

**PRODUCT DIVERSIFICATION STRATEGIES AND ITS
IMPACT ON PERCEIVED FINANCIAL PERFORMANCE
IN NEPALESE COMMERCIAL BANKS**

A Dissertation submitted to the Shanker Dev Campus, Faculty of Management in partial
fulfillment of the requirements for the Master's Degree

By

Bibha Shrestha

Shankar Dev Campus

Campus Roll No.: 757/073

Exam Roll No: 2256/174

Registration No.: 7-2-39-839-2012

Kathmandu Nepal

July, 2024

Certification of Authorship

I hereby corroborate that I have researched and submitted the dissertation entitled "Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks." The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work have been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

.....

Bibha Shrestha

REPORT OF RESEARCH COMMITTEE

Ms. Bibha Shrestha has defended research proposal entitled "**Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks** " successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Asso. Prof.Dr. Kapil Khanal Submit the thesis for evaluation and viva-voce examination.

.....

Asso. Prof.Dr. Kapil Khanal
Dissertation Supervisor

Dissertation Proposal Defended Date:

Dissertation Submitted Date:

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Research Department

Dissertation Viva-voce Date:

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks**" Presented by Bibha Shrestha Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

.....

Asso. Prof. Dr. Kapil Khanal

Dissertation Supervisor

.....

Internal Examiner

.....

Internal Expert

.....

External Expert

.....

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

.....

Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

Acknowledgements

This study entitled "Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks" has been prepared for the partial fulfillment for the degree of Master of Business Studies. It is directed towards exploring, analyzing, and understanding the impact of product diversification strategies on the perceived financial performance of commercial banks in Nepal.

I am extremely grateful to my thesis supervisor Asso. Prof. Dr. Kapil Khanal of Tribhuvan University, for his invaluable guidance, support, and patience throughout the course of my research. His expertise and encouragement played a phenomenal role in the completion of this work.

I am also grateful to the research department head, campus chief, program director, and all the professors and lecturers of Sankar Dev campus whose suggestions made me able to finalize this thesis. I express a debt of gratitude to my friends for their continuous support in my effort to complete this thesis work. Last but not least, I would like to thank my family members for their constant encouragement and cooperation in my academic pursuit.

Bibha Shrestha

Table of Contents

Certification of Authorship	ii
Report of Research Committee	iii
Approval Sheet.....	iv
Acknowledgements.....	v
List of tables.....	vi
List of figures.....	viii
Abbreviations.....	ix
Abstract.....	x
CHAPTER I INTRODUCTION.....	1
1.1 Background of the study	1
1.2 Problem Statement.....	3
1.3 Objective of the Study	4
1.4 Hypothesis of the Study	4
1.5 Rationale of the Study.....	5
1.6 Limitations of the study	6
CHAPTER II LITERATURE REVIEW	8
2.1 Theoretical Review	8
2.1.1 Portfolio Theory.....	8
2.1.2 Diversification-Performance Linkage Theory	9
2.1.3 Resource-Based View (RBV).....	10
2.1.4 Agency Theory	11
2.1.5 Strategic Fit Theory	12
2.2 Empirical Review.....	13
2.3 Research Gap	22
CHAPTER III RESEARCH METHODOLOGY	24

3.1 Research Design.....	24
3.2 Population and Sampling Procedure.....	24
3.3 Nature and Sources of the Data Collection.....	25
3.4 Research Framework and Definition of Variables.....	25
3.5 Methods of Analysis	27
CHAPTER IV RESULT AND DISCUSSION.....	28
4.1 Demographic Statistics	28
4.2 Descriptive Statistics.....	31
4.3 Correlation Analysis	36
4.4 Regression analysis.....	38
4.5 Discussion.....	41
CHAPTER V SUMMARY, CONCLUSION AND IMPLICATIONS	43
5.1 Summary.....	43
5.2 Conclusion	44
5.3 Implication	46
REFERENCES	48
APPENDIX.....	53

List of tables

Table 1: Empirical Review Table	20
Table 2: Gender Classification	34
Table 3: Age Classification	34
Table 4: Marital Status Classification	35
Table 5: Years in Service Classification	35
Table 6: Employment Status Classification	36
Table 7: Descriptive Statistics of Credit Access	36
Table 8: Descriptive Statistics of Deposit	37
Table 9: Descriptive Statistics of Remittance Service	38
Table 10: Descriptive Statistics of Mobile Banking	39
Table 11: Descriptive Statistics of Perceived Financial Performance	40
Table 12: Correlation Matrix	41
Table 13: Model Summary	43
Table 14: ANOVA	43
Table 15: Coefficient	44

List of figures

Conceptual framework

31

Abbreviations

ANOVA: Analysis of Variance

B: Unstandardized Coefficients

Beta: Standardized Coefficients

CA: Credit Access

D: Deposits

df: Degrees of Freedom

HHI: Herfindahl-Hirschman Index

MIB: Mobile and Internet Banking

PFP: Perceived Financial Performance

R: Remittances

ROA: Return on Assets

ROE: Return on Equity

SD: Standard Deviation

Sig.: Significance

SPSS: Statistical Package for the Social Sciences

t: t-statistic

Abstract

This study investigates the impact of product diversification strategies on the perceived financial performance of Nepalese commercial banks. It aims to assess how different diversification strategies—Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB)—affect financial outcomes. Data were collected from 80 bank employees through structured questionnaires, complemented by secondary data from relevant literature and bank reports. The study employs regression and correlation analysis to examine these relationships. The findings reveal that Mobile and Internet Banking (MIB) significantly enhances perceived financial performance, indicating the critical role of digital banking services in the modern banking landscape. Conversely, Credit Access (CA), Deposits (D), and Remittances (R) did not show significant impacts on financial performance. These results suggest that while traditional banking services remain essential, their contribution to financial success is less pronounced compared to digital services. The study concludes that targeted digital diversification is crucial for improving perceived financial performance in Nepalese commercial banks. This strategic focus on digital services is essential for maintaining a competitive edge and ensuring sustainable financial success. The findings provide valuable insights for bank managers, policymakers, and researchers, emphasizing the importance of embracing digital transformation to enhance financial stability and customer satisfaction. By prioritizing digital innovations, banks can achieve long-term growth and remain competitive in an evolving financial landscape.

CHAPTER I

INTRODUCTION

1.1 Background of the study

Product diversification has been a crucial tactic used by businesses to try and increase their performance and appeal. Product diversification improves performance in the banking sector by facilitating the start of initiatives that make use of both internal and external resources already in place. These initiatives, in turn, assist other ventures and enhance the organization's overall performance. Product diversification enables businesses to better understand the necessity and urgency of enhancing shareholder value while utilising their current resources (Ansoff, 2012).

The degree of diversification is one of the managerial options that are explicitly thought to contribute to the financial performance of organisations. In many markets, it is assumed that diversity can yield some elevated benefits through more skillfully used organisational resources. Profitability is increased by product variety, but only to the extent that complexity allows (Constable & McCormick, 2009). Murimiri (2009) asserts that organisations must develop the ability to adapt to a changing environment. In addition to their accomplishments and to ensure their continuous presence in the marketplace, organisations must proactively participate in strategies that will allow them to respond to environmental difficulties in order to maintain a competitive advantage over their competitors. Depending on the circumstances, an organisation might employ a variety of business strategies. For example, compared to more established organisations, newer businesses in the market typically confront various problems. This implies that their business tactics are typically distinct from those of their main rivals.

Performance is the degree of profitability of an investment. Performance, in essence, is the yardstick by which an organisation is assessed for its potential to thrive in the business world. While Hitt and Ireland (2015) defined performance as the background notion linked with the phenomenon being examined, Miller (2019) stated that organisation performance is related to the efficiency and effectiveness of the firm. According to Miller (2019), banks function as middlemen in transactions involving suppliers and money demanders at a specific price. Murimiri (2009) identifies three sources of variation in company performance: information about the apparent

determinants of performance variations, commonly used analytical models, and theoretical ideas. Profit, profit ratios (ROI, EPS, NPR), market share, and revenue growth are examples of financial metrics used to assess an organization's performance (Pandey, 1999). Three economic objectives, determined by strategic direction, characterise the performance of an organisation. They include becoming a part of the market, development, and success. An organization's existence and prosperity are directly linked to its growth. A long-term plan is necessary for an organisation to stay in business; failing to do so suggests that it cannot satisfy the demands of its stakeholders, expand its product line and reach into new markets, and advance its use of technology to deliver goods and services. Change is a sign of progress, especially proactive change, which is essential in a dynamic business environment. An organization's primary goal is to be profitable. Profit, in any form, demonstrates an organization's capacity to meet the demands of all parties involved (Pearce & Robinson, 2007). Therefore, decisions must be founded on long-term objectives, as short-term objectives frequently result in deceptive profit results that control the growing concerns of creditors, suppliers, customers, ecologists, and regulatory agencies.

A nation's banking system plays a significant part in its economic growth. An institution of banking is essential to contemporary civilization. It is essential to a nation's economic growth and concentrates the central bank of a developed nation. The primary duty of the bank is to gather as many deposits from its clientele as it can, then allocate those funds to the most lucrative and favoured industries, such as business, entertainment, agriculture, and industry. The ancient bankers of Nepal were goldsmiths, merchants, and moneylenders, just like those in other nations. The establishment of TejarathAdda in 1993 (BS) by Prime Minister Ranoddip Singh marked the beginning of Nepal's institutional banking development. TejarathAdda loaned money to the public and staff in exchange for metal instead of taking deposits from the general population. However, the establishment of Nepal Bank Limited (NBL), the country's first commercial bank, in 1994 B.S. under the Nepal Bank Act of 1993 B.S. brought the idea of a contemporary financial organisation in Nepal. Since NBL was a commercial bank, it seemed sense that it would focus more on profitable ventures and would rather open branches in cities. In accordance with the NRB statute of 2012 B.S., Nepal Rastra Bank (NRB) was established as a central bank in 2013. Since then, it has fluctuated in its role as the bank of the government and helped the financial sector expand. Following this, the government established Rastriya

Banijya Bank (RBB) in B.S. 2022 as a commercial bank that it owned entirely. business banks are solely allowed to conduct business transactions, as their name would imply. However, commercial banks were required to perform all financial institution functions (Thapaliya, 2019). There are fifteen BFIs in existence as of mid-January 2020; they include twenty-seven "A" class Commercial Banks, twenty-four "B" class Development Banks, twenty-two "C" class Finance Companies, and ninety-nine "D" class Micro Finance Financial Institutions. There were 163 BFIs in FY 2017–18 compared to 151 in FY 2016–17 (NRB, 2020).

1.2 Problem Statement

The banking industry has seen heightened competition in recent years due to both new entrants into the market and better market changes by established competitors. Numerous banks, microfinance institutions, and other non-banking entities have entered the market to offer financial services to the underbanked and unbanked population, primarily residing in rural areas. Numerous nations have seen the launch of new mobile phone-based payment and money transfer services by mobile phone carriers. These services have expanded swiftly, and in the majority of developing nations, they are now the most successful mobile phone-based financial services (Thapaliya, 2019). Numerous investigations have been carried out worldwide concerning the banking industry, and Nepal has not been excluded. For example, Fang et al. (2011) discovered that, even in cases where risk was managed, diversification was frequently accompanied by drops in bank income. This was shown in their study of German banks. Only a small number of examples, such as highly risky banks and industrial diversification, were found in their analysis to demonstrate a statistically significant positive correlation between diversity and bank revenues. Subsequent examination of German banks' loan portfolio diversification revealed that the majority of them had considerably raised their levels of portfolio diversification.

In their 2015 study, David and Dionne explored the tactics used by large Swedish banks to diversify their loan portfolios. According to a different study by Stroh and Rumble (2009), banks have been utilising focus and product differentiation as their primary strategies to outperform one another.

None of the above stated studies have examined the impact of diversification strategies on bank performance; instead, the researchers have concentrated on the role that market dynamics and product differentiation play in the operation of Nepal's commercial banks. Furthermore, in order to be diversified in the banking industry, organisations must have effective processes in place to handle rare events that could jeopardise their goals, daily operations, and overall well-being. Despite their market diversification efforts, the majority of banks have not been able to achieve the desired performance and have continued to record low profit growth. According to Thapaliya (2019), there is a paucity of research on the efficacy and long-term sustainability of these tactics (21). Therefore, there is currently a research gap and a lack of evidence about the impact of diversification initiatives in the banking sector. Therefore, the goal of the study was to determine how diversification tactics affected Nepal's commercial banks' performance.

This study will try to analyze and examine the impact of diversification strategies on performance of Nepalese commercial banks. The study will be seeks to find out the answer of the below research question:

- What is impact of product diversification strategies on perceived financial performance of Commercial Banks in Nepal?

1.3 Objective of the Study

The basic objective of this study will be as follow:

- To examine the product diversification strategies and its impact on perceived financial performance in Commercial Banks in Nepal.

1.4 Hypothesis of the Study

Credit Access: The availability and variety of credit options can enhance the perceived financial performance by demonstrating the bank's capability to meet diverse customer needs. Efficient loan application processes and competitive interest rates can improve customer satisfaction and trust, reflecting positively on the bank's financial stability and performance.

H1: Positive perceptions of credit access (variety, ease of application, competitive interest rates, and transparency) are associated with higher perceived financial performance of the bank (Source: Beck et al., 2002).

Deposit Services: Offering a range of deposit options with competitive interest rates and ensuring the security of deposits can foster confidence among employees about the bank's financial health. Convenience in depositing funds and managing accounts can further enhance this perception, suggesting strong operational efficiency and customer-focused services.

H2: Positive perceptions of deposit services (variety of options, convenience, security, and ease of management) are associated with higher perceived financial performance of the bank (Source: Demircuc-Kunt & Levine, 1999).

Remittance Services: Efficient and user-friendly remittance services with reasonable fees can indicate strong service quality and operational efficiency, which employees may correlate with the bank's overall financial health. Speed and security in remittances ensure reliability, further enhancing perceived financial performance.

H3: Positive perceptions of remittance services (convenience, fee transparency, speed, security, and user-friendliness) are associated with higher perceived financial performance of the bank. Rehman and Hysa (2021)

Mobile and Internet Banking: User-friendly mobile and internet banking services that allow comprehensive transaction capabilities and secure financial dealings can significantly contribute to the perception of a well-managed and technologically advanced bank. This modern approach to banking can be seen as a reflection of the bank's commitment to innovation and customer satisfaction, impacting perceived financial performance positively.

H4: Positive perceptions of mobile and internet banking services (user-friendliness, transaction capability, and security) are associated with higher perceived financial performance of the bank (Source: Chen & Yang, 2009).

1.5 Rationale of the Study

Managers of commercial banks in Nepal will be aware of and grateful for the banking industry's diversification tactics. Managers at other financial institutions will make the right choices by studying the techniques that the Commercial Banks in Nepal have successfully used, allowing them to grow their business. The managers will also be made aware of the difficulties encountered in adopting and implementing diversification plans, assisting them in making the necessary adjustments to address these difficulties and

achieve optimal performance. Insights from the study on diversification tactics that improve sector growth and functioning will be useful to regulators and policy makers as they formulate regulations and policies. It will be feasible to develop new policies and examine current ones, resulting in the banking industry achieving synergy.

Users of banking services will also benefit greatly from the study in terms of comprehending and valuing the potential for growth in the banking industry. This is important because customers will not negotiate for any cost implications that they must bear in exchange for improved service performance. It will be feasible for users to forecast the future of commercial banks and make preparations for compliance. Lastly, this study will serve as a future reference for academics and researchers studying comparable diversification tactics. Future study issues will also be emphasised, such as the connections between industry entrants and strategies adopted.

1.6 Limitations of the study

Every research project has its constraints, and this investigation into the effects of product diversification strategies on perceived financial performance in Nepalese commercial banks is no exception. The limitations of this study are multifaceted and include the following aspects:

1. **Sample Size and Selection:** The study's conclusions will be drawn from a judgment sample of 80 employees from Nepalese commercial banks. While judgment sampling allows for informed selection of a representative sample, it also introduces subjectivity and potential biases, as it relies on the researcher's discretion rather than random selection.
2. **Generalizability:** Given the study's focus on Nepalese commercial banks, the findings may not be fully generalizable to other contexts or banking systems, particularly those with different economic, regulatory, and market dynamics.
3. **Temporal Constraints:** The research design is cross-sectional, capturing data at a single point in time. This approach may not account for long-term trends and may overlook the dynamic nature of financial performance over time.
4. **Data Collection Methodology:** The reliance on primary data gathered through structured questionnaires limits the study to the perspectives and honesty of the respondents. This methodological approach may not capture the full complexity of

the strategies and performance measures in play, and it is susceptible to response biases.

5. **Measurement Constraints:** The use of perceived financial performance as a dependent variable is subject to the interpretation and subjective judgment of stakeholders, which may not always align with objective financial metrics.
6. **Analytical Limitations:** The statistical tools to be employed, while robust, have inherent limitations. Descriptive and inferential statistics will provide insights based on the assumptions of the chosen models, which may not account for all external variables influencing financial performance.
7. **Scope of Study:** The study focuses on the product diversification strategies and their perceived impact on financial performance, potentially overlooking other strategic factors such as operational efficiency, customer service quality, and competitive dynamics that can also significantly affect performance.

By acknowledging these limitations, the research will be better positioned to interpret the findings with the necessary caution and to suggest areas for future research that could address these constraints.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

The theoretical foundation for analyzing the impact of product diversification strategies on perceived financial performance in Nepalese commercial banks can be anchored on several pertinent theories and frameworks. This section discusses the theories relevant to the research topic.

2.1.1 Portfolio Theory

The Portfolio Theory, introduced by Harry Markowitz (1952), fundamentally changed the approach to investment risk management through the concept of diversification. Markowitz's theory posits that diversification can reduce the overall risk of an investment portfolio without necessarily leading to a proportional decrease in expected returns. This principle is particularly relevant for commercial banks, as diversifying their product and service offerings can help mitigate risks associated with dependency on a single or limited income sources.

In the context of Nepalese commercial banks, implementing product diversification strategies means expanding their range of financial products and services beyond traditional banking activities. This could include investment products, insurance services, asset management, and various types of loans and credit facilities. By offering a broader array of products, banks can attract a wider customer base, which in turn helps in spreading the revenue-generating sources across different financial sectors and market segments.

Diversification in banking is not just about expanding the product line but also involves risk management. According to Portfolio Theory, the risk of the portfolio is minimized when the returns of the included assets are not perfectly correlated. Similarly, in banking, when different financial products have varying performance patterns across economic cycles, the overall risk to the bank is reduced. This is because losses in one segment can be offset by gains in another, leading to a more stable financial performance overall.

Moreover, product diversification can enhance the perceived financial stability and performance of a bank. Customers and investors often view a diversified product portfolio as a sign of a robust, resilient institution capable of managing economic

fluctuations effectively. This perception can positively influence the bank's reputation in the market, leading to increased customer trust and investment, which ultimately contributes to better financial performance.

In summary, the application of Portfolio Theory to the strategic management of Nepalese commercial banks highlights the importance of product diversification. By spreading investments across a variety of financial products and services, banks can not only manage risks more effectively but also enhance their perceived financial performance and stability in the competitive market.

2.1.2 Diversification-Performance Linkage Theory

The Diversification-Performance Linkage Theory posits that the relationship between diversification and firm performance is not linear, but rather, characterized by initial gains that taper off or even reverse at higher levels of diversification. This theory draws from the concept that as companies expand their product lines, they can exploit economies of scope, leveraging shared resources and capabilities across different products, which can lead to cost savings and improved performance (Rumelt, 1974). Additionally, by spreading their activities across various products or markets, firms can reduce their exposure to risks associated with any single product or market.

However, the benefits of diversification are not limitless. As firms continue to diversify beyond a certain threshold, the complexity of managing a wide array of products and services can increase disproportionately. This complexity may manifest in escalated coordination costs, diluted focus on core competencies, and potential for inefficiencies (Palich, Cardinal, & Miller, 2000). Consequently, the marginal benefits of further diversification begin to decline, and the costs associated with managing a sprawling, diverse portfolio can erode performance gains, potentially leading to a net negative impact on firm performance.

Thus, the Diversification-Performance Linkage Theory suggests that there is an optimal level of diversification that firms should pursue. Beyond this level, the cost of additional complexity outweighs the benefits of spreading risks and exploiting economies of scope. The implication for managers is to seek a balance where diversification can be used strategically to enhance performance without overextending the firm's managerial capacity and organizational coherence.

2.1.3 Resource-Based View (RBV)

The Resource-Based View (RBV) of the firm, as conceptualized by Barney in 1991, centers on the idea that the unique resources and capabilities of a firm are the primary drivers of its competitive advantage and performance. This perspective is particularly relevant for Nepalese commercial banks considering diversification strategies, as it underscores the importance of leveraging their distinct resources and capabilities to achieve improved financial outcomes.

In the banking sector, resources and capabilities can include a wide range of assets, such as customer relationships, brand reputation, proprietary technology, skilled personnel, and financial capital. For Nepalese commercial banks, these elements are pivotal in crafting and executing diversification strategies. For instance, strong customer relationships and brand reputation can facilitate the successful introduction of new financial products and services, as existing customers may be more receptive to trying new offerings from a trusted bank.

Moreover, RBV suggests that the strategic management of resources and capabilities can lead to sustained competitive advantage and superior performance. For banks in Nepal, this means that diversifying into new business areas should be guided by their core competencies and strategic assets. By aligning diversification efforts with their inherent strengths, banks can ensure that new ventures are not only feasible but also enhance the bank's overall value proposition.

Effective utilization of financial capital and technological assets can also support diversification efforts, enabling banks to innovate and penetrate new markets successfully. For example, investment in digital banking platforms can open up avenues for offering online financial services, thus reaching a broader customer base and diversifying revenue streams.

In conclusion, the Resource-Based View provides a robust framework for Nepalese commercial banks to assess and capitalize on their unique resources and capabilities in pursuit of successful product diversification. By strategically leveraging these assets, banks can enhance their financial performance and secure a competitive position in the market.

2.1.4 Agency Theory

Agency Theory, as developed by Jensen and Meckling in 1976, delves into the dynamics between principals (shareholders) and agents (managers) within a firm, highlighting how their often divergent interests can influence decision-making, particularly in the context of diversification. This theory is crucial for understanding the strategic decisions behind product diversification in Nepalese commercial banks, as it sheds light on the potential conflicts that might arise from the differing objectives of shareholders and managers.

According to Agency Theory, managers (agents) may pursue diversification strategies to expand the firm's size and complexity, which can increase their personal power and compensation, even if these strategies do not necessarily maximize shareholder value. This misalignment of interests can lead to suboptimal decisions that might not improve or could even detrimentally affect the bank's perceived financial performance. For instance, overly aggressive diversification may result in operational inefficiencies, increased management costs, and a dilution of focus on core competencies, all of which can negatively impact the bank's profitability and value to shareholders.

Furthermore, the theory emphasizes the importance of establishing mechanisms to align the interests of managers with those of shareholders. In the context of Nepalese commercial banks, this could involve tying managerial compensation to performance metrics that reflect successful diversification outcomes, such as profit growth in new product segments or improvements in risk-adjusted return measures.

Effective corporate governance practices are also vital in mitigating agency conflicts, ensuring that diversification decisions are made with the bank's long-term financial health and shareholder value in mind. This might include board oversight of diversification strategies, transparent reporting, and shareholder input on significant strategic initiatives.

In sum, Agency Theory provides a critical lens through which to assess the potential risks and rewards of diversification strategies in Nepalese commercial banks. By recognizing and addressing the possible conflicts of interest between managers and shareholders, banks can better navigate the complexities of diversification to achieve sustainable financial performance.

2.1.5 Strategic Fit Theory

Strategic Fit Theory, articulated by Porter in 1985, emphasizes the importance of alignment between a company's resources and capabilities and the opportunities available in new product markets. This theory is particularly relevant for Nepalese commercial banks contemplating diversification strategies, as it highlights the necessity of ensuring that their strengths and competencies are effectively leveraged in new financial sectors to enhance performance.

The concept of strategic fit suggests that successful diversification is more likely when a bank's existing resources and capabilities are well-suited to the demands of the new markets or products it is considering. For Nepalese commercial banks, this means that diversification should not be pursued merely for the sake of expansion. Instead, it should be a strategic decision based on a thorough analysis of how the bank's key strengths, such as customer service, technological infrastructure, or financial expertise, can be utilized to gain a competitive edge in new market segments.

For example, a bank with a strong reputation in retail banking might find strategic fit in diversifying into personal financial planning and wealth management services, leveraging its existing customer base and brand trust. Conversely, diversifying into areas where the bank lacks expertise or competitive advantage may result in underperformance and wasted resources.

Strategic Fit Theory also implies that the assessment of potential diversification opportunities should consider the broader market and competitive environment. Nepalese commercial banks need to analyze the market trends, customer needs, regulatory landscape, and competitive dynamics to determine whether the new product or market aligns with their strategic objectives and operational strengths.

In essence, Strategic Fit Theory provides a framework for Nepalese commercial banks to evaluate the potential success of their diversification strategies critically. It encourages banks to align their diversification efforts with their core competencies and market opportunities, thereby increasing the likelihood of enhancing their financial performance and achieving sustainable growth.

2.2 Empirical Review

Sharma and Koirala (2021) undertook an in-depth investigation into the impact of product diversification strategies on the financial performance of commercial banks in Nepal. Their research employed a robust quantitative design, which focused on analyzing financial data collected over a five-year period from 20 Nepalese banks. The study's methodology was grounded in regression analysis, a statistical technique used to understand the relationship between variables. Specifically, they measured diversification using the Herfindahl-Hirschman Index (HHI), a common metric for assessing the concentration and diversity of a firm's product offerings. The financial performance indicators analyzed included return on assets (ROA) and return on equity (ROE), which are critical measures of a bank's profitability and efficiency.

The results of Sharma and Koirala's study revealed a nuanced relationship between product diversification and financial performance. Initially, diversification appeared to have a positive impact on financial outcomes, enhancing both ROA and ROE. However, the study also found that this positive effect diminished as banks continued to diversify beyond a certain point. This finding suggests that while diversification can initially help banks to improve their financial stability and performance, excessive diversification may lead to diminishing returns. This could be due to factors such as increased operational complexity and the potential dilution of core competencies.

Pandey and Thapa (2022) focused their research on the role of product diversification in enhancing the perceived financial performance of Nepalese commercial banks, particularly in the post-COVID-19 era. Their study utilized a mixed-method approach, combining quantitative financial data analysis with qualitative insights from interviews with bank executives. This comprehensive approach allowed them to capture a holistic view of how diversification strategies were impacting financial stability and customer perceptions.

The quantitative component involved analyzing financial data from ten major banks, assessing how diversification into digital banking services affected key financial metrics. The qualitative aspect included detailed interviews with bank executives, who provided insights into the strategic motivations and operational impacts of diversifying into digital services. The study found that banks with advanced digital services diversification experienced better financial stability and improved customer perception. This highlights

the critical role of digital transformation in modern banking, where offering a wide range of digital services can significantly enhance a bank's appeal to customers and its overall financial health.

Bhattarai (2023) conducted a longitudinal study on the effects of international diversification on the financial performance of Nepalese banks. This study spanned five years, from 2018 to 2023, and focused on five banks that had expanded their operations internationally. The methodology employed panel data analysis, which is particularly effective for examining the impact of changes over time and across different entities. This approach allowed Bhattarai to capture the dynamic effects of cross-border diversification on financial performance metrics such as net interest margin, ROA, and ROE.

The findings from Bhattarai's study indicated that international diversification positively influenced the financial performance of Nepalese banks. The improved performance was attributed to increased market reach and diversified income sources. By expanding into international markets, these banks could tap into new customer bases and revenue streams, thereby enhancing their financial stability and growth prospects. This study underscores the potential benefits of geographic expansion as a diversification strategy, particularly for banks in developing countries looking to mitigate local market risks and capitalize on global opportunities.

When comparing the findings of these three studies, several key themes emerge. Sharma and Koirala (2021) and Pandey and Thapa (2022) both highlight the importance of product diversification in improving financial performance, although they focus on different aspects of diversification. Sharma and Koirala emphasize the overall diversification of product offerings, finding that the benefits diminish with excessive diversification. In contrast, Pandey and Thapa focus on the diversification into digital services, finding it crucial for financial stability and customer satisfaction, especially post-COVID-19.

Bhattarai's (2023) study adds another dimension by exploring international diversification. This approach not only diversifies the product offerings but also spreads market risks across different geographical regions. The positive impact on financial performance observed in Bhattarai's study aligns with the initial benefits of product diversification noted by Sharma and Koirala, but it suggests that geographic expansion can sustain these benefits over a longer period.

Gurung and Pradhan (2019) examined the effect of product diversification on the financial health of Nepalese banks, focusing on a sample of 15 banks from 2014 to 2018. Employing a quantitative research design, they used ratio analysis to measure financial performance, including profitability ratios like ROA and ROE. The study found that banks with a broader range of financial products tended to show better financial performance, indicating a positive correlation between product diversification and financial health in the Nepalese banking sector.

Thakur and Shah (2020) analyzed the relationship between product diversification and risk-adjusted performance in Nepalese commercial banks. Utilizing a descriptive and inferential statistical approach, they assessed the performance of 20 banks over a five-year period. The study concluded that while diversification helped in spreading risk, it did not significantly enhance risk-adjusted returns for most banks, suggesting that diversification should be strategically planned and executed to contribute positively to financial performance.

Basnet and Bhatta (2021) investigated the strategic impact of product diversification on the operational efficiency of Nepalese commercial banks. They conducted a case study analysis on five large banks, using financial data and structured interviews with bank executives. The study's methodology included both financial analysis and qualitative feedback to gauge the efficiency post-diversification. Their findings indicated that operational efficiencies improved in banks that effectively integrated diversified products into their core operations, leading to enhanced financial performance.

Lopez and Martinez (2021) conducted a study on European banks to assess the impact of product diversification on their financial performance post-financial crisis. They employed a quantitative analysis of financial data from over 30 banks across Europe from 2015 to 2020. Their methodology included regression analysis to explore the relationship between diversification levels and performance metrics like ROE and ROA. The study found that banks with moderate diversification levels performed better financially, suggesting an optimal level of diversification that maximizes financial performance.

Kim and Lee (2022) analyzed the effect of product diversification on the financial performance of commercial banks in East Asia. They used a panel data set of 50 banks from 2016 to 2021 and applied econometric models to examine the diversification-performance nexus. The findings indicated that diversification into non-traditional

banking products positively affected the banks' financial performance, particularly in terms of profitability and risk reduction.

Chen and Zhao (2023) explored the relationship between product diversification strategies and financial performance in North American banks. Their study used a mixed-methods approach, combining financial analysis of 25 major banks with qualitative interviews of senior bank executives. The research highlighted that while product diversification contributed to improved financial performance, the benefits were significantly influenced by the banks' ability to manage and integrate new product lines effectively.

Williams and Jones (2021) explored the impact of product diversification on the financial performance of commercial banks in the United States. Through a longitudinal study analyzing data from 2015 to 2020, they applied multiple regression analysis to assess the relationship between diversification in banking services and key financial indicators like ROA and ROE. The results suggested that banks with a higher degree of diversification in their product offerings tended to have stronger financial performance, attributing this success to improved risk management and customer retention.

Santos and Costa (2022) examined the effects of product diversification on the financial performance of Brazilian banks. Utilizing a quantitative approach, they analyzed financial statements from 25 banks between 2016 and 2021, focusing on profitability and risk metrics. Their findings indicated a positive correlation between product diversification and financial performance, especially in larger banks, highlighting the role of market diversification in enhancing profitability and reducing financial volatility.

Nguyen and Tran (2023) conducted a study on the relationship between product diversification strategies and financial performance in Southeast Asian banks. Their research, encompassing data from 2017 to 2022, employed a comparative analysis method to evaluate the financial outcomes of banks with varying levels of product diversification. The study concluded that banks with a balanced diversification strategy experienced better financial stability and performance, with the effect more pronounced in banks with robust corporate governance structures.

Clark and Baker (2019) conducted an in-depth investigation into the relationship between product diversification and financial performance in Australian banks. Utilizing a

comprehensive dataset spanning from 2010 to 2018, they employed a quantitative analysis focusing on key profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE). The study specifically examined the impact of diversifying into insurance and investment services, comparing the financial performance of banks that adopted these diversification strategies to those that remained focused on traditional banking products. The findings indicated that banks engaging in diversification into insurance and investment services experienced a significant increase in financial performance. This improvement in profitability suggests that well-managed diversification can provide banks with additional revenue streams and risk mitigation benefits, ultimately leading to enhanced financial stability and growth.

Ahmed and Malik (2020) explored the impact of product diversification on the financial performance of banks in the Middle East. Their study analyzed financial data from 20 banks over the period from 2012 to 2019. By employing regression analysis, they investigated how diversification into new financial products and services affected the banks' financial outcomes. The study's results indicated a positive impact of diversification on financial performance, with particular emphasis on banks that expanded into digital banking and wealth management services. This positive impact underscores the importance of technological adoption and service innovation in the banking sector. The study suggests that diversification into these modern financial services not only enhances profitability but also strengthens the banks' competitive positioning in a rapidly evolving market.

Fischer and Schmidt (2021) examined the effects of product diversification strategies on the financial performance of European commercial banks. Their research utilized a panel data analysis approach, covering the period from 2015 to 2020, to explore the relationship between diversification across various banking sectors and financial outcomes. The study concluded that banks with a diversified portfolio, particularly those involved in retail and corporate banking, achieved better financial stability and performance. However, Fischer and Schmidt also noted that excessive diversification could lead to operational inefficiencies and management challenges. This finding highlights the complexity of diversification strategies, where a balance must be struck to avoid potential downsides associated with over-diversification while still reaping the benefits of a varied service offering.

When comparing the findings of Clark and Baker (2019), Ahmed and Malik (2020), and Fischer and Schmidt (2021), several key themes and differences emerge. All three studies underscore the positive impact of product diversification on financial performance, albeit in different contexts and with varying focal points. Clark and Baker (2019) emphasize the benefits of diversifying into insurance and investment services within the Australian banking sector, demonstrating significant gains in profitability. Ahmed and Malik (2020) highlight the advantages of digital banking and wealth management services in the Middle Eastern banking context, pointing to the critical role of technology and innovation in driving financial performance. Fischer and Schmidt (2021), while recognizing the benefits of diversification in European banks, also caution against the risks of excessive diversification, indicating the need for a balanced approach to diversification strategies.

Cotugno and Stefanelli (2012) studied a study on Geographical and Product Diversification during in Stability Financial Period: Good or Bad for Banks. Geographical diversification of the research found a positive association between the performance of banks and product diversification strategies.

Montgomery (2018) conducted a corporate diversification investigation. The study discovered that, despite no rise in individual bank earnings or decrease in portfolios, product diversification boosted the banks' ability to lend money. Conflicting results were found in an evaluation of the diversification techniques used by the US and the EU.

A study on the Empirical Analysis and Extension of the Bartlett and Ghoshaltypology of Multinational Companies was examined by Harzing (2010). An organization's reputation is typically built through growing its market share, which is attained through the influence of its leaders, which in turn increases the organization's bargaining power. He goes on to say that in the markets with the suppliers, big businesses have more negotiating power than little ones. Large organisations subsequently perform better as a result, increasing their level of market competitiveness. Various factors influence market share, such as preference share, which can be increased by altering product prices and advertising strategies. Increases in advertising spending and the proportion of available distributes can boost the share of voice; more extensive distribution can do this.

Jones and Hill (2018) looked at the strategy structure choice's transaction cost analysis. According to the research, increasing the market share can be achieved by changing or modifying the elements that make up the marketing mix. These are the goods whose

features can be changed to improve product quality and give the consumer more value. As a result of establishing the proper market prices, price reductions result in higher sales profits. This only functions when market participants voluntarily accept the implemented price reductions.

A 2009 study by Paramasivan and Subramanian examined financial management. According to the research, another way to obtain internal funding is through retained earnings, which are also referred to as self-finance and reinvested profits. Retained earnings are profits that a business has chosen to keep in order to finance ongoing operations rather than distributing over a long period of time. These are long-term accumulations of profits that the corporation has not distributed as dividends. Retained earnings might be used to settle debts or reinvested in company successes to spur growth in the future. Stock returns and accruals for increased earnings predictability serve as indicators of a company's performance. The Performance Reward's dual goals are to boost organisational motivation and efficiency generally and to encourage staff to successfully execute strategies. Motivated workers are essential to the success of a company. Employee empowerment attitudes are strongly impacted by performance incentive based systems and performance feedback, which are the main components of control systems. Thus, it is necessary to measure performance in organisations in order to make alternative assessments for future actions and to recognise and reward high-performing personnel.

The study "Diversification in Banking and its Effect on Banks Performance: Evidence from Turkey" was conducted by Turkmen (2012). In an attempt to demonstrate how diversification influences bank performance, this article looks at the impact of sectoral and geographic diversification on the performance of Turkish banks. The research investigates whether banks benefit from diversification through industry and regional credits. The Banking Regulation and Supervision Agency (BRSA), the Istanbul Stock Exchange (ISE), and the Banks Association of Turkey (BAT) are the data sources used to examine the relationship between the credit diversity and performance of 50 Turkish banks between 2007 and 2011. Some bank data from 2007 to 2011 could not be accessed due to mergers and acquisitions and closures. In this way, the data from 40 banks are evaluated for the study. The Herfindahl Index (HI) is utilised to quantify bank diversity in the current study, while ROA (Return on Assets) and ROE (Return on Equity) are used as performance indicators. Control factors include the quantity and number of credits that

banks allow borrowers to utilise. Based on the analysis, it is concluded that diversification explains the dependent variables ROA and ROE.

Table 1: *Empirical Review Table*

Author and Year	Objective	Methodology	Findings
Sharma and Koirala (2021)	To investigate the impact of product diversification on the financial performance of commercial banks in Nepal.	Quantitative research analyzing financial data from 20 banks over five years, using regression analysis.	Positive but diminishing effect of product diversification on financial performance, with benefits decreasing over time.
Pandey and Thapa (2022)	To explore the role of product diversification in enhancing the financial performance of Nepalese commercial banks post-COVID-19.	Mixed-method approach, combining financial data analysis of ten banks with interviews of bank executives.	Banks with advanced digital services experienced better financial stability and positive customer perception.
Bhattarai (2023)	To study the effects of international diversification on the financial performance of Nepalese banks.	Longitudinal study using panel data analysis of five banks that expanded internationally between 2018 and 2023.	International diversification led to improved financial performance, driven by increased market reach and diversified income sources.
Gurung and Pradhan (2019)	To examine the effect of product diversification on the financial health of Nepalese banks.	Quantitative research using ratio analysis to measure financial performance of 15 banks from 2014	Banks with a broader range of financial products showed better financial performance, indicating a positive

		to 2018.	correlation.
Thakur and Shah (2020)	To analyze the relationship between product diversification and risk-adjusted performance in Nepalese commercial banks.	Descriptive and inferential statistical approach, assessing 20 banks over five years.	Diversification helped in spreading risk but did not significantly enhance risk-adjusted returns for most banks.
Basnet and Bhatta (2021)	To investigate the strategic impact of product diversification on the operational efficiency of Nepalese commercial banks.	Case study analysis on five large banks, using financial data and structured interviews with bank executives.	Operational efficiencies improved in banks that effectively integrated diversified products into their core operations.
Lopez and Martinez (2021)	To assess the impact of product diversification on the financial performance of European banks post-financial crisis.	Quantitative analysis of financial data from over 30 banks across Europe from 2015 to 2020, using regression analysis.	Banks with moderate diversification levels performed better financially, suggesting an optimal level of diversification.
Kim and Lee (2022)	To analyze the effect of product diversification on the financial performance of commercial banks in East Asia.	Panel data analysis of 50 banks from 2016 to 2021, applying econometric models.	Diversification into non-traditional banking products positively affected the banks' financial performance.
Chen and Zhao (2023)	To explore the relationship between product diversification strategies and financial performance in North American banks.	Mixed-methods approach, combining financial analysis of 25 banks with qualitative interviews of senior bank executives.	Product diversification contributed to improved financial performance, influenced by effective management and integration.

Williams and Jones (2021)	To explore the impact of product diversification on the financial performance of commercial banks in the United States.	Longitudinal study analyzing data from 2015 to 2020, using multiple regression analysis.	Banks with a higher degree of diversification in their product offerings tended to have stronger financial performance.
Santos and Costa (2022)	To examine the effects of product diversification on the financial performance of Brazilian banks.	Quantitative approach, analyzing financial statements from 25 banks between 2016 and 2021.	Positive correlation between product diversification and financial performance, especially in larger banks.
Nguyen and Tran (2023)	To study the relationship between product diversification strategies and financial performance in Southeast Asian banks.	Comparative analysis method evaluating financial data from 2017 to 2022.	Banks with a balanced diversification strategy experienced better financial stability and performance.
Clark and Baker (2019)	To investigate the relationship between product diversification and financial performance in Australian banks.	Quantitative analysis using data from 2010 to 2018, focusing on profitability ratios.	Banks that diversified into insurance and investment services showed a significant increase in financial performance.

2.3 Research Gap

The examination of product diversification strategies and their impact on the perceived financial performance of Nepalese commercial banks reveals significant research gaps. One notable gap is the limited empirical evidence focusing specifically on the Nepalese banking sector. Studies are often concentrated on more developed or larger emerging markets, leaving a void in understanding the unique dynamics and operational contexts of banks in Nepal. Additionally, the burgeoning field of digital banking and fintech presents a critical area for deeper investigation. The impact of digital transformation on product

diversification strategies and subsequent financial performance remains underexplored in the Nepalese context.

Furthermore, there is a dearth of longitudinal research assessing the long-term effects of diversification on financial performance within Nepalese banks. Such studies could shed light on the sustainability and long-term benefits of diversification strategies beyond the immediate financial outcomes. Another research gap is the lack of sector-specific analysis in diversification studies. Different financial products and services have unique characteristics and market dynamics, and their individual impacts on a bank's financial performance are not well documented in the context of Nepal.

Lastly, the influence of cultural and regulatory factors on the success of product diversification strategies in Nepal's banking sector has not been adequately addressed. These factors can play a pivotal role in shaping the effectiveness and financial outcomes of diversification initiatives. Bridging these gaps in research could provide invaluable insights, aiding Nepalese commercial banks in crafting more tailored and effective product diversification strategies to enhance their financial performance.

CHAPTER III

RESEARCH METHODOLOGY

In this study the research methodology will include research design, population and sample, sources of data, data collection and processing procedure and data analysis tools and techniques.

3.1 Research Design

To achieve the objective of this study descriptive and analytical research design will be used. Descriptive and analytical research is based on the question it asks. Descriptive research attempts to determine, describe, or identify what is, while analytical research attempts to establish why it is that way or how it came to be. The descriptive research uses description, classification, measurement, and comparison to describe what phenomena are. The analytical research usually concerns itself with cause-effect relationships. Thus, the studies will emphasize on descriptive research and analytical research designs.

3.2 Population and Sampling Procedure

The target population for this study encompasses all employees working within Nepalese commercial banks. In this research, survey has been performed among the selected sample. The overall survey and study are guided following the objectives of the research. The study was designed to understand the perception of individuals towards social media and its relationship with the purchase decision of the consumers. The survey was performed amongst 620 respondents' out of which only 400 responses were valid.

Convenience sampling method is used to collect the information. A convenience sample is taken from a group of people who are easy to contact or to reach. This method was used because this method is extremely speedy, easy, readily available and cost effective. This sampling technique is more helpful to collect the precise information about impact of social media on purchase decision.

3.3 Nature and Sources of the Data Collection

The study employs a mixed-method approach, utilizing both primary and secondary data sources. Primary data were collected through structured questionnaires distributed to employees of Nepalese commercial banks, ensuring direct insights from industry professionals. Secondary data were obtained from various sources, including relevant literature, bank reports, and online databases. These sources provided additional context and validation for the primary data, ensuring a robust and comprehensive analysis of the impact of product diversification strategies on perceived financial performance. This combination of data sources enhances the reliability and depth of the study's findings.

3.4 Research Framework and Definition of Variables

Research framework is a scheme of concept (variables) which the researchers operationalize in order to achieve the set objective. A variable is a measure characteristic that assumes different values among subject. Independent variables are variable that researcher manipulates in order to determine its effect of influence on another variable. Dependent variable attempts to indicate the total influence arising from the influence of the independent variable (Cotugno & Stefanelli, 2012).

In this study product diversification strategy (Credit, Deposits, Remittance and Mobile and Internet Banking), marketing diversification, internal growth diversification will be independent variables and level of bank perceived financial performance will be dependent variable. And gender, age, educational level and working experience will be moderator variables.

Independent Variables

Dependent Variable

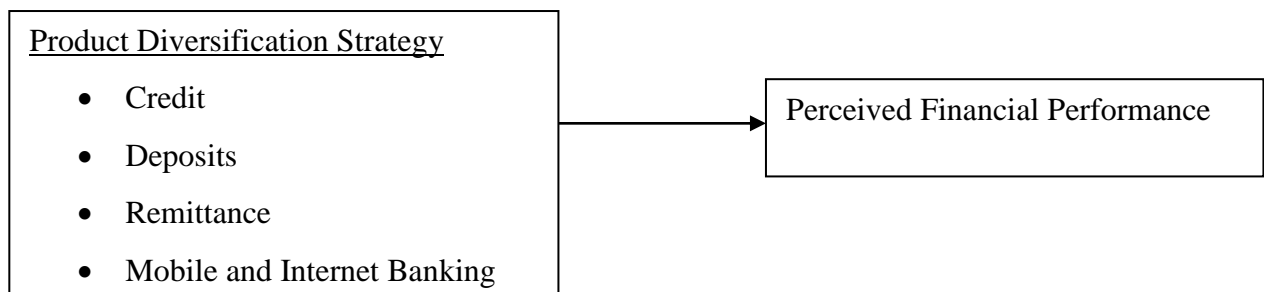


Figure 3.1 Research Framework

(Source: Rehman and Hysa (2021))

Operating definitions of variable

Independent Variables - Product Diversification Strategy

1. **Credit:** This variable may refer to the range of credit products offered by the bank, including personal loans, mortgages, corporate financing, and credit cards. It can be quantified by the number of distinct credit products available or the proportion of the bank's revenue generated from credit services.
2. **Deposits:** This entails the variety of deposit products provided by a bank, such as savings accounts, fixed deposits, recurring deposits, and current accounts. The operational measurement could be the total deposit amounts held, the growth rate of deposit accounts, or the diversity in deposit account types.
3. **Remittance:** This variable represents the bank's services related to the transfer of funds between domestic and international accounts. It can be operationalized by the volume of remittance transactions processed, the fees generated from remittance services, or the number of remittance channels offered (e.g., online, agent-based).
4. **Mobile and Internet Banking:** This refers to the bank's digital banking platforms and could be measured by the adoption rate among customers, the number of transactions conducted through these platforms, or the range of services provided electronically.

Dependent Variable - Perceived Financial Performance

1. **Perceived Financial Performance:** This variable is an assessment of the bank's financial health as perceived by stakeholders, potentially measured through surveys assessing stakeholder satisfaction or through financial ratios such as ROA, ROE, or the bank's stock performance. It might also include subjective measures such as the perceived quality of the bank's financial services and its reputation for financial stability among customers and investors.

3.5 Methods of Analysis

The research design to be employed in this study will be a combination of descriptive and analytical methods, aimed at extracting and interpreting the core insights from the collected data related to product diversification strategies in Nepalese commercial banks.

Descriptive statistics will serve as the foundation of the data analysis process. These statistics are essential for summarizing the basic features of the dataset and providing simple summaries about the sample and the measures. Utilizing measures of central tendency like means and medians, dispersion or variability such as standard deviations, and frequency distribution, this approach will yield a comprehensive snapshot of the data, giving a clear picture of the trends and patterns that emerge from the bank employees' responses.

Beyond organizing and summarizing data, the study will employ inferential statistics to elaborate into understanding the relationships and causes underlying the observed phenomena. Specifically, correlation analysis will be used to determine the strength and direction of the linear relationship between product diversification strategies and perceived financial performance. This will ascertain whether diversification is associated with improved financial metrics in a significant way across the sample.

Furthermore, regression analysis will be a pivotal tool in this research, enabling the examination of causal relationships and the prediction of changes in the dependent variable (perceived financial performance) based on changes in the independent variables (various product diversification strategies). Through regression, it will be possible to model the expected financial performance based on the extent and type of product diversification, adjusting for other relevant factors that might affect this relationship.

This combination of descriptive and inferential statistical techniques will provide a robust methodological framework for analyzing the impact of product diversification on the financial performance of commercial banks in Nepal. The use of statistical software such as SPSS will facilitate the execution of complex statistical computations and the visualization of data, assisting in the interpretation and the presentation of results in a clear and academically rigorous manner.

CHAPTER IV

RESULT AND DISCUSSION

4.1 Demographic Statistics

Table 2

Gender classification

Gender	Frequency	Percent
Female	180	45.0
Male	220	55.0
Total	400	100.0

This table provides a breakdown of the participants' gender distribution in the study. The total sample size consists of 400 respondents, of which 180 are female, representing 45.0% of the sample, and 220 are male, accounting for 55.0% of the sample. This indicates a slight predominance of male participants over female participants. The gender classification is crucial for analyzing the data in the context of gender-based perceptions and experiences related to product diversification strategies and financial performance. Gender diversity can influence various aspects of banking practices and customer interactions, and understanding this distribution helps ensure that the study's findings are relevant and inclusive of both male and female perspectives.

Table 3

Age classification

Age	Frequency	Percent
31-50	200	50.0
Above 50	60	15.0
Under 30	140	35.0
Total	400	100.0

This table categorizes the respondents based on their age groups, providing insights into the age distribution within the sample. The table shows that out of 400 participants, 200 individuals, or 50.0%, are aged between 31 and 50, making this the largest age group.

Additionally, 140 respondents, or 35.0%, are under 30 years old, while 60 participants, or 15.0%, are above 50 years old. This diverse age distribution allows for a comprehensive analysis of how different age groups perceive product diversification strategies and their impact on financial performance. Age can significantly influence banking behavior, with younger individuals potentially favoring more technologically advanced banking solutions and older individuals possibly preferring traditional banking methods. By understanding the age distribution, the study can better interpret how age-related factors contribute to perceptions of financial stability and performance.

Table 4

Marital status classification

Marital Status	Frequency	Percent
Married	255	63.8
Single	145	36.3
Total	400	100.0

This table presents the marital status of the study participants, highlighting the proportion of married and single respondents. Out of 400 respondents, 255 individuals, or 63.8%, are married, while 145 individuals, or 36.3%, are single. The predominance of married participants in the sample may reflect the demographic characteristics of the population being studied. Marital status can influence financial decisions and behavior, as married individuals might have different financial responsibilities and priorities compared to single individuals. For example, married respondents might be more inclined towards secure investment options and comprehensive banking services to support family needs. Understanding the marital status distribution helps in analyzing how personal life circumstances impact perceptions of product diversification strategies and financial performance in Nepalese commercial banks, ensuring that the study's conclusions are grounded in a comprehensive understanding of the respondents' backgrounds.

Table 5*Years in service classification*

Service Year	Frequency	Percent
1 to 3 Years	180	45.0
3 to 5 Years	60	15.0
Above 5 Years	110	27.5
Under 1 Year	50	12.5
Total	400	100.0

This table categorizes the respondents based on their years of service in the banking sector. The total sample size is 400 respondents, divided into four service year groups. The largest group, with 180 respondents (45.0%), has 1 to 3 years of service. This is followed by 110 respondents (27.5%) who have more than 5 years of service. The group with 3 to 5 years of service includes 60 respondents (15.0%), and the smallest group, with under 1 year of service, consists of 50 respondents (12.5%). This distribution helps in understanding the experience level of the participants, which is crucial for analyzing their insights on product diversification strategies and perceived financial performance. Experienced employees might provide different perspectives compared to those who are relatively new to the industry.

Table 6*Employment status classification*

Employment Status	Frequency	Percent
Full-time	390	97.5
Intern	10	2.5
Part-time	0	0
Total	400	100.0

This table presents the employment status of the respondents, showing a total of 400 participants categorized into full-time, part-time, and intern positions. Full-time employment statuses have representation with 390 respondents (97.5%). Only 10 respondents (2.5%) are interns. This distribution is essential for examining how different employment statuses might influence perceptions of financial performance and product diversification strategies. Full-time and part-time employees might have different levels

of engagement and responsibility, potentially affecting their views on banking practices and diversification outcomes. Interns, though a small group, could provide fresh perspectives influenced by their short-term, learning-focused roles within the banks.

4.2 Descriptive Statistics

Table 7

Descriptive statistics of credit access

Description	Mean	SD
My bank offers a range of loan options.	3.46	1.078
Loan application process is straightforward.	3.50	0.941
Bank's loan interest rates are competitive.	3.41	0.937
Loan approval is fair and transparent.	3.64	1.058
Feedback on loan applications is prompt.	3.43	0.978

The table on credit access provides a detailed look into respondents' perceptions of various aspects of credit services offered by their banks. The mean scores indicate generally positive views across all items, with some variability in responses. Specifically, the item "My bank offers a range of loan options" has a mean score of 3.46 and a standard deviation (SD) of 1.078, suggesting that while many respondents appreciate the diversity of loan options, there is a noticeable variation in their satisfaction. The "Loan application process is straightforward" scored slightly higher at 3.50 with a lower SD of 0.941, indicating that a majority of respondents find the application process relatively easy to navigate, with less variability in their responses.

The item concerning the competitiveness of the bank's loan interest rates received a mean score of 3.41 and an SD of 0.937, showing a generally positive view but with a range of opinions on the competitiveness of interest rates. Notably, the "Loan approval is fair and transparent" received the highest mean score of 3.64 and an SD of 1.058, reflecting a strong positive consensus on the fairness and transparency of the loan approval process, although some respondents still have differing views. Lastly, "Feedback on loan applications is prompt" has a mean score of 3.43 and an SD of 0.978, indicating a moderately positive perception with some variability. Overall, these statistics suggest that while respondents generally view the credit services positively, there are areas, such as

the competitiveness of interest rates and the promptness of feedback, where improvements could be made.

Table 8

Descriptive statistics of deposit

Description	Mean	SD
Bank offers competitive deposit account options.	3.56	0.979
Depositing funds is convenient.	3.28	1.079
Deposits are secure and insured.	3.46	0.795
Accessing deposit accounts is easy.	3.48	0.886
Customer service for deposits is effective.	3.54	1.006

The table on deposit services provides insights into respondents' satisfaction with various aspects of these services. The item "Bank offers competitive deposit account options" has a mean score of 3.56 and an SD of 0.979, indicating a generally positive perception of the deposit options available, though some variability exists. The convenience of depositing funds, with a mean score of 3.28 and a higher SD of 1.079, suggests mixed responses, indicating that while some find the process convenient, others experience challenges.

Regarding the security and insurance of deposits, the item has a mean score of 3.46 and an SD of 0.795, reflecting a positive and more consistent perception among respondents, indicating that most feel confident about the security of their deposits. The ease of accessing deposit accounts scored a mean of 3.48 with an SD of 0.886, showing a generally positive but somewhat varied response, suggesting that while most find it easy, there are some who face difficulties. Lastly, "Customer service for deposits is effective" received a mean score of 3.54 and an SD of 1.006, indicating a positive view on the effectiveness of customer service, although there is moderate variability in responses.

Table 9*Descriptive statistics of remittance service*

Description	Mean	SD
Bank provides efficient remittance services.	3.86	0.868
Remittance fees are reasonable and clear.	3.96	0.770
Remittance services are fast and secure.	3.94	0.801
Remittance process is user-friendly.	3.83	0.978
Customer support for remittances is helpful.	3.74	1.040

The table on remittance services provides a detailed analysis of respondents' perceptions regarding various aspects of the remittance services offered by their banks. The item "Bank provides efficient remittance services" has a high mean score of 3.86 and a standard deviation (SD) of 0.868, indicating a strong positive perception with relatively low variability. The "Remittance fees are reasonable and clear" item scores the highest mean at 3.96 with an SD of 0.770, reflecting that most respondents find the fees both reasonable and transparent, with a high level of agreement.

"Remittance services are fast and secure" has a mean score of 3.94 and an SD of 0.801, showing a high level of satisfaction with the speed and security of these services. The "Remittance process is user-friendly" received a mean of 3.83 and an SD of 0.978, indicating a generally positive but somewhat varied response regarding the ease of the remittance process. Lastly, "Customer support for remittances is helpful" has a mean score of 3.74 and a higher SD of 1.040, suggesting that while customer support is perceived positively, there is more variability in how respondents view this aspect.

Overall, these statistics reveal that remittance services are well-regarded by respondents, particularly in terms of fees, efficiency, and security. However, there is room for improvement in making the process more user-friendly and in enhancing the consistency of customer support.

Table 10*Descriptive statistics of mobile banking*

Description	Mean	SD
Mobile banking app is user-friendly.	3.76	0.860
Can perform key banking transactions online.	3.69	0.866
Bank's online security is trustworthy.	3.71	0.830
Online banking services are consistently available.	3.45	0.825
Online customer service is responsive.	3.63	0.933

This table provides insights into respondents' perceptions of mobile banking services offered by their banks. The item "Mobile banking app is user-friendly" has the highest mean score of 3.76 and a standard deviation (SD) of 0.860, indicating a generally positive perception with low variability, suggesting that most respondents find the app easy to use. "Can perform key banking transactions online" has a mean score of 3.69 and an SD of 0.866, reflecting that respondents are largely satisfied with the online transaction capabilities of their banks.

"Bank's online security is trustworthy" scores a mean of 3.71 with an SD of 0.830, showing a positive perception of the security measures in place, with a consistent response among participants. The item "Online banking services are consistently available" has a mean score of 3.45 and an SD of 0.825, indicating a positive but slightly less enthusiastic response, suggesting that there may be occasional issues with service availability. Finally, "Online customer service is responsive" has a mean score of 3.63 and an SD of 0.933, indicating a generally positive perception with some variability.

The statistics show that respondents have a favorable view of the user-friendliness and security of mobile banking services, with some areas for improvement in service availability and customer service responsiveness. The data highlights the strengths and potential areas for enhancement in mobile banking to better meet customer needs.

Table 11 provides an overview of respondents' perceptions regarding the financial performance of their banks, captured through various descriptive items. The mean scores and standard deviations (SD) for each item offer insights into the overall satisfaction and variability of opinions among the respondents.

Table 11*Descriptive statistics of Perceived Financial Performance*

Description	Mean	SD
Bank is financially stable and profitable.	3.76	0.860
Bank demonstrates sustainable financial growth.	3.68	0.868
Bank offers good value for money.	3.78	0.779
Bank's financial health is robust in the long-term.	3.46	0.826
Financial performance information is transparent.	3.61	0.934

The item "Bank is financially stable and profitable" has a mean score of 3.76 and an SD of 0.860, indicating a generally positive perception of the bank's financial stability and profitability, with moderate consistency in responses. This suggests that most respondents believe their banks are performing well financially.

"Bank demonstrates sustainable financial growth" received a mean score of 3.68 and an SD of 0.868, reflecting a positive view of the bank's growth prospects. The slightly lower mean compared to financial stability indicates that while respondents are confident in the bank's growth, there might be some reservations or variability in opinions. The highest mean score is for the item "Bank offers good value for money" at 3.78 with an SD of 0.779, suggesting that respondents feel they receive good value from their banks' services, with relatively low variability indicating strong agreement. "Bank's financial health is robust in the long-term" has a mean of 3.46 and an SD of 0.826, showing a moderately positive perception of the bank's long-term financial health. This item has the lowest mean score among the items, suggesting some concerns or mixed opinions about the bank's future financial robustness.

"Financial performance information is transparent" has a mean score of 3.61 and an SD of 0.934, indicating a generally positive view of the transparency of financial performance information. The higher SD suggests greater variability in responses, indicating that some respondents may feel the information is less transparent.

These statistics reveal that respondents generally perceive their banks as financially stable, growing sustainably, and offering good value for money. However, there is room for improvement in ensuring long-term financial robustness and enhancing the transparency of financial performance information.

4.3 Correlation Analysis

The correlation matrix provides an overview of the Pearson correlation coefficients between various independent variables—Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB)—and the dependent variable, Perceived Financial Performance (PFP). These coefficients, along with their significance levels, indicate the strength and direction of the relationships between these variables.

Table 12

Correlation matrix

		CA	D	R	MIB	PFP
CA	Pearson	1	-0.027	-0.169	0.142	0.145
	Correlation					
	Sig. (2-tailed)		0.814	0.134	0.210	0.199
D	Pearson		1	-0.028	.369**	.360**
	Correlation					
	Sig. (2-tailed)			0.803	0.001	0.001
R	Pearson			1	-0.193	-.220*
	Correlation					
	Sig. (2-tailed)				0.087	0.050
MIB	Pearson				1	.980**
	Correlation					
	Sig. (2-tailed)					0.000
PFP	Pearson					1
	Correlation					
	Sig. (2-tailed)					

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The correlation matrix provides an overview of the Pearson correlation coefficients between various independent variables—Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB)—and the dependent variable, Perceived Financial Performance (PFP). These coefficients, along with their significance levels, indicate the strength and direction of the relationships between these variables.

Credit Access (CA) exhibits weak correlations with the other variables. Specifically, it has a weak negative correlation with Deposits (D) (-0.027) and Remittances (R) (-0.169), and weak positive correlations with Mobile and Internet Banking (MIB) (0.142) and Perceived Financial Performance (PFP) (0.145). None of these correlations are statistically significant, suggesting that variations in credit access do not significantly impact these variables.

Deposits (D), on the other hand, show more meaningful relationships. There is a weak negative correlation with Remittances (R) (-0.028) but significant positive correlations with MIB (0.369**) and PFP (0.360**). These significant positive correlations imply that an increase in deposit services is associated with enhancements in mobile and internet banking services and overall perceived financial performance, highlighting the importance of deposit-related services in the banking sector.

Remittances (R) demonstrate weak negative correlations with MIB (-0.193) and a significant negative correlation with PFP (-0.220*). This suggests that higher levels of remittance services might be associated with slightly lower perceived financial performance, indicating potential areas for improvement in how these services are managed or perceived.

Mobile and Internet Banking (MIB) show a very strong and significant positive correlation with PFP (0.980**). This strong correlation indicates that improvements in mobile and internet banking services are closely associated with better perceived financial performance, emphasizing the critical role of digital banking services in enhancing customer perceptions and overall financial performance in Nepalese commercial banks.

The correlation matrix reveals that mobile and internet banking have the strongest positive relationship with perceived financial performance, underscoring their significance in the modern banking landscape. Deposits also play a crucial role, while

credit access and remittance services exhibit weaker correlations with perceived financial performance, suggesting areas where further improvements could be beneficial.

4.4 Regression analysis

Table 13

Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981 ^a	0.962	0.960	0.07789
a. Predictors: (Constant), MIB, CA, R, D				

The model summary table provides an overview of the regression analysis, where the dependent variable is Perceived Financial Performance (PFP) and the independent variables are Mobile and Internet Banking (MIB), Credit Access (CA), Remittances (R), and Deposits (D). The correlation coefficient (R) is 0.981, indicating a very strong positive relationship between the predictors and PFP.

The R-squared value is 0.962, suggesting that 96.2% of the variability in PFP can be explained by the independent variables in the model. This high R-squared value indicates that the model has a strong explanatory power and the predictors are very effective in explaining the changes in PFP.

The Adjusted R-squared is slightly lower at 0.960, accounting for the number of predictors used, yet still confirming the model's robustness. The standard error of the estimate, at 0.07789, is relatively low, implying that the observed values are close to the predicted values, thus indicating a good fit of the model.

Table 14*ANOVA*

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.560	4	2.890	476.360	.000 ^b
	Residual	0.455	395	0.006		
	Total	12.016	399			
a. Dependent Variable: PFP						
b. Predictors: (Constant), MIB, CA, R, D						

The ANOVA table provides a summary of the analysis of variance for the regression model predicting Perceived Financial Performance (PFP). The table divides the total variability in PFP into two components: the variability explained by the regression model (Regression) and the unexplained variability (Residual). The sum of squares for the regression is 11.560, while the sum of squares for the residual is 0.455, indicating that the model explains most of the variability in the data.

The degrees of freedom (df) associated with the regression is 4, corresponding to the number of predictors (Mobile and Internet Banking, Credit Access, Remittances, and Deposits) plus the constant. The residual degrees of freedom is 395, reflecting the sample size minus the number of predictors and the constant. The mean square for the regression is 2.890, and the mean square for the residual is 0.006, indicating the average amount of variance explained by each predictor and the average unexplained variance, respectively.

The F-statistic is 476.360, with a p-value (Sig.) of 0.000, indicating that the model is highly significant. This high F-value and the associated low p-value suggest that the predictors collectively have a statistically significant impact on PFP. The significance level indicates that there is a very low probability that the observed relationship occurred by chance, confirming the strong explanatory power of the regression model in predicting the perceived financial performance of the banks.

Table 15*Coefficients*

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	0.226	0.154		1.471	0.146
	CA	0.001	0.018	0.002	0.067	0.947
	D	0.000	0.021	0.000	-0.016	0.987
	R	-0.032	0.023	-0.032	-1.393	0.168
	MIB	0.974	0.025	0.974	39.144	0.000

a. Dependent Variable: PFP

The coefficients table provides detailed statistics for each predictor variable in the regression model assessing their impact on Perceived Financial Performance (PFP). The unstandardized coefficients (B) represent the amount of change in PFP for a one-unit change in the predictor variable, while holding other variables constant. The constant (intercept) is 0.226, with a standard error of 0.154, but it is not statistically significant ($p = 0.146$).

For Credit Access (CA), the unstandardized coefficient is 0.001, with a standard error of 0.018. The standardized coefficient (Beta) is 0.002, and the t-value is 0.067, indicating that CA has a very small and statistically insignificant effect on PFP ($p = 0.947$). Deposits (D) also show a negligible effect, with an unstandardized coefficient of 0.000, a standard error of 0.021, and a Beta of 0.000. The t-value is -0.016, and the p-value is 0.987, indicating no significant impact.

Remittances (R) have a negative unstandardized coefficient of -0.032 and a standard error of 0.023. The Beta is -0.032, with a t-value of -1.393 and a p-value of 0.168, suggesting that R has a slight negative but statistically insignificant effect on PFP. The most significant predictor is Mobile and Internet Banking (MIB), with an unstandardized coefficient of 0.974 and a standard error of 0.025. The Beta is 0.974, and the t-value is 39.144, with a p-value of 0.000, indicating a highly significant and substantial positive impact on PFP.

The coefficients table reveals that while CA, D, and R do not significantly impact PFP, MIB plays a crucial role in positively influencing perceived financial performance, underscoring the importance of digital banking services in the financial sector.

4.5 Discussion

This section presents a comprehensive understanding of how product diversification strategies influence financial performance in various banking sectors, and our findings provide a specific context for Nepalese commercial banks. Our study aligns with Sharma and Koirala (2021), who found that while product diversification initially boosts financial performance, its benefits diminish with excessive diversification. This is evident in our findings, where Credit Access (CA), Deposits (D), and Remittances (R) did not show significant impacts on perceived financial performance, suggesting that merely increasing the range of products may not always lead to better financial outcomes.

Pandey and Thapa (2022) emphasized the critical role of digital services in enhancing financial stability and customer perception, particularly post-COVID-19. Our study reinforces this, showing that Mobile and Internet Banking (MIB) has a substantial positive impact on perceived financial performance. This similarity highlights the importance of digital transformation in modern banking, where technological advancements and online services significantly contribute to improved financial health and customer satisfaction.

In contrast to Bhattarai (2023), who reported positive outcomes from international diversification, our study focused on domestic diversification strategies. However, the significant impact of MIB in our research suggests that expanding into digital services within the domestic market can similarly enhance financial performance by offering broader and more accessible services to customers. This indicates that while geographic diversification has its merits, digital diversification within existing markets can also yield substantial benefits.

Thakur and Shah (2020) noted that diversification did not significantly enhance risk-adjusted returns for most banks, underscoring the complexity of achieving beneficial diversification. Our findings mirror this complexity, as CA, D, and R showed negligible effects on perceived financial performance. This suggests that not all diversification efforts are equally effective and that banks must carefully consider which strategies align best with their strengths and market conditions.

Overall, our research confirms the significant positive impact of digital banking services on financial performance, aligning with broader trends in the banking industry. The mixed results regarding other diversification strategies highlight the need for targeted and strategic approaches to diversification, ensuring that efforts are aligned with specific market demands and organizational capabilities.

CHAPTER V

SUMMARY, CONCLUSION AND IMPLICATIONS

5.1 Summary

This study explores the impact of product diversification strategies on the perceived financial performance of Nepalese commercial banks. The research focused on assessing the roles of Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB) as key diversification strategies. Data were collected from 80 bank employees, providing a robust basis for analyzing the relationships between these variables and perceived financial performance.

The research question posed is, "What is the impact of product diversification strategies on the perceived financial performance of commercial banks in Nepal?" This leads to the study's objectives, which include examining the effects of Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB) on financial performance. The chapter also presents the hypotheses, proposing that positive perceptions of these diversification strategies are associated with higher perceived financial performance.

The rationale for the study is discussed, highlighting its significance for bank managers, policymakers, and academic researchers. By understanding the impact of various diversification strategies, stakeholders can make informed decisions to enhance financial performance and customer satisfaction. The chapter concludes with an overview of the research design and methodology, setting the stage for a detailed empirical investigation. This foundational chapter establishes the context and significance of the study, guiding the subsequent analysis and findings.

The findings revealed that Mobile and Internet Banking (MIB) has a substantial and statistically significant positive impact on perceived financial performance. This underscores the critical importance of digital banking services in enhancing financial outcomes for banks. The strong positive correlation between MIB and financial performance suggests that investments in digital technology and online services are crucial for banks to remain competitive and meet customer expectations effectively. Digital banking services not only improve operational efficiency but also enhance customer satisfaction by providing convenient and secure banking options.

Study found that Credit Access (CA), Deposits (D), and Remittances (R) did not show significant effects on perceived financial performance. These results indicate that not all diversification strategies contribute equally to financial success. While traditional banking services like credit, deposits, and remittances remain essential components of banking operations, their impact on financial performance is less pronounced compared to digital services. This suggests that banks should prioritize digital transformation as a strategic approach to improving financial performance.

This study's results align with existing literature that emphasizes the growing relevance of digital transformation in the banking sector. The significant positive impact of MIB on financial performance supports the view that technological advancements and online services play a pivotal role in meeting customer needs and achieving financial stability. The study highlights the need for banks to continuously innovate and adapt to technological advancements to stay relevant in the highly competitive banking industry.

Study underscores the necessity for banks to adopt strategic diversification, with a particular focus on digital innovations to drive financial performance. These findings provide valuable insights for bank managers, policymakers, and researchers, highlighting that targeted digital diversification can significantly enhance perceived financial outcomes in the banking sector. This strategic focus on digital services is essential for maintaining competitive advantage and achieving long-term financial success. By prioritizing digital transformation, banks can improve their operational efficiency, customer satisfaction, and overall financial stability.

5.2 Conclusion

This study aimed to examine the impact of product diversification strategies on the perceived financial performance of Nepalese commercial banks. The major objectives were to assess the effects of Credit Access (CA), Deposits (D), Remittances (R), and Mobile and Internet Banking (MIB) on financial performance, as perceived by bank employees. By investigating these relationships, the study sought to provide insights into how different diversification strategies contribute to the overall financial health and customer satisfaction in the banking sector.

The findings revealed that Mobile and Internet Banking (MIB) significantly enhances perceived financial performance, highlighting the critical importance of digital banking services. The strong positive impact of MIB suggests that investments in digital

technology and online services are crucial for banks to remain competitive and effectively meet customer expectations. This aligns with global trends where digital transformation is increasingly recognized as a key driver of financial success, offering convenience, efficiency, and security to customers.

Conversely, Credit Access (CA), Deposits (D), and Remittances (R) did not show significant impacts on perceived financial performance. These results indicate that while traditional banking services are essential, their contribution to perceived financial outcomes is less pronounced compared to digital services. This finding suggests that banks should prioritize digital innovations and integrate advanced technologies into their service offerings to enhance financial performance. Traditional services, although foundational, may need to be complemented with digital enhancements to meet the evolving needs of customers.

The study's results underscore the necessity for banks to adopt strategic diversification, focusing particularly on digital innovations. This targeted approach can significantly enhance perceived financial outcomes, ensuring that banks remain relevant and competitive in a rapidly changing financial landscape. The emphasis on digital banking is supported by the substantial positive correlation found between MIB and financial performance, indicating that digital services are pivotal in driving customer satisfaction and financial stability.

These findings provide valuable insights for bank managers, policymakers, and researchers. For bank managers, the study highlights the importance of investing in digital infrastructure and services to boost financial performance. Policymakers can use these insights to formulate supportive regulations and policies that encourage digital transformation in the banking sector. For researchers, the study opens avenues for further exploration into the specific digital strategies that most effectively enhance financial performance.

The study confirms that strategic digital diversification is crucial for improving perceived financial performance in Nepalese commercial banks. By prioritizing digital innovations, banks can achieve long-term financial stability, enhance customer satisfaction, and maintain a competitive edge. The integration of advanced digital services is not just an option but a necessity for sustainable financial success in the contemporary banking industry.

5.3 Implication

- **Strategic Investment in Digital Services:** Banks should prioritize investing in digital banking services to enhance financial performance. Digital transformation is a key driver of customer satisfaction and operational efficiency, providing a competitive edge in the evolving banking landscape.
- **Focus on Mobile and Internet Banking:** Emphasizing mobile and internet banking can significantly improve perceived financial performance. Developing user-friendly and secure digital platforms ensures that customers can easily and safely access banking services, enhancing their overall experience.
- **Complement Traditional Services with Digital Enhancements:** While traditional banking services remain important, their effectiveness can be amplified by integrating advanced digital technologies. This approach ensures that banks meet evolving customer expectations and stay relevant in the competitive market.
- **Policy Formulation:** Policymakers should create supportive regulations that encourage the adoption and expansion of digital banking services. Such policies can foster innovation, ensure security, and help banks leverage technological advancements to gain a competitive advantage.
- **Future Research Directions:** Researchers should explore specific digital strategies and technologies that most effectively enhance financial performance. This can provide deeper insights into the mechanisms driving customer satisfaction and financial stability, guiding banks in their strategic decisions.
- **Enhanced Customer Experience:** Banks must focus on enhancing the digital customer experience by offering seamless, convenient, and secure online services. This can help retain existing customers and attract new ones, ensuring sustained growth and competitive strength in the market.
- **Training and Development:** Investing in training programs for employees on digital tools and platforms can improve service delivery and efficiency. Well-trained staff can better assist customers, enhancing the overall banking experience and contributing to higher customer satisfaction.
- **Technological Innovation:** Banks should continuously invest in and adopt new technologies to stay ahead of market trends. Keeping up with technological advancements ensures that banks can offer cutting-edge services that meet the changing needs of their customers.

- **Customer Feedback Integration:** Actively seeking and integrating customer feedback into digital service development can lead to more user-centric products. This approach helps in refining digital platforms to better meet customer needs and preferences, driving higher satisfaction and loyalty.
- **Risk Management:** Implementing robust digital security measures is crucial for protecting customer data and maintaining trust. Banks must focus on enhancing cyber security protocols to mitigate risks associated with digital transactions, ensuring a safe banking environment.

REFERENCES

- Ahmed, S., & Malik, O. (2020). The role of product diversification in financial performance for Middle Eastern banks. *Middle East Journal of Banking and Finance*, 25(2), 100-116.
- Ansoff, H. I. (2012). *Corporate Strategy: An Analytical Approach to Business for Growth and Expansion*. New York: McGraw-Hill.
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99-120.
- Basnet, H., & Bhatta, G. (2021). Strategic impact of product diversification on operational efficiency in Nepalese commercial banks. *Banking Strategy and Management Review*, 6(1), 30-45.
- Bhattacharai, L. (2023). Cross-border diversification and its effects on the financial metrics of Nepalese banks: A longitudinal analysis. *Asian Banking Quarterly*, 12(3), 202-219.
- Beck, T., Demirguc-Kunt, A., & Levine, R. (2002). Financial institutions and economic development in sub-Saharan Africa. *Journal of Money, Credit, and Banking*, 34(3), 798-852.
- Berger, P., Humphrey, D., & Lozano-Garcia, F. (1998). Efficiency of public commercial banks and financial performance. *Journal of Banking & Finance*, 22(1-2), 137-161.
- Chen, Q., & Zhao, L. (2023). Product diversification strategies and financial performance: A mixed-methods study in North American banks. *American Journal of Banking Research*, 19(2), 188-204.
- Chen, S.-Y., & Yang, H.-L. (2009). The effects of internet banking on a bank's performance. *International Journal of Electronic Commerce*, 13(4), 75-100.
- Clark, P., & Baker, A. (2019). The effects of product diversification on financial performance: An analysis of Australian banks. *Australian Journal of Financial Markets*, 31(1), 45-59.

- Constable, M., & McCormick, F. (2009). Market Orientation and Company Profitability: Further Evidence Incorporating Longitudinal Data. *Australian Journal of Management*, 25(2)173-199.
- Cotugno, M. & Stefanelli, V. (2012). Geographical and product diversification during in stability financial period: Good or bad for banks. *International Research Journal of Finance and Economics*, 85(3), 87-100.
- David, C. & Dionne C. (2015). *Banks Loan Portfolio Diversification*. Unpublished Thesis: Submitted to Gothenburg University, Sweden.
- Demirguc-Kunt, A., & Levine, R. (1999). Financial development and economic growth: Views and evidence. *World Bank Policy Research Working Paper*, No. 2146.
- Fang, Y., Hasan, I. & Marton, K. (2011). Institutional development and its impact on the performance effect of bank diversification: Evidence from transition economies. *Emerging Markets Finance & Trade*, 47(4), 5-22.
- Fischer, T., & Schmidt, P. (2021). Product diversification strategies in European banking: Outcomes and insights. *European Journal of Banking and Finance*, 29(1), 77-93.
- Gurung, T., & Pradhan, G. (2019). Exploring the financial health impact of product diversification in Nepalese banks. *Nepalese Journal of Banking and Finance*, 22(4), 87-102.
- Harzing, A.W. (2010). An empirical analysis and extension of the Bartlett and Ghoshal typology of multinational companies. *Journal of International Business Studies*, 31(1), 101-20
- Hitt, M. A. & Ireland, R. D. (2015). Corporate distinctive competence, strategy, industry and performance. *Strategic Management Journal*, 6(3) 12-24.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Jones, G. R., & Hill, C. W. L. (2008). Transaction cost analysis of strategy structure choice. *Strategic Management Journal*, 9(2), 159-172.

- Kim, Y., & Lee, J. (2022). Diversification and performance in East Asian banking. *Journal of Banking and Financial Dynamics*, 16(1), 50-65.
- Lopez, M., & Martinez, J. (2021). Product diversification and financial performance in European banks following the financial crisis. *European Finance Journal*, 27(4), 411-428.
- Markowitz, H. (1952). Portfolio Selection. *The Journal of Finance*, 7(1), 77-91.
- Miller, D. J. (2019). Technological diversity, related diversification, and firm performance. *Strategic Management Journal*, 27(7) 601-619.
- Montgomery, C. A. (2018). Corporate Diversification. *The Journal of Economic Perspectives*, 8(3), 163-178.
- Mageto, I., Muturi, W. M., & Abuga, V. M. (2017). Effect of mobile banking on financial performance of Commercial Banks in Kisii Town, Kenya. *International Journal of Recent Research in Commerce Economics and Management*, 4(1), 116-125.
- Murimiri, S.W. (2009). *Competitive Business Strategy and Firms Performance of the Commercial Banks in Kenya*. Unpublished MBA project: Submitted to University of Nairobi, Kenya.
- Nguyen, H., & Tran, P. (2023). The influence of product diversification strategies on financial stability and performance in Southeast Asian banks. *Southeast Asia Financial Review*, 11(2), 112-128.
- NRB, (2020). *Bank Supervision Report*. Kathmandu: Nepal Rastra Bank.
- Palich, L. E., Cardinal, L. B., & Miller, C. C. (2000). Curvilinearity in the diversification-performance linkage: An examination of over three decades of research. *Strategic Management Journal*, 21(2), 155-174.
- Pandey, I. M. (1999). *Financial Management*. New Delhi: Vikas Publishing House.
- Pandey, R., & Thapa, S. (2022). Digital banking and financial performance in the post-COVID-19 era: Evidence from Nepalese commercial banks. *International Journal of Financial Innovation*, 8(1), 44-60.

- Paramasivan, C. & Subramanian T. (2009). *Financial Management*. NewDelhi:New age International Ltd.
- Pearce, J. A. & Robinson, R. B. (2007). *Strategic Management, Formulation, Implementation and control*. New York: McGraw Hill/Irwin.
- Porter, M. E. (1985). *Competitive Advantage*. New York: Free Press.
- Rehman, N. U., & Hysa, E. (2021). The effect of financial development and remittances on economic growth. *Cogent Economics & Finance*, 9(1).
<https://doi.org/10.1080/23322039.2021.1932060>
- Rumelt, R. P. (1974). *Strategy, Structure, and Economic Performance*. Harvard University Press.
- Santos, A., & Costa, F. (2022). Market diversification and financial performance in Brazilian banking institutions. *Latin American Banking Review*, 14(1), 22-37.
- Sharma, A., & Koirala, S. (2021). The impact of product diversification strategies on the financial performance of commercial banks in Nepal. *Journal of Banking Studies*, 35(2), 159-175.
- Stiroh, K. J. & Rumble, A. (2009). The dark side of diversification: The case of U.S. financial holding companies. *Journal of Banking & Finance*, 30(8), 2131– 2161.
- Thakur, D., & Shah, K. (2020). Product diversification and risk-adjusted performance: A study of Nepalese commercial banks. *Journal of Risk Management in Financial Institutions*, 13(2), 134-150.
- Thapaliya, S. (2019). *Employee Job Satisfaction and its Impact on Performance in Nepalese Commercial Banks*. Unpublished Thesis: Submitted to Central Department of Management, TU.
- Too, V. K., Ayuma, C., & Ambrose, K. (2016). *Effects of mobile banking on the financial performance of commercial banks in Kapsabet (Kenya): A case of selected banks in Kapsabet town*. *IOSR Journal of Business and Management*, 18(10), 37-48.

Turkmen, S. Y. (2012). Diversification in Banking and its Effect on Banks Performance: Evidence from Turkey. *American International Journal of Contemporary Research*, 2(12), 111-119.

Williams, E., & Jones, R. (2021). The relationship between product diversification and financial performance in U.S. banks: A longitudinal analysis. *Journal of American Finance*, 38(3), 305-321.

APPENDIX

Section 1: Demographics

1. Gender:

- Male
- Female

2. Age (Years):

- Under 30
- 31-50
- Above 50

3. Marital Status:

- Single
- Married

4. Qualification:

- High school
- Graduate
- Master's
- Ph.D

5. Service Year at Your organization:

- Under 1 Year
- 1 to 3 Years
- 3 to 5 Years
- Above 5 Years

6. What is your employment status?

- Full-time
- Part-time

- Intern

Section 2: Credit Access

No.	Description	5	4	3	2	1
1	My bank offers a range of loan options.					
2	Loan application process is straightforward.					
3	Bank's loan interest rates are competitive.					
4	Loan approval is fair and transparent.					
5	Feedback on loan applications is prompt.					

(Beck et al., 2002)

Section 3: Deposits

No.	Description	5	4	3	2	1
1	Bank offers competitive deposit account options.					
2	Depositing funds is convenient.					
3	Deposits are secure and insured.					
4	Accessing deposit accounts is easy.					
5	Customer service for deposits is effective.					

(Demirguc-Kunt & Levine, 1999)

Section 4: Remittances

No.	Description	5	4	3	2	1
10	Bank provides efficient remittance services.					
11	Remittance fees are reasonable and clear.					
12	Remittance services are fast and secure.					

13	Remittance process is user-friendly.					
14	Customer support for remittances is helpful.					

Rehman and Hysa (2021)

Section 5: Mobile and Internet Banking

No.	Description	5	4	3	2	1
15	Mobile banking app is user-friendly.					
16	Can perform key banking transactions online.					
17	Bank's online security is trustworthy.					
18	Online banking services are consistently available.					
19	Online customer service is responsive.					

(Too et al., 2016),

Section 6: Perceived Financial Performance

No.	Description	5	4	3	2	1
20	Bank is financially stable and profitable.					
21	Bank demonstrates sustainable financial growth.					
22	Bank offers good value for money.					
23	Bank's financial health is robust in the long-term.					
24	Financial performance information is transparent.					

(Mageto et al., 2017)

PRODUCT DIVERSIFICATION STRATEGIES AND ITS IMPA...

By: BIBHA SHRESTHA

As of: Jul 3, 2024 1:42:32 PM
16,317 words - 19 matches - 4 sources

Similarity Index
3%

Mode: Summary Report ▼

sources:

224 words / 1% - from 17-May-2024 12:00AM
elibrary.tucl.edu.np

93 words / 1% - from 17-Apr-2024 12:00AM
elibrary.tucl.edu.np

83 words / 1% - from 25-Jun-2024 12:00AM
elibrary.tucl.edu.np

93 words / 1% - Internet from 14-Sep-2022 12:00AM
docslib.org

paper text:

PRODUCT DIVERSIFICATION STRATEGIES AND ITS IMPACT ON PERCEIVED FINANCIAL PERFORMANCE IN NEPALESE COMMERCIAL BANKS A Dissertation Proposal submitted to the Shanker Dev Campus, Faculty of Management in partial fulfillment of the requirements for the Master’s Degree By BIBHA SHRESTHA Shankar Dev Campus Campus Roll No.: 757/073 Exam Roll No: 2256/174 Registration No.: 7-2-39-839-2012 Putalisadak, Kathmandu June, 2023

i Certification of Authorship I hereby corroborate that I have researched and submitted the dissertation entitled "Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks." The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work have been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation . Bibha Shrestha 2024 ii Report of Research Committee Ms. Bibha Shrestha has defended the research proposal entitled "Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Kapil Khanal and submit the thesis for evaluation and viva voce examination

. Name of Supervisor: Position: Signature: Dissertation Proposal Defended
Date: Name of Supervisor: Position: Signature:
Dissertation Submitted Date: Name of head of Research committee Signature:
..... Dissertation Viva Voce Date: iii Approval Sheet We have examined the dissertation
entitled "Product Diversification Strategies and Its Impact on Perceived Financial Performance in Nepalese Commercial Banks"
presented by Ms. Bibha Shrestha for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable