



# THE INFLUENCE OF MARKET DIVERSIFICATION STRATEGIES ON THE PERFORMANCE OF COMMERCIAL BANKS IN SOUTH SUDAN

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Article DOI: <https://doi.org/10.36713/epra23889>

DOI No: 10.36713/epra23889

## ABSTRACT

This study examined the influence of market diversification strategies on the performance of commercial banks in South Sudan, a country characterized by political instability, economic uncertainty, and infrastructural challenges. Anchored on the Innovation Diffusion Theory, the study adopted a descriptive research design and targeted all 30 licensed commercial banks in South Sudan. A census approach was used to select respondents from top, middle, and lower management levels, yielding a total of 90 participants. Data was collected using structured questionnaires and analyzed using descriptive statistics, correlation, and regression analysis with SPSS version 25. Descriptive results indicated that market diversification strategies such as geographic expansion, product diversification, and digital banking channels were implemented to varying degrees, with the highest mean score for geographic expansion into underserved regions. Correlation analysis revealed a positive and statistically significant relationship between market diversification and bank performance while regression analysis confirmed that a unit increase in diversification efforts significantly improved performance metrics such as return on assets, profitability growth, and customer base expansion. The study concludes that market diversification is a vital strategic driver for improving the resilience and competitiveness of commercial banks in fragile economies. It recommends that banks in South Sudan adopt a strategic approach to diversification by aligning new market entries and product innovations with customer needs, investing in digital infrastructure, and considering partnerships to mitigate operational risks.

**KEY WORDS:** Market Diversification, Performance Of Commercial Banks, Commercial Banks In South Sudan

## INTRODUCTION

The performance of commercial banks is a critical area of inquiry as it directly influences economic growth, financial stability, and the overall health of the banking sector in various regions. Globally, the banking sector has faced varying challenges and opportunities, shaped by economic conditions and strategic adaptations. In Europe, the banking landscape has witnessed significant fluctuations, particularly following the debt crisis of 2008. The European Banking Authority (EBA, 2021) reports that the return on equity (ROE) in the region rebounded from a low of 2.31% in 2020 to 6.77% in 2021 and further to 7.22% in 2022, culminating in an impressive 9.29% by 2023—the highest level since 2007 (Statista Research Department, 2023). Notably, banks in countries like Germany and the United Kingdom demonstrated robust performance, with ROEs exceeding 8%, reflecting effective profitability strategies. Conversely, banks in Southern Europe, particularly in Greece and Italy, continued to grapple with high non-performing loans (NPLs) and subdued profitability, underscoring the long-term impacts of financial instability.

In the United States, commercial banks have exhibited resilience and growth, with the Federal Reserve (2021) reporting a record average profitability during 2021. The return on assets (ROA) reached 1.29%, marking the highest level since before the 2008 financial crisis. Contributing factors include a strong economy, rising interest rates, and improved credit quality. The top 10 U.S. banks achieved even higher ROEs, averaging around 12.5%, highlighting their operational efficiency and dominance in the competitive market (Deloitte, 2021). However, challenges such as regulatory pressures and competition from fintech disruptors continue to shape the sector's strategic priorities.

In Africa, the banking sector exhibits considerable variation across countries, reflecting diverse economic landscapes. Sub-Saharan Africa's banking sector is projected to grow at an annual rate of 10% between 2020 and 2025, driven by innovations in digital banking and financial inclusion initiatives (McKinsey & Company, 2020). Nigeria and South Africa are among the region's key players, with banks such as Access Bank and Standard Bank reporting significant annual profits. For example, Access Bank recorded a 22% increase in net profit in 2021,



attributed to the expansion of digital services and optimization of operational efficiencies (Access Bank, 2021).

Despite these achievements, the African banking sector faces persistent challenges, including economic volatility, currency fluctuations, and complex regulatory environments. Studies in Nigeria underscore the importance of customer relationship management strategies, which have been shown to enhance customer satisfaction and loyalty, thereby improving bank performance (Akpan et al., 2019). In South Africa, market diversification strategies have been identified as key drivers of profitability, with diversified product offerings correlating with increased revenue and operational resilience (Matabane et al., 2019).

The banking sector in South Sudan plays a pivotal role in the country's economic development, despite operating under extremely challenging conditions. Political instability, economic uncertainty, and underdeveloped infrastructure continue to impede the sector's growth and overall performance (World Bank, 2020). Additionally, factors such as limited access to capital markets, weak regulatory frameworks, and currency fluctuations exacerbate the difficulties faced by commercial banks in South Sudan.

Market diversification is recognized as a critical strategy for sustaining competitiveness and improving performance in the banking sector. Globally, banks have increasingly leveraged diversification to spread risks, enter untapped markets, and expand their product portfolios in response to changing economic, technological, and regulatory environments. In advanced economies such as the United States and China, diversification strategies encompass geographic expansion, cross-sector financial services, and product innovation. For instance, Wang and Li (2021) established that geographical diversification significantly improved bank profitability in China, while product diversification yielded mixed results, often influenced by institutional capacity, operational efficiency, and market alignment. Similarly, European banks have pursued regional integration and investment in fintech to reach underserved segments and reduce reliance on traditional income streams.

In Africa, the adoption of market diversification strategies has been both an adaptive response to volatile markets and a driver of financial inclusion. Kenyan banks have ventured into regional markets such as Uganda, Tanzania, and Rwanda, leveraging cross-border operations to mitigate local market saturation. Nigerian banks have diversified into digital services and agency banking, significantly enhancing their operational stability and profitability in the face of macroeconomic uncertainty. Across the continent, diversification into rural banking, mobile money platforms, and innovative lending products has improved customer outreach and operational resilience, even in challenging environments marked by infrastructural deficits and regulatory unpredictability.

Locally, in South Sudan, the banking sector operates in a fragile socio-economic context characterized by political instability, currency volatility, underdeveloped infrastructure, and low levels of financial literacy. Commercial banks face a narrow market base concentrated in urban centers, limiting growth prospects. Market diversification in this context offers a strategic pathway to mitigate risks, expand customer outreach, and enhance profitability through geographic market expansion, product/service diversification, and digital channel adoption. However, empirical evidence on the actual effectiveness of these strategies within South Sudan remains sparse. Existing studies on the country's banking sector focus more on regulatory challenges, liquidity constraints, and political risk, with minimal attention to strategic diversification as a performance driver (Barnaba, 2025). This gap has hindered their ability to expand customer bases, improve financial performance, and cope with external shocks, thereby limiting their competitiveness and long-term sustainability (Barnaba, 2025). Therefore, the study examined the influence of market diversification strategies on the performance of commercial banks in South Sudan.

## THEORY AND HYPOTHESIS

The Innovation Diffusion Theory (IDT), developed by Everett Rogers in 1962 and refined in his 2003 book *Diffusion of Innovations*, explains how new ideas, technologies, and practices are adopted within organizations over time through the interaction of the innovation itself, communication channels, time, and the social system. The theory emphasizes that adoption depends on factors such as relative advantage, compatibility, complexity, trialability, and observability, with successful diffusion requiring effective communication and alignment with user needs (Rogers, 2003). In relation to market diversification and the performance of commercial banks in South Sudan, IDT is highly relevant as it highlights how innovations such as mobile banking, automated systems, customer relationship management strategies, and new product development are adopted to expand into new geographic areas, attract underserved populations, and enhance service delivery. By diffusing these innovations effectively, banks diversify their markets, improve operational efficiency, strengthen customer loyalty, and sustain competitiveness, thereby positively impacting overall performance.

*H<sub>04</sub>: Market diversification has no statistically significant influence on the performance of commercial banks in South Sudan.*

## DATA METHODS

This study employed a descriptive research design to systematically analyze the relationship between market diversification strategies and bank performance without manipulating variables. The target population comprised all 30 licensed commercial banks in South Sudan, including national, joint venture, and foreign-owned banks. Using a census approach, three respondents from each bank (one top-level, one middle-level, and one lower-level manager) were purposively selected, yielding 90 participants. Data was collected through structured questionnaires containing both closed- and open-ended questions,



with diversification indicators measured using a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). A pilot test with 10% of the sample confirmed the reliability of the instrument, with Cronbach's alpha exceeding 0.70. Data analysis involved descriptive statistics to summarize responses, Pearson correlation to assess the strength and direction of relationships, and linear regression to determine the predictive influence of diversification strategies on performance metrics such as ROA, customer base growth, and profitability.

### DATA ANALYSIS

Quantitative data from questionnaires were analyzed using descriptive statistics (frequencies, mean, standard deviation) and inferential statistics (correlation and linear regression analysis). Qualitative data from interviews were

analyzed thematically to identify patterns and themes. Statistical Package for Social Sciences (SPSS) was utilized for quantitative analysis.

### DESCRIPTIVE STATISTICS FOR MARKET DIVERSIFICATION STRATEGIES

Market diversification strategies play a crucial role in determining the performance of commercial banks. Table 1 presents the results of respondents' views on various aspects of market diversification, including geographic expansion, digital banking, and product diversification. The findings provide insights into the effectiveness of these strategies in reaching new customers, increasing revenue, and enhancing market presence.

**Table 1: Descriptive Statistics for Market Diversification Strategies**

Statement	SD F(%)	D F (%)	N (%)	F A (%)	F SA F(%)	Mean	Std Dev.
Our bank has successfully expanded into new geographic markets.	4 (4.7%)	6 (7.0%)	31 (36.0%)	19 (22.1%)	26 (30.2%)	3.66	1.12
Product and service diversification has positively impacted on our bank's performance.	5 (5.8%)	11 (12.8%)	24 (27.9%)	29 (33.7%)	17 (19.8%)	3.49	1.12
Digital banking channels have helped us reach new customer segments.	2 (2.3%)	13 (15.1%)	30 (34.9%)	20 (23.3%)	21 (24.4%)	3.52	1.09
Geographic market expansion has led to increased revenue.	3 (3.5%)	14 (16.3%)	24 (27.9%)	25 (29.1%)	20 (23.3%)	3.52	1.12
Product service diversification has met customer needs effectively.	4 (4.7%)	10 (11.6%)	25 (29.1%)	26 (30.2%)	21 (24.4%)	3.58	1.12
The use of digital channels has increased our market presence.	2 (2.3%)	13 (15.1%)	26 (30.2%)	22 (25.6%)	23 (26.7%)	3.59	1.11

Source: Researcher, (2025)

The descriptive statistics reveal that market diversification strategies are perceived positively by most respondents, though with some variation across specific dimensions. A majority (52.3%) agreed or strongly agreed that their banks had successfully expanded into new geographic markets, reflected in a mean of 3.66 (SD = 1.12), making this the strongest rated dimension. Similarly, 53.5% affirmed that product and service diversification effectively meets customer needs (mean = 3.58, SD = 1.12), while 52.3% agreed that the use of digital channels has increased market presence (mean = 3.59, SD = 1.11), both showing solid support for strategic innovation. However, perceptions were more moderate regarding the overall impact of product/service diversification on bank performance, where 53.5% agreed but 18.6% disagreed, giving the lowest mean of

3.49 (SD = 1.12). Geographic expansion as a revenue driver and digital banking for reaching new segments each scored a mean of 3.52, suggesting cautious optimism. Overall, the findings indicate that diversification through geographic expansion, digitalization, and product innovation is viewed as beneficial to bank performance, but its effectiveness varies in strength across different aspects.

### Performance of Commercial Banks

Table 2 presents the respondents' perceptions of various aspects of commercial bank performance. The table captures responses on key performance indicators such as return on assets, profitability growth, customer base expansion, financial performance relative to industry benchmarks, the impact of



effective strategies, and the accuracy of performance metrics. Understanding these indicators provides insights into the overall financial health and operational efficiency of commercial banks.

**Table 2: Performance of Commercial Banks**

Statement	SD (%)	F (%)	D (%)	F (%)	N (%)	F (%)	A (%)	F (%)	SA (%)	F (%)	Mean	Std Dev.
Our bank's return on assets is consistently strong.	4 (4.7%)		12 (14.0%)		21 (24.4%)		26 (30.2%)		23 (26.7%)		3.60	1.16
We have seen a steady growth in profitability over the past year.	3 (3.5%)		13 (15.1%)		22 (25.6%)		31 (36.0%)		17 (19.8%)		3.53	1.08
Our customer base has expanded significantly in recent years.	4 (4.7%)		9 (10.5%)		25 (29.1%)		25 (29.1%)		23 (26.7%)		3.63	1.13
The bank's financial performance meets or exceeds industry benchmarks.	3 (3.5%)		12 (14.0%)		22 (25.6%)		29 (33.7%)		20 (23.3%)		3.59	1.10
Effective strategies have led to noticeable improvements in our bank's performance.	4 (4.7%)		12 (14.0%)		22 (25.6%)		23 (26.7%)		25 (29.1%)		3.62	1.18
The performance metrics accurately reflect our bank's operational success.	3 (3.5%)		9 (10.5%)		23 (26.7%)		30 (34.9%)		21 (24.4%)		3.66	1.07

Source: Researcher, (2025)

The results indicate generally positive perceptions of the banks' financial performance among respondents. For instance, 56.9% (agree + strongly agree) affirmed that their bank's return on assets is consistently strong, while only 18.7% disagreed, yielding a mean of 3.60 (SD = 1.16). Similarly, 55.8% agreed that profitability has grown steadily over the past year, with a mean of 3.53 (SD = 1.08), suggesting moderate confidence in profitability trends. Expansion of the customer base received stronger support, with 55.8% agreeing and a mean of 3.63 (SD = 1.13), highlighting market growth as a notable strength. Regarding industry benchmarks, 57% agreed that their bank's financial performance meets or exceeds standards (mean = 3.59, SD = 1.10).

Importantly, 55.8% recognized that effective strategies have improved performance (mean = 3.62, SD = 1.18), while 59.3% believed performance metrics reflect operational success (mean = 3.66, SD = 1.07). Overall, the findings suggest favorable but moderately varied views of bank performance.

**Hypothesis Testing**

Hypothesis:  $H_{01}$ : Market diversification has no statistically significant influence on the performance of commercial banks in South Sudan. The regression analyses were as shown in the tables below.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834a	.696	.693	.47583

a. Predictors: (Constant), Market Diversification Strategies

The model summary indicates an R value of 0.834, showing a very strong positive relationship between market diversification and bank performance. The R<sup>2</sup> value of 0.696 means that

diversification strategies explain 69.6% of the variation in bank performance, with the remaining 30.4% attributable to other factors not included in the model.

**Table 4: ANOVA results for Hypothesis**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	57.969	1	57.969	256.031	.000b
Residual	25.358	112	.226		
Total	83.327	113			

a. Dependent Variable: Performance of Commercial Banks

b. Predictors: (Constant), Market Diversification Strategies

The ANOVA results (F = 256.031, p = 0.000) confirm that the model is statistically significant at the 5% level, indicating that

market diversification strategies are a significant predictor of performance.



Table 5: Beta Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.958	.191		5.016	.000
Market Diversification Strategies	.789	.049	.834	16.001	.000

a. Dependent Variable: Performance of Commercial Banks

The coefficients table shows an unstandardized  $\beta$  of 0.789 ( $t = 16.001, p < 0.05$ ), suggesting that a one-unit increase in diversification efforts leads to an estimated 0.789-unit increase in performance.

These findings lead to the rejection of the null hypothesis ( $H_0$ ), confirming that market diversification has a statistically significant and positive influence on the performance of commercial banks in South Sudan. This aligns with Akol (2022), who found that banks engaging in regional expansion and mobile banking diversification performed better despite political and infrastructural challenges. Similarly, Karanja (2020) in Kenya reported that diversification through branch expansion and product innovation boosted profitability. The high explanatory power ( $R^2 = 0.696$ ) in the South Sudanese context underscores that diversifying into new markets, products, and digital channels can enhance revenue streams, mitigate risks associated with overreliance on a single market, and improve resilience in a volatile economic environment.

### SUMMARY OF FINDINGS

The findings reveal that market diversification strategies, including geographic expansion, product and service diversification, and digital banking, play a significant role in the performance of commercial banks. Geographic expansion has been generally successful in increasing market presence and revenue, though some respondents remain uncertain about its overall impact. Product and service diversification has contributed to improved performance by meeting customer needs, but its effectiveness varies depending on market demands and external factors. Digital banking has helped banks reach new customer segments and expand market presence, though challenges such as infrastructure costs and digital literacy persist. While these strategies enhance bank performance, their success depends on strategic implementation, market viability, and customer responsiveness. The results indicate a strong and statistically significant positive correlation ( $r = 0.809, p = 0.000$ ) between market diversification strategies and bank performance.

### CONCLUSION

The study also concludes that, market diversification strategies, including geographic expansion, product and service diversification, and adoption of digital banking, are positively correlated with bank performance. While these strategies have enabled banks to expand their market presence and revenue streams, their success depends on strategic implementation and customer responsiveness. The study finds that geographic expansion must be carefully assessed to ensure profitability, and product diversification should align with market needs to maximize its impact. Digital banking has been instrumental in

reaching new customer segments, but banks must address challenges related to digital literacy and infrastructure limitations. Overall, banks should adopt a well-planned approach to market diversification to optimize growth and maintain long-term financial stability.

### RECOMMENDATIONS

To commercial bank executives and expansion strategists, the study recommends a more strategic approach to market diversification to optimize profitability and long-term financial sustainability. The study established a strong correlation between market diversification strategies and bank performance, though some respondents expressed uncertainty about their impact. Banks should conduct thorough market feasibility assessments before geographic expansion to ensure sustainability and profitability. Product and service diversification should align with customer needs and market trends to avoid inefficiencies and financial losses. Furthermore, banks should enhance digital banking infrastructure and improve customer awareness to maximize the benefits of digital banking and expand financial inclusion.

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