly elucidated in the study.CBN should ensure that banks strictly adhere to core corporate governance principles of accountability, responsibility, transparency, integrity, recognition of shareholders’ interest and rights, performance evaluation, risk recognition and management (Authors Comments, 2020).

A conscientious survey into webometrics revealed that, no empirical studies have been conducted in this area because the present study sought to formulate strategically, policy measures with a view to address the cyclical effect of the novel virus (COVID-19) on the financial sustainability of the Nigerian banking industry by leveraging on diversification strategy. Various bank diversification strategies considered in this study include product, service, marketing, and internal growth oriented diversification strategy. Succinctly, the main objective of this study is to elicit information from the research respondents on their perception on the contributory role of product, service, marketing, and internal growth oriented diversification strategy in ensuring a financially sustainable banking system with a view to formulate strategic policy in the Post COVID-19 financial crises. Accordingly, various tenable conclusions drawn from the findings of this study alongside the various strategic recommendations of this study would assist policy, economic analyst, and bank management in their quest to make strategic recommendations that would help to address the multiplier effect of the current novel virus on the Nigerian economy. Most importantly, the present study will also serve dual role as it will serve as both an eye opener to the general populace as well as widen the horizon of academicians.

Circumspectly, the remaining aspects of this paper cut across literature reviews and hypothesis formulation, research methodology, presentation and discussion of research findings, conclusions and policy recommendations.

**2 Literature Reviews and Hypothesis Formulation**

This section sought to consider the conceptual, theoretical undertone/underpinning as well as a conscientious review of extant empirical findings with a view to fill missing link in existing body of knowledge.

**2.1 Bank Diversification Strategy and Financial Sustainability: Conceptual Linkages**

Hu and Sathye (2015) defined banks’ financial sustainability as the possibility that a bank is self-sufficient without any form ofexternal funding. In other words, a bank that is sustainable financially is one that is self-reliant, financially flexible, has adequate reserve, and does not depend much on external funding. However, in trying to satisfy the diverse needs of her stakeholders (see figure 1), banks are faced with financial risk unsystematic risk and systematic or idiosyncratic risk. This largely may serve as the greatest threats to the banks’ sustainability if appropriate regulatory actions are not mounted. In such instances, banks sometime tend to focus on diversification strategy. This is because it has been suggested that shift from single banking business strategies to diverse diversification strategies are the most sustainable way to reduce unsystematic bank risk, gain considerable competitive business advantage and focused synergy therefore ensuring that the banking system is operationally and financially sustainable (Rashid, Ahmed & Muhammad, 2019). By way of explanation, bank diversification strategy is a risk mitigation strategy and growth-oriented strategy adopted by banks to address the multiplier effect of unsystematic risk exposure by focusing on non-traditional banking activities (Mwangi, 2016).

In recent years, the Nigerian banking industry has witnessed outstanding success due to the adoption of diverse diversification strategies vis-à-vis product, service, marketing, and internal-growth-oriented diversification (CBN, 2018). Apparently, the sector has witnessed increased provision of financial products and services to banked, un-banked, and under-banked Nigerian population mainly by micro-finance banks, deposit money banks, and other non-financial institutions. In recent time, most Nigerian banks have soon adopted individual banking services, merchant services, treasury services, digital banking services, mobile and internet banking, agency banking, asset financing, bancassurance, and cash token. To further buttress this; diversification has been widely acknowledges as a strategy for ensuring a sustainable financial system (Lee, Ahn, Shin, 2016; Han, Lee & Kim, 2019). These financial products and services have spread quickly becoming the most effective financial services in most developing countries. Again, marketing and internal-growth-oriented diversification have also evolved in recent time.However, the emergence of the COVID-19 pandemic disrupted all business activities. Hence, this policy research empirically investigates potency of bank diversification strategy as a tool for banks’ sustainability in the Post-COVID 19 financial crises era (see figure 2).

**Stakeholders**

 **Diverse Needs**

**Regulators**

**Business**

**Environment**

**Credit**

**Liquidity**

**Others (Operational, Market, Capital)**

**Financial**

**Risk**

**Sustainability**

**Economic Sustainability**

**Sustainable Development**

**Customers**

**Shareholders**

**Managers**

**Service/Product Quality**

**Deposit Rates**

**Credit Facilities Rates**

**Commissions**

**/Charges**

**Accessibility**

**Branch Networking**

**ATM/POS TERMINALS**

**Enhanced Performance**

**High Returns**

**Low Risk Exposure**

**High Dividend**

**Bridge Benefits**

**Bonuses**

**Other Financial Emoluments**

**Financial Compensations**

 **Figure 1: Hierarchy of Bank Stakeholders’ Diverse Need**

**Source: Researchers’ Own Study As Articulated in Webometrics**

**Product Diversification**

* Mobile and internet banking
* Agency banking
* Money transfer services
* Asset financing
* Bancassurance
* Cash Token

**Service Diversification**

* Individual Banking services
* Merchant Services
* Treasury services
* Digital Banking services

**Marketing Diversification**

* Target Deposit Mobilization
* Customer acquisition
* Pricing
* Advertising
* Branding
* Social Media Strategy

**Internal-Growth-Oriented Diversification**

* Financial Innovations
* Customer satisfaction
* Retained earnings
* Efficient Staff Compensatory scheme
* Social Media Strategy

**Bank Diversification Strategies**

**Banks’ Sustainability**

**Measures of Banks’ Sustainability**

* **Self-Reliance**
* **Financially Flexible**
* **Adequate Reserve**
* **Availability of Unrestricted Funds**

**Source: Researcher’s Schematic Model (2020)**

**Figure 2: Bank Diversification Strategy and Banks’ Financial Sustainability Nexus in the Post-COVID 19 financial crises era**

**Source: Researcher’s Schematic Model (2020)**

**2.2 Theoretical Undertone**

Three major theories were used to underpin this study. These include the modern portfolio theory (MPT), agency theory, and stewardship theory. Harry Markowitz (1952) propounded the modern portfolio theory (MPT). This theory is a risk mitigation approach, which holds that it is less risky to hold a portfolio of risky and riskless asset than to hold individual risky asset. This is because through diversification the unsystematic risk element inherent in each of the assets cancels itself. This theory further argue that, it is inaccurate for investors to use an individual asset risk and return to appraise the performance of the asset instead investors should be more concern with the aggregate risk (deviation from expectation) and return of a portfolio of asset. The essence of this is to minimize unsystematic risk element inherent in the portfolio while maximizing investor’s expected return (Markowitz, 1952). However, diversification strategy does not necessarily guarantee financially sustainable banking system.

Jensen and Meckling (1976) propounded agency theory. This theory explains that corporate managers seek to satisfy their own personal needs at the expense of corporate good by leveraging on diversification strategies. This theory further argues that agency conflicts impact on firm’s financial sustainability indirectly. However, efficient corporate governance mechanism minimizes agent-management conflict.

On the other hand, Donaldson and Davis (1991) formulated stewardship. This theory explains that corporate managers seek to satisfy corporate good irrespective of their own personal interest. Here, shareholders see managers as responsible and reliable stewards of the assets, which are under their care. This theory further argues that firm can remain operationally and financially sustainable if only those at the helm of affair are trustworthy and powerful.

**2.3. Extant Empirical Findings/Critiques**

Lately, Rashid, Ahmed, and Muhammad (2019) did a panel study on corporate diversification and financial structure on the performance of 520 manufacturing firms in Bangladesh, Sri Lanka, India, and Pakistan from 2004 to 2017. The result reported that corporate diversification proxies (product and geographical diversification) and financial structure proxies (dividend policy and capital structure) had a positive significant impact on the manufacturing firms’ performance. However, the researcher did not consider corporate diversification on banks’ sustainability. Again, the researchers only used product and geographical diversification to parameterized corporate diversification; inclusion of other corporate diversification proxies such as service, marketing, and internal growth-oriented diversification strategies would have made this study more worthwhile, robust, and comprehensive.

Similarly, Manchun, Sanghyo, and Jaejun (2019) examined whether diversification strategy financially sustains construction firms in South Korea from 2001 to 2017. Various variables used include diversification index, expected frequency, internal construction order, foreign construction order, and gross domestic product, lending rate, and Korea composite stock price index. The dynamic regression result reported that without diversification strategy firm could not remain financially sustainable since financial sustainability depends solely on the level of corporate diversification strategy. Hence, business executives should ensure that they conduct shareholder need analysis before undergoing this strategy. However, the researchers only used diversification index to proxy corporate diversification; if they had disaggregated diversification strategies into product, service, marketing, and internal-growth-oriented diversification strategies would have made this study more worthwhile, robust, and comprehensive.

Again, Karkowska (2019) did a panel study on the contributory role of diversification in building an efficient and financially stable banking system in Poland. The researcher discovered that bank income diversity results to bank instability. This is because different stakeholders’ expectation of the volume of a bank asset differs. As such, the researcher argued that for the banking industry to avoid bankruptcy as well as remain financially stable, regulatory agencies in the industry investment banking must be separated from retail banking. The question is: could this be true in the Nigerian context?

Volg (2018) examined the effect of product diversification strategy on the financial sustainability of small and medium retail businesses in USA. The researcher discovered that for small and medium retail businesses in USA to be financially sustainable, they must have embrace product diversification strategy vis-à-vis customer centrism, market-patterned orientation, resource orientation, and complementary products and services.

Sung, Lee, Yi, and Son (2017) explored the contributory role of internal growth oriented diversification related strategies on the performance of foreign-based construction firms. The researchers discovered that a positive strong correlation exist between internal growths oriented diversification related strategies on the performance of foreign based construction firms. However, the researcher did not focus on other areas of diversification.

Mwangi (2016) evaluated the effect of diversification strategies on the Kenyan banking industry’s performance. Product, market, and internal growth diversification strategies were used to measure diversification strategies while profitability, sales turnover, and branch network were used to measure bank performance. The multiple regression result reported that, product, market, and internal growth diversification strategies affected bank performance in Kenyan banking industry’s performance positively and significantly. The study recommends that, bank managers should expand the scope of markets and operations of their entities in a bid to ensure sustainable competitive advantage in the banking industry.

Babajide, Olokoyo and Taiwo (2014) evaluated the effects of banking consolidation on small business finance in Nigeria. The study established a significant increase in SME credit supply accessible by firms, which resulted to increase investment and consolidated effort to encourage the development of more SME driving enterprise. The study therefore recommends that the implementation of credit policy should ensure that banks reorganize their asset portfolios in order create more provision for lending to small firms rather than implementing policies that allow for conditions that are more stringent and requirements that discourage future development of SME investments in the economy.

Mendonca and Las (2014) qualitatively examined the contributory role of diversification in the Brazilian packaging market. Findings suggest that product and marketing diversification has a direct impact on financial sustainability of packing firms in Brazil. However, the researchers failed to consider how it affects other diversification strategies such as service and internal growth oriented strategy.

Maina (2013) examined the correlation between product diversification and the financial performance of banks in Kenya. The researcher discovered a positive and strong relationship between product diversification measured Herifindal-Hirschman Index and financial performance (return on equity, return on asset, and return on capital employed) of banks in Kenya. Hence, the researcher advocated that banks in Kenya should widen their product mixes by combining traditional financial intermediation activities with non-financial intermediation activities. Olokoyo, Taiwo and Akinjare (2016) findings also corroborate this and recommends that banks should improve on the diversification of their resources, and how such resources are allocated. However, the researchers failed to consider how it affects other diversification strategies such as service and internal growth-oriented strategy. As such, the present study aims to address this gap by leveraging on diversification strategy.

Based on the gaps already established, the study postulates the following hypotheses:

**H01:**Product Diversification Strategy has no strong positive correlation with banks’ financial sustainability.

**H02:**Service Diversification Strategy has no strong positive correlation with banks’ financial sustainability.

**H03:**    Marketing Diversification Strategy has no strong positive correlation with banks’ financial sustainability.

**H04:**Internal-Growth-Oriented Diversification Strategy has no strong positive correlation with banks’ financial sustainability.

**3. Research Methodology**

Using the survey research design, the study drew respondents from three (3) major metropolitan cities of Delta state, Nigeria namely Asaba, Agbor, and Warri. Banks located in these cities were selected on the premise that they are highly diversified and financially sustainable. Specifically, we used a well-organized and articulated questionnaire in a bid to elicit information from the research respondents from the selected banks in the three (3) cities. The research questionnaire was delineated into two major sections; the first section covered the respondents’ personal information while the second section was centered on answering the research questions. Sixty (60) questionnaires were distributed each to 10 banks situated in Asaba, Agbor, and Warri, which summed up to 600 questionnaires distributed across the study area. Each questionnaire was coded to match returned, filled questionnaires with those sent to the respondents. Meanwhile, the names of each of the respondents were kept confidential while their responses were used purely for academic purposes.

The data collected from the field survey were organized systematically. The frequency of responses (Y) to the answer options was first presented in percentages (%), tables, graphs, bar charts while data obtained were analyzed using Pearson’s product-moment correlation (PPMC). The PPMC co-efficient (r) is expressed as:

 … …. …. …. … (1)

Where: r = Pearson’s product-moment correlation coefficient

 X = Weight attached to response

 Y = Frequency (f) of response

 ∑ = Summation sign

  = Average (Mean) value attached to the response

  = Average (Mean) value of frequency (f) of response

Finally, the hypotheses were tested using the 95% Pearson correlation Critical value.

**4.Discussion of Findings**

This section dealt extensively on the presentation of data sourced from the study area alongside the data analysis as well as discussion of the findings generated from the field survey.

**4.1. Questionnaire Administration and Retrieval Analysis**

Although 600 questionnaires were distributed across the study area, 485 questionnaires accounting for 80.83% were returned. This therefore suggests that the available data is adequate to make informed judgment. Herein is the questionnaire retrieval analysis:

**Table 1: Questionnaire Administration and Retrieval Analysis**

|  |  |  |
| --- | --- | --- |
| **S/N** | **Sampled Banks** | **Questionnaire Administration and Retrieval** |
| **Questionnaires Distributed** | **Questionnaire Retrieved** |
| 1 | ACCESS | 60 | **49** |
| 2 | ECO | 60 | **50** |
| 3 | FCMB | 60 | **53** |
| 4 | FIDELITY | 60 | **48** |
| 5 | FIRST | 60 | **49** |
| 6 | GTB | 60 | **51** |
| 7 | STANBIC | 60 | **45** |
| 8 | UBA | 60 | **47** |
| 9 | UNION | 60 | **44** |
| 10 | ZENITH | 60 | **49** |
| **Grand Total**  | 600 (100%) | **485(80.83%)** |

**Source: Field Survey, 2020**

**4.2. Bank and Respondents’ Bio-Data**

This sub-section dealt with both the banks and respondents’ bio-data with specific attention on the study banks’ ownership structure, branch networks, and numbers of years the respondents have worked in the bank alongside their highest academic qualification. . Table 4.2 below shows the demographic profile of the bank with that of the respondents:

**Table 2: Bank and Respondents’ Bio-Data**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S/N** | **Variable** | **Metrics** | **Frequency (F)** | **Percentage (%)** |
| 5. | **Bank Ownership Structure** | Foreign Owned | 52 | 10.72 |
|   |  | Domestic Owned | 107 | 22.06 |
|   |  | Partly local and partly foreign Owned | 81 | 16.70 |
|  |  | Government Owned | 116 | 23.92 |
|  |  | Publicly-Owned | 129 | 26.60 |
| **TOTAL** | **485** | **100** |
| 6. | **Numbers of Branch Network:** | Between 51-100  | 232 | 47.84 |
|   | Over 100  | 253 | 52.16 |
| **TOTAL** | **485** | **100** |
| 3. | **Banking Experience** | 0-5Years | 49 | 10.10 |
| 6-10 Years | 202 | 41.65 |
| Over 10 Years | 234 | 48.25 |
| **TOTAL** | **485** | **100** |
| 3. | **Academic Qualification** | Post-graduate | 127 | 26.19 |
| Graduate | 348 | 71.75 |
| Undergraduate | 2 | 0.41 |
| Other Certifications  | 8 | 1.65 |
| **TOTAL** | **485** | **100** |

**Source: Field Survey, 2020.**

Table 2 above indicates that majority of the respondents agree that the Nigerian banking industry is owned by the Nigerian public, the Nigerian government, and Nigerian investors as they accounted for 26.60%, 23.92%, 22.06% respectively. It also further revealed that some of them are either partly local or partly foreign owned as it accounted for 16.70% of the total ownership structure while about 10.72% are owned by foreign investors. This therefore gives credence to the fact that the Nigerian public, domestic investors and the Nigerian government dominate the Nigerian banking industry.Some are partly local, partly foreign while others are owned by foreign investors. This further suggests that trans-cultural and geo-graphical diversity is inherent in the Nigerian banking industry. This will no doubt affect the diversification strategy of the Nigerian banking industry.

Again, the table further indicates that majority of the banks have over 100 branches in Nigeria accounting for 52.16% (n=253), 47.84% have between 51-100 branches (n=232).

Finally, with respect to academic qualifications of respondents, 127(26.19%) of the respondents have obtained post-graduate degree, 348 (71.75%) of the respondents are graduates, 2(0.41%) of the respondents are undergraduates while 8 (1.65%) of the respondents have acquired other certification such as ICAN, ANAN, CIBN etc. This means that the higher the level of education the higher the tendency to be highly placed in the Nigeria banking industry.

**Table 3: COVID-19 and Banking Activities**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Strongly Disagreed** | **Disagreed** | **Not Certain** | **Agreed** | **Strongly Agreed** | **Total** |
| Reduction in volume of transaction | 57 | 43 | 0 | 14 | 2 | 116 |
| Reduction in credit facility request | 16 | 11 | 0 | 59 | 8 | 94 |
| The emergence of COVID-19 alongside to low bank earnings led to lay-off of most bank staff  | 76 | 48 | 0 | 15 | 5 | 144 |
| COVID-19 led to customer account closure | 92 | 67 | 0 | 11 | 4 | 174 |
| **Grand Total** | **241** | **126** | **0** | **99** | **19** | **485** |

**Source: Field Survey, 2020**

The survey asked the research respondents to indicate the dominant banking activities mostly affected by the COVID-19 pandemic. The responses are summarized in table 3 and figure 1. Banking activities affected by the COVID-19 pandemic include volume of transaction, volume of credit facility request, staff lay-off, and customer account closure. Findings indicated that majority of the respondents refuted the claim that COVID-19 reduced the volume of transaction, staff lay-off, and customer account closure. However, it supports the assertion that which states that COVID-19 reduced the volume of credit facility requested.

**Figure 1: COVID-19 and Banking Activities**

**Source: Field Survey, 2020**

**Table 4: Effect of COVID-19 on Bank Technology (ATM Terminals)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Strongly Disagreed** | **Disagreed** | **Not Certain** | **Agreed** | **Strongly Agreed** | **Total** |
| COVID-19 has led to excess cash demands on ATM terminals | 66 | 97 | 4 | 19 | 11 | 197 |
| COVID-19 has led to excess use of ATM thereby leading to mal-functioning | 39 | 56 | 0 | 34 | 18 | 147 |
| COVID-19 led to sharp drop of bank earnings | 33 | 34 | 1 | 46 | 27 | 141 |
| **Grand Total** | **138** | **187** | **5** | **99** | **56** | **485** |

**Source: Field Survey, 2020**

The survey asked the research respondents to indicate the dominant bank technology mostly affected by the COVID-19 pandemic. The responses are summarized in table 4 and Figure 2. Bank technologies include sharp drop in bank earnings, ATM mal-functionality, and excess cash demands on ATM Terminals. Findings indicated that majority of the respondents refuted the claim that COVID-19 led to sharp drop in bank earnings, ATM mal-functionality, Excess cash demands on ATM Terminals.

**Figure 2: COVID-19 and Bank Technology**

**Source: Field Survey, 2020**

**Diversification Strategies**

The respondents were to indicate whether bank diversification strategies enhance banks’ financial sustainability as shown in Figure 2. Findings indicated that 91% of the respondents strongly agreed and agreed that diversification strategies enhanced banks’ financial sustainability while 8% and 1% strongly disagreed, disagreed, and were not certain if bank diversification strategy can actually enhances the financial sustainability of the banking system amidst the COVID-19 pandemic.

**Figure 3: Bank Diversification Strategies**

**Source: Field Survey, 2020**

**Responses to Research Questions**

Four (4) null hypotheses were formulated for this study. While the responses to research question 1 relates to product diversification strategy and banks’ financial sustainability in Nigeria was used to test H01, research question 2 relates to Service Diversification strategy and banks’ financial sustainability in Nigeria. The same is true for research questions 3 and 4 against null hypothesis 3 and 4 respectively. The responses from question 1 to 4 are shown in the table below:

**Table 5: Response on Product Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

|  |  |  |
| --- | --- | --- |
| **Responses** | **Frequency** | **Percentage (%)** |
| Strongly Agreed (SA) | 212 | 43.71 |
| Agreed (A) | 165 | 34.02 |
| Not Certain (NC) | 4 | 0.82 |
| Strongly Disagreed (SD) | 75 | 15.46 |
| Disagreed (D) | 29 | 5.98 |
| **Grand Total** | **485** | **100** |

**Source: Field Survey (2020)**

Table 5 above reported that majority of the respondents agree DMBs in Nigeria are currently diversifying their products into call accounts, tenured deposit products, specialized financing products, vehicle financing products, bancassurance, and cash token. More so, we discovered that deposit money banks in Nigeria that adopt these product diversification strategies cited above are more likely to be financially sustainable even in the post COVID-19 financial crises since 43.71% (n=212) and 34.02% (n=165) of the respondents are in support of this claim while 15.46% (n=75) and 5.98% (n=29) refute this claim. However, the remaining 0.82% (n=4) fell in the undecided group thereby making it a grand total of 485 respondents.

Okiro and Ndungu (2013) argues that, since the emergence of electronic banking which necessitated banks all over the world to shift from traditional banking system to non-traditional banking system, the bank customers now have quick access to banking products. Since, the internet services also came with its attendant challenges, financial institutions also put in place stringent measures to mitigate such risk. These were all directed to avoid inconveniencing customer transactions through system delays. The statement further reiterates the findings above. For clarity sake, the responses alongside their respective percentages are presented in a bar chart below:

**Figure 4: Responses on Product Diversification Strategy**

**Source: Field Survey, 2020**

**Table 6: Response on Service Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

|  |  |  |
| --- | --- | --- |
| **Responses** | **Frequency** | **Percentage (%)** |
| Strongly Agreed (SA) | 312 | 64.33 |
| Agreed (A) | 135 | 27.84 |
| Undecided (U) | 5 | 1.03 |
| Strongly Disagreed (SD) | 12 | 2.47 |
| Disagreed (D) | 21 | 4.33 |
| **Grand Total** | **485** | **100** |

**Source: Field Survey (2020)**

Table 6 abovereported that majority of the respondents agree that most DMBs in Nigeria are currently diversifying their services into i) individual banking services. These services include asset management, savings account, checking accounts etc.ii) merchant services which include bank reconciliation and reporting, credit card processing, check collection), treasury services (deposit services and payroll services), and digital banking services (text alerts, electronic statements, online bill payment platforms, online and mobile banking etc.). Again, we discovered from the field survey that, banks, which diversify their service into the areas mentioned above, are more likely to be financially sustainableeven in the post COVID-19. 64.33% (n=312) and 27.84% (n=135) of the respondents are in support of this claim while 2.47% (n=12) and 4.33% (n=21) refute this claim. However, the remaining 1.03% (n=5) fell in the undecided group thereby making it 485 respondents. For clarity sake, the responses alongside their respective percentages are presented in a bar chart below:

**Figure 5: Responses on Service Diversification Strategy**

**Source: Field Survey, 2020**

**Table 7: Response on Marketing Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

|  |  |  |
| --- | --- | --- |
| **Responses** | **Frequency** | **Percentage (%)** |
| Strongly Agreed (SA) | 185 | 38.14 |
| Agreed (A) | 198 | 40.82 |
| Not Certain (NC) | 1 | 0.21 |
| Strongly Disagreed (SD) | 47 | 9.69 |
| Disagreed (D) | 54 | 11.13 |
| **Grand Total** | 485 | **100** |

**Source: Field Survey (2020)**

Table 7 above reported that majority of the respondents agree that most banks in Nigeria are currently adopting various marketing diversification strategy some of which include customer acquisition, target mobilization strategy, addition of new banking products, bank product branding/re-branding, re-launching of banking products into the market. We also discovered that, most of that banks that adopts these various marketing diversification strategy cited above are more likely to be financially sustainable even in the post COVID-19 financial crises since 38.14% (n=185) and 40.82% (n=198) of the respondents are in support of this claim while 9.69% (n=47) and 11.13% (n=54) refute this claim. For clarity sake, the responses alongside their respective percentages are presented in a bar-chart below:

**Figure 6: Responses on Marketing Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

**Source: Field Survey (2020)**

**Table 8: Response on Internal-Growth Oriented Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

|  |  |  |
| --- | --- | --- |
| **Responses** | **Frequency** | **Percentage (%)** |
| Strongly Agreed (SA) | 177 | 36.49 |
| Agreed (A) | 192 | 39.59 |
| Not Certain (NC) | 0 | 0.00 |
| Strongly Disagreed (SD) | 65 | 13.40 |
| Disagreed (D) | 51 | 10.52 |
| **Grand Total** | 485 | **100** |

**Source: Field Survey (2020)**

Table 8 above reported that majority of the respondents agree that most banks in Nigeria are currently adopting various Internal Growth-Oriented diversification strategy some of which include extensive acquisition and use of Internet, involvement of customers or customer representatives, use of retained earnings, and established staff compensation scheme. The study also discovered that banks that adopts these various Internal-Growth Oriented diversification strategy cited above are more likely to be financially sustainable even in the post COVID-19 financial crises since 36.49% (n=177) and 39.59% (n=192) of the respondents are in support of this claim while 13.40% (n=65) and 10.52% (n=51) refute this claim. This is presented in a bar chart below:

**Figure 7: Responses on Internal Growth-Oriented Diversification Strategy and Banks’ Financial Sustainability in Nigeria**

**Source: Field Survey (2020)**

**4.3. Data Analysis**

The study analyzed the data obtained using the Pearson Correlation Matrix (PCM). We reiterate here that, PCM denoted by ‘r’ is used to measure the magnitude and direction of linear relationship between two variables say X (independent variable) and Y (dependent variable). Basically, PCM is measured on a standard scale and can be interpreted in terms of direction and magnitude. When interpreted from the vintage point of direction, its values falls within +1 (positively correlated), -1 (negatively correlated), and 0 (not correlated or orthogonal) but when interpreted from the vintage point of magnitude (strength), it falls within, 10% (weak), 30% (moderate), 50% and above (strong). The Pearson Correlation Matrix results for all the four Hypotheses are presented in table 9 to 12 below:

**Table 9: PPMC(r) using their Mean Deviation (Hypothesis One)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Responses** |  X |  Y |  |  |  |  |  |
| Strongly Agreed (SA) | 5 | 212 | 2 | 115 | 230 | 4 | 13225 |
| Agreed (A) | 4 | 165 | 1 | 68 | 68 | 1 | 4624 |
| Not Certain (NC) | 3 | 4 | 0 | -93 | 0 | 0 | 8649 |
| Strongly Disagreed (SD) | 2 | 75 | -1 | -22 | 22 | 1 | 484 |
| Disagreed (D) | 1 | 29 | -2 | -68 | 136 | 4 | 4624 |
| **Total (∑)** | **15** | 485 |  |   | 456 | 10 | 31606 |

 **Source: Researcher’s Compilation Using Microsoft Excel (2020)**

**Recall,**



**Where:**





**∑**= 456

= 10

= 31606

**Incorporation of Values:**

= 0.8111

Therefore, the Coefficient of Determination (R2) = (0.8111)2= 0.6579

The PCM reported a strong positive correlation between product diversification strategy and banks’ financial sustainability in Nigeria. This suggests that the point lies close to straight lines with banks’ financial sustainability increasing as product diversification strategy increases. The Coefficient of Determination (R2) reveal that product diversification strategy vis-à-vis call accounts, tenured deposit products, specialized financing products, vehicle financing products, bancassurance, and cash token accounted for 65.58% systematic variations in banks’ financial sustainability while the remaining 34.42% is captured by the error term. This further affirms that the regression model can be relied upon solely for strategic policy formulation.

**Table 10: PPMC(r) using their Mean Deviation (Hypothesis Two)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Responses** |  X |  Y |  |  |  |  |  |
| Strongly Agreed (SA) | 5 | 312 | 2 | 215 | 430 | 4 | 46225 |
| Agreed (A) | 4 | 135 | 1 | 38 | 38 | 1 | 1444 |
| Not Certain (NC) | 3 | 5 | 0 | -92 | 0 | 0 | 8464 |
| Strongly Disagreed (SD) | 2 | 12 | -1 | -85 | 85 | 1 | 7225 |
| Disagreed (D) | 1 | 21 | -2 | -76 | 152 | 4 | 5776 |
| **Total (∑)** | **15** | 485 |  |   | 705 | 10 | 69134 |

 **Source: Researcher’s Compilation Using Microsoft Excel (2020)**

**Recall,**



**Where:**





**∑**= 705

= 10

= 69134

**Incorporation of Values:**

= 0.847897

Therefore, the Coefficient of Determination (R2) = (0.847897)2= 0.71893

The PCM reported a strong positive correlation between service diversification strategy and banks’ financial sustainability in Nigeria. This suggests that the point lies close to straight lines with banks’ financial sustainability increasing as service diversification strategy increases**.** The R2 revealed that service diversification strategy vis-à-vis individual banking services, merchant services, treasury services, and digital banking services accounted for 71.89% systematic variations in banks’ financial sustainability while the remaining 28.11% is captured by the error term. This further affirms that the regression model can be solely relied upon for strategic policy formulation.

**Table 11: PPMC(r) using their Mean Deviation (Hypothesis Three)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Responses** |  X |  Y |  |  |  |  |  |
| Strongly Agreed (SA) | 5 | 185 | 2 | 88 | 176 | 4 | 7744 |
| Agreed (A) | 4 | 198 | 1 | 101 | 101 | 1 | 10201 |
| Not Certain (NC) | 3 | 1 | 0 | -96 | 0 | 0 | 9216 |
| Strongly Disagreed (SD) | 2 | 47 | -1 | -50 | 50 | 1 | 2500 |
| Disagreed (D) | 1 | 54 | -2 | -43 | 86 | 4 | 1849 |
| **Total (∑)** | **15** | 485 |  |   | 413 | 10 | 31510 |

 **Source: Researcher’s Compilation Using Microsoft Excel (2020)**

**Recall,**



**Where:**





**∑**= 413

= 10

= 31510

**Incorporation of Values:**

= 0.735743

Therefore, the Coefficient of Determination (R2) = (0.735743)2= 0.541317

The PCM reported a moderate positive correlation between marketing diversification strategy and banks’ financial sustainability in Nigeria. This suggests that the point lies close to straight lines with banks’ financial sustainability increasing as service diversification strategy increases**.** The R2 reveal that marketing diversification strategy accounted for 54.13% systematic variations in banks’ financial sustainability while the remaining 45.87% is captured by the error term. This further affirms that the regression model can be solely relied upon for strategic policy formulation.

**Table 12: PPMC(r) using their Mean Deviation (Hypothesis Four)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Responses** |  X |  Y |  |  |  |  |  |
| Strongly Agreed (SA) | 5 | 177 | 2 | 80 | 160 | 4 | 6400 |
| Agreed (A) | 4 | 192 | 1 | 95 | 95 | 1 | 9025 |
| Not Certain (NC) | 3 | 0 | 0 | -97 | 0 | 0 | 9409 |
| Strongly Disagreed (SD) | 2 | 65 | -1 | -32 | 32 | 1 | 1024 |
| Disagreed (D) | 1 | 51 | -2 | -46 | 92 | 4 | 2116 |
| **Total (∑)** | **15** | 485 |  |   | 379 | 10 | 27974 |

 **Source: Researcher’s Compilation Using Microsoft Excel (2020)**

**Recall,**



**Where:**





**∑**= 379

= 10

= 27974

**Incorporation of Values:**

= 0.716575

Therefore, the Coefficient of Determination (R2) = (0.716575)2= 0.51348

The PCM reported a moderate positive correlation between internal-growth oriented diversification strategy and banks’ financial sustainability in Nigeria. This suggests that the point lies close to straight lines with banks’ financial sustainability increasing as internal-growth oriented diversification strategy increases**.** The R2 reveal that marketing diversification strategy accounted for 51.35% systematic variations in banks’ financial sustainability while the remaining 48.65% is captured by the error term. This further affirms that the regression model can be relied upon solely for strategic policy formulation.

**4.4. Test of Hypothesis**

Hypothesis testing are used when determining what outcome of a study would lead to either a rejection of the null hypothesis or acceptance of the alternative hypothesis in its stead for a specified level of significance, usually 5% significant level. The rule of thumb is that if the calculated coefficient of correlation (r) value is greater than the 95% Pearson correlation critical value associated with the Degree of Freedom (N-2) (see Appendix 1), reject the null hypothesis and accept the alternative hypothesis in its stead and vice versa. For the purpose of this study, the degree of freedom would be:

$$Degree of Freedom (DF)=N-2$$

Where:

N= 15 Data Point

Thus:

$$DF=15-2=13$$

**Table 12: Test of Hypothesis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Test of Hypothesis** | **Computed R** | **95% Pearson Correlation Critical Value associated with DF @13\*** | **Decision**  |
| Hypothesis One | 0.81111 | 0.514 | Reject Null Hypothesis One |
| Hypothesis Two | 0.847897 | 0.514 | Reject Null Hypothesis Two |
| Hypothesis Three | 0.735743 | 0.514 | Reject Null Hypothesis Three |
| Hypothesis Four | 0.716575 | 0.514 | Reject Null Hypothesis Four |

**Source: Researcher’s Compilation (2020)**

**4.4. Discussion of Research Findings**

Having collected and analyzed the data sourced from the field survey, an attempt was made to internalize the information sourced from the respondents. This isaimed at eliciting information from the respondents on the contributory role of bank diversification strategy in resulting in a financially sustainable banking system in the Post COVID-19 financial Crises in Nigeria.

Findings from the field survey revealed that the computed R-value of product diversification strategy exceeds that of the 95% Pearson Correlation Critical Value associated with DF @13. Hence, we rejected the null hypothesis of no strong positive correlation between product diversification strategy and banks’ financial sustainability and accepted the alternative hypothesis of a strong positive correlation between product diversification strategy and banks’ financial sustainability. This suggests that, if Nigerian banks must be financially sustainable in the in Post COVID-19 financial Crises in Nigeria, they must diversify their products. This result is in line with the findings of Rashid, Ahmed, and Muhammad (2019); Manchun, Sanghyo, and Jaejun (2019), Mwangi (2016).

Again, findings from the field survey reported that the computed R-value of service diversification exceeds that of the 95% Pearson Correlation Critical Value associated with DF @13. Hence, we rejected the null hypothesis and accepted the alternative hypothesis of a strong positive correlation between service diversification strategy and banks’ financial sustainability. This suggests that for Nigerian banks to be sustainable in the Post COVID-19 financial crises, they must have to shield themselves with the various service diversification strategies cited. Therefore, there is a need for most Nigerian banks to pride themselves in innovative ways of making their services most effective and efficient to gain customer trust, loyalty, and retention.

Findings from the field survey also support the alternative hypothesis, which states that the marketing diversification strategy has a positive strong correlation with and banks’ financial sustainability. This result implies that the more banks diversify their marketing activities, the more financially sustainable they become. This result is in line with the findings of Manchun, Sanghyo, and Jaejun (2019), Mwangi (2016).

Lastly, findings from the field survey reported that the computed R-value of the internal- growth diversification strategy exceeds that of the 95% Pearson Correlation Critical Value associated with DF @13. Thus, we rejected the null hypothesis and accepted the alternative hypothesis of a strong positive correlation between the internal- growth diversification strategy and banks’ financial sustainability. This supports the alternative hypothesis, which states that established internal- growth diversification is offered to employees the more financially stable they become. The implication of this result is that, the more diversified the banking industry, the more financially sustainable they become. This result is in tandem with the findings of Manchun, Sanghyo, and Jaejun (2019) and Mwangi (2016).

**5. Conclusion and Policy Recommendations**

From the field survey, we discovered that most Deposit Money Banks in Nigeria diversify their products, services, and marketing activities even before the advent of the COVID-19 pandemic. Additionally, findings from the field survey confirmed the existence of a high and positive correlation between diversification strategies and banks’ financial sustainability. Hence, we conclude that if Nigerian banks must reach their target markets more expediently and conveniently, they must have to incorporate diversification strategies well-articulated in this study into their overall corporate strategy. More so, we conclude that for Nigerian banks to be financially sustainable even after the COVID-19 pandemic, they must ensure that they continually adopt various diversification strategies clearly stated in this study.

In light of the various findings and conclusions drawn from the study, we advocate that for Nigerian banks to be financially sustainable in the Post COVID-19 financial crises, they must have to shield themselves with product, service, marketing, and internal growth-oriented strategies enunciated in this study. Again, bank management should uphold good corporate governance principles as well as frown against all forms of corrupt tendencies, which tend to inhibit best banking practices in Nigeria.

Furthermore, our study contributes to the existing literature in many respects. Firstly, our research findings present new empirical insights as well as provide timely answers to the recurring issues in extant literature concerning the contributory role of bank diversification strategy on financial sustainability. Secondly, we are convinced that our research findings will assist regulatory authorities in their search on how banks can be resilient even in the Post COVID-19 financial crises. Thirdly, our study will be useful in advising and appraising bank decisions on whether or not to diversify. Fourthly, our research findings will help different stakeholders in the Nigerian banking industry to expand the scope of their operations. Fifthly, our empirical results re-validate theoretical postulations and paradigms. This largely will also improve the strategic management discipline, which is currently in the pre-paradigmatic stages. Lastly, the study has opened the gateway to which further studies can trend.

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