

**THE EFFECT OF EXPANSION AND DIVERSIFICATION
STRATEGIES ON THE PERFORMANCE OF NAIVAS CHAIN STORE**

BY

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DECLARATION

I declare that this research project is my own work and has not been presented for the award of a degree or any academic qualification in any university.

Signed..... Date.....

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D61/83708/2015

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This research project is dedicated to my loving mum and dad for their unwavering love and commitment to my wellbeing.

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ABBREVIATIONS

CEO	-	Chief Executive Officer
EAPCC	-	East Africa Portland Cement Company
HR	-	Human Resource
MBV	-	Market Based View
ROA	-	Return on Assets
ROE	-	Return on Equity
ROI	-	Return on Investment

ABSTRACT

Firms in the current world are faced with many challenges as well as opportunities in the environment in which they operate. The world is dynamic and as such the external environment keeps on changing. The external environment is composed of the competitor environment, socio-political environment, economic environment and the cultural environment. These environments present both opportunities and threats to firms. In order for firms to excel in the industry in which they operate therefore, they need to understand the external environment in terms of the opportunities and threats presented so as to respond appropriately. This study aimed at identifying the effect of expansion and diversification strategies on the performance of Naivas Chain Store. A case study was applied in carrying out this study. The study was carried out at the headquarters of Naivas Chain Store at Sameer Business Park in Industrial Area. Data was collected from the heads of the various departments of the Chain and some managers within the departments through face to face interviews. The study gathered data mainly on product and service diversification, internal and external expansion, role of marketing and product promotion in expansion and diversification, role of research in expansion and diversification and expansion and diversification strategies versus performance. The data collected was analysed using content analysis. The results of the study indicated that the Chain engages in product and service diversification within their branches. Expansion and diversification of products and services was a continuous process that is usually based on a thorough research and analysis aimed at identifying gaps in the market. The Chain had established new branches and still had plans of opening more branches in the near future. With a lot of marketing and product promotion activities done by the Chain, the Chain was able to attract and retain customers enhancing its sales. The efforts of the Chain to diversify and expand its operations had, in most cases, positive effect on performance. Negative effect of expansion and diversification are witnessed in cases of failure of new products and huge investment costs incurred during expansion. The study recommended that a thorough scanning of the external environment be done prior to implementation of any strategy since the external environment affect the operations and hence the performance of firms. Firms also need to understand that each firm is unique in its own ways and therefore a successful strategy in one firm doesn't mean that the same strategy will be successful in all firms. The study suggested that further research be conducted to identify the factors that affect the implementation of expansion and diversification strategies and whether expansion and diversification strategies have a positive effect on performance generally.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Identification and implementation of the right strategies is critical to the success of firms in the current competitive and dynamic environment. Competitive strategies enable firms to build sustainable competitive advantage over their rivals. Strategy is a way of differentiating oneself in the eyes of the consumer and doing things differently from the competitors. Diversification and expansion strategies enable firms to create competitive advantage in the industry. Firms that diversify their operations increase the volume of sale of their products and enjoy a stream of revenue throughout the year (Gerald, 2013). According to Brian (2013) expansion and diversification strategies present a myriad of advantages to firms. These advantages include economies of scale, new brands, access to new customer base, reduced competition and incorporation of new skills amongst others.

Managers are involved in strategic analysis and choice of business strategies that allow their businesses to create sustainable competitive advantage. In order to choose the right strategies, managers are required to choose competitive advantages that distinguish the firm in the minds of customers from other reasonable alternatives (Pearce & Robinson, 2011). Strategies help managers assess ways of improving their operations in their present line of business or exploiting new opportunities (Ansoff, 1979). Success or failure of a strategy can be deduced from the performance of the organization. As argued by Herberberg and Rieple (2008) the understanding of a firm's strategy and its success requires a very hardheaded kind of analysis which focuses on actions and results rather than words and intentions or opinions.

This study was founded on two theories; the theory of competitive advantage and the MBV. The theory of competitive advantage advanced by Porter in 1990 focuses on how firms build and maintain competitive advantage. The theory aids in understanding the competitive advantage of nations in international trade and production. In this theory, Porter argues that since firms, within a nation are involved global trade, comprehending how individual firms develop and sustain competitiveness is vital in explaining the role played by nations in international trade. MBV is based on a firm's ability to create an attractive position in the industry. In developing an attractive strategy, a firm analyzes the industry structure and the nature of competition within the industry in order to develop an internal structure and strategy that will strategically position the firm in the industry (Poser, 2003).

Chain stores have experienced a tremendous growth in the recent past expanding to both major and small towns within the country as well as across borders. The growth has facilitated the distribution of consumer products with many producers renting space within the stores to distribute their products. Despite the various challenges that have faced the stores, their contribution to the Kenyan economy can not be ignored. Being part of the retail trade, the sector has created employment opportunities to many Kenyans especially those lacking technical skills required in formal employment. The sector has also been identified as the second biggest contributor to the country's GDP after agriculture (Winfred, 2013). According to a report released by Forbes in 2010 supermarkets generate over one billion Kenya Shillings in government revenue in VAT and corporate tax. Further, chain stores have facilitated the distribution of locally produced products especially vegetables facilitating the growth of local producers. Between the year 1999 and 2004, the average acreage of firms producing for

supermarkets increased by 104% (Forbes, 2010). This points out to the significance of supermarkets to the Country's economy and the key role they have played in improving the lives of Kenyans.

Naivas Limited operates in the retail industry. It is one of the three largest and fast growing supermarkets in Kenya offering a variety of products to customers. Compared to its competitors such as Nakumatt, Turskys, Uchumi and Ukwala, the Chain offers a variety of products at lower prices. Further, the Chain offers fresh and quality firm products as well as other goods and services which attract customers to the Chain. As a result of the stiff competition in the retail industry, the management has developed mechanisms and strategies to ensure that the Chain remains ahead of competition. The Chain has continued to establish new stores around the country so as to expand its sales and bring the products and services closer to the customers. The Chain offers an online shopping platform that enables customers to order for products at the convenient of their homes and await for the delivery of the products (Ngige, 2014).

1.1.1 Diversification strategy

According to Thompson and Strickland (2006) diversification can be viewed at as a cluster of businesses operating under the same or centralized management. Relying on the same way of doing business is risky and could be a big blow especially in times of crisis. Firms in today's world are striving to gain competitive advantage through diversification. Diversification involves growing the current business areas of a firm or extending their capacity to new areas. A firm may diversify in the same line of products as the existing business (concentric diversification) or in a different line of products all together (conglomerate diversification) (Kotler & Keller, 2006).

The business environment has greatly changed influencing the manner in which businesses operate. Customers are seeking to see new, improved, different and variety of products that are appealing to them and thus the need for firms to develop strategies that meet the needs of customers. Porter (1980) sees strategy as the manner in which a firm competes in a particular industry and seeks to remain ahead of other industry players. Every firm competing in the industry has its own strategy which has been developed either explicitly through a formal process of planning or implicitly through the activities of the various functional departments of the firm (Porter, 1985). Porter (1985) emphasizes on the importance of explicit strategy formulation arguing that it ensures coordination of the policies and actions of the various functional departments towards achievement of a common goal. A firm's relative position within the industry in which it operates determines the firm's performance level in relation to other players.

1.1.2 Expansion Strategy

Expansion strategy refers to a way in which organizations plan to achieve their objectives, increase in size and volume (Westerlund and Leminen, 2012). Expansion is closely related to diversification. It involves increasing the sale of a firm's current or different products. Expansion can be achieved through product promotion and advertising or establishing new branches in different locations. Expansion may take the form of new product development, licensing, strategic alliances, mergers, acquisition and outsourcing (Collis, 2007). The combination of these strategies which is determined by opportunities available to an organization and consistency with the objectives, resources and structure of the organization form the final strategy (Kim and Mauborgne, 2005).

Various authors argue that expansion strategy enhances a firm's performance. Expansion is attractive as it allows firms to enjoy the benefits associated with large-scale operations such as brand visibility, obtain credit-financing, pool of talents amongst others (Aldrich and Auster, 1986). Hannan and Freeman (1984) echoed this argument noting that firms with large size are associated with prestige, visibility and are able to enjoy economies of scale. Despite the benefits noted by different authors, expansion can be a risky venture but if successful helps increase growth and profitability (Kumar, 2008). Large firms enjoy a number of advantages, these firms are faced with numerous challenges and long-term problems that mostly affect their ability to make profits (Gartner, 1997). Dymsha (2008) highlighted that although expansion offers many benefits to firms, there are many complex issues associated with expansion that firms have to deal with. These issues are associated with the political, legal, economic, social and cultural environments.

1.1.3 Organizational Performance

Organizational performance is the magnitude with which a firm realizes its goals specific to its reason for existence (Karl, 2011). The aim of every organization is to accomplish a set of predetermined goals. Organizational performance has to be closely linked to higher management administration Karl (2011). The executive must oversee the growth of the organization by aligning organization mission to the goals. The executive leadership in directing the efforts of the employees towards a common purpose and goal is crucial to the success of an organization. The concept of organizational performance according to Barney (2002) is founded on the proposition that an organization is a noncompulsory association that brings together resources in

order to realize a specific purpose. The achievement of this purpose determines organizational performance.

The competitiveness of an organization is the ability to succeed in the industry and this can be expressed by some performance measure. In terms of organizational goals, performance can be evaluated in terms of economic contribution, operating efficiency and overall success (Hult et al., 2008). In their study, Venkatraman and Ramanujam (1987) evaluated escalation and effectiveness as discrete measures of performance. Richard et al., (2009) studied organizational performance based on accounting data, financial market, sales, market share and other mixed measures. Despite the various approaches that have been used to measure organizational performance, there has been no consensus as to the best approach or measures of organizational performance. Most of the studies have overlooked the limitations of the measures of performance and the impact they may cause on the conclusions of the studies (Cameron, et al. 1987).

1.1.4 Retail Industry in Kenya

The retail sector is composed of various segments which include supermarkets, real estate, pharmacies, fashion, electronics, home appliances, grocery retail, departmental stores, and single shops amongst others. The sector has been expanding over the years. According to a report released by Oxford Business Review, the Kenyan retail sector was identified as the second most structured retail industry in Africa with an increase of about 67% in consumer spending in the last five years (Brian, 2017).

The growth of the retail sector in Kenya has been facilitated by a number of factors. The high rate of growth of malls especially within Nairobi and its outskirts has

expanded rental space enabling retailers to expand their operations. Retailers provide a variety of shopping methods to consumers making it easy for customers to make their purchases. Online shopping platforms such as Jumia and Killimall have made it possible for customers to view retail products online, place orders and make payment at the comfort of their homes. At the shopping centres, customers also have a variety of payment methods such as M-pesa and Visa card. The convenience of shopping has attracted several customers and worn their loyalty facilitating the growth of the retail sector.

1.1.5 Naivas Chain of Supermarkets

Naivas Limited was incorporated in the year 1990. Previously, the Chain operated in the name of Rongai Service Stores with its operations located in Nakuru and Rongai. The Chain later changed its name to Naivasha Self Service Stores Limited and eventually to Naivas Limited in 2007. The Chain has since grown and expanded its operations to almost all major towns in Kenya. It was the first Chain store to set foot in Garisa in 2014 (Mutegi, 2014).

The Chain is owned and operated as a family business. It is owned by the descendants of the late Peter Mukuha Kago who was the founder of the Chain. The five shareholders of the Chain include David Kimani (25%), Simon Gachwe (25%), Linet Wairimu (15%), Grace Wambui (15%) and the Estate of the late Peter Mukuha Kago (20%). In the year 2013, Massmart offered to acquire 51% stake in Naivas which would have given them a controlling interest in the Chain. This caused feud amongst the owners of the Chain some of whom sought a court order to block the sale (Kariuki, 2013). Later

in the year, the management released reports that it was no longer selling a controlling stake to Massmart (Kariuki, 2013).

1.2 Research Problem

Firms with clear strategies are more likely to grow at a faster rate as opposed to firms with unclear strategies or those without any strategy at all (Porter, 1980). Strategies govern and direct the operations of firms within the industry enabling firms to have a sense of direction and a unique way of competing against rivals. Diversification and expansion strategies allow firms to diversify risks and enjoy economies of large scale operations. In diversification, firms increase the sale of its existing line of products in new markets or engage in a different line of products (Kotler & Keller, 2006) thus increasing sales volume and revenue. As argued by Aldrich and Auster (1986) expansion is attractive strategy that provides firms with an opportunity to enjoy the benefits associated with large- scale operations and the ability to improve its level of competitiveness. Further, expansion strategy enable organizations to achieve their objectives as well as increase in size and volume (Westerlund and Leminen, 2012).

Firms, especially in the retail industry where the rate of competition is very high, ought to implement competitive strategies that enable them survive in the industry. Naivas Chain of Store has adopted diversification and expansion strategies in an aim to enhance its performance and satisfy customer needs. The Chain has been aggressive in establishing new branches within Nairobi and around the country in the recent past compared to other chain stores. Some of the newly established stores include Kawangware branch and Kiambu Road branch. In an effort to diversify its operations,

the Firm has established a café and a bakery and the brand is well known compared to other supermarkets (Ngige, 2014).

Various studies have been carried out on competitive strategies here in Kenya. Maikah (2015) carried out a study on competitive strategies and organizational performance at EAPCC with an aim of identifying the link that exists between competitive strategies and organizational success. The study revealed that EAPCC employs Porter's generic strategies in creating sustainable competitive advantage. Specifically, the Company applies differentiation strategy in creating a unique brand. Mutegi (2013) evaluated strategies for competition applied by supermarkets within Nairobi. The findings of the study indicated that supermarkets in Nairobi apply various types of strategies in their operation including but not limited to differentiation, focus strategies, market and innovation strategies.

Kariuki (2011) studied the problems encountered and strategies implemented by chain stores within Nairobi. He found out that competition, increased proliferation of products from the shelves, poor management and customer retention were the major challenges faced by supermarkets. Muasa (2014) researched on low costing strategy and competitiveness of Naivas Chain Store. The findings of his study indicated that the Supermarket considered all relevant cost drivers on the value chain and applied economies of scale through bulk purchases for both local and imported products. Naivas Chain of Supermarkets has experienced a fast growth rate in the recent past implicating future prosperity as opposed to other supermarkets such as Uchumi and Nakumatt which have closed down some of their branches recently. Amongst the studies carried out in this area, none of the studies has specifically focused on the contribution of

diversification and expansion strategies to the performance of Naivas Supermarket Limited. Noting the fast growth of the Chain, expansion and diversification strategies could be among the contributing strategies that have led to its success thus the interest in the area. What is the effect of diversification and expansion strategies on the performance of Naivas Chain of Supermarkets?

1.3 Research Objective

To investigate the effect of expansion and diversification strategies on the performance of Naivas Chain Store.

1.4 Value of the Study

This study was intended to contribute to existing knowledge and literature on the relationship between diversification and expansion strategies and organizational performance. The study was intended to serve as a reference material as well as a background for investigators who may venture into further studies in the area.

The study was also intended to be of great value to policy makers. The government as well as the management in the retail industry will get some insight on how diversification and expansion strategies contribute to organizational performance. In view of this, these bodies will be at a better position to formulate effective policies that will impact positively on the performance of firms and consequently improve the performance of the economy.

This study was further intended to positively contribute to strategic management theory and practice. The findings will bring additional knowledge to already existing

knowledge on the application of competitive strategies by firms and their contribution to performance specifically on diversification and expansion strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter reviewed existing literature relevant to this study with a view of appreciating the works of other authors and researchers in this field. The chapter specifically explored the theories that guide the study, literature review on competitive strategies and organizational performance, empirical review and finally the conceptual framework.

2.2. Theoretical Foundation of the Study

The theoretical framework adopted in this study explained two theories that have been advanced to explain how firms gain competitive advantage as they play in the various industries in which they operate. These theories include the theory of competitive advantage and the MBV which are discussed below.

2.2.1 The Theory of Competitive Advantage

The theory of competitive advantage was advanced by Michael Porter in 1985. It provides a tool for analyzing competition with all its implications. The major goal of every business is to make profit. Firms that earn persistently higher levels of profits compared to competitors possess competitive advantage (Grant, 2008). In order to achieve the goal of profit maximization, businesses strive to create competitive advantage in the different industries in which they operate. The competitiveness of firms dictates the efficiency of firms (Porter, 1985) and superior performance by firms results from competitive advantages that are a result of monopoly rents (Powell, 2001). These monopoly rents are obtained from protected market position where there is lack

of competition developed deliberately through restriction of output (Peteraf, 1993). According to Porter (1985) high degree of competitiveness of firms arises from the ability of firms to attract and retain customers through lower prices or better value.

In another perspective, Porter (1985) looks at competitive advantage of nations in international trade and production. Individual industries build up to form the entire economy. Since industries are made of firms and these firms are involved in international trade, it is critical to study how these firms develop competitiveness and this aid in explaining the role played by countries in international trade (Porter, 1985). The performance of nations in international trade is determined by various factors which include demand and supply forces, similar industries, related industries as well as the level of rivalry in the industry (Porter, 1985). Barney (1991) relates a firm's competitive advantage with its resources. Gaining competitive advantage involves building unique capabilities that can not be easily imitated by rivals (Barney, 1991; Grant, 2008). However, building unique capabilities by firms is not an easy task. It requires firms to carefully select appropriate strategies that are based on the development of potentiality and resources (Cathy, 2010). Jeremy (2001) has criticized the theory of competitive advantage arguing that the theory exhibits ontological problems, subjectivity, circularity and ambiguity contrary to its objectivity. He notes that the theory fails to clearly distinguish between competitive advantage and strategy. Additionally, the theory is unclear as to whether it refers to a firm or its products.

2.2.2 Market Based View

MBV can be traced in the field of industrial organization and was greatly influenced by the early works of Harvard economist Mason in 1939 and his student Bain in 1956. The

theory explains how firms achieve high levels of performance through alignment with the external business environment specifically by observing competitors' actions and reacting appropriately (Knetch, 2014). MBV stipulates that the factors in the industry and the nature of the market highly determine firms' performance (Bain, 1968; Porter 1985). The ability of firms to achieve its goals and profitability is dictated by the nature, structure and levels of competition in the industry in which it operates (Schendel, 1994). The external market environment of a firm is impacted by several factors including technological advancements, social-cultural factors, political environment, economic factors, consumer tastes and preferences and government regulation amongst other factors. These factors in turn influence the choice of strategy by firms.

Bain (1968) found out that entry barriers, level of differentiation and competition as well as the nature and level of demand in the market significantly affect a firm's performance. In formulating a strategy, firms assess their internal capabilities in relation to external environmental conditions that are based on five forces model which include barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and the extent of rivalry amongst competitors (Porter, 1985). The factors identified by Porter guides firms in identifying their sources of market power. Various authors have frequently identified monopoly power, barriers to entry and bargaining power as the main sources of monopoly power (Grant, 1991). A firm with monopoly power has a strong position in the market (Peteraf, 1993) thus commanding greater control of the market. Barriers to entry reduces levels of competition and thus better firm performance (Grant, 1991). High bargaining power of firms in comparison with vendors and consumers brings about efficiency (Grant, 1991). MBV however has its own weakness. The theory only recognizes the external market environment as the sole

source of advantage and ignores internal capabilities and assets of the firm (Knetch, 2014).

2.3 Forms of Diversification Strategies

2.3.1 Concentric (Related) Diversification

Concentric diversification involves adding new but related products so as to fully utilize the existing potential of the firm. Concentric diversification enables firms to achieve financial synergy through combination of a financially stable firm having limited opportunities with a financially weak firm having great opportunities (Montgomery and Singh, 1984). This form of diversification allows firms to utilize available opportunities such as new markets within the same geographical location or different geographical locations.

Concentric diversification enables firms to achieve strategic fit. This strategic fit is achieved through building the firm around businesses whose value chains possess competitively valuable strategic fit (Winfred et. al, 2014). Strategic fit is achieved when different businesses value chains present opportunities for cross-business sharing of resources (Arthur and Thompson, 2004). According to Pearce and Robinson (2011) concentric diversification is a grand strategy that allow a firm to operate other businesses under its umbrella such that these businesses enjoy the core competences of the firm.

2.3.2 Conglomerate (Unrelated) Diversification

Conglomerate diversification involves engaging in new and different line of products that are different from existing line of business. In conglomerate diversification, a firm

may choose to diversify in products that are related only in a few aspects such as target market distribution and promotion but different in other aspects such as manufacturing and pricing or diversify in products that are completely differentiated right from the producer to the end user (David, 2008).

Firms pursue conglomerate diversification in order to increase growth. It may be effective when new areas have growth opportunities compared to those presented by existing business (Thenmozhi, 2014). Conglomerate diversification has however been noted to be more complicated compared to concentric diversification (Doukas and Kan, 2006). Lack of skills, resources, knowledge and experience are the major challenges facing this type of diversification (Denis, et. al., 2006).

2.4 Forms of Expansion Strategies

2.4.1 Horizontal Expansion

Horizontal expansion involves adding new but unrelated and appealing products and/or services to the current customers (Thenmozhi, 2014). It also involves merging of firms in the same industry to create a new larger firm that enables the merged firms to increase their command of the industry (Brian, 2013). Horizontal integration allows firms to choose products from a wide range of products across the industry.

Horizontal diversification allows firms to diversify risks. As a result of technology uniformity and economies of scale, firms may benefit from synergies by allocating all its resources to all its different businesses thereby minimizing the risk associated with dealing in single business line (Williamson, 1975). This strategy further allows firms to minimize on operational as well as other costs thus maximizing on profits. In as much

as this is beneficial to firms, managers may misuse this form of diversification by entering into risky businesses at a disadvantage of shareholders' interest.

2.4.2 Vertical Expansion

Vertical diversification or integration gives firms more powers above its suppliers and distributors enabling them to minimize operational and other costs (Brian, 2013). Firms expand vertically by acquiring other businesses within their own supply chain but at different levels. Vertical integration enables a firm to increase in size as well as increase its market power (Bain, 1968).

Vertical expansion brings about both positive and negative impact on a firm's value. This form of integration brings value to a firm when functions that may not be satisfactorily performed in the market are internalized enabling a firm to streamline its operations. Berger and Ofek (1995) argue that vertical expansion across multiple activities produces the best results as opposed to horizontal expansion which is generally harmful to stock. On the other hand, vertical expansion is increasingly challenged by the possibility of outsourcing the activities of the different value chain stages of the firm.

2.5 Review of Empirical Studies

Fatih (2010) studied the effect of competitive strategies on firm performance at Gaziantep carpeting industrial cluster. The study sought to discover the significance accorded to different firm strategies, the priorities given to the different functions that add value to the firm and to evaluate the connection between firm competitiveness, activities that add value to the chain and firm attractiveness. The author developed a

conceptual model based on competitive strategies. Questionnaires were used to gather information that was analyzed through regression analysis and hypothesis testing. The study indicated that the challenge of identifying the best way of competing both locally and globally was present amongst all the actors. No positive relationship was identified between strategies of competing and performance. However, value chain activities were noted to positively affect a firm's performance but not to the same extent.

Olu (2009) investigated corporate diversification and firm performance with an aim of identifying whether diversification improves or worsens firm performance. The study applied survey research design to identify changes in corporate performance resulting from diversification. The study was conducted on the entire manufacturing companies in South Western Nigeria. Descriptive statistics was used as method of data analysis. The study revealed that diversification was widely practiced among the companies, diversification was highly needed for companies' growth and survival and that diversification was a reliable strategy that influences performance. The results further indicated that the reasons companies applied diversification strategy varied from synergistic, financial performance, market power, resource based and agency motive.

Susan and Titus (2017) surveyed competitiveness versus performance of Hotels in Mombasa County. This study applied descriptive survey design to describe the characteristics of the population. A sample population of 144 top-level management staff of classified hotels ranging from 3 star to 5 star hotels in Mombasa County was selected. This study revealed that corporate growth strategy has substantial influence on performance of hotels in Mombasa County. The study showed that when hotels pursue related diversification, they could maximize on their capabilities and exploit

their resources fully to achieve economies of scale by sharing resources thus resulting into better market coverage.

Peninah (2013) studied strategies of expansion and their contribution to the performance of commercial banks in Kenya. The study was carried out at the headquarters of commercial banks and the sample was drawn from top level, middle level and lower level management. At the conclusion of the study, it was discovered that adding new distribution channels, increasing advertising expenditures and innovation capability affected the performance of commercial banks largely. The study also revealed that conglomerate diversification, concentric diversification, market penetration and horizontal diversification improved the profitability of the banks. Other activities by the banks that involved product replacement, product upgrading, product line extension, process innovation and intensive technological innovation were noted to also affect banks' performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was adopted in the study. It described the research design, context of study, data collection and analysis methods applied.

3.2 Research Design

A research design is plan that guides a researcher in the search for information intended to solve the problem identified (Mugenda and Mugenda, 1999). A case study was used to search and obtain detailed data about the variables of the study so as to describe variables under study. According to Bromley (1990) a case study leads a researcher into a planned search of information geared towards fully describing a phenomenon and consequently answering the research question.

The purpose of a case study is to provide an intensive, holistic description and analysis of a single bounded unit situated in a specific context to provide insight into real-life situation (Pickard, 2013). A case study research design is advantageous in that it enables a researcher to fully describe a phenomenon (Merriam, 2013). It also enables the application of different research methods (Davies, 2007) as well as establish a rapport with research subjects (Mouton, 2001). The research design was selected since Naivas Chain Store is centrally managed and all the information needed can be obtained from the headquarters of the Chain.

3.3 Data Collection

Data collection refers to information obtained in a course of study (Polit and Hungler, 1997). The data in this study was collected using primary data collection method by means of interview guide.

Depending on the type of data to be collected, the data was obtained from the heads of the various departments and managers within the departments. Information relating to geographical diversification, concentric and conglomerate diversification, internal and external diversification was obtained from the operations manager. Data on sale of complementary products, partnering, customer targeting, market penetration, market development, customer satisfaction, customer loyalty and brand recognition was obtained from the marketing manager. Financial information including ROA, ROI, ROE and profits was obtained from the finance manager while information relating to employee satisfaction was obtained from the HR manager. The heads of departments were targeted during data collection since they fully understand the activities that take place within the departments which make up the entire organization.

3.4 Data Analysis

Content analysis was used to analyze data collected in this study. This method was appropriate in this study because allowed deep and detailed description of the variables of the study so as to derive meaning from the data. According to Krippendorff (1980) content analysis is a research method for making replicable and valid inferences from data to their context with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action.

Content analysis provides a systematic and objective framework of describing and quantifying a phenomenon. The framework serves three major purposes which include prescriptive, methodological and analytical purposes (Krippendorff, 1980). Prescriptive purpose enables a researcher to conceptualize and design practical analytic research, methodological purpose points out performance and precautionary standards that researchers can apply to evaluate their ongoing analysis while analytical purpose aid in crucial examination and comparison of published content analysis.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, results of the study and discussion of the findings of the study. The aim of the study was to establish the effect of expansion and diversification strategies on the performance of Naivas Chain of Store. In order to achieve this, data was collected from the various departments at Naivas headquarters.

4.2 Results of the Study

4.2.1 Organizational Information

The researcher gathered information on the history of Naivas Chain Store. From the information gathered, the researcher noted that Naivas Chain Store began as a small store in Nakuru and Rongai areas. The Chain was incorporated in 1990. The Chain originally started as a small family business and grew over the years into the current Chain with 41 branches across the country. The idea of starting the Chain was borne by the late Mukha Kagwe who convinced his brothers to contribute Kshs. 200,000 each towards the business.

The researcher further sought for information on the structure and organizational structure of the Chain. From the respondents, it was noted that the Chain is managed by a CEO with the help of a Board of Directors and various committees of the Board. The Chain is further composed of various departments responsible for different functions. The CEO oversees the running of these departments. According to the respondents, operations managers have been deployed to the various branches of the

Chain to oversee the running of the Chains and ensure smooth operation of the branches.

4.2.2 Products and Service Diversification

The researcher sought to know whether Naivas Chain Store had diversified its products and services. The researcher established that the Chain had diversified its product and service lines as it offered a wide range of consumer products to its customers. The results indicated that the products stocked were packaged in different sizes to take care of both customers who buy in bulk and those that buy in small quantities. According to the respondents, both similar and different products are stocked by the Chain and the products are sourced from different suppliers. The quality and price of the products from the different suppliers differ. As highlighted by the respondents, some of the products are quite expensive while others are cheaper to cater for both low and high income earners. The researcher further sought to know the most recent products and services that the Chain had ventured into. The respondents confirmed that the Chain had introduced new products and services in the recent past. According to the respondents, the Chain had established Naivas Café, Naivas Bakery, farm fresh products and Naivas Butchery in the recent past in a number of the Chain's branches. These products and services had been highly welcome by customers.

The researcher further sought to know whether the Chain had diversified its modes of purchase and payment. The respondents pointed out the Chain had established an online platform that enables customers to order for products and make payment through either of the e-payment modes provided by the Chain and wait for the products to be delivered to them. The e-payment commonly referred to as Naivas Pay mode of payment allow

customers to make payment for their purchases directly from their bank accounts. The respondents explained that Naivas Pay enables customers to make payment from their bank accounts through multiple channels which include payment through the internet, mobile payment, payment by card and cardless payment at the till.

4.2.3 Internal and External Expansion

The researcher sought to know whether the Chain had expanded its operations both internally and externally. It was explained by the respondents that the Chain had expanded its operations internally in some stores the guiding factor being the increase in the number of customers and frequency with which the products are purchased from the shelves. The Chain, according to the respondents, had increased the supply of some existing products and had as well introduced new products with an aim of providing a variety to customer as it expands its operations. The respondents highlighted that the establishment of Naivas Café, Naivas butchery and Naivas bakery was a great boost to the Chain as they were a major area of expansion by the Chain.

The researcher identified that the Chain had expanded its operations externally. The respondents highlighted some of the new areas where the Chain had established new stores in its efforts to expand its operations and reach new customers. As stated by the respondents, the most recently established stores included Garisa branch which was established in 2014, Kawangware branch, Thika Road branch and Kiambu Road branch which were established in 2017. The respondents also said that the Chain had plans to establish new branches in the near future. The researcher established from the respondents that the Chain had been tailoring products in its different Chains depending on the nature of customers. The needs of customers in different regions had enabled the

Chain to diversify its products and services by introducing new product and service line that meet the specific needs of specific customers in specific regions.

4.2.4 Role of Marketing and Promotion in Expansion and Diversification

The researcher sought to identify whether the Chain engages in marketing and promotion of its products when diversifying and expanding its operations. From the interview conducted, the researcher was able to confirm that the Chain invests in increasing the awareness of its products through various ways. Among the ways mentioned by the respondents include product promotion and advertising. As stated by the respondents, advertising is done through various media channels while product promotion is done mostly within the stores and sometimes outside the stores.

The respondents pointed out that the efforts of the Chain in product promotion and marketing when launching new product, services and new branches had an impact on the success of expansion and diversification strategies. The activities had enabled the Chain to command a high percentage market share in comparison with competitors thereby increasing the sale of the Chain's products and services. The respondents were of the view that the Chain had been able to capture the attention of its customers due to the aggressive product promotion and marketing efforts.

4.2.5 Role of Research in Expansion and Diversification

The researcher gathered information from the respondents on the role played by research in the Chain's expansion and diversification efforts. The respondents agreed that the Chain continuously engages in research. The research is aimed at enabling the

management understand the trends in the industry and mostly consumer trends and the nature of competition. The research is usually carried out by a team within the management of the Chain as indicated by the respondents.

The respondents further confirmed that the research carried out by the Chain had been of great impact on the Chain especially when it comes to expansion and diversification. From the information gathered, it was noted that thorough research and analysis is done prior to engaging in a certain line of products or services. The researcher further noted that the same process is done when the Chain is expanding into new areas. The analysis reveals the gaps in the market which the Chain takes advantage of by tailoring products and services that bridge the gap.

4.2.6 Expansion and Diversification Strategies versus Firm Performance

In order to answer the research question, the researcher sought for information on the relationship between expansion and diversification strategies and firm performance. The researcher was able to gather information that confirmed that expansion and diversification strategies had an impact on some aspects of performance of the Chain. According to the respondents, expansion and diversification of products and services had enabled the Chain to satisfy the needs of customers. In addition, the strategies had enabled the Chain reach new customers, increase the volume of sale of its products and consequently increase the profits of the Chain. The respondents also mentioned that expansion and diversification efforts of the Chain had enabled the Chain to enhance its competitiveness in the industry.

In some cases though, the respondents noted that some expansion and diversification efforts have not had any impact on the performance of the Chain and in some cases had impacted performance negatively. The respondents highlighted that some of new product lines introduced by the Chain have failed to sell thus failing to recover the investment costs. The costs of expansion had been quite high as stated by the respondents and the benefits resulting from such expansion strategies took time to be realized. As a result, these costs impacted negatively on the profits of the Chain in the short term.

4.3 Analysis of Results

The results of the study indicated that Naivas Chain Store engages in expansion and diversification of its operations. The Chain engages in research with an aim of identifying new gaps in the market. The gaps identified enable the management of the Chain to source for new products and services to bridge the market gap. By doing so, the Chain is able to diversify its operations. As the Chain diversifies its operations, it is able to satisfy the needs of its customers thus winning their loyalty. This has consequently resulted into creation of a large customer base by the Chain enabling the Chain to compete favourably in the Industry.

The manner in which the Chain diversifies its operations is guided by the nature of its customers. The Chain provides a variety of products to its customers in such a way that takes care of different level income earners. The information obtained revealed that the products stocked are in different sizes with different pricing. The products are sourced from different producers and suppliers whose packaging, quality and pricing differ. Some of the products are cheaper to make them affordable to low income earners. Most

of the products are packaged in various sizes so as to allow customers to buy products in whatever sizes that they require.

Naivas Chain Store has invested in unique service provision areas in which only a few Chains in its line of operation have invested in. These areas include Naivas Bakery, Naivas butchery, Dispenser Milk, Farm Fresh products and cafe services. As per the information gathered from the respondents, Naivas café is well known by its customers as opposed to similar services provided by competitors. This, as also mentioned by the respondents, can be attributed to efficient services provided by the Chain. The customers had indicated their satisfaction with the services that they received at the café. The respondents mentioned that sometimes the demand actually exceeds supply and this is a clear indication of performance in this particular area.

The results of the study clearly pointed out that diversification of the modes of purchase and payment had been of great advantage not only to the Chain but also to the customers. Diversification of payment methods and in particular card payment, internet and Mpesa had facilitated huge sales especially in cases where customers are unwilling to risk carrying huge amounts of cash. It had further enabled customers to make purchases in cases where they do not have cash in hand. Online shopping platform had facilitated the purchase of products by customers who have no time to drop by the stores to make their purchases thus making their shopping convenient. Without such a method, the Chain would have lost part of its sales.

Marketing and product promotion serve as value adding activities to the Chain. The Chain invests in product marketing and promotion to achieve a specific purpose. These

activities have enabled the Chain to create awareness of its products to the customers especially new product and service lines as well as new branches opened by the Chain. From the results of the study therefore, it is evident that marketing and product promotion play a key role in expansion and diversification activities.

4.4 Discussion

From the literature review, the researcher identified that a strategy enables a firm to compete favourably in the industry in which it operates. A strategy enables a firm to remain ahead of competition (Porter, 1980). From the results of the study, the researcher noted that expansion and diversification of products and services enables Naivas Chain Store to compete in the industry giving the Chain a competitive advantage over its rivals. The researcher further noted that diversification can take the form of concentric diversification or conglomerate diversification. Upon carrying out the research, the researcher noted that Naivas Chain Store engages in both concentric and conglomerate diversification. The Chain continually increases the number of products displayed on the shelves in places where the demand continues to increase. The Chain also engages in research and development with an aim of identifying gaps in the market. The gaps identified during research activities leads the Chain into diversification of its products through introduction of new products that satisfy the needs of consumers that are not satisfied by existing products and services. The Chain also engages in vertical expansion through partnering with suppliers enabling the firm to some extent control the production and distribution process.

In the literature review, the researcher noted that the competitive theory looks at how individual firms create competitive advantage in the industry in which they operate.

This competitive advantage is obtained through building up unique capabilities. This study was able to reveal that Naivas Chain Store continuously carries out research aimed at understanding the nature of the industry and the existing market gaps. The results of the research enable the firm to create unique capabilities that are completely different from those of competitors. The gaps identified leads the firm into diversification into new areas that competitors are completely unaware of their existence.

The researcher noted that MBV tries to explain how firms achieve high levels of performance by aligning themselves with the external environment. In order for firms to succeed in the industries in which they operate, they need to carefully monitor the actions of competitors and react appropriately. This study revealed that Naivas Chain store always thrives to be ahead of competitors. In order to achieve this, the Chain applies strategies expansion and diversification strategies amongst other strategies. These strategies are implemented after a thorough research and analysis of the external environment so as to specifically identify the right strategy to apply.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This Chapter summarizes the results of the study, draws conclusions, recommendations of the study, highlights the limitations of the study and gives suggestions for further studies.

5.2 Summary of Findings

This study sought to find out the effect of expansion and diversification strategies on the performance of Naivas Chain Store. From the interview conducted, the researcher confirmed that the Chain applies expansion and diversification strategies in its operations. Among the new product and service diversification areas mentioned by the respondents include Naivas café, Naivas bakery, dispenser milk and Naivas butchery. In addition to the above, the researcher noted that the Chain continuously introduces new different products in the shelves. Most of the new products introduced in the shelves satisfy the same needs as the existing ones but the quality, packaging and prices differ. In regard to expansion, the study revealed that the Chain has continued to establish new stores in different regions. In addition to establishment of new stores, the Chain has continued to increase the products in the existing stores where the demand is increasing.

The findings of the study established that marketing and product promotion activities are applied in facilitating expansion and diversification activities. The Chain engages in marketing and product promotion for both existing and new products. The major reasons as to why the Chain engages in marketing and product promotion is to create

awareness of its products and especially new products as well as to win and maintain customer loyalty. Prior to introduction of new products and services, the Chain engages in thorough research and analysis. The research is aimed at identifying new gaps in the market, the nature and levels of competition and the viability of new products, services and expansion plans.

Expansion and diversification strategies are beneficial to the Chain. The study revealed that expansion and diversification activities by the Chain have resulted into increased revenue and had also enhanced customer satisfaction. The strategies have enabled the Chain to enhance their competitiveness in the industry thus remaining ahead of competition. Diversification of the modes of purchase and payment have provided a variety purchase and payment methods. As a result of this diversification, the Chain has been able to win and retain customers and consequently increase in sales and profits.

5.3 Conclusion

The researcher was able to gather reasonable data to find out whether expansion and diversification strategies had any effect on the performance of Naivas Chain Store. The study confirmed that the Chain applies expansion and expansion of strategies in its operations. The implementation of these strategies is based upon thorough research and analysis of the external environment and particularly the competitors in the industries. This research and analysis helps identify the gaps and the nature of competition in the industry enabling the Chain to design the best approach to take in its expansion and diversification activities so as to counter competition.

Upon analysis of the results of the study, the researcher noted that expansion and diversification strategies had both positive and negative effects on the performance of the Chain. These strategies have facilitated the growth of the Chain in terms of sales, customer satisfaction and competitiveness. On the other hand, the strategies have failed in some instances whereby new products introduced by the Chain fail to sell resulting into losses. Expansion strategies call for huge investment costs that reduce the profits of the Chain in the short term.

5.4 Recommendations

From the study it is evident that strategies impact on the performance of organizations and in most cases positively. Organizations should however consider scanning both the external and internal environments of the organization prior to formulation and implementation of any strategies. The scanning should be properly done by the right team for the best results to be attained. After environmental scanning, organization should engage in analysis of information obtained noting that each organization is unique and not all strategies will result in good performance.

This study implies that the organizational environment is dynamic. This is a clear indication that successful strategies today may not be successful strategies tomorrow. It will therefore be prudent for organizations to continuously engage in research and continuously identify the best strategies that will keep the organization competitive in the industry in which it operates.

5.5 Limitations of the Study

Most of the heads of the departments were not available to be interviewed and data was collected from other managers within the departments. The heads of the departments had a lot of commitments and thus were not available for interviewing. These heads of departments could have been at a better position to provide the information required.

The managers limited the time for the interview. As a result they answered the questions briefly without giving detailed explanation. This limited the information obtained for analysis and also resulted into loss of data that could be obtained through deeper interrogation of the respondents.

5.6 Suggestions for Further Research

This study looked at the effect of expansion and diversification strategies at Naivas Chain Store. During this study, the researcher noted that there are other factors that affect expansion and diversification efforts. The researcher thus recommends that further study be carried out to identify factors that affect expansion and diversification strategies implementation.

Further, this study was carried out at Naivas Chain Store. The study involved an indepth analysis of expansion and diversification strategies versus performance of Naivas Chain Store. Other studies could be done in other related chain stores for comparison purposes and to confirm whether expansion and diversification strategies impact positively on the performance of organizations generally.

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APPENDICES

APPENDIX I: AUTHORIZATION LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 05/10/17

TO WHOM IT MAY CONCERN

The bearer of this letter DOROTHY WACHUKU NJAGI

Registration No. DG183708/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: INTERVIEW GUIDE

This interview guide is intend to facilitate data collection from relevant managers of Naivas Chain of Supermarkets so as to answer the Research question.

PART A: GENERAL INFORMATION

1. Give a brief history of the company.
2. Describe the organizational structure of the company.

**PART B: INTERVIEW SCHEDULE FOR THE OPERATIONS
MANAGER**

1. How many branches does the company have and amongst the branches how any have been opened in the recent past?
2. What products and/or services has the company introduced in the recent past?
3. Does the company deal in any different products and/or services from its competitors?
4. Is the company internally and/externally diversifying its products and/or services?
5. Is the company increasing the volume of products and/or services it offers to customers?
6. Has the company partnered with any suppliers in the recent past?
7. Are there variety shopping methods available to customers?
8. Are there variety modes of payment available to customers?
9. What are some of the benefits of expansion and diversification?

PART C: INTERVIEW GUIDE FOR THE MARKETING MANAGER

1. Does the company engage in marketing of new products and/or services?
2. Does marketing and product promotion activities been of any benefit to the chain?
3. How is the reaction of consumers to new products and/or services?
4. What market segments are targeted?
5. How has been your market share since incorporation?
6. Any new products and/or services that have been introduced by the company that have failed to sell?
7. Is the company making any efforts to increase the sale of its existing products and/or services?
8. What is the company doing to establish new markets for both existing and new products?
9. What are the challenges facing introduction of new products and/or services?
Are the challenges manageable? Please explain.
10. How do you target customers when introducing new products and/or services?
11. What are the major reasons as to why the company pursues expansion and diversification?
12. Does the company engage in any research in relation to expansion and diversification?

PART D: INTERVIEW GUIDE FOR THE FINANCE OFFICER

1. How has been the performance of the company in the last five years in terms of ROI, ROA, ROE and profits?
2. How does product and/or service diversification contribute to the profits of the company?
3. Are the new branches being opened by the company bringing in additional revenue to the company?
4. Do you think the performance of the company would be affected if the company does not open new branches or diversify its product lines?

PART E: INTERVIEW SCHEDULE FOR THE HR OFFICER

1. What is the rate of employee turnover in the company?
2. What is the company doing to ensure employee satisfaction?
3. How would you rate employee satisfaction?
4. In your opinion, what contributes to employee satisfaction?
5. Any work related complaints received from the employees?