DIVERSIFICATION STRATEGIES AND BUSINESS PERFORMANCE IN A COMPETITIVE INDUSTRY

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ABSTRACT:

The purpose of this paper was to determine the relationship between diversification strategies and business performance of food and beverages firms. The population of the study consisted of 177 employees drawn from 10 of the firms. Two research questions and two hypotheses were asked and formulated respectively. The sampling method adopted was the non-probability sampling method for convenience purposes. Thus, the census of the population was studied. Data for the study was sourced through structured questionnaire and personal interview methods and analysed using the Spearman Rank Order Correlation Coefficient in line with SPSS version. Findings from the analysis revealed a positive and significant relationship between diversification strategies and business performance of food and beverages firms. The study therefore recommended that considering the changing nature of the environment and competitiveness in the industry, food and beverages firms should pursue diversification strategies to achieve growth and profitability which are some of the measures of business performance.

Keywords: Diversification strategies, concentric diversification, conglomerate diversification, diversification and business performance.

INTRODUCTION:

This paper is based upon the assumption that firm profitability is determined by its degree of diversification which in turn is strongly related to the antecedent decision to carry out diversification activities. Organizations within the manufacturing sector continue to face stiff competition in spite of the steaming economic fortune and flamboyant financial statements made by Nigerian organizations as a result of non-availability of resource, poor electricity supply, technological change, unstable governmental regulations, economic instability, dynamism in consumer taste and preference to existing products, unstable demand on products and switching cost of organizations, the incursion of new entrants' especially foreign investors into the manufacturing industry, etc. Meanwhile, environmental challenges, coupled with institutionalized corruption have continually hampered the industry's ability to attract funds for research and development of new products. These attendant challenges do not only impede organization's growth, but also seem to affect the need for organizations to identify the best suitable strategy, whether related or not, to meet the revolving trend and position the firm for profitability. It does becomes imperative that organizations focus on the determining issues that can give a leverage to having a competitive advantage. One of such defining factors identified to be relevant in Nigeria is diversification strategies.

The increasing demand for product variety and continuous substitution by customers has called the attention of organizations and investors to come up with strategies on how best to achieve customer satisfaction through provision of varieties and

the need for expansion through increase in market share, productivity, and full utilization of resources at their disposal. Thus, to ensure that a wider segment of the market is captured, the creation of new products either through remodelling of existing products or proliferation becomes essential among organizations. Furthermore, to understand the competitiveness amongst rival organizations and the dynamism in the global market, organizations need to improve their performance in order to ensure quality delivery of services and product to the expectant customers. Improving organization performance and expanding portfolio of investment in today's relatively dynamic business environment require strategic decisions making and diversification of investment.

. According to Anwar, Shah, and Hasnu (2016), strategy is opined as a tool for achieving sustainable competitive edge and ensuring full resources utilization to achieve basic long term goals and superior performance. Whereas, Ajagbe, Ojochide, Ekanem, Uduimoh, and Akpan (2016) views strategy as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals.

. Performance is a relative concept that is of great concern amongst business organisation and has received wide attention in literature. Organisations' management require strategic decision making to improve their performance. Therefore, every organization aim at optimum performance. Matarjar and Eneigan (2018) viewed performance as an approach that is used in assessing the progress made towards achieving goals, identifying, and adjusting limiting factors to the progress of the organization embedded in the business environment. That is, performance is viewed in terms of how well an organisation is managed and the value it delivers to customers alongside stakeholder. However, without the right selection of strategy, attaining optimum performance will only be a myth and never a reality. An organization in the bid to increase its performances compares various strategic options from several available alternatives in order to make the best use of available resources in the best way possible to achieve its predetermined goal (Rowe, 2014; Xaxx, 2017; Albright & Winston, 2008).

African Development Indicators (2013) averred that the potential for edging and achieving sustainable competitiveness in a relatively dynamic, complex, and uncertain business industry is based on two premises and advantages: cost advantage and resource advantage. However, achieving optimum competitiveness, strategic relevance and resounding performance is a task that organizations are struggling to achieve due to the dynamism in the business environment, intense competition, low overall cost of labour, institutional obstacles, lack of strategic plan, infrastructural decay, wastage and misuse of both human and material resources and unsuitable policies among others (African Pulse, 2013; Banjoko, 2012; Olanrenwaju & Folarin, 2014). These vices have not only prevented local producers from leveraging on the advantages, but also impede performance. For organisation to achieve its predetermined long-term goals, expansion, profit maximization through sales and sustainable growth, it must diversify its resources for proper positioning amongst rival organisation in order to increase their level of performance (Olanrewaju & Folarin, 2012).

Diversification has become a popular strategy among manufacturing sectors willing to surpass competitors (Ulrich & Haug, 2013). Whether related or unrelated, it is a strategic option used by managers to improve organizations performance. Su and Tsang (2015) asserted that diversification is when

organisation aim at changing its business definition either by developing new products or expanding into a new market either individually or jointly. Oladele (2012) viewed diversification as a catalyst for competitive advantage and also reduces risk of bankruptcy and creates synergy in market operations. The success of this corporate strategy varies not only across time, but also among regions (Krivokapic, Nladimir & Stogic, 2017). Therefore, it is eminent to strike a balance between organisations adoption of diversification strategy and the overall corporate philosophy to ensure strategic fit. Zheng-Feng and Lingyan (2012) identified three definitions of diversification to include the following: (1) to give variety or to vary; (2) to extend business activities into disparate fields; and (3) to distribute investments in order to average the risk of loss.

Diversification provides upper edge to meeting customer demands, market creation and increase in profitability (Chirani & Effatdoost, 2013). Sindhu, Haz and Ali (2014) highlighted that diversification allows organization to explore market options which invariably leads to growth. Dimitri and Mohammed (2014) stated that diversification allows for economies of scale. Ugwuany and Ugwu (2013) asserted that diversification is value destroying and leads to diversification discount via managerial risk aversion, agency problems between managers and shareholders. Nyiagiri and Ogollah (2015) explained that organisation diversify its product in order to survive societal turbulence. The objective of this study was to investigate the relationship between diversification strategies and business performance in the competitive food and beverage industry.

RESEARCH QUESTIONS:

The study sought to answer the following research questions regarding the competitive industry.

- What is the relationship between concentric strategy on business performance in food and Beverage Company in Rivers state?
- What is the relationship between conglomerate strategy and business performance in food and Beverage Company in Rivers State?

RESEARCH HYPOTHESES:

The following research hypotheses were formulated in the null forms:

Ho_1: There is no significant relationship between concentric strategy and business performance of food and Beverage Company in Rivers State.

Ho_2: There is no significant relationship between conglomerate strategy and business performance in food and Beverage Company in Rivers State.

1.4 scope of the study: the study was conducted in some selected food and beverages firms in Rivers State only.

1.5 Unit of analysis: the unit or level of analysis for methodological reasons was at the organisational level.

REVIEW OF RELATED LITERATURE:

Theoretical Foundations: Modern Portfolio Theory:

Commonly referred to as passive investment approach, the modern portfolio theory was propounded by Henry Markowitz, an American economist in 1952. The theory was introduced to assist in the selection of the most efficient diversified portfolio by analysing various possible portfolios in order to reduce risk. It is a long-term investor approach to investing in market diversification, risk

management and allocation of assets with the believe that higher risk begat higher returns. Mangram (2013) stipulated that the MPT maintains greater diversification in investment portfolio by using the alpha and beta coefficient to measure investment performance. Rutterford and Sotiropoulos (2016) viewed the Markowitz theory as a tool that guides an investor on the expected risk and returns associated with investment. MPT considers the preferences of investors as well as the return, risk and diversification effect which together helps in lowering the overall risk of a portfolio. Thus, the goal of every investor is to maximize return for any level of risk and risk can be reduced by creating a diversified portfolio or unrelated assets with a substantial value and then become passive while waiting till it grows.

CONCEPTUAL REVIEW:

Diversification Strategies.

The term diversification most often has a link with a change in the features of a company's product line or market. A company can choose to diversify as its plan to grow after considering growth alternatives such as market development, product development and market penetration strategies. Diversification calls for a simultaneous departure from the present product line and the present market structure. Thus, diversification requires new skills, techniques, and facilities (Ansof, 2008).

Investopedia staff (2011), defines a diversification strategy as the entry into new markets with new products, whereas Kamien and Schwartz (1975) define it as a firm's degree of product and market involvement. Product diversity refers to the degree of relatedness among various product segments. Several scholars view diversification as the strategy of adding related or similar product/service lines to existing core business, either through acquisition of competitors or through internal development of new products/services, which implies increase in available managerial competence within the firm.

In this sense, diversification is a matter of degree of relatedness among the activities carried out by a firm. Product relatedness is defined as the extent to which a firm's different lines of business are linked by a common skill, market, purpose, or resource.

Concentric Diversification:

Concentric diversification or otherwise known as related diversification strategy is pursued by companies as means of adding new related products in the market (Fred, 2009). This strategy allows a company to diversify into a related industry or be involved in the acquisition of a firm that produces similar products when the acquiring company feels that the company to be acquired has strong competitive position in its core business, has similar technology, and patriotic customers.

According to Business Dictionary, concentric diversification is a type of diversification in which a company acquires or develops new products or services closely related to its core business or technology to enter one or more new markets. This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same, but the marketing effort would need to change. It also seems to increase its market share by launching a new product that helps the company to earn profit. The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers. This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profit.

Conglomerate Diversification:

The conglomerate diversification is also known as unrelated diversification strategy which is pursued by an organisation when it wants to diversify into an industry unrelated to its current industry. This becomes obvious when the management feels that the current industry in which the company operates is no more attractive and thus decides to involve in the business not related to their current customers and also to their existing technologies.

In conglomerate diversification, the company markets new products or services that have no technological or commercial synergies with current products, but that may appeal to new groups of customers. Although their exact sources and methodologies differ, all of these papers are part of a growing empirical literature suggesting that sample selection accounts for most, if not all, of the ex-post differences between conglomerates and specialized firms. The conglomerate diversification has very little relationship with the firm's current business. Therefore, the main reasons for adopting such a strategy are first to improve the profitability and the flexibility of the company, and second to get a better reception in capital markets as the company gets bigger. Though this strategy is very risky, it could also, if successful, provide increased growth and profitability. More broadly, our work is also part of a recent strand of literature that emphasizes a view of conglomerates as profit maximizing firms. Nevertheless, all of them still assume that diversification reduces firm value: while conglomerates allocate resources efficiently (profit maximization), they are still endowed with lower profit opportunities than a specialized firm (diversification is value reducing).

Concept of Business Performance:

Business performance is one of the most relevant construct in the field of strategic management and commonly used as the final dependent variable in various research. However, there is no consensus on how performance is achieved by organizations among scholars in the field of management and social sciences. An organization is said to achieve high performance if it fully utilizes the resources at its disposal which in turn is effective through an increase in sales or market share and profit depending on how efficient the organization is while using its limited resources. Laitinon (as cited in O'regon & Ghobadian, 2007) concluded that business performance is the ability of an object to produce results in a dimension determined by priori in relations to a target. Others explained that productive businesses achieve their goal through transformation of inputs into output at the lowest cost. This simply means that any organisation capable of this achievement can be classified as performing well in the marketplace.

Diversification Strategy and Business Performance:

Diversification strategy is very crucial to the success of a competitive organisation in order to achieve reasonable performance, more especially in a constantly changing environment. This is in view of the fact that there are divergent reasonings on whether diversification has positive effect on performance or not. In other words, an increase in the degree of diversification level may reduce performance (Palich, et al, 2000) or increase performance (Pandaya & Rao, 1998). Diversification has been adopted as one of the most popular strategies by organisations as surviving strategy for performance. Whether it is related or unrelated, it is pursued by organisations to improve performance. In the face of turbulent and uncontrollable business

environment, the strategy is pursued to effect changes in business definition, either by developing new products or expanding into a new market individually or jointly with another entity (Su & Tsang, 2004). It is obviously pursued by organisations as a catalyst for competitive advantage and a means of spreading risks across many businesses to increase profitability, reduce the risk of bankruptcy, create synergy, enhance market operations and improve performance (Oladele, 2012). It allows an organisation to use its existing skills, expertise and competences to produce unique products. This therefore means that organisations that pursue diversification strategy such as the related diversification perform better than those pursuing unrelated diversification, thus generating higher return on investment.

Zheng-Feng and Lingyan (2012) examined an analysis of the degree of diversification and organization performance in USA. A total population of 12006 organizations and selected sample size of 3070 organizations from COMPUSTAT were studied using Tobin-q equation and Standard Industrial Classification (SIC) code to measure diversification. Findings showed that organization's decision to diversify depends on the interaction of two effects – economies of scale and agent problems. Diversification premium gets smaller if an organization engages in more than 3 or multiple industries compared to a single industry. Kheng (2010) further revealed that larger companies have numerous advantages over small organizations operating in a more limited market while Markowitz in his theory postulated that organization's diversification in more than a single portfolio helps minimize risk as well as increase returns since higher risk results to higher returns. Nevertheless, under market uncertainties, cyclical fluctuation and inconsistencies in governmental policy, (Miklos, 2009) disputes the reality of engaging in risky portfolios as price and cost varies with time; risky portfolio requires passive wait which in the short-run becomes obsolete (Priem & Butler, 2001).

METHODOLOGY:

Research Design:

The quasi-experimental design was adopted in this study because of the complex relationship that exists between variables. This method was adopted, because of the flexibility of the study elements.

Population of the Study:

The target population of this study consisted of all the employees of the 10 selected food and beverages firms studied.

Sample Size Determination:

The population of the study was made up of 177 employees drawn from 10 of the firms. A census of the population was studied. The total questionnaires retrieved were 150 copies which represents 85 percent of the sample studied. The 150 questionnaires proved useful and was therefore used for data analysis.

Sampling Technique:

The sampling technique adopted was the non-probability or otherwise, known as the convenience or judgmental sampling method. The choice was based on the fact that the researcher could not investigate all the employees.

Method of Data Collection

The study employed structured questionnaire to source for data. Oral interview method was used which provided employees the opportunity to freely express themselves.

Validity of Research Instrument:

The face, content, and construct validity was used to validate the instrument thus the

supervisors and the researcher's judgement was used to ascertain the validity.

Reliability of the Research Instrument:

The instrument was subjected to a pilot study to establish the reliability of the instrument. The coefficient of the test-retest responses at the two intervals was correlated using the Cronbach's Alpha Reliability Test with all items exceeding Cronbach's Alpha benchmark of 0.7.

Measurement of Variables:

The study variables were measured with the ordinal scale (i.e., 4-points modified Likert type scale) which is a qualitative scale that classifies responses in rank forms (e.g., 4 – Strongly Agree; 3 – Agree; 2 – Disagree; 1 – Strongly Disagree; 0– Undecided).

Data Analysis Technique:

The tool of data analysis (Univariate analysis) consisted of frequency tables; Weighted Total Score (WTS); and the mean. The non-parametric statistics, such as Spearman Rank Order Correlation coefficient was used in the bivariate analysis with the Statistical Package for Social Science (SPSS version 21.0) to establish the relationship and statistical significant of the hypotheses.

Test of Hypotheses (Bivariate Analysis):

H01: There is no significant relationship between concentric strategy and business performance

Table 1: Concentric diversification and business performance

Correlations

	Concentric diversification	Business performance
Spearman's rho Concentric Diversification Correlation Coefficient	1.000	.531**
	.	.000
	150	150
Sig.(2-tailed)	.531**	1.000
	.000	.
N	150	150
Business performance Correlation coefficient		
Sig. (2-tailed)		
N		

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

In Table.1, a correlation coefficient of 0.531 was recorded at 2-tailed and P-value of .000 < .01. The result of this test shows a moderate and significant relationship, as the null hypothesis one was rejected. This further shows that there is a significant relationship between concentric strategy and business performance.

H0$_2$: There is no significant relationship between Conglomerate strategy and Business performance

TABLE 2 Conglomerate diversification and business performance

	Conglomerate diversification	Business performance
Spearman's rho Conglomerate diversification Correlation Coefficient	1.000	.622**
Sig.(2-tailed)	.	.000
N	150	150
Business performance Correlation coefficient	.622**	1.000
Sig. (2-tailed)	.000	.
N	150	150

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

The data result as listed on Table 2, reveals a correlation coefficient of .622, and is significant at P value = 0.000 < 0.01. Also, this result wields a strong and significant relationship between conglomerate strategy and business performance. Again the null hypothesis two (H$_2$) was rejected.

DATA ANALYSIS AND DISCUSSION:

A total of 177 copies of questionnaire were distributed to employees of the selected food and Beverage Company, out of which 150 copies representing 85% were returned, while

27 copies representing 15% were not returned. Below is the analysis of data as presented:

Univariate Analysis:

Table 3: Descriptive Statistics on Items of Concentric Strategy

S/Nos	Questionnaire Items	SA 4	A 3	D 2	SD 1	U 0	TOTAL	Mean
1	Increased competition is due to new entrants in the food and beverage industry	60	40	20	30	0	150	2.01
2	Marketing of new services that are technologically or commercially unrelated to current products, but which may appeal to current customers.	50	40	20	30	10	150	2.39
3	Marketing of new services that have no technological or commercial synergies with current products, but which may appeal to new groups of customers	60	50	30	10	0	150	1.98
4	There is limited knowledge of the new services	50	40	20	20	20	150	2.40

Table 3 on concentric strategy indicates the 4th item with a maximum mean score 2.40 > 2.00. Majority of the respondents agreed to the items as posed. Only two of the items were below the minimum means score. This means that customers agreed they can always count on their organization to diversify.

Table 4: Descriptive Statistics on Conglomerate strategy

S/Nos	Questionnaire Items	SA 4	A 3	D 2	SD 1	U 0	TOTAL	Mean
5	Access to distribution channels for food and beverage services	60	40	20	30	0	150	1.92
6	Adjustment to changes in information communication technology	70	40	30	10	0	150	2.16
7	Forming strategic alliances with a complementary company	50	40	10	20	30	150	2.22
8	Adoption of new information, communication technologies	60	50	20	10	10	150	2.43

FINDINGS AND DISCUSSIONS:

This foregoing calls for an empirical approach that permits the joint analysis of the three interrelated and consecutive stages of the overall diversification process: diversification decision, degree of diversification, and outcome of diversification. After controlling for industry fixed-effects, empirical evidence from firm-level data shows that diversification has a curvilinear effect on profitability: it improves firms' profit up to a point, after which a further increase in diversification is associated with declining performance. This implies that firms should consider optimal levels of product diversification when they expand product offerings beyond their core business. Other worth-noting findings include: (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 of performance.

In this study, the relationship between diversification strategies and business performance in Food and Beverage companies was examined. The summary of our empirical findings indicates that diversification strategies such as the concentric and conglomerate diversifications have positive influence on business performance. This was made evident from the findings of hypotheses one and two (H_1; H_2) which indicated a significant relationship between concentric strategy (0.531); conglomerate strategy (0.622) and business performance of food and beverage companies. This finding conforms to that of of Kheng, (2010) who revealed that larger companies have numerous advantages over small organisations operating in a more limited market which greatly improve their performance. Be it related or unrelated, it is

used as a strategic option to improve performance

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS:

Environmental challenges coupled with non-availability of regular power supply and technological changes have hampered the performance of most organisations in terms of supply of products and services. As a consequence, diversification has become a popular strategy among competing firms willing to be competitively advantageous over competitors. From the empirical findings, this paper concluded that in the food and beverage organisations, diversification strategies result in high performance and greatly affect the effectiveness of the business performance.

The study therefore recommended the following:

1 Food and beverage firms should pursue diversification strategies as means of market creation.

2 The management of food and beverages firms should pursue concentric diversification with technological similarities in order to gain performance advantage.

3 Conglomerate diversification should be pursued in order to increase growth and profitability which are measures of performance.

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