DIVERSIFICATION STRATEGIES, ENVIRONMENT AND GROWTH OF FOOD PROCESSING COMPANIES IN NAIROBI COUNTY, KENYA.

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

I Mutua Penina Ndunge, hereby declare that this research project titled DIVERSIFICATION STRATEGIES, ENVIRONMENT AND GROWTH OF FOOD PROCESSING COMPANIES IN NAIROBI COUNTY KENYA is my original work and has not been presented for any academic awards such as Certificates, Diplomas, or Degrees in any other university.

Signature……………… Date………………………...

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REG NO: D61/85788/2016

MBA PROGRAMME

SUPERVISOR'S APPROVAL

This MBA research project prepared by Mutua Penina Ndunge has been submitted for examination with my approval as the university supervisor.

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Finally, I wish to give my heartfelt appreciation to all the lecturers, MBA students, and staff for molding me into whom I am. To my son and my family members, without your financial, mental, and moral support, I couldn't have successful finished this course, I applaud you. May God's favor reign upon your lives.

DEDICATION

I dedicate this research project to my family with a special mention of my lovely son Weru, to my husband Eng. Joshua Ichang'i for believing in me and for their relentless support and inspirational encouragement. Your prayers brought me this far. Amen.

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LIST OF ABBREVIATIONS

ANOVA: Analysis of Variance

BCG: Boston Consulting Group

NSE: Nairobi Securities Exchange

USA: United States of America

ABSTRACT

The purpose of this study was to determine the influence of diversification and environment on growth of Kenyan food processing companies. The specific goal of the research was to determine if diversification strategies have a positive influence on growth of food processing Industries, to establish whether environment as a moderating factor has an impact on growth in food processing industries and to find out how food processing industries in Nairobi have adopted various kinds of diversification and how it has impacted on their growth. This research applied the cross-sectional research design. This study targeted food processing companies with a population of 64 companies in Nairobi County. Semi structured questionnaires were used in data collection and the qualitative data obtained was analyzed using both descriptive and inferential statistics. The percentages, standard deviation, mean as well as frequency were used. The data was then presented using charts and tables. The inferential statistics used was multiple linear regressions to establish the relationship existing amid predictor and dependent parameters. From this research, it was established that Concentric, Horizontal and Conglomerate diversification strategies have been adopted by the Food Processing Industry. It was established that the companies developed products and services related to the existing ones. The companies market their new services that have the technological synergy with the current ones while at the same time introducing new services that are very appealing to the customers. The research also discovered that the diversification strategies influence food processing industries. Introduction of the new product into the market by the companies enabled companies to expand the geographical reach while increasing the economies of scale. Due to this, the company increased its sale volume due to introduction of the firms with related technical economical capabilities which increases the market share. This increased overall profit of these companies. This research proposes that the firms should arise with the clear diversification strategy. This can be achieved by setting clear strategic diversification goals, clearly setting environment to be used to measure growth in the companies. The firm should also involve all employees from the earliest stage; this increases the accuracy and compliance rate of the research.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The diversification is the method used by the company whose main aim is to create more revenue hence expansion of the market share. It’s the sort of strategy applied by the company whose main objective is market share expansion. It takes the company far from the prevailing market, competences or products (Johnson & Scholes, 2008). It is the type of strategy applied by the company whose main objective is market share expansion Diversification strategies are the business strategy for entering into a new market where the business was not previously in existence and which enhance creation of totally new market. This is one of the riskiest parts of the theory of Ansoff Matrix where business has little or no experience in the market has little knowledge about the success of the business. This kind of synergy enable the company to produce a combination of the return on the resources which is much greater compared to sum of other sections (Ansoff, 1988).The concepts diversification strategies are very interesting research topic in the valuation of the company resources. However, there exists significant level of divergence on whether or not diversification promotes the long-term growth as well competitive growth (Markides & Williamson, 1994). In the current state, there’s an active discussion in the strategic management field on the importance of strategy of corporate diversification for value maximization to the owners.

This study was anchored on market view theory and supported by Resource based theory and agency theory. Market view theory explains combination of different approaches;

economic and management perspective. This aid in provision of explanation for sustainability of performance in different companies. However, this cannot be used for analysis at the industrial level hence this complement Porter's diamond theory and game theory (Petaraf & Barney, 2003). The theory of market view gives an emphasis on the risk of anticompetitive impact on diversification strategies (Montgomery, 1994). Therefore, the group of exercise the power of the market through activities that include cross subsidization as well as predatory pricing system. RBT define firms as a group or collection of resources (Penrose, 1959). Wernerflf (1984) states that these kind of resources as well as company products are both advantageous and disadvantages as most of the products require resources. The last theory is the agency theory which puts into consideration corporate diversification resulting from the separation of control and ownership which offers opportunity for managers to promote their personal goals without regard for the owners (Jensen & Meckling, 1976).

Food Processing companies in Kenya are registered as stipulated in the Company's Act CAP 486 of the Law of Kenya. Kenya has a well-organized and developed food processing firm that ranges from staple food processing to fruits, to tobacco and beverage production to supply both in foreign and local market. The sector needs huge capital investment which relies on local and foreign market. Food and beverage contribute to over 50% of the exports from Kenya from over a thousand businesses. The sector of food processing is one of largest manufacturing sector. It is composed of key sectors of production that include grain milling, meat and dairy products, edible oil and fats, fruits and vegetable, fish processing, beer and fruits among others (Waithaka, 2009). Food manufacturing companies play a key role in economic growth by providing jobs, market for locally available raw material, earning in taxes and licenses', improve the disposable income of households, add value to the living standards of the people, they are a source of foreign exchange and provide corporate social responsibility to the communities. The output from these firms is consumed locally or sold in the export market. Kenya for example earned Kes 62.1 billion from tea exports last year, up from Kes 43.1 billion recorded the previous year (Kathuri, 2009).

1.1.1 Diversification Strategies

Diversification strategies are the business strategy for entering into a new market where the business was not previously in existence and which enhance creation of totally new market(Asnoff ,1988) Diversification of strategies help the expansion of the companies' operations through addition of the markets, services or stages and products to enhance existence of the businesses. Kotler & Keller, (2006) provides three categories of diversification strategies. This includes; conglomerate, concentric and horizontal. Horizontal type of diversification strategy happens when the company seeks new appealing products for their customers even if those products are unrelated with technology. Thompson and Strickland (2006) posit that conglomerate type of diversification takes place when the firm tends to seek new opportunities in the business sector which have no association with their current operations of the business. Diversification can be classified into; unrelated and related diversification ((Collins & Montgomery, 2006). The twofold categories are well assessed while putting into consideration both pros and cons. According to Emms & Kale (2006), defines the different strategies implemented through diversification of the company. Collins and Montgomery (2008) discovered that diversification entails building of value of shareholders through depicting of the strategic fit in the environment of business (BCG, 2006).

Thompson & Strikland (2006) found out that very many firms diversify themselves into many businesses that have great opportunities for the profits. According to Johnson et al., (2006), companies in many instances pursue unrelated type of diversification strategies to enter into new business through acquisition of already established firms instead of formation of new subsidiaries. The foundation of the strategy is growth through acquisition that translates to a well-established owners' value with quicker payback. Most of the researchers believe that the company operation must synergy to enable diversification to bring meaning. Ofori & Chari, (2000) discovered diversification as one of the strategies that enhance growth (Pearce & Robinson, 2000).

1.1.2 Organizational Environment

Nauman and Bennet (2000) define organizational environment as a set of features that detail the firm and differentiate it from other firms over a given period of time influencing employee's behavior therein. All businesses have both external and internal organizational environment in which they should adapt to so as to survive. The internal environment is highly associated with human resource businesses in the organization and the way in which individuals do their work consistent with the firm's mission. On the other hand, the external business environment cannot be controlled. The managers do not have any control over competitors or changes in the economic environment or change in law of the firm. Some scholars have been considering organizational general atmosphere for the firm (Latwin & Stringer, 1968). Other researchers have attributed environmental change to the employee's perception but not the organization itself (Nauman & Bennett, 2000).

Drucker (2007) found out that many firms face series of the new realities, challenges as well as uncertainties in the economy, social and political arena. (Ansoff, 1988) made a conclusion that the environment of 20^{th} century has become much more unpredictable and complex. Chandler (1962) acknowledged the importance of turbulent environment and maintaining proper alignment amid the firm's strategy, structure, and environment. Miles & Snow (1978) examined the importance of maintaining proper alignment between the organization and external environment. He found out that firms that have nonhierarchical structures were much more suitable to the changing environment.

1.1.3 Organizational Growth

Organizational growth is the firm's outcome that results from the amalgamation of specific resources, capabilities as well as routine (Nelson & Winter, 1982). The growth opportunities of the company are greatly associated to the present production practices of the organization (Coad, 2009). The company's growth is very uncertain: the condition of the environment like competition and dynamics of the market play very important function. For the small-scale organizations, growth rate is highly affected by entrepreneurial personal ambitions. For instance, not all entrepreneurs have the ambitions of growing their businesses at the same rate. Mosselman et al (2002) discovered that approximately 16 percent of the small-scale business organization in Netherlands has the objectives to expand.

The growth of the business keeps on fluctuating basing on the industry, size and age (Penrose, 1959). The company growth rate shows the patterns that are predictable hence easily reproduced over a given period. According to Delmar et al (2003), growth pattern is contingent to the company's internal factors that include; entrepreneurial base, strategies, management structure, financial structure, form of organization as well as other features of that are of munificence to the organization. The firm's resources have an implicit impact on growth. Human deficiency as well as financial resources hinders small companies from using latest technology hence hindering them from achieving greater level of competitiveness. The assets available also influence the strategies of the startup business (Grando & Belvedere, 2006).

1.1.4 Food Processing Industry

The companies that process food in Kenya are fully registered as outlined in act of the company Cap 486 of the Kenyan law. Each and every company must have the memorandum of association which decides its name, the registration place and where it is located and what it does.. The business ranges from small business to huge businesses that are listed in NSE. The business subsidiary of big companies like Coca Cola, Nestle, Wrigley and Unilever established its operations as the foreign firm or as joint venture with the local firms to enable supply of the domestic and the markets in the neighborhood. This section comprises of basic production sectors that include meat and dairy products, edible oils and fats, beverages as well as fruits and vegetables (Waithaka 2009). Food manufacturing companies play a role in economic growth by providing jobs, market for locally available raw material, earning in taxes and licenses, improve the disposable income of households, add value to the living standards of the people, they are a source of foreign exchange and provide corporate social responsibility to the communities. The output from these firms is consumed locally or sold in the export market. Kenya for example earned Sh 62.1 billion from tea exports last year, up from Sh 43.1 billion recorded the previous year (Kathuri, 2009).

Some food manufacturing companies because of the high production costs for example, cost of electricity, choose to manufacture some products in their mother branches outside the country and import back the finished products and sell them in the local market. Most of the organizations tend to face stiff competition from the imported substitutes both in quality and the price. This is as a result of power failure and shortages, unstable supply of water, poor infrastructure, high rate of interest for both short and the medium term borrowing and excess regulation from the government (Waithaka, 2009). The food industry has had numerous challenges due to the advent of environmental changes. A lot of imported foods have their way into the local market. The food industry has been the most affected by liberation as numerous imposed food 9 stuffs find their way into the local market and customers begin to switch brands because the other foods have other nutritional elements not found in local foods. This explains the decline in sales of local firms and multinational firms tend to do better because of the use of international standards (Gachanga 1998).

1.2 Research Problem

There are different arguments in that elaborate the relationship that exist between diversification strategies and growth of the Kenya Food Processing firms which give a suggestion that diversification enhances effect of value reduction. (Markides, 1996) places much emphasis on diversification which improves on performance. Robins and Wiersema (1995) argue that for one to gain competitive edge by sharing crucial business resource among various industrial lines, the company ought to have a clear organizational structure with different industrial lines, the firm must develop a clear organizational structure that is effective in actualizing the importance of sharing in comparison which is effective in actualizing the importance of sharing in the comparison with the transaction mode applied by non-diversified firms (Penrose, 1995).

Kenya has a very well-developed food processing firms that process staple foodstuffs and fruits, tobacco and beverage for both domestic and foreign market. However, the section requires huge capital investments. The food and beverages comprise of over 50% of the country exports with more than 1000 businesses. The sector is made up of key production firms that include meat and dairy products, fats and oil that are edible, vegetables, fish processing, beer and spirit, wines and grain milling (Waithaka, 2009). Food manufacturing companies play a role in economic growth by providing jobs, market for locally available raw material, earning in taxes and licences, improve the disposable income of households, add value to the living standards of the people, they are a source of foreign exchange and provide corporate social responsibility to the communities. The output from these firms is consumed locally or sold in the export market. Kenya for example earned Sh 62.1 billion from tea exports last year, up from Sh 43.1 billion recorded the previous year. (Kathuri, 2009).

Few other researches have been studied locally over years (Maithulia, 1995) investigated on diversification of portfolio in Kenyan commercial banks. Mwindi, (2003) analyzed the effect of the unrelated diversification strategy by main Kenyan oil firms while Njoroge (2003) researched on the strategy but focusing in Nation Media Group. Similarly, Mwau (2005) studied on diversification in the building society within East African countries. Njoroge (2006) researched on building stable competitive advantage through diversification but focusing on KenolKobil. Wakhwoma (2007) surveyed on the diversification of strategy implemented by the companies in the financial sector in Kenya. Elsewhere, Munene (2008) researched on the strategies of diversification strategies in the Christian Communities in the Mount Kenya East region. Lole (2009) researched on the strategies of diversification in the Kenyan banking firms in Kenya. This Research work is different from the above-mentioned surveys due to its concentration on the detailed aftermath impact of diversification, environment and growth on Kenyan food processing company. The study therefore purposed to respond to the following research probe: Does diversification strategies and environment lead to growth of Kenyan food processing companies?

1.3 Research Objective

The general purpose for which the research was performed was to determine the impact of diversification strategies and firm's environment on growth of Kenyan food processing company. Specifically, the study sought:

i. To determine the effect of diversification strategies on growth of food processing Industries.
ii. To establish the effect of moderating environment on growth of food processing industries.
iii. To establish how food processing industries in Nairobi have adopted various kinds of diversification and how they have impacted on growth.

1.4 Value of the Study

The study work was very crucial since it enrich the existing literature on diversification strategies. It also brings out contradictions in the theories and in the process exemplifies the gaps in the theories. Academically it may also be of importance since the study findings might be useful for the knowledge of the subject of the study and open up new areas for further academic research to the academic fraternity.

On industry level this study assisted both top and middle level managers to discover ways in which they can achieve more growth in the company by implementing different diversification strategies. This study may enable staff members in understanding the best strategy to put in place and its effects in different market situations hence providing insight on challenges facing growth.

This study may also help policy makers to obtain knowledge on effect of diversification strategies on growth and would therefore obtain guidance from this study in designing guidelines to the firms which are planning for successful diversification strategies or are already in the process.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section describes empirical and theoretical review on diversification strategies, and its impact on an organizational performance. It includes theories and arguments that have been put forth by researchers and authors on diversification strategy, a look at forms of diversification strategies, the association amid organizational performance and diversification strategy, and empirical evidence from previous studies. The chapter finally provides conceptual framework encompassing independent variables, moderating variables and their influence on the dependent variable which is growth of food processing companies in Nairobi County.

2.2 Theoretical Foundation

This research was anchored on market view theory and supported by theory of Agency and Resource-based theory. Market view theory is rooted in field of industrial economics; the theory places an emphasis on the risk of the anticompetitive impact of the diversification (Montgometry, 19994). The collection of the companies may then exercise the power of the market through activities like; predatory pricing activities as well cross-subsidization, cash exploitation through opportunity cost resulting from the effect of synergy, the reciprocity resulting from selling and buying among big firms that are well diversified that raises barrier to entry for small scale competitor (Palepu, 1985).

2.2.1 Market View Theory

Market view theory is rooted in the field of industrial economics, the theory places an emphasis on the risk of the anticompetitive impact of the diversification (Montgometry, 19994). The collection of the companies may then exercise the power of the market through activities like; predatory pricing activities as well cross-subsidization, cash exploitation through opportunity cost resulting from the effect of synergy, the reciprocity resulting from selling and buying among big firms that are well diversified that raises barrier to entry for small scale competitor (Palepu, 1985). In application of the industrial application idea to the enterprises, porter outlined that the performance characteristics of the firm might strategically be exploited to improve the performance of the company (Porter, 1980). He argues that diversification is directly related to company performance (Porter & Spence, 1980). According to Montgomery, (1985) the market power theory gives much emphasis on what may be termed as elusive or it may underemphasize the important roles of particular skill of the specific market power that offers the firm more advantage in the setting of the individual market (Caves, 1981).

2.2.2 Resource-based theory (RBV)

The RBV is a combination of two different approaches; economic and management perspectives. It offers a resource level as well as firm level of explanation to enhance sustainability of performance. However, it can never be applied for industrial analysis hence it complements Porter's theory and game theory (Barney, 1991). (Penrose, 1959) was majorly interested with the internal resources of the company. In 1970s and 1980s, the study focus shifted to the external factors. As per Hoskisson et al (1999), this was as a result of the work of Michael Porter (Hoskisson et al., 1999). The emphasis was then transferred back to the interfirm resources in 1980s and 1990s during the invention of resource based model (Hoskisson et al., 1999).

There has been very important discussion in regard to some of the fundamental assumptions, whether the RBV is a theory or not. These addressed different subject matters that include; peculiarity of the resources as well as outcomes generalization to broad company populace (Gibbert, 2006). In the past 20 years, the view evolved into a theory through series of researches in numerous subjects (Barney & Arikan, 2005). According to Penrose (1995), RBT define firms as a group or collection of resources. Such kind of firm products as well as resources is both beneficial and detrimental as quite a good number of the commodities need resources (Wernerfelt, 1984).

2.2.3 Agency Theory

Jensen and Meckling state that agency theory gives a consideration to the corporate diversification arising out of the separation of the control as well as ownership hence it gives the manager the chance to advance individual interests without regard to owners. As per Amihud and Lev (1981), the unwarranted comparison via the process of diversification may take place due to a number of reasons: so as to diversify the employment risk of the managers or improve on the demand for personal knowledge.

Denis and Sarin (1999) argue that while the theory makes a prediction, the managers may maintain strategy diversification, irrespective of all this, it leads to the reduction of the o wealth of the owners. The agency opinion expects all directors to draw their decisions for diversification so as to raise the company's profits (Fox & Hamilton, 1994). The impact of this theory is that managers can decide to pursue their personal ambitions instead of acting in best interest of the shareholders by using diversification means (Jensen, 1986).

2.3 Diversification Strategies and Organization Growth

Diversification strategies are the type of strategy that is applied by managers of the companies to improve company performance. The assumption is that diversification will have direct effect on the company's growth. Some research work has found out that averagely, companies that are diversified perform better in comparison with the undiversified firm on both returns and risk involved (Pandya & Rao, 1988). The research makes a conclusion that the dominant firms that are undiversified perform better than the other firms that are diversified. Similarly, diversification enhances efficiency in performance through large economies of scope (Panzar & Willing, 1981). In the paper researched by Lang & Stulz, (1994, "Their evidence is supportive of the view that diversification is not a successful path to higher firm's growth but it is less definitive on the question of the extent to which diversification hurts performance. They claim that the reason for the diversification in the firms they examined was because they had exhausted growth opportunities in their existing activities (Lang & Stulz, 1994)".

There are various suggestions that tries to explain that diversifies into similar business activities and can be in a position to make use of some of skills to create comparative advantage. Firms that incorporate diversification in different activities might lack such kind of advantage hence leading to poor performance. The very idea of diversification seems to be born out of an old adage, which says that "you do not put all your eggs in one basket." The implication is that if you do and there is a minor accident where the basket falls, all the eggs would break. We do know that all products are not eggs and we cannot put eggs together with other products that are not closely related. They might break the eggs. This can explain what some findings see as positive impact of diversification on firm's growth within related activities than when activities are unrelated. Reversing the question was an area pursued by Burgers, et al. (2009). The argument is that it could be possible that growth actually has an impact on the firm's diversification strategy instead of the reverse where diversification impacts growth. One can pose the question; since we are not performing as well as we should, can we diversify the operation to see if we can capture greater value and what form of diversification could be adopted under the circumstances? Lang and Stulz (1994) examined the association between Tobin's q and diversification of the firm.

In conclusion, the two have a negative association all through 80s. An organization that chooses to diversify performs poorly compared to companies that do not. In other words, firms diversify seeking to achieve better performance hence growth. But there was no proof in the previous study "to support that diversification provides firms with a valuable intangible asset." Along the same line some authors argue that diversification can reduce performance because Porter refers to diversification as a darling of contemporary management because chief executives have been obsessed by it (Porter, 1987).

2.4 Diversification Strategies, Environment and Organizational Growth

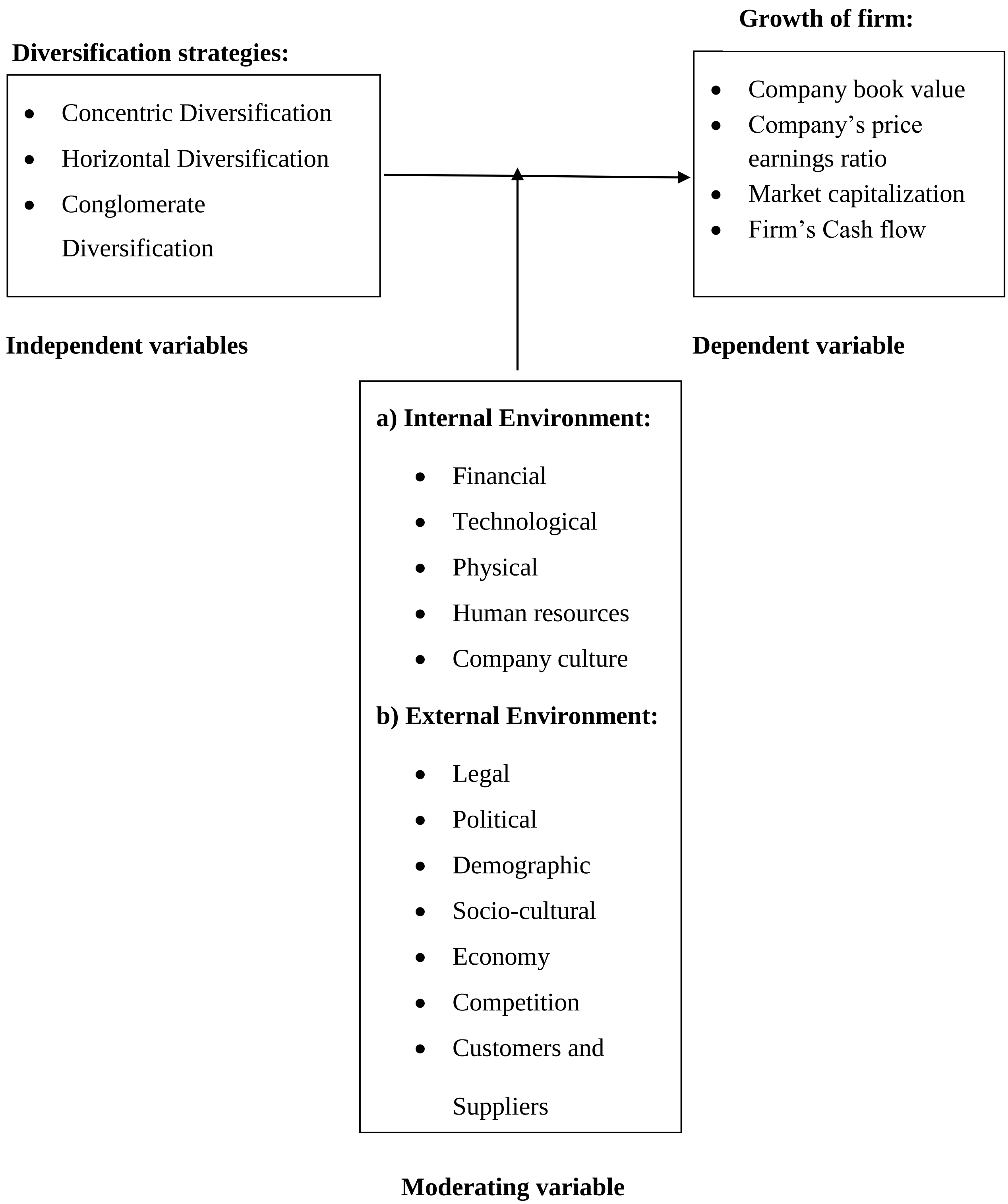
Rumelt (1984, 1985) assumed the relationship existing between performance and diversification strategies is very consistent no matter the general context of the environment (Coplan, 2008). The assumption that matching of the intra-film resources as well as capabilities with the micro-economic and high level of competitive prospect hence a contributing factor to organizational financial operation. Other researches have been able to conclude that; association existing between the financial outcomes and the strategic choices are very dynamic and contingent on the environmental context (Coplan & Hikino, 2005).

On the other hand, constraints emanating from the potential of the enterprises to grow and expand. An enterprise is the member of the ecosystem of the business hence it should consider the dynamic association with the exogenic environment (Moore, 1996). By basing on the ecology of the organization research, on the macro level, the disturbances of the environment influence the firm’s mortality and establishment rate; on the micro level, the firm belongs to the environment due to different organizational degree of dependence, the activities of the organization and its structure (Moor, 1996).

2.5 Conceptual Framework

As per Orodho (2009), a conceptual framework is a theory of presentation where the association existing between different variables existing between the variables in the research is represented diagrammatically. In the conceptual framework below; Concentric Diversification, Horizontal Diversification and Conglomerate diversification are the predictor parameters, Environment is a moderating element while Growth of Kenyan food processing company is the dependent variable.

Figure 2.1: Conceptual Model



2.6 Summary of Empirical studies

The summary of empirical studies included the past research works that have been conducted in the field of interest, the methodology used in those studies, the major findings in those studies and the knowledge gap that exist between those study and the current area of interest that is determining diversification and environment on growth of food processing companies in Nairobi county.

Table 2.1: Summary of Empirical Review and Knowledge Gaps

Study	Methodology	Major Findings	Knowledge Gap	Focus of Current Study
Strategy of diversification and top executives experience in the company. Markides (1996)	Cross sectional survey	Emphasize that diversification level will help to enhance the performance.	The study left out diversification strategies ,environment and growth on Nairobi county	Determining impact of diversification strategies and environment on growth of food processing company in Nairobi county Kenya.
Diversification strategy and growth of the firm. Penrose (1995)	Cross sectional Survey	Stresses that the company are an institution that are founded by individuals to serve the needs of the people.	The study left out diversification strategies environment and growth on Nairobi county.	Determining impact of diversification and environment on growth of food processing company in Nairobi county Kenya.
The difference in performance between the major categories of strategy in the process of diversification. Rumelt's (1986)	Cross sectional survey	The dominant vertical firms were discovered to be lowly performing while the dominant but constrained ones were among the highest in perfomance.	The study left out diversification environment and growth on Nairobi county.	Determining impact of diversification and environment on growth of food processing company in Nairobi county Kenya.
Application of unrelated type of diversification strategy by Kenyan oil companies. Mwindi (2003)	Cross sectional survey	Made a conclusion that the unrelated diversification concept in the service station may lead itself much towards enhancement of customer satisfaction.	The study left out diversification environment and growth on Nairobi county.	Determining impact of diversification and environment on growth of food processing company in Nairobi county Kenya.

Strategies of Product diversification embraced by the companies in the Kenyan financial sector (Wakwoma, 2007)	Cross sectional Survey	Explains that the Kenyan commercial bank undertakes strategy of diversification of the products.	The study left out diversification environment and growth on Nairobi county.	Determining impact of diversification and environment on growth of food processing company in Nairobi county Kenya.
Building competitive advantage through diversification. Njoroge(2006)	Case study	Kenol Kobil has been expanding its share in the market locally and globally through the process of diversification as well as unique strategy of training.	The study left out diversification environment and growth on Nairobi county.	Determining impact of diversification and environment on growth of food processing company in Nairobi county Kenya.

Source: (Researcher 2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section presents the study methodology applied. Study methodology refers to the process by which the research was carried out. In summary, the chapter details the study design, population of interest, sample design, data collection as wells as the analysis of data.

3.2 Research Design

A study design specifies a framework or blueprint for the research. This study utilizes the cross-sectional research design. According to Lindell and Whitney (2001) a cross-sectional research gathers information to make deductions concerning a target population at once in time. Other researchers such as Markides (1996) have used the cross-sectional design with a sample size of 53 large firms in the USA. Mwindi (2003) also used the cross-sectional research design in analyzing the use of unrelated type of diversification strategies among Kenyan oil firms.

3.3 Population

Kumar (2011) defines population as the collection of events, people, and objects with shared observable characreistics that assisted in deriving the study conclusion. The study targets food processing companies in Nairobi County. There was a total of 64 food processing companies in Nairobi County as shown in Appendix II.

3.4 Sample Design

According to Saunders et al., (2012) sample size is defined as the number of respondents that a researcher uses to collect data that represents the entire population. In this study, census sampling method was used. The 64 food processing companies were selected where operating managers of each of the 64 companies were the respondents.

3.4 Data Collection

Rowley (2002 defines data collection as the process of obtaining data on particular phenomenon by use of data collection instruments. The data concerning the study was obtained from both secondary and primary sources. Secondary data was obtained from the organizations' strategic plans, policies, business development plans, firms' websites, press releases, magazines and brochures. First-hand information was gathered using semi structured questionnaires. The feedback form was split into three sections. Section one of the questionnaires dealt with background information of the respondent, part two dealt with diversification strategies and part three dealt with the impact of diversification strategy on growth of Kenyan food processing firms in Nairobi County.

3.5 Data Analysis

In this study, the gathered data was examined through qualitative analysis. The qualitative analysis categorizes the phrases, makes the expression and ascertains the existing relationship in order to interpret the finding (Kaberia, 2013). Both inferential and descriptive statistics were used in analyzing the quantitative data. Percentages, frequencies, standard deviations, and means were used. The data was presented in table s and charts. Inferential statistics involved the use of multiple linear regression to determine the association amid the dependent and predictor components. The regression model adopted was;

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

WHERE:

Y = growth of Kenyan food processing company

X1 = Concentric Diversification

X2 = Horizontal Diversification

X3 = conglomerate diversification

β = constant,

β1β2β3 = Regression Coefficients

ε = Error Term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The section details the analysis of the results, presentations and a discussion of the findings. The presentation is based on the study objectives. The chapter presents the background information, the findings on diversification strategies and findings on the influence of strategies of diversification on the expansion of food processing firms.

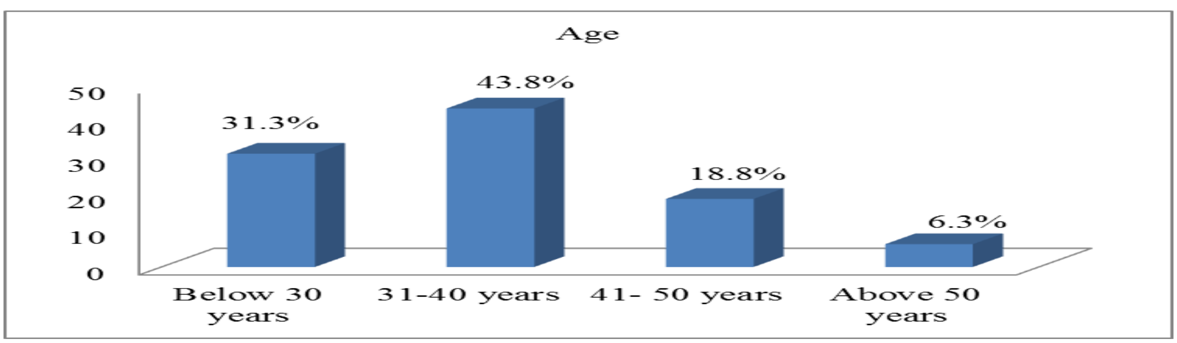
The study targeted a sample of 64 food processing companies in Nairobi County out of which 51 companies completed the questionnaires resulting to a response rate of 80 % which is adequate to make conclusions from the study.

4.2 Background Information

4.2.1 Age of respondents

The participants were requested to show their age. Figure 4.1 below shows the results:

Figure 4.2: Age of respondents



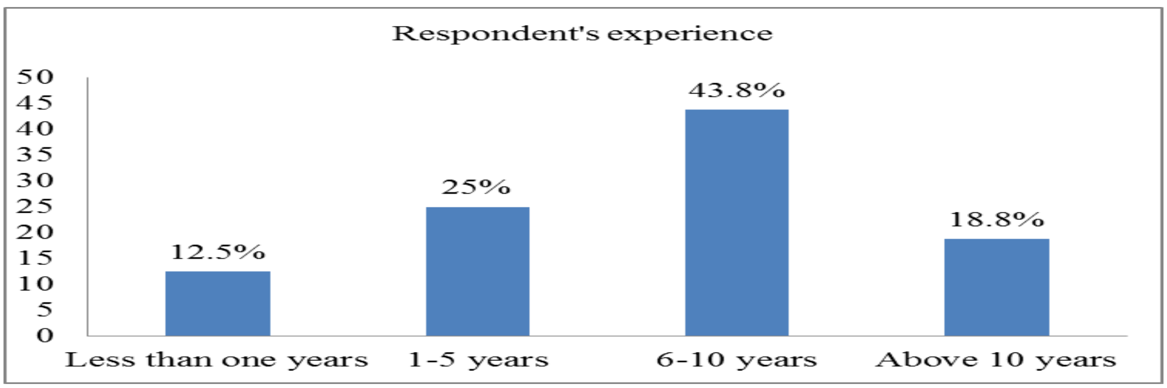
Source: Field data (2018)

Figure 4.1 sows the study results on the respondents' age. The study found that 43.8% were 31-40 years, 31.3% were below 30 years, and 18.8% were 41-50 years while 6.3% were above 50 years

4.2.2 Period of work experience

The aim of this study was to determine the time the respondents have been into company's service. The study results were as in figure 4.2 below

Figure 4.3: Period of work experience



Source: Field data (2018)

Figure 4.2 presents the findings on period of work experience. 43.8% had an experience of 6-10 years, 25% had an experience of 1-5 years, 18.8% gad an experience of above 10 years while12.5% had an experience of less than 1 year. This implies that indeed the participants had adequate experience to understand and have knowledge on the diversification strategies and their effect on expansion of food processing firms.

4.3 Diversification Strategies

The research project purposed to discover diversification strategies implemented by the food processing Industries. The response was rated on a likert scale of 5 where 5= very great degree, 4=great degree, 3=Moderate degree, 2=Small extent, and 1= No extent at all. The standard deviations and mean were computed and the results are shown in table 4.1 below.

Table 4.2: Diversification strategies adopted

Diversification strategies	**Mean**	**Standard deviation**
Our company develops new products and services related to the existing ones	4.36	0.282
We market new services with technological/commercial synergies with current products	4.27	0.284
We market new services technologically or commercially unrelated to current products	4.31	0.255
The company has developed unrelated products	4.34	0.268
The firm introduces new services and products which appeal to current customers	4.03	0.155

Source: Field data (2018)

Table 4.1 presents diversification strategies adopted.The respondents indicated that to a great extent, their company develops new products and services related to the existing ones as shown by a mean of 4.36 and standard deviation of 0.282. The company has developed unrelated products as shown by a standard deviation of 0.268 and a mean of 4.34. They market new services technologically or commercially unrelated to current products as demonstrated by a standard deviation of 0.255 and a mean of 4.31. They market new services with technological/commercial synergies with current products as illustrated by a standard deviation of 0.284 and a mean of 4.27, and that the firm introduces new services and products which appeal to current customers as demonstrated by a standard deviation of 0.155 and a mean of 4.03.

4.4 Impact of Diversification Strategies on Growth

The respondents were requested to state whether diversification strategies affected the growth of their company.

Table 4.3: whether diversification strategies affected the growth of the company

	Frequency	Percentage
Yes	51	100
Total	**51**	**100**

Source: Field data (2018)

Table 4.2 presents the outcomes in whether diversification strategies influenced the firm’s growth. It was found out that all the respondents agreed that diversification strategies affected the growth of the company.

Table 4.4: Effect of diversification strategies on the growth

Concentric	Mean	Std. deviation
Concentric diversification enables companies to achieve economies of scale	4.21	0.286
Developing related products enables the company to utilize the existing resources	3.99	0.213
Developing related products has enabled the firm to expand their operations to new geographies	4.25	0.291
Introduction of related products enables the firm to expand	4.21	0.317
Market share has been increased due cross-sell to our existing customer	3.99	0.241

Horizontal		
The company has grown in scope	4.14	0.179
The firm has increased its sales volume as a result of introducing products with the existing technical-economic capabilities	4.21	0.240
Horizontal diversification has enabled the firm to grow by enhancing its competitive advantage	4.37	0.256
The firm has grown in terms of assets	4.30	0.249
The company has increased its market share after introducing new products	4.19	0.252
Conglomerate		
The company has diversified into fields that are not related to its present business lines to increase its growth rate	4.25	0.291
Venturing into different business activities increases a firm's profitability	4.04	0.249
The firm has grown as a result of selling unrelated products to our customers	4.11	0.239
Diversification has enabled the company to increase *its* sales	4.16	0.212
Venturing into different products has expanded the company's' asset base.	4.06	0.116

Source: Field data (2018)

Table 4.3 presents the effect of diversification strategies on the growth of the food processing industries. The respondents agreed that developing related products has enabled the firm to expand their operations to new geographies (SD =0.291, mean = 4.25). Concentric diversification enables companies to achieve economies of scale (SD= 0.286). Introduction of related products enables the firm to expand (SD 0.317, mean 4.21, mean 4.21). Developing related products enables the company to utilize the existing resources mean 3.99, Standard deviation 0.213). Market share has been increased due cross-sell to our existing customer mean 3.99, Standard deviation 0.241).

The respondents agreed that horizontal diversification has enabled the firm to grow by enhancing its competitive advantage (mean=4.37, standard deviation =0.256). The firm has grown in terms of assets (mean=4.30, standard deviation=0.249). The firm has increased its sales volume as a result of introducing products with the existing technical-economic capabilities (SD= 0.240, mean= 4.21). The company has increased its market share after introducing new products (SD= 0.252, mean= 4.19). The company has grown in scope (SD=0.179, mean=4.14).

The company has diversified into fields that are not related to existing business lines to increase its growth rate (Mean=4.25, Standard deviation=0.291).Diversification has enabled the company to increase its sales (mean=4.16, standard deviation= 0.212).The firm has grown as a result of selling unrelated products to our customers (men=4.11, Standard deviation=0.239).Venturing into different products has expanded the company's' asset base (mean 4.06, Standard deviation= 0.116).Venturing into different business activities increases a firms profitability(mean=4.04, standard deviation=0.249).

4.5 Regression Analysis

Model Summary

Table 4.5: Regression analysis Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. 845[a]	.714	.695	.24212

a. Predictors: (Constant), Concentric, Horizontal and Conglomerate
Source: Field data (2018)

Table 4.4 gives a sumarry of the regression model applied in the study. From the model summary, adjusted R squared (i.e coefficient of determination) reveals the difference in the dependent compoenent as a result of variation in the predictor component. The value of adjusted R squared was 0.695 illustrating that there was a difference of 69.5% on growth because of change in Concentric, Horizontal and Conglomerate diversfication strategies at 95% confidence level. The value of R was 0.845 which means a strong positive association amomg the study parameters as indicated by a factor of 0.845 exists.

ANOVA Analysis

Table 4.6: ANOVA Analysis

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	100.578	3	33.526	23.5601	.013b
	Residual	17.076	12	1.423		
	Total	117.654	15			

Source: Field data (2018)

Table 4.5 presents the analysis of variance. From the findings, the data processed had a significance level of 1.3%. This implies that the obtained data was appropriate in making inferences on the parameter of the population because the p-value (value of significance) was below 5%. The F computed was 23.560 whereas F critical at 5% level of significance, 3 d.f, 12 d.f was 3.490. This means that the overall model was significant because F calculated is more than the F critical (value = 3.49).

Coefficients

Table 4.7: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.343	0.322		4.171	.013
Concentric	0.823	0.192	0.675	4.286	.012
Horizontal	0.782	0.184	0.626	4.250	.012
Conglomerate	0.647	0.164	0.587	3.945	.014

Source: Field data (2018)

$$\mathbf{Y_i=1.343+ 0.823\ X_1 + 0.782\ X_{2\ +}\ 0.647X_{4\ +}\ \varepsilon}$$

Table 4.6 presents coefficients applied in the regression model. From the regression equation above it was discovered that maintaining Concentric, Horizontal and Conglomerate diversification strategies to a constant zero, growth of food processing companies would be 1.343. A rise in Concentric by one unit would result in 0.823 units rise in growth.

. A unit rise in Horizontal diversification would lead to increase in growth by 0.782. A unit increase in Conglomerate would result in an increase in growth by 0.647 units. All the study variables were significant at 95% confidence level and 5% level of significance ($p<0.05$).

4.6 Discussion of Results

Diversification strategies, organizational environment and organizational growth are key variables in the study of strategic management. This part discusses the study results from the data collected from food processing companies in Nairobi county, Kenya.

Objective 1: Effects of Diversification Strategies on Growth of Food Processing Industries

The inquiry endeavored to establish the effect of diversification strategies on growth of food processing industries. From the study results, it was revealed that Concentric, Horizontal and Conglomerate diversification strategies have been adopted by the Food Processing Industry. The companies develop new products and services related to the existing ones. The companies developed unrelated products. They market new services technologically or commercially unrelated to current products. They market new services with technological/commercial synergies with current products and introduce new services and products which appeal to current customers. The food companies that implement this strategy improve their competitive edge. Such diversification strategy allows food firms to enhance their performance through provision of products and services that attract new clients. The new products and services improve customer retention since they resemble the current products that are familiar to customers.

These findings are in line with Ofori & Chari (2000) who discovered diversification as one of the strategies that enhances growth (Pearce & Robinson, 2000). In their study to determine the paths which construction companies in Singapore have embraced since

1980, they found out that majority of domestic contractors have grown by working locally, both as specialist contractors or main contractors. Similarly, Panzar and Willing (1981) found out that diversification enhances efficiency in performance through large economies of scope.

Objective 2: Effect of Moderating Environment on Growth in Food Processing Industries

Vertical, horizontal, and conglomerate diversification strategies enhance the firm's value. This value is moderated by environmental factors such as politics of the company, culture, employee skills, economy, legal issues, technological forces, and competition. The role of environmental dynamism and competitiveness are very significant on the association. From the examination, it was unearthed that both external and internal forces come into play while pursuing diversification strategies that aims at improving the overall performance of the firm. Availability of finances is a key factor that impact diversification in food processing industries. There must be adequate funds to cater for entry requirements for any food processing company to enter new market. Also, food firms must have sufficient funds to maintain all other business operations. Regulatory services are key concerns during diversification in food economy. All food firms are expected to obey regulatory policies. They should meet entry requirement before they are allowed to operate in a particular environment. Market attractiveness is also a major issue that affects diversification in food economy. Good financial performance of firms in food industry affects the choice of any given organization to diversify its products and services.

The findings are consistent to Coplan and Hikino (2005) who unearthed that the association existing amid financial outcomes and the strategic choices are very dynamic and contingent on the environmental context. Moore (1996) also revealed that an enterprise if a member of the ecosystem of the business thus it ought to consider the dynamic relation with the exogenic environment. At internal level, the firm belongs to the environment because of varied organizational degree of dependence, organizational activities and structure. At macro level, turbulent environment influence the company's mortality and establishment rate.

Objective 3: How Food Processing Industries in Nairobi have adopted Various Kinds of Diversification and How they have Impacted Growth

The study established that diversification strategies influence growth of the food processing industries. Developing related products has enabled the firm to expand their operations to new geographies and enables companies to achieve economies of scale. Introduction of related products enables the firm to expand. Similar findings were found by Mwindi (2003). The companies have grown in terms of assets. The companies raise their sales volume because of introducing products with the existing technical-economic capabilities and increase their market share after introducing new products. The companies have diversified into fields that are not related to present business lines to increase its growth rate. Venturing into different products has expanded the company's' asset base and profitability. Consistent to the findings, Thompson & Strikland (2006) found out that very many firms diversify themselves into many businesses that have great opportunities for the profits.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part renders crucial findings from the research on the topic Diversification, Environment and Growth of Kenyan Food Processing Companies in Nairobi County. The research was aiming to achieve the following goals. To identify if diversification has any direct effect of the food processing industries, to assess whether there is any direct association between growth, environment and diversification in food processing industries, to find out how food processing in Nairobi county have adopted different kind of diversification and how it has affected their growth.

5.2 The summary of the findings

This examination focused on Diversification, Environment and Growth of Kenyan Food Processing Companies in Nairobi County. The research made use of census survey design as it involves more than one study hence need for comparison with the other population (Mugenda & Mugenda, 2003). In accordance to Glesne and Alan (1992), the census research design is one of the best methods available to the scientists who are highly interested in data collection from the whole population. The sample design of the research was design was drawn from sixty-four food processing companies within the county of Nairobi. Both secondary and primary method of data collection was employed with semi structured feedback forms were distributed among 64 companies. 51 companies replied to the questionnaire accounting for 80% of the total sampled companies for research. From this study, it was discovered that Concentric, Horizontal and Conglomerate diversification strategies have been adopted by the Food Processing Industry. It was discovered that the companies developed products and services related to the existing ones. The companies market their new services that have the technological synergy with the current ones while at the same time introducing new services that are very appealing to the customers.

The research also discovered that the diversification strategies influence food processing industries. Introduction of the new product into the market by the companies enabled companies to expand the geographical reach while increasing the economies of scale. Because of this, the company increased its sale volume due to introduction of the firms with related technical economical capabilities which increases the market share. This increased overall profit of these companies.

5.3 Conclusion of the Study

Consistent with the general consensus of previous studies, we discover that companies within food economy elect to diversify and associated diversification improves the value of the firm. Concentric, Horizontal and Conglomerate diversification strategies altogether helped the company to develop new product and services that relates to the existing ones. As put forth by Besonko et al (2004), firms that diversify according to a core set of resources are likely to outperform organizations that cannot attain these synergies amid diversified business sections. An implication for this is that efficient firms can achieve economies of scale that permits them to minimize transaction costs. The reduced transaction costs via diversification means that these diversified organizations might be lucrative as opposed to single sector institutions. A further study on the food industries ought to incorporate further evaluation of companies that can repeat their performance over time to establish if diversification is profitable in long-term.

Also, there is serious implication concerning public policy for companies interested in diversifying vertically up and down the food chain or laterally into associated food industries. Should the market see diversified organizations as greater value, then these might be possible advantages related to merger or consolidation practices in the food sector.

The research also concludes that concentric diversification enabled the organization to achieve their set objectives. The introduction of the new products improved the geographical reach hence expanding the economies of scale for the organization.

Finally, this inquiry offers information for academicians within the domain of management strategy and food economy. The study findings propose that diversification in the agribusiness and food industries enhance firm’s value. This is relevant information to students and scholars who have developed an interest in pursuing careers along these sectors.

5.4 Recommendations of the Study

This research proposes that the firms ought to formulate a clear diversification strategy. This can be achieved by setting clear strategic diversification goals, clearly setting environment to be used to measure growth in the companies. The firm should also involve all employees from the earliest stage; this increases the accuracy and compliance rate of the research.

The study also recommends that managers in food processing industries should invest in feasibility research seeking to analyze factors that affect diversification strategies. With this, managers will be able to formulate relevant measures that will make sure that the goals of diversification plans are effectively adopted.

Additionally, the inquiry proposes that food processing companies ought to perform constant evaluation and monitoring aimed to test the successfulness of the implemented diversification strategies. This is important for the reason that food companies operate in a volatile environment that is highly influenced by many factors.

5.5 Limitations of the Study

During the analysis of the research, some constraints were considered.

1. The study was only conducted in fifty one out of sixty-four food processing companies; the results would have been even more accurate if all firms participated in the research work.
2. Another limitation of the research was the difficulty in accessing the information in the firms as most of the respondents were not available during the data collection period hence a lot of time was wasted in the process of finding the respondents to answer the questionnaires.

5.6 Areas Suggested for further study

The future research basing on the current research is highly recommended to unearth diversification strategies, environment and growth of Kenyan food processing companies in Nairobi County. This will enable good comparisons to be done with the objectives of coming up with the best strategic practices to be used by other food processing firms not only in Kenya but also in world arena.

Since the research was done on the diversification, environment and growth of Kenyan food processing companies in Nairobi County, the research suggests that another research ought to be carried out in different location but within the similar context. For example, the research can be done in Bungoma, Kitui, Turkana, Bomet among other counties. The same research can be conducted in the same county but focus be placed on other firms other than food processing companies. For incidence, the research can be done on milk or even fruits processing companies in Nairobi County.

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APPENDICES

Appendix I: Questionnaire

SECTION I: background information

1. Age

    Below 30 years ( )

    31-40 years ( )

    41- 50 years ( )

    Above 50 years ( )

2. Period of work experience

    Less than one years ( )

    1-5 years ( )

    6-10 years ( )

    Above 10 years ( )

SECTION II: Diversification Strategies

3. Rate the extent to which the following diversification strategies have been adopted in your firm.

	Very great extent	great extent	moderate extent	little extent	Very little extent
Our company develops new products and services related to the existing ones					
We market new services with technological/commercial synergies with current products					
We market new services technologically or commercially unrelated to current products					
The company has developed unrelated					

products					
The firm introduces new services and products which appeal to current customers					

4. Describe other ways by which diversification strategies have been adopted in your firm?

   ………………………………………………………………………………………

   ………………………………………………………………………………………

   ………………………………………………………………………………………

Section III: Impact of Diversification Strategies on organizational Growth

5. Have diversification strategies affected the growth of your company?

   Yes [ ]

   No [ ]

6. To what extent do you agree with the following statements with regard to the effect of diversification strategies on the growth of your company? Use a scale of 1-5 where 1=Strongly disagree, 2=agree, 3= neutral, 4= disagree, while 5= Strongly disagree

Concentric	5	4	3	2	1
Concentric diversification enables companies to achieve economies of scale					
Developing related products enables the company to utilize the existing resources					
Developing related products has enabled the firm to expand their operations to new geographies					
Introduction of related products enables the firm to expand					
Market share has been increased due cross-sell to our existing customer					
Horizontal					
The company has grown in scope					
The firm has increased its sales volume as a result of introducing products with the existing technical-economic capabilities					
Horizontal diversification has enabled the firm to grow by enhancing its competitive advantage					
The firm has grown in terms of assets					
The company has increased its market share after introducing new products					
Conglomerate					
The company has diversified into areas that are unrelated to its current line of business to increase its growth rate					

Venturing into different business activities increases a firm's profitability					
The firm has grown as a result of selling unrelated products to our customers					
Diversification has enabled the company to increase its sales					
Venturing into different products has expanded the company's' asset base.					

7. How else has diversification strategies affected the growth of your company?

   ………………………………………………………………………………………

   ………………………………………………………………………………………

   ………………………………………………………………………………………

THANK YOU

Appendix II: List of food processing Companies in Nairobi

1. Allied Industries Limited
2. Alpha fine food limited
3. Aquamist Limited
4. Belfast millers Limited
5. Best food Kenya Limited
6. Bio Food Products Limited
7. C &R Food Industries Limited
8. Cadbury Kenya Limited
9. Candy Kenya limited
10. Capital Fish Kenya Limited
11. Carlton Products Limited
12. Coca-Cola East Africa Limited
13. Confee industries (E.A) Limited
14. Corn products Kenya Limited
15. Crown foods Limited
16. Deeper Industries Limited
17. East African African sea Food Limited
18. East African Breweries Limited
19. Eldoville Farm Limited
20. Enns valley Bakery Limited

21. Excel chemicals Limited
22. Farmers Choice limited
23. Frigoken limited
24. Galaiya food Industry Limited
25. Giloil company limited
26. Glaciers Products limited
27. Global Beverage Limited
28. House of Manji Limited
29. Jambo Biscuits Limited
30. Jambo Mineral Water Limited
31. Jetlak Foods Limited
32. Kabasora Limited
33. KenAfric Industries Limited
34. Kenya Millers Limited
35. Kenya national Mills Limited
36. Kenya Nut company Limited
37. Kenya Orchards Limited
38. Kenya sweet limited
39. Kevian Kenya Limited
40. Kuguru Foods limited
41. Ma Cuisine Limited
42. Melvin Tea Kenya limited

43. Mic Food Industries Limited
44. Mini Bakeries Limited
45. Nairobi Flour Mills limited
46. Nestle Foods Kenya limited
47. New Kenya co-operative Creameries Ltd
48. P J Products Limited
49. Patco Industries Limited
50. Pembe Flour Mills Limited
51. Premier Flour mills Limited
52. Premier food industries
53. Proctor & Allan (E.A) Limited
54. Rafiki Millers Limited
55. Razco Food Products Limited
56. Spin Knit Diary Limited
57. Super Bakery Limited
58. Top Food Limited
59. True foods Limited
60. Unga group Limited
61. Unilever (K) Limited
62. Uzuri food limited
63. Vegpro Kenya Limited
64. Wrigley Company (E.A) Limited

Source: Kenya Manufacturers Association 2018

APPENDIX III: Budgeting

THE TYPE OF ACTIVITY	BUDGETED COST IN KENYAN SHILINGS
Producing the instruments of research	27000
Printing the material of the research	2000
Expenses for traveling	15500
Photocopying as well as binding	5000
The collection of data	33500
Analysis of the data and writing of the report	22000
Other miscellaneous expenditure	12000
TOTAL AMOUNT	**117,500**

Appendix IV: Introductory letter

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

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

P.O. Box 30197
Nairobi, Kenya

DATE 25/October 2018

TO WHOM IT MAY CONCERN

The bearer of this letter MUTUA PENINA NDUNGE

Registration No D61/85788/2016

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.

25 OCT 2018

PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS