SURVIVAL OF LOCAL CONSTRUCTION COMPANIES IN KENYA THROUGH DIVERSIFICATION: A CASE STUDY OF NAIROBI COUNTY

Austin Nzivo NGUKU
B50/71055/2007

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF ARTS DEGREE IN CONSTRUCTION MANAGEMENT

JUNE 2015
DECLARATION

This research project is my original work and has not been submitted for award of a degree in any other institution.

Austin Nzivo NGUKU

B50/71055/2007

This research project has been presented for examination with my approval as a University Supervisor in the Department of Real Estate & Construction Management

Prof. Qs. Dr. Sylvester M. Masu
DEDICATION
This work is dedicated to my wife Carolyn and my children Ephraim and Eliud.
ACKNOWLEDGEMENT

I sincerely appreciate the supervisory guidance received from Prof. Qs. Dr. Sylvester Masu throughout the study despite many challenges due to my job demands. His critique significantly helped in shaping the study and providing the much needed direction towards its success. I also thank Qs. Dr. Isabella Njeri Wachira-Towey whose critique helped shape the initial ideas of this study and for her assistance during the collection of data. I also acknowledge all other academic staff members in the Department of Real Estate and Construction Management who were instrumental to the success of this study.

I would also like to thank all companies that took time out of their busy schedule to positively respond to my questionnaires.

Special thanks to my dear wife for her warm encouragement and patience during the entire time of this study.

Finally, I thank my God for the gift of grace, good health, time and resources that enabled me to complete this study.
ABSTRACT

In Kenya as in the world over, globalization has presented a major challenge to the survival of local construction companies. Foreign construction companies have been increasingly dominating the Kenyan construction scene over the last couple of years. Most of the construction contracts issued by the Kenyan government and the big private sector players in the country have been undertaken by foreign contractors who are favoured by job owners due to their relatively significant expertise and financial muscle. This stiff foreign competition translates into depressed sales for the local construction companies and their survival becomes a struggle. Several past studies have generated a lot of confusion on whether diversification increases an organization’s chances of survival and growth in the face of increasing globalization and shrinking markets. Therefore this study sought to investigate whether corporate diversification had positive impact on the organizational survival and growth of local construction companies in Kenya.

Reviewed literature provided input to the research methodology. The population for the study was all National Construction Authority registered and practicing construction companies based in Nairobi County, Kenya. The list had an updated number of 4,317 companies out of which the study randomly sampled and obtained 48 companies. Questionnaire was chosen as a data collection instrument. Out of the 48 respondents, 35 companies responded to the questionnaires which represented 72.9% which is statistically adequate to represent the entire population. The data obtained was analyzed through Microsoft Excel and Statistical Package for the Social Sciences (SPSS) computer programme and the results presented in terms of tables, figures, percentages and means.

The study found that lack of access to credit/finance, globalization and cyclical demand are some of the most significant challenges to the survival of local contractors in Kenya. The findings suggest that most local contractors prefer a mixture of both internal (organic) and external growth strategies. The study found that local contractors diversify into construction related markets to increase efficiency of construction works, gain lower cost advantage and differentiate their services. It was also found that unrelated diversification is seen as a financial risk reduction method and has cash
stabilisation advantages for local contractors as a result of increased flexibility. The study found that diversification increased sales volume, overall profitability and utilisation of resources. It was therefore concluded that diversification, if implemented correctly, can enhance survival and growth of Kenyan construction companies faced with shrinking markets due to globalization.

The study recommends that local construction companies should endeavour to build core competencies in their area of specialization before gradually entering into new markets and should prioritize organizational knowledge in new markets and how to create synergy which is crucial to successful diversification. Protective laws like the recently gazetted National Construction Authority Regulations (2014) encouraged and strictly enforced to protect citizen construction companies from unfair foreign competition and to build their capacity.

Empirical studies should be conducted on the subject of diversification strategies and financial performance in the construction industry using listed companies which would ensure the availability of financial data. Further study should also be directed to the difference in performance between related and unrelated diversified local construction companies as well as studying all factors that influence the survival of local construction companies, without narrowing only on diversification. The areas where local construction companies have diversified into as well as effects of company size on diversification strategies are recommended for further research.
TABLE OF CONTENTS

DECLARATION .................................................................................................................. ii
DEDICATION ................................................................................................................... iii
ACKNOWLEDGEMENT .................................................................................................... iv
ABSTRACT ...................................................................................................................... v
LIST OF TABLES ............................................................................................................. x
LIST OF FIGURES .......................................................................................................... x
LIST OF ABBREVIATIONS AND ACRONYMS ............................................................ xi
CHAPTER ONE .............................................................................................................. 1
  1.0 INTRODUCTION .................................................................................................... 1
    1.1 BACKGROUND OF THE STUDY ........................................................................... 1
    1.2 PROBLEM STATEMENT ...................................................................................... 3
    1.3 AIM AND OBJECTIVES OF THE STUDY .......................................................... 6
    1.4 RESEARCH QUESTION ...................................................................................... 6
    1.5 HYPOTHESIS ...................................................................................................... 7
    1.6 SIGNIFICANCE OF THE STUDY ......................................................................... 7
    1.7 SCOPE OF THE STUDY ....................................................................................... 7
    1.8 ASSUMPTIONS .................................................................................................... 8
    1.9 OPERATIONAL DEFINITIONS OF SIGNIFICANT TERMS USED IN THE STUDY .... 8
    1.10 ORGANISATION OF THE RESEARCH REPORT ................................................ 9

CHAPTER TWO ............................................................................................................. 10
  2.0 LITERATURE REVIEW .......................................................................................... 10
    2.1 OVERVIEW OF THE CONSTRUCTION INDUSTRY .............................................. 10
    2.2 COMPETITION IN THE CONSTRUCTION INDUSTRY ......................................... 11
    2.3 DIVERSIFICATION ............................................................................................. 12
    2.4 DIVERSIFICATION, ORGANISATIONAL SURVIVAL AND GROWTH ............... 12
      2.4.1 Linear Model .................................................................................................. 16
      2.4.2 Curvilinear Models ....................................................................................... 16
    2.5 THE RESOURCE BASED VIEW (RBV) ............................................................... 17
    2.6 DIVERSIFICATION STRATEGY .......................................................................... 18
      2.6.1 Modes of diversification ............................................................................... 18
    2.7 DIRECTIONS OF DIVERSIFICATION ................................................................. 19
      2.7.1 Vertical Integration ....................................................................................... 19
2.7.2 Horizontal Integration ................................................................. 20
2.8 PRODUCT DIVERSIFICATION .......................................................... 20
2.9 INTERNATIONAL DIVERSIFICATION .................................................. 22
2.10 REASONS FOR DIVERSIFYING ......................................................... 23
2.11 CONDITIONS FOR SUCCESSFUL DIVERSIFICATION ...................... 24
2.12 FLEXIBILITY AND EFFICIENCY ....................................................... 25
2.13 THE INFLUENCE OF ENVIRONMENT ON DIVERSIFICATION OUTCOMES . 26
2.14 SUMMARY OF LITERATURE REVIEW ............................................... 27
2.15 GAPS IN LITERATURE ........................................................................ 30
CHAPTER THREE .................................................................................... 32
3.0 RESEARCH DESIGN AND METHODOLOGY ........................................ 32
3.1 INTRODUCTION .................................................................................. 32
3.2 RESEARCH DESIGN ........................................................................... 32
3.3 POPULATION, SAMPLE AND SAMPLING PROCEDURE .............. 35
   3.3.1 The Population ........................................................................... 35
   3.3.2 Sample ....................................................................................... 36
   3.3.3 Sampling Procedure ................................................................. 38
3.4 INVESTIGATION METHODS ................................................................. 39
   3.4.1 Likert Scales .............................................................................. 40
3.5 DATA COLLECTION .............................................................................. 40
   3.5.1 Development and Administration of Questionnaire .................. 41
   3.5.2 Questionnaire Structure ............................................................ 41
3.6 DATA ANALYSIS ................................................................................. 42
   3.6.1 Level of Significance and Level of Confidence ....................... 42
CHAPTER FOUR ....................................................................................... 43
4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS ...... 43
4.1. INTRODUCTION ................................................................................. 43
4.2. THE RESPONSE RATE ................................................................. 43
4.3. ANALYSIS OF DATA ........................................................................ 44
   4.3.1 Generalities ................................................................................ 44
   4.3.2 Company Profile ....................................................................... 46
4.3.3. Challenges/Threats to the Growth and Survival of Construction Companies 47
4.3.5 Diversification Strategies Used by Construction Companies .......... 48
4.3.6 Motivating and De-motivating Factors to the Company’s Diversification Strategy…… 52
4.3.7 Impacts of Diversification Strategies on a Company’s Survival and Growth……………… 56
4.3.8. Barriers to Achieving Successful Diversification in the Construction Industry ……… 58
4.3.10 Additional Comments from Respondents ................................................................. 59
CHAPTER FIVE ......................................................................................................................... 60
5.0 DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS ………………….. 60
5.1 INTRODUCTION .............................................................................................................. 60
5.2. DISCUSSION OF STUDY FINDINGS ........................................................................... 60
5.3 CONCLUSIONS ............................................................................................................... 68
5.4 RECOMMENDATIONS AND AREAS OF FURTHER STUDY ........................................... 69
  5.4.1 Recommendations .................................................................................................. 69
  5.4.2 Areas of Further Study ............................................................................................ 70
REFERENCES ........................................................................................................................ 71
APPENDICES ........................................................................................................................... 78
  APPENDIX I: LETTER OF TRANSMITTAL ........................................................................ 78
  APPENDIX II: SURVEY QUESTIONNAIRE TO RESPONDENTS ........................................ 79
LIST OF TABLES

Table 3.1: Categories of registration according to capability
Table 4.1: The response rate
Table 4.2: Years of experience in the construction industry
Table 4.3: Threats/Challenges to a company’s survival and growth
Table 4.4: Diversification status of construction companies
Table 4.5: Internal (organic) growth mode
Table 4.6: External mode
Table 4.7: Factors motivating a construction company into diversification (general)
Table 4.8: Factors motivating a construction company into related diversification
Table 4.9: Factors motivating a construction company into unrelated diversification
Table 4.10: Factors for not diversifying
Table 4.11: Impacts of diversification on survival and growth of construction companies
Table 4.12: Barriers to successful diversification by construction companies
Table 4.13: Additional comments on how to improve survival/stability of construction companies

LIST OF FIGURES

Figure 4.1: Rank/Position in the organization
Figure 4.2: Category of corporate registration
Figure 4.3: Company’s strategy on expansion
Figure 4.4: Company’s interest in diversification
Figure 4.5: How diversification process was achieved
LIST OF ABBREVIATIONS AND ACRONYMS

GDP       Gross Domestic Product
GoK       Government of Kenya
NCA       National Construction Authority of Kenya
UNCTAD    United Nations Conference on Trade and Development
CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A combination of many factors have made the construction industry very volatile, less profitable and more competitive making survival of construction companies very challenging. Intense competition and increased volatility have made the industry more vulnerable to fluctuations in demand and survival has been an uphill task (Aminu, 2006). There is need therefore for sound and critical strategic planning in order to navigate this changing environment. The business world is continuously dynamic and for a company to adapt then strategic planning is a critical tool in managing market turbulence (Baum and Wally, 2003).

Most studies on construction management have focussed on construction projects and not on the performance of the construction companies. While effective project management is critical, success of projects depends on the successful management of the companies involved. According to Choi and Russel (2005) a company’s success depends on the strategic decisions made in the day to day running of its affairs and for sectors that have volatility like the construction industry critical strategic decisions are necessary. Teo (2002) has stated that because current workloads do not guarantee future workloads and due to fluctuations in demand, companies must broaden their businesses beyond the ones they are involved in, in what is referred to as diversification. Entry of a company into lines of activities, other than its core business, either by the process of internal or external expansion is called diversification (Ramanujan and Varadarajan, 1989). In this case, companies enlarge the range of their businesses outside those they are involved in (Cannon and Hillebrandt, 1989). A diversified company can therefore be considered to be operating in more than one single industry (Ibrahim and Kaka, 2007). In broad terms then diversification increases the range of a company’s investment opportunities, as it permits companies to take
advantage of the more profitable opportunities in sectors of the economy (Pawaskar, 1999).

Palepu (1985) argues the diversification strategy is a critical component of a company’s strategic management and that the relationship between a company’s diversification strategy and its economic performance is an issue of considerable interest to managers and academicians. To keep up with its competitors in a highly volatile industry, the strategic decision to diversify through knowledge of the correct combination of a company’s strength and business mix is critical (Teo, 2002).

There are diverse arguments for and against diversification. Cho and Russell (2004) found that profitability and growth rate of undiversified companies was lower than that of diversified companies. However, Ofori and Chan (2000) indicated that undiversified companies have performed better by remaining focused despite the perceived risks and uncertainties in the businesses they thrive in. Teo and Runeson (2001) also found out that substantial proportions of companies are not prepared to diversify and only elect to operate in a single industry despite potential diversification benefits. Rumelt (1982) reported that diversification into related product markets produces higher returns than diversifying into unrelated product markets and that less diversified companies have been reported to perform better than diversified companies. Some claim that the economies in integrating operations and core skills obtained in related diversification outweigh the costs of internal capital markets and the smaller variances in sales revenues generated by unrelated diversification (Datta et al., 1981). However, Prahalad and Bettis (1986) have argued that it is the insight and vision of the top managers in choosing the right strategy that is critical than diversification per se. Therefore it is not product-market diversity but the strategic logic that managers utilize that links company diversification performance hence companies lacking in this logic will not perform well.

The direction that a company wants to follow in achieving diversification is what is called diversification strategy. It determines the scope of an organization and is the
foundation of corporate strategy (Rumelt, 1991). Togly et al. (2005) has indicated that specific diversification is required to maximize performance. The forms of diversification pursued by companies include vertical, horizontal and geographical diversification. Vertical diversification deals with related diversification and usually benefits are rolled out easily compared to horizontal diversification that is involved in unrelated business fields (Varadarajan, 1986). Geographical diversification deals with opening up new markets, moving into new a geographical area to overcome limited growth opportunities in the local market. Companies in both mature and decline industries have good foundations for diversification. In addition, companies with better cash flow, companies in industries with less development space, or company with low profitability are more likely to enter new industries with higher profitability.

1.2 Problem Statement

In 2012, the Kenyan economy grew by 4.6% with the construction industry growing by 4.8 and contributing 4.1% to the Kenya’s GDP (Economic Survey GoK, 2013). Though investment in the construction industry in Kenya has been on the increase and the industry has been said to contribute a substantial portion of the GDP, the local construction companies have been faced with increasing challenges leading to declining profits and some have even registered losses (Njihia, 2011). Growing globalisation in the African economy has had impacts on the construction industry. There has been recently a growing influence of foreign construction companies in Africa including Kenya, which has been causing jitters among the local construction companies that are losing out in the award of construction contracts (Muchira, 2013).

China has in the recent past tremendously boosted its economic development in Kenya especially in the construction sector where Chinese companies have been winning construction contracts overwhelmingly (Oleander, 2010). There are claims that 75% of government construction contracts undertaken in Kenya today are performed by the Chinese, a trend that has triggered alarm and protests among local contraction companies (http://www.constructionkenya.com/2905/kenyan-contractors-fight-off-chinese-builders-in-court/).
Earlier, the Government of Kenya made small concessions in order to protect local companies by exempting them from the requirement to obtain an investment certificate and minimum capital that was mandatory for all investors willing to invest in the country (UNCTAD, 2005). Besides this small concession nothing much had been done to protect local companies from unfair competition from foreign companies. Local construction companies were also frustrated because the big Chinese government-backed construction companies are competing in and winning small and medium contracts that were formerly a reserve of small to medium sized local construction companies. Some of these foreign contractors are foreign state enterprises which enjoy state subsidies. Sometimes they submit economically unrealistic bids just to achieve market penetration (http://www.constructionkenya.com/2905/kenyan-contractors-fight-off-chinese-builders-in-court/).

In a bid to quell the increasing alarm among local construction companies due to the inability to compete with these foreign construction companies, the Kenyan Government recently gazetted the National Construction Authority Regulations, 2014 that aims to protect the local construction companies from unfair foreign completion. The Regulations restrict foreign construction companies to register for only NCA1 contracts whereas local contractors will register for all classes of contracts. Additionally foreign contractors bidding for NCA1 contracts must enter into joint ventures or subcontracts with local construction companies, with at least 30% of the project value going to local construction companies (NCA Regulations, 2014). Some local contractors feel that foreign contractors ceding 30% of the value of the projects is not enough because they believe that some local construction companies have the capacity to undertake any kind of project (http://www.constructionkenya.com/2905/kenyan-contractors-fight-off-chinese-builders-in-court/).

Caulfield (2013), while reporting on the outcome of discussions by a committee of experts on how to help British Columbia contractors respond to shrinking market share caused by stiff competition from bigger foreign companies, noted that local construction companies will have to look at new ways of doing business. He stated that even though
the committee suggested joint ventures with foreign construction companies as one way of navigating through the tough times, local construction companies will need to have a strong capital base to qualify to participate in these joint ventures.

Diversification is an important business response to challenges in the construction industry especially their survival, business growth and increased market share. In their article on the issue of diversification around a company’s core business (concentric diversification), Rijamampianina, Abratt and February (2003) remarked that diversification is one of the solutions to the challenge of sustainable business growth. Ofori and Chan (2000) also identified diversification as one of the three business growth paths (apart from concentration and acquisition). Therefore, the consequences of diversification can be observed for an individual company with regards to long term financial performance and growth. A decline in the contracts secured by South Africa construction companies forced them to internationalise their operations into neighbouring nations (Murray and Appiah-Baden (2000). The decline in contracts was aggravated by high competition from large foreign companies that face low entry barriers.

After the analysis of construction companies experience that had been operated on the former Soviet Union territory (from 1991 to 2001), general factors that influence the diversification effectiveness were marked out. The majority of these construction companies were forced to diversify their production being on the verge of bankruptcy (Kalinichuk, S and Tomek, A., 2013).

Although these studies have made significant contributions to the field of strategic management, they are, however, not contextually applicable to Kenya because of differences in business environments. The level of competition, general economic conditions and government regulations vary from country to country. Thus, construction companies are exposed to different challenges depending on the country in which they operate. Musyoka (2000) investigated diversification of quantity surveying companies in Kenya. He concluded that diversification of quantity surveying services is beneficial in
helping quantity surveying companies to increase their work load during times of scarcity. From the review of literature, no research exists on diversification as a survival strategy for local construction companies in the Kenyan market.

The motivation above informs the need for an exploratory and Kenyan market specific study to investigate whether diversification has a positive impact on the local construction companies’ survival and growth in an increasingly competitive and turbulent operating environment.

1.3 Aim and Objectives of the Study

1.3.1 Aim of the Study
The aim of the study was to investigate whether adoption of diversification strategies had a positive impact on local construction companies’ survival and growth in a highly competitive and volatile industry environment.

1.3.2 Study Objectives
i. To identify and analyse challenges to the growth of local construction companies in Kenya,
ii. To assess diversification strategies used by local construction companies in Kenya,
iii. To identify and critically analyse motivating and de-motivating factors to diversification as a survival and growth strategy for local construction companies,
iv. To identify and analyse post diversification impacts of local construction companies’ survival and growth,
v. To identify and establish barriers to achieving successful diversification by local construction companies in Kenya.

1.4 Research Question
This research sought to answer the following question: Does diversification increase the chances of survival and growth in established local construction companies in Kenya?
1.5 HYPOTHESIS
In order to answer the above research question, the study postulated the following hypothesis:

Hypothesis $H_0$: Diversification does not increase the chances of survival and growth in established local construction companies in Kenya.

Hypothesis $H_1$: Diversification increases the chances of survival and growth in established local construction companies in Kenya.

1.6 SIGNIFICANCE OF THE STUDY
The study will be beneficial to contractors in making intelligent sustainable strategic choices towards profitability and business sustainability. The findings will help them identify gaps in their strategic responses and help them in their quest for survival and growth in a highly volatile environment which is partly due to globalisation. The study will benefit emerging construction companies in Kenya while planning for successful implementation of diversification strategies.

The findings of this study will contribute to the body of knowledge for researchers and scholars of strategic management in the construction industry. Finally from the study findings, the researcher will recommend areas for further research.

1.7 SCOPE OF THE STUDY
The aim of this study was to investigate whether corporate diversification had positive impacts in the survival of local construction companies in Kenya. The study was therefore limited to local construction companies. The study focussed on main contractors because this category of contractors is the one that competes directly with foreign multinationals during the award of construction contracts. Subcontractors are least affected since in most cases they come in after the contract award and can get jobs from the winning company, be it a local company or a foreign company. The scope of the study was limited to diversification as a survival and growth strategy. Other factors that may affect the performance and survival of local construction companies
like the companies’ industry environment, market share, size and its financial condition were not studied. The study did not use any financial data and therefore the findings are not predictive of financial performance of the sampled construction companies, neither is it a model for outcomes of diversification efforts.

1.8 Assumptions

The study was premised on two basic assumptions. Firstly, other factors that may affect the performance and survival of companies were assumed to be constant. Secondly, the study assumed that respondents were informed and would provide true information regarding the study and corporate politics of the management as well as the company’s confidential policy would not affect the way respondents answer questions in the research instrument.

1.9 Operational Definitions of Significant Terms used in the Study

**Competitive advantage** is the potential of a company to expand its stock of strategic assets rapidly than rivals.

**Core competencies** are the pool of experience, knowledge and systems, etc. that exists elsewhere in the same corporation and can be deployed to reduce the cost or time required to either create a new strategic asset or expand the stock of an existing one (Markides et al, 1994).

**Diversification** is the entry of a company into lines of activities, other than its core business, either by the process of internal or external expansion (Ramanujan and Varadarajan, 1989). Diversification can either be related or unrelated to the core business of the company.

**Local construction company** a company incorporated in Kenya and which 51% of the shares are held by Kenyans (NCA Act, 2014).

**Survival** is the fact or state of continuing to live or exist, especially in difficult conditions (http://www.macmillandictionary.com/dictionary/british/survival).

**Strategy** is defined as a high level plan to achieve one or more goals under conditions of uncertainty and limited resources. It describes how the ends or goals will be
achieved by the means or resources (Wikipedia 2014). Corporate strategy is the overall scope and direction of a corporation and the way in which its various business operations work together to achieve particular goals (BusinessDictionary.com).

**Strategic assets** are assets that underpin a company’s cost or differentiation advantage in a particular market and that are imperfectly imitable, imperfectly substitutable and imperfectly tradable.

**Strategic management** is a system for producing strategies within an organizational infrastructure, Fellows et al (2003).

**Turbulent market environment** is defined as unpredictable and swift changes in an organization’s external or internal environments, or in the economy, that affects its performance. Rapid growth in globalization and technology are some of the main causes of turbulence in the construction industries of developing countries.

### 1.10 Organisation of the Research Report

The research report is organised into five specific chapters. Chapter One provides the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, research hypotheses, justification, assumptions, scope, and definition of significant terms. Chapter Two examines the literature related to the study. Chapter Three describes the research methodology that was used to collect, process and analyse data. Chapter Four contains data analysis, presentation and interpretation and in Chapter Five research findings are summarised. Conclusions and recommendations for further research are made.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 OVERVIEW OF THE CONSTRUCTION INDUSTRY

Construction business is inherently risky and highly competitive. Many of the projects in
the industry are secured through competitive bidding processes. Contractors have to
compete with their peers within the industry to secure projects. In order to submit
competitive bids, construction companies sometimes have to reduce their profits
substantially. The nature of the construction industry is such that there are no
certainties with respect to future projects. Construction companies are not able to
create demands for their products and services, unlike other sectors. Most of the
projects in the industry are by derived demand. Contractors only compete for available
projects in the market.

The risky nature of construction businesses compels contractors to have subconscious
risk attitudes, which informs their bidding decisions (Kim and Reinschmidt, 2011). Park
et al. (2010) identified factors such as the dynamic nature of the construction industry;
fast pace of changes in the global construction markets; and lowest price bidding as
some challenges in the industry. Ibrahim and Kaka. (2007) urged that construction
company executives face challenges in making strategic decisions in a volatile and
uncertain construction market. In essence, the level of competition in the construction
industry has consequence of survival and growth of construction companies.

Competition within the construction industry has an impact on the profit margin of
construction companies (Kim and Reinschmidt, 2011). Business enterprises employ the
corporate strategy of diversification for growth and risk management. Construction
companies may diversify their project portfolios in order to have a repertoire of
negatively correlated projects in order to form a balanced portfolio for business stability
and sustainability. For this reason, diversified companies may choose to secure projects
in diverse sectors. One may be right to assume that diversified companies should have
a better chance of survival than their undiversified counterparts. However, this needs to
be empirically proven. According to Chung and Cheah (2006) diversified companies may have their portfolio comprise high margin works in order to balance the ones with low margin ones. They further urge that as companies grow, they develop their capacity to shift their strategy from focus to broadly targeted. Kim and Reinschmidt (2011) stated that larger companies tend to be more diversified than smaller companies. They urge that diversification strategy would benefit such companies as it would lessen the risk of fluctuating business cycles experienced by the undiversified company.

Ravanshadnia et al. (2010) explained that a single project held in isolation has a different risk profile to the same project held in portfolio. The portfolio of projects selected during periodic portfolio selection sessions by construction companies is expected to serve the strategic objectives of the organization, while keeping a balance among available capacity, resources and project commitments.

2.2 COMPETITION IN THE CONSTRUCTION INDUSTRY

The knowledge of competitiveness is critical to industrialists in order to enhance their competitiveness and survival. Competitiveness has been agreed that it increases long term performance (Markides, 1995). Strategies used in enhancing competitiveness have ranged from differentiation, product and market development and diversification. Porter (1985) defined competitive advantage as the position of superior performance which can be attained through cost leadership, differentiation and focus strategies. He explained that cost leadership entails the management’s focusing on competing on cost. According to Cheah et al (2007) the following are the components of cost leadership in construction companies: procurement cost of materials and equipment; manpower costs; costs during construction; administrative costs and subcontracting. Cheah et al (2007) also states that differentiation is creating something perceived by the buyers as unique. Differentiation may entail having a good reputation; being involved with high quality projects; use of advanced technology; building relationships and being involved in project financing. For securing profit and growth, differentiation strategies seem to be more preferred by large and influential companies as opposed to cost leadership. A
focus strategy entails a company competing on limited functions or market segments. Cheah (2002) is of the view that focus strategy comprises three dimensions; market or product, geography and function. In the construction industry the market or product dimension would mean the type of project that the company would like to be involved in. This would mean focusing on specific type of projects, for example, private residential construction, private non-residential construction, public owned construction, construction materials, etc. The dimension of geography would mean the geographical area that the company would want to be involved in depending on the economic benefits in doing so. The dimension of function would entail the vertical integration of different functions within a value system. For a contractor this would mean backward vertical integration into the function of engineering design, construction materials, equipment or forward integration into real estate development and project financing (Cheah et al, 2007).

2.3 DIVERSIFICATION
A diversified company can be considered as one having operations in more than a single industry (Ibrahim and Kaka, 2007). It is also defined as the process by which companies extend the range of their businesses outside those in which they are currently engaged (Hillebrandt and Cannon, 1989). Ofori and Chan (2000) identified diversification as one of the three business growth paths (apart from concentration and acquisition).

2.4 DIVERSIFICATION, ORGANISATIONAL SURVIVAL AND GROWTH
Sheppard (2002) states that the term survival has many connotations: both objective and subjective. He further urges that the most objective way to measure survival in organisations is to observe their continued existence. The online English Macmillan Dictionary defines survival as the fact or state of continuing to live or exist, especially in difficult conditions (http://www.macmillandictionary.com/dictionary/british/survival).

The subject of financial performance and growth as it relates to diversified and undiversified companies is characterised by conflicting and inconclusive arguments.
Some studies claim that undiversified companies outperform diversified ones while other studies claim diversification has no effect on the financial performance and growth of a company. Hill and Hansen (1991) found out in their study within the pharmaceutical industry in the US that undiversified companies performed better than diversified ones. Hitt et al. (1996) alleges that the lower performance of diversified companies is partly due to less innovation in diversified companies, especially those that have diversified through acquisition. Hall (1990) demonstrated that companies with low research and development (R&D) investments are more likely to diversify than companies with higher R & D expenditures. It is noteworthy that reduction in R&D could be a strategic action, and not an inefficient investment. Perhaps a lack of innovative ideas could lead to less investment in R&D by companies.

Higher levels of diversification increases managerial, structural and organisational complexity, incurs greater coordination and integration costs, strains top management resources, limits organizational attention and inhibits companies’ ability to respond to major external changes. Diversification inefficiencies also arise from conflicting dominant logistics between businesses, internal capital market conflicts, increased control and effort losses due to shirking (Markides, 1992). Graham, Lemmon and Wolf (2002) claim that diversification through acquisition introduces changes in accounting that could cause bias or influence performance results. On the issue of poor financial performance and growth, Miller (2004) explained that many diversifying companies have inferior financial performance prior to diversifying. It also emerged from the same study that performance trends before diversification – either positive or negative, persists, even after diversification. The findings support the claim that the performance problems of diversification would have been inherent in the company before a diversification move.

Other studies have found out that diversification has no effect on the performance and growth of diversified companies. Shepphard (1989) in a study to find out if diversification was related to an organisation’s survival, found that diversification had no
effect. This study was however limited in that it focused on diversification as the only measure of a company’s survival.

Earlier studies by Levy, H. and Sarnat, M (1970), urge that organizations will attempt to diversify into a wider range of industries in order to lower their likelihood of failure. Weston et al (1971) suggest that organizations can survive, or at least affect their rate of decline if they react correctly to environmental change. They stated that companies may undertake corporate level diversification to defend against the possibility of a deteriorating industry environment. Pfeffer, Salansik and Thompson (1978) concur. They suggest that companies can buffer against environmental effects through diversification of the company’s activities or markets. Langford and Male (2001) are of the view that diversification provides contractors with an opportunity to restructure their operations and hence spread risk over different businesses within construction or other different businesses.

Diversification increases the range of a company’s investment opportunities, as it permits a company to take advantage of the more profitable opportunities in sectors of the economy in which it previously had no activities (Pawaskar, 1999). The volatility of the construction market makes the strategic decision to diversify through knowing the correct combination of a company’s strengths and business mix very important - for a company to survive and keep up with its competitors (Teo, 2002). Langford and Male (2001) further state that in terms of shrinking markets, construction companies are faced with three strategic alternatives: to shrink, a retrenchment strategy; to increase their internal efficiency and exploit the existing markets more intensely, a strategy of expansion within existing markets; or to enter new markets in terms of either project type, size or location which is a diversification strategy requiring, in some instances, a redefinition of business scope.

In 2002, Shephard noting that a company exists in a more complex environment studied 32 failed companies and 32 non-failed companies to find the relationship between diversification and failure. He concluded that indeed diversification, along with
other measures like industry environment, company's market share, company's size and the company's financial condition had an effect in the company's chances of survival. Palich et al. (2000) concurs that focused (undiversified) companies are unlikely to generate above average profit. They are of the opinion that focused companies cannot exploit between-unit synergies or 'the portfolio effects' which are available to moderately or highly diversified companies. Their study was an attempt to bring a degree of clarity to the diversification-performance literature by reviewing, critiquing and synthesizing three decades of research into this linkage.

Kim and Reinschmidt (2011) in their study of 400 biggest US construction companies concluded that contractors' diversification strategy matters in managing business risks and firm growth, and contractors that diversify grow by reducing market risks.

Diversification strategy should be planned carefully in the development of a firm's business portfolio, considering the trade-off between risk-reduction and firm growth. A well-balanced portfolio can result in more stable business operations in terms of volume, as well as increasing opportunities to grow in multiple sectors. An individual contractor's selection of sectors to enter could depend on its short-term as well as long-term objectives. Risk-oriented diversification is more advantageous in achieving both business stability (reducing risk) and firm growth.

Nwaiwu, B.N, et al. (2014) while investigating the influence of diversification strategies on the corporate survival of Nigerian banks concluded that diversification can enhance the financial performance and competitiveness of firms thereby enhancing their survival in the industry. They affirm that related diversification is positively connected with survival as long as the required resources and capabilities are available. Managers should know how to operate the systems in the required firm and fully understand ways to merge it with the organization in order to achieve synergy and develop the learning curve even further.

There are two major theoretical models established during the review: linear and curvilinear models as discussed below.
2.4.1 Linear Model
Proponents of the linear model believe that diversification and performance are linearly and positively related. This assumption is founded on market power theory; such as predatory pricing, reciprocal buying and selling; and internal market efficiency arguments; cross-subsidization of business units and access to internal capital market and critical resources. The view under this model is that the more diversified a company is, the more it can build and develop market power advantages over rivals. Under this model, the tax benefits of diversification and the possibility of exploiting resources that would have been non-performing are noted.

2.4.2 Curvilinear Models
In their study, Palich et al. (2000) claim that a number of researchers have postulated a theory that could be interpreted as a curvilinear relationship on the diversification - performance linkage. The curvilinear models support the view that higher levels of diversification may not be accompanied by higher financial performance. The curvilinear models are briefly explained below:

a. Inverted U Model
The study revealed that moderate diversification yielded better performance than lower and higher levels of diversification. Therefore, the curvilinear model supports the claim that performance increases as companies shift from single business strategies to related diversification, but performance decreases as companies change from related diversification to unrelated diversification.
An earlier study, Markides (1995) concluded that as much as 50% Fortune 500 companies were refocusing in the 1980s. Denis et al. (2002) urges that increased competition has forced companies to focus on their core lines of business. These assertions seem to support the notion that focused companies may have superior performances than diversified ones.
b. Intermediate Model

The intermediate model of Palich et al. (2000) which purports that diversification yields positive but diminishing returns beyond some point of optimisation supports a study by Markides (1992) which claim that as a company increases in diversification, it moves further away from its core business, and the benefit of diversification at the margin declines.

Inverted U and intermediate models of curvilinear relationship between diversification and performance and growth postulate that a moderate level of diversification is better than none, but they differ in their predictions of performance as companies move toward higher levels of diversification.

Although most of the results of the test in the study support an inverted U pattern, caution and careful industrial studies should be undertaken in order to make sense of diversification-performance and growth relationships, as the subject seems to be industry or environment-specific. Indiscriminate use of heterogeneous data from multiple industries may produce misleading research results on the subject. Industry effects and cross sectional studies that do not adjust for industry effects may bias the findings of the diversification-performance relationship.

2.5 The Resource Based View (RBV)

The resource based view (RBV) theory is a dominant theory which challenges the subject of diversification. The RBV states that resources owned by a company forms the basis of its strategy and constitute the determinants of its competitive advantage.

According to Theuven (2004), RBV is a theoretical approach in the field of strategic management that considers strategies like diversification or vertical integration as a way of finding new uses for existing resources or of filling gaps in an organization’s resource base.

Andreu et. al. (2008) remarked that the perspective of the RBV is that the growth of a company requires a balance between the exploitation of existing resources within a company and the development of new ones. A company’s decision and its future success depend on the specific characteristics of the resources available to it.
2.6 DIVERSIFICATION STRATEGY

Diversification strategy involves a company increasing its activities into new businesses, determining areas where they can successfully invest for the purpose of profit and growth. Diversification strategy has two major forms: related and unrelated diversification.

Related diversification represents a strategy when a company operates in multiple industries, or businesses, which have some linkages with the company’s existing business. According to Langford and Male (2001), related diversification, also called concentric diversification, occurs within the broad confines of the industry within which the construction company operates. Implementation of related diversification can sometimes be problematic due to the cost involved in top management at the corporate level that will assure that benefits of connectivity are created through sharing or transferring between business units. However, sharing of resources with other business units proves a tall order in these entities (Johnson et al., 2005).

Unrelated diversification, also called conglomerate diversification, takes the construction company outside the industry, markets or products within which it presently operates (Langford and Male, 2001). Possibilities of pursuing numerous different businesses with no linkages to the mother company thrive. The reasons for this include support to some divisions with cash flow of other company divisions in the periods of development or temporary difficulties, use of other division’s profits to cover costs of other divisions, distribution of risks by serving several completely different markets, achieving better access to capital markets and better stability and earnings growth.

2.6.1 Modes of diversification

Pawaskar (1999) identified two ways by which diversification could be achieved in an enterprise; internal capacity expansion or mergers and acquisitions. In essence, mode of diversification is the extent to which a firm relies on internal business development relative to external acquisitions or mergers as a means of venturing into new business activities.
Both types of diversification strategies are regularly used simultaneously, and have advantages and drawbacks. External diversification mode creates synergies and market power, but it can also destroy firm value if the management reinvests the firm’s resources or free cash flows in inefficient projects for their own personal interest. Alternatively, the internal mode provides more corporate control, encourages internal entrepreneurship, and protects organizational culture, but it often is a slower way of growth compared to the external mode since it requires the development of new resources internally (Aktas et al., 2008). Therefore, the managerial choice between those two types of growth will have a consequential impact on the firm’s operational and market performance. The business risk associated with each type of diversification mode varies, and depends on various determinants such as the industry or the economical environment.

2.7 DIRECTIONS OF DIVERSIFICATION

2.7.1 Vertical Integration

Fan and Lang (2000) stated that two businesses are vertically integrated if one can employ the other’s products or services as input for its own production or supply output as the other’s input. A vertically integrated company would provide a set of services of goods through its business units (in-house) in a single value chain. In this instance, integrated companies will transfer all of their relevant goods and services to adjacent, in-house business units.

Vertical integration can be either backward integration or forward integration. A construction company may integrate backwards into preconstruction activities like integrated design and construction services, construction material manufacture like aggregate quarrying, asphalt plant, concrete mix, etc. likewise, construction companies may integrate forwards into post construction activities like real estate services, equipment and furnishings fit-outs, etc.
2.7.2 Horizontal Integration

Horizontal integration happens when a company merges with another one in the same market, or when a company diversifies into a market related to its existing business due to the existence of common types of outlets or because of common resources, or when a company diversifies into a totally unrelated business.

A construction company that acquires a ready mix concrete or block making company may be said to be engaging in horizontal integration. According to Makarfi (2005) horizontal integration is undertaken to increase the stability of profits by spreading risks or reducing the proportion of high risk businesses in the portfolio of the company. Hillebrandt and Cannon (1989) are of the view that a construction company could diversify horizontally to compensate for barriers to expansion in existing markets and take advantage of the outcome of an anticipated occurrence in the business.

2.8 Product Diversification

Controversy has been raging on whether companies investing in related business line do better than those that choose unrelated diversification (Hokitsson et al., 2000). Markides and Williamson (1996) indicated that the impact of diversification on performance is linked to the type of diversification claiming that companies venturing into related businesses perform differently than companies involved in unrelated diversification. Some reviews observe that when companies choose to extent into related businesses, they are able to yield increased returns than if choosing to branch out into unrelated fields (Porter, 1987; Ramanujam and Varadarajan, 1989). Although many are of the view that related diversification is preferable over unrelated diversification, Prahalad and Bettis (1986), imply that the key to success lies in choosing the right degree and type of relatedness. According to Christiansen and Montgomery (1981), related diversification does increase performance but in the short term. They believe that a company has to at least venture into one area of unrelated diversification in order to minimize risk. Kochhar & Hitt (1998) citing Chatterjee and Wernerfelt (1988, 1991) suggest that the relationship between related diversification and performance is positive. Berger et al (1995) support their view by explaining further that if related
diversification is continued over a period of 3 to 5 years, the performance levels would stabilize. In other words, even if the related diversification was discontinued, the performance level would not drop; instead it will stay the same for another 3 years (Markides et al, 1996).

According to Ibrahim and Kaka (2007), construction companies diversify into both related and unrelated businesses. Langford and Male (2001) found out that UK construction companies operate in five major areas: civil engineering, building, property development, estate development and construction product development. In addition, Cannon and Hillebrandt (1990) identified such other activities where construction companies diversify into as time share, formwork, healthcare, waste disposal, mechanical and electrical engineering and mining. Further, Hillebrandt (1996) found out that the most important activities into which large construction companies diversified were construction related.

Cho (2003) found that some Korean house building companies diversify into totally unrelated businesses such as forestry and logging, sales of motor vehicles, the hotel and restaurant business and financial institutions while others diversify into related businesses such as civil engineering, plant hire and property development. In a study by Ofori and Chan (2000) on Singaporean contractors, it was found that most of them diversify into construction related and construction unrelated businesses both at home and overseas. The constructed related businesses of Singaporean contractors comprise property development while construction unrelated businesses include commerce, material manufacture and securities trading. Ozdogan and Birgonul (2001) found out that popular construction unrelated businesses by Turkish contractors comprise tourism, finance, energy production and sales, telecommunication, food industry, operation of educational institutions, shopping centres and hospitals. They further found that popular construction related activities of Turkish contractors include ready mix concrete and cement production, manufacturing of pipes and other infrastructure elements, precast/prefabricated building elements, construction plant, property development and facilities management, feasibility studies, build, operate and transfer (BOT)
investments. Closer home, Musyoka (2000) conducted a study on diversification of quantity surveying companies in Kenya. He found out that some quantity surveying companies have embraced diversification of their services in various forms. Further, all the sampled quantity surveying companies were of the view that diversifying their services would increase their performance and growth during times of low workloads.

2.9 INTERNATIONAL DIVERSIFICATION

Capar and Kotabe (2003) defined international diversification as a company’s expansion beyond the borders of its home country across different countries and geographical regions. While studying international diversification and performance across four industries in Germany – retail/wholesale, utility, information technology services and tourism, they stated that international diversification is a growth strategy employed by companies. Langford and Male (2001) argued that it is crucial that a construction company is able to identify strategic opportunities in international markets, and be able to develop competitive strategies to compete successfully in those markets. Buhner (1987) suggests that international diversification offers prospective market opportunities for greater growth in addition to the benefits of internalization in international markets, such as economies of scale, scope and learning and sharing core competencies among different business segments and geographic markets.

A company that cannot improve its competitive position within its traditional market can, for example, diversify into other domestic markets, or internationalize (Langford and Male, 2001). Further, they stated that construction companies may internationalize if there is: market saturation in the domestic market and unreasonable return on assets; general decline in demand in the domestic market; and competitive pressures from other companies in the domestic market. Limerick (1980) and Imbert (1990) further suggested that construction companies may diversify internationally in an attempt to: increase long term profitability; maintain shareholders return; spread risk over greater operating base; balance growth; avoid saturation in established domestic markets and; to increase turn over.
Doukas and Lang (2003) presents evidence that geographic diversification increases shareholder value and improves long term economic performance and growth, when companies engage in core related foreign direct investments. They further found that non-core related foreign investments were associated with both short term and long term losses. The study supports the purchase of foreign assets, formation of joint ventures, alliances and partnerships in pursuit of international diversification.

2.10 REASONS FOR DIVERSIFYING

One of the main objectives of a business is to make profit and increase the value of the shareholders’ investments. Levy, H. & Sarnat, M (1970) and Miller (2006) are of the opinion that diversification could be an option for failing companies in the sense that a diversifying company can apply existing resources and/or knowledge into the production of other products or industries. Weston et al (1971) stated that companies may undertake corporate level diversification to defend against the possibility of a deteriorating industry environment. They suggest that organizations can survive, or at least affect their rate of decline if they react correctly to environmental change. Pawaskar (1999) concludes in his study that diversification, which could be through internal capacity expansion or external expansion by merger and acquisition, is essentially a means of growth. According to Rijamampianina (2003), companies diversify for the following reasons; increased stock value of the company; increased growth rate of the company; better use made of funds than internal investment; revenue growth; improved stability of earnings; increased efficiency and profitability. Chakrabarti et al (2007), in their study conducted on 3,117 companies across six Asian countries, in different institutional environments, claim that diversification could be driven by a range of perceived benefits; greater market power; more efficient allocation of resources through internal capital markets; utilization of excess productive factors; more efficient utilization of existing resources in new settings, or reduced performance variability by virtue of a portfolio of imperfectly correlated set of businesses.
2.11 Conditions for Successful Diversification

Two critical factors have been highlighted to affect a company’s success. One is initial conditions, noted by Levinthal and Myatt (1994), and the other is the importance of core competencies and strategic assets (Markides and Williamson, 1996).

Core competencies are the pool of experience, knowledge and systems, etc. that exists elsewhere in the same corporation and can be deployed to reduce the cost or time required to either create a new strategic asset or expand the stock of an existing one (Markides and Williamson, 1994). In his studies on the relationship between prior successful performance and diversification, Mukherji (1998) conclude that industries with prior high performance tend to have successful diversification. He established that companies in this category consistently out-perform companies from lesser performing industries, whether they were diversified or undiversified.

According to Duhaime and Stimpert (1994), other variables influence performance and growth in a diversified company, such as industry profit levels, expenditure on research and development, capital outlay and efficiency levels. Mukherji (1998) asserts that the most important factor in diversification is the strategic relatedness between assets and competencies and the ability to create and sustain competitive advantage through these two.

While individual companies do not have control over industry performance, it appears that initial business conditions influence the outcome of diversification. The implication is that diversification move alone may not be the way to solve the problem of poor performance.

Mukherji claims that the creation of competitive advantage through acquisition of strategic assets, development of successful routines and possession of core competences are prerequisites for a successful diversification effort.

In essence, the success of diversification efforts not only depends on industry performance, but on the company’s capability to master other variables internally. It could be reasonably inferred that successful performance is as a result of initial
favourable conditions and continuous development and proper management of strategic assets and core competencies.

The line of argument being built here is that early success has a decisive impact on a company’s continued economic performance and growth, and that diversification efforts of successful companies are likely to be significantly different when compared to those of poorly performing companies.

This suggests that a company needs to first be successful in its current operations, i.e. have favourable initial conditions, own sufficient strategic assets, possess core competencies, and create conditions of competitive advantage before it can achieve success in diversified business activities. Therefore, diversification exercise from a position of weakness is likely to be rewarded by lower levels of success in new businesses.

2.12 Flexibility and Efficiency
Ozdogan and Birgonul (2001) stated that adaptability to environmental conditions can be achieved by a flexible structure. They further argued that flexibility is associated with identification of alternative paths for development while efficiency is to do with deciding on the courses of action for efficient travelling along selected paths. A flexible structure to cope with unstable demand is usually contradictory to increasing efficiency of construction works. Hillebrandt et. al (1995), agrees by declaring that planning has two directions; planning for flexibility, and planning for efficiency. During times of market turbulence with depressed or fluctuating demand, Hillebrandt et. al (1995) found that the general aim in the construction industry is not to achieve efficiency for a continuous work load but to achieve flexibility even at a cost. Unstable demand necessitates the utilization of cash stabilization strategies to survive during turbulence and downturns which makes flexibility a critical issue for construction companies. During times of high workloads, construction companies do not spend much time thinking about flexibility issues and spend money to achieve efficiency. Flexibility can be achieved by diversification, joint venturing, subcontracting/outsourcing and capacity reduction through leasing equipment (Ozdogan and Birgonul, 2001). Flexibility can increase the
success of a diversified company as a result of decreased costs of having excess capacity. Also, cash flow generated from unrelated markets can be used for construction works during times of trouble and decreases the risk of bankruptcy. On the other hand, integration into markets related to construction increases efficiency of construction works but decreases the company’s flexibility because of increased sensitivity to construction market ups and downs.

In turbulent markets, organizations need to be flexible in order to respond quickly to market threats yet they have to remain stable in order to survive and grow, based on their strengths. Consequently, a level at which both efficiency and flexibility abilities co-exist should be found and an optimum diversification level should be maintained (Osborn 1998).

Ozdogan and Birgonul (2001) are of the opinion that whether a company should plan for efficiency or flexibility depends on the environmental factors affecting the activities of that company as well as its risk attitudes. They further stated that in order to increase responsiveness to turbulence of construction market, two types of strategies are used: turbulence–insulating and turbulence-reducing. Conglomerate (unrelated) diversification is based on forming a portfolio of techniques and markets whose fortunes are unrelated to one another and is therefore a turbulence-insulating strategy. Other turbulence-insulating strategies would include joint venturing, strategic partnerships and internationalization. Vertical and horizontal integration strategies are turbulence reduction strategies that decrease competitive risks by buying competition in related markets.

2.13 The Influence of Environment on Diversification Outcomes

Questions about the effect of country differences on antecedents and consequences of company diversification outcomes have been raised by strategy research in different market economies (Chang and Hong 2002; Hoskisson et al., 2000; Wan and Hoskisson, 2003).

Chakrabarti et al (2007) in their study found positive outcomes in underdeveloped institutional environments and negative in developed institutional environments. This
might lead to an argument on the resource capacity of companies in less developed institutional environments to undertake and manage the complexities associated with diversification, which are considered to lack managerial talent, financial and information efficiencies. The study also revealed that diversification does not generally alleviate the impact of an economy-wide shock on performance and neither does it provide substantial spreading of risks benefits for companies facing systemic or economy-wide shifts in economic conditions.

The results of the study made it apparent that the outcomes of diversification efforts are dependent on stability in the economic environment. The study concludes that outcomes of diversification are influenced by institutional environments, economic stability and business group affiliation.

Kogut et al. (2002) remarked that nation-specific conditions may prevent convergence on specific diversification outcomes. Aoki (2001) and Peng (2002) are of the opinion that closer attention to contextual, institutional and country characteristics is required. One could then propose that diversification strategy study should be contextualised in future researches. It is however not clear if strategy research has improved managerial understanding of company specific, complex and conditional issues that influence business decisions.

2.14 SUMMARY OF LITERATURE REVIEW

The link between diversification and corporate performance is one of the most researched topics in strategic management, yet there does not seem to be available robust knowledge, and empirical studies are often contradictory. The variation in the results of empirical studies is so large that it often leads to confusion and contradicting interpretations (Mohindru and Chander, 2007).

A review of the empirical literature from Management/Marketing disciplines and the theoretical and empirical literature from Finance broadly reveals that (a) the empirical evidence is inconclusive; (b) models, perspectives and results differ based on the disciplinary perspective chosen by the researcher; and (c) the relationship between diversification and performance is complex and is affected by intervening and
contingent variables such as related versus unrelated diversification, the type of relatedness, the capability of top managers, industry structure and the mode of diversification (Pandya and Rao, 1998). Other studies reviewed have urged that environment specific influences also play a major role in influencing diversification outcomes.

Synergy theories, according to Markides (1992), suggest that a company may achieve benefits from low to moderate levels of diversification through the sharing of activities or leveraging of competencies among its business units up to a point and then would be faced with higher marginal costs with respect to the increased marginal benefits. Thus, this interplay between synergies and limits would suggest an inverted U-shaped relationship between the level of diversification and business unit performance. Other studies have concluded that company diversification is linearly related to performance and growth. Yet other researchers have advanced the Result Based View (RBV) that implies that diversification has no effect on the performance and growth of companies but that the growth of a company requires a balance between the exploitation of existing resources within a company and the development of new ones. Proponents of this view believe that a company’s decision and its future success depend on the specific characteristics of the resources available to it.

Rumelt (1974) compared the performances of corporations pursuing related diversification strategies with those of corporations pursuing unrelated diversification strategies. He found that related diversification strategies produced higher performance than unrelated diversification strategies. He also found significant performance differences between related companies on the basis of the relatedness strategy they were pursuing. Furthermore, Montgomery (1982) and Bettis and Hall (1982) claimed that a related diversification strategy is more profitable than a single industry strategy and that a single industry strategy is more profitable than an unrelated diversification strategy.

Recognising that the inconsistencies in reported findings may be attributable to differences in methodologies and to sampling errors, Palich et al. (2000) conducted a
study that synthesised over three decades of research on the impact of diversification on company performance. They found that diversification is related to both accounting and market performance outcomes. For both the market and accounting based measures, diversification appears to be positive for companies up to a certain point. Beyond this point, diversification seems to cause problems. In general, they concluded that the relationship is an inverted-U, with related diversification being superior to unrelated diversification for both the market- and accounting-based measures. It is clear that the findings regarding the impact of diversification and company performance are inconsistent, at least in the non-construction research fields.

In the construction industry, the theoretical and empirical evidence regarding the diversification-performance relationship are also somewhat mixed. Ofori and Chan (2000) found that Singaporean construction companies have grown by focusing their operations at home and into construction, despite the perceived risks and uncertainties due to inherent fluctuations in constructions. However, Choi and Russel (2005) found that the profitability growth rate of focused companies in the US was lower than that of diversified companies, implying that diversified companies have some growth advantage. Kim and Reinschmidt (2011) supported this view by concluding that contractors’ diversification strategy matters in managing business risks and firm growth, and contractors that diversify grow by reducing market risks. Hillebrandt (1996) found that diversification by UK contractors into other businesses has not been successful. Similarly, Ibrahim and Kaka (2007) concluded that diversification does not help the performance of UK construction companies.

Thus it appears that both construction and non-construction companies adopt diversification strategies both as a short term survival strategy and as a long term growth strategy with varying results. Additionally, the relationship between diversification and performance is inconsistent both within and outside the construction industry. These inconsistencies have been attributed to differences in methodologies, sampling errors (Palich et al, 2000) and country specific attributes (Aoki, 2001; Kogut et al., 2002; Peng, 2002).
2.15 Gaps in Literature

Several literatures in the construction and non-construction industry have been reviewed during this study. The reviewed literatures indicate that there is confusion on whether diversification increases company survival (stability) and growth. The reviewed literature also suggests that industry and country specific attributes affect diversification outcomes.

Although these studies have made significant contributions to the field of strategic management, they are, however, not contextually applicable to the Kenyan construction industry because of differences in business environments. The level of competition, general economic conditions and government regulations vary from country to country. Thus, construction companies are exposed to different challenges depending on the country in which they operate.

Mwindi, P.K (2000) studied diversification in the Kenyan oil industry and concluded that product diversification had a positive impact on growth of Kenyan oil companies. In the Kenyan construction industry, Musyoka, J.B (2000) conducted a research on the diversification of quantity surveying companies in Kenya and found that diversification would benefit quantity surveyors in ensuring a steady work load during times of scarcity. The review of literature during the study indicates that no research has been conducted on the impacts of diversification on the survival and growth of local construction companies in Kenya.

As indicated in the review of literature, due to the uncertain and competitive nature of the construction industry, company survival and growth is a paramount concern to construction companies. It is imperative that further country and industry specific research be conducted to shed more light on the effects of diversification on survival and growth of local construction companies in Kenya.

Thus this study endeavours to address these research gaps by carrying out a country and industry specific study to better understand whether by adopting diversification, Kenyan citizen contractors can increase their chances of survival and growth in the
current turbulent operating environment. Uncovering this impact will elucidate the nature of the diversification-survival relationship in the Kenyan context and will also prove invaluable for managers in formulating appropriate future strategies to survive a highly volatile and competitive construction industry market.
CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION
This chapter discusses the research design that will be used in the study. It further provides information on the study population, sample frame, sample selection, data collection methods and instruments and finally the data analysis methods.

3.2 RESEARCH DESIGN
Research design is the structure of investigation conceived to obtain answers to research questions (Cooper and Schindler, 2008). Kothari and Garg, (2014) defines research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. It is the plan of the overall program of the research and includes an outline of what the investigator will do from writing of the hypothesis and their operational implications to the final analysis of data. Research design can be classified by the approach used to gather primary data into two broad categories: observation and communication approaches (Cooper & Schindler, 2008).

Observation includes the full range of monitoring behavioural and non-behavioural activities and conditions such as listening, reading, visual data collection, smelling and touching. In other words, the information is sought by way of investigator’s own direct observation without asking from the respondent (Kothari and Garg, 2014). The method is the most effective for gathering certain types of information such as the study of records, mechanical processes, young children and inarticulate participants (Cooper and Schindler, 2008).

Kothari and Gard, 2014 are of the view that this method excludes subjective bias if observation is done accurately. Secondly, the information obtained under this method
relates to what is currently hence not complicated by past behaviour or future intentions or attitudes. Thirdly this method is independent of the respondents’ willingness to respond and as such it is relatively less demanding of active cooperation on the part of respondents as it happens with interview or questionnaire method. It is suitable in studies which deal with subjects (respondents) who are not capable of giving verbal reports of their feelings in one way or another. However, observation method has various limitations (Kothari & Garg, 2014). Firstly, it is an expensive method. Secondly, the information provided by this method is very limited. Thirdly, sometimes unforeseen factors may interfere with the observational task. At times, the fact that some people are rarely accessible to direct observation creates obstacle for this method to collect data effectively. Cooper & Schindler (2008) argue that for the approach to be effective, the observer must be at the scene of the event when it occurs, yet it is impossible to predict when and where the event will occur. As such the approach may require several human observers or expensive surveillance equipment. However, the method presents stiff challenges in gathering information on such topics as intentions, opinions, attitudes or preferences as this information is intrinsic to the subject, and hence not easily observed by the researcher.

According to Cooper & Schindler (2008), the communication approach involves surveying people and recording their responses for analysis. It is the most reliable method of learning about opinions, attitudes, motivations, intentions and expectations. These attributes can be effectively harnessed using a questionnaire, being the most effective method of collecting survey data. The communication approach is the most effective method for eliciting such issues that are exclusively internal to the respondent as the most qualified person to provide such information.

The purpose of this study was to evaluate and critically analyse the impacts of corporate diversification strategy on survival and growth of local Kenyan construction companies. The study also sought to establish motivating and de-motivating factors to diversification by local construction companies.
Trochim (2002b) defines evaluation as a systematic acquisition and assessment of information to provide useful feedback about some object. This object could refer to a programme, policy, technology, person (commonly referred to as a subject), need or activity. The generic goal of most evaluations is to provide useful feedback to a variety of audiences including company managements, sponsors, donors, client groups, administrators, staff and other relevant constituencies. For this reason, the major goal of evaluation is to influence decision making or policy formulation through the provision of empirically-driven feedback (Trochim, 2002b).

The foregoing approaches to research can be conducted through a case study, a survey or an experiment. A case study investigates one or few situations similar to the research problem in depth. This provides detailed information about the entire organisation. While the researcher cannot generalise conclusions for the entire population, insights can be gained and hypothesis suggested for further research. A survey on the other hand, is a method of data collection based on communication with the respective sample of individuals. Kothari & Garg (2014) defines a survey as a method of securing information concerning a phenomenon under study from all or a selected number of respondents of the concerned universe. In a survey, the researcher examines those phenomena which exist in the universe independent of his action. The researcher can communicate with respondents using interviews or questionnaires.

Experimentation involves intervention by the researcher beyond that required for measurement (Cooper & Schindler, 2008). The usual intervention is to manipulate some variable in a setting and observe how it affects the subjects being studied. An experiment uses controlled conditions to investigate effects of altering one or more variables and is commonly used in physical sciences. The researcher’s ability to manipulate the independent variable increases the probability that changes in the dependent variable are a function of that manipulation (Cooper & Schindler, 2008). A control group serves as a comparison to assess the existence and potency of the manipulation. However, experimental studies about intentions or predictions are difficult
to conduct. Further, there are limits to the types of manipulation and controls that are ethical in management research, which is often concerned with the study of people. In order to effectively gain understanding of the impact of diversification on organisation survival and growth, it was necessary for the researcher to communicate with these respondents. The most effective method of achieving this objective was therefore through a survey. According to Kothari & Garg (2014), an experience survey investigates people who had practical experience with the problem to be studied. Its object is to obtain insight into the relationships between variables and new ideas relating to the research problem. People who are competent and may contribute new ideas may be carefully selected as respondents to ensure a representation of different types of experience. Abwunza (2006) citing several authors shows that surveys have been extensively used in previous studies in the construction industry.

### 3.3 Population, Sample and Sampling Procedure

Sampling is selecting a number of individuals for a study in such a way that the individuals selected represent the large population from which they are selected (Mugenda & Mugenda, 2003). According to Babbai (2004), working with a sample reduces the length of time needed to complete a research, cuts costs, it is manageable, and is almost a mirror of the target population. This section describes the sampling procedures used in the study.

#### 3.3.1 The Population

The population is the collection of elements that possess information sought for study by the researcher (Oso and Onen, 2005).

The National Construction Authority (NCA) Act, 2011 requires that the Authority maintains a current register of all practising contractors in Kenya. The Authority is therefore the best source of the most current and comprehensive list of practising contractors in the country. The current listing of December 2013 has a total of 13,124 registered contractors.
The population for this study comprised all registered local construction companies in the NCA contractors’ register who were located in Nairobi County as at December 2013.

The NCA groups contractors under categories NCA1 to NCA8 according to size of construction projects they are capable of handling. Table 3.1 shows the NCA categorisation of contractors according to their capability.

Besides the NCA subcategories of buildings and roads & other civil works, there is also a subcategory classified as ‘specialist contractors’ that include specialty works like mechanical engineering services, electrical engineering services, water proofing, etc. Since specialist contractors come in after the works have been awarded to the main contractors, this study did not consider the views of specialist contractors as they were not considered to be in direct competition with foreign contractors currently dominating the local market.

3.3.2 Sample

A sample is defined by Cooper and Schindler (2008) as part of the target population, carefully selected to represent that population. The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population.

As at 31 December 2013, there were 4,317 registered Buildings, Roads & Other Civil Works contractors based in Nairobi County, representing 33% of the target population while 67% are in other counties.

According to Nassiuma (2000), an appropriate sample can be given by the formula below:

\[ n = \frac{NC^2}{C^2 + (N-1) \epsilon^2} \]

Where, \( n \), is the sample size being determined;

\( N \) is the total population of the registered buildings, roads & other civil works contractors based in Nairobi County (NCA as at 31 December 2013);
Table 3.1 Categories of registration according to capability

a) Contractors (Buildings)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value of Work (in Kenya Shillings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCA1</td>
<td>Unlimited</td>
</tr>
<tr>
<td>NCA2</td>
<td>500 million</td>
</tr>
<tr>
<td>NCA3</td>
<td>300 million</td>
</tr>
<tr>
<td>NCA4</td>
<td>200 million</td>
</tr>
<tr>
<td>NCA5</td>
<td>100 million</td>
</tr>
<tr>
<td>NCA6</td>
<td>50 million</td>
</tr>
<tr>
<td>NCA7</td>
<td>20 million</td>
</tr>
<tr>
<td>NCA8</td>
<td>10 million</td>
</tr>
</tbody>
</table>

b) Contractors (Roads and other Civil Works)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value of Work (in Kenya Shillings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCA1</td>
<td>Unlimited</td>
</tr>
<tr>
<td>NCA2</td>
<td>750 million</td>
</tr>
<tr>
<td>NCA3</td>
<td>500 million</td>
</tr>
<tr>
<td>NCA4</td>
<td>300 million</td>
</tr>
<tr>
<td>NCA5</td>
<td>200 million</td>
</tr>
<tr>
<td>NCA6</td>
<td>100 million</td>
</tr>
<tr>
<td>NCA7</td>
<td>50 million</td>
</tr>
<tr>
<td>NCA8</td>
<td>20 million</td>
</tr>
</tbody>
</table>

Source: National Construction Authority, August 2014

$C_v$ is the coefficient of variation, 30% is usually acceptable (Nassiuma, 2000); $e_r$ is the relative standard error, 5% is acceptable.
Therefore;
\[
\frac{n}{N} = \frac{N C^2}{C^2 + (N-1) e^2} = \frac{4317 \times (0.3^2)}{0.3^2 + (4317-1) (0.05^2)} = 35.71
\]

In order to get more data and reduce the standard error, the study employed a sample size of 48 local construction companies with head offices in Nairobi County, which is above the practical minimum of the 36 cases recommended.

In order to get the exact name of a local contractor to submit a questionnaire, we computed the following;
\[
\frac{N}{n} = \frac{4317}{35.71} = 120.89
\]

where N and n are as defined above. Therefore a local construction company was picked at every 120\textsuperscript{th} interval in the list.

### 3.3.3 Sampling Procedure

The sample for the study was established through random sampling method from the list of practicing contractors from National Construction Authority of Kenya (NCA). The list provided us with the total members within the target population out of which we established a sample to work with. Within the selected sample, other conditions for selection were further applied, namely:

- A company must be actively operating its business in Kenya;
- A company must have its head office in Nairobi County, Kenya.
- At least 51% of shareholding must be by Kenyans.

These conditions were applied to ensure that the study focused only on companies which are Kenyan citizen contractors, have their headquarters in Nairobi County, are actively operating in the construction industry and have physical presence in the country at the time. The NCA Act, 2011 defines a local/citizen construction company as a construction company that is incorporated in Kenya and which at least 51% of the shareholding is by Kenyans.
To identify which companies to distribute the questionnaires, a list of NCA registered construction companies incorporated in Kenya and with head offices in Nairobi County was prepared. From the list, the name and address of every 120th construction company was included in a list of potential respondents. Physical verification of the head office was carried out and the questionnaire was administered if the shareholding by Kenyans was 51% and above. In the event that a company in the list did not meet the 51% shareholding by Kenyans, it was bypassed and the questionnaire administered the next company on the list that met the above criteria.

The study was restricted to Nairobi County because it is the nerve centre of economic activities in Kenya. Furthermore, constraints on time and resources affected the decision to keep the study within Nairobi County. Since most of the data for the study would eventually be at the head offices of these companies, the criteria listed above are justified.

3.4 Investigation Methods

There are two methods of investigation: quantitative and qualitative. The qualitative method is concerned with obtaining an in depth understanding of a subject. It includes designs, techniques and measures that do not produce continuous numerical data - the data is mostly in form of words often grouped into categories. Such data is generally captured from a smaller number of respondents using open-ended questions. Its findings are judgemental and its conclusions based on interpretations. Many times, the qualitative method precedes the quantitative approach. In such scenarios, the former provides an understanding of the quantitative results and helps internalise results from the latter.

The quantitative method is used to measure things discreetly and numerically and is based on a representative sample of the population, within estimated levels of accuracy. The method places emphasis on methodology, procedure and statistical measures of validity.
This study adopted both the quantitative and qualitative methods of investigation. An overview of some of these studies in the construction industry reveals that the most commonly used measure is the Likert scale (Abwunza, 2006). This scale uses attitude statements that are judged by respondents using the interval scale of measurement.

### 3.4.1 Likert Scales
Likert scales or summated scales are developed by utilizing the item analysis approach wherein a particular item is evaluated on the basis of how well it discriminates between those persons whose total score is high and those whose score is low. Those items or statements that best meet this sort of discrimination test are included in the final instrument. They consist of a number of statements which express either a favourable or unfavourable attitude towards the given object to which the respondent is asked to react. The respondent indicates his/her agreement or disagreement with each statement in the instrument. Each response is given a numerical score, indicating its favourableness or unfavourableness, and the scores are totalled to give the respondent’s attitude (Kothari and Garg, 2014).

The questionnaire for this study uses a Likert scale with five response alternatives: (i) very strong, (ii) strong, (iii) moderate, (iv) weak and (v) very weak. These five points constitute the scale. At one extreme of the scale there is strong agreement with the given statement and at the other, strong disagreement, and between them there are intermediate points.

### 3.5 Data Collection
For this study, the researcher used qualitative and quantitative data from primary and secondary sources. The primary data was composed of responses received from senior management personnel of construction companies while secondary data was from relevant literature review. The literacy level of the contractors’ management staff was assumed to be high. The researcher therefore used a self administered questionnaire for data collection. The researcher preferred to use the questionnaire because it is quick to collect data and it could be easily mailed to the respondents.
The above notwithstanding, the researcher was aware of the shortcoming of questionnaires and therefore ensured that the structure of the questionnaires either eliminates or significantly reduces the shortcomings. Some of the shortcomings include; long questionnaires have a high chance of creating fatigue to the respondents and could therefore obtain inaccurate answers. To deal with this shortcoming, the researcher structured the questionnaires into four main sections as shown in the section below. This way, each of the four main sections creates a feeling of completion and eagerness to tackle the next section and therefore reduce boredom and fatigue as a result of unending questions. Another shortcoming of using questionnaires as a method of collecting data is that information or answers not known to the respondents cannot be obtained and therefore some questions may not be answered. This shortcoming was significantly eliminated by providing options whereby the respondents can tick as well as two or three blank lines where the respondents could fill should the options provided not capture their answers.

3.5.1 Development and Administration of Questionnaire
The questionnaire was developed and administered to senior management personnel of the construction companies. Senior management of the company in this study means chief executive officers, directors, functional unit heads and technical/operations managers. This class of managers was chosen because in some way they are involved in the formulation and implementation of corporate strategy in the companies. The purpose of the questionnaire was to gather information assisted in the detailed study of the strategies and business operations of the sampled companies, such as the company’s strategy on expansion; challenges and threats to growth in the company; barriers to diversification; and company’s diversification strategies.

3.5.2 Questionnaire Structure
The questionnaire administered in the study had the following subdivisions;
**Part I:** This section was used to solicit information on the background, experience and position of the personnel completing the questionnaire on behalf of the construction company.

**Part II:** This section was used to solicit information on the profile of the construction company.

**Part III:** This section was used to solicit information on the challenges and threats to the growth of the company.

**Part IV:** This section was used to solicit information on diversification in the company.

The questionnaire had both closed and open ended questions for generation of data. The researcher administered the questionnaire individually to all respondents using drop and pick method. Follow up was by electronic mail and telephone.

### 3.6 Data Analysis

The returned questionnaires were checked for consistency, cleaned and the useful ones coded and analyzed. After collecting data responses from the questionnaire, the quantitative data were analyzed statistically and presented through percentages, means, standard deviations and frequencies. The qualitative data were coded thematically and then analyzed statistically. Conceptual content analysis was used for data with qualitative nature or aspect of data collected from open ended questions.

#### 3.6.1 Level of Significance and Level of Confidence

Level of significance or significance level refers to a criterion of judgment upon which a decision is made regarding the value stated in the null hypothesis ($H_0$). The criterion is based on the probability of obtaining a statistic measured in a sample if the value stated in the null hypothesis ($H_0$) were true. In behaviourial science, the criterion or significance level is set at 0.05 (adopted for this study). When the probability of obtaining a sample mean is less than 0.05 if the null hypothesis ($H_0$) were true, then the value stated in the null hypothesis will be rejected. The level of confidence for this research was chosen to be 95%.
CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1. INTRODUCTION
This chapter presents the findings of the study that was carried out to investigate whether diversification has positive impacts on the survival and growth of local Kenyan construction companies operating within Nairobi County. The objectives of the study were six and included to investigate factors that influence growth of construction companies, to investigate challenges to the growth of construction companies, to assess diversification strategies used by local construction companies, to investigate challenges faced by local construction companies in Kenya in achieving successful diversification, to investigate the impacts of diversification strategies on organizational survival and growth, and to o investigate the requirements for successful implementation of diversification strategies in local Kenyan construction companies.

A sample size of 48 construction companies was selected from a target population of approximately 13,124 companies registered in Nairobi County. Questionnaires were used as the main instruments of data collection in the study. In this chapter, the data obtained from the research instruments are examined, analysed and interpreted in line with the purpose and objectives of the study, with a summary of the findings presented at the end of the chapter.

4.2. THE RESPONSE RATE
The survey targeted 48 respondents, mainly from registered road, water and building construction companies based in Nairobi. From the total sample size of 48, 35 (72.92%) positively responded to the survey request. The percentage of those interviewed is statistically adequate to represent the whole. Furthermore, Babbie (2007) suggested that any return rate over 50% can be reported, that over 60% is good as indicated by the survey’s response rate. The response rate is further summarized as indicated in Table 4.1 below.
Table 4.1: The Response Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Questionnaires Sent</th>
<th>Questionnaires Returned</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Companies</td>
<td>48</td>
<td>35</td>
<td>72.92%</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

Mugenda and Mugenda (2003) further assert that in questionnaire administration, a response rate of 50% is adequate for analysis and reporting. He further suggests that 60 percent is good response while 70% is very good. The researcher therefore considers that the general response rate of 72.92% is very good and sufficient for data analysis, reporting and drawing conclusions.

4.3. Analysis of Data

4.3.1 Generalities

From the 35 responses obtained during survey, 9.0% of the respondents indicated that they were at the top level management within the construction companies, with majority 48.0% being at the middle level, 40.0% and 3.0% for lower level management and non response, respectively, as indicated in the Figure 4.1 below. In terms of the years spent in the organization, 51.1% of the respondents indicated that they had been in the organizations for the period between 1-10 years, 25.1% below one year, 20.0% for between 11-20 years and 2.9% for over 20 years. Years of experience within the construction industry varied as indicated in Table 4.2 below with majority falling between 10-14 years of experience.
Table 4.2: Years of Experience within the Construction Industry

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 – 9 years</td>
<td>10</td>
<td>28.6</td>
</tr>
<tr>
<td>10 – 14 years</td>
<td>12</td>
<td>34.3</td>
</tr>
<tr>
<td>15 – 19 years</td>
<td>3</td>
<td>8.6</td>
</tr>
<tr>
<td>Over 20 years</td>
<td>4</td>
<td>11.4</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>17.1</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

For the years of experience at the executive level within the construction industry, 34.3% had an experience of between 1-5 years, 20.0% for an experience below 1 year, 14.3% and 8.6% for 6-10 years and over 10 years respectively, while 22.9% of the respondents did not indicate their years of experience in the construction industry.

Figure 4.1 Rank/Position in the Organization

Source; Author, September, 2014
4.3.2 Company Profile

The category of corporate registration of the companies included in the survey were as illustrated in the Figure 4.2 with majority, 60.0% being private limited liability companies, while 22.9% were sole proprietors & partnerships and 17.1% were public limited liability companies. Only 4 (11.4%) of the companies surveyed had been listed in the Nairobi Stock Exchange while 30 (85.7%) of the companies were not listed.

Figure 4.2 Category of Corporate Registration

![Bar Chart](chart.png)

Source; Author, September, 2014

This section solicited for information on methods used by Kenyan citizen construction companies to expand their businesses. From the results of the survey (Figure 4.3), majority of companies preferred internal capacity expansion (51%), followed by joint ventures (23%), mergers (23%) and lastly acquisitions (3%).

From the survey, a minority 4 (11.4%) of construction companies operated outside Kenya while 85.7% of those surveyed operated within Kenya. Of the 4 companies that
operated outside Kenya, one operated within 6 countries, while the remaining three operated within 1, 2 and 4 countries respectively.

**Figure 4.3: Company’s Strategy on Expansion**

![Company's Strategy on Expansion](image)

**Source; Author, September, 2014**

### 4.3.3. Challenges/Threats to the Growth and Survival of Construction Companies

When requested to state the challenges construction companies encountered in their quest for growth and survival, the response was as shown in Table 4.3 below. From the table below it can be deduced that:

The major challenges to growth of construction companies are: low financial base and access to credit/finance (suppliers, banks, stock market, subcontractors, etc; globalization - allows entry of bigger and better equipped companies as competitors; low entry barriers into the market by bigger and better equipped companies as competitors; fluctuating demand and project types; lack of access to adequate plant and equipment; adoption of joint ventures/alliances with other companies, and; over specialization and market is already saturated.
The less significant challenges to growth of construction companies are: adoption of targeted preferential procurement; lack technical skills in other types of projects; young company and inexperienced – clients unwilling to commit projects to us; low flexibility in operation and company organisation structure; high establishment costs to maintain branches; high overhead costs – makes some projects unprofitable, and; projects are geographically dispersed.

Table 4.3 Threats/challenges to company’s survival and growth

<table>
<thead>
<tr>
<th>Threats/Challenges to Company's Survival and Growth</th>
<th>Mean (X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Low financial base and access to credit/finance (suppliers, banks, stock market, subcontractors, etc)</td>
<td>3.6286</td>
</tr>
<tr>
<td>2 Globalization (allows entry of bigger and better equipped companies as competitors)</td>
<td>3.5429</td>
</tr>
<tr>
<td>3 Low entry barriers into the market by bigger foreign companies and lowest bid competitive tendering</td>
<td>3.5429</td>
</tr>
<tr>
<td>4 Fluctuating demand and project types</td>
<td>3.5429</td>
</tr>
<tr>
<td>5 Lack of access to adequate plant and equipment</td>
<td>3.4857</td>
</tr>
<tr>
<td>6 Adoption of joint ventures/alliances with other companies</td>
<td>3.4571</td>
</tr>
<tr>
<td>7 Over specialization and market is already saturated</td>
<td>3.3429</td>
</tr>
<tr>
<td>8 Adoption of targeted preferential procurement system</td>
<td>3.3143</td>
</tr>
<tr>
<td>9 Lack of technical skills for certain types of projects</td>
<td>3.2857</td>
</tr>
<tr>
<td>10 Young company and inexperienced – clients unwilling to commit projects to us</td>
<td>3.2286</td>
</tr>
<tr>
<td>11 Low flexibility in operation and company organization structure</td>
<td>3.1429</td>
</tr>
<tr>
<td>12 High establishment costs to maintain branches</td>
<td>3.1429</td>
</tr>
<tr>
<td>13 High overhead costs, makes some projects unprofitable</td>
<td>3.1143</td>
</tr>
<tr>
<td>14 Projects geographically dispersed</td>
<td>2.9714</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

4.3.5 Diversification Strategies Used by Construction Companies

From the survey of 35 construction companies, 33; 94.3% indicated that they were interested in diversification while 2; 5.7% indicated the contrary. This is captured in Figure 4.4 below.
Of the surveyed companies that were interested in diversification, 62.9% of the respondents indicated that their companies were already pursuing diversification strategy while 37.1% were not sure of the status of the process of the diversification within the companies.

The preferred type of diversification among the respondents is summarized below in Table 4.4 of the multiple response analysis. The ranking in terms of preference is in the following order: movement into new markets - expansion of client base with same products (43.8%), addition of new products related to current business (37.5%), addition of new products unrelated to current business (31.3%), retailing in related and unrelated goods (15.6%) and finally shareholdings in other business-without active participation (12.5%) of the respondents.
Table 4.4: Diversification Status of Construction Companies

<table>
<thead>
<tr>
<th>Diversification Mode</th>
<th>Responses</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Percent</td>
</tr>
<tr>
<td>Addition of new product(s) – related to current business</td>
<td>12</td>
<td>26.7%</td>
</tr>
<tr>
<td>Movement into new markets (expansion of client base) - same products</td>
<td>14</td>
<td>31.1%</td>
</tr>
<tr>
<td>Addition of new product(s) – unrelated to current business</td>
<td>10</td>
<td>22.2%</td>
</tr>
<tr>
<td>Shareholdings in other business (without active participation)</td>
<td>4</td>
<td>8.9%</td>
</tr>
<tr>
<td>Retailing in related and unrelated goods</td>
<td>5</td>
<td>11.1%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

Respondents were requested to give information on the mode of diversification implemented by the companies i.e. internal organic growth; external and both internal and external. As illustrated in Tables 4.5 and 4.6 below, under the internal organic growth mode, 47.1% of the respondents were in favour of moving into new markets, 38.2% preferred product diversity and 29.4% preferred capacity building within the company’s core competence.

Under the external diversification mode, majority favoured mergers (43.3%), followed by joint ventures and acquisitions at 33.3% and 26.7% respectively.
Table 4.5: Internal (Organic Growth) Mode

<table>
<thead>
<tr>
<th>Internal Mode</th>
<th>Responses</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Percent</td>
</tr>
<tr>
<td>Expansion By:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product diversity</td>
<td>13</td>
<td>28.9%</td>
</tr>
<tr>
<td>Move to new markets (local)</td>
<td>16</td>
<td>35.6%</td>
</tr>
<tr>
<td>Capacity building within the company’s core competence</td>
<td>10</td>
<td>22.2%</td>
</tr>
<tr>
<td>No Response</td>
<td>6</td>
<td>13.3%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014

Table 4.6: External Mode

<table>
<thead>
<tr>
<th>Mode</th>
<th>Responses</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Percent</td>
</tr>
<tr>
<td>Expansion By:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merger</td>
<td>13</td>
<td>36.1%</td>
</tr>
<tr>
<td>Acquisition</td>
<td>8</td>
<td>22.2%</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>10</td>
<td>27.8%</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>13.9%</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014

Figure 4.8 below illustrates responses from respondents on how the diversification process in the company was achieved. Majority of the respondents (61%) indicated that diversification process was achieved by use of the company’s management staff (internal) only. 19% indicated that diversification process was by use of both company’s management staff and external consultants. 14% of the respondents indicated the diversification process was achieved by use of external consultants. 6% did not respond.
4.3.6 Motivating and De-motivating Factors to the Company’s Diversification Strategy

4.3.6.1 Reasons for Diversifying (General)

This section sought to extract information on what factors motivated the construction companies to venture in diversification, whether it be related or unrelated diversification. The results can be summarised below.

The major motivating factors to general diversification were: the need to spread risk – risk aversion; the present market is saturated – stiff competition; the need to engage unutilised resources – human, technical and financial; attracted to more profitable businesses; cyclical/fluctuating demand in the present market; improve survival/stability of the company and the hope to enjoy economies of scope – build synergies in asset utilization. The desire to create a monopoly in the market was the least motivating factor to diversification.
### Table 4.7 Factors Motivating a Construction Company into Diversification (General)

<table>
<thead>
<tr>
<th>Motivating Factor's to Company's Diversification (Both Construction Related and Construction Unrelated)</th>
<th>Mean ((\bar{x}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The need to spread risk – risk aversion</td>
<td>3.9697</td>
</tr>
<tr>
<td>2. Present market is saturated – stiff competition</td>
<td>3.9091</td>
</tr>
<tr>
<td>3. Need to engage unutilized resources – human, technical and financial</td>
<td>3.7576</td>
</tr>
<tr>
<td>4. Attracted to more profitable business (es)</td>
<td>3.7273</td>
</tr>
<tr>
<td>5. Cyclical/fluctuating demand in the present market</td>
<td>3.6970</td>
</tr>
<tr>
<td>6. Improve the stability/survival of the company</td>
<td>3.6970</td>
</tr>
<tr>
<td>7. Hope to enjoy economies of scope – build synergies in asset utilization</td>
<td>3.6061</td>
</tr>
<tr>
<td>8. Diversified companies appear to be doing better than us</td>
<td>3.5758</td>
</tr>
<tr>
<td>9. Others are doing it</td>
<td>3.5152</td>
</tr>
<tr>
<td>10. Desire to create monopoly in the market</td>
<td>3.5152</td>
</tr>
</tbody>
</table>

*Source: Author, September, 2014*

Further to the motivation to general diversification, the respondents where requested to give information on the type of diversification (related or unrelated) preferred by the company and what motivated their choice of either related or unrelated diversification. Below are results of the survey.

#### 4.3.6.2 Reasons for Diversifying into Construction Related Businesses

Significant factors that influence the decision to diversify into construction related businesses were: to control quality, quantity and price of supplies; to obtain cost savings; to improve efficiency in construction works and; to achieve independence. To spread financial risks by investing in new markets; to use under-utilised capacity and; to tap into high profitability in construction related markets were found to be the least of motivators into construction related diversification in that order.
### Table 4.8 Factors Motivating a Construction Company into Related Diversification

<table>
<thead>
<tr>
<th>Motivating Factors into Construction Related Diversification</th>
<th>Mean (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 To control quality, quantity and price of supplies</td>
<td>3.8182</td>
</tr>
<tr>
<td>2 To obtain cost savings</td>
<td>3.6774</td>
</tr>
<tr>
<td>3 To improve efficiency in construction works</td>
<td>3.6061</td>
</tr>
<tr>
<td>4 To achieve independence</td>
<td>3.4516</td>
</tr>
<tr>
<td>5 To spread financial risks by investing in new markets</td>
<td>3.3438</td>
</tr>
<tr>
<td>6 To use under-utilised capacity</td>
<td>3.0645</td>
</tr>
<tr>
<td>7 High profitability in construction related markets</td>
<td>2.8387</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

### 4.3.6.3 Reasons for Diversifying into Construction Un-related Businesses

The respondents were asked to rate how the listed factors influenced their decision to diversify into construction un-related businesses; the following table lists the factors and their importance.

### Table 4.9 Factors Motivating a Construction Company into Unrelated Diversification

<table>
<thead>
<tr>
<th>Motivating Factors into Construction Unrelated Diversification</th>
<th>Mean (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 As a survival strategy during low demand/recession in the construction industry</td>
<td>3.6176</td>
</tr>
<tr>
<td>2 To spread risk by diverse elements in the portfolio</td>
<td>3.5000</td>
</tr>
<tr>
<td>3 To even out cyclical effects in the construction industry</td>
<td>3.4118</td>
</tr>
<tr>
<td>4 To expand the company (growth)</td>
<td>3.3235</td>
</tr>
<tr>
<td>5 To use excess cash generated by construction works</td>
<td>3.0000</td>
</tr>
<tr>
<td>6 Due to personal interests of stakeholders/owners</td>
<td>2.8529</td>
</tr>
<tr>
<td>7 To derive indirect benefits for construction works</td>
<td>2.7941</td>
</tr>
<tr>
<td>8 To benefit from high profitability in other sectors</td>
<td>2.7647</td>
</tr>
</tbody>
</table>

Source; Author, September, 2014

The survey found that significant motivating factors for engaging in unrelated diversification were: As a survival strategy during low demand/reduced workload in the construction industry; to spread risks by diverse elements in the portfolio; to even out cyclical effects in the construction industry and; to expand the company (growth).
To use excess cash generated from construction; personal interests of stakeholders/owners; to derive indirect benefits from construction works; and to benefit from high profitability in other sectors were found to be less significant motivators.

4.3.6.4 Factors Influencing Decision not to Diversify

The results of the survey in Table 4.9 below suggest that construction companies may decide to not diversify because of the following reasons: inadequate resources (human, technical and financial); high cost involved in diversification; preference to being focused on current business; insufficient knowledge of other types of businesses; satisfaction with current level of growth; they feel that diversified companies are not doing better than them; and finally, they consider diversification to be too involving.

From the findings, it appears that saturation of current market is not a significant factor when considering whether to diversify or not.

Table 4.10 Factors for not Diversifying

<table>
<thead>
<tr>
<th>Factors for not Diversifying</th>
<th>Mean (X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inadequate resources (human, technical and financial)</td>
<td>3.8750</td>
</tr>
<tr>
<td>2. High cost involved in diversification</td>
<td>3.7500</td>
</tr>
<tr>
<td>3. Prefer to be focused and specialised in present business</td>
<td>3.6250</td>
</tr>
<tr>
<td>4. Insufficient knowledge of other types of businesses</td>
<td>3.6250</td>
</tr>
<tr>
<td>5. Satisfied with the present level of growth</td>
<td>3.6000</td>
</tr>
<tr>
<td>6. Diversified companies are not doing better than us</td>
<td>3.4286</td>
</tr>
<tr>
<td>7. Consider diversification process too difficult/involving</td>
<td>3.2857</td>
</tr>
<tr>
<td>8. Present market not saturated – more opportunities exist here</td>
<td>3.2000</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014
4.3.7 Impacts of Diversification Strategies on a Company’s Survival and Growth

This section was used to extract information on the post – diversification experience of diversified companies.

The responses in this subsection suggest that the implementation of diversification strategy will improve sales volume; increase overall profitability; improve utilization of resources (human, technical and financial) and; increase asset turnover of the company. Other significant impacts of diversification are; that the company’s management structure had to change, more professionals had to be employed, and; there was a boost of a company’s corporate image.

The analyses show that there may be less significant changes to: ability of a company to enjoy economies of scope (synergies in asset utilization), and; increased business failures due to the implementation of diversification strategy.

The responses reveal that creation of a monopoly was not a significant impact on the construction companies post diversification.
Table 4.11 Impacts of Diversification on Survival and Growth of Construction Companies

<table>
<thead>
<tr>
<th>Impacts of Diversification on a Company's Survival and Growth</th>
<th>Mean ((\bar{x}))</th>
<th>Standard error</th>
<th>Standard deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>(\mu)</th>
<th>(\bar{x} - \mu)</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 The company experienced steady growth in sales (turnover) volume</td>
<td>3.7647</td>
<td>0.1744</td>
<td>1.0168</td>
<td>-0.2289</td>
<td>-1.0648</td>
<td>2.7131</td>
<td>1.0516</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>2 There was a steady growth in overall profitability</td>
<td>3.6765</td>
<td>0.1726</td>
<td>1.0067</td>
<td>0.1455</td>
<td>-1.2547</td>
<td>2.7160</td>
<td>0.9605</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>3 Improved utilization of resources (human, technical, financial)</td>
<td>3.6765</td>
<td>0.1792</td>
<td>1.0449</td>
<td>0.1758</td>
<td>-1.2747</td>
<td>2.7052</td>
<td>0.9124</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>4 The company's management structure had to change</td>
<td>3.6471</td>
<td>0.1683</td>
<td>0.9811</td>
<td>-0.0297</td>
<td>-0.9982</td>
<td>2.7232</td>
<td>0.9238</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>5 Increased asset turnover for the company</td>
<td>3.6176</td>
<td>0.1792</td>
<td>1.0449</td>
<td>0.1758</td>
<td>-1.2747</td>
<td>2.7052</td>
<td>0.9124</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>6 More professionals and skilled staff have to be employed</td>
<td>3.6176</td>
<td>0.1690</td>
<td>0.9852</td>
<td>0.2573</td>
<td>-1.1377</td>
<td>2.7221</td>
<td>0.8956</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>7 A boost in the corporate image of the company was achieved</td>
<td>3.3529</td>
<td>0.2308</td>
<td>1.3458</td>
<td>-0.2216</td>
<td>-0.9605</td>
<td>2.6203</td>
<td>0.7326</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>8 The company enjoyed economies of scope – built synergies in asset utilization</td>
<td>3.3235</td>
<td>0.2792</td>
<td>1.6278</td>
<td>-0.6048</td>
<td>-1.3851</td>
<td>2.5408</td>
<td>0.7828</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>9 At some point, the company had to divest its interest in some businesses to refocus its operation – due to failure in such businesses</td>
<td>3.2353</td>
<td>0.2792</td>
<td>1.6278</td>
<td>-0.6048</td>
<td>-1.3851</td>
<td>2.5408</td>
<td>0.7828</td>
<td>Reject (H_0)</td>
</tr>
<tr>
<td>10 The company was able to create monopoly in the market</td>
<td>2.1765</td>
<td>0.176471</td>
<td>1.028992</td>
<td>0.68999</td>
<td>0.2403</td>
<td>2.7097</td>
<td>-0.5332</td>
<td>Don't reject (H_0)</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014
4.3.8. Barriers to Achieving Successful Diversification in the Construction Industry

When presented with a list of barriers to successful diversification in the Kenyan context, the respondents rated the inability to build sufficient synergy for profitable growth as the most significant barrier to successful diversification. Other significant barriers were: inadequate planning before diversification was implemented; management has poor knowledge in new business environment; not enough attention/investment in new businesses, and; too many peripheral activities unrelated to main business.

Insignificant barriers to successful diversification included: the need to have engaged the services of professional consultants to help with the development of the strategic plan; customers were reluctant to try out new products; stiff competition in the new market/product – unable to build/sustain competitive advantage; lack of transferable knowledge and skills; insufficient knowledge about new market/customer preferences, and; business was acquired by mistake – just a spur of the moment decision - a pet idea of a valued director/staff or “bandwagon syndrome”.

Table 4.1 Barriers to Successful Diversification by Construction Companies

<table>
<thead>
<tr>
<th>Barriers to Successful Diversification</th>
<th>Mean ((\bar{x}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. We were unable to build sufficient synergy for profitable growth</td>
<td>3.5294</td>
</tr>
<tr>
<td>2. Inadequate planning before diversification was implemented</td>
<td>3.4706</td>
</tr>
<tr>
<td>3. Management has poor knowledge in new business environment</td>
<td>3.4118</td>
</tr>
<tr>
<td>4. There was not enough attention/investment in new business(es)</td>
<td>3.4118</td>
</tr>
<tr>
<td>5. Too many peripheral activities (small scale activities) – unrelated to main business</td>
<td>3.3824</td>
</tr>
<tr>
<td>6. We needed to have engaged the services of professional consultants to help with the development of the strategic plan</td>
<td>2.9706</td>
</tr>
<tr>
<td>7. Customers were reluctant to try out new products</td>
<td>2.8529</td>
</tr>
<tr>
<td>8. Stiff competition in the new market/product – unable to build/sustain competitive advantage</td>
<td>2.7647</td>
</tr>
<tr>
<td>9. Lack of transferable knowledge and skills</td>
<td>2.7353</td>
</tr>
<tr>
<td>10. Insufficient knowledge about new market/customer preferences</td>
<td>2.7059</td>
</tr>
<tr>
<td>11. Business was acquired by mistake – just a spur of the moment decision, a pet idea of a valued director/staff or “bandwagon syndrome”</td>
<td>2.6176</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014
4.3.10 Additional Comments from Respondents

When asked to give additional comments on what they think will improve survival/stability of a construction company during times of external turbulence the following was the response: ability to acquire raw materials fast and cheaply; increased speed of construction thus reducing expenditure through reduction of resources use; high quality human labour and technical skill; reduced overhead costs, and; use of high quality construction materials.

Table 4.13: Additional Factors on How to Improve Survival/Stability of Construction Companies

<table>
<thead>
<tr>
<th>Comment</th>
<th>Responses</th>
<th>Percent of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N</td>
<td>Percent</td>
</tr>
<tr>
<td>Summary</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Fast and cheap raw materials</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Fast construction of buildings and roads to avoid</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>wastage of time and resources which will increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Always ensure that the skilled human labour and</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>technical skills are employed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced overhead costs</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Use of quality materials at all times</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Try to excel in every field</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>No Response</td>
<td>29</td>
<td>80.6%</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>1</td>
<td>2.8%</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Author, September, 2014
CHAPTER FIVE

5.0 DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The aim of the study was to investigate whether adoption of diversification strategies had a positive impact on local construction companies’ survival and growth in a highly competitive and volatile industry environment. The objectives of the study included; to investigate challenges to the growth of local construction companies in Kenya; to assess diversification strategies used by local construction companies in Kenya; to explore motivation and de-motivation factors that influence diversification in Kenyan construction companies; to explore the impacts of diversification strategies on the survival and growth of local construction companies’ in Kenya and; to investigate challenges faced by local construction companies in Kenya in achieving successful diversification. Consequently, a research question was formulated in accordance to the research objectives, which the researcher set out to look for the answer.

With a sample of 48 registered local construction companies selected randomly, the researcher used questionnaires to gather information related to the study. The study findings were analyzed, presented and interpreted in Chapter Four. This chapter therefore presents discussions of the study findings, conclusion and recommendations on important issues that arose from the study and ends by recommending areas for further research work.

5.2 DISCUSSION OF STUDY FINDINGS

From the analysis, 60.0% were privately owned limited liability companies, while 22.9% were sole proprietorships & partnerships and 17.1% were publicly owned limited liability companies. Only four (11.4%) of the companies surveyed, had been listed in the Nairobi Stock Exchange while thirty (85.7%) of the companies are not listed. Most of the private limited liability construction companies are less diversified compared to the public limited liability construction companies. 51.0% of the construction companies preferred internal capacity expansion as an expansion strategy, while 23.3% and 3.3%
preferred joint ventures and acquisitions respectively, as strategies for expansion. From the study, 11.4% of construction companies operated outside Kenya while 85.7% of the surveyed companies operated within Kenya only. Of the 11.4% that had international operations, only one of the construction companies operated within 6 countries in the Africa region.

Research Sub-Objective One: To identify and analyse challenges to the growth of local construction companies in Kenya

The study found that the major challenges to growth of construction companies are: low financial base and access to credit/finance (suppliers, banks, stock market, subcontractors, etc; globalization - allows entry of bigger and better equipped companies as competitors; low entry barriers into the market by bigger and better equipped companies as competitors; fluctuating demand and project types; lack of access to adequate plant and equipment; adoption of joint ventures/alliances with other companies, and; over specialization and market is already saturated. To improve the survival and growth of construction companies, it is therefore important to address the challenge of access to credit/finance – availability and cost of credit. The Government of Kenya can play an important role in addressing this challenge by impressing on financial institutions to lower the interest rates on credit hence to enable local construction companies to compete with the better endowed foreign companies. Protective laws against unfair competition from foreign companies are important if the local contractors will have a chance to survive the cut throat competition in the winning of contracts. Survival during fluctuating construction demand and in the face of globalisation may be addressed by diversification as a corporate strategies as discussed below.

Research Sub-Objective Two: To assess diversification strategies used by local construction companies in Kenya.

Majority (91.4%) of the 35 surveyed construction companies indicated that they were interested in diversification. A small number (14.3%) of the respondents noted that their companies were not interested in diversification now and in the near future. When asked on the status of diversification in the companies, a majority 62.9% of the
companies that are interested in diversification indicated that the companies were already pursuing diversification strategy.

Movement into new markets (expansion of client base) was the main type of diversification as indicated by 43.8% of the respondents. Other types of diversification strategies adopted by the surveyed companies were: construction related diversification (37.5%); construction unrelated diversification (31.3%); and lastly, shareholdings in other businesses (without active participation) ranked lowest as indicated by 8.9% of the respondents.

The most preferred internal (organic growth) diversification strategies among the surveyed construction companies were moving to new markets - local and international and product diversity as indicated by a combined score of 85.3% of the respondents. For the external diversification mode, joint ventures and mergers were the most popular with a combined score of 76.6% of the respondents. However, majority of the companies surveyed preferred a mixture of both internal and external growth strategies as indicated by 62.9% of the respondents. It appears that majority preferred internal growth which involves the company increasing its own assets or output through the reinvesting of its cash flows into existing business. The results are in agreement to Aktas et al. (2008) who found out that both internal and external growth modes create shareholder value. They urged that internal diversification mode provides more corporate control, encourages internal entrepreneurship, and protects organizational culture, but it often is a slower way of growth compared to external diversification strategy since it requires the development of new resources internally. Thus the high percentage of companies adopting both internal and external diversification may be because most companies would prefer a mix of the two in order to benefit from the advantages of both internal (organic) and external growth strategies and to manage the associated risks.

The diversification process by the construction companies was achieved mainly by the company’s management staff as noted by 61.0% of the respondents. This suggests that majority of the construction companies do not seek the services of professionals while formulating and implementing corporate strategy and may explain why there is still some business failures post diversification. This view is informed by Palich et al (2000)
who affirm that diversification will produce positive results as long as the required resources and capabilities are available. Managers should be knowledgeable to operate the systems in the required firm and fully understand ways to merge it with the organization in order to achieve synergy and develop the learning curve even further. Thus if company staff with little or inadequate knowledge and capabilities are tasked with implementation of diversification strategy, it will most likely fail.

Research Sub-Objective Three: *To identify and critically analyse motivators/de-motivators to adopting diversification strategies as a means of organizational survival and growth.*

When the respondents were asked to indicate the factors that motivated their company’s diversification strategy, it was found that the most important factors were indicated in the following order: the need to spread risk – risk aversion; the present market is saturated – stiff competition; the need to engage unutilised resources – human, technical and financial; attracted to more profitable businesses; cyclical/fluctuating demand in the present market; improve survival/stability of the company and the hope to enjoy economies of scope – build synergies in asset utilization. The desire to create a monopoly in the market was the least motivating factor to diversification.

The factors given by the respondents for engaging in related diversification can be summarised as follows:

a) Controlling quality, quantity and price of supplies.

Contractors aim to decrease their dependency on suppliers and try to ensure that materials and equipment satisfy the required quality standards. Also as they are able to produce at lower prices, it gives them cost advantage. They can also differentiate their construction services by producing and using high quality products. In addition to controlling the quality, quantity and cost of supplies, unavailability of necessary materials in the market is another driver for related manufacturing. If contractors cannot find required products in the market, they sometimes decide to produce them themselves.
b) Cost savings
Although some investment is necessary initially, in the long run it pays back with lower cost of construction and price advantage in tenders.

c) Improving the efficiency of construction works
By producing their own materials they minimize the risk of unavailability of materials or delays at site and they can plan and organise construction works more efficiently. Efficiency in construction works increases competitiveness of companies and results in higher profitability.

All the above mentioned factors have the same theme. The major aim is to provide direct benefits for construction works through lower dependency on suppliers, lower risk of delay, lower costs and to achieve higher quality of construction products and processes. Less important factors are spreading financial risks, using under-utilised capacity and high profitability in construction related markets. These findings show that increased profitability by investing in construction related markets is not an important motive for related diversification. Minimisation of technical/construction related risks is a more important factor than decreasing financial risk by a diversified portfolio.

The reasons given by respondents that influenced their decision to diversify into construction un-related businesses are: as a survival strategy during low demand/reduced workload in the construction industry; to spread risks by diverse elements in the portfolio; to even out cyclical effects in the construction industry and to expand the company (growth) were found to be significant factors for engaging in unrelated diversification.

a) Survival/growth
The majority of respondents agree that diversification to un-related markets is seen as a survival strategy during times of reduced workload in the construction sector. Construction industry is known to be risky as most of the companies face the risk of non-continuous construction workload generated by either cut throat competition or decreased demand for construction services. One way to survive during this time is to use cash generated by other non construction businesses to fund overhead expenses of the construction business. Contractors also use cash generated by construction business to invest in other unrelated businesses. It is also worth mentioning that one of the
major reasons for unrelated diversification, as stated by the respondents, is to expand the company (growth). In this case, unrelated diversification is conceived as a survival and growth strategy.

b) Financial risk reduction
One of the most important reasons for engaging in unrelated diversification stated by the respondents is spreading risks by a diversified portfolio. By investing in different markets, overall financial risk of the company is minimised.

c) Cash stabilisation
Evening out of cyclical effects in the construction industry also received significant importance ratings by the respondents. Due to the fluctuating nature of the construction demand, ensuring a stable workload and cash stabilisation are among the major aims of the construction companies. Thus flexibility becomes a critical issue and diversification is a way to achieve flexibility.

Factors of lesser significance, as stated by the respondents, were; to benefit from high profitability in other sectors, to use excess cash generated by construction works, personal interests of owners/stakeholders. To derive indirect benefits for construction works was found to be among the factors with least significance, showing that contractors do not consider a synergy concept while considering unrelated diversification.

The findings are in agreement with Ozdogan and Birgonul (2001) who suggest that a construction company is motivated to diversify into related and unrelated construction markets depending on the environmental conditions and a company’s risk attitudes. Unrelated diversification is concerned with forming a portfolio of techniques and markets whose fortunes are unrelated to one another and can be seen as a turbulent-insulating strategy achieved through flexibility. Related diversification on the other hand aims at achieving efficiency of construction works through buying of competition in related markets.

The study found that construction companies may decide to not diversify because of the following reasons: inadequate resources (human, technical and financial); high cost involved in diversification; preference to being focussed on current business; insufficient knowledge of other types of businesses; satisfaction with current level of growth; they
feel that diversified companies are not doing better than them; and finally, they consider diversification to be too involving.

Research Sub-Objective Four: To identify and analyse post diversification impacts of local construction companies’ organisational survival and growth. This sub-objective sought to find whether diversification has positive impacts on survival and growth of local construction companies. The responses suggest that the implementation of diversification strategy will improve sales volume; increase overall profitability; improve utilization of resources (human, technical and financial) and; increase asset turnover of the company. The responses are in support of the notion that diversification achieves economies of scale and scope. This means that the diversified construction companies have better utilization of resources, produce at lower costs and can compete with rivals to win contracts. The diversified company will also enjoy cash stabilisation advantages during times of scarcity, can access credit/finance due to its stability and size. All these factors lead to improved turnover, overall profitability, growth and business sustainability.

The findings are in agreement to Nwaiwu, B.N, et al. (2014) who concluded that diversification can enhance the financial performance and competitiveness of firms thereby enhancing their survival in the industry. The results also agree with Kim and Reinschmidt (2011) who found that contractors’ diversification strategy matters in managing business risks and firm growth, and contractors that diversify grow by reducing market risks. However, the results contradict the findings by Pandya and Rao (1998) in their study of 2,000 firms in multiple industries, that the best performing firms are the specialised ones. The results of this study also contradict the findings of Hill and Hansen (1991) who concluded, on their study in the pharmaceutical industry in the US that undiversified firms performed better than diversified ones.

Research Sub-Objective Five: To identify and establish barriers to achieving successful diversification by local construction companies in Kenya.

The most significant barrier to successful diversification in the Kenyan context was rated as the inability to build sufficient synergy for profitable growth. Other significant
barriers are: inadequate planning before diversification was implemented; management has poor knowledge in new business environment; not enough attention/investment in new businesses, and; too many peripheral activities unrelated to main business. This study found that majority (61%) of the construction companies do not engage the services of corporate strategy consultants while implementing diversification strategy. It is our considered view that most of these barriers can be overcome if construction companies engaged the services of professional management consultants in corporate strategy formulation and implementation.

Lack of synergy as a significant barrier to successful diversification agrees with Markides (1992), who suggest that a company will achieve benefits from low to moderate levels of diversification through the sharing of activities or leveraging of competencies. The other two significant barriers to successful diversification indicated as poor planning and poor knowledge in new business environment prior to diversification agree with two critical success factors affecting corporate diversification success as: initial conditions, noted by Levinthal and Myatt (1994), and the importance of core competencies and strategic assets (Markides and Williamson, 1996). Core competencies are the pool of experience, knowledge and systems, etc. that exists elsewhere in the same corporation and can be deployed to reduce the cost or time required to either create a new strategic asset or expand the stock of an existing one (Markides and Williamson, 1994). This appears to agree with Mukherji (1998) who concluded that industries with prior high performance tend to have successful diversification.

The results are also in agreement with Palich et al (2000) who affirm that related diversification is positively connected with survival as long as the required resources and capabilities are available. Managers should know how to operate the systems in the acquired firm and fully understand ways to merge it with the organization in order to achieve synergy and develop the learning curve even further. In addition to that, it is also mentioned that the firm has to continuously develop its organizational knowledge, especially within industries. Organizational knowledge should be gained by accumulating skill and experience through sharing activities and routines across all business lines. Grinyer et al (2010) concurs that without initiating organizational knowledge, it will be difficult to optimize the benefits obtained from related
diversification on organizational survival. As firms expand and become complex, personnel need to share the expertise they have acquired among other departments. Organizations are more likely to realize competitive advantages through activities and production processes.

5.3 CONCLUSIONS

Major threats to local contractors’ survival and growth were found to be low financial base and lack of access to credit/finance, competition from better endowed foreign contractors in the winning of contracts, fluctuating demand and project types and lack of access to plant and equipment.

Majority of local contractors are interested in adopting diversification and are at various levels of implementing diversification strategy. The preferred diversification mode was moving into new markets (expansion of client base) followed by related and unrelated diversification. It can also be concluded that majority of local contractors prefer a mixture of internal and external growth mode. The most popular external growth mode is product diversity while the most popular external growth mode is mergers. Majority of companies that prefer the external growth mode are the publicly owned limited liability construction companies.

It has been found that construction companies diversify into construction related business, to control quality, quantity and prices of supplies; to obtain cost savings; to improve efficiency in construction works; to achieve independence and; to use under-utilized capacity. It can therefore be concluded that local contractors invest in construction markets to increase efficiency of construction works, gain lower cost advantage and differentiate their services.

On the other hand the study found that construction companies diversify into construction unrelated businesses: as a survival strategy during times of low workloads due to market saturation, competition or recession; to spread financial risks by diverse elements of portfolio; to even out cyclical/fluctuating effects in the construction industry; to expand the company (growth). It can be concluded that unrelated diversification is seen as a financial risk reduction method and has cash stabilisation advantages for local contractors as a result of increased flexibility.
The study found that post diversification impacts on local construction companies included: steady growth in sales and overall profitability; increased utilisation of resources that could lead to increased economies of scale and scope; improved asset turnover, and; a boost in the company’s corporate image. From the findings of the study it can be concluded that diversification, if implemented correctly, can be an effective survival and growth strategy for local construction companies. The study hypothesis that diversification increases the chances of organizational survival and growth in established local construction companies in Kenya is therefore proved to be true.

The most significant barrier to successful diversification was found to be the inability to build sufficient synergy for profitable growth. Other significant barriers are inadequate planning before implementation of diversification and management had a poor knowledge in new business environment. Most of the companies did not engage the services of corporate strategy experts and so it can be deduced that engaging the services of management consultants may improve the success of diversification process. The study found out that some of the new businesses the construction companies diversified into failed. This could partly be explained by the preference to using in-house management staff over professional management consultants for formulation and implementation of the diversification strategy.

5.4 Recommendations and Areas of Further Study

5.4.1 Recommendations
To achieve successful diversification, there is need for local construction companies should engage management consultants in the formulation and implementation of corporate strategy to minimise risk of failure. Company management should prioritize organizational knowledge on new markets and how to create synergy which is crucial to successful diversification. Before diversifying, it is important that local construction companies build core competencies and then gradually enter into new and less risky markets in order to benefit from diversification efforts.
Protective laws like the recently gazetted National Construction Authority Regulations (2014) should be strictly enforced to protect local contractors from unfair foreign competition and to build their capacity.

5.4.2 Areas of Further Study
The general experience during the survey indicates that limited study have been undertaken on the subject of diversification as a survival strategy for the construction companies in Kenya. Empirical studies should be conducted on the subject of diversification strategies and financial performance in the Kenyan construction industry. Similar study could be repeated with a survey of only Nairobi Stock Exchange listed entities, which would ensure the availability of financial data. It would be significant to the Kenyan construction industry and the body of knowledge if such studies could be replicated with larger sample of companies, probably in other counties in order to establish a better understanding of the subject area and test the reliability of the study’s findings.

Further study should be carried out on the subject of diversification strategy and company performance and growth in the Kenyan construction industry during the period of financial recession, to see if there is an impact of recession on the strategy and performance of construction companies.

Further study could also be directed in the difference in performance between related and unrelated diversified companies in the Kenyan construction industry.

Further study should look into all factors that influence the survival of local contractors, without narrowing on diversification.

The specific areas where local construction companies have diversified should be studied in the future.
REFERENCES


Trochim, W.M.K (2002b) Introduction to evaluation. [internet] [http://www.socialresearchmethods.net/kb/intreval.htm](http://www.socialresearchmethods.net/kb/intreval.htm) [accessed 17 June 2014].


APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

P.O Box 7768, 00200
Nairobi. Kenya
+254-(0)722 230 673
austin.nzivo@gmail.com

Dear Respondent,
The University of Nairobi is currently undertaking research on the **Survival of Construction Companies in Kenya through Diversification**. The research is in partial fulfilment of the requirement for a Master of Arts Degree in Construction Management at the Department of Real Estate and Construction Management, University of Nairobi and is being undertaken by myself and supervised by Prof. Dr. Qs. Sylvester M. Masu.

As part of this research we are sending out a questionnaire to your company from a selection of established local construction enterprises. The information collected will be confidential and purely for academic purposes. We would therefore ask you to kindly complete the questionnaire and return it within two weeks to the above address.

If you have any queries or concerns about the questionnaire or wish to talk to us in more detail about the research then please feel free to contact me on the numbers provided. An introduction letter from the University is attached.

While thanking you for your kind assistance and contribution, we look forward to receiving your responses.

Yours faithfully,

Austin Nzivo Nguku
Student Researcher,
Department of Real Estate and Construction Management, University of Nairobi.
APPENDIX II: SURVEY QUESTIONNAIRE TO RESPONDENTS

Introduction

For each question and to the best of your knowledge, please place an (X) in the box adjacent to the option that is closest to the organization’s experience.

This questionnaire is composed of five (5) parts. Kindly complete all sections.

Part I: General information (To obtain information on the background, experience and position of person completing questionnaire).

1. What is your rank/position in the organisation?
   [ ] Top level manager – (e.g. CEO, Director, Board member, etc).
   [ ] Middle level manager – (e.g. Functional/head unit, Contracts manager, etc).
   [ ] Lower level manager – (e.g. Technical/operations manager, Site manager, Accountant, etc).

2. How many years have you been in your current organization?
   [ ] Below one year
   [ ] 1 – 10
   [ ] 11 – 20
   [ ] Over 20 years

3. How many years do you have experience in the construction industry?
   [ ] 5 – 9 years
   [ ] 10 – 14 years
   [ ] 15 – 19 years
   [ ] Over 20 years

4. How many years experience do you have at an executive level in construction?
   [ ] Below 1 year
   [ ] 1 – 5 years
   [ ] 6 – 10 years
   [ ] Over 10 years

5. Category of corporate registration
   [ ] Proprietorships & partnerships
   [ ] Private limited
6. What is your company’s strategy on expansion?

[ ] Internal capacity expansion  [ ] Mergers  [ ] Acquisitions  [ ] Joint Ventures

7. Does your company operate outside Kenya?

[ ] Yes  [ ] No

8. If yes to question B3, state number of countries in which the company is doing business

_______________________________________

**Part IV: Challenges/Threats to growth of the company** (The section is aimed at being able to assess both challenges and threats to growth of companies in the industry as a basis for ameliorating them).

*The following are some perceived challenges/threats to the growth and survival of companies in the industry. Please rank each as they affect your company’s growth on a scale of 1 – 5, where 1 represents no influence and 5 represents extreme negative influence.*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very strong</th>
<th>Strong</th>
<th>Moderate</th>
<th>Weak</th>
<th>Very weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Globalisation (allows entry of bigger and better equipped companies as competitors)</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Adoption of targeted preferential procurement system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of joint ventures/alliances with other companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low entry barriers into the market by bigger foreign companies and lowest bid competitive tendering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of access to adequate plant and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of technical skills for certain types of projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over specialization and market is already saturated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weakness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Low flexibility in operation and company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organization structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High overhead costs, makes some projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>unprofitable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low financial base and access to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>credit/finance (suppliers, banks, stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>market, subcontractors, etc)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Young company and inexperienced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– clients unwilling to commit projects to us</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fluctuating demand and project types</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High establishment costs to maintain branches</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects geographically dispersed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Part V: Diversification in company** (This section seeks to examine the type, mode and processes of diversification adopted by companies in the industry and explore its relationship with their performance as well as identify some difficulties in the process).

1. Is your company interested in diversifying? [   ] Yes [   ] No

2. Which of the following describes the status of the process of diversification in your company?
   [   ] The company is not interested in diversification now and in the near future
   [   ] The company is already pursuing diversification strategy

3. If Yes to Part V (No.1) above, which of the following option(s) best describe the type of diversification in your company?
   [   ] Addition of new product(s) – related to current business
   [   ] Movement into new markets (expansion of client base) - same products
   [   ] Addition of new product(s) – unrelated to current business
   [   ] Shareholdings in other business (without active participation).
   [   ] Retailing in related and unrelated goods
   [   ] Others (specify):

4. Please, rank in order of importance from experience, which of these options best suits your type of organization? (Starting with 1 = for the best option and 5 = least option)
5. Indicate which mode of diversification is adopted by your company (please tick as many as is applicable):

<table>
<thead>
<tr>
<th>Internal (organic growth)</th>
<th>External</th>
<th>Both internal and external</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ] Product diversity</td>
<td>[ ] Merger</td>
<td></td>
</tr>
<tr>
<td>[ ] Move to new markets (local and international)</td>
<td>[ ] Acquisition</td>
<td></td>
</tr>
<tr>
<td>[ ] Capacity building within company’s area of core business</td>
<td>[ ] Joint venture</td>
<td></td>
</tr>
</tbody>
</table>

6. Was the diversification processes achieved using the services of?

[ ] Company’s management staff only
[ ] External professional consultants only
[ ] Both internal and external

7. Please indicate how the following factors have motivated the company’s diversification strategy. Where 5 represents strong motivation and 0 represents no influence.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very strong</th>
<th>Strong</th>
<th>Moderate</th>
<th>Weak</th>
<th>Very weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>The need to spread risk – risk aversion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present market is saturated – stiff competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need to engage unutilized resources – human, technical and financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attracted to more profitable business (es)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others are doing it</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyclical/fluctuating demand in the present market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversified companies appear to be doing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
better than us
Improve the stability/survival of the company
Hope to enjoy economies of scale – build synergies in asset utilization
Desire to create monopoly in the market

8. Is your company diversified into **construction-related** business (es)? If so, to what extent have the following factors influenced your reason to diversify your business into construction-related areas? *Where 5 represents strong influence and 0 represents no influence*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>To control quality, quantity and price of supplies</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>To improve efficiency in construction works</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To obtain cost savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To achieve independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To spread financial risks by investing in new markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High profitability in construction related markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To use under-utilised capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. Is your company diversified into **construction-unrelated** business (es)? If so, to what extent have the following factors influenced your reason to diversify your business into construction-unrelated areas? *Where 5 represents strong influence and 0 represents no influence.*

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a survival strategy during low demand/recession load in the construction industry</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

83
To spread risk by diverse elements in the portfolio
To even out cyclical effects in the construction industry
To expand the company (growth)
Due to personal interests of stakeholders/owners
To benefit from high profitability in other sectors
To use excess cash generated by construction works
To derive indirect benefits for construction works

10. In relation to the post-diversification experience of your company, indicate how your company performs against the various parameters, on a scale of 1 – 5, with 1 representing extreme disagreement and 5 representing extreme agreement with each statement

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strong-agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company experienced steady growth in sales (turnover) volume</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>There was a steady growth in overall profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased asset turnover for the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved utilization of resources (human, technical, financial)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A boost in the corporate image of the company was achieved</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company’s management structure had to change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More professionals and skilled staff have to be employed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At some point, the company had to divest its</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

84
interest in some businesses to refocus its operation – due to failure in such businesses

The company didn’t enjoy economies of scale – didn’t build synergies in asset utilization

Unable to create monopoly in the market

11. The following are some barriers to achieving success in diversification strategies in the construction industry. Please, indicate your opinion on a scale of 1 – 5, with 1 representing extreme disagreement and 5 representing extreme agreement with each statement

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management has poor knowledge in new business environment</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Too many peripheral activities (small scale activities) – unrelated to main business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There was not enough attention/investment in new business(es)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate planning before diversification was implemented</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of transferable knowledge and skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stiff competition in the new market/product – unable to build/sustain competitive advantage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers were reluctant to try out new products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient knowledge about new market/customer preferences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business was acquired by mistake – just a spur of the moment decision, a pet idea of a valued director/staff or “bandwagon syndrome”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We needed to have engaged the services of professional consultants to help with the development of the strategic plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
12. For those who answered No in Part V (No.1), to what extent have the following factors influenced your reason not to diversify your business? Where 5 represents strong influence and 0 represents no influence.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfied with the present level of growth</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Insufficient knowledge of other types of businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consider diversification process too difficult/involving</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate resources (human, technical and financial)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present market not saturated – more opportunities exist here</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High cost involved in diversification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prefer to be focused and specialised in present business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversified companies are not doing better than us</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Kindly state any general observations/comments that could help to improve the survival/stability of a construction company during times of external environmental turbulence.

_____________________________________________________________________________
_____________________________________________________________________________
_____________________________________________________________________________

Thank you for your valued time and contribution.