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The Role of Diversification Strategy in Organizational Performance

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ABSTRACT

Diversification is known to play a significant role in organizational strategic management and a country's economy. Consequently, assessing the relationship between diversification and performance has attracted a lot of attention, due to its continued importance in corporate growth and better financial performance. This study explores the relationship between the Diversification strategy and measures of performance; Total turnover, Profitability, Sales Volume and Capacity Utilization in the context of sugar companies. Study findings leads to the conclusion that diversification strategy has significant predictive influence on performance in most performance measures except total turnover. Findings show significant increase in profitability and capacity utilization through companies' involvement in unrelated production activities while sales volume increases through related production activities.

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Introduction

Diversification strategy is defined by (5) as the existence of levels which include related markets where customers and markets are new, unrelated markets using existing resources and capabilities where customers and markets are different and unrelated markets which require new resources and capabilities. Diversification is a means by which a firm expands from its core business into other product markets (1).

Research shows corporate management to be actively engaged in diversifying activities. (37) found that by 1974 only 14 percent of the Fortune 500 firms operated as single businesses and 86 percent operated as diversified businesses. As in any economic activity there are costs and benefits associated with diversification, and ultimately, a firm's performance must depend on how managers achieve a balance between costs and benefits in each concrete case. Diversification can improve debt capacity, reduce the chances of bankruptcy by going into new product/ markets (17); (44).

Continuous performance is the objective of any organization. Knowing the determinants of organizational performance is important especially in the current business competitive environment. Identification of those factors is important and should be treated with keen interest with aim of improving on the performance. This study explored both quantitative and qualitative measures of performance.

There is empirical evidence of the relationship between choices of strategy on performance of companies. (24) examined effective strategies that reduce the risk of failure in international expansion in computer and pharmaceutical industries in USA. There is evidence with regard to performance implications of diversification strategy. There however exist gaps that this study seeks to address, like determining the degree to which diversification strategy impacts on performance. The study therefore addresses the effect of diversification strategy on the different performance measures of sugar companies in Kenya. The study was guided by the following objective; To establish how diversification

strategy affects performance of sugar companies in Kenya. The study further seeks to answer the question; How does diversification strategy affect performance of sugar companies in Kenya? The study tested the following null hypothesis; H_0 : There is no significant relationship between diversification strategy and performance of sugar companies in Kenya.

Theoretical Framework

Resource based view theory has its origin from the work of (30), though inadvertently the view was formerly presented by (45). He assessed the firm using resource-market matrices instead of the market share-growth combination of the competitive position view presented by the (10). In the place of emphasizing market entry barriers as a way of gaining a competitive advantage to increase returns, the resource-based theory stressed 'resource position barriers' as a means of increasing profits (45) & (9).

A resource based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. The model assumes first that firm's within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control (11). Second assumption is that resource heterogeneity may persist over time because the resources used to implement firm's strategies are not perfectly mobile across firms.

A resource based view (RBV) is one of the most widely accepted theories of strategic management (31). In terms of performance, resource may increase the firm's capacity to charge high prices and thus contribute to performance by helping the firm to appropriate value linked to competitive advantage. Furthermore resources may be used to erect entry barriers and so increase performance at the industry level (26).

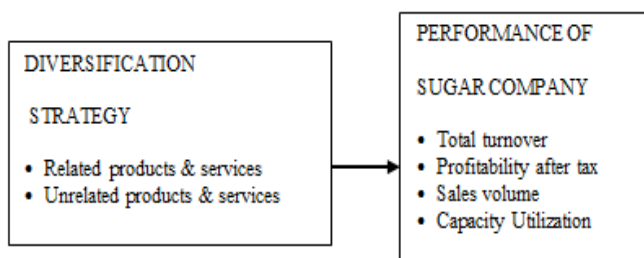
Resource based view has been found to be instrumental due to its emphasis on the important of resources and subsequent implications for firm performance.

New organisational resources may increase the flexibility in strategic choices, by allowing firms to benefit from new opportunities (34). The RBV could be considered as an “inside-out” process of strategy formulation: starting from the internal resources of the firm, their potential for value generation has to be assessed in order to define a strategy allowing the firm to achieve the maximum value in a sustainable way (15); (9). In this way, the firm choice strategy is determined by the resources available and the capability to deploy them in the best way to obtain a good performance.

Dynamic capability philosophy draws on Schumpeterian reasoning, which sees dynamic capability as another rent-creating mechanism based on the competences of organizations (40). (14) defined dynamic capabilities as ‘a set of specific and identifiable processes’ that are ‘idiosyncratic’ in details and somehow ‘dependent’ in their emergence. (43) define the theory as the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. The theory was first introduced by (16). Research on dynamic capabilities is rooted in the resource based view (45). Dynamic capabilities of firms may account for the emergence of differential firm performance within an industry (48). (48) synthesizing insights from both strategic and organizational theory, found performance relevant attributes of dynamic capabilities to be the timing of dynamic capability deployment and learning to deploy dynamic capabilities.

The emerging consensus in the field of strategic management suggests that dynamic capabilities are; one, embedded in organizational processes (3). Two, dynamic capabilities are learned regular patterns of organizational activity (47). Three, dynamic capability as directed to serve change a firm’s capabilities, knowledge and competencies (20). Four, dynamic capabilities create and shape a firm’s resource positions (13). Dynamic capabilities act as a buffer between firms’ resources and the shifting business environment by helping a firm adjust its resource base and thereby maintain the sustainability of its competitive advantage, which otherwise might be eroded (31). Dynamic capabilities has however been challenged by some scholars, that it differs from functional or operational competences by emphasizing change (46). Dynamic capability is about organizational competitive survival rather resource based view’s achievement of sustainable competitive advantage. Dynamic capability theory explains the capacity of an organization to purposefully create, extend or modify its resource base which refers to the choice of strategy an organization adopts to achieve its goals.

The study was guided by the following conceptual framework



Independent Variable

Dependent Variable

Empirical review of existing literature

Challenges facing the implementation of differentiation strategy in the operations of the Mumias Sugar Company Limited was a study conducted by (8).

The study employed a positivist philosophical orientation with a target population of all departments within Mumias Sugar Company Limited (MSCL), and a population estimate of 300 permanent workers. The study used primary data obtained through questionnaires with selected managers. Findings of the study showed that few differentiation strategies were carried out in Mumias Sugar Company Limited. The study also found out that there are other challenges, which included inadequate interdepartmental communication. Recommendations of the study included regular staff meetings needed to be put in place to enhance team work and creativity (8). The study however did not explore challenges from other Porter’s strategies like focus and low cost.

This interdisciplinary research attempts to verify whether firm level diversification has any impact on performance as explored by (29). This study used specialization ratio (SR) to classify firms into three classes of diversification. SR is a ratio of the firm’s annual revenues from its largest discrete, product-market activity to its total revenues. Using compustat database, the study classified 2188 firms in three groups: Single Product Firms ($SR > 0.95$), Moderately Diversified Firms ($0.5 < SR < 0.95$), and Highly Diversified Firms ($SR < 0.5$), for each of the seven years, from 1984 to 1990, for which complete segmental data was available. To test the null hypothesis, a test of equality of means of each classification group, and for each performance variable was done. The results suggested that the average performance of diversified firms (especially highly diversified ones) perform well on a risk-return basis on accounting measures as well as market-based measures, when compared with group of firms that are not as highly diversified (29). The study did not however address the question whether investor portfolios outperform diversified firms.

The relationship between diversification and firm’s performance and possibility of a causal relationship was a research conducted by (25). Through longitudinal studies using both accounting and market indicators, the sample included diversified firms available from compustat’s north America Industrial Annual file. Econometric’s model was used to take into account three critical considerations; the existence of the time invariant firm’s specific effect, to control for heteroscedasticity and the length of time series. The study concluded that this relationship was not causal but attributable to factors other than the degree of relatedness among business units and the degree of efficiency of the internal capital market. The study further found that some diversified firms persistently created shareholder value, beat the market index and had lower market volatility while some others persistently reached opposite results. Higher performance was associated with an unrelated portfolio of business segments (25). However more complete models including firm’s performance and management skills should have also be taken into consideration.

Investigation of firm diversification in a transition country done by (38) where three interrelated and consecutive stages were considered; decision, degree, and outcome. Panel firm-level data from 2001 to 2006 were extracted from the GSO (General Statistics Office) of Vietnam’s database of annual national enterprise surveys. The study took into account the sample selection and endogeneity issues from correlated disturbances by applying different advanced parametric and semiparametric estimation methods for both static and dynamic treatments of firm-level panel data.

Findings included: (i) factors stimulating firms to diversify do not necessarily encourage them to extend their diversification strategy; (ii) firms which are endowed with highly skilled human capital are likely to successfully exploit diversification as an engine of growth; (iii) while industry performance does not influence profitability of firms, it impacts their diversification decision and degree (38). From the study it was still not clear what factors determine firms' decision to diversify and to what degree (relatedness of their activities).

(3) investigated the relationship between diversification and a firm's financial performance in the case of Pakistan firms. A sample of 65 firms were categorized as diversified and non-diversified. For these firms, the financial performance in terms of risk and return was analyzed with the return measured by Return on Assets (ROA), Return on Equity (ROE), Market Rate of Return (MKRT) and Tobin's q , and the coefficient of variation used as the measure of risk. The results showed that the non-diversified firms performed better than the diversified firms. However, the high return of non-diversified firms was accompanied by low risk and the low return of diversified firms was more risky. But there was a contrast in results based on book values and market values. The study concluded that managers had to be careful while selecting the degree of diversification since the diversified firm may not only capture more market share but can also reduce its profitability (3). The study however left many doors open for further research like the influence of group size on diversification, the nature of corporate diversification whether it is related one or unrelated, level of related diversification and the influence of group size on nature of diversification.

In their study on investigating the impact of corporate diversification on firm performance in selected companies, (27) used survey design and simple random sampling technique in selecting the case study companies as well as the respondents. Primary data were collected through questionnaire while data was analyzed through descriptive statistics, correlation and coefficient of determination were used to test the hypotheses. It was discovered that diversification impacted performance of these companies positively and recommended that these companies should engage in geographical diversification in addition to other forms of diversification they are currently involved in for maximum performance (27). The study however suffers from being associated with single country and single industry category analysis.

Examining how a firm's contractual manufacturing model affects the relationship between corporate diversification and firm performance, was a study conducted by (12). Their investigation evaluated performance consequences of both product and international diversifications with particular emphasis on the relationship among product diversity, customer diversity, and geographic diversity with firm performance. The sample was derived from the companies listed in the information and electronics technologies category on the Taiwan Stock Exchange (TSE). Using a longitudinal data containing firm-level operation information during 1997-2002, the empirical investigation found that product diversity and customer diversity were positively associated with firm performance, whereas geographic diversity is negatively associated with firm performance. However, contractual manufacturing model was not only positively associated with firm performance, but also

acted as a moderator between product diversity and firm performance (12). The study's use of geographic diversity as the measurement for a firm's efforts in international diversification could however be affected by firm's major buyer configuration.

Research Methodology

The target population of the research entailed eight sugar companies in Kenya. The industry is a sub-sector within the larger agriculture sector in Kenya. The population of this study comprised of both parastatal and private companies in the sugar industry in Kenya totaling to eight companies by 2014. Target population were fifteen senior managers who include heads of departments and sections whose portfolio held a crucial role in developing strategic measures in the targeted companies. At least 120 respondents were targeted to fill the questionnaire and one for interview questions. In total the study aimed at reaching all the respondents representing the eight companies.

The current research required that non-probability sampling approaches be used and in particular purposive sampling. According to (23) purposive sampling is meant for a particular purpose, where people are chosen who are relevant to the research topic and who the researcher believes can provide the best information to achieve the objectives of the study. An argument further supported by (22). The study in its choice of respondents targeted members of senior management who bore the greatest responsibility in decision making and strategy formulation.

The study used a set of questionnaires, face to face interview and secondary data. A set of questionnaires were designed to generate responses on study items covering company general characteristics, diversification strategy and performance dimensions developed in a pattern earlier used by (18). Secondary data covered resources in strategy to performance on variables such as profits, total output turnover, sales volume and capacity utilization covering a period between years 2009-2013. Study theme on diversification and performance sought information on independent variables (i) related production activities and services diversification and (ii) unrelated diversification on products and services effects on indicators of performance.

The final part of the questionnaire sought information of company performance which was collected from both primary and secondary sources since it entailed profits, sales volume, total turnover and capacity utilization. The Secondary data was collected through published information like company annual reports for the period covering 2009 – 2013. Face to face interview which aimed at collecting information at least from one respondent per company supplemented information on the questionnaires and guide questions as outlined and any other relevant information that emerged in seeking clarity on responses given.

Data was analyzed using a combination of both descriptive and inferential statistics. Descriptive statistics were used because they enable the researcher to meaningfully describe distribution of scores or measurements using a few indices (39). Data frequency distribution and cross tabulation was used in describing and explaining the situation as it is in the companies. Descriptive statistics was further used to provide a profile of company demographics. In this respect, fundamental statistical measures (averages, frequencies, percentages) were used.

In order to test the hypotheses, regression analysis was conducted using performance as the dependent variable and

strategic choice indicators as predicting variables. Regression analysis beta (β) equivalent to the Karl Pearson Correlation Coefficient (r) (42) was used to determine the effect of the independent variable and the moderating variable on the dependent variable. The hypothesis was tested at 0.05% significance level, with 95% confidence, which is acceptable in nonclinical research works and was used to establish the relationship among the study variables and to test the formulated hypotheses. The Regression model for this study took the form:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where Y = dependent variable (Company performance)

β_0 = Constant or intercept which is the value of dependent variable when all the independent variables are zero.

β_1 = Regression Coefficient for each independent variable (diversification strategy)

ε = Stochastic or disturbance term or error term

X_1 = Independent variable indicator

The test criteria was set such that the study rejects the null hypotheses H_0 if $\beta \neq 0$, otherwise the study will fail to reject H_0 if $\beta = 0$. To test the hypotheses, mean of Company performance was correlated with mean of diversification strategy. The correlation(r) was calculated to determine strength of the relationship between the dependent variable and independent variable. Adjusted R^2 indicated percentage of variation in which independent variable (diversification strategy) explain dependent variables (performance). The t-test statistic indicated significance of variables where P-value showed significance on how independent variables (diversification strategy) determine dependent variable (performance) eg. P-value less than alpha, assumed to be 0.05 in this case would indicate significance. Standardized coefficients assessed the contribution of each independent variable towards the prediction of the dependent, since they had been converted to the same scale to show comparison. Beta coefficients were to establish by how much a unit increase in independent variable would increase dependent variable.

An independent variable (diversification) that was measured using two dimensions; Number of production activities/products related to the current company operations and production activities/products unrelated to the current company operations. Three point scale was used to categorize the responses in order to measure the extent to which diversification was a choice strategy in the companies' operations. This was measured in the questionnaire.

The dependent variable (performance) that was measured using four dimensions; First dimension was on how respondents rated the performance of their company in terms of total turnover which used further four point scale described as; no change in turnover, total turnover has been deteriorating, total turnover has experienced fluctuations, total turnover has constantly improved.

The second performance dimension was on how respondents rated the performance of their company in terms of profitability using four point scale presented as; profitability has not changed, there has been constant losses, profitability has been fluctuating, profitability has constantly been raising.

Third performance dimension was on how respondents rated performance of their company in terms of Sales volume using four point scale indicated as; Sales have not changed at all, Sales volume have deteriorated, Sales have been fluctuating, Sales have constantly been improving.

The fourth and final performance dimension was on how respondents rated the performance of their company in terms of capacity utilization. Using four point scale described as; CU has not changed at all, CU has experienced downward trend, CU has been fluctuating, CU has been improving constantly.

Results and Discussions

A total of 120 managers in sugar companies in both public and private were targeted and to this effect 120 questionnaires were issued. Out of these 72 usable questionnaires were received back giving a return rate of 60%. (13) argued that a response rate exceeding 30% of the total sample size provides enough data that can be used to generalize characteristics while (41) advanced 40% response rate to be acceptable.

Diversification Strategy of Sugar Companies

The study objective assessed the extent to which diversification strategy has been adopted by sugar companies. Diversification strategy has been cited by (36); (33), (19) as a strategy in which companies pursue growth by engaging in activities similar to the current operations (related) or different (unrelated) to their current activities. The results are further presented in the following sub-thematic areas.

Related products and services

Related products and services in this subtheme refers to a situation where a company expands its activities into product lines that are similar to those it currently offers. In sugar industry could refer to products that can be produced as result of byproducts of sugar such as ethanol, spirits, filter cake, brown sugar etc. efficient diversification builds a competitive advantage, to achieve economies of scale or scope. The respondents were asked to state the number of such related products and services and the results were presented in table 1.

Table 1. Offering other related production activities.

Products developed	Respondents Frequency (f)	Percentage (%)
No related products developed	25	34.7
Single related product developed	45	62.5
Multiple related products developed	2	2.8
Total	72	100.0

Out of 72 respondents who participated in the study 45(62.5%) of respondents reported that their companies had developed at least a single related product or service, 25(34.7%) reported not to have developed any related product or service for their companies, while a minimum of 2(2.8%) had developed multiple related products and services for their companies in addition to the existing ones. This implies that 65.3% of the respondents agree that their companies have been involved in development related products and services. Given this finding, the companies are expected to a superior performance and if not then there is something different that affect their performance.

From the regression tests, performance is significant only on sales volume indicating that since other measures of performance are not significant, diversifying on related products does have an effect on performance.

Previous findings show little has been done in sugar industry in diversification into related products and this is confirmed by (20) in his study on economic governance reform in the sugar subsector found that the challenger of increasing competitiveness and profitability in Kenya sugar

industry can be addressed in diversifying its operations from white sugar mill. Kegode equally had earlier noted that little progress had been done. Kegode's assertions are contradicted by (3) whose findings show that non diversified firms performed better than diversified firms due to high return of non-diversified firms is accompanied by low risk in Pakistan. (28) study findings presented a high and positive correlation between financial performance and related diversification. The above findings do not present a positive performance for the Kenya sugar situation whose low diversification into related products could be due to sugar being a unique product with minimal substitutes and therefore does not present a favourable opportunity to manufacture similar or related products using the available capacity.

Unrelated products and services

Unrelated diversification strategy is a subtheme represented a situation where a company adds new, or unrelated, product lines or markets where there is no direct fit to the existing business. Unrelated diversification is considered necessary due to cost efficiencies with high potential for return. The respondents were asked to state the number of such unrelated products and services to the core products offered within the past five years and the results were presented in table 2.

Table 2. Offering other unrelated production activities.

Unrelated products/services	Respondents Frequency (f)	Percentage (%)
No unrelated products developed	15	20.8
Single unrelated product developed	45	62.5
Multiple unrelated products developed	12	16.7
Total	72	100.0

The findings in Table 2 shows that out of 72 respondent managers who participated in the study, 45(62.5%) had single product developed to their existing products, 15(20.8%) had not introduced any unrelated product to improve performance while 12(16.7%) had developed multiple products. This clearly shows or implies that (79.2%) of the companies' had developed at least unrelated product and therefore the companies in the sugar industry in western region are expected to improve on their returns and performance in the market. Given that outcome the companies are expected to have an improved performance, however from regression tests, diversification into unrelated products no significant performance contrary to the researcher's expectation and therefore conclude that there other significant contributors of performance.

The findings are further elaborated by quoted interview; "There are number of sugar companies introducing products processed from molasses and bagasse which are totally unrelated to the core product the sugar. Mumias sugar company is already producing ethanol and cogeneration of electricity while Chemelil sugar company is producing filter cake usable as fertilizer while other companies' similar plans are underway towards unrelated diversification."

Previous studies findings are supported by this study where performance has been found to be as a result of unrelated product diversification. (25) study found that there was higher performance associated with unrelated portfolio of business segments. Positive relationship between diversification and performance was also found by (29) that diversified firms show better performance compared to undiversified and that managers should it as strategic option to improve their firm's performance.

The sentiments are equally concluded by (38) that firm profitability is determined by its degree of diversification. However, (7) presented a different view that studies of diversification and performance are inconclusive and therefore no determinations should be made on whether a diversified company is performing or not.

Hypothesis (H₀): There is no significant relationship between Diversification strategy and performance of sugar companies

Diversification strategy was operationalized as offering of related production activities and offering of unrelated production of activities. The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$ where; X_1 - related production activities, X_2 - offering of unrelated production of activities could predict company performance. Linear regression F test results show the tabulated $F_{0.05, (2,69)}=3.07$ is less than the computed F-value of 15.155 hence conclude that with 95% confidence diversification strategy has explanatory power on company performance.

From the table 3 coefficient of determination (R^2) indicates that diversification strategy can explain variances in company performance upto 23.0% when measured in terms of sales volume. Statistically reliable relationship was found between the relationships (p value < 0.05). The results further show that for every unit change in unrelated production activities, there is a 0.460 (β value) unit change in profitability when all other factors are held constant. This implies that unrelated productions activities contributes most on performance profitability ($\beta = 0.460$). The above findings leads to the conclusion that diversification strategy has significant predictive influence on performance in terms of profitability specifically when companies are involved more in activities unrelated or not similar to their current ones. In other words when sugar companies produce unrelated products to their current product which is sugar they are bound to perform better through increasing their sales volume. Related production activities equally had statistical significant influence on performance in terms of sugar sales though with fairly low β values.

From multiple regression analysis

Predictors	β	Std. Error	t	Sig.
Diversification Strategy (X_3)	0.551	0.149	3.698	0.002

Dependent Variable: Company performance

Table 3. Regression Results on the Relationship between Diversification strategy and company performance.

			Total Turnover (Kshs.)	Profit after Tax (Kshs.)	Sugar Sales in (Tonnes)	Capacity Utilization (%)
Diversification Strategy	Offering other related production activities	Beta	-0.355	-0.245	0.413	-0.209
		t-value	-4.143	-3.342	4.787	-3.070
		Sig.	0.001	0.005	0.000	0.001
	Offering other unrelated production activities	Beta	0.245	0.460	-0.413	0.445
		t-value	3.330	-4.997	-4.789	-4.937
		Sig.	0.001	0.001	0.000	0.005
Adjusted R ²			0.127	0.144	0.230	0.169

$P < 0.05$

Since results on multiple regression analysis show $t = 3.698$ where ($p\text{-value } 0.002 < 0.05$), it can be concluded that diversification strategy coefficient is significantly different from zero and has a significant effect on company performance and therefore reject null hypothesis that diversification strategy has no significant effect on company performance. The findings of the study partially support the findings of (36) who asserted that diversified firms tend to have a lower performance especially profitability. He further stated that measures of diversification have no significant association with market value. This study partially agrees with (33) whose study on the relationship between diversification and performance drew conclusions that there was no outright verdict on whether adoption of diversification strategy leads to increased performance but concluded that the relationship depends on macroeconomic factors like munificence and scarcity in the context of assessment. (19) findings are supported by this current having stated that strategic choices and performance in international markets resulted to positive outcome if diversification is chosen for an existing market. He however concluded that adoption of diversification strategy on green fields markets may result to a negative outcome less likely to survive.

Summary, Conclusions and Recommendations

Diversification Strategy and performance of sugar companies

Findings show that 65.3% of the respondents agree that their companies have been involved in development of related products and services while 79.2% of the companies' had developed at least unrelated product and therefore the companies in the sugar industry in western region are expected to improve on their returns and performance in the market. Contrary to that expectation, performance was evident only on one aspect of performance indicating that, diversifying on related products does have an effect on performance. Coefficient of determination (R^2) indicates that diversification strategy can explain variances in company performance up to 23.0% when measured in terms of sales volume. Statistically reliable relationship was found between the construct relationships (p values < 0.05). The results further show that for every unit change in unrelated production activities, there is a 0.460 (β value) unit change in profitability when all other factors are held constant. This implies that unrelated production activities contribute most to performance profitability ($\beta = 0.460$). The study further found the model to be valid in testing diversification strategy as a predicting determinant of company performance with F statistic 15.155 being $> F_{0.05}(2,69) = 3.07$ with 95% confidence.

Descriptive results present a positive performance for the Kenya sugar situation whose low diversification into related products could be due to sugar considered a unique product with minimal substitutes and therefore does not present a favourable opportunity to manufacture similar or related products using the available capacity. Results also indicate both related and unrelated indicators of diversification strategy to have closely similar contribution towards performance in terms of sales volume. Implications could be drawn to show that sugar companies' choice of adopting production of similar products to sugar which is their core product and other products which do not relate to sugar enhances more sales volume. Profitability was found to present a negative outcome though statistically significant when companies offer related products. However, there was significant positive capacity utilization implying that inclusion of more product production whether related or

unrelated has an impact in utilization excess or idle capacity which would otherwise go to waste. The level of innovation would as well affect profitability albeit a small margin through technological factors of macro environment.

Conclusions

On effects of diversification strategy on performance, study findings lead to the conclusion that diversification strategy has significant predictive influence on performance in most performance measures except total turnover. Findings clearly show significant increase in profitability and capacity utilization through companies' involvement in unrelated production activities while sales volume increases through related production activities. Specifically when sugar companies produce unrelated products to their current product which is sugar are bound to perform better through increasing their profitability and capacity utilization.

The study therefore concludes that though diversification strategy contributes significantly to sugar companies profitability, ironically this is not realized yet due to the fact that introduction of unrelated products is still at initial and trial stages with majority of companies except Mumias company being the only one fully in production of ethanol, water bottling. Over and above profitability, diversification strategy is further attributed to higher sales volume through related production activities implying that any related product introduced there is increased sales volume. Current effort for sugar companies to diversify could be attributed to the threats to single product or limited products due to increasing competitive environment and unpredictable economic future the world is experiencing. Business companies worldwide are countering threats from local competitiveness by exploring new ways of matching competitive environment. It can further be concluded that while Kenyan governance on reform in the sugar subsector is a challenge due to increasing competitiveness, this can be addressed in Kenyan companies diversifying their operations from white sugar mill. Diversification strategy approach should be achieved through offering production activities not related to the current products and therefore enabling the companies to exploit other markets.

Recommendations

Diversification approach that has been achieved within majority of sugar companies are related to bagging, packaging and rebranding the same product. This has only managed to reach particular market segment, as earlier discussed majority of sugar companies are either on trial or initial stages of diversifying to other unrelated products. It is a recommendation that companies explore unrelated products as it is happening in Mumias sugar company to exploit idle capacity increase sustainability, manage competition and boost returns. This study's outcome has shown that related and unrelated products can be produced concurrently without compromising each other.

Contribution to the Body of Knowledge

To establish how diversification strategy affects performance of sugar companies in Western Kenya. Diversification strategy contributes between 12.7% and 23% on different measures of performance. This is a significant contribution to knowledge on the critical role played by both constructs of diversification and also presence of other determinants of company performance.

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