DIVERSIFICATION STRATEGY AND PERFORMANCE OF MOBILE TELEPHONY FIRMS IN KENYA

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

NOVEMBER, 2013

DECLARATION

This research project is my original work and has not been presented for the award of degree or any other certificate in any other university or institution.

Signature …………………………………….. Date ……………………….

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D61/70392/2009

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

Signature …………………………………….. Date ……………………….

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DEDICATION

I dedicate this project to my family for their unfailing encouragement and support. To my wife, my children, and all those who surround me as a family, colleague or friend; for walking this journey with me and for their support and kind wishes.

To my family members, may this accomplishment be an inspiration to you in your pursuit of knowledge and excellence. Always keep in mind that anything is possible and you can do it as long as you trust in the Almighty.

ACKNOWLEDGEMENT

I would like to acknowledge all those who have supported me in taking up this endeavor, and have helped me succeed in this research project, the rest of the modules within this MBA program and generally finding success in life.

I know that without the hand of the Almighty above my hand, there would be no success, and thus I would like to first and foremost thank Him. Without strength from Him in my limbs, I would not be able to get as far as I have.

My wife who nudged me forward with encouragement and helped me make steady steps, propelling the compilation forward and who without her strong will and comforting nature, I would be lost.

My supervisor, Mr. Jeremiah Kagwe, for his tireless efforts, dedication, encouragement and guidance; and to all my friends and colleagues who had their own ways of pushing me on.

I feel indebted to the management of the various Mobile Telephony Firms in Kenya for making this project a success and all other people who in one way or another played part in my entire MBA project.

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ABSTRACT

The competitive strategy of the firm in the business environment characterized by uncertainties in the market is an important management decision. Diversification strategy as one of the competitive strategies of the firm allows a business unit operating in more than one sector to gain an advantage due to their activities among themselves and thus creating an undesirable situation of mitigating or hindering competition for the businesses operating in the same industry. This strategy allows a firm to expand or enter new markets which are different from the firm's existing product lines or markets and in the process attain above-average returns by taking advantage of the incoming opportunities. Diversification is considered as a growth strategy whose rationale is to explore new business areas that promise greater profitability and therefore a firm needs to enter/expand in new markets or product lines which are related or/and unrelated to its existing businesses. The objective of the study was to determine diversification strategy and its effects on performance of mobile telephony firms in Kenya. The study adopted a descriptive cross sectional research design. The population of the study consisted of Mobile Service Providers operating in Kenya. According to CCK (2011-2012), there are currently four firms offering mobile services in the country namely: Safaricom, Airtel, Orange and Yu. The study used primary data which was collected using a self-administered questionnaire. The data was analyzed using descriptive statistics. The findings of the study was that the influence of diversification strategies on firm performance was on total cost reduction, sales growth, return on investment, market share growth, financial liquidity and reduction of response time for product design change or volume change. The study found out that by pursuing related diversification, the companies were able to use the existing products which are complementary to each other to boost their sales growth and reduce cost, use the companies' well-known brand value to contribute positively to market share and return on investment, apply resource enhancement and utilization collectively by all the strategic units to increase returns, share management skills among the different products to enhance the firms' customer base and to gain competitive advantage through the transfer of brand name as well as their marketing capabilities. Unrelated diversification strategy influences the performance of the companies as it helped the managers to create economic value in different product lines and markets, result in expansion of product lines and activities to different sectors where profitability is higher, realize cost savings through performing some activities centrally and reduce risk for the firms' products and services that have been threatened by the environmental uncertainty or that are in decline phase of their life cycle. Unrelated diversification was also found to have an effect on the firm's performance as it enables the firm's to have a higher level of absorptive capacity that allows it to more fully capture the benefits of simultaneous exploitation and exploration besides leading to benefits from organizational slack. It also results in co-insurance effect that has a positive influence on the company debt capacity due to the reduction in the volatility of firm revenues and profits and as well as enabling the executives to select from any of the strategic business units whose information is set to be available to them without any transaction cost.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Diversification and internationalization have been some of the new corporate strategies pursued by an increasing number of today's firms (Zhang et al., 2006). Firms adopting a diversification strategy in related businesses are able to achieve better economic performance through the synergy of sharing resources and skills across multiple businesses. For firms operating in emerging economies, diversification strategies help in overcoming deficiencies in the institutional environment and what will be required is a fit between strategy and organizational characteristics, which include the structure, reward system, control system, and managers' characteristic as well (Grant, 2008). Companies with an average related diversification may be more reliable in terms of company performance since diversification strategies have different implication for management structures and processes. For diversification to be effective, organizations should view the process as a learning process directed at developing the knowledge necessary to enter and compete in the new domain. Kasanjain and Drazin (2007) further noted that organizations must design structures and processes that support the degree of knowledge development contained in the diversification strategy through building a learning mechanism that is designed and implemented carefully.

Several theoretical perspectives have been suggested to explain why diversification is favored by business groups in emerging markets, including transaction cost (TC) perspective, resource-based view (RBV) perspective, political-economic perspective, and agency theory (AT). First, a TC perspective assumes that diversification is a strategic response to external market imperfections in emerging economies, and diversification enables firms to overcome these imperfections through affiliations in business groups where they share resources through intra-group exchange relations (Chang and Hong, 2000). The resource based view suggests that resources are main determinants of diversification and business groups continue to enter new markets because they accumulate excessive firm specific capabilities that are not tradable beyond boundaries of groups (Yiu et al., 2005). The political-economic approach argues that business groups can be used as organizational devices by governments to achieve political, social, and

economic objectives, such as to create more jobs and to lead a nation's strategic or pillar industries (Nolan, 2001). On the other hand, business groups can enjoy governmental support by receiving favorable conditions, such as funds, capital, and technology at lower costs.

The Kenyan telephony industry has witnessed what can be termed as an exponential growth over the last 15 years and with only one player in the early nineties, it has grown in both the number of mobile service providers and customer base. The Kenyan market has now four service providers and a customer base of over 22 million subscribers that keep on increasing annually and according to CCK (2011-2012), the penetration growth rate averages 7%. The level of competition has increased greatly and new players have tended to offer the same products and in most cases adopt similar strategies that existing players have implemented. The competition strategies have taken the form of price cutting, free promotions and introducing similar product lines. It therefore becomes imperative that the mobile telephony firms come up with different diversification strategies that will give them a greater competitive advantage over their competitors. This strategy mix requires action plans to implement, which are closely related to companies' competitive priorities and designed to achieve strategic objectives. Examples of strategies that can be adopted include adopting a low cost strategy, improving the operational efficiencies in the firm's value chain, while differentiation strategy that focuses on the customer and providing products and services different from rival products. A differentiation strategy, therefore, would require action plans either facilitating a quality image or creating a distinct product for the new market environment

1.1.1 Concept of Diversification Strategy

Diversification strategy is the "expanding or entering in new markets which are different from the firm's existing product lines or markets". (Rumelt, 1998, p.23). It is a strategy implemented by the top executives in order to achieve business growth by entering new businesses and attaining above-average returns by taking advantage of the incoming opportunities. Diversification strategies are one of the few strategies consistently used by corporate management to respond to environmental changes. Three diversification

strategies are often suggested namely; related diversification, unrelated diversification, and related-linked diversification (Porter, 1985). Although various reasons are given for a firm to diversify, the most commonly quoted theme underlying these reasons is the realization of economic benefits. Diversification should enable enterprises to obtain economies of scale or scope economies by sharing resources and diffusing capacity (Chen and Ho, 2004).

Related diversification results in the realizations of economies of scope and economies of integration and the synergistic economies are the primary benefits. This can be achieved through common channels of distribution, common advertising, or sharing technological information for mutual benefits. Basically, exchanges of physical resources are involved in related diversification. Porter (1980) also pointed out that the horizontal strategy of shared activities is the most viable diversification strategy. By establishing tangible interrelationship, a firm can add more value to the value chain because related diversification represents a competitive advantage to the firm. Unrelated diversification on the other hand is often regarded as a means to achieve financial synergy, or to reap the economic benefits of an internal capital markets. Each business unit is considered as an independent firm or profit centre that operates in financial criteria in a financial market. Restructuring is a more conscientious effort of implementing diversification. The emphasis is more diversification by sharpening the acquired firm's focus, so that the most benefits can reap.

Diversification is favored by business groups in emerging markets, including transaction cost (TC) perspective, resource-based view (RBV) perspective, political-economic perspective, and agency theory (AT). First, a TC perspective assumes that diversification was a strategic response to external market imperfections in emerging economies, and diversification enables firms to overcome these imperfections through affiliations in business groups where they share resources through intra-group exchange relations (Chang and Hong, 2000). Second, RBV suggests that resources are main determinants of diversification and business groups continue to enter new markets because they accumulate excessive firm specific capabilities that are not tradable beyond boundaries of

groups (Yiu et al., 2005). Third, the political-economic approach argued that business groups can be used as organizational devices by governments to achieve political, social, and economic objectives, such as to create more jobs and to lead a nation's strategic or pillar industries (Nolan, 2001)

1.1.2 Organizational Performance

Hamon (2003) views Performance Measurement (PM) as a critical factor for effective management. This stems from the reality that without measuring something, it is difficult to improve it. Hence, enhancing the organizational performance needs identifying and measuring the influence of SCM on it. However, the subject of performance does not receive sufficient compensation in supply chain management research.

Organizational performance can be measured by financial aims attainment or workers satisfaction. In the same manner Ho, (2008) pointed out that performance can be evaluated by efficiency and effectiveness of aim attainment. Furthermore, Venkatraman et al, (1986) cited that performance can be assessed by financial performance namely, return on investment, growth of sales, profit, organization effectiveness, and business performance. Similarly, Delaney et al, (2006) asserts that organization performance can be evaluated by quality service and products, satisfying customers, market performance, service innovations and employees. That organization performance can be appraised by the following dimensions of performance: return of investment, margin on sales, capacity utilization, customer satisfaction and product quality. In the same way, Green et al, (2007) identified that return on investment, sales and market growth, and profit are important factors that be measured by organization performance. According to these researchers, there are many factors in this study that can be measured by performance such as market share, financial performance, efficiency and effectiveness of an organization's performance, and human resource management.

1.1.3 Diversification Strategy and Organizational Performance

Companies whose products are threatened by the environmental uncertainty or in decline phase of their life cycle curve can prefer to engage in an unrelated diversification to overcome the risk arising from current industries (Strickland & Thompson, 2003). Expanding its product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, a company may confirm its survival which will make its cash flow more reliable.

In related diversification, there are two ways in which effects of performance based on physical resources is felt. First, the potential relationship between strategic business units can be identified and the utility of the resource can be enhanced so as to be utilized collectively by all the strategic units. Secondly, during the production process, already existing products which are complementary to each other can be commonly used. In both cases, the collective use of physical resources can help to provide cost savings for strategic business units. In related diversified companies, advantageous physical resources refer to the resources such as the production area and technical equipment that have the flexibility to be used in common. For the common use of these resources the industries need to be related or similar to each other (Porter, 1987). From time to time opportunities may arise for companies. These opportunities in some cases, are detected with rationale while in some cases may be based on intuition. An executive who feels he has enough knowledge may capture the opportunity of high profitability by investing in a new field by intuition (Craig, 2003).

Unrelated diversification can teach corporate executives how to create economic values in different product lines and markets. For instance, an executive of an unrelated diversified company who has sufficient environmental information can buy out another business which he considers as being profitable then re-structures and re-sells it so as to attain the expected profit (Khanna et al., 2005).

1.1.4 Mobile Telephony Firms in Kenya

The rapid growth that the mobile service industry in Kenya has undergone can be traced to the partial privatization of Telkom Kenya Ltd (December, 2007), divestment of the government of Kenya's 25% stake in Safaricom Ltd through a public listing (May, 2008), and the launch of the fourth mobile operator, Econet Wireless Kenya (November, 2008). This has resulted into some of the World's best known telecommunication providers, Vodafone, France Telecom, Bharti Airtel and Essar Communication through their investment in Safaricom Ltd, Telkom Kenya Ltd, Airtel Kenya and Essar Telecom Kenya Limited being major players in the Kenyan market.

Currently, there are over 19.4 million mobile phone users in Kenya which is around 50% of the population. There are four mobile service providers in the country which are, Safaricom which has approximately 15 million subscribers, that is around 76%, Bharti Airtel has around 13% of the subscriber base, with Orange Telkom having around 8% and Essar's Yu with 3% (African Telecom, Website – africantelecomsnews.com, accessed 18.6.2011). Safaricom Ltd is a leading mobile network operator in Kenya with its headquarters based in Nairobi. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and also the management responsibility for the company. Recent reports indicate that Vodafone Plc of UK only owns 35% of the stake in Safaricom Limited and the remaining 5% is owned by a little known company, Mobitelea Ventures Limited.

Bharti Airtel Limited commonly known as Airtel, is an Indian telecommunications company that operates in over 19 countries across South Asia, Africa and in the Channel Islands. It operates a GSM network in all countries, providing 2G or 3G services depending upon the country of operation. Airtel is the fifth largest telecom operator in the world with over 207.8 million subscribers across 19 countries as at the end of 2010. Airtel is the second largest GSM service provider in Kenya after Safaricom Limited. It started its operations in Kenya in 2010 after it bought off Zain Ltd's business interests. Essar Telecom Kenya Limited (ETKL) is a unit of India based Essar Group. ETKL

launched a mobile service network under the brand name “Yu” in November 2008 in Kenya. They continue to build their network using the latest equipment that ensures clarity and reliability.

The mobile sector in Kenya is still in its development stage and there is growth opportunities especially in data traffic as well as voice services. This can be attested by the increased revenue and profits over the last five years among some of the mobile service providers. In addition, there is still a huge percentage of Kenyans still unbanked and with the money transfer innovation; the providers can still capture this market and thus increasing their revenue base. However, with more players coming to the market, there has been a drop of calling charges due to price competition and this has led to a drop in revenue from the voice segment although the firms have had to diversify into other services to cushion themselves from the pricing effects.

1.2 Research Problem

The competitive strategy of the firm in the business environment characterized by uncertainties in the market is an important management decision. Diversification strategy as one of the competitive strategies of the firm allows a business unit operating in more than one sector to gain an advantage due to their activities among themselves and thus creating an undesirable situation of mitigating/hindering competition for the businesses operating in same industry (Andrews, 2007). This strategy allows a firm to expand or enter new markets which are different from the firm’s existing product lines or markets and in the process attain above-average returns by taking advantage of the incoming opportunities (Kadri, 2004). Diversification is considered as a growth strategy whose rationale is to explore new business areas that promise greater profitability and therefore a firm needs to enter/expand in new markets or product lines which are related or/and unrelated to its existing businesses.

The Mobile Service industry in Kenya has been recognized as one of the fastest growing sectors and at the same time witnessing high level of competition in Africa (World Bank Report, 2010). With one single operator in 1990s, the sector has witnessed an increase in

number of players to the current four and customer base of over 24M in the year 2012 according to the Communications Commission of Kenya (2011-2012). The customers have at the same time become quite enlightened and demand better services than before albeit at a lower prices. The regulator, CCK has at the same time not made matters any better for the mobile players by reducing the interconnectivity charges and allowing for porting of numbers by customers. With the change of technology, many customers are adopting the use of cheap communication means such as the internet and Voice over Internet Protocol. In such an unpredictable market, the managers in a firm need to explore new opportunities by entering new markets or expanding the existing one in new regions. Diversification strategy might therefore be a better move to be adopted in the face of such level of competition and this can be evidenced from firms such as Safaricom that have followed the path whereby its sales and income has shown consistent growth.

Several studies have been done on the area of diversification locally. Achuti (2012) researched on application of diversification strategies at Safaricom Ltd. The research found out that Safaricom has applied product diversification strategies over the years to become the leading telecommunications company in the country and that the diversification strategies used by Safaricom contribute to its growth and help the Firm to retain its relative position.

Diversification generally requires new skills, new techniques, and new facilities. Thuo (2008) undertook a research on diversification strategies adopted by Nation media group. He found that diversification by mode established that the company largely used internal diversification or start-ups in Kenya with an exception of a few and went for external diversification for all the international ventures. It was established that choice of diversification was mainly due to the strategic intent of the company. In implementation, the major structures included the board and the executive committee. Mutahi (2010) researched on implementation of diversification strategy at the Standard media group and found that the group adopts diversification strategies to maximize profits and compete effectively in the media market. Diversification strategies are adopted to consolidate the company's market share and ward off competition from its rivals, so as to spread the risks

occasionally by using cost of operation, to maximize on profits. Lole (2009) on his part researched on diversification strategies in the banking industry in Kenya. The research revealed that three types of strategies (horizontal diversification, vertical diversification and geographical diversification) were prevalent within the banking industry in Kenya and in terms of ranking, horizontal diversification was leading followed by the geographical diversification.

From the above studies, though diversification strategies employed by different firms have been explored, there has been no study that that has investigated the effects of diversification strategies on the performance of mobile telephony firms in Kenya. This therefore calls to the following question: what effects do diversification strategies have on the performance of mobile telephony firms in Kenya?

1.3 Research Objectives

The objective of the study is to establish the effects of diversification strategies on the performance of mobile telephony firms in Kenya.

1.4 Value of the Study

The study will aid various stakeholders in the Telecommunication industry in Kenya and especially the management and staff of the Mobile service providers in Kenya will find this study an invaluable source of material in developing and harnessing their strategic posture in the present day competitive business environment. This study will provide insight on some of the challenges that may be faced in the development and implementation of their strategic competitive plans and how they can avoid them. The authorities will strive to avoid the pitfalls and capitalize on the strengths.

Other organizations can also find use in developing their unique strategic competitive moves that shall not be easily be imitable and thus create their own individual firm competitive advantages. The government and regulators of the industry will also find invaluable information in how diversification strategies can be adopted and as a result put

in place policies that will guide and encourage other organizations within and without the industry in implementing their strategies in an ethical manner.

For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the business and its strategic position within the environment, which can assist them in determining their investment viability.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of literature related to the study. An overview of theories underpinning the study, concept of strategy, diversification strategies, organizational performance and how diversification strategies affect the performance of an organization will be covered in this chapter.

2.2 Theoretical Foundation

This study is informed by two theories, namely; the resource based view and the porter's five forces theory.

The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (Barney, 1991). The basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature. Thus, the essence of strategy is or should be defined by the firm's unique resources and capabilities. Furthermore, the value creating potential of strategy, that is the firm's ability to establish and sustain a profitable market position, critically depends on the rent generating capacity of its underlying resources and capabilities.

The resource based theory suggests that competitive advantage and performance results are a consequence of firm-specific resources and capabilities that are costly to copy by other competitors (Barney, 1991). These resources and capabilities can be important factors of sustainable competitive advantage and superior firm performance if they possess certain special characteristics. They should be valuable, increasing efficiency and effectiveness, rare, imperfectly imitable and non-substitutable (Barney 1991).

The Porter's five forces theoretical perspective views competitive advantage as a position of superior performance that a firm achieves through offering cost advantages or benefit advantages (Porter, 1980). This model attributes competitive advantage to the external environmental factors that a firm must respond to such as erecting barriers of entry to competitors, product differentiation, capital requirements, and buyer switching costs.

Industry structure determines who will capture the value, but a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies. The five forces framework highlights what is important, and directs managers toward those aspects most important to long-term advantage. In this framework, gaining competitive advantage is determined primarily by responding effectively to industry-specific requirements. The five forces model constitutes a very useful way of thinking about and analyzing the nature of competition within an industry. However, the model presents a static picture of competition which slights the role of innovation and de-emphasizes the significance of individual company differences while overemphasizing the importance of industry and strategic group structure as determinants of company profit rates (Ghemawat *et al.*, 2009).

2.3 Concept of Strategy

The concept of strategy embraces the overall purpose of an organization. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy as outlined by Gole (2005) encompasses: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within which the organization operates.

Porter's (2007), five forces theory of strategic planning provides a framework that models an industry as being influenced by five forces. Porter assumed that companies, when implementing strategies, must do so within the framework of five forces; the force of suppliers, the force of buyers, the force of substitute products, the force of new entrants and the force of competitive rivalry. The five-force model looks at the strength of the five distinct competitive forces, which, when taken together, determine long-term profitability and competition. The strategic business managers seeking to develop an edge over rival firms use this model to understand the industry context in which the firm operates. The "five forces" model can be used to help strategists better understand the competitive dynamics of their market places and align their organization successfully against each of the forces. The model can also be used to assess the general attractiveness of a market place and to help strategists decide whether, where and how to compete in a market place.

Burkhart's theory of strategic planning points out that strategic planning determines the company's current position, where they want to go, how to get there and how they will know if they got there or not. Current position of the company can be assessed with the help of SWOT analysis. Strategic planning should respond to changing circumstances of the environment in the best possible way. It can be described as externally oriented planning i.e. their own products and competitor products will be viewed from an outsider's point of view. Therefore setting goals is necessary and an approach must be developed to achieve these goals. There is no one perfect strategic planning model. Each organization has to develop its own model of strategic planning often by selecting a model and modify it (Burkardt, 2005).

2.4 Diversification Strategies

Diversification strategy is a strategy implemented by the top executives in order to achieve business growth by entering new businesses and attaining above-average returns by taking advantage of the incoming opportunities. There are two major diversification strategies that can be adopted by firms; related and unrelated diversification strategies.

Hill et al, (2001) characterize organizational arrangement of a related diversifier as a cooperative organization. Two major ways are used to achieve cooperation among divisions in order to achieve cooperation between divisions in order to share resources and transfer skills. Coordination is done at the head office while key operating decisions are done at the decentralized units. Hill et al., (2001) assert that related diversifiers perform better when they adopt interdivision integrating activities. Besides the emphasis horizontal structure, Porter (1985) also suggests that the creation of some shared values within the firm is needed in order to achieve interrelationship. Managers must perceive that collaboration with other business units is important and will be rewarded, and that senior management will act fairly in measuring performance of the individuals units involved. This kind of cooperative relationship will further be enhanced if the cooperative management team has similar mindsets. The new mindset needed by related diversifiers is basically related to the building up of a climate of sharing activities among the divisions.

Hill et al., (2001) describe the unrelated diversification as having a competitive organizational culture. The culture of competing for internal resources among the various divisions facilitates control and enhances performance. In order for the internal capital market to function efficiently, each division must have a relative autonomy than the related diversification counterpart. Because of decentralization, each division is held accountable for its profit performance and thus can be evaluated in more objective measures. Because the unrelated diversifier is operated like an internal capital market, the corporate management emphasis is on each division's profit maximization. Competitiveness is encouraged instead of collaboration. The emphasis on individual units' financial return encourages risk averse behaviour (Gupta, 2003) and also leads to low commitment in innovation. Thus the mindset of the corporate management team will be short run, focused and competitive – oriented.

2.5 Organizational Performance

Organizational performance is described as the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival (Griffin, 2003).

According to Swanson (2000), organizational performance is the valued productive output of a system in the form of goods or services. Organizational performance can be subdivided into three categories: financial performance (profit), internal non-financial performance (productivity) and external non-financial performance (customer satisfaction). Private sector organizations strive for good financial results whereas public organizations are aimed at non-financial aims like delivering good public services to citizens. To achieve performance through employees, the organization must consider them as assets and must be treated with attention so that the employees become productive. There are a number of indicators by which company performance may be judged. The balanced scorecard offers both qualitative and quantitative measures that acknowledge the expectations of different stake holders and related an assessment of performance in choice of strategy. In this way performance is linked both to short term outputs and process management (Johnson *et al.,* 2006).

Due to the realization that people are the most valuable assets in an organization, the importance of performance management has been pushed to the fore (Bartlett and Ghoshal, 2005). The performance measurement system employed in an organization must therefore measure the performance of all assets including the human ones. The balance scorecard of Kaplan and Norton (1996) is a mechanism which provides a holistic measure of organizational performance. It is a set of measures that provide managers a fast but comprehensive view of the business. The Balanced Scorecard is not only a measurement system but also a management system, which enables organizations to clarify their vision and strategy and translate them into action (Kaplan and Norton, 1996). It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results.

Traditional methods of measuring a company's performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). Non-financial measures are at the heart of describing strategy and of developing a unique set of performance measures that clearly communicate strategy and help in its execution. Frigo (2002) reported the existence of a gap between strategy and performance measures,

which failed to support the communication of strategy within an organization. Hudson *et al.* (2001) concluded that although there was a widespread acceptance of the value of strategic performance measurement amongst firms that they studied, none had taken steps to redesign or update their current performance measurement systems.

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability is the most important measure of success of the business. A business that is not profitable cannot survive, yet a highly profitable one has the ability to reward its owners with a large return on their investment. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business (Mesquita & Lara, (2003). Four useful measures of firm profitability are the rate of return on firm assets (ROA), the rate of return on firm equity (ROE), operating profit margin and net firm income. The ROA measures the return to all firm assets and is often used as an overall index of profitability, and the higher the value, the more profitable the firm business. The ROE measures the rate of return on the owner's equity employed in the firm business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a profitable return on their borrowed money (Hadlock & James, 2002).

2.6 Role of Diversification Strategies on Organizational Performance

According to a number of findings in developed countries such as US, Germany, Britain and Japan, diversification strategies do not augment the company value after the optimal level. On the contrary, costs of engaging in diversification strategies start to climb up, exceeding the benefits, after the optimal level. However, in emerging markets, the potential benefits and costs arising from diversification and also other criteria have an effect on performance level (Lins and Henri, 2002). A number of benefits to the overall organizational performance can be derived from the firm's diversification strategies ranging from risk reduction, decrease in transaction cost, decrease in cost of service, accessing management skills and foreseeing potential environmental opportunities.

Companies whose products are threatened by the environmental uncertainty or in decline phase of their life cycle curve can prefer to engage in an unrelated diversification to overcome the risk arising from current industries (David et al, 2001). Expanding its product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, a company may confirm its survival which will make its cash flow more reliable. Further, considering each strategic business units of unrelated diversified businesses as profit centers and the fact that top executives monitor each strategic unit, the top executives will have the opportunity to access all the available information about regarding each independent business unit and the whole of the company at the lowest transaction cost (Craig, et al, 2004). One of such information is related to the control of the capital. The transaction cost in internal capital control will be less in unrelated diversification than in related diversification. Executives in need of financial resource by the company or any strategic business unit will be able to transfer it selecting from any of the strategic business units of whose information is set to be available to them without any transaction cost (Lins and Henri, 2002)..

Some activities such as legal services, public relations, the company's case security, internal audit and investment decisions can be performed centrally at company level for all strategic business units. Although there may not be a relation in operational sense, on behalf of the unrelated diversification strategy such activities can be cost-saving benefits (Hicheon et al., 2004). The claim that the executives have skills hard to achieve promotes the idea that executives of companies engaged in unrelated diversification will be successful in new investments (Chiu et al., 2007). In this perspective an executive that has the skill and knowledge to manage a single company may also have the ability to manage multiple businesses at the same time. This will be an advantage for the diversified business and will contribute to profitability.

From time to time opportunities may arise for companies. These opportunities in some cases, are detected with rationale while in some cases may be based on intuition. An executive who feels he has enough knowledge may capture the opportunity of high profitability by investing in a new field by intuition (Lins and Henri, 2002). Unrelated

diversification can teach corporate executives how to create economic values in different product lines and markets. For instance, an executive of an unrelated diversified company who has sufficient environmental information can buy out another business which he considers as being profitable then re-structures and re-sells it so as to attain the expected profit (Chiu et al., 2007).

In related diversification, there are two ways in which effect of performance based on physical resources is felt. First, the potential relationship between strategic business units can be identified and the utility of the resource can be enhanced so as to be utilized collectively by all the strategic units. Second, especially during the production process, already existing products which are complementary to each other can be commonly used. In both cases, the collective use of physical resources can help to provide cost savings for strategic business units. In related diversified companies, advantageous physical resources refer to the resources such as the production area and technical equipment that have the flexibility to be used in common. For the common use of these resources the industries needs to be related or similar to each other (Dess, 2004).

It is claimed that even a simple transfer between the units of a related diversified company would benefit all of its strategic business units. Since the customers are already familiar with the products manufactured by the existing strategic business unit (Hicheon et al., 2004), the company's well-known brand value contributes positively to the performance of strategic business units. Reputation, independent of brand, refers to people’s awareness of the firm’s quality, etc. The expansion of a company with a reputation in the related field will contribute to company’s competitive advantage. Companies evaluate their existing technological capabilities so as to contribute to its growth and competitive advantage (Hicheon et al., 2004).

The companies that are aware of their technological superiority can invest in new areas after analyzing where and how to use their superiority which can be seen by the Japanese technology companies such as Canon, Matsushita, Fujitsu, Toshiba, and Sony. Canon is noteworthy among these firms as it has realized large proportion of growth in the last two

decades by using its technological ability (Johnson, et al., 2002). Some technical or market relatedness is needed when resources and capabilities are transferred and shared among strategic business units of diversified companies. The capabilities transferred are not only functional skills but also are in relation to general management skills. Top executives can make some suggestions to business units regarding the general management skills and such suggestions do not necessitate a close relation or a related diversification between strategic business units in terms of customer or in technical sense. General management skills encompass the idea that similarities in management skills are possible due to the collective use by corporate and strategic business unit managers (Dess, 2004).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research methodology to be used for the study. It describes the research design, the population of the study, data collection and data analysis.

3.2 Research design

The study adopted a descriptive cross sectional design. According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the; who, what, where, when and how much. The cross-sectional survey will use variables aimed at establishing the effects of diversification strategies on firm performance among mobile telephony firms in Kenya. The design is deemed appropriate because the main interest was to determine how the diversification strategies employed by mobile service providers in Kenya affects their organizational performance.

A cross sectional study seeks to collect data and provides a snapshot of the population at a single point in time. This design provided further insight into the research problem by describing the variables of interest.

3.3 Population of the Study

The population of the study consisted of Mobile Service Providers operating in Kenya. According to the Communication Commission of Kenya (2011-2012), there are currently four firms offering mobile services in the country namely: Safaricom, Airtel, Orange and Yu (Appendix II).

The selection of the industry players was necessitated by the present level of competition being experienced in the sector that has involved price wars and counter promotions among the players. In addition all the firms have their headquarters in Nairobi and thus it was easy to collect adequate data by the researcher. Because of the limited number of the population targeted in the study, the research was a census survey.

3.4 Data Collection

The study used primary data that was collected through a self-administered questionnaire that consisted of structured questions made up of closed ended questions designed to elicit specific responses for quantitative analysis.

The questionnaire was made up of two sections namely; demographic and respondents profile and the relationship between diversification strategy and firm performance. The choice of questionnaire as a data collection instrument was appropriate to provide confidentiality where necessary and also due to the busy schedule of the executives who were the targeted respondents.

The target respondents were key senior staff responsible for strategy formulation and implementation and at middle-level managerial level drawn from Sales and Marketing, Business Development, Intelligence Units, Operations and Research and Development departments.

The questionnaires were administered in the organizations offices whereby the researcher with prior arrangement, visited the target firms' offices and administered the questionnaires to staff in the respective departments.

3.5 Data Analysis

The data was analyzed by the use of descriptive statistics to summarize and relate variables to be attained from the administered questionnaire. The data was classified, tabulated and summarized using descriptive measures; percentages and frequency distribution tables while tables and graphs were used for presentation of findings. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. In accomplishing all analysis details with efficiency and effectiveness, the researcher utilized the Statistical Package for Social Sciences (SPSS) software

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the effects of diversification strategy on performance of mobile telephony firms in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 8 questionnaires were issued out and all the 8 questionnaires were returned. This represented a response rate of 100%.

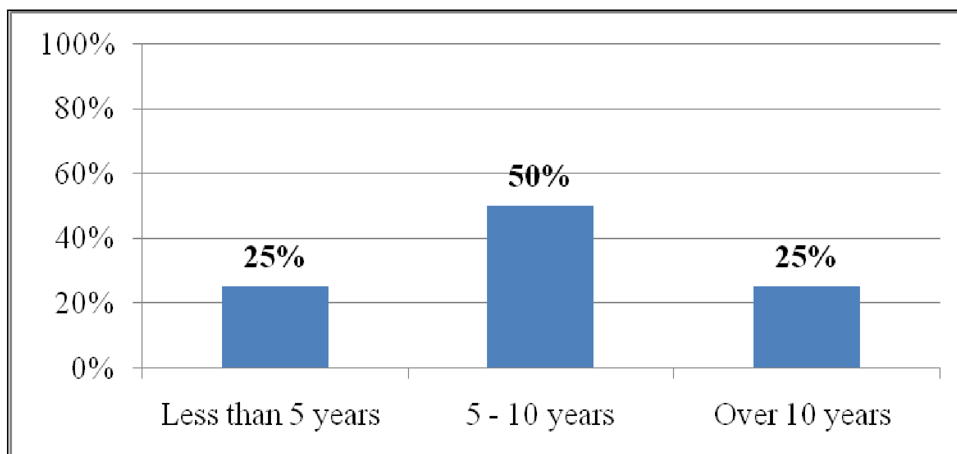
4.2 Demographic Information

The demographic information considered in this study were length of continuous service with the mobile telephony companies, duration of company existence, ownership of the company and the areas of operation.

4.2.1 Length of Service with the Company

The respondents were asked to indicate the duration they have continuously worked in the company and the results are presented in figure 4.1.

Figure 4.1: Length of service with the company



The findings indicate that 50% of the respondents have worked in the companies for a period of between 5 and 10 years, 25% of the respondents indicated that they have worked in the company for over 10 years while 25% of the respondents indicated that they have worked in the company for less than 5 years. The results indicated that majority of the respondents have worked in the companies for a longer duration of time and therefore they understand the influence that diversification strategies have on performance of the companies.

4.2.2 Duration of Company Existence

The respondents were requested to indicate the duration the companies have been in existence. The results are presented in table 4.1.

Table 4.1: Duration of company existence

Years	Frequency	Percent	Cumulative Percent
6 – 10	2	25.0	25.0
11 – 15	6	75.0	100.0
Total	8	100.0	

The results on the duration of company existence indicate that 75% of the companies have been in existence for a period of between 11 and 15 years while 25% of the companies were indicated to have been in existence for a period of 6 to 10 years. The results indicate that the companies have been in existence for a longer duration and therefore they understand the market dynamics and the strategies that need to be adopted in order to improve organizational performance.

4.2.3 Company Ownership

Table 4.2: Company Ownership

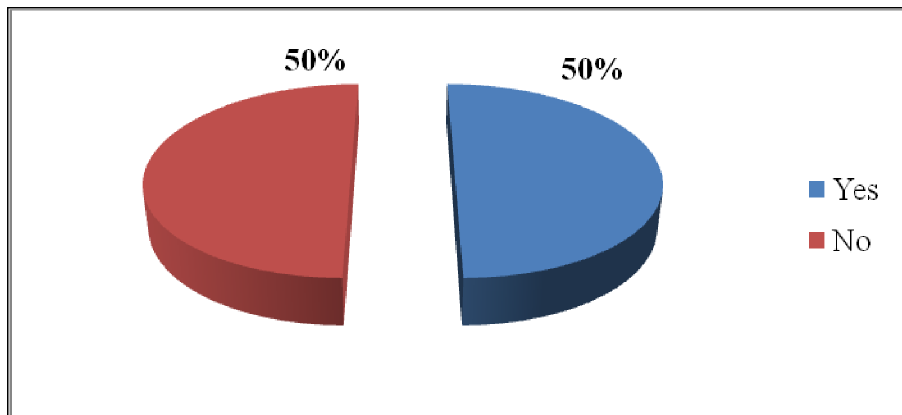
Company Ownership	Frequency	Percent	Cumulative Percent
Public	2	25.0	25.0
Government/ private ownership	2	25.0	50.0
Private ownership	4	50.0	100.0
Total	8	100.0	

The findings indicate that 50% of the respondents said that the companies are privately owned, 25% of the respondents indicated that the companies are public owned while another 25% of the respondents indicated that the companies are both government/private ownership. The results indicate that the presence of private companies gives rise to high competition in the industry which necessitates diversification in order to improve the firm performance.

4.2.4 Area of Company Operation

The question sought to establish the areas of operation of the telephony companies.

Figure 4.2: Area of company operation



The findings on the areas of operation of the companies indicate that 50% of the companies operate in other countries while another 50% of the respondents indicated that the companies do not operate in other companies. The operation of some companies in other countries will result in stiff competition in the local market as the companies would replicate the strategies which have been put to test in other countries and work. This therefore necessitates diversification by the companies in order to improve and enhance performance.

4.3 Diversification Strategy and Organizational Performance

Companies whose products are threatened by the environmental uncertainty or in decline phase of their life cycle curve can prefer to engage in an unrelated diversification to overcome the risk arising from current industries. Expanding its product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, a company may confirm its survival which will make its cash flow more reliable.

A number of benefits to the overall organizational performance can be derived from the firm's diversification strategies ranging from risk reduction, decrease in transaction cost, decrease in cost of service, sharing and accessing management skills and reduce risk by forseeing potential environmental opportunities.

4.3.1 Influence of Diversification Strategies on Organizational Performance

Respondents were asked to indicate the extent to which diversification strategies influence organizational performance. They rated them on a scale of 1 to 5 with 5- being very great extent and 1- being not at all. The mean scores were computed for each item. Means below 3.0 indicate low levels of satisfaction among the respondents. The findings are presented and discussed below.

Table 4.3: Influence of Diversification Strategies on Organizational Performance

Diversification strategies and organizational performance	Mean	Std. Deviation
Return on investment	4.1250	.6408
Market share growth	3.8750	.8345
Total cost reduction	4.2500	.7071
Sales growth	4.2500	1.0351
Financial liquidity	3.6250	1.1877
Reduction of response time for product design change	3.2500	1.0351
Reduction of response time for product volume changes	3.3750	1.0606

The findings presented in table 4.3 indicate the distribution of responses on the level of influence by diversification strategies on organizational performance at the mobile telephony companies. The findings indicate that a majority of the respondents expressed high level of influence in regard to total cost reduction (mean 4.25), sales growth (mean 4.25) and return on investment. The respondents expressed low level of influence by diversification strategies in regard to reduction of response time for product design change (mean 3.25). The results indicate that diversification strategies influence the performance of the companies and ultimately their survival in the competitive environment.

4.3.2 Effects of Unrelated Diversification on Performance

Table 4.4 presents findings on the frequency of occurrence for the influence of unrelated diversification on organizational performance. The factors were rated on a five-point Likert scale with the ratings applied as follows: 5 = strongly agree; 4 = agree; 3 = moderate extent; 2 = disagree; 1 = strongly disagree. The distribution of responses for each item was tabulated as shown in Table 4.4.

Table 4.4: Effects of Unrelated Diversification on Performance

Effects of unrelated diversification on performance	Mean	Std. Deviation
The firm's products and services that have been threatened by the environmental uncertainty or in decline phase of their life cycle curve have managed to reduce their risk through diversifying to different sectors from the current main sector	4.0000	.9258
By expanding our product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, the company has confirmed its survival which will make its cash flow more reliable	4.3750	.7440
The unrelated strategic business units being considered as a profit center help the top managers to monitor each strategic unit more effectively through access of information and as a result help in reducing the overall costs.	3.5000	1.0690
Executives in need of financial resource by the company or any strategic business unit have been able to transfer it by selecting from any of the strategic business units whose information is set to be available to them without any transaction cost	3.2500	1.1649
Some activities such as legal services, public relations, the company's case security, internal audit and investment decisions can be performed centrally at company level for all strategic business units despite being diversified and such measures act as a cost savings move	4.2500	1.0351
Since managers have skills hard to achieve, promotes the idea that executives of companies engaged in unrelated diversification will be successful in new investments.	3.8750	.6408
Diversification helps the managers on how to create economic values in different product lines and markets due to their sufficient environmental information.	4.5000	.5345

The company has a higher level of absorptive capacity that allows it to more fully capture the benefits of simultaneous exploitation and exploration	3.8750	.8345
The company benefit from organizational slack, which increases the incentives for firms to take risk and pursue unrelated diversification	3.2500	1.2817
The company diversifies due to co-insurance effect that has a positive influence on the company debt capacity due to the reduction in the volatility of firm revenues and profits	3.6250	1.1877

The findings with means above 3.0 were regarded to present aspects that are moderate extent, agree and strongly agree by the respondents. The findings indicate that unrelated diversification helps the managers to create economic values in different product lines and markets due to their sufficient environmental information (mean 4.50), expand product line and activities to different sectors where the environmental uncertainty is reduced and profitability is higher, the company has confirmed its survival which will make its cash flow more reliable (mean 4.375), some activities can be performed centrally at company level for all strategic business units despite being diversified and such measures act as a cost savings move (mean 4.25), the firm's products and services that have been threatened by the environmental uncertainty or in decline phase of their life cycle curve have managed to reduce their risk through diversifying to different sectors from the current main sector (mean 4.00).

The findings further indicate that unrelated diversification results in promoting the idea that executives of companies engaged in unrelated diversification will be successful in new investments, enables the company to have a higher level of absorptive capacity that allows it to more fully capture the benefits of simultaneous exploitation and exploration, enables the company to benefit from organizational slack, which increases the incentives for firms to take risk, results in co-insurance effect that has a positive influence on the company debt capacity due to the reduction in the volatility of firm revenues and profits, help the top managers to monitor each strategic unit more effectively through access of information and as a result help in reducing the overall costs and that it enables the

executives to select from any of the strategic business units whose information is set to be available to them without any transaction cost.

4.3.3 Effects of Related Diversification on Performance

The respondents were asked to indicate the effect of related diversification on performance of the companies. The results are presented in table 4.5.

Table 4.5: Effects of Related Diversification on Performance

Effects of related diversification on performance	Mean	Std. Deviation
The potential relationship between strategic business units in the firm can be identified and the utility of the resource can be enhanced and therefore can be utilized collectively by all the strategic units to increase the returns	4.5000	.9258
During the production process, already existing products which are complementary to each other can be commonly used to boast the sales growth and reduce cost.	4.7500	.4629
Since the customers are already familiar with the products manufactured by the existing strategic business unit, the company's well-known brand value contributes positively to our market share and return on investment	4.6250	.7440
Due to diversification, the firm's ability of marketing research, distribution channel management, and new market access has helped it gain competitive advantage through the transfer of their brand name as well as their marketing capabilities.	4.1250	.9910
Diversification has helped in the sharing of management skills among the different products which has enhanced the firm customer base	4.2500	.4629

The findings presented in Table 4.5 indicate the distribution of responses on the extent of influence by related diversification on company performance. The findings indicate that related diversification resulted in existing products which are complementary to each other being used to boast the sales growth and reduce cost (mean 4.75), the company's well-known brand value contributing positively to market share and return on investment

(mean 4.625), potential relationship between strategic business units in the firm can be identified and the utility of the resource enhanced and utilized collectively by all the strategic units to increase the returns (mean 4.50), helps in the sharing of management skills among the different products which has enhanced the firm customer base (mean 4.25) and that it has helped the company gain competitive advantage through the transfer of their brand name as well as their marketing capabilities. The findings also indicate that related diversification influences the company's performance as the customers already associate a successful brand with the company.

4.4 Discussion

The study found out that diversification results in total cost reduction, sales growth, return on investment, market share growth, financial liquidity and reduction of response time for product design change and product volume change. The findings are consistent with Lins and Henri (2002) findings that a number of benefits to the overall organizational performance can be derived from the firms diversification strategies ranging from risk reduction, decrease in transaction cost, decrease in cost of service, accessing management skills and foreseeing potential environmental opportunities. The prevailing resource-based view of diversification postulates that resource relatedness can allow the production of super additive value and sub-additive costs that improve firm performance. However, the logic of synergies and path dependence of the resource-based view is too narrowly defined to account for unrelated diversifications that are motivated by the firm's efforts to alleviate the risk attached to resource allocation in conditions of market failure. Moreover, the resource-based approach does not consider the firm's ability to develop asymmetries (Miller, 2003) – valuable and inimitable resources that are however unrelated to the firm's core resources – that can yield sustainable economic rents.

Companies whose products are threatened by the environmental uncertainty or in decline phase of their life cycle curve can prefer to engage in an unrelated diversification to overcome the risk arising from current industries (David et al, 2001). The transaction cost in internal capital control will be less in unrelated diversification than in related diversification. The results are supported by the findings that unrelated diversification in

the company results in influencing the performance of the companies as it helps the managers on how to create economic values in different product lines and markets, expand its product line and activities to different sectors where profitability is higher, cost savings through performing some activities centrally, reduce risk for the firm's products and services that have been threatened by the environmental uncertainty. The findings also support the argument that synergies gained from the application of management expertise in unrelated diversification ventures leads to success in the new investments which eventually results in increasing the firm's growth rate.

The findings of the study reinforce the view that unrelated diversification results in risk reduction, improved cash flows, economies of scope as a result of higher absorptive capacity, decrease in transaction costs and sharing of management expertise in different business units or domains. However, there are administrative problems associated with implementing unrelated diversification. Competition between strategic business units may create rivalry and administrative problems and therefore erode the benefits realized from the diversification. This disadvantage is highlighted in the study where transfer of financial resources between strategic units found out to have a lower positive effect than the other drivers of unrelated diversification.

Related diversification is observed to have a more significant impact on firm performance as it enhances profits by achieving strategic fit. Strategic fit allows an organization to achieve synergy and enhancement of resource utilization collectively by all the strategic units or product lines. This is done by way of complementary marketing, operating, financial or management efforts and endeavours. This leads to higher sales growth and also reduces costs thereby giving the firm a competitive advantage in the market. By engaging in related diversification, the mobile telephony firms have made use of their well-known brand value to contribute positively to market share growth and also increase return on investment.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers summary of the findings, conclusion, recommendations, recommendations for further research and limitation of the study. Key aspects of the results of the data analysis are highlighted and related to the objectives of the study.

5.2 Summary of Findings

The study found out that the respondents have worked in the company for a longer duration of time and thus understand the influence that diversification strategies have on performance of the companies. The results indicate that the duration the mobile telephony companies have been in existence varied due to the time the company was licensed to operate and therefore all of them have studied the market and have the data on the strategies to be adopted to increase or maintain the market share. The ownership of the companies was private in the case of Airtel and Essar, public for Safaricom and Government/private in the case of Orange. The presence of several companies in the market offering similar services leads them to be innovative in order to improve their performance. The area of operation for the companies was local while some companies have operations in some other countries as well. The companies that operate in some other countries have the experience and understand different markets and therefore will use the strategies applied in other countries to influence the local market for their benefit and this necessitates diversification for the companies in order to improve their performance.

The effects of diversification strategies on firm performance was on total cost reduction, sales growth, return on investment, market share growth, financial liquidity, and; reduction of response time for product design change and product volume change. Unrelated diversification involves diversifying into whatever industries and businesses that hold the promise for attractive financial gain and pursuing strategic fit relationships that assume a back-seat role. The study established that unrelated diversification strategy

influences the performance of the companies as it helps the managers to create economic values in different product lines and markets, expand their product line and activities to different sectors where profitability is higher, achieve cost savings through performing some activities centrally, reduce risk for firm's products and services that have been threatened by the environmental uncertainty, share knowledge and thus reduce transaction costs, achieve a higher level of absorptive capacity that allows firms to more fully capture the benefits of simultaneous exploitation and exploration, enables the company to benefit from organizational slack which increases the incentives for firms to take risk, and results in co-insurance effect that has a positive influence on the company debt capacity due to the reduction in the volatility of firm revenues and profits.

The study found out that by pursuing related diversification the companies were able to; use the existing products which are complementary to each other to boast the sales growth and reduce cost, use the company's well-known brand value to contribute positively to market share and return on investment, realize benefits of resource enhancement and utilization collectively by all the strategic units to increase returns and share management skills among the different products and gain competitive advantage through the transfer of their brand name as well as their marketing capabilities.

5.3 Conclusion

Intense competition in the market place is forcing organizations to examine different ways in which they can enhance or retain their competitive edge. The present day customer stresses prompt delivery, unique innovation, and continued optimization of service quality, and all of these are determined by a mechanism that can improve the performance of routine tasks and non-routine projects by enabling the organization personnel to collaborate and optimize processes of collecting, transforming, storing, and sharing the existing knowledge. The utilization of related diversification as a source of competitive advantage in today's world is a reality. No matter the size of the organization or the industry in which it participates, most organizations see diversification as an interesting opportunity of growth, knowledge, efficiency and profitability.

The results reveal the predominant role of the efficient view argument; that is, the benefits of diversification outweigh its costs (mainly based on opportunistic problems). In an institutional context, firms mainly diversify for financial purposes; to reduce asymmetric information problems and to obtain benefits from the creation of internal capital markets. The pursuit of related diversification is as a result of the need to achieve improved performance such as total cost reduction, sales growth, return on investment, market share growth, financial liquidity, reduction of response time for product design change and product volume change. These results suggest that the impact of related diversification on a firm's performance is positive. This implies that the decision to diversify is made in the shareholders' best interest. These results are consistent with the efficient view of corporate diversification, which suggests that managers invest efficiently in diversification. The pursuit of either related or unrelated strategy by the firms would result in several benefits to the companies.

5.4 Limitation of the Study

The study confined itself to all the mobile telephony firms operating in Kenya and the findings may not be applicable in other sectors as a result of uniqueness of the industry. It is therefore recommended that the study is replicated in other sectors to establish the influence of diversification on organizational performance.

5.5 Recommendations

It is recommended that in order to improve the chances of success, companies must follow a careful, organized process from start to finish; from strategic conception to the adoption of the diversification to be pursued. It is important to take time to properly set the strategy for the diversification strategy, to create the optimum structure for the diversification to flourish, to set clear rules of governance, and to monitor the results on a timely basis.

The study established that the companies derive benefits as a result of engaging in diversification. It is recommended that the companies considers the sector they want to

diversify into in order to ensure that the company does not suffer losses in the short run as a result of failure of the diversification to achieve the intended objectives.

The study established that the companies can either pursue related or unrelated diversification and it is recommended that the companies should ensure that they consider all the factors that influence the choice of diversification so that they pursue the strategy which will ensure that the company maximizes shareholders wealth and at the same time not deviate from its core business.

5.5.1 Recommendations for further Research

A study can be undertaken to determine the factors that influence the choice of diversification strategy. Also a study can be undertaken on the challenges firms face when undertaking diversification strategy as every business undertaking has its challenges.

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APPENDICES

Appendix I: Questionnaire

DIVERSIFICATION STRATEGY AND PERFORMANCE OF MOBILE TELEPHONY FIRMS IN KENYA

Please give answers in the spaces provided and tick (√) in the box that matches your response to the questions where applicable.

PART A: DEMOGRAPHIC AND RESPONDENTS PROFILE

1) Name of the company:…………………………………………………………….

2) What is your designation at the organization………………………………………..

3) Length of continuous service with the organization?

a) Less than five years ( )

b) 5-10 years ( )

c) Over 10 years ( )

4) For how long has your company been in existence?

a) Under 5 years ( )b) 6 – 10 years ( )

c) 11 – 15 years ( )d) Over 16 years( )

5) What would you say is the ownership structure of the company?

a) Government Owned ( )

b) Government/ Private ownership ( )

6) Do you operate in other countries outside Kenya? Yes ( ) No ( )

If yes, please give the countries that you operate in………………………………………………

PART B: DIVERSIFICATION STRATEGY AND FIRM PERFORANCE

7) The statements below describe various measures of performance and which can be influenced by a firm's diversification strategies. Please indicate the extent to which your organization performance has been influenced by the diversification strategies adopted:

Key:

5)Very great extent 4) Great extent 3) Moderate extent

2)Low extent 1) Very low extent

	Performance Indicator	5	4	3	2	1
1	Return on Investment					
2	Market share growth					
3	Total cost reduction					
4	Sales growth					
5	Financial liquidity					
6	The reduction of response time for product design change					
7	The reduction of response time for product volume changes					

8) Below are some of the diversification strategies that can be employed by a firm, Please tick appropriately the extent to which you recognize the effect that the organization's diversification strategy has on the firm's performance.

Key;

5) Strongly agree; 4) Agree; 3) Moderate extent; 2) Disagree; 1) strongly disagree

	Unrelated Diversification	**5**	**4**	**3**	**2**	**1**
1	The firm’s products and services that have been threatened by the environmental uncertainty or in decline phase of their life cycle curve have managed to reduce their risk through diversifying to different sectors from the current main sector.					
2	By expanding our product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, the company has confirmed its survival which will make its cash flow more reliable					
3	The unrelated strategic business units being considered as a profit center help the top managers to monitor each strategic unit more effectively through access of information and as a result help in reducing the overall costs.					
4	Executives in need of financial resource by the company or any strategic business unit have been able to transfer it by selecting from any of the strategic business units whose information is set to be available to them without any transaction cost					
5	Some activities such as legal services, public relations, the company's case security, internal audit and investment decisions can be performed centrally at company level for all strategic business units despite being diversified and such measures act as a cost savings move					
6	Since managers have skills hard to achieve, promotes the idea that executives of companies engaged in unrelated diversification will be successful in new investments.					
7	Diversification helps the managers on how to create economic values in different product lines and markets due to their sufficient environmental					

	information.					
8	The company has a higher level of absorptive capacity that allows it to more fully capture the benefits of simultaneous exploitation and exploration					
9	The company benefit from organizational slack, which increases the incentives for firms to take risk and pursue unrelated diversification					
10	The company diversifies due to co-insurance effect that has a positive influence on the company debt capacity due to the reduction in the volatility of firm revenues and profits					
	Related Diversification					
1	The potential relationship between strategic business units in the firm can be identified and the utility of the resource can be enhanced and therefore can be utilized collectively by all the strategic units to increase the returns					
2	During the production process, already existing products which are complementary to each other can be commonly used to boast the sales growth and reduce cost.					
3	Since the customers are already familiar with the products manufactured by the existing strategic business unit, the company's well-known brand value contributes positively to our market share and return on investment					
4	Due to diversification, the firm's ability of marketing research, distribution channel management, and new market access has helped it gain competitive advantage through the transfer of their brand name as well as their marketing capabilities.					
5	Diversification has helped in the sharing of management skills among the different products which has enhanced the firm customer base					

THANK YOU FOR YOUR TIME

Appendix II: Mobile Telephony Firms in Kenya

1. Safaricom Limited
2. Airtel Networks Kenya Limited
3. Essar Telecom Kenya Limited
4. Telkom Kenya Limited (Orange)

Source: Communications Commission of Kenya, 2011-2012, Annual Report.