FACTORS INFLUENCING DIVERSIFICATION STRATEGIES AT
HACO INDUSTRIES, KENYA LTD

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DECLARATION

This research project is my original work and has not been presented to any other University for an examination, either in part or as a whole.

Signature: .................................. Date: 8th NOVEMBER, 2012

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D61/70163/2008

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

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I have depended upon uncounted acts of support, generosity and guidance of lecturers, classmates and family members who cheered me while I run this race.

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Finally, my appreciation to HACO Industries for having allowed me an interview with the finance manager and also access their rich paperwork, this enriched my data.
DEDICATION

Dedicated first to GOD, through whom all things are possible. To my dearest mother, Anne Wanjiru Mbatia, an irreplaceable role model to me. My beloved Boniface Makumbi, whose love and care motivated me and to my beloved sons Riaan, Jonathan and Will, you complete me.
ABSTRACT

Diversification has been associated with organization growth. This study sought to determine factors influencing diversification strategies at HACO Industries. A case study research design was employed to achieve this objective. Primary data was collected through an interview guide. A face-to-face interview was conducted with the finance manager at HACO Industries. Secondary data from catalogues and other publications were also used. A content analysis method was used to analyze this information. The study revealed that market environment, partnerships, alliances and joint ventures are among the factors that have determined diversification strategies at HACO Industries. The leadership led by its chairperson has also played an integral part in determining the diversification strategies. The study revealed that the firm’s investment in information systems, sales distribution, marketing and talent development have also shaped diversification strategies. Diversification made HACO Industries one of the leading fast moving consumer goods (FMCG) firm in Eastern Africa. It was observed that diversification is a capital-intensive affair and may be a challenge to resource constrained firms. The study concluded that factors influencing diversification strategies at HACO Industries could be classified into three categories namely: firm factors, product factors and market factors. The study recommended that HACO Industries should evaluate the factors influencing its diversification strategies in order to make informed choices in the future. Further research should focus on the ranking of important elements of firm factors, product factors and market factors that affect diversification strategies.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

One of the main advantages of diversification identified in the management literature is the synergy that it creates (Ensign, 1998). By moving into new areas, opportunities emerge to develop new inter-relationships through the actual process of working on new services and markets. This synergy makes it is possible to produce a combined return on resources that is greater than the sum of the parts (Ansoff, 1988).

Porter (1980) offers three generic strategies of cost, differentiation, and focus that may be used to gain competitive advantage. Companies may use any one or combination of these strategies to gain a competitive advantage. Businesses that are able to create a competitive advantage by using one or more of these strategies will experience above-average profitability within their industry. Businesses that use both cost and differentiation strategies to achieve competitive advantage usually realize the highest levels of profitability within their industry (Pearce and Robinson, 2000). However, even if businesses are able to gain competitive advantage and achieve higher levels of profitability, rivals are usually quick to copy their strategies or even improve on their initiatives, and thus result in a loss of competitive advantage (Zook and Allen, 2001).

1.1.1 Diversification Strategies

Diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification – even though the nature of this relationship remains largely unresolved (Park, 2002). Early
studies have argued that diversification is valuable from a conceptual perspective; increasing levels of diversification should have a positive influence on performance due to economies of scope and scale, market power effects, risk reduction effects and learning effects (Christensen and Montgomery, 1981). In contrast, research has found that conglomerate firms have significantly lower profitability (Davis et al. 1992). The wide belief that diversification is inefficient is also partly attributed to its contradiction to one of the oldest economic theorems that argues that specialization is productive (Matsusaka, 2001). It has also been shown that highly diversified firms have less market power in their respective markets than more focused firms (Montgomery, 1985).

Product diversification has been found to be negatively related to firm value and to occur in firms with less managerial and shareholder equity ownership (Denis et al., 1997). In terms of related and unrelated diversification, it is asserted that a related product diversifier can transfer the learning effects from one business line to another (Geringer et al., 2000). Building on the work of Rumelt (1974) found that in his sample of 246 firms, the related diversification strategies outperformed the other diversification strategies on average; the related-constrained diversification strategy yielded the highest performance on the average (in related-constrained firms all component businesses are related to each other whereas in related-linked firms only one-to-one relationships are required); and the unrelated diversification strategy produced one of the lowest performances.

In accordance with this argument, the industrial organization literature (Jones and Hill, 1988) also emphasizes the synergy effect from diversification among related businesses (Qian, 1997). Previous research found a correlation between failure of diversification and failure to establish relatedness among various business lines at the corporate level.
(Narasimhan and Kim, 2002). In contrast to Rumelt's work, Michel and Shaked (1984) found that unrelated diversifiers outperform related diversifiers. Reconciling the two views, other research suggests that each form of corporate strategy is associated with a different set of economic benefits (Teece, 1982). In the case of unrelated diversification, the main benefits are economies of internal capital markets in that unrelated business units can be monitored more effectively by constraining them to a single internal capital market – rather than by the external capital market en masse (Williamson, 1999).

As Murphy and Daley (2000) argue, diversification could be attributed to shifting market trends, including: the globalisation of production; the deregulation and dismantling of institutional obstacles to competition; increased competition between transport modes; technological change and the outsourcing of the logistics function. A company's diversification strategy may be explained in terms of branching-out from its existing dominant areas of knowledge and key competences and the application of these to the marketing of new and improved products and services (Meyer and Utterback, 1993; Kim and Kogut, 1996). Developing and investing in knowledge and related capabilities enable companies to undertake processes of expansion and diversification, and to take advantage of the evolution of markets and future opportunities in industries of rapid growth (Kim and Kogut, 1996).

Kim and Kogut (1996) stated that, in evolving environments, the capability of a company to improve and renew its products and services, and to diversify within related segments, is based on the construction and accumulation of knowledge derived from past experience. Therefore, the capability to evolve and diversify is an on-going process of construction and accumulation of new knowledge extending beyond that which already
exists within the company.

Work done by Ansoff (1988) provides an appropriate introduction when considering the management theories around diversification. He produced a product/matrix that identified directions for strategic development. Apart from diversification direction, the others are market penetration by which growth occurs through the increased share of existing markets. For a public service, the focus will be to extend the user group within an existing market. This is the least risky strategy for expansion; market development opportunities are in markets other than those currently being targeted but with the same product. The overarching aim is to increase profit by selling more existing products in new markets; product development is adopted when the organization has a less than comprehensive products/services in market. There will be an awareness of customer requirements and therefore knowledge of gaps in product/service range. Costs will be attached to developing new services and their resulting promotion.

1.1.2 Factors influencing Diversification Strategies

The success of diversification strategy depends on the fit between the different business units and their working relationships. The impetus is on the managers of the different units to understand their inter-relationships so the probability of synergy can be increased.

Van Oijen and Douma (2000) highlighted the main reason for having a diversification strategy occurs when there is a fundamental change in the industry (such as when an existing technology is replaced by a new one). The emergence of the internet is provided as an example which forces new strategic direction to meet the changing industry
condition. Grant (2005) acknowledges that if organisations are to survive and prosper over the long term they must change. Inevitably, this change involves redefining the business in which the organization operates.

Diversification poses various challenges at the corporate level. By moving out of current products and current markets, it represents a step into the unknown. This uncertainty carries a higher degree of business risk (Lynch, 2006). This is because with diversification there is a limited knowledge of the new services and markets that make accurate predictions of success difficult. There is also need to invest resources in product and market development.

1.1.3 HACO Industries

HACO Industries was established in the early 1972 as single-product manufacturer. From modest beginnings, HACO Industries is now one of the region’s leading fast moving consumer goods manufacturers, supplying a wide range of products to a vast market coverage including Kenya, Uganda, Tanzania, Ethiopia, Rwanda, Burundi, Djibouti and Eritrea with a population in excess of 180 million people. The company is focused at continuously innovating and providing quality and affordable products to satisfy the diverse needs of their consumers through the production and distribution of new products.

Beginning with stationery and shaver products, HACO Industries diversified its operation into personal and home care products in the mid 1990's. It offers writing instruments, markers, correction fluids and glues; male-female shavers and shaving foams; flint, electronic and utility lighters; batteries; skincare and hair care cosmetics; toilet, fabric,
and home care products; industrial products such as liquid detergents, antiseptic disinfectants, carpet shampoos, floor degreasers and stain removers; rulers, pegs and milk flavoring straws. Of them all, Miadi hair product was the first specially tailored product to be launched from HACO Industries Lab, the company’s Research & Development division. The launch was the culmination of HACO Industries 20 year plus involvement in the hair-care market, associated with leading international brands such as MOTIONS and TCB.

HACO Industries has strategic alliances with Societe Bic; PLI Alberto Culver; E.T. Browne Drug Co. Ltd; Jeyes United Kingdom; Joico – Hair Colours; Hindustan Pencils and Mitchell Cotts.

HACO Industries rebranded to become HACO Tiger Brands in April, 2011. This was after a successful joint venture with Tiger Brands, South Africa. Tiger Brands is South Africa’s largest food manufacturer for products such as Beacons, Purity, All Gold, Tastic, Morvite and Ingrams. HACO Tiger Brands is now one of the leading players in the foods category.

HACO Tiger Brands mission is ‘Adding Value to Life’ while its vision is to be the Most admired branded FMCG company in Eastern Africa. The company sells its products through distributors and sales representatives.

1.2 Statement of the Problem

Diversification strategies are used to expand the operations of a firm by adding markets, products, services or stages of production to the existing business. Diversification is part
of the four main growth strategies defined by the Product/Market Ansoff matrix namely market penetration, product development, market development strategies. Ansoff (1988) pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

HACO Industries started with manufacture of stationery and shaver products. HACO Industries diversified its operation into personal and home care products in the mid 1990's. The company has continued to diversify into other products by help of its strategic alliances with other business groups such as Societe Bic and Tiger Brands. In the emerging market context, the characteristics of this case pose certain interesting questions.

Several studies have been done on diversification in Kenyan industries. Njoroge (2006), for instance, did a study on building competitive advantage through diversification: A case study of Kenol/Kobil Oil Corporation. The objective of the study was to determine whether Kenol/Kobil has attained competitive advantage through geographic diversification, the factors used by Kenol/Kobil in pursuit of its geographic diversification strategy and the factors considered by Kenol/Kobil in selecting geographic areas to diversify into. Njoroge (2006) found that the factors considered by the company in diversifying include the possibility of dominating the market and the state of competition in those areas. It also considers financial capabilities of the company in meeting the objectives it has set for itself. These studies have not focused on factors that influence diversification strategies. This knowledge gap motivated the current study. This
study sought to address the question: What are the factors influencing diversification strategies at HACO Industries Kenya Ltd?

The study also attempted to look at the background of HACO Industries before diversification to see the kind of challenges in terms of competition, market penetration among others that the company faced before it diversified. This enabled the study to find out the precipitating factors that led HACO Industries to diversify. These were due to competition, a need for expansion, to foster strategic alliances among others.

1.3 Objective of the Study

To determine factors influencing diversification strategies at HACO Industries Kenya Ltd

1.4 Value of the Study

HACO Industries: This study will dwell on factors influencing diversification strategies at HACO Industries. This will help the management of HACO Industries to establish factors that influence diversification hence understand well how to make their diversification strategies sustainable.

Stakeholders: The study will be of significant value to all stakeholders in the HACO Industries as it will show the effectiveness and ineffectiveness of the various diversification strategies that could be employed to gain competitive advantage. The study will also give recommendations for improvement that will be beneficial to the players in the market.
Academicians: The study will be of value to the academicians and researchers in Kenya for it will provide a base upon which secondary material on factors influencing diversification strategies can be accessed. The study will also provide good literature on diversification strategies. It will also provide a base for researchers to carry out further research in this field hence adding to the existing knowledge.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on diversification; in particular, it reviews the theoretical orientation of the subject under the study, diversification strategies and factors influencing diversification strategies.

2.2 Theoretical Foundation of Diversification

Strategy is a framework through which an organisation can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. According to Ansoff (1988), strategic management is a systematic approach to the major and increasingly important responsibility of general management to position and relate the firm to its environment in a way, which will assure its continued success and make it secure from surprises. Consequently, strategic planning is that decision-making process that aligns the organisation's internal capability with the opportunities and threats it faces in its environment.

The impact of firm diversification decisions has received considerable attention from economists. However, there is no consensus on the direction of this relationship. It may be that theoretical and empirical models do not capture several complexities of real-life setting that affect the motivation to diversify. Kock and Guillen (2001) proposed a framework that tries to explain unrelated diversification in developing countries. Their theory can be traced back to Schumpeter's (1934) theory of innovation, the resource-
based view (RBV) of the firm (Barney, 1986), and the evolutionary theory of economics (Nelson and Winter, 1982). Schumpeter (1934) argues that there are five types of innovation: new goods; new production methods; opening new markets; utilizing new resources and materials; and new organization. While developing new products or production methods is linked to technological and organizational capabilities, finding new sources of supply and new markets are the results of market knowledge and network contacts.

Transaction costs theory (Williamson, 1979) predicts that the optimal firm structure will be dependent upon the institutional context. Most developed economies have strong and well developed institutions with efficient product, labour and capital markets. Hence, the market structure would be a much more efficient mechanism for transactions. In this light, there are higher costs associated with diversified firm structure and therefore it is predicted that conglomerates would be poor performers in strong and mature market. Emerging markets are characterized by underdeveloped institutions and weak capital, labour and product markets. Transaction costs theory predicts that diversified group structure is a beneficial organization form in emerging economies. Interestingly the diversification literature predominantly attributing the value gain/loss arguments to transaction costs rationale and the institutional voids argument is comprehensively researched in the finance and strategic literature in both emerging and developed market context.

Because transaction cost economics predicts favorable effects of diversifying as a strategy, it follows that firms that have a dominant diversified structure would be valued more by the market. In India diversification strategy is typically executed through the
group structure although many focused business entities also emulate the group structure. Perotti and Gelfer (2001) observed that industrial groups commonly exist in emerging markets. Therefore, a positive impact of group affiliation (and therefore diversification) on firm value is expected and is a well researched proposition by authors examining business groups in emerging markets (Lins and Servaes, 2002).

The resource-based view seems to suggest that firms diversify into related industries and related diversification leads to superior rents (Montgomery and Wernerfelt, 1988). The firm resources include the factors of production, services created from the factors of production and the specialized competencies it has created over time. According to the resource-based view, firms diversify in response to the excess capacity in the resources they possess (Penrose, 1959). Therefore, as long as the firm can find profitable ways of exploiting its unutilized resources, it has incentive to expand (Montgomery and Wernerfelt, 1988). The unutilized resources of the firm offer the potential to exploit scale and scope benefits. The exploitation of economies of scale is available through the exploitation of firm-specific resources into related industries. Nayyar (1993) contends that benefits of positive reputation and economies of scope are exploitable from related diversification, but are unavailable from unrelated diversification.

These conditions of resources strongly point to diversification that is related and therefore the RBV suggests a positive relation between firm performance and related diversification. Rumelt (1974) conjectures related diversification to be a better strategy in comparison to unrelated diversification. While recognizing the contributions of transaction cost economics and institutional theory literature in the examination of business groups, the hypothesis brings into perspective the resource-based view to
explain diversified business groups. Khanna and Palepu (2000) in their work examine the benefits of group affiliation and the extent of diversification question.

It has been shown that achieving effective concentric diversification or growth around the core business requires the firm to possess a competitive advantage in its core business. Therefore, step number one is to create a competitive advantage. Several sources of competitive advantage are available to the firm — including investment in core competencies, operational effectiveness, and strategic fit of activities — which should be supported by attention to social factors. The second step requires the firm to first consolidate its competitive advantage in its traditional business and ensure that it gains the maximum benefit before venturing into adjacencies. It involves investment into raising the barriers to imitation (Zook and Allen, 2001).

Step number three is to diversify by using the firm’s sustainable competitive advantage. Several methods of sustaining the competitive advantage in the core business are reported in the literature (Porter, 1987, 1996; Reed and DeFillippi, 1990; Pearce and Robinson, 2000; Christensen, 2001) — some of these include paying attention to underlying conditions and factors, physically unique resources, causal ambiguity, economic deterrence and strategic fit. Once the firm is able to consolidate its competitive advantage, i.e. make it sustainable, it is able to use this as a basis for concentric growth without undermining its existing sustainable competitive advantage. The firm will then be able to leverage its competitive advantage into any logically adjacent markets it wishes to enter. Step number four should result in improved business performance. Effective concentric diversification will strengthen the competitive advantage of the organization. Failure to diversify successfully will lead to reduced performance.
2.3 Diversification Strategies

The main purpose of diversification is to allow an organization to grow (Thomas and Mason, 2006). Diversification strategically takes the organization away from its current markets and products with the overall intention to increase the diversity that must be overseen by the organization. IBM provides a good example of an organization that has pursued diversification in a purposeful and vigorous manner (Strategic Direction, 2005).

Up until the 1980s, IBM enjoyed a virtual monopoly in hardware but this changed very rapidly with increased competition. Diversity in all its implications became the central driver for IBM from 1995 onwards. Diversification included both reviewing the inputs (with the diversification of the workforce) and the outputs (with the move away from products towards services and solutions).

The management literature highlights two major different approaches to diversification: related and unrelated. When diversification occurs through acquiring similar business options it is termed related (or concentric) diversification. This contrasts with unrelated (or conglomerated) diversification, which is the development of products or services beyond the organizations' current capabilities. Johnson et al. (2005) have provided a succinct overview of the options available from both related and unrelated diversification.

Related diversification occurs when there is a high degree of compatibility and complementation between the existing products/services and those being moved to. The major advantage of related diversification is that it allows economies of scale to develop. The major disadvantages revolve around the management time and cost in making it happen and the difficulties around sharing resources. Within the broad theory of related
diversification it is possible to have both: vertical integration (both backward and forward) and horizontal integration.

Backward Vertical Integration focuses on developments into activities concerned with the inputs to the organizations current system. It could for example involve extending backwards to acquire the raw material that go into an activity. The focus in Forward Vertical Integration is to develop into activities that are concerned with a company's outputs (Narasimhan & Kim, 2002). Control is sought over the distribution channels and outlets. Diversification that translates into activities that is complementary to present products/services is Horizontal Integration. There is a realization that there are opportunities in other markets that build on the organization's strategic capabilities. Related diversification is seen as being superior to unrelated diversification (Mwindi, 2003).

In unrelated diversification, the underlying strategy has nothing to do with securing access to compatible technologies, products or markets. The main objective is to acquire valuable assets that will increase profitability. It does become very challenging to manage a business that has been acquired through unrelated diversification when the necessary administration skills and knowledge do not exist. There are very significant risks operating in areas where the detailed knowledge of key success factors is limited (Lynch, 2006).

2.4 Factors Influencing Diversification Strategies

Growth can be achieved in a number of ways. For many companies growth through diversification has resulted in several benefits. However, for others, it has resulted in
problems (Zook and Allen, 2001). The literature abounds with case histories of companies, which have diversified and achieved varying results from major successes to less profitable ventures and sometimes divestiture and bankruptcy (Zook and Allen, 2001). The decision to diversify or not is one of the most challenging decisions that confronts companies. Success stories are plentiful – consider General Electric, 3M and Disney (Markides, 1997).

According to Pearce and Robinson (2000), diversification represents a “distinct departure” from existing operations through acquisition or internal generation of separate businesses that are able to provide synergy with the original firm by counter-balancing strengths and weaknesses of the two businesses. There are several motivations why firms choose to diversify. Some of these include: increased stock value of the firm; increased growth rate of the firm; better use made of funds than internal investment; revenue growth; improved stability of earnings; and increased efficiency and profitability.

2.4.1 Firm Factors

There is no consensus around firm size aspect. Ayal and Zif (1979) suggest that the absence of internal restrictions for the firm (availability of productive, financial and human resources in order to function in new markets) favors the capability or the profitability of market diversification; while internal constraints place a limit on it. The size of a firm reflects, to a certain extent, its available resources, and therefore, the internal barriers to expansion it might have. On the other hand, in the opinion of Madsen (1988), the firms that are most interested in diversifying their efforts into different markets are the smaller ones, due to the fact that they do not have the necessary resources
for a concentration strategy to be successful.

Kock and Guillen (2001) tried to investigate why unrelated diversification is observed in late industrializing firms. They argue that a firm's diversification strategy is related to the type of its capabilities. They also identify the accomplishment of capabilities in three stages. In the first stage, contact capabilities lead to unrelated diversification. Attributes of the second stage are general capabilities that cause less unrelated diversification; the capabilities of the third stage, which are organizational and technological capabilities, result in related diversification.

2.4.2 Product Factors

Piercy (1981) suggests that products of very specialized types, which are of limited use and for which most countries have relatively small markets, favor the capability or the profitability of foreign diversification. In addition, the opposite for products of general use, for which most countries have large markets and which favor the capability or profitability of foreign concentration.

Piercy (1981) suggests that non-repeated purchase products are better suited to diversification or market spreading, because they better favor their profit capacity; while repeated-purchase goods may be associated more with concentration. If a firm's entry into new markets requires minor changes in its production processes (to adapt the product to the standards and regulations of a new country, as well as to the special tastes and preferences of new consumers), the firm requires only a small fixed investment and it is very probable that it could enjoy the advantage of lower costs derived from accumulated
experience. In such cases, there should be greater motivation to employ a diversification strategy (Piercy, 1981).

Alternatively, from the point of view of control of the chosen strategy, ease of control is more typical in the case of standardized products or those that are not very sophisticated, which do not require close and frequent communication between the firm and its clientele. A diversified strategy in such cases would be more advantageous since the costs of communication would not increase appreciably as the number of contacts grows. However, a more exhaustive control of the chosen strategy, typical of custom-made and sophisticated products (which require close and frequent communications with clients), is better related with a concentrated strategy (Ayal and Zif, 1979).

2.4.3 Market Factors

There is no consensus regarding Growth-Level of the Market factor. On the one hand, Ayal and Zif (1979) suggest that when the rate of growth of the industry in many markets is high, there are occasional opportunities for diversification with limited resources. It favors the capability or the profitability of foreign concentration. On the other hand, Piercy (1981) considers that entry into new markets with rapid growth or into declining markets would suggest a diversification strategy, since it would allow the firm to obtain an adequate sales volume in the first ones and/or to maintain a steady volume on the declining ones.

Ayal and Zif (1979) suggest that firms are motivated to concentrate when the distribution costs in the new markets are too high and their economies of scale in distribution arise as
a result of increases in market shares. In the same way, Piercy (1981) points out that a concentration strategy is favoured when the cost of physical distribution or of the administration of orders in the new markets would be high (i.e. through an own channel); and the opposite for diversification.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study was a case study. This is because only one organization was targeted. HACO Industries is one of typical examples of an organization that has used diversification strategies and the interest of this study was to find out the factors influencing diversification strategies. A case study method was found appropriate due to its ability to delve deep and seek important and unique information on factors influencing diversification strategies at HACO Industries.

3.2 Data Collection

Primary data was used in this study and was obtained through an interview guide. The interview guide had open-ended guiding questions but the interviewer posed probing questions during the interview. The interviewee was the finance manager and was purposively selected for his knowledge on diversification strategies at HACO Industries. Secondary data from HACO Industries on how they have diversified and factors influencing their diversification were collected from publications, company records, catalogues and other relevant materials.

3.3 Data Analysis

A content analysis was used to process data. This involved scrutinizing data and categorizing it based on factors influencing diversification strategies at HACO Industries. Results were presented using prose or narrative method.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This chapter covers data analysis and present findings on the factors influencing diversification strategies at HACO Industries. It presents findings of an interview with the finance manager as well as secondary sources.

4.2 General Information
The respondent indicated that he has worked at HACO Industries for 4 years and three months. Asked whether he is involved in strategy formulation, he said no. He indicated that the board and the managing director, who is secretary to the board, are responsible for policy formulation. The respondent was involved in strategy implementation and the daily operations of the firm.

4.3 Factors Influencing HACO Industries Diversification Strategy
From a company dealing with stationery and shavers in 1972, HACO Industries today has strong brands in five categories of products namely; Bic and Plastics, Hair Care, Skin Care, Home Care and Food.

From the message of the chairperson, HACO Industries grew from humble beginnings since inception in 1972. It moved from a single product manufacturer to a diversified and strong player in the fast moving consumer goods market within East Africa. Based on the information from the interview, the following factors appear to have had greatest influence on HACO Industries diversification.
4.3.1 Firm Factors

Asked to mention the factors that have influenced diversification strategies at HACO Industries, the respondent pointed out that the experience and influence of the HACO Industries chairperson in the East and Southern African market has been instrumental. This shows that HACO Industries' leadership has played a critical role in its diversification. Equally, the respondent noted that few firms have taken the direction that HACO Industries has undertaken as far as diversification is concerned. This situation has therefore given HACO Industries an autonomous advantage.

Ansoff (1988) equally highlighted the role of leadership as he argued that strategic management is an increasingly important responsibility of general management to position and relate the firm to its environment in a way, which will assure its continued success and make sure it is secure from market surprises. HACO Industries leadership has employed strategic planning in their decision-making process that aligns the organisation's internal capability with the opportunities and threats it faces in its environment.

The findings however, are contrary to assertions by Madsen (1988) who said firms that are most interested in diversifying their efforts into different markets are the smaller ones, due to the fact that they do not have the necessary resources for a concentration strategy to be successful. HACO Industries is not a small firm yet it opted to diversify.

According to the HACO Industries Managing Director (in a breakfast presentation on April 8, 2011 at Windsor Golf Club), the company has invested heavily in information
systems, sales distribution, marketing, and talent development to expand HACO Industries share in the fast growing stationery, personal care, home care, and food segments in Eastern Africa.

These findings confirm argument by Ayal and Zif (1979) that firms need to have availability of productive, financial and human resources in order to function in new markets. The findings also confirm those of Kock and Guillen (2001) that a firm's diversification strategy is related to the type of its capabilities.

HACO Industries is the sole manufacturer and distributor of a wide range of products in the East & Central African markets. The sole distributorship makes HACO Industries have an advantage over its competitors.

4.3.2 Market Opportunities

Although the respondent pointed out that the best placed person to answer that question adequately was the managing director or the board, he observed that they must have considered SWOT analysis to determine their strengths, weaknesses, opportunities, and threats. He further said they must have seen opportunities in diversity when they made the decision. This implies that market trends have a significant influence on diversification.

HACO Industries enjoys a diverse clientele. Its products target all age groups; they are used across all levels of income and by both male and female. HACO Industries market is for household products that are used widely by individuals and institutions. This diverse
clientele encourages HACO Industries to diversify in order to meet their needs and demands.

In addition, the respondent noted that, a number of investors have found Kenya to be a good business hub for the Eastern and Central African market. They therefore see great potential in Kenya and firms already operational in Nairobi. This presented an opportunity when Tiger Brands from South Africa sought a joint venture with HACO Industries.

These findings are in line with Ayal and Zif (1979) who suggested that when the rate of growth of the industry in many markets is high, there are occasional opportunities for diversification. The findings also agree with Piercy (1981) observations that diversification is motivated by rapid growth or declining markets and the desire to add or maintain existing sales volume. HACO Industries was found keen to pursue diversification for its company growth.

4.3.3 Product Factors

HACO Industries deals in general products as opposed to specialized products. This is in line with its goals for reaching out to large markets rather than concentrating on smaller markets. The products are mainly household necessities that make them repeat purchase goods.

There are no major changes required to the finished goods from Tiger Brands and therefore gives HACO Industries ease of control hence have standardized goods as opposed to sophisticated products. This makes HACO Industries to deal with the marketing and distribution of the products. The costs of production for advertisements are
also reduced as this is shared by the joint venture.

The joint venture granted Tiger Brands unrivalled East Africa market access via HACO Industries established distribution chain whilst HACO Industries benefits from Tiger Brands outstanding portfolio of FMCG products. Today HACO Industries offering has expanded to encompass a wide range of premium foods products such as BEACON Confectionery, PURITY Baby Food, TASTIC Rice, ALLGOLD Ketchup, Sauces & Canned Tomatoes, CROSSE & BLACKWELL Mayonnaise, INGRAMS Skin products, JUNGLE Oats and KOO Baked Beans. Table 4.1 displays the various brands under each portfolio:

**Table 4.1: HACO Industries Categories of Products**

<table>
<thead>
<tr>
<th>Bic and Plastics</th>
<th>Hair Care</th>
<th>Skin Care</th>
<th>Home Care</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shavers</td>
<td>Motions</td>
<td>Palmers</td>
<td>Ace Bleach</td>
<td>Purity Baby Foods</td>
</tr>
<tr>
<td>Lighters</td>
<td>Miadi</td>
<td>Ingrams</td>
<td>Bloo</td>
<td>Beacon Confectionary</td>
</tr>
<tr>
<td>HACO Plastics</td>
<td>TCB Naturals</td>
<td>Lemon Lite</td>
<td>SoSoft</td>
<td>All Gold</td>
</tr>
<tr>
<td>Bic Graphics</td>
<td></td>
<td></td>
<td></td>
<td>Tastic Rice</td>
</tr>
<tr>
<td>Stationery</td>
<td></td>
<td></td>
<td></td>
<td>Marcaroni</td>
</tr>
</tbody>
</table>

Source: HACO Tiger Brands Brochure (2012)

These findings are contrary to Piercy (1981) suggestion that non-repeated purchase products are better suited to diversification or market spreading, because they better favor
their profit capacity; while repeated-purchase goods may be associated more with
concentration. HACO Industries has diversified in repeated purchase goods under broad
categories of hair care, skin care, home care, food, stationary and plastics.

4.3.4 Joint Ventures and Partnerships

The respondent said HACO Industries has diversified by embracing the South African
products through a partnership with Tiger brands. He noted that the firm is rebranding to
HACO Tiger Brands. Prior to that joint venture, as the respondent indicated, HACO
Industries had a lease with other brand names oversees to manufacture products under
their name a case example of TCB, which was doing well in the market.

This is also documented in the HACO Industries corporate profile it is stated that:
"Beginning with stationery and shaver products, HACO Industries diversified its
operation into personal and home care products in the mid 1990’s. Principal to this
process was international partners such as Société Bic France, Pro-line International Inc.
USA, Alberto Culver Inc. USA, E.T. Browne Drug Company Inc. USA and Jeyes PLC
UK." Partnerships therefore have enabled HACO Industries to be successful in its
diversification strategy.

These findings confirm Johnson et al. (2005) observations that concentric diversification
occurs through acquiring similar business options which is also termed as related
diversification. This contrasts with unrelated (or conglomerated) diversification, which is
the development of products or services beyond the organizations’ current capabilities.
HACO Industries was found to partner and enter into joint ventures with companies that
manufacturers related products (FMCG).
4.4 Effects of Diversifying as a Strategy

Asked to highlight the effects of diversifying as a strategy, the respondent emphasized the aspect of growth of the company. The company has grown to be one of the leading FMCG manufacturers in East Africa. As stated in its corporate profile: “With the recent Joint Venture partnership with Tiger Brands in 2008, HACO Industries is now one of the leading players in the foods category.”

HACO Industries has been boosted by its partnerships and strategic alliances with manufacturers in other parts of the world. As these manufacturers get foothold in the East African market, HACO Industries expanded and added new brands to its portfolio. With many diverse product lines, the company has recorded growth in sales and has grown positively financially and physically.

The respondent also pointed out that diversification has led to increase in job opportunities through direct employment and indirectly through the distribution outlets. As the company moved to more production, the demand for labor increased.

These findings are in line with observations by Christensen and Montgomery (1981) who pointed out that increasing level of diversification should have a positive influence on performance due to economies of scope and scale, market power effects, risk reduction effects and learning effects. Contrary to Montgomery’s (1985) assertion that highly diversified firms have less market power in their respective markets than more focused firms, diversification have been seen to strengthen HACO Industries and put it in a growth path.
4.5 Challenges Experienced in Implementation of Diversification Strategies

The respondent was asked to outline the challenges experienced in implementation of diversification strategies. He cited financial challenges, as monetary aspect is critical in diversification. He noted that huge capital is involved in production, expansion and growth of the business. This is confirmed by a presentation in 2011 by the HACO Industries Managing Director who stated that the shareholders have invested 400 million to increase production and production efficiencies.

The respondent also indicated that there have been human resource challenges such as employees who have established themselves as distributors hence causing a conflict of interest. The respondent further cited risks associated with emergencies like fire, machine breakdowns and theft.

Most of these challenges are financial and human resources related. The findings are congruent with Kim and Kogut (1996) suggestions that firms have to invest in developing knowledge and related capabilities to enable them undertake processes of expansion and diversification. This should enable these firms to take advantage of the evolution of markets and future opportunities in industries of rapid growth. Equally, Ayal and Zif (1979) recognized the essence of availability of productive, financial and human resources in order for firms to function in new markets.

4.6 Factors to Consider for Firms Seeking Diversification

The researcher asked the respondent to highlight the factors he would recommend for consideration by firms seeking to diversify. The respondent said that research is
important to understand first the market and the need for such a strategy. An understanding of customers' wants and needs is recommended to avoid an investment that would be unresponsive and does not suit customers.

The respondent was asked to state the future prospects of diversification at HACO Industries. The respondent referred to five components of shared values of HACO Tiger Brands that would shape their future. They include; consumers are our business; integrity in everything we do; a passion for excellence; we value and treat people with dignity; and as we continue to reinvest in our society. This implies that diversification as a strategy needs to be in line with a company’s corporate strategy, values and direction.

The findings are similar to those of Murphy and Daley (2000) who found that diversification could be attributed to shifting market trends. These shifting market trends includes globalisation of production, the deregulation and dismantling of institutional obstacles to competition, increased competition between transport modes, and technological change and the outsourcing of the logistics function. Meyer and Utterback (1993) further argued that a company’s diversification strategy may be explained in terms of branching-out from its existing dominant areas of knowledge and key competences and the application of these to the marketing of new and improved products and services.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study, conclusions, and recommendations derived from the study findings. The study sought to investigate the factors influencing diversification strategies at HACO Industries.

5.2 Summary of Findings

Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. This study sought to investigate the factors influencing diversification strategies at HACO Industries. The study used a case study research design to achieve its objective. Since HACO Industries is one of typical examples of an organization that has used diversification strategies, it was used as the case. Primary data was collected through an interview guide. A personal face-to-face interview was conducted with the finance manager at HACO Industries. Secondary data from catalogues and other publications were used. A content analysis method was used to analyze this information.

The study revealed that HACO Industries moved from a single product manufacturer to five expanding products categories namely; Bic and Plastics, skin care, hair care, home care, and food. Market environment prompted HACO Industries to diversify as its
management saw an opportunity in diversification.

The study found that partnerships and strategic alliances have helped HACO Industries and its partners grow and expand in the Eastern Africa market. Its leadership has also played an important role to make diversification strategy a success that has seen business growth. The specific diversification strategies that HACO Industries used include partnerships and strategic alliances with manufacturers from other regions like Tiger Brands from South Africa, Société Bic France, Pro-line International Inc. USA, Alberto Culver Inc. USA, E.T. Browne Drug Company Inc. USA and Jeyes PLC UK. In addition, HACO Industries invested heavily in information systems, sales distribution, marketing, and talent development.

Diversification has made HACO Industries one of the leading FMCG Company in Eastern and Central Africa. This has seen growth and expansion of the company move in an upward trend. Diversification has also increased number of job opportunities in Kenya by hiring more employees to work in the expanding firm.

The diversification has had financial challenges associated with expansion and growth however; the study revealed that the shareholders raised 400 million to invest in production and production efficiencies. Before diversification, it is important that companies conduct research to establish the feasibility of such a strategy. In this, understanding the market and customers needs is critical. The study also revealed that diversification as a strategy has to be anchored on a company’s values and strategic direction.
5.3 Conclusion

Firm factors influenced diversification at HACO Industries. This was because the firm needed to expand into a leading FMCG company in Eastern Africa but could not achieve that given its size and resources constraints. This explains why HACO Industries went ahead to forged partnerships and joint ventures with other manufacturers. These firm factors include size of the firm, improving stability of earnings, increased efficiency, profitability and firm capability.

Product factors have also influenced diversification strategies at HACO Industries. The partnerships, alliances and joint venture were in an effort to establish a ‘holistic products portfolio’ in order to position HACO Industries as a leader in fast moving consumer goods in the East African market. As HACO Industries expands, so is the need to supplying a wide range of products.

Market factors have favored HACO Industries diversification strategies. The drive to expand into new markets has also influenced diversification strategies as the firm sought to serve a vast market coverage including Kenya, Uganda, Tanzania, Ethiopia, Rwanda, Burundi, Djibouti and Eritrea with a population in excess of 180 million people. The market factors include competition, expansion into new markets, and revenue growth.

5.4 Recommendations

This study recommends that HACO Industries should evaluate the factors influencing its diversification strategies based on firm, product and market factors in order to make
informed choices in the future. To maximize on diversification, HACO Industries should identify the level at which it has most opportunities to invest heavily in it. This would ensure a continued competitive advantage and a sustainable growth of the business.

At the firm level, HACO Industries should be able to know how their firm size determines partnerships, alliances and joint ventures with other manufacturers. This would enable the firm to gain rather than loose in such endeavors. A strategic relationship with other players in the market would promote growth of HACO Industries and therefore caution should be taken to find out the advantages and disadvantages of partnerships in good time.

A company with a wide product range ensures that customers get their needs met under one roof and therefore boost the brand value. HACO Industries in its endeavor to increase product range should take caution to find out whether a modification of these products is needed for certain specific markets. The Eastern African market is huge and diverse with contextual differences. It is therefore important to ensure that a firm understands the market as a whole, as well as understanding strategic pockets of the market that would have slightly different products.

5.5 Suggestions for Further Research

Further research should focus on the ranking of important elements of firm factors, product factors and market factors that affect diversification strategies. Future studies should also seek to conduct a study across different sectors on factors influencing
diversification. In addition, further research should differentiate factors affecting diversification strategies for companies with related and unrelated diversification.

5.6 Limitations of the Study

The three manager interviews as targeted were not achieved due to challenges in booking for an interview. However, the human resource was of the opinion that one interview would be enough as the managers would end up providing similar information. Another limitation for this study was methodological in nature. The case study method used for this research makes it limited to HACO Industries thus limiting the study from generalization to represent situation in other firms in Kenya.
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APPENDICES

APPENDIX: INTERVIEW GUIDE

PART A

1. Name of interviewee ..........................................................................................................
2. Position ............................................................................................................................
3. Division/ Department ....................................................................................................

PART B

1. How long have you worked for HACO Industries?
2. Are you involved in strategy formulation at HACO Industries?
3. Have you participated in implementation of diversification strategy in your firm?
4. What prompted diversification decision at HACO Industries?
5. What are the factors that have influenced diversification strategies in your firm?
6. What are some of the specific diversification strategies that HACO Industries has used?
7. What are the effects of diversifying as a strategy?
8. What are the challenges experienced in implementation of diversification strategies?
9. What factors would you recommend for consideration by firms seeking to diversify?
10. What are the future prospects of diversification at HACO Industries?
11. Any other comments on factors influencing diversification strategies.