

**CHALLENGES OF IMPLEMENTING DIVERSIFICATION  
STRATEGY AT THE MUMIAS SUGAR COMPANY, KENYA.**

**BY**

**ANYANGO MARY ELECTOR**

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

**NOVEMBER 2012**

## DECLARATION

This research project is my original work and has not been presented for a degree in any other University for any academic award.

Signed.....

Date.....

ANYANGO MARY ELECTOR

D61/76144/2009

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

Signed.....

Date.....

PROF. MARTIN OGUTU

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

## **DEDICATION**

I dedicate this work to my dear mother Syprina Rita Auma, my late father Norbert Auma Odungu and my dear uncle Chrisantus Obure Odungu for the role they played in laying my foundation. Also to my father in law William Ogola Odoyo and my mother in law Alice Ogola for their support and encouragement.

A special dedication to my loving husband James Omamo Ogola and my children John Calvins Omamo, Tiffane Omamo and Melinda Omamo for their constant encouragement and patience during the period I was constrained of time.

## **ACKNOWLEDGEMENT**

My gratitude goes to the teaching and non-teaching staff of the University of Nairobi that contributed in one way or the other to the success of this course, especially the staff of Jomo Kenyatta Memorial Library who provided the opportunity to use the facilities in the MBA and Electronic Library section. Special thanks to my supervisor Prof. Martin Ogutu for the assistance, support and invaluable leadership he had which guided me throughout the entire research.

My gratitude also goes to my family for their love, understanding, encouragement and support which was overwhelming during the entire course. Also to my friends for their support, the respondents for their co-operation and my Research Assistant George Oraro who assisted in the collection and the analysis of data.

## **ABSTRACT**

The major determinant of an organization's success today in this changing turbulent environment depends on the successful implementation of its strategy. Strategy implementation addresses the issue of how to put formulated strategy into effect within the constraints of time, an organization's financial and human resources and its capabilities. This requires the organizations to deal with resources required, systems and organizational structures and changes. All organizations are environment dependent, they depend on the environment for their inputs and outputs. Every firm should therefore have a competitive strategy which relates it to its environment and enables it to maintain a fit between itself and the environment. The way a strategy is implemented is governed by setting up an ideal framework, rules, guidelines and procedures to be adopted in meeting its goals and objectives. The greatest contribution is in the design and administration of structure and systems that facilitate the implementation of strategic plans. This research was thus aimed at investigating the challenges of implementing diversification strategy at the Mumias Sugar Company in Kenya. The study adopted a case study research design as it sought to gain an in-depth understanding of the specific understanding of the specific challenges in implementing the diversification strategy. A total of ten respondents were interviewed using an unstructured interview guide. The respondents were the senior management staffs in the company who are responsible for strategy formulation and implementation. Data collected was first checked for consistency, coded and then analyzed to arrive at the various conclusions. The study concluded that the major challenges in implementing diversification strategy at the Mumias Sugar Company were; diverse culture, formulated policy to support diversification programs not in agreement with implementing strategic decisions made in diversification programs, conflict of the organizational role, leaders being resistant to change, poor coordination between management, other employees and stakeholders. The study also recommended; having competent, proactive, positive and procedural people involved in policy making, use of evidence-based reward system based on a similar system, need to grow their market to other countries as in the case of sugar which is supplied in East Africa and European countries, need to focus on customers and suppliers before stakeholders within the supply chain and need to introduce packages of bigger sizes of sugar for example 5kg an 10kg in the market.

# TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ACKNOWLEDGEMENT</b> .....	iv
<b>ABSTRACT</b> .....	v
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background of the Study .....	1
1.1.1 Strategy implementation .....	2
1.1.2 Diversification Strategy .....	3
1.1.3 Sugar Industry .....	6
1.1.4 Mumias Sugar Company (MSC) .....	6
1.2 Research Problem .....	7
1.3 Objectives of the study.....	10
1.4 Value of the study .....	10
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	11
2.1 Introduction.....	11
2.2 Diversification Strategy .....	11
2.3 Strategy Implementation.....	14
2.4 Strategy Implementation Challenges .....	16
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	20
3.1 Introduction.....	20
3.2 Research design .....	20
3.3 Data collection .....	21
3.4 Data Analysis .....	22

<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>23</b>
4.1 Introduction.....	23
4.2 Types of diversification strategies at MSC.....	23
4.3 Challenges of implementing diversification strategy at MSC.....	26
4.4 The stakeholders response to the diversification process at MSC.....	31
4.5 Reasons for diversification strategy at MSC.....	32
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..</b>	<b>36</b>
5.1 Introduction.....	36
5.2 Summary of findings.....	36
5.3 Conclusion of the study .....	40
5.4 Recommendations for policy and practice.....	43
5.5 Limitations of the study .....	46
5.6 Suggestions for further Research.....	47
<b>References.....</b>	<b>47</b>
<b>APPENDICES.....</b>	<b>54</b>
APPENDIX 1: INTERVIEW GUIDE.....	54
APPENDIX 2: LETTER OF INTRODUCTION .....	56

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Strategic management process is composed of three main processes: strategy analysis, strategy formulation and strategy implementation. It is through these processes that a company's strategy is crafted, implemented and executed. A company's strategy is its game plan, crafted by management for the purpose of positioning the company in a given market environment, where it is expected to compete successfully, satisfy customers and other stakeholders. A strategy thus entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches and a way of operating." (Thompson and Strickland, 1998:2). Strategy formulation may include assessing the external environment and the internal problems and resources and integrating the results into goals and strategies. Strategy implementation is the administration and execution of the strategic plan.

Strategy implementation process is actually the most complicated and time consuming part of strategic management (Hrebiniak, 2005). Most managers know a lot more about strategy formulation than implementation. Successful strategy formulation does not guarantee successful strategy implementation. Implementation involves detailed programming, motivating and controlling.

Mumias Sugar Company has undertaken an aggressive growth strategy of which diversification is key. This is part of the company's vision of being a world class producer of sugar and energy. The company constructed and subsequently commissioned

a 38 MW cogeneration plant which saw the company contribute to electricity sector by selling 26 MW to the National Grid. This study tends to determine the challenges that they faced as they implemented the strategy and also to know whether they have benefited or suffered from the strategy.

### **1.1.1 Strategy implementation**

The process of strategy implementation entails converting a company's strategic plan into actions that are aimed at achieving desired objectives. It involves the entire management team in such a manner that all managers become implementers of the strategy, each in his or her respective area of authority and responsibility (Pearce & Robinson 1997). Successful strategy implementation is achieved by a company management when targeted strategic and financial objectives are realized. However, given the unique nature of each organizational context, it should be noted that strategy implementation is more of an art than a science. Consequently, each company situation requires a customized approach to strategy implementation.

The major determinant of the organizations success today in this changing and turbulent environment is the successful implementation of strategies. This requires the organizations to think strategically and translate their insights into effective strategies to cope with their changed circumstances and to develop rationales necessary to lay ground work for adopting and implementing strategies (Bryson, 1988). Successful strategy implementation requires support, discipline, motivation and hard work from all managers and employees (David, 2003).

Strategy implementation addresses how to put formulated strategy into effect within the constraints of time, an organization's financial and human resources and its capabilities. As a result, managers should consider analysis of organizational structures and systems before strategy implementation, as well as analysis of culture, power and conflict (Ellis and Dick, 2003).

Organizations today face major unpredictable changes that make strategy implementation more difficult and complex than in the past. (Beer and Eisenstat, 2000). Recent research (Mintzberg and Quinn, 1991; David, 2003) also indicates that considerable proportions (over 65%) of organizational strategies fail to get implemented effectively.

Various researchers have revealed a number of problems in strategy implementation. These include: unawareness or misunderstanding of the strategy, lack of communication, weak management roles, unaligned organization systems, structures and resources, inadequate capabilities, competing activities, power, culture and uncontrollable factors in environment. (Alexander, 1991; Aosa 1992; Beer & Eisenstat, 2000; Koske, 2003; Alashoo et al, 2005).

### **1.1.2 Diversification Strategy**

Richard Lynch (2009) defines diversification as a strategy that takes a company into new markets with new products or services. It is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally very

interesting, entering a promising business outside of the scope of the existing business unit. Diversification strategy occurs when an organization moves away from a single product or dominant business area into other business areas, which may or may not be related to the original business (Richard Lynch, 2009)

Diversification as a response to competition can be related or unrelated. Related diversification may take the form of vertical integration in the face of increased competition. This has the benefit of cost reduction, defensive market power and offensive market power. Backward integration takes you back closer to suppliers mainly to increase supplier dependability or reliability. Forward integration takes you closer to the customer by putting a given output of the core product/services to undertake firm's umbrella. Forward integration can mean increasing predictability of demand for a firm's output. Unrelated diversification may involve acquisitions of business not within the current product and market scope.

Companies may choose a diversification strategy for different reasons. Firstly, companies might wish to create and exploit economies of scope, in which the company tries to utilize its exciting resources and capabilities in other markets (Deng and Elyasaiani 2005). This can often be the case if companies have under-utilized resources or capabilities that cannot be easily disclosed or closed. Using a diversification strategy, companies may therefore be able to utilize all its capabilities or resources, and able to attract new business from market segments not catered to earlier.

Secondly, managerial skills found within the company may be successfully used in the other markets where the dominant logic and managerial skills found within the company

may be successfully transferred to other markets. Managers might also seek to diversify their organization as a way to reduce total firm risk and thereby reduce their personal risk (Amihud and Lev, 1981). While diversification may help reduce the risk to the manager, it may not be in the best interest of the stakeholders. And even if the organization's top management team is not subject to such agency risks, it is more difficult for them to monitor divisional managers as the distance between managers at the headquarters and those at the satellite branches increases. (Berger and De Young 2001)

Thirdly, companies pursuing a diversification strategy may be able to cross-subsidize one product with surplus of another. This way, companies with a very diverse portfolio of products catering to different markets may potentially grow in power, and be able to withstand a prolonged period of price competition etc. when having subsidized one product for a substantial period of time, the company might possibly be able to win a monopoly, making it the only supplier in the respective market.

Fourthly, companies may also want to use diversification strategy to spread financial risk over different markets and products, so that the entire success of the company is not reliant on one market or product only. There may be other reasons for companies to use a diversification strategy than the four listed above, and companies may very well benefit from a diversification strategy for other reasons. However, it is important for companies to realize the possible danger of diversifying its scope too much. Companies might risk neglecting its core capabilities and become too diversified, where too many different products supplied to different markets might have negative effects on products and services, where for example product quality or uniqueness might suffer due to the shift in focus on different products and markets. (Gluck, 1985)

### **1.1.3 Sugar Industry**

The sugar industry in Kenya dates back to 1922, with the establishment of the first sugar factories. The industry directly and indirectly supports 5 million Kenyans which represents about 16% of the entire Kenyan population. Sugarcane growing is also a major source of income to over 150,000 shareholders. In Kenya, sugarcane is grown on fairly flat regions in the Western, Nyanza and Coast Provinces. About 85% of the total cane supply is from small scale growers whilst the remaining is from the nucleus estates of the sugar factories. Kenya at the moment has eight functioning sugar factories, but more are coming up in Ndhiwa and one in Trans-Mara district and also the one proposed for the coast and the rehabilitated Ramis Sugar at the coast could boost the number to about 12 in the near future (Odera 2011).

### **1.1.4 Mumias Sugar Company (MSC)**

MSC is a sugar company in Kenya. The company operates in Mumias yet it has its headquarters in Nairobi. It is located in Western province, an area that is traditionally occupied by the luyha ethnic group in Kenya. It is engaged in the manufacture and sale of sugar. The company grows sugarcane and its own estates provide up to 7% of its annual output. Its primary source of sugarcane is over 50,000 registered “out growers” with over 400 km<sup>2</sup> under cultivation. In 2005, Mumias sugar managing director Evans Kidero announced plans to expand into the production of ethanol to take advantage of the high cost of fuel. In 1967, the Government of Kenya commissioned Booker Agriculture and Technical Services to do a feasibility study on the viability of growing sugarcane in Mumias and then initiate a pilot project. At the time, the Mumias area was underdeveloped, land utilization was poor as farmers grew food crops on small areas for

subsistence only, while the rest of the land was purely for grazing. The relative remoteness of the area and poor communication prevented the development of an active market economy. However, owing to the fact that land adjudication had been carried out and farmers had freehold title to their land, this favored the proposed sugarcane project of which studies had returned a clean bill of health. It was possible to establish a viable sugar scheme at Mumias with the Factory supplied by cane from both the Nucleus Estate and the indigenous out-grower farmers. The Government accepted the findings and on July 1, 1971 incorporated Mumias Sugar Company as the body to implement the Project. The Government was to hold majority shares (71%) and minority interests held by the Commonwealth Development Corporation (17%), Kenya Commercial Finance Company (5%), Booker McConnell (4%) and the East African Development Bank (3%).

## **1.2 Research Problem**

Richard Lynch (2009) states that when an organization diversifies, it moves out of its current products and markets into new areas. Clearly this will involve a step into the unknown and will carry a higher degree of business risk. However, the organization may minimize this risk if it moves into related markets. (Related here means a market that has some existing connection with its existing value chain). Companies might wish to create and exploit economies of scope, in which the company tries to utilize its exciting resources and capabilities in other markets. This can often time be the case if companies have under-utilized resources or capabilities that cannot be easily disclosed or closed. Using a diversification strategy, companies may therefore be able to utilize all its capabilities or resources, and able to attract new business from market segments not catered to earlier.

Besides sugar production, Mumias Sugar Company (MSC) produces power through burning of baggasse, a waste product from sugarcane processing and in the process, contributes immensely to carbon emission reduction as no oil, coal or gas is used in their power generation. This came in 2004, after the leadership mantle was handed to Dr, Evans Kidero. Mumias Sugar undertook an aggressive growth strategy of which diversification was key. This was part of the company's vision of being a world class producer of sugar and energy. The company constructed and subsequently commissioned a 38 MW cogeneration plant which saw the company contribute to electricity sector by selling 26 MW to the National Grid. In a bid to assure its future and shareholder value, the company has also diversified its product portfolio further to production of ethanol. The ethanol project is valued at US \$42 million and will provide an output of 25 million liters per annum, up from its current 80,000 ton of molasses with an expectation of bringing the company an additional Ksh. 1 billion in revenue. One major challenge facing MSC is the small farm holding and land sub-division making cane development an expensive affair. Factors of production and government legislation that is allowing imported sugar into the country at the expense of the locally produced sugar without setting a level playing field further complicates the already sad situation. A major issue that will be raised by the study is whether the company benefits or suffers from their diversification strategy. Unlike the previous studies on challenges of strategy implementation in Kenya, this proposal intends to study the Sugar Industry in the Kenyan economy which affects the livelihood of Kenyans. The strategy implementation challenges that apply to the areas of study so far done may not necessarily apply to Mumias Sugar Company on organizational context. This is so because organizations

differ in terms of structure, resources employed, environmental influences like politics and leadership style among other factors.

Research in diversification has attracted a lot of researchers in strategic management over the years (Maithulia, 1995; Muindi, 2003; Njoroge, 2003; Mwau, 2005; Njoroge, 2006; Wakwoma, 2007; and Munene, 2008). Maithulia (1995) did an empirical investigation of portfolio diversification among commercial banks in Kenya. Muindi, (2003) did an analysis of the application of the unrelated diversification strategy by the major oil companies in Kenya. Njoroge (2003) did a study on diversification strategy and focused on Nation Media Group. Mwau (2005) also did a study of related diversification with EABS while Njoroge (2006) acknowledged that Kenol/Kobil uses diversification to build competitive advantage. Wakwoma, (2007) on the other hand did a survey of product diversification strategies adopted by firms in the banking industry, and Munene, (2008) focused on diversification strategies among Christian Community Services on Mount Kenya East Region. Awino (2009) also did a study on challenges facing the implementation strategy at the Mumias Sugar Company. The present study differs from the above studies on the focus and the depth of coverage on the concept of diversification strategy. It seeks to investigate and answer questions like; which diversification strategies did the Mumias Sugar Company use? Was Mumias Sugar Company able to successfully implement diversification strategy? What challenges did they face during their implementation process? Why did they use diversification as a strategy?

### **1.3 Objectives of the study**

- i. To determine the diversification strategies at the Mumias Sugar Company.
- ii. To determine the challenges facing the implementation of diversification strategy at the Mumias Sugar Company.
- iii. To determine reason for diversification at Mumias Sugar Company.

### **1.4 Value of the study**

The findings from this study will be useful to the top management of Mumias Sugar Company in that it will enable them to reform their operations and gear themselves towards any challenges ahead. This goes a long way in enabling them to re-examine their competitive position in the industry and roots for avenue to respond adequately. This case study has provided useful information on competitive strategies that have worked and can be replicated by other sugar manufacturing firms in Kenya that are struggling to survive in the competitive environment due to mismanagement.

Policy makers like the Government Agencies will find it useful in their mandate of promoting and maintaining the safety, soundness and integrity of the sugar producing industry.

The results of this study would also be invaluable to researchers and scholars as it will form a basis for further research. Students and academics will use this study as a basis for discussions on the diversification strategies adopted by the Sugar Industry and the challenges that the industry may face in trying to implement the strategy.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature examining what other scholars and authors have said on diversification strategy, strategy implementation, strategy implementation challenges, and measures to address strategy implementation challenges.

#### **2.2 Diversification Strategy**

In today's markets companies are faced with tough decisions, one of the toughest decisions a corporation faces is whether or not they should diversify their business. Diversification simply means to mix a wide variety of investments within a portfolio. It is a means by which a firm expands from its core business into other product markets (Gluck 1985). The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio (Silvia M.Chan-Olmsted, 2007). Firms that have success strive to transfer their winning business know- how to new activities. To these firms, diversification means looking at new industries as exciting opportunities. The decision to diversify or not is one that is made on the highest level and is initiated as a corporate strategy.

Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of

the independent parts were summed. This involves the firm acquiring businesses that are related to the firm in terms of technology, markets and products (K. Scholes, 2006) with this strategy the selected new businesses possess high degree of compatibility with the firm's current business. The ideal concentric diversification strategy occurs when the combined company profits increase the strength and opportunities while at the same time decrease the weaknesses and the exposure to risks. Thus the acquiring firm searches for businesses whose products, markets, distribution channels, technologies and resource requirements are similar to but not identical with its own, whose acquisitions results in synergies but not complete interdependence (Pearson and Robinson, 2003)

Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. Synergy may result through the application of management expertise or financial resources, but the primary purpose of conglomerate diversification is improved profitability of the acquiring firm. Little, if any, concern is given to achieving marketing or production synergy with conglomerate diversification. One of the most common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited (Richard Lynch, 2009). Finding an attractive investment opportunity requires the firm to consider alternatives in other types of business.

Diversification efforts may be either internal or external. Internal diversification occurs when a firm enters a different, but usually related, line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification may achieve the same result; however

the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification.

One form of internal diversification is to market existing products in new markets. A firm may elect to broaden its geographic base to include new customers, either within its home country or in international markets. A business could also pursue an internal diversification strategy by finding new users for its current product. Firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels (David, 2003). Another form of internal diversification is to market new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appear to have good market potential. Johnson & Johnson added a line of baby toys to its existing line of items for infants. Packaged-food firms have added salt-free or low-calorie options to existing product lines. (Oyugi, 2007)

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Hussey (1988) observes that mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms. Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company

absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. Mergers are usually "friendly" (Gluck, 1985). Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased. Diversification strategies can also be classified by the direction of the diversification.

### **2.3 Strategy Implementation**

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems and culture to follow strategies that lead to competitive advantage and a better performance (Harrington, 2006). Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as to maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees. An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms, and beliefs shared by organizational members and groups.

Mintzberg et al (1999) defined strategy as “A pattern or plan that integrates an organizations major goals, policies and action; sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization’s resources into a unique and viable posture based on its relative internal competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents”.

In studying strategy implementation, we need to take a look at the whole process of strategic management which includes strategy formulation, implementation and evaluation which are inseparable and continually influencing one another. Kriemadis (1997), David Salhieh and Singh (2003) believe that strategists should consider certain activities to achieve suitable strategic decisions. Strategy formulation involves doing a situation analysis, setting objectives and formulating a strategic plan. It involves determining where you are now, where you want to go and determining how to get there.

Strategy implementation involves allocation of sufficient resources (financial, personnel, time and computer system support), establishing a chain of command or some alternative structure (such as cross functional teams), and assigning responsibility of specific tasks or processes to specific individuals or groups. When implementing specific programs, this involves acquiring the requisite resources, developing the process, training process, testing, documentation and integration with (and or conversion from) legacy process. Managers are encouraged to consider analysis of organizational structures and systems before strategy implementation as well as analysis of culture, power and conflict. (Omolo, 2007)

Strategy evaluation is the final stage in the strategic management process. It involves managing the process including monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variance and making adjustments to the process as necessary. It is necessary to ensure that stated objectives are being achieved.

The notion of strategy implementation might seem quite straight forward; a strategy is formulated then implemented. On the contrary, transforming strategy into action is a far more complex, difficult and challenging undertaking and not as straight forward as one would assume (Aaltonen and Ikavaiko, 2001). Once strategies have been developed, they need to be implemented. Strategies are of no value to a company unless they are effectively translated into action. Although implementation of strategy is so important, it is not easy. Bonoma (1984) and Alexander (1985) pointed out that many well formulated and appropriate strategies fail when attempts to implement them are made.

## **2.4 Strategy Implementation Challenges**

Strategy implementation is the final step in the strategic management process and it is where the strategy is put into action. No matter how creative the formulated strategy may be, the organization will always operate in a turbulent and competitive environment. Strategy implementation involves using several tools including parts of the firm that can be adjusted to put strategy into action. Once a new strategy is selected, it is implemented through changes in leadership, structure, information and control systems, and human resources (Nutt, 1989). There are many organization characteristics and challenges that routinely would stand on the way of strategy implementation. They include politics, resistance to change, structure, culture, leadership, policies, reward and ownership of the

strategy (Burners, 2000). These challenges hinge on the strategies themselves and are of both institutional and operational in nature.

The challenge of leadership is to galvanize commitment among people within an organization as well as stakeholders outside the organization to embrace change and implementation strategies intended to position through three interrelated activities, the activities being to clarify strategic intent, building an organization and shaping the organization culture (Pearce & Robinson, 2002). The skills and abilities of the leader are critical ingredients in strategy attitudes and opinions of others. Leadership is a higher order of capability. The ability to influence the attitudes and opinions of others to achieve a coordinated effort from a diverse group of employees is a difficult task. However, one of the key methods available to management is creating an overall sense of direction and purpose through strategic planning (Byers, 1991).

Changes in strategy often call for changes in the way an organization is structured. This is because when an organization changes its strategy, the existing organizational structure may be effective (Wendy, 1997). An organizational structure is a firm's formal role configuration, procedure governance, control mechanisms, authority and decision making process. All firms require some form of structure to implement their strategy. Structure dictates allocation of an organization resource depending on the kind of structure an organization has. There is no one optimal organizational design or structure for a given strategy or type of an organization (David, 1997; Pearce and Robinson, 2002). According to McCarthy and Colleague (1996) an organization structure and behavior within an organization should be in harmony with, and support the strategy of the organization. It is

a major challenge for managers to understand and utilize the organization structure to aid them in the implementation of the strategy.

We have cultural challenges where culture means the powerful and complex set of values, traditions and behavioral pattern that sometimes bond together the people who comprise an organization. The culture of an organization can have profound effect. As Ascoff (1965) points out, behavior is not value free, that is, individuals show preferences from certain behavior and may persist with it even if it leads to sub optimal results. For a strategy to be successfully implemented, it requires an appropriate culture. The challenge to management is that if the existing culture is antagonistic to a proposed strategy, then it must be identified and changed. There will be a tendency towards inertia and resistance to change; people will tend to hold on to existing ways of doing things. Managing strategic change must therefore address the powerful influence of the paradigm and the cultural web on the strategy being followed by the organization (Johnson and Scholes, 2003).

Policy refers to specific guidelines, methods, procedures, rules, forms and administrative action that can be taken to reward and sanction behavior. They clarify what can and cannot be done in pursuit of an organization objective. Policies enable both managers and employees to know what is expected of them thereby increasing the likelihood that strategies will be implemented successfully. Hussey, (1988) observes that whatever the scope and form of the policies, they serve as a mechanism for implementing strategies and realizing objectives. They provide the means of carrying out strategic decisions. The challenge to management is to formulate policies, process users and support systems that promote chosen strategy implementation.

The reward system is an important element of strategy implementation. Johnson and Scholes, (2002) observes that motivators such as salary rises, stock options, fringe benefits, promotions, criticism, fear, increased job autonomy and awards can encourage managers and employees to push hard for successful implementation of strategy. If strategy implementation is top priority, then the reward system must be clearly and highly linked to strategic performance by individuals and rewarding good performance by individuals and organizational units are key ingredients in effective strategy implementation (Pearce and Robinson, 1997).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The research methodology highlights the overall approach that will be taken in the research in terms of the Research Design, Data Collection, Data Collection Tools, Data Collection Procedure and Data Analysis.

#### **3.2 Research design**

This is a case study. A case study is a holistic inquiry that investigates a contemporary phenomenon within its natural setting. The research design used in this study is qualitative research design (Srivastava and Hopwood, 2009). The reason for the choice of the research design is the fact that the researcher interviewed a few managers on challenges of implementing diversification strategy at the Mumias Sugar Company (Churchill and Iacobucci, 2005).

Considering the fact that organizations are unique in terms of structure, culture, leadership styles and resources employed, the challenges faced are also unique, hence the use of a case study. Therefore a qualitative data was collected. Understanding research design is fundamental in the sense that it will inform the researcher's thinking when putting up appropriate foundations of a project design (McNeill and Chapman, 2005). Qualitative research design is used to collect qualitative data which can then be analyzed qualitatively without necessarily having to perform statistical test (Patton, 2002).

### **3.3 Data collection**

Data provides the basis upon which a researcher can draw a conclusion in a research. It is therefore, very important that proper procedure is followed in data collection (Bar-on, 1996). This research collected both primary and secondary data since each set of data plays a very significant role in a research. According to McBurney and White (2009) secondary data is the information from other published works. In their explanation, it is further recommended for researchers to select only relevant and credible sources to provide the secondary data. This type of data is considered in the study since it helps the researcher develop the foundation for gauging the reliability and validity of primary data (McNeill and Chapman, 2005). Primary data will play a very significant role in this study especially the role of filling the gap left by the secondary data. The research question and research objectives can only be answered and achieved using primary data (McNeill and Chapman, 2005). Analyzing challenges of implementing diversification strategy at the Mumias Sugar Company requires firsthand information derived from managers that are well conversant with diversification strategy.

The data collection method that has been used in this research is semi structured interview. (Churchill and Iacobucci, 2005). The research design used in this study is qualitative research design, which follows that interview is the most appropriate data collection to use in collecting information from potential respondents (Innovations Insights, 2006). A total of ten managers working in Mumias Sugar Company have been interviewed by the researcher in order to obtain relevant information on challenges of implementing diversification strategy at the Mumias Sugar Company. Purposive

sampling technique will be used in the research to identify potential respondents in the study (Churchill and Iacobucci, 2005).

### **3.4 Data Analysis**

Data has been analyzed using content analysis. Data analysis is a very important section of any given research. Primary data gathered in this research has been analyzed accordingly (Churchill and Iacobucci, 2005). Primary data in a research, whether qualitative data or quantitative data needs proper analysis. In this study, qualitative data was the primary target where opinion of managers of Mumias Sugar Company was gathered and analyzed accordingly (Abeyasekera, 2006). The opinions of the respondents have been recorded in interview transcripts. Qualitative analysis of the interview transcripts has ensued to provide answer to the research questions formulated in the study.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter gives us the analysis of the data, results after the analysis and the discussion of the results.

#### **4.2 Types of diversification strategies at MSC**

The two main types of diversification strategies identified in this study, through majority response, were in the line of product and market. It was either that Mumias Sugar Company has expanded their market zones thus covering many customers' needs or they have added more products into the market thus meeting diverse needs of both existing and new customers. In either case, both internal and external strategies were revealed. Mumias Sugar Company have diversification programme within its current line of production and market as well as in other ventures that are independent of the existing line of production. For instance, the use of sugarcane baggasse to produce power, and ethanol production from molasses were identified as the major external diversification strategies that the company has taken.

At this point, it can be reasoned that the external diversification strategies exhibited by MSC shows that the company is focused to achieve increased value and return in its productions (Smith, Bruggen, and Wierenga, 2002). On the other hand, ethanol production and power generation signifies that the company is not only concerned with providing reliable power supply to its operations but also its sales hence bringing

increased return and profits to the company. With reliable power supply, it can be deduced that Mumias Sugar Company experience limited power disruptions hence increasing its output performance (Lorin and Frances, 1999).

Market-oriented diversification strategies at the Mumias Sugar Company were signified by the extent to which the company now supplies to not only the local market in Kenya and regional markets in East Africa but also to the European markets. This is a sign that the company, through such diversification strategies, enjoys a larger market zone thus customer-base. Product-oriented diversification strategies also signify that the company has adopted very good strategies in value addition along their supply chain (Forker, 1997). Logically, converting molasses into ethanol is more profitable compared to when it is sold directly to other food production companies. Likewise, using biogas to provide power is more beneficial to selling it as animal food.

In as much as a significant proportion of respondents regarded the company's diversification strategies as customers-oriented and suppliers-oriented, these could as well be within the prior views on market-oriented and product-oriented strategies respectively. In the product line, the study noticed that the company produces more than one brand of sugar: the brown, the white and the Fortified sugar. These suggest that the company is focused to achieve increased brand value, which leads to increased customer loyalty (Kenya Sugar Industry, 2010). Good proportion of respondents admitted that Mumias Sugar has four major diversification strategies, which include: concentric, conglomerate, internal and external. In the concentric strategy, the study noticed that MSC has added related products and markets within their growth strategy. In this regard, the company has participated in acquiring related businesses that are related to its original

lines of production given that they utilize similar technology, markets and distribution lines.

The fact that the company relies on similar infrastructure and market opportunities to diversify its product lines signify that there is reduction of cost hence increasing the company's returns and profits (Kenya Sugar Industry, 2010). Moreover, the three brands of sugar within the concentric diversification strategy at MSC signify that the company has incorporated differentiates strategies in its products to attract more users of the same product (Amihud and Baruch, 1981). It can also be reasoned that the company utilizes economies of scales through the use of the similar technologies, resources, and distribution channels. Although ethanol and power production could be viewed as concentric diversification strategies at MSC, they also qualified to be conglomerate since they are totally different lines of product from the primary product, which is sugar.

The study noted both internal and external diversification strategies at MSC. In the process of expanding to new market zones in Kenya, Africa and abroad, the company utilizes its existing internal resources including computers, human resource and materials. This shows that the company experience reduced costs and increased returns hence improving its profit margins through sound diversification strategies. In as much as there is increase product users, the study further noted that sugar, which is the main product from MSC, is packed in different sizes: 2kg, 1/2kg, 1/4kg, 100gm and 50gm. This is a sign that the company wants to cater for varying needs of its customers based on their economic conditions. It shows that MSC, through its internal diversification, understands that majority of its customers live below the poverty line. Hence, by adopting such strategies, it can be reasoned that the company is able to achieve increased customer

loyalty, which can also contribute to improved brand loyalty (Elango, Ma, and Pope, 2008). Based on this fact, it can be deduced that the company can enjoy sustainable growth and development given that it meets the needs of diverse range of users. It means that one way of reducing challenges that are associated with diversification strategies at MSC is by carrying out customer surveys (Grant, Jammie and Thomas, 1988).

External diversification strategies was noted in the company's plan to enter into mergers with Tana/Athi River Authority (TARDA) and acquiring state owned sugar milling companies. Analytically, entering into such diversifications would increase the shareholders' value (Grant, 2005). In the TARDA merger, sugarcane would be grown through irrigation, a fact that not only signifies increased output but also sustainable supply of raw material hence meeting the market demands in a timely manner throughout the year. On the other hand, acquisition of state owned milling companies by MSC is intended to bring down the cost of their products. It implies that acquisition strategies adopted by this company would give it a competitive advantage over other sugar producing companies like Sony Sugar, Chemelil, and Muhoroni among others. In fact, if quality is maintained as in the internal strategies then there is no doubt that the company will maintain its world-class ranking in the supply of sugar its related products.

### **4.3 Challenges of implementing diversification strategy at MSC**

In the process of implementing the strategy in terms of policy formulation, a number of views were noted to share common content. First, majority of the respondents said that some of the formulated policies to support the diversification programmes are usually not in agreement with implementing strategic decisions made in the diversification

programmes. These challenges were linked to the company management. In trying to justify their position, the respondents said that such policies can never be adhered to given the socio-economic conditions of the employees. This is an indication that a successful diversification strategy formulation, implementation and evaluation require a thorough evaluation of employees' socio-economic status and values or else the process is threatened to fail from employees' rebellion. The study noted that some of the people involved in the policy formulation are incompetent in understanding the work process and company's potentials hence leading to unfriendly policies. This signifies that MSC should not just recommend any manager to be in the policy team. Instead, thorough analysis on people's skills, social life, economic status, values and cultures should be done so as to reduce, if not avoid, cases that may lead to failures.

Organization structure was identified as one of the sources that bring challenges to successful implementation of diversification strategies at MSC. There are at times when the company has witnessed conflict of organizational role due to control mechanisms and authority to be exercised during the implementation period hence cold war. This way of leadership signifies autocracy and utilitarian kind of leadership (Scholes and Johnson, 2007), which is not favorable especially where team spirit is needed to achieve the synergy as in the case of concentric diversification strategies. Moreover, structural challenges could be identified in cases where the structure and behavior exhibited in the phase of diversification programmes are not in harmony to support the strategy, which could be linked to lack of communication among various organizational levels. Logically, this is a poor way of management, and is worsened when decision making is exclusive of

employees, which according to the respondents, can lead to great misunderstanding of the strategy and competing interests.

Leadership was identified to have some challenges though more or less the same as the ones identified in organizational structure. Some leaders within the diversification plan are resistant to change. On this note, it can be argued that much challenges experienced at MSC are associated with leadership values and behaviors. However, majority of respondents did not recommend it as a good virtue of a leader. The respondents further said that some of the leaders at MSC usually feel too superior to consult other employees. As already revealed in the autocratic leadership style, lack of contact between leaders and employees and consultation on their opinions can easily lead to failures if not well managed.

Logically, employees should be consulted so since they are the first people to take part in the implementation of the strategy, which means that, they are the first people to be affected by the diversification. By consulting with employees, there would be improved cooperation and work spirit hence improved output (Kotler and Armstrong, 2008). Significant proportion of respondents said that some of these leaders have negative attitude towards them. Some of them have failed to influence the attitudes and opinions of other employees and stakeholders hence there is no coordination. Lack of or reduced coordination would imply that the company can run at a loss due to much duration that its diversification strategies take to completion. In as much as greater fraction blamed managers in the challenges of diversification, employees were also noted to be resistant and never ready to accept changes brought about by diversification programmes.

Employees claim on job security and remuneration, which as a human resource manager, should be addressed before the introduction of the programme (Lecraw, 1984).

The reward system used by MSC was noted to be faced with challenges that add to general challenges facing strategy implementation. The challenge is how to increase the employees' pay. Even though some employees feel happy when added more pay due to their continued commitment to the company programmes, some are just sad. This subject manager to more challenges on how to convince the complaining group. In the view of this study, the use of evidence-based reward system, as said by the respondents would be the best way to convince such employees. However, the process should be very procedural and very appropriate to the respective strategy. Managers in this study said that some employees feel threatened when the company talks of job autonomy as the only way to reward employees when the diversification programme succeeds, which according to (Lecraw, 1984), should be encouraged for improved employee performance.

Culture was not left out among the challenges facing the success of MSC's diversification strategies. Diverse culture among the employees at MSC is a challenge to an effective reward programme. Although they are Africans, the study noted that not all of them value the same thing for reward. Analytically, this can be an expensive undertaking on the company especially if everyone is rewarded based on his or her cultural values. As a manager, there should just be a uniform reward system. However, to achieve in this process requires managers to employ cross-cultural skills (Rue and Holland, 1989) so as to reduce, if not eliminate, complications brought about by diverse cultures to reward system at Mumias Company. To some respondents, selection criteria used to have

employees who represent the company in the village during diversification surveys is very bias.

However, such responses could not be considered valid in this study given that such individuals are selected based on their similar cultures with the locals. Even though culture is hard to identify, its language aspect was identified as a challenge as some employees during the implementation process are not willing to be addressed in a casual manner. These employees come from various tribes and every tribe has their own way of life such values cannot be overlooked. It implies that a good managerial approach to handling cultural challenges should know values attached to communication (Mintzberg, Ahlstrand and Lampel, 2009).

The study learnt that some men do not want to be lead by a woman regardless of their positions in the company. Logically, this according to Hofstede's principles on culture (Mintzberg, Ahlstrand and Lampel, 2009) can really thwart the success of organizational changes. In the context of the surrounding community, some diversification programmes at MSC need the support of the community. However, due to some cultural values attached to the land and its usage, it usually very hard to realize successful implementation of diversification strategies. In essence, it can be argued some cultures at MSC do not favor all stakeholders, hence slow opposition or slow implementation of these strategies. This implies that it is important to carry out both internal and external evaluation on stakeholders' values (Nesbitt and King, 1989) with a view to fix and harmonize differences in their view towards diversification strategies.

There were some challenges that the task environment pose to the company. First is lack of cooperation among the team members. This tends to destroy the loyalty of MSC employees especially when the task environment cannot provide the right materials and systems to use in time. Some areas within the task environment are inaccessibility hence this was perceived as a problem during when the company wanted to influence land consolidation in the Luhya land region within its sugar belt. As environment is also made of humans (Palepu, 1985), the study noticed that at times the company teams can be very willing to implement the strategies but not all stakeholders will be willing. This signifies poor coordination hence reducing the effects of teaming up. Finally, the legal and policies in Kenya do not favor some of the diversification strategies at MSC. This is due to the fact that the government of Kenya at times allows importation of cheap sugar hence destabilizing the local sugar market.

#### **4.4 The stakeholders response to the diversification process at MSC**

Various measures were identified as the stakeholders' response to the diversification process at MSC. In solving emerging challenges during the implementation of the strategies, the MSC managers were described as being positive and proactive. These signify that they have positive spirit towards improving performance. Being proactive implies that these leaders are ready to lead by example (Reed and Luffman, 1986). Besides, stakeholders have participated in the formation of a different task force to look into the diversification situation so as to provide solutions for successful implementation. However, it should be noted that not all stakeholders within the entire diversification framework at MSC are willing; some usually resist the process.

In ensuring continued support, the management at MSC considered putting in checks some mechanisms. These include: salary increments on success, gift hampers to performing employees, holding of organizational parties, and promotion on success. These mechanisms suggest that the company is committed to boost employees' morale hence improving their job satisfaction (Pearce and Robinson, 2007). However, these could not prevent the company from experiencing some challenges in implementing HR strategies, which include lack of good skills required for successful implementation and high cost that makes the entire exercise very expensive.

In comparing the status of MSC now and before the diversification strategy, it was generally learnt that its current state is better than before. A good fraction of respondents remarked that MSC has grown compared to when innovative diversifications had not been adopted. This has enabled it not only to absorb more employees but also more competitive Kenya and abroad countries. Its growth could also be interpreted in terms of more products and market shares compared. In all these, it can be seen that MSC, through its diversification strategies, has been able to achieve improved brand quality (Keskinocak and Tayur, 2001).

#### **4.5 Reasons for diversification strategy at MSC**

In considering the above discussion together with specific responses made to this question, the study noted that the major reasons for the diversification strategy at MSC are: to achieve a competitive advantage and a better performance, to maximize efficiency of doing business, to improve brand quality, to increase customer satisfaction, to reduce the cost of production and to improve the performance and values to our suppliers and

customers. More responses showed that diversification at MSC is aimed: to create and exploit economies of scope by exercising the reserved potential of the company, to utilize the untapped managerial skills for increased value on returns, to develop and grow, and to reduce total firm risk and personal risk by spreading financial risk over different markets and products

In trying to establish whether there is greater income growth potential from diversification strategy, majority of respondents agreed to this assumption that the company has experienced this growth. However, this could only come out when comparison was done with its past performance. Majority of respondents also concurred with the statement that there is need to improve the performance of distribution channels. In this process, respondents preferred increasing the number of outlets due to increasing number of the market zones and customers. The capacity of these outlets was also identified so as to achieve improved efficiency and reliability. To some respondents, this was a noble idea given that it would improve the value of MSC products. Even though the idea sounds very bright, some respondents felt that improving performance of MSC distribution channels needs clear and effective communication.

In line with majority's comments, this study established that one of the reasons why MSC adopts diversification is to control risks. However, there is need to know the kind of risk that the company is exposed to. Hence, an analysis of the situation as commented by other respondents is key to achieve this. Categorically, the study noted through respondents comments that there is market risks and financial risks. In this regard, an analysis of the condition would thus need an evaluation of the two risks, which should be given priority during diversification. In as much as risk management seemed to majority

in terms of what to do, some fraction of respondents noted that the major question should be on the consequences of such measures, which according to this study, is to enable the company have increased profits and performance hence growth.

The core capabilities that MSC needs to improve so as to achieve improved performance should start with the identification of such core capabilities in the market so as to improve customer satisfaction on the company's products. This should be followed by an analysis of environment to inform the improvement initiatives on the core capabilities to employ so to arrive at improved customer satisfaction. However, consideration on employees' needs is also very necessary. The need to acquire new technology was strongly backed by majority's comments. A good proportion of respondents liked the idea to improve communication process during the entire period of formulation, implementation and evaluation of a diversification strategy at MSC. This concurs with (Lorin and Frances, 1999), which says that IT makes it possible to achieve faster and reliable communication. While considering prior challenges associated with organizational structures, the respondents expressed the opinion that the new technology in such diversification should be in agreement with and support MSC's structure, values and culture or else it can lead to chaotic outputs. This implies that the new technology should be compatible to existing systems and procedures (Thompson, Strickland and Gamble, 2008).

It was felt by the respondents that a good technology should be that which can integrate all MSC's processes, including but not limited to: production processes, marketing processes, distribution processes. Logically, integrating these entire processes enable the company has quick access to information through a centralized database. The

stakeholders will also be able to understand the relationship between these processes during system and business analysis (Ernest, 1957; McKinsey Quarterly Report, 2001). Moreover, the nobleness of such adoption should be reflected on their ability to help MSC managers or decision makers reach at diversification decisions that do not conflict with the organizational capacities including its resources. By this, the company will be in a position to identify all the required resources and processes for the diversification. AS a result, this would reduce, if not eliminate, future challenges. Finally, the respondents expressed the opinion that adoption of a new technology at MSC would give the best way to for the company to meet emerging market demands due to agile and flexible approaches exhibited in today's technological solutions.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND FURTHER RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter, I have given a summary of the findings, conclusion of the study and further recommendations for policy and practice.

#### **5.2 Summary of findings**

The study was based on strong background study on three main processes in strategic management processes like strategy analysis, strategy formulation and strategy implementation. The study tried to explore managerial choices among alternatives that are usually adopted to signals organizational commitment to specific markets and competitive approaches. Mumias Sugar Company being on of the, the study was well placed to answer some of the research question and achieve the set objectives. The background study tried to expose how strategy implementation is handled at this company and some of the challenges that can be associated to its success. In particular, there was an exploration of how challenges affecting diversification processes, and how such can be linked to processes of converting strategic plan into actions that are aimed at achieving desired objectives. The background study was very instrumental in informing this study how diversification strategies are formulated and transformed into an effect within the constraints of time, and within the support of organizational financial and human resources. The essence of managerial analysis on organizational structures, systems, culture, power and conflict before strategy implementation was also covered.

In as much the background study discovered that various researchers have revealed a number of problems in strategy implementation including: unawareness or misunderstanding of the strategy, lack of communication, weak management roles, unaligned organization systems, structures and resources, inadequate capabilities, competing activities, power, culture and uncontrollable factors in environment, it was still unique to proceed with the survey given that Mumias Sugar Company (MSC) is very different from other companies in such researches. Focus on MSC necessitated this study to have strong understanding on the existing data on the company including their diversification Strategy. In summary, the background study together with the literature review helped this survey to adopt the best objectives and questions to be achieved. In brief, the study addressed three main objectives, which necessitated an exploration into: whether MSC has been able to successfully implement diversification strategy, challenges facing MSC during their diversification implementation process, and why the company use diversification as a strategy.

The extensive and intensive literature review in this study helped to develop clear and deep understanding on the study topic, objectives and questions. In particular, the review tried to examine what other scholars and authors have said on diversification strategy, strategy implementation, strategy implementation challenges, and measures to address strategy implementation challenges. The review helped the researcher to develop clear understanding on diversification strategies like concentric, conglomerate, internal and external. The review helped this study to understand various factors that should be considered in the strategy implementation including organizational structure, organizational culture, and resource allocations among others. The process helped to

expose how strategy formulation, implementation and evaluation continually influencing one another both at business and corporate level. It was also the same process that the research noted that resources in diversification implementation involves financial, personnel, time and computer system support. The review on strategy implementation challenges was appropriate for this study given that companies operate in a turbulent and competitive environment hence a company like MSC could not be exempted from challenge of leadership, organization structure and behavior, culture, policy, and reward system challenges.

This was a case study, and the choice on this approach was influenced by the fact that the research intended to interview a few managers on challenges of implementing diversification strategy at the MSC. This approach matched well with qualitative data collection approach, which was semi structured interview, and qualitative analysis without necessarily having to employing any statistical approach. The use of primary and secondary data in this study played very significant role given that they enabled the study arrive at reliable findings with limited gaps. Based on qualitative design, the study analyzed data using content analysis, and this helped to arrive at very strong findings that adequately answered the study questions hence enabling the study achieve its objectives.

While reflecting on the study topic, objectives and questions, this study achieved its goal by establishing various findings. The main diversification strategies at MSC were established in the line of product and market. MSC has been not only able to diversify its product lines but also its market zones. Taking them as internal and external marketing strategies has enabled the company to have increased value and returns hence profits.

Market-oriented diversification is not only focused to market MSC products in Kenya but also East Africa and European markets. Product-oriented diversification strategies is also not focused to see that the company produces more products, within its primary line or external ventures, but also to add product value along the supply chain. Customers-oriented and suppliers-oriented strategies aimed to ensure that the company achieves sustainable growth and development due to provision of finished products that match diverse needs of the customers and having reliable supplies of raw material (sugarcane) respectively.

MSC produces more than one brand of sugar: the brown, the white and the Fortified sugar. Besides, the company produces ethanol from molasses and electric power from sugarcane buggasse. These products fall into four main diversification classes as practiced at MSC: concentric, conglomerate, internal and external. Concentric strategy requires the utilization of similar technology, markets and distribution lines hence has helped the company to reduce cost hence increasing the company's returns and profits. The company has been able to have more users of its products by not only creating more brands of sugar but also by having various package sizes of sugar: 2kg, 1/2kg, 1/4kg, 100gm and 50gm. The company's plan to enter into mergers with Tana/Athi River Authority (TARDA) and acquiring state owned sugar milling companies to increase the shareholders' value and attain competitive advantage over other sugar milling companies. These diversification strategies have enabled the company to enjoy economies of scales as well as sustainable growth and development.

### **5.3 Conclusion of the study**

Challenges associated with successful implementation of diversification strategies at MSC were in the dimensions of poor and ineffective policy formulation, ineffective organizational structures, poor leadership style, conflict on reward system, and cultural influence. Some of the formulated policies to support the implementation of strategic decisions are not in harmony with socio-economic conditions of the employees. The people involved in the policy formulation are incompetent in understanding the work process and company's potentials. There is conflict of organizational role due to control mechanisms and authority to be exercised during the implementation period.

Senior leaders at MSC seem to exercise autocratic and utilitarian style of leadership, which is not favorable especially where team spirit is needed to achieve the synergy. The organization structure at MSC is signified with lack of communication hence leading to lack of coordination. Leaders within the diversification plan are resistant to change and they at times feel too superior to consult other employees during diversification planning and implementation and these can lead to failures. Apart from negative attitude towards some employees some managers have failed to develop positive attitudes and opinions of other employees and stakeholders hence no coordination. Employees were also noted to be resistant and never ready to accept changes brought about by diversification programmes due to job security and remuneration.

The reward system used by MSC was noted to be faced with challenges when increasing the employees' pay. Although the use of evidence-based reward system to create job autonomy during diversification is good it threatens majority of employees. Culturally, not all employees at MSC value the same thing for reward hence making it an expensive

undertaking on the company. Moreover, some employees do not like being addressed in a casual manner as some men do not want to be lead by a woman. Some cultural values attached to the land and its usage makes it hard to realize successful implementation of diversification strategies at MSC. With regard to task environment, there is lack of cooperation among the team members hence destroying employees' loyalty, inaccessibility to some areas, poor coordination, and unfavorable legal policies in Kenya. In addition challenges associated with HR implementation were lack of good skills and high cost hence making the entire exercise very expensive.

In the perception of the stakeholders towards the diversification process at MSC, they are positive and proactive. The stakeholders have formed a separate task force to provide solutions for successful implementation. The management has also considered: salary increments on success, gift hampers to performing employees, holding of organizational parties, and promotion on success.

The study established that the current state of MSC is better than before in terms of improved growth, increased number of employees, more products and market shares. Hence, the major reasons for the diversification strategy at MSC are: to achieve a competitive advantage and a better performance, to maximize efficiency of doing business, to improve brand quality, to increase customer satisfaction, to reduce the cost of production, to improve the performance and values to suppliers and customers, to create and exploit economies of scope, to utilize the untapped managerial skills, and to reduce total firm risk and personal risk.

Finally, the study established through respondents' comments various aspects of diversification. First, MSC has witnessed greater income growth. There is need to improve the performance of distribution channels due to increasing number of the market zones and customers, and in the dimensions of capacity and communication. Improving the performance of distribution channels can be understood from the concept that sales network is quite vital in creating value within the supply chain of a firm (Forker, 1997). In as much as it will help to create shareholder value, it also creates customer value (Smith, Bruggen and Wierenga, 2002). In the view of this study, this can also be achieved by adopting electronic distribution strategies instead of the physical one.

The company adopts diversification so as to control risks hence it is logical to know the kind of risk that the company is exposed to, whether market risks or financial risks. This will improve resource allocation for handling such risks hence improving the output. The core capabilities that MSC needs to improve so as to achieve improved performance should start with the identification of such core capabilities followed by an analysis of environment while considering employees' needs. These depict a procedural strategy hence reducing the extent of losses or inconveniences that can emerge from such processes. The study established that there is need to acquire a new technology at MSC to improve communication process during the entire period of formulation, implementation and evaluation of a diversification strategy at MSC. Apart from such a system being in agreement with and support MSC's structure, values and culture, it should be able to integrate all MSC's processes like production processes, marketing processes, distribution processes. The new technology would also help MSC managers or decision

makers reach at fair diversification decisions and practices. Hence, this will enable the company meet emerging market demands.

#### **5.4 Recommendations for policy and practice**

This study established quite a number of findings that can be used to make recommendations that can help both the company and future studies. The fact that MSC has taken diversification strategies towards market and product would require the management to involve both marketing and production managers to analyze possible challenges before other managers from related departments are involved. Even though internal and external diversification strategies are adopted, the company needs to thorough analysis of internal and external business threats so to reduce the impact of challenges that may erupt.

The use of sugarcane buggasse to produce electric power and molasses to produce ethanol are noble diversification strategies that worth being supported by all stakeholders at MSC. However, it should be within the company's aim that they grow their market to other countries as in the case of sugar, which is supplied to East Africa and European countries. Although selling sugarcane buggasse as animal feeds have lower return compared to when it is used to generate electricity, MSC should consider a little of this diversification for purposes of building their brand image. Besides, the company should carry out a study to test the feasibility of using molasses to produce sweets.

The company should focus on customers and suppliers before other stakeholders within the supply chain are considered while adopting diversification strategies. This is because whenever customers and suppliers will have increased value from such diversifications,

there is an assurance of sustainable growth and development. In fact, production of three brands of sugar: the brown, the white and the Fortified sugar, and packing them in different sizes: 2kg, 1/2kg, 1/4kg, 100gm and 50gm is a noble practice in diversification programme. However, it would be more beneficial to think of introducing packages of bigger sizes like 5kg and 10kg. Before their introduction into the market, MSC needs to carry out consumer survey to establish the target group of consumers. The study encourages MSC to continue finding more external diversification strategies like the mergers noted with Tana/Athi River Authority (TARDA) and acquisitions noted with GoK. However, they need to consider what contributions such strategies would have on the shareholders' value and firm's competitiveness (Lorin and Frances, 1999).

The fact that diversification challenges were associated with poor policy formulation, it would be good if the company ensures that only competent, proactive, positive, and procedural people are involved. Besides, the organization structure should clearly discourage autocracy and utilitarian style of leadership or else the company will rarely achieve the expected level of team spirit and synergy during the diversification strategies. Lack of communication among the departments is a bad culture and should also be discouraged. Through this, employees' views should be involved in decision making on diversification strategies just like leaders so as to reduce their resistance. By incorporating ideas from both managerial and employees' side, MSC needs to be clear on how such programmes would benefit such stakeholders. At every instance, leaders at MSC should not feel more superior to employees given that this will just yield negative employees relationship. This will save the company lost hours or financial losses that may be caused by poor response to assigned duties during the diversification processes.

This study recommends the use of evidence-based reward system based on a similar system. MSC is thus discouraged from pegging employees' reward on the background culture of the employees. Instead, the organization culture on reward should prevail over the individual's values and culture so as to reduce any bias that can be associated with them. The organizational reward system should be very procedural and very appropriate to encourage job autonomy. The company needs to hold some forums where male employees can be made to understand that even females can make good leaders. Thus, they should be encouraged to foster organizational interests and not personal interests while interacting with female leaders. It is important to carry out both internal and external evaluation on stakeholders' values with a view to fix and harmonize differences in their view towards diversification strategies. All these will encourage cooperation among the team members. Leaders need to know cultural values of the Luhya community so that they formulate best approaches in utilizing the community's resources in their diversification programmes. Besides, the management should not only blame the government for unfriendly policies. Instead, they should embrace innovation and diversification so as to maintain their performance by introducing new products into existing and new markets.

Being positive and proactive is good but should not only be shown by managers but also a different task force that provides solutions for successful implementation of diversification strategy. Lack of good skills as a challenge to HR implementation requires employee training. Therefore, the Human Resources Manager and Finance Manager should cooperate to see that such loopholes are addressed. High cost associated with HR and the entire diversification implementation requires external funding solutions. This

can be achieved through international funding agencies like World Bank. Since this study noted that the current state of MSC is better than before, in terms of more employees, more competitive, products and market shares, and brand quality, it can be concluded that diversification strategy is a noble idea that should be adopted not only by related product companies but also service companies. However, focus should be given to improving the performance of distribution channels, in terms of capacity, value, and communication so as to control risks. All these can effectively be realized when the company acquires new technology.

### **5.5 Limitations of the study**

Senior leaders at MSC seem to exercise autocratic and utilitarian style of leadership, which is not favorable especially where team spirit is needed to achieve the synergy. The organization structure at MSC is signified with lack of communication hence leading to lack of coordination. Leaders within the diversification plan are resistant to change and they at times feel too superior to consult other employees during diversification planning and implementation and these can lead to failures.

Apart from negative attitude towards some employees some managers have failed to develop positive attitudes and opinions of other employees and stakeholders hence no coordination. Employees were also noted to be resistant and never ready to accept changes brought about by diversification programmes due to job security and remuneration.

## **5.6 Suggestions for Further Research**

Based on the findings of this study which was based on the challenges of implementing diversification strategy at the Mumias Sugar Company, it is highly recommended that future studies focus on another related company, which can be a sugar milling company so that the accumulated findings can later be used by another researcher to carry out comparative study on viability and benefits of diversification strategies adopted by these companies. On the other hand, future studies can use the same topic but focus on comparative analysis of various diversification strategies adopted by Mumias Sugar Company. This will enable the company to know the most and the least beneficial diversification strategy. Future studies on this topic can also alter the methodology used by employing both quantitative and qualitative data collection so that the findings can be used to strengthen the ones in the current study.

\

## References

- Abeyasekera, S. (2006), *Quantitative Analysis Approaches to Qualitative Data: Why, When and How*. Statistical Services Centre, University of Reading, UK.
- Amihud, Y. and Baruch, L. (1981), Risk Reduction as Managerial Motive for Conglomerate Merger. *Bell Journal of Economics* 12 (Autumn)
- Alexander, L.D.(1985), Successfully implementing Strategic Decisions', Long Range Planning, Vol 18 No.3pp 91-97
- Ansoff, H.I. (1965), *Corporate Strategy*. New York, McGraw Hill.
- Asfaw, K. (2004), *Research Design, Data Collection and Analysis: A training manual*.
- Awino, Z.B, PhD, (2009), *Challenges facing the implementation of Differentiation Strategy at the Mumias Sugar Company Limited* (doctoral thesis). School of Business, University of Nairobi, Kenya.
- Bar-on, D. (1996), Ethical issues in biographical interviews and analysis. In R. Josselson (Ed.), *The narrative study of lives: Ethics and process in the narrative study of lives*.4:9-21. Thousand Oaks, CA: Sage.
- Berger, P., and Ofek, E. (1995), Diversification's effect on firm value, *journal of Financial Economics* 37: 39-65.

- Boore, K., G. (2005), *Factors affecting implementation of Government Strategies in Agriculture to reduce poverty in Kenya*. A case of Meru Central District, Unpublished MBA project, School of Business, University of Nairobi, Kenya.
- Bryson J.M. (1998), *Strategic Planning Workbook for Non-Profit Organizations*, Jossey-Bass, San Francisco, CA
- Burnes, B. (2004), *Managing Change*, 4<sup>th</sup> Edition, Pearson Education Limited.
- Chataika, T. (2005), Narrative Research: *What's in a Story?* At: 8th NORDIC Disability Conference. Oslo, Norway.
- Churchill, G.A., & Iacobucci, D., (2005), *Marketing Research: Methodological Foundations*. (9th edition). USA: South-Western.
- Deng, E and Elyasiani, E. (2005), *Geographic Diversification and BHC Return*
- Ellis, S., & Dick, P (2000), *Introduction to Organizational Behaviour*, London, McGraw Hill
- Elango, B.; Ma Y., and Pope, N. (2008), An Investigation into the Diversification Performance Relationship in the US Property – Liability Insurance Industry, *Journal of Risk and Insurance*, 75(3): 567 – 591.
- Ernest, C. A. (1957), Diversification. *Management for Growth*. Stanford University, Graduate School of Business, 85-86.

- Feldman, J. and Kanter, H.E. (1965), *Organizational Decision Making: Handbook of Organizations*, Chicago, Rand McNally.
- Forker, L. B. (1997), Factors Affecting Supplier Quality Performance. *Journal of Operations Management*, 15 (4), 243-269.
- Grant, R. M; A.P. Jammie and H. Thomas (1988), Diversity, Diversification and Profitability among British Manufacturing Companies, 1972 – 84; *Academy of Management Journal*, Vol. 31, No. 4, pp. 771 – 801.
- Grant, R.M. (2005), *Contemporary Strategy Analysis*, 5th Edition, London: Blackwell Publishing.
- Glasow, P.A. (2005), *Fundamentals of Survey Research Methodology*. Washington CJ Center, McLean, Virginia.
- Gluck, F. (1985), A fresh look at Strategic Management, *The Journal of Business Strategy*, Fall.
- Golafshani, N. (2003), “Understanding Reliability and Validity in Qualitative Research” *The Qualitative Report*, 8(4):597-607. University of Toronto, Toronto, Ontario, Canada.
- Harrington R.J. (2006), The moderating effects of size, manager tactics and involvement on strategy implementation in food service. *Hospitality Management*, Vol 25, pp 373-397.
- Innovations Insights. (2006), *Using Surveys for Data Collection in Continuous Improvement*. The Pennsylvania State University.

- Johnson, G. and Scholes, K. (2002), *Exploring Corporate Strategy*, 6<sup>th</sup> edition, India, Prentice Hall
- Kothari, C., (2008), *Research methodology: methods and techniques*. USA: New Age International.
- Keskinocak, P. and Tayur, S. (2001), Quantitative analysis for internet-enabled supply chains. *Interfaces*, 31(2), 70-89.
- Kenya Sugar Industry (2010). STRATEGIC PLAN, 2010–2014. *Enhancing Industry Competitiveness*. Kenya Sugar Board.
- Kotler, P. and Armstrong G., (2008), *Marketing: An Introduction*. New Jersey. Prentice-Hall International, Inc.
- Lorin, M. H. and Frances, X. F. (1999), *Do Better Customers Utilize Electronic Distribution Channels: The Case of PC Banking*, Whatron School Centre for Financial Institutions, University of Pennsylvania, Working Paper 04.
- Lecraw, D.J. (1984), Diversification Strategy and Performance, *Journal of Industrial Economics*, Vol. 33, No. 2, pp. 179 – 198. Dec.
- Lole, M. (2009), *Diversification Strategies in the Banking Industry in Kenya*, Unpublished MBA Project, University of Nairobi.
- McBurney, D. and White, T. (2009), *Research methods*, USA: Cengage Learning.
- McNeill, P., and Chapman, S., (2005), *Research methods*, UK: Routledge

- Myers, M. D., (2009), *Qualitative Research in Business and Management*, London: Sage Publications Ltd.
- McKinsey Quarterly Report (2001), “*Deals that Create Value*”, Vol. 1. McKinsey Quarterly Report (2001). “*Why Mergers Fail*”. Vol. 4.
- Mintzberg, H. Ahlstrand, B; Lampel, J. (2009), *Strategy Safari Your Complete Guide through the Wilds of Strategic Management*, London Prentice Hall.
- Nesbitt, S.L. and King, R.R. (1989), Business Diversification – Has it taken a bad rap? *Mergers and Acquisition*, November – December.
- Patton, M. Q. (2002), *Qualitative research & evaluation methods* (3<sup>rd</sup> ed.). Thousand Oaks, CA: Sage Publications, Inc.
- Palepu, K. (1985), Diversification Strategy, Profit Performance and the Entropy Measure, *Strategic Management Journal*, Vol. 6, pp. 239 – 255. July – Sept.
- Pearce, J.A. and Robinson, R.B. (2007), *Strategic Management*. McGraw-Hill, New York.
- Reed, R. and Luffman, G. (1986), Diversification: The Growing Confusion, *Strategic Management Journal*, 7(1), 29 – 35.
- Rue, C., and Holland, P. (1989), *Strategic Management*, New York: McGraw-Hill, New York.

- Srivastava, P. and Hopwood, N. (2009), A Practical Iterative Framework for Qualitative Data Analysis. *International Journal of Qualitative Methods*, International Institute of Qualitative Methodology, University of Alberta.
- Scholes, K and Johnson, G (2007), *Exploring Corporate Strategy*. London: Prentice-Hall Europe.
- Smith, W., Bruggen, G. H. and Wierenga, B. (2002), *Building Stronger Channel Relationship through Information Sharing*, Discussion Paper, 235, 1-62. Erasmus Research Institute of Management.
- Thompson, A.A. and Strickland, A.J., Gamble, P. (2008), *Strategic Management, Crafting and Executing Strategy*. London: John Wiley & Sons).

## **APPENDICES**

### **APPENDIX 1: INTERVIEW GUIDE**

#### **SECTION 1: Types of diversification strategy**

1. What are some of the types of diversification strategies employed by your company?
2. Do you have the following types of diversification strategies?
  - a) Concentric
  - b) Conglomerate
  - c) Internal
  - d) External
  - e) Horizontal
  - f) Vertical

#### **SECTION 2: Challenges of implementing diversification strategy**

- i. What challenges did you experience in the process of implementing the strategy in terms of,
  - a) Formulation of policies
  - b) Organization structure
  - c) Leadership
  - d) Reward system
  - e) Culture
- ii. What challenges did the task environment pose to the company?
- iii. What was the response of the stakeholders to the diversification process?
- iv. What mechanisms did you put in place to guarantee their continued support?
- v. Comment on MSC now and before the diversification strategy.
- vi. What challenges did you face while implementing HR strategies?

### **SECTION 3: Reasons for diversification strategy**

- i. What are the major reasons for the diversification strategy at MSC?
- ii. What can you say on the following as reasons for diversification strategy at MSC.
  - a) There is greater income growth potential from diversification strategy.
  - b) There is need to improve the performance of distribution channels.
  - c) Reason for diversification is to control risks.
  - d) The company needs to improve performance of core capabilities.
  - e) Need to acquire new technology.
  - f) Need to reduce underinvestment problems
  - g) There is need to seek growth opportunities
  - h) The company needs Increased Tax Shield.
  - i) Need to remain fresh and stimulated as a creative professional.
  - j) Need to survive and thrive.

## **APPENDIX 2: LETTER OF INTRODUCTION**



## **SECTION 1: Types of diversification strategy**

1. What are some of the types of diversification strategies employed by your company? **APPENDICES**

### **APPENDIX: SAMPLE OF INTERVIEW TRANSCRIPTS**

#### **INTERVIEWEE 1**

**Response:** *Please you need to be simple as some of us are not professionals in this line of your study...ok; if that is what you mean then this company has diversification in the line of product and markets...yah both internal and external strategies...*

**2) Do you have the following types of diversification strategies?**

**a) Concentric**

**Response:** *Clarify your point first... yes Mumias Company has this... yah, the company has added related products and markets within their growth strategy...*

**b) Conglomerate**

**Response:** *Yes we have...Am familiar with the term...check the company environment and you will verify this...*

**c) Internal**

There are some...many brands of sugar the brown, the white, the Fortified...

**d) External**

Yes joint ventures with Athi/Tana River ...errr...

**Response:** *Can you first clarify this...ok, I can say it is the major...every diversification program I have witnessed in this company just uses internal resources...computers, human resource, material...errr...*

**d) External**

**Response:** *Yes though in their future plan...*

## **SECTION 2: Challenges of implementing diversification strategy**

**1) What challenges did you experience in the process of implementing the strategy in terms of:**

**a) Formulation of policies**

**Response:** *They are usually not in agreement with implementing strategic decisions made in the diversification programmes...*

**b) Organization structure**

**Response:** *I have seen conflict of organizational role, like me... I was not happy with the company's control mechanisms and authority to be exercised during the implementation period...*

**b) Leadership**

**Response:** *some not all...yes leaders within the diversification plan are resistant to change...I am really sad about it since this is not a good virtue of a leader...*

**c) Reward system**

**Response:** *The challenge is how to increase the employees' pay...some will be happy while some will not...as a leader in this company, I find it very hard to convince the complaining group...*

**c) Culture**

**Response:** *Yes, culture is hard to identify but I had once observed it...the language... in the language aspect some employees during the implementation process are not willing to be addressed in a casual manner...*

**c) What challenges did the task environment pose to the company?**

**Response:** *once witnessed is lack of cooperation...yes among the team members but not so much...*

**c) What was the response of the stakeholders to the diversification process?**

**Response:** *Was positive...*

**d) What mechanisms did you put in place to guarantee their continued support?**

**Response:** *I can talk of salary increments on success...*

**d) Comment on MSC now and before the diversification strategy.**

**Response:** *The company has grown...compared to when these innovative diversifications have not been adopted...*

**e) What challenges did you face while implementing HR strategies?**

**Response:** *Lack of good skills...yes those required skills for successful implementation...*

### **SECTION 3: Reasons for diversification strategy**

**1) What are the major reasons for the diversification strategy at MSC?**

**Response:** *Just to achieve a competitive advantage and a better performance...That is all I can say...*

**2) Comment on the following as reasons for diversification strategy at MSC.**

**a) There is greater income growth potential from diversification strategy.**

**Response:** *That is correct....*

**b) There is need to improve the performance of distribution channels.**

**Response:** *Yes in terms of their number...more market and customers goes together with more outlets...*

**c) Reason for diversification is to control risks.**

**Response:** *That is right but there is need to know which kind of risk...*

**d) The company needs to improve performance of core capabilities.**

**Response:** *As you have said...so does it imply that Mumias should identify these core capabilities...ok...?*

**e) Need to acquire new technology.**

**Response:** *I like the idea just to improve communication process during the entire period of formulation, implementation and evaluation of a diversification strategy...*

## **INTERVIEWEE 2**

### **SECTION 1: Types of diversification strategy**

**1. What are some of the types of diversification strategies employed by your company?**

**Response:** *What I can say is that Mumias Company has really been initiating diversification in the line of its products...yes I can name them...sugar, buggasse power and ethanol...*

**2) Do you have the following types of diversification strategies?**

**a) Concentric**

**Response:** *What I can say is that our company ha participated in acquiring related businesses that are related to its original lines of production but ends up utilizing similar technology, and markets...*

**b) Conglomerate**

**Response:** *Yes...consider ethanol...*

**c) Internal**

**Response:** *Yes Mumias has this...if the question implies to expanding a firm's product or market base then Mumias is currently a producer of more than one product, which is sugar...*

**d) External**

**Response:** *Yes I have heard but I cannot quote any example...*

### **SECTION 2: Challenges of implementing diversification strategy**

**1) What challenges did you experience in the process of implementing the strategy in terms of:**

**a) Formulation of policies**

**Response:** *Its challenges associated with the company management...yes they formulate policies that can never be adhered to given the socio-economic conditions facing us as employees in this company...*

**b) Organization structure**

**Response:** *Employees in this company have at one point in time have been in cold war with governance procedures that were introduced when the company wanted to adopt one of the diversification programme...*

**c) Leadership**

**Response:** *Ok, some of the leaders in our company usually feel too superior to consult us...of course we will have negative attitude towards them...*

**c) Reward system**

**Response:** *You see with our evidence-based reward system, some employees feel threatened when the company talks of job autonomy as the only way to reward employees when the diversification programme succeeds...*

**c) Culture**

**Response:** *what I can say is what people value in their lives...what you say and how you say it usually expose most of the implementation programmes to much challenge... These employees come from various tribes and every tribe has their own way of life...*

**c) What challenges did the task environment pose to the company?**

**Response:** *First remember our company is known for employees...however, this spirit at times could be destroyed when we could not get the right materials and systems to use in time...*

**c) What was the response of the stakeholders to the diversification process?**

**Response:** *They were proactive...*

**d) What mechanisms did you put in place to guarantee their continued support?**

**Response:** *Yes we have always ensured that we offer gift hampers to performing employees...*

**d) Comment on MSC now and before the diversification strategy.**

**Response:** *It is true that we absorb more employees...*

**e) What challenges did you face while implementing HR strategies?**

**Response:** *Lack of cooperation among the employees...*

### **SECTION 3: Reasons for diversification strategy**

**1) What are the major reasons for the diversification strategy at MSC?**

**Response:** *To maximize efficiency of doing our business, to improve our brand quality...errr... for increased customer satisfaction.... Look...it is to reduce the cost of production and to improve the performance and values to our suppliers and customers...*

**2) Comment on the following as reasons for diversification strategy at MSC.**

**a) There is greater income growth potential from diversification strategy.**

**Response:** *It is true*

**b) There is need to improve the performance of distribution channels.**

**Response:** *I agree but focus should be given to their capacity...*

**c) Reason for diversification is to control risks.**

**Response:** *Absolutely true but it requires an analysis of the situation first...*

**d) The company needs to improve performance of core capabilities.**

**Response:** *Yes in the market...and within the company itself...*

**e) Need to acquire new technology.**

**Response:** *I agree with you but...but...let the new technology be in agreement with and support our company structure, values and culture...or else it can lead to chaotic outputs...*

## **INTERVIEWEE 3**

### **SECTION 1: Types of diversification strategy**

**1. What are some of the types of diversification strategies employed by your company?**

**Response:** *I may not quote but use indicators...Look at how the company has expanded its markets across the borders...Of course...I mean Mumias is now one of the world class suppliers of sugar...only that...*

**2) Do you have the following types of diversification strategies?**

**a) Concentric**

**Response:** *Yes the recently introduced brown sugar for the diabetes patients is just sold where the original brands of sugar are sold...*

**b) Conglomerate**

**Response:** *I strongly think power generation through sugarcane baggasse would serve this right...*

**c) Internal**

**Response:** *If am not wrong then internal diversification there at Mumias...yes sugar is now marketed in new markets not only in Kenya but also Africa and abroad...*

**d) External**

Yes acquisition of state owned sugar milling companies...

**Response:** *Ok to the best of my knowledge...I accept..Mumias has good plans to have mergers and even acquisitions...*

### **SECTION 2: Challenges of implementing diversification strategy**

**1) What challenges did you experience in the process of implementing the strategy in terms of:**

**a) Formulation of policies**

**Response:** *The formulated policies at times, and mark my words...I don't mean always never support systems that promote the chosen strategy implementation.*

**b) Organization structure**

**Response:** *In fact, I can say that the structure and behavior exhibited in the phase of diversification programmes at Mumias at times are not in harmony to support the strategy...aren't you seeing this very dangerous...it can be linked to lack of communication...*

**b) Leadership**

**Response:** *Some of them have failed to influence the attitudes and opinions of other employees and stakeholders...you can't see the end result? ...I assure you there will be no coordination*

**c) Reward system**

**Response:** *At times, awards at Mumias do not encourage managers and employees to be fully dedicated to the success of our diversification strategies...*

**c) Culture**

**Response:** *Some men do not want to be lead by a woman...in fact this is a disease that is very common with our employees regardless of their positions in the company...*

**c) What challenges did the task environment pose to the company?**

**Response:** *Inaccessibility to some areas was a major problem during when the company wanted to influence land consolidation in the area...*

**c) What was the response of the stakeholders to the diversification process?**

**Response:** *The stakeholders formed another task force to analyze the situation and provide solutions for successful implementation...*

**d) What mechanisms did you put in place to guarantee their continued support?**

**Response:** *Organizational parties...*

**d) Comment on MSC now and before the diversification strategy.**

**Response:** *Mumias is now more competitive...not only Kenya but also in the European countries...*

**e) What challenges did you face while implementing HR strategies?**

**Response:** *At times, there was resistance...*

### **SECTION 3: Reasons for diversification strategy**

**1) What are the major reasons for the diversification strategy at MSC?**

**Response:** *Not so much but to be specific...to create and exploit economies of scope, we saw it that Mumias as a company has under-utilized resources its suppliers' region and customers' regions so by doing this we exercise maximum and reserved potential of the company...*

**2) Comment on the following as reasons for diversification strategy at MSC.**

**a) There is greater income growth potential from diversification strategy.**

**Response:** *I strongly agree to that...*

**b) There is need to improve the performance of distribution channels.**

**Response:** *You see it is all about bringing improved efficiency and reliability...*

**c) Reason for diversification is to control risks.**

**Response:** *To me market risks and financial risks should be treated with priority...*

**d) The company needs to improve performance of core capabilities.**

**Response:** *I accept the idea since it will improve customer satisfaction on our products...*

**e) Need to acquire new technology.**

**Response:** *The idea is indisputable...however, I feel a good technology should be that which can integrate all company processes, including but not limited to: production processes, marketing processes, distribution processes...*

## INTERVIEWEE 4

### SECTION 1: Types of diversification strategy

1. What are some of the types of diversification strategies employed by your company?

**Response:** *Ok, good examples I can give are customers oriented, suppliers oriented, product oriented and market oriented...Yes, focused to have more customers, supply, product brands and market zones..*

2) Do you have the following types of diversification strategies?

a) Concentric

**Response:** *Based on your explanation, I can say it exists...Yes the new product lines like power and ethanol are just using the similar technologies and resource requirements as the main product line, which is sugar...*

b) Conglomerate

**Response:** *Yes...the company has invested in power generation alongside it is ethanol production...all these go to the market just like sugar...*

c) Internal

**Response:** *It is there...ok, consider how the company has broadened its geographic base to include new customers...of course in Kenya, East Africa, Africa, and abroad countries...*

d) External

**Response:** *err...acquisition of state owned sugar milling companies...*

### SECTION 2: Challenges of implementing diversification strategy

1) What challenges did you experience in the process of implementing the strategy in terms of:

a) Formulation of policies

**Response:** *Myself, I perceive these challenges in terms of inadequate capabilities of the involved policy makers...yes you can notice some incompetence in understanding the work process and company potentials hence leading to unfriendly policies...of course we will not positively follow them...*

**b) Organization structure**

**Response:** *The process of decision making...yes the company believes that best decisions are made exclusive of employees like me...and this brings a lot of misunderstanding of the strategy....*

**C) Leadership**

**Response:** *I am not worried to say that employees in this company are never ready to accept such changes...ok, they claim of job security and remuneration...*

**c) Reward system**

**Response:** *The diverse culture among our employees is major challenge to an effective reward programme...Although they are Africans, there are something they don't value...so by giving out a gift and not money some may be against such treatments and usually view it with negativity...*

**c) Culture**

**Response:** *Culture...ok, challenges come from the surrounding community..w\some diversification programmes needs the support of the community but...but...I tell you there are some cultural values attached to the land and its usage, which become the major snags in the successful implementation of our programmes...*

**c) What challenges did the task environment pose to the company?**

**Response:** *Yes challenges exists...what I can say is that at times the company teams can be very willing but not all stakeholders will be willing...*

**c) What was the response of the stakeholders to the diversification process?**

**Response:** *They were all willing though some resistance could be lightly seen...*

**d) What mechanisms did you put in place to guarantee their continued support?**

**Response:** *Promotions on success...*

**d) Comment on MSC now and before the diversification strategy.**

**Response:** *We have more products and market shares compared to before...yes that is all I can say...*

**e) What challenges did you face while implementing HR strategies?**

**Response:** *I can quote cultural challenges...*

### **SECTION 3: Reasons for diversification strategy**

**Response:** *You see we have a lot of managerial skills that can be successfully tapped to give this company increased value on its returns from other markets...so the reason is all about getting extra income for development and growth of the company...*

**2) Comment on the following as reasons for diversification strategy at MSC.**

**a) There is greater income growth potential from diversification strategy.**

**Response:** *Yes but in comparison with past performance...*

**b) There is need to improve the performance of distribution channels.**

**Response:** *This is a noble idea given that it would improve the value of our products...*

**c) Reason for diversification is to control risks.**

**Response:** *The question should be so what, which to me is to enable the company have increased profits and performance...*

**d) The company needs to improve performance of core capabilities.**

**Response:** *To me I would prefer clear identification of these capabilities first followed by an analysis of their environment to inform the improvement initiatives...*

**e) Need to acquire new technology.**

**Response:** *I feel the new technology should be able to help our company managers or decision makers reach at diversification decisions that do not conflict with the organizational capacities...like resources...*

## **INTERVIEWEE 5**

### **SECTION 1: Types of diversification strategy**

**1. What are some of the types of diversification strategies employed by your company?**

**Response:** *You see in product line, Mumias is now advantaged in that it produces more than one brand of sugar...farmers as the major suppliers are also encouraged to increase more supply of sugarcane...the company has expanded its markets to abroad...err right now, the company is set to increase the number of customers using its old and new products...*

**2) Do you have the following types of diversification strategies?**

**a) Concentric**

**Response:** *Concentric is there...This is very obvious and can't be disowned...our distribution channels for any new product line focus on existing distribution channels...*

**b) Conglomerate**

**Response:** *Yes and because apart from sugar ethanol and steam energy are just very different lines of products...*

**c) Internal**

**Response:** *Yes...I can only support myself with customer-oriented strategies...you see Mumias has adopted internal diversification strategy by finding new users for its sugar, power and ethanol...Not only this, its prices for these products are lower...take sugar and compare with SONY, Chemelil, Muhoroni etc...we have reduced prices...*

**d) External**

**Response:** *Yes with Athi River Cement Company...*

## **SECTION 2: Challenges of implementing diversification strategy**

**1) What challenges did you experience in the process of implementing the strategy in terms of:**

**a) Formulation of policies**

**Response:** *Our Company is not immune from this...take for instance the case of policies that does not consider the current capability of our system... I mean some of the policies made during the company's diversification process do not match with people's skills, social life, economic status, values and cultures...only that...*

**b) Organization structure**

**Response:** *yes various organizational levels compete...I suggest no clear boundaries on their roles...it is like competing interests...*

**c) Leadership**

**Response:** *As a leader, I find it very challenging to coordinate the required resources, employees, logistics and processes...etc....etc... in a manner that they do not conflict one another...*

**d) Reward system**

**Response:** *It is the diverse cultural of our employees that complicates reward system at Mumias during diversification programmes...Some people may be just selected and rewarded to represent the company in the village during diversification surveys...they share similar cultures with the locals...however, some will complain and even rebel incognito...*

**e) Culture**

**Response:** *I'm not afraid to say that some cultures in this company do not favor all stakeholders...This has lead to slow opposition or slow implementation of these programmes...*

**f) What challenges did the task environment pose to the company?**

**Response:** *Errr...I can say that at times our national policies and legislations are the major drawbacks to our efforts in succeeding with some of our diversification initiatives...*

**g) What was the response of the stakeholders to the diversification process?**

**Response:** *Not all of them were positive...yes some felt threatened while others felt very advantaged...*

**h) What mechanisms did you put in place to guarantee their continued support?**

**Response:** *Leadership by showing them examples...*

**i) Comment on MSC now and before the diversification strategy.**

**Response:** *The Company is more recognized compared to before...yes...just brief as such...a world class...*

**j) What challenges did you face while implementing HR strategies?**

**Response:** *Err...cost is very challenging...at times the exercise is very expensive...*

### **SECTION 3: Reasons for diversification strategy**

**1) What are the major reasons for the diversification strategy at MSC?**

**Response:** *to reduce total firm risk...ok; this would help to reduce even personal risk....through our cross-subsidization approaches...for instance, the Fortified Sugar, which subsidized the normal sugar product, the company spread financial risk over different markets and products...is it now clear..Ok...*

**2) Comment on the following as reasons for diversification strategy at MSC.**

**a) There is greater income growth potential from diversification strategy.**

**Response:** *Yes both national and international...*

**b) There is need to improve the performance of distribution channels.**

**Response:** *Even though the idea sounds very bright, I suggest that clear and effective communication should be established within our company's distribution channels...*

**a) Reason for diversification is to control risks.**

**Response:** *I agree to this statement given that such controls would enable the company grow and develop within the strategic time-frames...*

**b) The company needs to improve performance of core capabilities.**

**Response:** *Myself, I perceive it that Mumias can only achieve this when there good consideration on both employees' and customers' needs...needs always inform action step...*

**c) Need to acquire new technology.**

**Response:** *I support the idea given that it is the best way through which the company can meet emerging market demands due to agile and flexible approaches...*