PRODUCT DIVERSIFICATION AS A STRATEGIC APPROACH BY YOUTH FUNDING ORGANISATIONS IN KENYA

BY

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

OCTOBER, 2013

DECLARATION

This research project is my original work and has not been presented for a degree in any other university or college for examination/academic purposes.

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The research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

This research is dedicated to my parents Elias and Monica who encouraged me all through to finish my MBA. Not forgetting my 6 year old son David James Mugambi for his patience, concern and understanding.

ACKNOWLEDGEMENTS

I wish to extend my heartfelt appreciation to several people who provided guidance and support during the entire period of my study.

My sincere gratitude to my supervisor Mr Eliud Mududa for his constant support, guidance, clear thinking, positive criticism and passion to see me excel. Am also acknowledging all my lecturers including Dr Z B Awino who through their guidance I have finished my MBA.

I can't forget my fellow MBA students whom I consulted on various issues. My friends Joseph Njigoya, Joseph Chepkwony and Erastus Kibuka who encouraged me all the way even when I thought the going was getting tough. My sister Evaline and my brother Dan for their endless prayers and emotional support.

I am very grateful to the various managers I interviewed and who spared their valuable time to complete my questionnaire. Without their support I wouldn't have been able to complete this project.

To Almighty God for giving me strength, inspiration and will power to keep on going.

To all of you I say a big Thank you.

ABSTRACT

The purpose of the study was to investigate the product diversification as a strategic approach by youth funding organisations in Kenya. Specifically the study sought to establish the extent of product diversification as a strategic approach; to establish the benefits of adopting product diversification as a strategic approach as well as establishing challenges associated with the adoption of such a strategy. The study employed a cross-sectional survey research design where population comprised of eleven Youth Funding Organizations in Kenya. The study used both secondary and primary data. Primary data was collected by use of a structured questionnaire to top and middle level managers. The questionnaire contained both closed and open questions and was administered to top management of the organizations. The secondary data was obtained to clarify variables related to the study. Data was analyzed through use of quantitative data analysis techniques or statistical methods e.g. regression model. This included frequency distribution, percentages and measures of central tendency. From the findings, the study concludes that in addition to advancing general loans, the youth funding organizations had advanced various products to the youth. This step is prudent since it enhances diversity of products which helps to reduce competition for buyers. It also allows the youth to specialize in the areas which they are best talented. Therefore Youth Funding Organizations should come up with strategies which will enable them to compete effectively with other organizations. This can be done through market analysis and also analysis of trends in customer tastes and preferences.

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ABBREVIATIONS AND ACRONYMS

DTC: Dynamic Capabilities Theory

MFI's: Micro Finance Institutions

MTP: Medium Term Plan

RBV: Resource Based View

SME's: Small and Medium Enterprises

YEDEF: Youth Enterprise Development Fund

YFO's: Youth Funding Organisations

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Diversification is a form of growth strategy which takes the organisation away from it's present market and its present products at the same time (Johson and Scholes, 2009).In order for organisations to remain competitive, there is need to craft differentiation strategies Porter(1985) so as to have an edge over its competitors. Many organisations are therefore formulating appropriate strategies in order to gain competitive advantage.

According to Pearce and Robinson(2007),business managers evaluate and choose strategies that they think will make their businesses successful. The management's role is to assess its competitors and set goals and strategies to meet all existing and potential competitors. It also has to reassess each strategy to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, new economic environment or new social, financial or political environment.

Many theories have been advanced regarding formulation of appropriate strategies to gain competitive advantage. Recently there has been a resurgence of interest in the role of the firm's resources as the foundation for firm's strategy. The interest reflects dissatisfaction with the statistics equilibrium framework of industrial organization economics that has dominated such contemporary thinking about business strategy.

Advances have occurred on several fronts. At the corporate strategy level, theoretical interest in economies of scope and transaction costs has focused attention on the role of corporate resources in determining the industrial and geographical boundaries of the firm’s activities. At the business strategy level, exploration of the relationships between resources, competition and profitability include the analysis of competitive imitation, the appropriability of returns of innovations, the role of imperfect information in creating profitability differences between competing firms and means by which the process of resource accumulation can sustain competitive advantage.

Together, these contributions amount to what has been termed the resource based view of the firm (RBV).As yet however, the implications of the resource based theory for strategic management are unclear because the various contributions lack a single interacting framework and little effort has been made to develop the practical implications of the theory. The concept of dynamic capabilities (DCT) arose from a key shortcoming of the resource-based view of the firm. The RBV has been criticized for ignoring factors surrounding resources, instead assuming that they simply “exist”.

This study dealt with diversification of products as a strategy by financial institutions advancing youth related products especially to micro, small and medium youth- led enterprises in Kenya.The latest data on the global youth population are staggering. Eighty five percent of the over 1.8 billion global youth and adolescents live in developing countries. By the end of 2010, over 75 million young people were struggling to find work (International Labour Organisation, 2010). This historic youth bulge presents unique challenges; however, it also offers an incredible opportunity to impact the growing youth population through effective youth economic development. By increasing youth's access to decent, sustainable, and meaningful economic opportunities -underpinned by appropriate financial and supportive services, this will ensure that this youth bulge becomes a demographic dividend. With the above huge numbers, financial institutions have to pay attention to unique financial needs of the youth and products made available.

1.1.1 Concept of strategy

Strategy is a multi-dimensional concept that has found application in all fields of study and life. Strategy defines organisations purpose, goals, objectives and priorities.It deals with the organisations competitive advantage and also positioning it in its environment.It also defines the obligations of the organisation to its stakeholders and the business of the organisation including its product and market scope. It is a plan of how a firm will compete after evaluating its strengths and weaknesses compared to those of its competitors,of which must lead to competitive advantage.A strategy is the outcome of some form of planning,organised process of anticipating and acting in the future in order to carry out the organisations mission (Baker,2007).

Drucker(1954) viewed strategy as defining the business of a company. Chandler(1962) in support of Drucker, defined strategy as the determination of the basic long-term goals of the enterprise, the adoption of courses of action and allocation of resources necessary for carrying out these goals. Andrews(1971) in a more elaborative version, recognised strategy as the pattern of major objectives, purposes or goals,stated in such a way to define what business the company is in and the kind of company it is to be.

The current unfrequented change in the environment has resulted to organizations taking into considerations all available factors within their operations in an attempt to adapt their activities and internal configurations to reflect new external realities. The framework that links an organizations capability to its environment is known as strategy (Ansoff, 1990).
A well formulated strategy helps to marshal and allocate organizations resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents (Pearce II and Robinson, 1991).

Strategy is the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good performance targets. It is the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations.According to Capon (2008), strategy is about trying to influence where possible the external environment in which the organization operates, differentiating to add unique value to its products and services and thoroughly understanding the market place, its segmentation and the customers. The external environment is where the opportunities and threats arise from and confront the organization. Opportunities arise in the form of new customers and new geographic markets which can be exploited. In contrast, threats usually arise from competitor having better prices, more customers and greater market share.

Mintzberg (1999) viewed strategy in five different ways: as a plan, ploy, pattern, position and perspective (5PS).As a plan, strategy deals with how leaders try to establish direction for organizations, to set the more predetermined courses of action. Strategy as a plan also raises the fundamental issue of cognition-how intentions are conceived in the human brain in the first place, indeed, what intentions really mean. As a ploy, strategy takes into account direct competition, where threats, feints and various other manoeuvres are employed to gain advantage. This places the process of strategy formulation in its most dynamic setting, with moves provoking countermoves etc. Ironically, strategy itself is a concept rooted not in change but in stability in set plans and established patterns.

As pattern, strategy focuses on action, meaning concept is empty one if it doesn't take behaviour into account. As a pattern, it introduces the notion of convergence, the achievement of consistency in organizations behaviour. Realized strategy when considered alongside intended strategy encourages us to consider the notion that strategies can emerge as well as be deliberately imposed. As position, strategy ensures we look at organizations in their competitive environment that is how they find their positions and protect them in order to meet competition, avoid it or subvert it. Finally as a perspective, strategy raises intriguing questions about intentions and behaviour in a collective context. It raises the issue how intentions diffuse through a group of people to become shared as norms and values and how patterns of behaviour become deeply ingrained in the group.

Mintzberg and Quinn (1991) concluded that for any strategy to be considered effective, it must have clear and decisive objectives, must maintain initiative and commitment and must concentrate superior power to the best critical dimension and comparison to the rivals. The effective strategies must be flexible to ensure easy planned manoeuvring and reposition to use minimum resources under a well committed and coordinated leadership.

Haggins(1989) argue that todays business environment is characterised by dynamic and rapidly changing environment, changing customer values, increased global competition, liberalisation and a host of other economic, political and social dynamics that can't be overlooked. Organisations that will last in such a turbulent environment is their ability to manage both continuity and change.

Pearce and Robinson(2011) add that in order for organisations to achieve their goals and objectives, it is imperative for them to adapt to their environment. Failure to adapt the organisation to its environment leads to a strategic mismatch between what the organisation offers and what the market demands. As such then, executives have to make strategic choices that are concerned with decisions about an organisations future and the way it needs to respond to these environmental influences and pressures.

1.1.2 Product diversification strategy

Product diversification is a corporate strategy for organizations that is aimed at increasing market penetration and thereby increasing sales and gaining market share. The purpose of diversification is to allow the organisation to enter lines of business that are different from current operations.

In market development, the firm seeks growth by targeting its existing products to new market segments. Product development entails the firm developing new products targeted to its existing market segments. However, diversification strategy stands apart from the other three strategies in that whereas the first three strategies are pursued with the same technical, financial and merchandising resources used for the original product line, diversification more often than not requires a company to acquire new skills and techniques and new facilities.

Companies diversify either by acquiring already existing businesses or by expanding their own businesses into new markets and new areas of production or service. Acquisition is generally used more frequently by big companies than smaller ones since most acquisitions require a degree of financial leverage and health only larger firms can bring to bear. Mintzberg and Quinn (1991) state that as organizations grow large, they become inclined to diversify and then divisionalize. As firms grow large, they come to dominate their traditional market and so must find growth opportunities elsewhere through diversification. In a diversified company, the strategy making challenge involves assessing multiple industry environments and developing a set of business strategies, one for each industry arena in which the diversified company operates. Top executives at a diversified company must go a step further and devise a companywide strategy for improving the attractiveness and performance of the company's overall business lineup.

1.1.3 Youth funding organizations in Kenya

One in five youth lives on less than US$ 1 a day and the unemployment rate among youth is several times that of adults (International Labour Organisation, 2010).In Kenya, 75 per cent of the population are under the age of 30 and approximately 32 per cent of the entire population are defined as young people, between the ages of 15 and 35 (GOK, 2010).With 50 per cent of the population living under the international poverty line, millions of Kenyan youth struggle to earn a daily income. Equity Bank saw this as an opportunity to transform the lives of Kenya's youth and to cultivate a future generation of customers. The Bank's leadership decided to use mobile banking in order to manage costs as well as a means to attract young people who tend to be more tech-savvy than their adult counterparts. Within the next 5 years Equity hopes to reach between 10 and 15 million clients, of whom 30–50% should be youth (Equity Bank, 2010).

Young people are diverse and their personal goals, economic ambitions, and vulnerability are different. They therefore require access to economic opportunities as well as the programmatic supports to prepare them to seize these opportunities. This is because they are economically active – they earn income, save, borrow, and have long-term aspirations for their financial health and viability. Thus, by increasing access to appropriate financial services, youth may be able to reach their full economic potential.

In order to achieve the above, YFO's must support young entrepreneurs to start and run profitable businesses through training, technical assistance, and inclusive market development activities and provide financial services**.** Also supporting organizations (MFI's) and Government must design and deliver financial services and education that respond to the savings, borrowing, and risk mitigation needs of young clients. Greater interest among YFO's to serve this burgeoning population has led to innovations in credit and savings product delivery.

Youth may need access to credit to start a business, build a home, or pay for school fees as they enter various transition phases. In Uganda, for example, Equity Bank and Banyan Global provide young people with access to credit to help students pay term fees, which are one of the key barriers to school enrolment. Twenty per cent of the youth clients use profits made from their businesses to further their own education (Storm, 2010).

Appropriate and inclusive financial services for young clients can play a critical role in assisting their transition from childhood to adulthood by equipping them with the resources and support needed to become productive and economically active members of their households and communities (Making Cents International, 2009). While demand exists, the supply of financial products and services targeted to young people is only recently beginning to emerge. In order to encourage greater experimentation in the sector, making cents is working to build the body of evidence supporting the business case for youth-inclusive financial services. Interviews with pioneering institutions such as Hatton National Bank in Sri Lanka, K-Rep Bank and Equity Bank in Kenya and Banco Adopem in the Dominican Republic reveal that children and youth present a tremendous business opportunity (Deshpande, 2010).

The key challenges to expanding and improving youth-inclusive financial services are areas where capacity building is necessary to design and deliver appropriate financial services and to forge partnerships with organizations that can provide needed supporting non-financial services. The government has played its role in provision of youth friendly loan products through Youth Enterprise Development Fund and recently, the Uwezo

Fund. The fund was established in year 2006 with the sole purpose of reducing unemployment among the youth who account for over 61% of the unemployed in the country. The target of the fund is young people within the age bracket of 18 to 35 years. The Fund was gazetted on 8^{th} December 2006 and then transformed into a state corporation on 11th May 2007.

In 2008, the fund developed a three year strategic plan to address varied needs and aspirations of the youth, and to address the challenges it has faced in the past. The Fund is currently working on a 5 year strategic plan in line with the Medium Term Plan (MTP) of the Vision 2030. The fund is constantly reviewing its operational mechanisms from time to time in order to make it responsive to needs and expectations of the target client. To date the Fund has financed over 157,000 youth enterprises to the tune of Kshs. 5.9 billion. Many of the youth the Fund supported at inception are today big employers. It has also helped thousands of youth build their enterprises through market entrepreneurship training, trained over 200,000 young entrepreneurs, supported thousands of youth to take up jobs overseas through the Youth Employment Scheme Abroad (YESA) programme. In addition, it has helped create over 300,000 jobs in the last five years.

The Fund has continued to diversify its product base by focusing on interventions that are more responsive to the needs of the youth and are geared towards addressing specific challenges facing young entrepreneurs. The Fund is indeed working on a new strategic plan to guide in diversification of its products and services.

1.2 Research problem

An organization's strategy consists of moves and approaches devised by management to produce successful organization performance. A strategy is therefore a management's game plan for business. The essence of formulating competitive strategy is to relate a company to its environment. Strategy is composed of three main strategies that is stability, retrenchment and growth. Growth strategies focus resources on seizing opportunities for profitable growth. One of the growth strategies available is product diversification. This entails deployment of resources across lines of product either related or unrelated. Efforts have been made to assess the extent to which product diversification is related to a company's success with the evidence that more diversified firms grow faster than less diversified firms.

Youth Funding Organizations occupy a key position in the Kenyan economy fulfilling the role of financial intermediaries as well as providing employment opportunities to the youth. However, they have not been spared the business challenges which require organizations to build new capabilities to maintain a competitive advantage. YFO's have encountered intense competition that has led them to review their strategic operations in the light of this challenging environment to ensure competitiveness. Threats to their core business and the presence of numerous other opportunities have led to YFO's to almost inevitably consider product diversification strategy in order to strengthen the revenue mix, find new sources of profitability and to basically remain relevant to the needs of its clientele.

Various studies have been carried out to bring out aspect of strategy implementation. Harrigans (1998) earlier work focused on product diversification and its implications on performance of international joint ventures in the USA. Magero (2008) has done a study on challenges on formulation and implementation of strategy (case study of Kenya sugar board).Kiilu (2004) did a survey on the extent of application of Ansoff's Growth Strategies. Luseno (2010) did challenges of diversification strategy at radio Africa limited while Kirimi (2003) has done an analysis of application of unrelated diversification strategy by major oil companies in Kenya.

Wakwoma (2007) has done a survey on product diversification adopted by firms in the banking industry in Kenya. Mathenge (2008) has also done a study on patterns of diversification in the small and medium enterprises In Nairobi City. Kerubo (2011) did product diversification and its perceived effect on growth of companies while Oray (2011) did product differentiation as a strategy for sustainable competitive advantage in banks in Kenya. Mugori (2012) sought to establish effects of access to microfinance on financial performance of small and medium enterprises owned by youths in Nairobi, Kenya.

My study was unique since it brought out extent of product diversification by YFO's and challenges and benefits of adopting such a strategy. It also sought to determine YFO's experience with diversification strategy as an approach in their operations. To this end, the study sought to address the questions: What is the extent of adopting a diversification approach by YFO's in Kenya and what benefits and challenges are associated with the strategy?

1.3 Research objectives

The objectives of this study were:

i. To establish the extent of product diversification as a strategic approach by Youth Funding Organizations in Kenya

ii. To establish the benefits of adopting product diversification as a strategic approach by YFO's in Kenya.

iii. To establish challenges associated with the adoption of such a strategy by YFO's in Kenya.

1.4 Value of the study

It is envisaged that this study will provide information to youth lending organizations, MFI's and SME's .They will gain information regarding the strengths and weaker areas and thus come up with strategies to capitalize on opportunities available to them while rectifying on the weaker areas. The study will also benefit the senior management in Government of Kenya, strategic management scholars and consultants to gain a data-oriented view of diversification strategy. In so doing, it will enhance their predisposition in their management.

Future scholars and researchers will also use the study as a source of reference and stimulating interest for future research. It will also be used by youth groups in understanding how various diversified products can be of benefit to them. They will gain information regarding the services offered by MFI's, YFO's and government and take advantage of such services.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Various scholars and writers have given their views on the diversification strategy and challenges and benefits of diversification strategy. This literature review brings out the theoretical underpinnings of the study, body of knowledge on diversification strategy and benefits and challenges encountered during the implementation of strategy as written by various authors and scholars.

2.2 Theoretical foundations of the study

Strategy has been defined as the match an organization makes between its internal resources and skills and opportunities and risks created by its external environment. Prominent examples of this focus are Michael Porters analysis of industry structure and competitive positioning and the empirical studies undertaken. By contrast, the link between strategy and the firm’s resources and skills has suffered comparable neglect. Recently, there has been a resurgence of interest in the role of the firm’s resources as the foundation for firm’s strategy. The interest reflects dissatisfaction with the statistics equilibrium framework of industrial organization economics that has dominated such contemporary thinking about business strategy and has renewed interest in other theories of profit and competition associated with the writings of David Ricardo, Joseph Schumpeter and Edith Penrose (Makadok, 2001).

Advances have occurred on several fronts. At the corporate strategy level, theoretical interest in economies of scope and transaction costs has focused attention on the role of corporate resources in determining the industrial and geographical boundaries of the firm's activities. At the business strategy level, exploration of the relationships between resources, competition and profitability include the analysis of competitive imitation, the appropriability of returns of innovations, the role of imperfect information in creating profitability differences between competing firms and means by which the process of resource accumulation can sustain competitive advantage. Together, these contributions amount to what has been termed the resource based view of the firm (RBV).As yet however, the implications of the resource based theory for strategic management are unclear because the various contributions lack a single interacting framework and little effort has been made to develop the practical implications of the theory (Teece, 1997).

The concept of dynamic capabilities (DCT) arose from a key shortcoming of the resource-based view of the firm. The RBV has been criticized for ignoring factors surrounding resources, instead assuming that they simply "exist". Considerations such as how resources are developed, how they are integrated within the firm and how they are released have been under-explored in the literature. Dynamic capabilities attempt to bridge these gaps by adopting a process approach.

By acting as a buffer between firm resources and the changing business environment, dynamic resources help a firm adjust its resource mix and thereby maintain the sustainability of the firm's competitive advantage, which otherwise might be quickly eroded. So, while the RBV emphasizes resource choice or the selecting of appropriate resources, dynamic capabilities emphasize resource development and renewal. Resources may take on many of the attributes of dynamic capabilities, and thus may be particularly useful to firms operating in rapidly changing environments. Thus, even if resources do not directly lead the firm to a position of superior sustained competitive advantage, they may nonetheless be critical to the firm's longer-term competitiveness in unstable environments if they help it to develop, add, integrate, and release other key resources over time.

As new bases of competitive advantage have gained in significance, old ways of looking at competition have been supplanted. Porter's Five Forces framework (Porter, 1980), which applied the structure-performance paradigm of industrial organization economics to strategy, focused on evaluating suppliers, customers, and the threat of new entrants and/or substitute products.

2.3 Diversification strategy

Diversification is a corporate strategy for organizations that is aimed at increasing market penetration and thereby increasing sales and gaining market share. The purpose of diversification is to allow the organization to enter lines of business that are different from current operations. In order for organizations to remain competitive, there is need to craft differentiation strategies Porter (1985(so as to have an edge over its competitors. Many organizations are therefore formulating appropriate strategies in order to gain competitive advantage. Companies diversify either by acquiring already existing businesses or by expanding their own businesses into new markets and new areas of production or service. Acquisition is generally used more frequently by big companies than smaller ones, since most acquisitions require a degree of financial leverage and health that only larger firms can bring to bear. According to (Mintzberg & Quin, 1991), as organizations grow large, they become inclined to diversify and then to divisionalize. One reason is protection. Large organizations tend to be risk averse-they have too much to lose-and diversification spreads the risk. Another is that as firms grow large, they come to dominate their traditional market, and so must often find growth opportunities elsewhere, through diversification.

The firm grows by diversifying into new businesses by developing new products for new markets. (Ansof & McDonnel, 1990) pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

Diversification however is the riskiest of the four strategies as presented by Ansoff matrix and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering means a lack of experience in the new skills and techniques required. Therefore, the company puts itself in a great uncertainty.

2.3.1. Types of diversification

2.3.1.1 Related Diversification

It is when a business adds or expands its existing product lines or markets. For example, a phone company that adds or expands its wireless products and services by purchasing another wireless company. Samsung has diversified from computer chips, flat screens, homes appliances and phones to secure stability in its revenue streams. This is due to reduced of its businesses and this has warranted the need to venture into new businesses in to reduce the earnings volatility and seek secular growth. Samsung has spread into new businesses such as renewable energy and healthcare as it predicts that most of the group's current business and products would disappear in 10 years. it has identified five businesses — solar cells, rechargeable batteries for hybrid cars, LED technology, biopharmaceuticals and medical equipment — as its future growth drivers. According to Johnson, Scholes & Whittington (2008), related diversification can be problematic in that the time and cost is involved in top management at the corporate level trying to ensure that the benefits of relatedness are achieved through sharing or transfer across business units. Additionally, sometimes there is difficulty for business-unit managers in sharing resources with other business units, or adapting to corporate-wide policies.

2.3.1.2 Unrelated Diversification

It is when a business adds new, or unrelated, product lines or markets. For example, the same phone company might decide to go into the television business or into the radio business. In this form of diversification, there is no direct fit with the existing business.

2.3.2 Forms and Means of Diversification

2.3.2.1 Vertical diversification

Vertical integration is a growth strategy that involves the expansion of business by moving backward or forward from the present products or services establishing linkages of products, processes and/or distribution system. When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a backward vertical integration strategy. Backward integration allows the diversifying firm to exercise more control over the quality of the supplies being purchased. Backward integration also may be undertaken to provide a more dependable source of needed raw materials.

Forward diversification occurs when firms closer to the consumer in terms of the production stages. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and serviced. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and servicing its equipment. In Kenya, the East African breweries have integrated backwards and are engaging in barley production.

2.3.2.2 Horizontal Diversification

Horizontal diversification occurs when a company adds new products or services that may be commercially or technologically related or unrelated to main product(s) the company is currently dealing in. It may also be en to occur when a company enters new business at the same stage of production as its operations.

Horizontal form of diversification is desirable if the present customers are loyal to the current products and if the new products are of high quality and are sold at competitive prices. This form of diversification is advantageous in that the new products are marketed to the same economic environment as the current products. It tends **to** increase the firm’s dependence on certain market segments which may lead to instability. A good example is like in a case where a company making notebooks earlier may also enter into the market of selling pens together with the firm's new product. Examples of companies that have implemented horizon lion in the Kenyan environment may include: Coca Cola Company with its in product being production and selling soft drinks but in the resent past have introduced sale of mineral water i.e. Dasani. East African Breweries which manufacture alcoholic drinks diversified into producing and selling non-alcoholic drink branded Alvaro.

2.3.2.3 Conglomerate diversification (or lateral diversification)

The company markets new products or services that have no technological or commercial synergies with current products but that may appeal to new groups of customers. The conglomerate diversification has very little relationship with the firm's current business. Therefore, the main reasons of adopting such a strategy are first to improve the profitability and the flexibility of the company, and second to get a better reception in capital markets as the company gets bigger. Even if this strategy very risky, it could also, if successful, provide increased growth and profitability.

2.4 Product diversification as a growth strategy

Product diversification strategy is used when a company is in need of growth or wants to respond to specific opportunities**.** Growth strategy is the crux of any organization's business strategy. Diversifying into new products and service lines can provide an effective path to fast growth, as you sell more products to existing customers or establish new markets (Markides, 1997).

There are many ways in which to diversify. The most straightforward of these is to provide a natural extension of the goods or services that you already offer to customers.. One of the reasons for the use of a diversified strategy is that managers of diversified firms possess unique, general management skills that can be used to develop multi-business strategies and enhance a firm's strategic competitiveness (Businessmate.com,2012)

The prevailing theory of diversification suggests that firms should diversify when they have excess resources, capabilities and core competencies that have multiple uses. Mere linkages between businesses are not enough but the key of creating value is the ability of diversified firm to share resources and transfer capabilities more efficiently than alternative institutional arrangements where the additional cost of management do not outweigh the value created (Luppitti,2007)

Most firms implement a diversification strategy to enhance the strategic competitiveness of the entire company (Thomas, Strickland and Gamble 2008).When this is accomplished, the total value of the firm is increased. Value is created through either related or unrelated diversification when those strategies allow a company's business units to increase revenue and or reduce costs while implementing their business level strategies.

2.5 Levels of diversification

Diversification usually occurs at the business level strategy and corporate level strategy. At the business unit level, there is expansion into new segment of an industry that the business is already in. KCB has focused on product and market development for growth (www.go.ke).It has opened branches all over East Africa while at the same time expanding its product base. Similarly, YEDEF has diversified at this level where it has incorporated various other products other than the initial ones which it as been offering its clientele like C-Yes Rausha, C-Yes Inua and individual loans (www.youthfund.go.ke)

At the corporate level, the company enters into a promising business outside the scope of the existing business level. It may force a company to acquire new skills, new techniques and new facilities. For example YEDEF has also partnered with organizations like Amiran to provide inputs and expertise in greenhouse farming (www.youthfund.go.ke).

2.6 Benefits and challenges of product diversification

A related diversification strategy allows a firm to preserve a degree of unity in its business activities, reap the competitive advantage benefits of skill transfer or lower costs because of economies of scope and still spread investor risk over a broader business base. These enable the diversifier to earn greater profits from its business than businesses could earn operating independently.

Diversification brings in strategic fit across value-chain activities. While strategic fit relationships can occur throughout the value chain, most fall into 3 broad categories: market related fit, operating fit and management fit. When the value chains of different business overlap such that the products are used by the same customers distributed through common dealers and retailers and retailers, then the business enjoy market related strategy fit.

Operating fit is also achieved when there potential for activity sharing in procuring materials, conducting R&D ,mastering a new technology, assembling finished goods or performing administrative support functions. Management fit emerges when different business units have comparable types of entrepreneurial, administrative or operating problems (Luxenmber,2004)

Diversification strategies may be used to limit risk in organizations (Rumelt, 1982). This is because a diversified portfolio is not overexposed to a single industry and therefore is somewhat insulated from downturns or market fluctuations in that industry. The second dimension involves the expected outcomes of diversification. Management may expect great economic value (growth, profitability) or first and foremost great coherence and complementary to their current activities (exploitation of know-how, more efficient use of available resources and capacities). In addition, companies may also explore diversification just to get a valuable comparison between this strategy and expansion.

Challenges of diversifying may include inability to reduce risk. This is because the most risky time for any new business is the start-up phase when the market is being established. It is especially so if you try to start a new business at a time when your core business is suffering a downturn**.** This may tend to imitate their competitors strategy but when it comes to implementation part, they fail terribly.

2.7 Empirical evidence on diversification strategy and challenges

Various studies have been carried out to bring out aspect of strategy implementation. Others have also dealt with diversification with diversification strategy in various industries. Magero (2008) has done a study on challenges on formulation and implementation of strategy (case study of Kenya Sugar Board).This included original culture in that it was not supportive in the direction the organization wished to go, government regulations and policies limited their autonomy and empowerment, allocation of resources.

Wakwoma (2007) has done a survey on product diversification adopted by firms in the banking industry in Kenya. Her study has brought out the benefits of employing product diversification strategies in the banking industry and briefly mentions some challenges the banking industry faced in diversification. She found out that most banks diversified to capture markets that had not been catered for. Mathenge (2008) also did a study on patterns of diversification in the small and medium enterprises in Nairobi City. In his study on analysis of unrelated diversification strategy by major oil companies in Kenya, Kirimi (2008) did find out why major oil companies in Kenya are venturing into unrelated diversification of their product lines like convenience stores, cafeterias, tyre centers etc.

This empirical literature has indeed mentioned some aspects that are encountered when an organization undergoes change both in the public and private sector. My study brought out extent of adoption of product diversification strategy by YFO's and challenges and benefits of adopting such a strategy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The selection of data collection method is considered one of the most important steps in creating a design. The selection of implementation of an appropriate research method impacts on the quality of results and the deduction made at the end of the research project. This chapter describes the methodology used in the study and the reasons for their selection. It also outlines the research design, data collection and data analysis.

3.2 Research Paradigm

The study employed a cross-sectional survey research design. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variable (Mugenda and Mugenda,1999). Surveys can be used for explaining or exploring the existing status of two or more variable at a given point in time.

This research strategy also allows collection of data through questionnaires administered to a sample and that the data collected by this design can be used to suggest reasons for particular relationships between variables and produce models for these relationships (Sanders and Thornbill, 2007).This design helped establish the extent of adoption of strategic approach by YFO’s in Kenya and benefits and challenges of adopting such a strategy by YFO’s in Kenya.

3.3 Population of the study

The population of my study comprised of eleven Youth Funding Organizations in Kenya. The study collected data from all the eleven organisations. It was therefore a census study. All the organizations selected were established and have been in existence for more than three years, this is because the management is more stable and the firms have a reliable clientele base.

The researcher selected the firms randomly from Central Bank of Kenya register. However, the leading ten firms dealing youth products were purposefully selected since being market leaders most of the other firms tend to emulate them. The researcher felt that this enabled the research overcome sample selection bias.

3.4 Data collection

The study used both secondary and primary data. Primary data was collected by use of a structured questionnaire to managers. The questionnaire contained both closed and open questions and was administered to product development managers, general managers. marketing managers and branch managers. Managers since they have a better understanding of strategy implementation and are conversant with the challenges facing implementation of strategy as well as their involvement in diversification strategy formulation to implementation.

The secondary data was obtained to clarify variables related to the study. The questionnaire was pretested on a representative number of respondents for validity and reliability before they are rolled over to other respondents. The drop and pick method was used to deliver questionnaires to the firms.

3.5 Data analysis

Data was analyzed through use of quantitative data analysis techniques or statistical methods. This involved use of percentages, mean scores and standard deviation. Frequency tables were used for arranging data obtained to facilitate working out percentages in order to address the objectives of the study. Frequency distribution percentages and measures of central tendency were used. This method assisted in establishing the extent of adoption of diversification strategy by YFO's and also the benefits and challenges arising from the said strategy by YFO's in Kenya.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, findings, interpretation and presentation. The purpose of the study was to investigate the product diversification as a strategic approach by youth funding organisations in Kenya. Specifically the study sought to establish the extent of product diversification as a strategic approach; to establish the benefits of adopting product diversification as a strategic approach as well as establishing challenges associated with the adoption of such a strategy. The targeted respondents were product development managers, general managers and branch managers drawn from eleven Youth Funding Organizations in Kenya. The researcher managed to collect ten filled in forms out of the expected eleven making the response rate to be 90.9%.

4.2 Demographic information

This section was based on the position held by the respondents in their respective organizations, duration the organization has been in existence and the number of years the respondents had worked with their respective firms. Information drawn from this section was necessary to assess the ability and capacity of the respondents to address the research questions based on the position they hold and the durations they have worked with their current organizations. At the same time duration the firm have been in existence can be a direct manifestation of the firm’s notch of involvement in funding and thus the level of product diversification as a strategic approach.

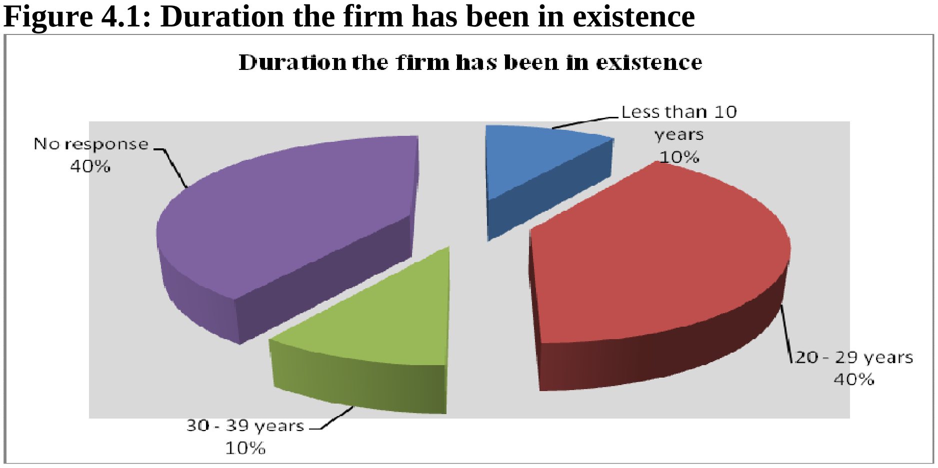
Table 4.1: Position held by the respondent

Position	Frequency	Percent
Product Development Manager	3	30.0
Branch Manager	1	10.0
Marketing Manager	3	30.0
Customer Service Executive	1	10.0
Assistant Manager	1	10.0
No response	1	10.0
Total	**10**	**100.0**

Source : Field Data

As indicated in Table 4.1, respondents were drawn from different departments such as product Development Management (30%). Others were Branch Managers, Marketing Managers, Customer Service Executive as well as Assistant Managers as indicated by 10% each. These positions could be termed as top management positions and thus respondents were informed on the concept of product diversification as a strategy particularly on its employment by their respective firms

Figure 4.1: Duration the firm has been in existence



Source : Field Data

Findings as presented in Figure 4.1 revealed that, 40% of organizations examined had been existence for at least 20 years while only 10% were established less than 10 years back. Other respondents (40%) did not disclose when their respective firms were started. This implies that most Youth Funding Organizations in Kenya have been in existence long enough to develop product diversification strategies.

Table 4.2: Duration the respondents have worked with their respective organization

Duration	**Frequency**	**Percent**
Less than 3 years	1	10.0
3 - 5 years	2	20.0
6 - 9 years	1	10.0
10 years and above	4	40.0
No response	2	20.0
Total	**10**	**100.0**

Source : Field Data

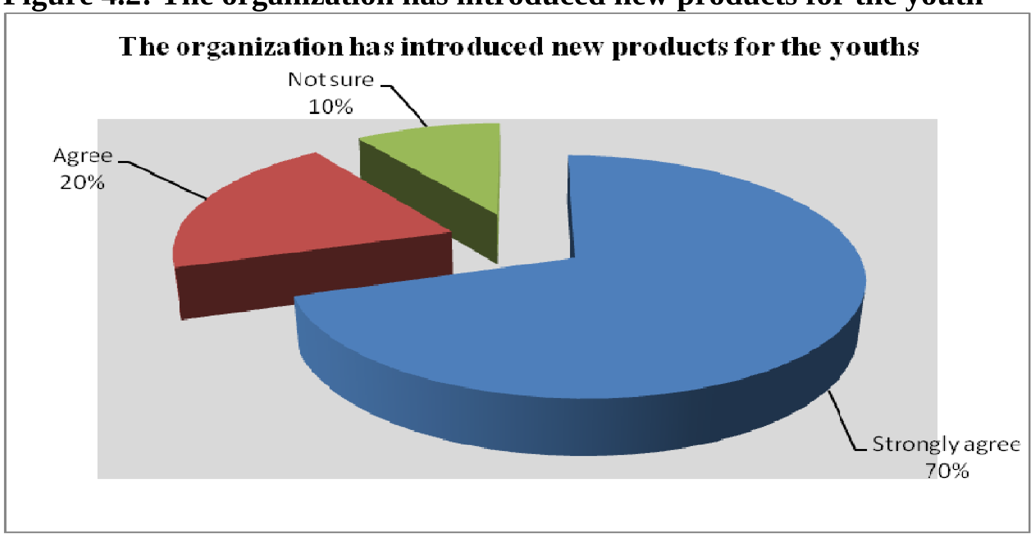
Table 4.2 presents the duration the respondents have worked with their respective organization. From the findings, 40% of respondents had worked for at least 10 years with their organization while only 10% had been with their current organization for less than 3 years. This implies that majority of respondents had worked with their respective organizations for over 5 years, a fact that put them in adequate position to address the research questions given their familiarity with their organizations.

4.3 Adoption of product diversification strategy

This section was based on whether the organization has introduced new products for the youths; categories of products advanced to the youth; the uptake of the diversified products by the youth; categories of youth which the organizations do advance their products; whether the organization has a strategy when introducing the advanced products and whether there have been changes in terms of the organizational customer needs.

The section also presents the party mainly involved for crafting strategy in respondent's organization; the organization has adopted diversification strategy; reason for adopting the mentioned strategy; the organization considered doing partnerships or alliances in its endeavor to introduce new products; reason for establishing the partnership and the organization ever moved away from its core business to focus on other new products as well as factors that contributed to the organization moving from its core products.

Figure 4.2: The organization has introduced new products for the youth



Source : Field Data

The researcher wanted to find out whether the organization had introduced any new products for the youth. Findings revealed that a vast majority (70.0%) of the respondents strongly agreed that new products had been introduced while (20.0%) just agreed that the organization had introduced new products for the youth. The remaining (10.0%) were however not sure whether or not the organization had introduced new products for the youth.

As argued by Capon(2008) strategy is about trying to influence where possible the external environment in which the organization operates, differentiating to add unique value to its products and services and thoroughly understanding the market place, its segmentation and the customers. The external environment is where the opportunities and threats arise from and confront the organization. Opportunities arise in the form of new customers and new geographic markets which can be exploited. In contrast, threats usually arise from competitor having better prices, more customers and greater market share.

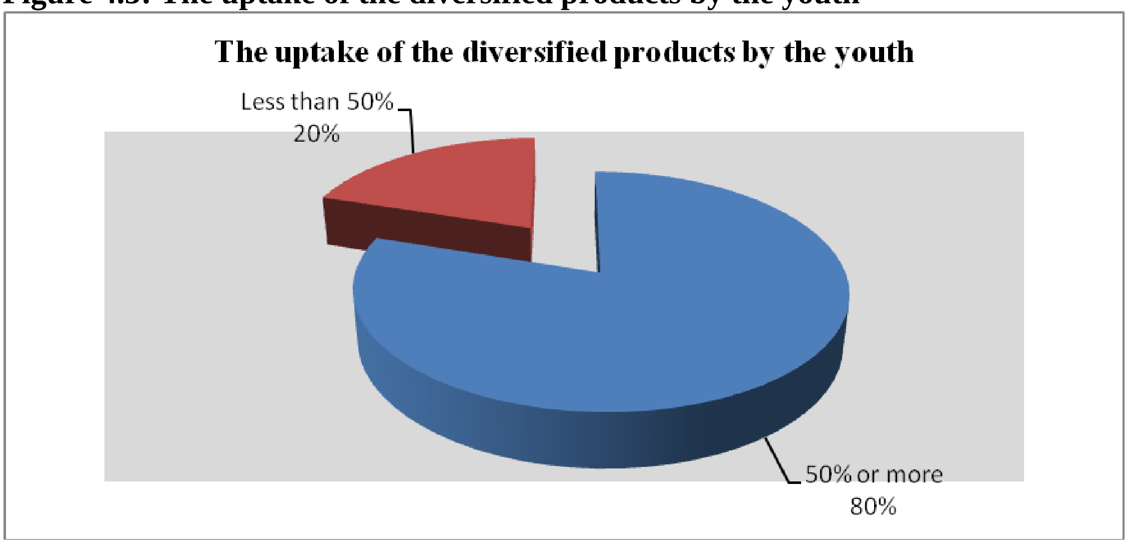
Table 4.3: Categories of products advanced to the youth

Categories of Products	**Frequency**	**Percent**
Agricultural based products	7	70.0
Asset based products	8	80.0
Service sector products	7	70.0
Manufacturing sector products	7	70.0
General loans	10	100.0

Source : Field Data

Regarding the categories of products advanced to the youth, all the respondents (100.0%) said that general loans had been given to the youth. (80.0%) said that asset based products were the ones which had been advanced to the youth while (70.0%) said that agricultural based products had been advanced to the youth. (70.0%) however were of the opinion that service sector products had been given to the youth and yet another (70.0%) of the respondents felt that it was manufacturing sector products which had been advanced to the youth. This implies that in addition to advancing general loans, the organization had advanced various products to the youth. This step is prudent since it enhances diversity of products which helps to reduce competition for buyers. It also allows the youth to specialize in the areas which they are best talented.

Figure 4.3: The uptake of the diversified products by the youth



Source : Field Data

On the uptake of diversified products by the youth, a great majority (80.0%) said that the youth had absorbed 50% and even more than 50% of the diversified products whereas 20.0% said that less than 50% of the diversified products had been accepted by the youth.

This shows that the diversified products had been embraced by the youth. By accepting the new products, it shows that the youth are flexible and willing to work. Flexibility and cooperation by the youth not only benefits the youth themselves but also the organization and even the economy at large. This is because by earning higher income, their living standards will improve and general economic growth will increase.

Table 4.4: Categories of youth which the organizations do advance their products

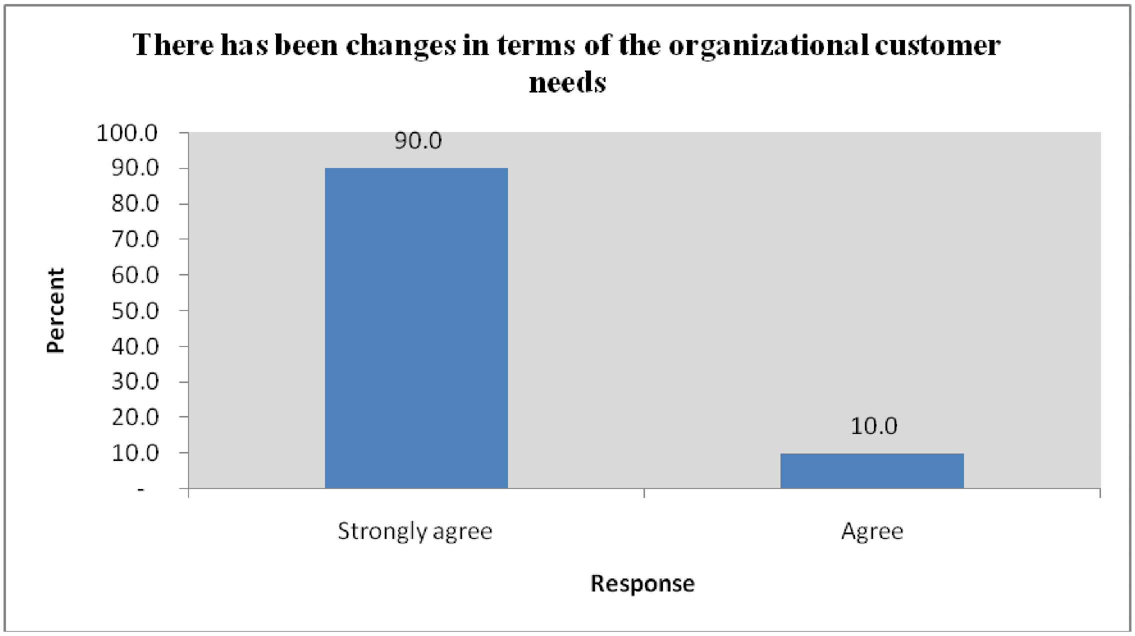
Categories of Youths	**Frequency**	**Percent**
Youth led groups	3	30.0
All	7	70.0
Total	**10**	**100.0**

Source : Field Data

The researcher also sought to know the categories of youth which the organization advanced their products. (70.0%) of the respondents said that the organization advanced its products to all the youth while (30.0%) said that only youth led groups received products from the organization. This implies that most organizations advance their products to all the youth. By advancing their products to all the youth, the organizations enable the youth to develop themselves irrespective of where they come from or even their gender. This ensures equality among the youth without any group feeling that another group is favored as opposed to theirs.

On whether the organization had a strategy when introducing the advanced products, all the respondents (100.0%) strongly agreed that indeed the organization had strategies when introducing the advanced products. This implies that all youth funding organizations do strategize when introducing new products. Strategizing especially by financial institutions is crucial because it helps to avoid making unnecessary mistakes which would otherwise lead to ineffectiveness or even total collapse of the organization.

Figure 4.4: Whether there have been changes in terms of the organizational customer needs



Source : Field Data

Concerning whether there have been changes in terms of the organizational customer needs, a vast majority (90.0%) strongly agreed while 10.0% just agreed. This indicates that organizational customer needs had changed. With new and diversified products, customer needs are bound to change as they try the new products and abandon the old while others combine both the old and the new products. Changes in customer needs give the organization a chance to monitor the trend in taste and preferences in decision making.

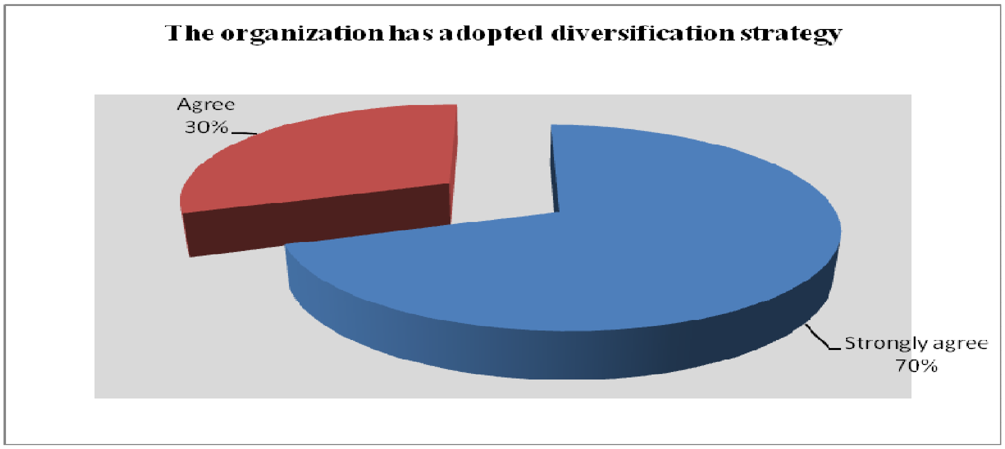
Table 4.5: The party mainly involved for crafting strategy in respondents organization

Party involved in crafting strategy	**Frequency**	**Percent**
Top level management	6	60.0
Middle level management	3	30.0
All	1	10.0
Total	**10**	**100.0**

Source : Field Data

Findings also revealed that in most of the respondents' organizations (60.0%), top level management was the one involved in crafting strategy used while (30.0%) of the organizations involved the middle level organizations in crafting the strategy to be used. Only (10.0%) involved all levels of management in formulation of strategies to be used in the organization. This implies that majority of the organizations involve the top management in crafting the organization's strategies. Though this approach is good for purposes of accountability, involving all levels of management in strategizing would be better. This is because there could be some people at middle or even low management levels with ideas which would be instrumental in coming up with the best strategy. It is thus important that even if partially, then all levels of management in youth funding organizations should be given a chance to participate in crafting strategy for the organization.

Figure 4.5: The organization has adopted diversification strategy



Source: Field Data

On whether the organization had adopted diversification strategy, majority (70.0%) of the respondents strongly agreed while 30.0% agreed. This implies that most of the organizations had adopted diversification strategy.

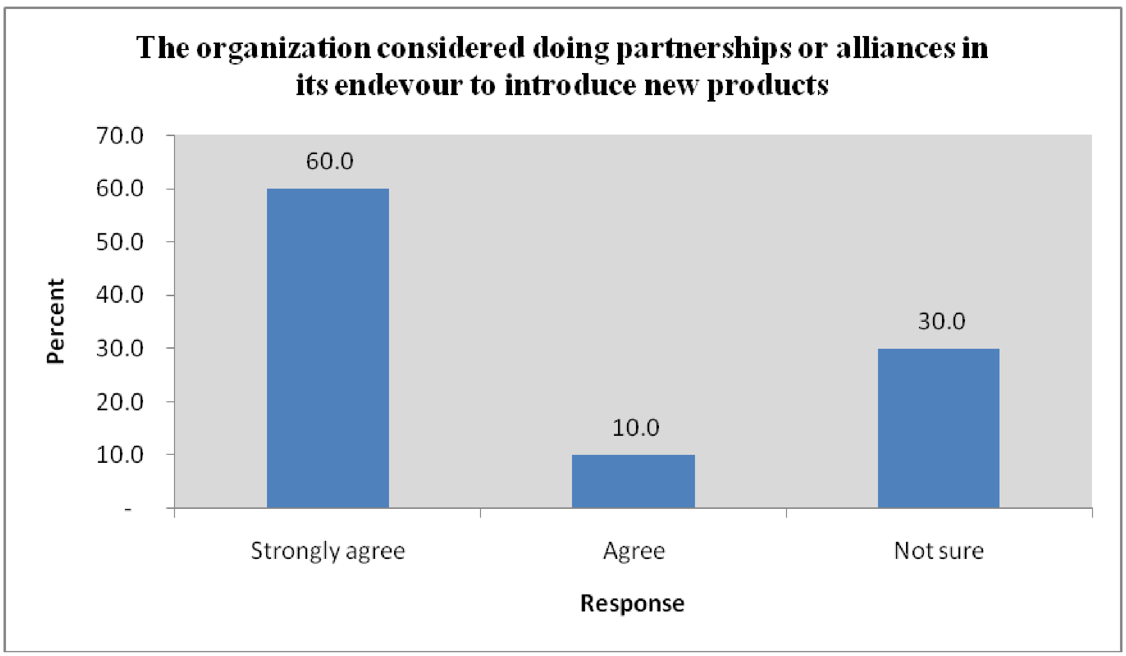
Table 4.6: Reason for adopting the mentioned strategy

Reasons	Frequency	Percent
To benefit from economies of scale	10	100.0
To earn greater profits	9	90.0
To reach the unique needs of organization	9	90.0
To transfer product differentiation skill	7	70.0
To expand firms operations	7	70.0
To leverage on competition	6	60.0
Due to change in operating environment	7	70.0

Source : Field Data

With regard to the reasons for adopting the mentioned strategy, 100.0% of the organizations adopted in order to benefit from economies of scale, 90.0% in order to earn greater profits while 90.0% adopted the strategy in order to reach the unique needs of the organization. 70.0% wanted to transfer product differentiation skills whereas another 70.0% adopted the strategy in order to expand firm operations. 70.0% of the organizations however adopted the strategy due to change in operating environment while 60.0% did adopt the strategy to leverage on competition. This implies that various organizations adopted the strategies for various reasons. Most organizations however adopted the strategies in order to benefit from economies of scale.

Figure 4.6: The organization considered doing partnerships or alliances in its endeavour to introduce new products



Source : Field Data

On whether the organization considered doing partnerships or alliances in its endeavor to introduce new products, majority (60.0%) of the respondents strongly agreed while 30.0% were not sure. The remaining 10.0% however agreed that their organization considered doing partnerships or alliances in its endeavor to introduce new products. This implies that most of the organizations had considered partnering with other organizations in trying to introduce new products. Partnering and forming alliances especially when introducing something new in an organization is very important. This is because various partners will come with varied inputs both in form of ideas and resources. This will better the chances of success. In addition, losses will be shared in case they occur.

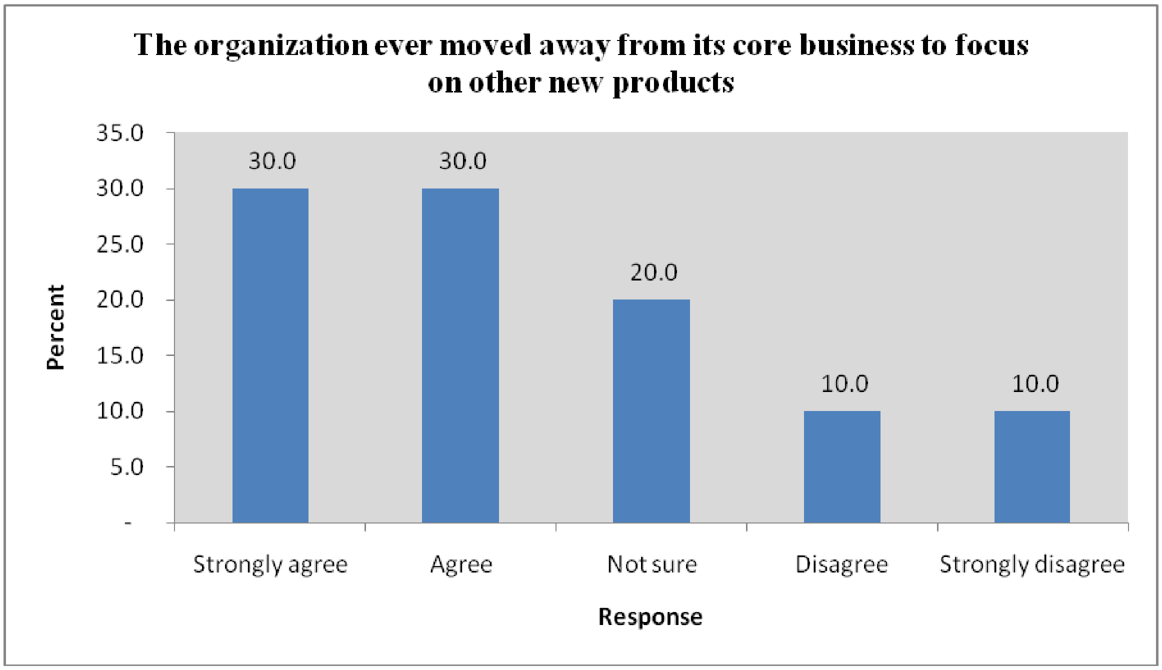
Table 4.7: Reason for establishing the partnership

Reasons for partnership	**Frequency**	**Percent**
Skills transfer	1	10.0
Resources	2	20.0
Both skills transfer and resources	7	70.0
Total	**10**	**100.0**

Source : Field Data

The researcher also wanted to know why the organizations established partnerships. Findings revealed that a great majority (70.0%) partnered because of both skill transfer and resources while 20.0% partnered only because of resources. The remaining 10.0% however partnered due to skill transfer. This implies that most of the organizations partnered for purposes of skills transfer and also because of resources. Some organizations have been unable to achieve their goals due to resource constraints even though they could be endowed with skills. On the other hand, an organization could be having a lot of resources which end up being misused due to lack of enough skills. Partnering is therefore very crucial as it enhances a good balance of both skills and resources which in turn leads to the success of the partnering organizations.

Figure 4.7: The organization ever moved away from its core business to focus on other new products



Source : Field Data

With regard to whether the organization ever moved away from its core business to focus on other new products, 30.0% of the respondents strongly agreed, 30.0% agreed while 20.0% were not sure whether or not the organization ever moved from its core business to focus on new products. 10.0% however disagreed whereas the remaining 1.0% disagreed. This shows that most of the organizations had at one time moved away from its core business to focus on other new products. One of the main aims of an organization is to meet the needs of its customers. If the needs of the customers changes in favour of new products, the organization should be flexible enough to adjust and meet the need of the customers even if it means moving temporarily from core business to new products.

Table 4.8: Factors that contributed to the organization moving from its core products

Contributing factors	**Frequency**	**Percent**
Changing customer preference	7	100.0
To invest excess resources	4	57.1
Competition	6	85.7
Re-branding	4	57.1

Source : Field Data

Regarding the factors that contributed to the organization moving from its core products, all the respondents (100.0%) said that changing customer preference contributed to the organization moving from its core products while 85.7% of the organizations moved from its core products due to competition from other organizations. 57.1% however moved from their core products to invest excess resources whereas 57.1% moved due to re-branding. This implies that most of the organizations moved from their core products as a result of change in customer preference. Customer preference is a major factor which organizations ought to be keen on because it directly affects the organizations' decisions on what products to deal with. Failure to make production decisions in line with consumer preference is a threat to the life of the organization.

4.4 Benefits and challenges of organizations in product diversification

This section was based on the benefits experienced from adopting product diversification strategy and the challenges encountered by the organization at the beginning especially in trying to penetrate the market.

The benefits highlighted as a result of organization adopting product diversification strategy included attracting new markets; increased profits; gained competitive advantages; customer retention; brand equity growth and enhanced skills due to youthful employees. Conversion to other products was also noted to be a benefit derived from product diversification strategies. It is notable that, Diversification brings in strategic fit across value-chain activities. While strategic fit relationships can occur throughout the value chain, most fall into 3 broad categories: market related fit, operating fit and management fit.

When the value chains of different business overlap such that the products are used by the same customers distributed through common dealers and retailers and retailers, then the business enjoy market related strategy fit. Operating fit is also achieved when there potential for activity sharing in procuring materials ,conducting R&D, mastering a new technology, assembling finished goods or performing administrative support functions. Management fit emerges when different business units have comparable types of entrepreneurial, administrative or operating problems.

Table 4.9: Challenges encountered by the organization at the beginning especially in trying to penetrate the market

Challenges	**Frequency**	**Percent**
Shortage of required skills	3	30.0
Strain on existing resources	4	40.0
Competition	9	90.0
Attention is diverted from core products	5	50.0
Increase in administration problems	3	30.0

Source : Field Data

Findings also revealed that (90.0%) of the organizations faced the challenge of competition from other organizations at the beginning and especially in trying to penetrate the market while (50.0%) had the challenge of customers diverting their attention from core products. Strain on existing resources is also a challenge encountered by 40.0% of the organizations whereas 30.0% also had the challenge of shortage of required skills. In addition, increase in administrative problems is challenge that faced 30.0% of the organizations. This shows that at the beginning and especially in trying to penetrate the market, the youth funding organizations encountered various problems; the most pronounced of which was competition from other organizations.

Any financial organization getting in to the market especially for the first time requires good strategies which will enable it to compete effectively with other organizations especially those that have been in the market for long. Failure to compete effectively may lead to an eventual down fall of the organization however big its dreams were. These outcomes are in line with the literature review findings where challenges of diversifying were cited to include inability to reduce risk. This is because the most risky time for any new business is the start-up phase when the market is being established. It is especially so if you try to start a new business at a time when your core business is suffering a downturn**.** This may tend to imitate their competitors strategy but when it comes to implementation part, they fail terribly.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary of findings, conclusions and recommendations. The targeted population was eleven Youth Funding Organizations in Kenya.

5.2 Summary of the study

The aim of the study was to establish the extent of product diversification as a strategic approach by Youth Funding Organizations in Kenya and also to establish challenges associated with the adoption of such a strategy by YFO's in Kenya. Specifically, the study sought to establish the benefits of adopting product diversification as a strategic approach by YFO's in Kenya.

The study employed a cross-sectional survey research design. The population of the study comprised of eleven Youth Funding Organizations in Kenya. This was a census study of all the above eleven organizations.

The study used both secondary and primary data. Primary data was collected by use of a structured questionnaires issued to managers. The questionnaire contained both closed and open questions and was administered to top management of the organizations. The secondary data was obtained to clarify variables related to the study. The questionnaire was pretested on a representative number of respondents for validity and reliability before they were rolled over to other respondents.

5.3 Findings of the study

Findings revealed that a vast majority (70.0%) of the respondents strongly agreed that new products had been introduced while (20.0%) just agreed that the organization had introduced new products for the youth. The remaining (10.0%) were however not sure whether or not the organization had introduced new products for the youth. Regarding the categories of products advanced to the youth, all the respondents (100.0%) said that general loans had been given to the youth. (80.0%) said that asset based products were the ones which had been advanced to the youth while (70.0%) said that agricultural based products had been advanced to the youth. (70.0%) however were of the opinion that service sector products had been given to the youth and yet another (70.0%) of the respondents felt that it was manufacturing sector products which had been advanced to the youth.

With regard to the uptake of diversified products by the youth, a great majority (80.0%) said that the youth had absorbed 50% and even more than 50% of the diversified products whereas 20.0% said that less than 50% of the diversified products had been accepted by the youth. On the categories of youth which the organization advanced their products, (70.0%) of the respondents said that the organization advanced its products to all the youth while (30.0%) said that only youth led groups received products from the organization. On whether the organization had a strategy when introducing the advanced products, all the respondents (100.0%) strongly agreed that indeed the organization had strategies when introducing the advanced products. Concerning whether there have been changes in terms of the organizational customer needs, a vast majority (90.0%) strongly agreed while 10.0% just agreed.

Findings also revealed that in most of the respondents' organizations (60.0%), top level management was the one involved in crafting strategy used while (30.0%) of the organizations involved the middle level organizations in crafting the strategy to be used. Only (10.0%) involved all levels of management in formulation of strategies to be used in the organization. On whether the organization had adopted diversification strategy, majority (70.0%) of the respondents strongly agreed while 30.0% agreed.

With regard to the reasons for adopting the mentioned strategy, 100.0% of the organizations adopted in order to benefit from economies of scale, 90.0% in order to earn greater profits while 90.0% adopted the strategy in order to reach the unique needs of the organization. 70.0% wanted to transfer product differentiation skills whereas another 70.0% adopted the strategy in order to expand firm operations. 70.0% of the organizations however adopted the strategy due to change in operating environment while 60.0% did adopt the strategy to leverage on competition.

Findings also revealed that a great majority (70.0%) partnered because of both skill transfer and resources while 20.0% partnered only because of resources. The remaining 10.0% however partnered due to skill transfer. With regard to whether the organization ever moved away from its core business to focus on other new products, 30.0% of the respondents strongly agreed, 30.0% agreed while 20.0% were not sure whether or not the organization ever moved from its core business to focus on new products. 10.0% however disagreed whereas the remaining 1.0% disagreed.

Findings also revealed that (90.0%) of the organizations faced the challenge of competition from other organizations at the beginning and especially in trying to penetrate the market while (50.0%) had the challenge of customers diverting their attention from core products. Strain on existing resources is also a challenge encountered by 40.0% of the organizations whereas 30.0% also had the challenge of shortage of required skills. In addition, increase in administrative problems is challenge that faced 30.0% of the organizations

5.4 Conclusion

From the findings, the study concludes that in addition to advancing general loans, the youth funding organizations had advanced various products to the youth. This step is prudent since it enhances diversity of products which helps to reduce competition for buyers. It also allows the youth to specialize in the areas which they are best talented.

It is also worth noting that Strategizing especially by financial institutions is crucial because it helps to avoid making unnecessary mistakes which would otherwise lead to ineffectiveness or even total collapse of the organization. It is also important to note that that most organizations advance their products to all the youth. By advancing their products to all the youth, the organizations enable the youth to develop themselves irrespective of where they come from or even their gender. This ensures equality among the youth without any group feeling that another group is favored as opposed to theirs.

In addition, accepting the new products shows that the youth are flexible and willing to work. Flexibility and cooperation by the youth not only benefits the youth themselves but also the organization and even the economy at large. This is because by earning higher income, their living standards will improve and general economic growth will increase. Also with new and diversified products, customer needs are bound to change as they try the new products and abandon the old while others combine both the old and the new products. Changes in customer needs give the organization a chance to monitor the trend in taste and preferences for purposes of decision making.

From findings also, majority of the organizations involve the top management in crafting the organization's strategies. Though this approach is good for purposes of accountability, involving all levels of management in strategizing would be better. This is because there could be some people at middle or even low management levels with ideas which would be instrumental in coming up with the best strategy. It is thus important that even if partially, then all levels of management in youth funding organizations should be given a chance to participate in crafting strategy for the organization.

It is also important to note that partnering and forming alliances especially when introducing something new in an organization is very important. This is because various partners will come with varied inputs both in form of ideas and resources. In addition, some organizations have been unable to achieve their goals due to resource constraints even though they could be endowed with skills. On the other hand, an organization could be having a lot of resources which end up being misused due to lack of enough skills.

One of the main aims of an organization is to meet the needs of its customers. If the needs of the customers changes in favor of new products, the organization should be flexible enough to adjust and meet the need of the customers even if it means moving temporarily from core business to new products. Also, customer preference is a major factor which organizations ought to be keen on because it directly affects the organizations' decisions on what products to deal with. Failure to make production decisions in line with consumer preference is a threat to the life of the organization.

Finally, any financial organization getting in to the market especially for the first time requires good strategies which will enable it to compete effectively with other organizations especially those that have been in the market for long. Failure to compete effectively may lead to an eventual down fall of the organization however big its dreams were.

5.5 Implications on policy, theory and practice

Financial Institutions, MFI's, Government Parastatals and NGO's need to embrace competitive strategies aimed at improving levels of quality and content of their products to meet market expectations especially with growing youthful population ,high levels of literacy and shrinking job market. The youth will expect more than just the traditional value proposition but an added advantage as need increases and competition becomes more intensified.

As such then, YFO’s and other Financial Institutions will need to diversify their product base by focusing on interventions that are more responsive to the needs of the youth and are geared towards addressing specific challenges facing young entrepreneurs. By increasing youth’s access to decent, sustainable, and meaningful economic opportunities - underpinned by appropriate financial and supportive services, this will ensure that the current youth bulge becomes a demographic dividend. With the huge numbers of youth, financial institutions have to pay attention to unique financial needs of the youth and products made available.

The government should set up policies that will ensure more of the youthful population is empowered and are able to easily access products and services from Financial Institutions, MFI’s and Government Parastatals. It should be understood that the YFO’s compliment the governments efforts in achieving Vision 2030 goal of empowering the youth financially towards a middle level economy. Vision 2030 goal for equity and poverty elimination is to reduce the number of people living in absolute poverty to the smallest proportion of the total population. The aim is to create a society that guarantees equality of opportunity in providing income-generating activities as widely as possible. This can be achieved by placing the citizens at a level of income sufficient to cater for basic requirements of healthy, productive lives.

Government policy should be strengthened to address challenges of unfavourable legal requirements and cut throat competition faced by YFO’s. This move will also encourage more Financial Organisations to develop tailor-made products for the youth.

5.6 Recommendations

The researcher recommends that, Youth Funding Organizations should come up with strategies which will enable them to compete effectively with other organizations. This can be done through market analysis and also analysis of trend in customer taste and preference. Also the Youth Funding Organizations should involve all levels of management in coming up with strategies to be used in their organizations.

All Youth Funding organizations in Kenya should also be encouraged to adopt Product diversification strategy in order to provide a wide range of products and services to their customers as well as high quality services. Firms should endeavour to engage in product diversification strategy in order to remain ahead of their competitors so as to command a bigger market share as witnessed by the ten YFO's. Firms are likely to increase profitability through greater sales volume obtained from new products and new markets.

For managers to fully appreciate and understand the strategy adoption and reduce the challenges faced during the implementation process, organizations need to commit finances for the various activities geared towards strategy adoption. There is also need for research and development, employee training and motivation and change management for key personnel involved with the entire strategy formulation so as to properly manage the process. Additionally, there is a clear need to dispel some of the myths about young people as a market segment so that financial services providers will be willing to enter the market. This will help enable young clients to access and utilize financial services so that they can build assets and create a secure and successful future.

5.7 Recommendations for further research

Further research be carried out on product diversification as a strategic approach by organisations funding youth–led SME's in Kenya. Additionally, the study recommends further research be done on product diversification by MFI's funding youth SME's in Kenya. This would allow for generalization of the findings on the extent of adoption of product diversification by a bigger number of institution funding youth SME's in Kenya.

5.8 Limitations of the study

The study relied on only one research design where data was collected using only one method. There are issues which might not have been captured using this methodology and therefore the study may have omitted some of the important issues on products diversification by financial institutions funding youth in Kenya.

Few respondents were reluctant to give information fearing that the information asked would be to victimized them or paint their organization in bad picture. They were worried how much information about their company could get to their competitors and expose their firms to threats. However, the problem was handled by the researcher carrying with her a data collection letter from the university and assuring them that the information collected would be treated with utmost confidentiality. The study was also limited to only eleven youth funding organizations in Kenya. However, data was able to be collected from ten out of the eleven targeted institutions.

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APPENDICES

Appendix 1: Data Collection Authority Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 3/9/2010

TO WHOM IT MAY CONCERN

The bearer of this letter PURITY KARIMI MARANGU (0720177061)

Registration No. D61/63069/2010

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
03 SEP 2013
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR

Appendix 2: Questionnaire

This is a Questionnaire to collect data on the Extent of Adoption of product Diversification Strategy and Challenges and Benefits of Adoption of the Strategy by Youth Funding Organization's in Kenya.

Please answer all the following questions by giving all the necessary details in the spaces provided.

Part I

A: Organization Profile

i) Please indicate the position that you hold at your organization

ii) When was the organization formed?

iii) How many years have you worked for the organization?

Part II

B:The Extent of adoption of product Diversification Strategy

i) Has your organization introduced new products for the youth since inception?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

ii) Please categorize the products you advance to the youth. Tick as necessary.

Agricultural based products	
Asset based products	
Service sector products	
Manufacturing sector products	
General loans	
All the above	

Others (please specify)

iii) What has been the uptake of the diversified products by the youth?

More than 50%	
Less than 50%	

iv) Which categories of youth do you advance your products?

Individual youth	
Youth led groups	
Female youth groups	
All	

Others (please specify)

v) Did your organization have a strategy when introducing the above products?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

vi) Please give three reasons as to why the organization decided to add new products for the youth to its product base.

1.

2.

3.

vi) Have there been any changes in terms of your customer needs?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

viii) Please name three strategies you have adopted in order to survive in the sector in terms of trying to fulfill the changing needs of your youthful customers.

1.

2.

3.

ix) Who is mainly responsible for crafting strategy in your organization?

Top level management	
Middle level management	
Operational(line managers)	

Others (please specify)

x) Has your organization adopted diversification strategy?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

xi) Reasons for the adoption of the strategy.

To benefit from economies of scope	
To earn greater profits	
To reach the unique needs of your youthful clientele	
To transfer product differentiation skills	
To expand firms operations	
To leverage on competition	
Due to changes in social ,political, financial and political environment	
All of the above	

Others (please specify)

xii) In your endeavour to introduce new products to the young people, have you ever considered doing partnerships or alliances?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

xiii) Reasons for establishing the partnerships/alliances?

Skills transfer	
Resources	
Both the above	

Others (please specify)

xiv) Has your organization ever moved away from its core business to focus on other new products?

Strongly agree	
Agree	
Not sure	
Disagree	
Strongly disagree	

xv) If the answer to the above question is yes, please indicate what factors contributed to your organization moving from its core products. Please tick where appropriate.

Factor	Tick
Changing customer preferences	
To invest excess resources	
Competition	
Re-branding	
All the above	

Others (please specify)

C: Benefits and Challenges

i) Give three benefits that your organization has experienced from adopting product diversification strategy by your organization?

1.

2.

3.

ii) What challenges did you encounter at the beginning especially in trying to penetrate the market?

Shortage of required skill to market and position new products	
Strain on existing resources as the new product range expands e.g. drain cash as a result of facility expansion	
Competition between the various products for resources may entail shifting resources away from one product to another	
Attention is diverted from core products to new products	
Increase in administration problems associated with operating unrelated products	

Others (please specify).

Give three challenges you are currently encountering while implementing product diversification strategy in your organization.

1.

2.

3.

Thank you very much for your co-operation.

Appendix: 3 List of Youth Funding Organizations in Kenya

1. Equity Bank
2. K-Rep Bank
3. KCB
4. COOP Bank.
5. Family Bank
6. Jamii Bora
7. FauluKenya Limited
8. Kenya Women Finance Trust Limited
9. SMEP(Small and Micro Enterprise Project) Microfinance Limited
10. KADET (Kenya Agency for the Development of Enterprise and Technology)
11. YEDEF.

Source: Central Bank of Kenya. August 23rd 2013

www.amfikenya.com. August 23rd 2013

www.fsdkenya.org. August 23rd 2012