

Exploring the Impact of Asset Diversification on Financial Performance: An Explanatory Study of Ethiopian Commercial Banks

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Abstract : The study was mainly intended to explore the impact of asset diversification on the financial performance of thirteen purposely selected Ethiopian commercial banks with seven consecutive years of data for the period 2011-2017, considering the availability of data. An explanatory research design has been employed to determine the impact of asset diversification on financial performance. In the meantime, a quantitative approach was used to construct the empirical model. Banks' financial performance was measured using return on asset, and the four variables used to measure asset diversification were cash holding, fixed assets, foreign deposits, and NBE Bills, which were predictor variables. Again, the size of the bank was considered as a control variable. Then, a pooled panel regression model was employed to analyze the collected data. The result pretends that cash holding has a positive but marginally insignificant effect on financial performance, fixed assets, and foreign bank deposits have a positive and significant effect on financial performance, and NBE Bills have a negative and significant effect on banks' financial performance. Ultimately, it has been concluded that asset diversification has a significant effect on financial performance in the Ethiopian commercial banking sector. Hence, a researcher suggests that banks need to optimize their asset diversification so as to realize maximum profit and minimize the cost of funds based on the result of the study.

Keywords : asset diversification, financial performance, role, commercial banks

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