HOW INNOVATION AFFECTS IMPLEMENTATION OF DIVERSIFICATION STRATEGY IN SOFT DRINKS PROCESSING INDUSTRY IN NAIROBI CITY COUNTY

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DECLARATION

I declare that, this project is my own original work and has not been presented for award of any degree in any university.

Signed……………………………….. Date……………………..

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D61/74675/2014

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

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Special gratitude goes to my family for their unending support throughout the course. You have been a great source of strength and encouragement during this entire course and project. Many thanks and may God bless you all.

DEDICATION

This research project is dedicated to my loving family; my mum Mary Mweru, Wife Veronicah Wanjiku and daughter Nadia Mweru, thank you for always believing in me. I also dedicate it to God.

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ABBREVIATIONS AND ACRONYMS

ATMs	Automated Teller Machines
EABL	East Africa Breweries Limited
KAM	Kenya Association of Manufacturers
KNBS	Kenya National Bureau of Statistics
MBV	Market based view
NCC	Nairobi City County
RBV	Resource based view
SPSS	Statistical Package for Social Scientists

ABSTRACT

Implementation of diversification strategies and innovation are critical for growth and competitiveness of any organization. In the modern days no organizations can be able to successfully be competitive without applying innovation or diversification strategy. Any serious organization that wants to stand out must provide a product that specifically meets the needs of the customer. The customer must also be satisfied that he/she is obtaining value from the supplied product. The soft drink industry in Kenya has seen entry and exit of quite a number of players with some closing down soon after inception. Given the heightened competition in the industry there is need to be innovative and to diversify. The study wanted to assess whether innovation affects implementation of diversification strategy in soft drinks processing industry in Nairobi City County, Kenya. The research was guided by Ansoff's Matrix theory, Resource-based view, Agency theory, and Market Based view. It also reviewed Empirical studies by other scholars on innovation and diversification strategy implementation. The study used a cross sectional survey design. The population of study was the 13 soft drinks processing firms in the industry in Nairobi City County as per KAM 2016. The study purposively selected six of the firms which were used as the unit of analysis. The management staffs of the selected firms were used as the respondents. The study used primary data which was collected by use of self-administered closed questionnaire. Data analysis was done by use of descriptive statistics such as frequencies, percentages, mean scores and standard deviation with the aid of SPSS and presented through tables, charts, graphs, frequencies and percentages. The industry was found to embrace product, process and market innovation practices and also implemented diversification strategy. Coefficient of correlation was 0.861, which shows of strong positive correlation among the variables. Adjusted coefficient of determination was 0.728 which translates 72.8%. The residual was 27.2 which could not be explained by the independent variables. The study concluded that product innovation, process innovation and market innovation had a positive and significant influence on the implementation of the diversification strategy. Process innovation had the greatest influence. It was recommended that the industry should select the right diversification strategy based on their innovation capacity, resources and market dynamics. The study recommends that more studies be done using other designs and also include more firms in the informal side of soft drinks processing industry.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Innovation is an important tool of growth that enables firms to penetrate new markets and gain bigger market share and hence achieving competitive advantage over its competitors. As a tool, innovation is an important ingredient of any business organization due to high competition from both local and global organizations. The three main components of innovation that this study will concentrate on are: product, process and marketing innovation. According to Rubera and Kirca, (2012) diversification strategy aids an organization in entering new markets in which an organization is not currently in. This is important because it ends up creating new products for that new found market.

The theories underpinning the study include Ansoff's Matrix theory, The Resource – Based View (RBV), Agency Theory, and Market view theory. Ansoff's Matrix theory postulates that an organization attempts to grow depend on whether it markets an existing or a new products in an existing or a new markets. The Resource-Based View (RBV), on the other hand holds that firms gain competitiveness by utilizing their unique resources.
Agency theory concern itself with resolving relationship problems that can exist between an agent and a principal due to their un-matching goals or their risk aversion levels. The market-based view (MBV) emphasizes on the importance of market positioning as a strategy for the firm. The study seeks to integrate the theories to indicate the rationale behind innovation and diversification strategies of soft drinks processing firms in Nairobi City County.

A number of studies have been conducted around the area of innovation in different industries in Kenya and around the world. However there has not been a study done on innovation and diversification strategy of the soft drinks processing industry in Nairobi City County.

Nairobi is one of the 47 counties in Kenya, which is bordered by Kiambu County in the Northern and Western side, Kajiado in the southern and Machakos County in the Eastern side. The fierce competition has forced the firms within the soft drink industry in Kenya to try and diversify their product range in an effort to better satisfy their customer. The main players in the Kenyan market include: Coca-Cola, Delmonte, Brava Food Industries Limited, Kevian foods and Picanna juices (Giathi, 2003). A big percentage of these companies both formal and informal are concentrated in Nairobi City County, the capital city of Kenya.

1.1.1 Concept of Innovation

According to Schumpeter, innovation refers to the changes in the product, process, and organization that are not necessarily from new discoveries in sciences. Innovation is achieved by combining already existing technologies and applying them in a new context (Zizlavsky, 2016). Therefore, in order to stay ahead of the competition, companies must innovate (Grant, 2005).

The innovation may involve the development of new products or services, developing improved processes that reduce the production cost or coming up with new models, methods, and concepts of doing business among others (Grant, 2005). This, therefore, implies that there are numerous types of innovation that range from product, process, marketing, organization to paradigm innovation just to mention a few (Reguia, 2014). However, the focus of this study will be on product, process and marketing innovation.

The reasoning behind this is that these forms of innovation form the basis of the establishment of any company and provides a direct link to the customers who in business, are considered to be the most vital objective for any company (Reguia, 2014). In Nairobi County, there are so many players in the soft drink industry which calls for innovative strategies that can enable firms stay aloft in the ever competitive market.

1.1.2 Implementation of Diversification Strategy

Implementation of diversification strategy involves the increase of a firm's activities and going into new business activities for purposes of disseminating rank area that they can invest in successfully. Diversification is also important as it seeks to increase the profit margins, promote growth, and gain advantage from the potential of the increased activities with reduced risk (Chirani & Effatdoost, 2013).

This implementation includes development of new products or markets, backward or forward acquisition of firms, which may either be related or un-related diversification. The indicated mixture is influenced by the function of availability of resources of the company. Organizations depend on diversification strategy to accelerate revenues from new markets and new products.

According to Ansoff (1999), diversification strategy is different from the other growth strategies. While the other business strategies for growth may be pursued with same financial, technological, and marketing resources used for the original service or product, diversification requires acquisition of new facilities, knowledge and techniques. Diversification concept relies on the judgment of new market or new product which should show the opinions of the consumer instead of the managers. Products and services tend to develop and spark markets which are new and in return encourage promote product innovation.

1.1.3 Soft Drinks Processing Industry in Kenya

The term soft drink applies to both carbonate and non-carbonated drinks that are made from concentrates. This industry in Kenya is among the sectors that have witnessed significant proliferation of brands and products. The fierce competition within the industry has forced the industry players to innovate new products and marketing methods so as to better satisfy the consumers (Mutunga, Minja, & Gachanja, 2014).

The beverages industry in Kenya comprises of a significant percentage of the manufacturing sector in the country. Therefore, it is a significant contributor to the country’s employment, income generation by the government, and earning the foreign exchange (Owino, 2002). It also an industry that is linked to the other economic sectors in the country, for instance, the transport, glass making, and advertising industries. Of interest in this study is the soft drinks industry in the country.

In this industry competition is significantly growing and this is contributed to by the following factors; a demand for niche products tied to consumer preferences for healthier and diversified products; consolidation of the industry that has raised the standard of the scale required to compete with the growth of private products; consolidation and rationalization to cost save through the improvement of operations and eliminating redundancy; and a reduction of software prices (Mutunga, Minja, & Gachanja, 2014).

1.1.4 Soft Drinks Processing Industry in Nairobi City County

The City County of Nairobi is one of the 47 devolved units created by the Kenyan Constitution 2010. The county also happens to be the capital and a major business hub in the country and the region. Most of the formal processing firms are located in Ruaraka sub-county. The county hosts a number of soft drink processing companies which are both local and foreign.

The study sought to focus on those in the formal setting and purposive chose six of the leading firms. Due to these competitive factors, the implication is that companies that have survived in this industry have placed significant measures related to innovation and diversification to attain competitive advantage and survive (Mutunga, Minja, & Gachanja, 2014).

Therefore, the general hypothesis for this study was that the soft drink processing industry in Nairobi County has employed innovation that has promoted implementation of diversification strategy. This diversification has allowed the companies to survive in the industry.

1.2 Research Problem

Implementation of diversification strategies and innovation are critical for growth and competitiveness of any industry. In the modern days no industry can be able to successfully be competitive without applying innovation or diversification strategy. Any serious organization that wants to stand out must provide a product that specifically meets the needs of the customer. The customer must also be satisfied that he/she is obtaining value from the supplied product (Dodge, 2003).

Among the 47 counties in Kenya, Nairobi County has among the highest concentration of firms in the soft drinks processing industry. The industry consists of firms that are both local and global organization which compete for both the local and export markets. The global organizations include; Nairobi bottlers limited which produce the famous coca cola drink, seven up bottling company which supply the club soda and Pepsi drinks. The local companies include Kevian Kenya limited which provide the Afia, juices, and Tropical brands limited are another major player in the soft drinks industry.

Rong and Xiao (2014) did a study on the impact of diversification on firm output among manufacturing firms in China. 124 manufacturing firms in the outskirts of Beijing were included in the study. A descriptive research design was employed. The study findings revealed that a firm was highly likely to make diversifications in industries that have innovations that are more applicable and that diversification that was related to innovation lead to a significantly greater value of the firm. Their results were robust for different measures of innovation. The study however did not touch on competitive advantage and also was not done on soft drinks processing industry.

Jung (2013) conducted a study on the drivers of diversification strategies among soft drink processing firms in Bangladesh. The study focused on the firms within the country capital. The study established that synergistic and financial drivers are the main motivators of diversification. The study however did not point out the role of innovation in realizing the diversification strategies of the soft drinks processing industry in Nairobi Kenya.

Harmel (2000) did a study on the influence of innovation on competitiveness of the alcohol manufacturing firms in Egypt. 5 manufacturing firms were randomly selected within Cairo. A descriptive research design was used and data descriptively analyzed. The study indicated that the alcohol manufacturing firms were facing an increasing level of competitiveness. The companies have undertaken efforts tied to innovation and promoted innovation-related diversification to gain a competitive advantage. The study however did not touch soft drinks processing industry which provide a gap for study.

Another study by Kohl and Rudolph (2011) that evaluated the effects on performance of the world leading retailers assortment diversification strategies over a 12 year period (1997-2009). The results pointed that diversification only increased the overall costs of the company but did not increase the sales. The study established that over the study period, the profits went down. The study used a longitudinal research design however this study will use a cross-sectional design.

Mutunga et al, (2014) on the other study conducted a study on the impact of innovation in promoting diversification strategies in the beverage sector in Kenya. The study focused on Coca Cola and Del Monte. The study realized that the soft drinks are slowly and progressively taking over the industry and especially the hot drinks as the largest beverage sector globally. The study however did not have competitive advantage as its concept there for a major gap for the study.

Waweru (2003) did a study on the influence of innovation on competitiveness of the Kenyan Manufacturing sector. 51 manufacturing firms were randomly selected within Nairobi City. A descriptive research design was used and data descriptively analyzed. The study indicated that the Kenyan manufacturing sector has over the years displayed an increasing level of competitiveness. The companies in these sectors have undertaken efforts tied to innovation and promoted innovation-related diversification to gain a competitive advantage.

Gitonga (2003) conducted a research on innovation and the role of the CEO in the banking sector in Kenya. He considered all the 42 commercial banks in Kenya and a correlational design was employed. The study established the banks have employed agency banking, internet, mobile and use of cards and ATMs to gain an edge in the ever competitive financial sector. The study recommended that the banks however need to engage diversification to remain competitive. The main gaps are that the research was conducted in the banking sector.

Mwindi (2003) did an evaluation on the implication of un-related diversification strategy by the big oil companies in Kenya. This study did not use innovation as a concept therefore creating a gap. There are numerous researches on innovation and diversification in different areas and localities. However, minimal research has been conducted in the soft drinks processing industry in Nairobi City County. Moreover, there is no research that has highlighted the impact of innovation on diversification strategies and competitive advantage. Therefore, this study aimed at conducting an evaluation of how innovation affects implementation of diversification strategy in soft drink processing industry in Nairobi County?

1.3 Research Objectives

The main aim of this study was to assess whether innovation affects implementation of diversification strategy in soft drinks processing industry in Nairobi City County.

1.4 Value of the Study

As highlighted above, there has been minimal research in the country conducted that discusses issues related to innovation, and implementation of diversification strategies. Therefore, this study provided insight on how these factors impact lead to the success in the soft drinks processing industry. It hence add knowledge to the field of business and research and provide insight from a domestic point of view.

Academically it is also of importance since the findings of the study are useful for enhancing the understanding on the subject of the study and open up new areas for further academic research to the academic fraternity. The study adds more knowledge to the Ansoff's Matrix on how to implement a diversification strategy. The study indicate the significance of product, process and market innovation and how to enhancing implementation of diversification strategy and therefore enhance performance in the soft drink processing industry in Kenya.

The policy makers obtained knowledge on implementation of diversification strategy effect on growth and therefore obtained guidance from this study in designing guidelines to the firms, which are planning for successful diversification or are already in the process.

This chapter has discussed the conceptual, theoretical and contextual background of the study to shed light on the study foundation. The statement of the problem has been highlighted with objectives and value of the study to policy, theory and practice. Chapter two documents the theoretical and empirical literature review of the study, research gaps and the conceptual framework to illustrate the association among variables together with their indicators.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two presents the reviewed literature on innovation and how it affects diversification strategies that enable achieve competitive advantage in the industry. In addition, it assesses existing literature from other researchers who have conducted research in the same field of study.

The chapter also looked at the theories advanced by different scholars that were used as the foundation of the study. The study also reviewed the work of other scholars to try to bring out the gaps that this study would fill.

The following are the different sections in this chapter: the theoretical foundation, innovation and diversification strategies adopted by organizations, theoretical and empirical studies and finally the knowledge gaps.

2.2 Theoretical Foundation

Kothari (2003) defines a theory as a set of interrelated concepts and propositions that specify relations among variables used to predict phenomena. The research was guided by Ansoff's Matrix theory, Resource-based view, Agency theory, and Market-Based View theory.

2.2.1 Ansoff's Matrix Theory

Igor Ansoff developed this theory in 1965. His approach combines four components namely product, market, existent and new. The market penetration strategy purposes to grow the sales of a product that is in the market already. The main aim of this approach are getting a significant market share or becoming a market leader (Ansoff, 1965). The matrix proposed four renowned strategies that include penetrating the market, product development and diversifying.

A decade and a half later, Michael Porter introduced the most famous generic strategies for gaining competitive advantage based on cost, differentiation, and focus. Both Ansoff's and Porter's approaches are flawed and incomplete. While Ansoff stress on the extension of the strategy, Porter's approach emphasizes on finding the strategy and applying it (Hill, 1985).

The product development strategy aims to increase sales by either improving an existing product or developing a new product that meets the market demands. In this strategy, an organization seeks to identify and exploit the opportunities that a competitive environment provides (Jones, 2001). The market development strategy boosts the sales volume for an existing product by venturing into new markets. By using this strategy, a firm gains advantage using emergent competencies (Bravian, 1995).

2.2.2 Resource-Based View Theory

Wernerfelt postulated this theory in 1984. This theory proposes that an organization should use internal resources to boost its performance and hence gain competitive advantage. To achieve sustainable competitive edge over its rivals a firm should consider its internal capacities and capabilities. It affirms that an organization can operate better than its competitors by manipulating physical and human resources over certain duration (Wernerfelt, 1984).

A firm can utilize its resources and competencies to achieve above-standard outcomes and endure for a long time. In the same vein it is important to note that not all internal resources are strategic in nature. However when an organization uses a RBV strategy, and optimize its key resources it attains a competitive edge that includes a good reputation, good relationships with stakeholders, and a concrete corporate tradition (Ayuso et al., 2011).

According to Mahoney and Pandian (1992) a firm has the capacity to achieve a competitive barrier when capital is properly administered to an extent that its rivals cannot emulate it. Therefore resources have a higher role in the achievement of the firm’s objectives and can be categorized as either tangible or intangible

2.2.3 Agency Theory

This theory is also called the principal-agent model. It elucidates the behaviors of principals and agents and assumes that a goal conflict exists between the two parties (Puyvelde et al., 2012). The agency theory stresses on accountability and aims to correct the opportunistic behavior of principles and agents- maximizing their utility (Slyke, 2006).

While the proponents of this theory postulate that this model is specific to the issues of owners and managers of corporations (Hough and Ryan, 2005), the opponents of this theory contend that the model is one-sided because it characterizes an individual agent adversely (Slyke, 2006). Hough and Ryan (2005) urge scholars of nonprofit governance not to replicate the same obsession with agency theory same to scholars of for-profit governance.

As indicated in the Agency theory, diversification decreases the organizational risk of investment hence motivating a decision of taking more risk to encourage innovativeness (Garcia- Vega, 2006). Additionally, diversification can be a red flag of an agency problem, where management passes up individual risk by diversifying the organizational activities. Hence, diversified organizations might be not willing to absorb innovation risk (Holthausen, 1995).

2.2.4 Market-based View

The Market-based view (MBV) is also referred to as the Market Positioning View. According to Porter (1985), MBV stresses the importance of market conditions when establishing a strategy for an organization. Competitive strategy focuses on establishing and defending a strategic position in the market.

Product differentiation purposes to offer superior value to customers while at the same time giving organizations economic value. Diversification strategy deals with positioning an organization in the market and thus is often referred to as a market positioning or market-based view. This is in contrary to the resource-based view that emphasizes the distinctive nature of resources and capabilities necessary to attain competitive advantage (Canals 1993).

According to Makhija (2003), some empirical evidence suggests that when market conditions are unstable, an organization's resources become the major determinants of an organization's value. An alternative perspective is that when market fluctuation is high, it is essential to have a coherent and prioritized vision of change using the primary drivers of demand and supply (Drouin et al., 2008).

2.3 Innovation and Implementation of Diversification Strategy

The three main types of innovation strategies are; product, process and marketing innovation which vary from incremental to basic and from preserving to discontinuous. Incremental strategy of innovation is geared towards improving the features and performance of existing products and services. Product life cycles, for instance, have shortened causing business survival to depend on new product development. (Jonash & Sommerlatte,1999).

There are several drivers behind implementation of diversification strategies (Jong, Bruins, Dolfsma, & Meijaard, 2003). Synergistic Driver the first driver is presented in situation where synergy exists when particular elements are arranged as a single firm. Synergy exists when the sub total of all business units sum up to more than the total separately (Hitt.et al., 2001).

Financial Driver is derived from the basic premise of portfolio theory which postulates that one should not put all resources and efforts in a single basket. In addition it can be stated that an organization should diversify and not depend on a single operation. Market Power Driver demonstrates how Diversified organizations have consolidated power that makes them prosper on their diversity (Hill, 1985).

2.4 Empirical Studies and Knowledge Gaps

Commer (2013) sought to find out the effects of innovation type's and that included marketing, product, process and organizational innovation on different aspects of firm performance in Pakistani manufacturing companies. The study used a cross-sectional research design. Primary data from the firms was collected and later analyzed. The results showed favorable results of innovation types on organization performance.

Lole (2009) conducted a study and sought to find out types of diversification strategy used among the commercial banks in Kenya. The design of the study was a cross-sectional survey of all the commercial banks. The study found out that several diversification strategies were employed however: horizontal, vertical, and geographical diversification strategy were the most common within the sector. The conclusion of the study was that banks are using diversification strategy.

Musila (2009) conducted a study on the application of diversification strategy at the Anglican church of Kenya. A case study was used as the methodology and both primary and secondary data was collected for the study. The study found out that the diversification strategy at the Anglican Church of Kenya started at inception because it has invested in many sectors with a view of addressing the societal needs in a holistic way.

The study established that the church has invested in churches, schools, hospitals and hotels. The study also established that the church has Commissioners for the country whose main role is to undertake investment for the church and therefore it is able to sustain its core activity.

This chapter has analyzed theories that support the study, empirical studies by other researchers and authors to establish the study gap. It indicates the methodology used in execute the study which enlists the research design, population, sample, data sources, data collection, analysis and subsequent presentation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter entails the approaches used to conduct the study. It consisted of the research design, population of the study, data collection and data analysis and presentation. This is a very important chapter because it guided the whole study. It guided the researcher on how to execute the study.

Research methodology according to Kothari (2004) refers to the criteria used to make a study successful. It entails the ways the researcher intends to collect, analyze, present and interpret data. In this study cross sectional survey was used and structured self-administering questionnaires were used as tools of data collection. The study used primary data.

This section enumerates the unit of analysis; it also defines the population, and the research instruments used for subsequent data analysis and presentation. In the data analysis section, a regression analysis equation was used to establish the correlation between the dependent variables and the independent variable.

3.2 Research Design

A research design constituted a map that guided all the activities necessary to conduct the study. The research was executed using a cross sectional survey research design. The choice of this design was because the study sought to investigate phenomena.

Cooper & Schindler (2006), argue that cross sectional studies are carried out at a particular point in time. The research design enables the researcher to assess the context of the study based on the set parameters. It also enabled the researcher to assess the situation as it was, it is and how it will be after the indicated parameters have been put in place.

The study employed a survey and the unit of analysis was purposively selected among the soft drinks processing firms in Nairobi City County. The research project focused on the effect of innovation practices on implementation of diversification strategy developed by soft drinks processing industry in Nairobi County.

3.3 Population of the Study

Ngechu (2004) postulate a population as a precise group of households, services, people, events, things or group of elements that are being investigated. It entails all the members concerned with the study.

The population was the 13 soft drink processing firms in Nairobi County as per the Kenya association of manufacturers 2016. The unit of analysis was these soft drinks processing firms in Nairobi County. The researcher purposively selected to study 6 firms among the 13 players in the industry. This was so because the study wanted to target certain players in the industry that the researcher believed gave a better representation of the industry than randomly selecting the firms or even studying the population.

The 6 firms selected to represent the industry control a big market share of over 50% in the county and therefore the researcher believed they sufficiently represented the industry, (KNBS .,2016). The selected firms that participated in the study were: Premier foods industry limited, Nairobi bottlers limited, Tropical brands Africa limited, Kevian Kenya limited, Seven up bottling company limited and East Africa Breweries Limited (EABL).

3.4 Data Collection

With regard to the effects of innovation on implementation of diversification strategies in Soft drinks processing industry in Nairobi City County, the research employed self-administering structured questionnaires to collect primary data from the respondents.

The questionnaires were dropped at these firms and then picked later after being completed. The questionnaires were then checked for completeness before they were analyzed.

The management staffs of the purposively selected 6 soft drinks processing firms in Nairobi City County were the respondents in the study. Questionnaires were dropped at their firms and after filling they were picked later.

3.5 Data Analysis

The primary data was analyzed with the aid of statistical package for social sciences (SPSS). It was descriptively analyzed through; mean scores, frequencies, standard deviation and percentages. Information was presented in prose-form using pie charts, tables and bar charts.

A multiple regression model was used to establish the effect of innovation on implementation of diversification strategy in the soft drink processing industry in Nairobi City County.

The regression equation below was employed; **($Y = \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$)**:

Whereby Y = Diversification strategy,

X_1 = Process Innovation,

X_2 = Product Innovation,

X_3 = Marketing innovation,

β_1, β_2, β_3 = Regression Coefficients

ε = Error term

CHAPTER FOUR: DATA ANAYLYSIS RESULTS AND DISCUSSION

4.1 Introduction

Chapter four presents the analysis, interpretation and presentation of the findings and discussions obtained from the field on the study of innovation and its effects on implementation of diversification strategy of soft drinks processing industry in Nairobi City County.

The following are the main areas in this chapter; introduction which includes the response rate and reliability analysis, background of the information which includes distribution of the respondents by gender, and by age ,level of education of the respondent, period worked at the firm, period of operation of the firm and analysis of number of employees among the firms.

The analyzed data from the various aspects that was determined on innovation and diversification strategies among the Soft drink industry players in Nairobi City County. The final results have being presented in terms of tables, charts, graphs, frequencies and percentages.

4.2 Response Rate

The study directed at collecting primary data from the respondents. To attain this, questionnaires were issued to the 6 participating firms whereby only 5 firms responded. This characterizes a comeback rate of 83.3% which point toward the response rate attained as good in addition to allowed broad view of the findings as it is in line with Sproul (2011) who holds that a response rate above 50% is good.

Table 4.1: Response Rate Analysis

		Response Rate
Response	5	83.3
Non-Response	1	16.7
Total	6	100

Source Researcher (2018)

4.3 Reliability Analysis

The construct reliability was determined using Cronbach Alpha Coefficient that test internal consistency of items on a scale. The findings of the reliability analysis are shown in table 4.2 below;

Table 4.2: Reliability of Measurement Scales

Variable	**Cronbach's Alpha**	**Decision**
Product Innovation	0.761	Reliable
Process Innovation	0.842	Reliable
Market Innovation	0.844	Reliable

Source Researcher (2018)

From the findings, market innovation was more reliable with a coefficient of 0.844 followed by process innovation with a coefficient of 0.842 while product innovation being the least with a coefficient of 0.761. All the variables were considered reliable since the results showed that their Cronbach Alpha associated were above the recommended 0.700. This is in agreement with George and Mallery (2013) who stated that an Alpha above the value of 0.7 acceptable.

4.4 Background Information

In this study, data was collected from five of the six purposively selected soft drinks processing companies in the industry in Nairobi City County and the respondents were evenly spread across the enterprises.

The respondent demographics were assessed to establish their gender affiliation, level of education, period they had worked with the firms, period the firm had been in operation and the number of employees the firms had. This was meant to shed more light on understanding the firms based on their scale, capacity and experience in the industry.

4.4.1 Distribution of Respondents by Gender

The study wanted to find out the distribution of the employees among the 5 soft drinks manufacturing firms in Nairobi City County in terms of gender. This was meant to ascertain the representation of either gender in the study. The findings were as illustrated in Figure 4.1 below;

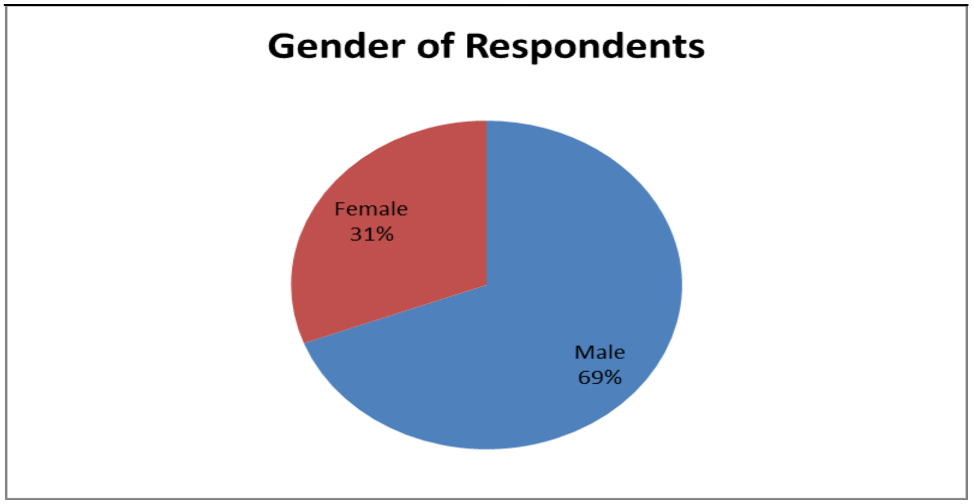

Figure 4.1: Distribution of Respondents by Gender

Source Researcher (2018)

From figure 4.1, 31% of the employees among the soft drink manufacturing firms in Nairobi County are of feminine gender while 69% who are the majority are male. This indicates that the industry's management is mainly dominated by the male gender due to their preference based on the ability to performance in a manufacturing setting that is labour intesive. However, either gender was therefore represented in the study.

4.4.2 Distribution of Respondents by Age

Also the study wanted to assess the age distribution of the management employees in the soft drink processing industry in Nairobi County. The table below illustrates the outcome.

Table 4.3: Age of Respondents

Age bracket	Frequency	Percentage
21-30	1.38	27.60
31-40	1.62	32.4
41-50	0.92	18.40
51-60	0.69	13.80
61 and above	0.38	07.60
Total	**5**	**100**

Source Researcher (2018)

Table 4.3 shows that majority of the respondents, 32.4% were aged between 31 and 40 years while the least, 7.60%, were aged 61 and above. This indicates that most of the industry's staff was young, energetic and innovative aged less than 40 years which comprised of 60% of the entire workforce.

4.4.3 Level of Education of the Respondents in the Industry

The study sought to establish the distribution of the respondents based on their level of education. Education is mainly associated with the knowledge and skill capacity of a work force. The findings were as presented in the figure below;

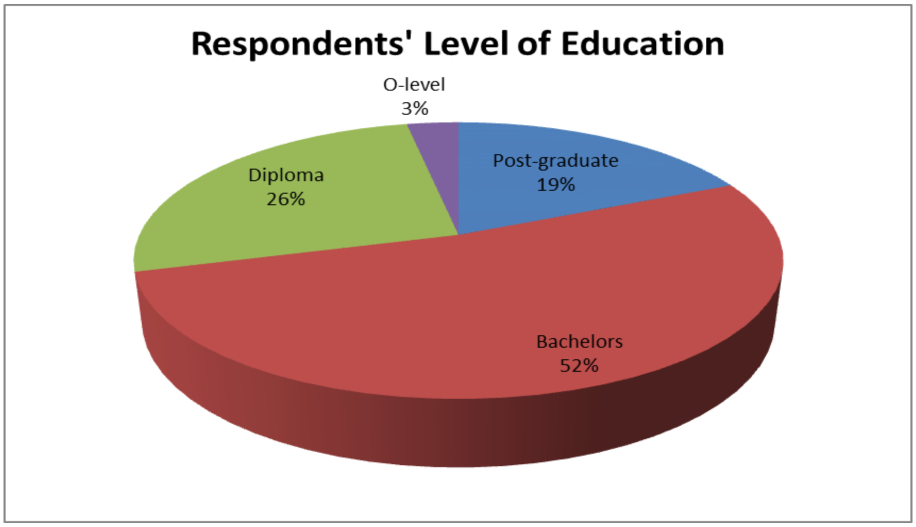

Figure 4.2: Level of Education of Respondents

Source Researcher (2018)

As shown in figure 4.2, a majority of, 52%, of the participants had a bachelor's degree, 19% were post-graduate qualifiers, 3% had o-level qualification as their highest while 26% were diploma holders. This generally indicates that the management staffs in the soft drink processing industry in Nairobi County have the prerequisite education, knowledge and skills to perform their duties. This is also an asset to innovation and implementation of strategy.

4.4.4 Period worked In The Industry.

The respondents were requested to indicate the years they had worked for their respective companies in terms of years. The findings were as presented below;

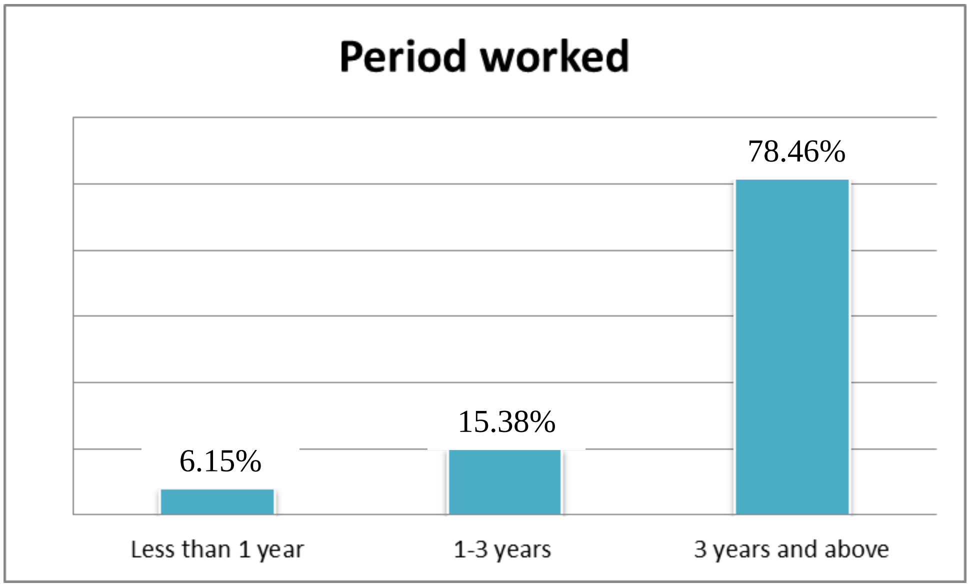

Figure 4.3: Period worked in the industry

Source Researcher (2018)

As indicated in figure 4.3 78.46% of the respondents had worked for a period of over 3 years with their respective firms while only 6.15% had worked for less than a year. This indicates that the industry's employees had worked for a longer period hence had vast knowledge and experience in the operations, strategies and challenges facing the industry.

4.4.5 Period of Operation In The Industry

The respondents were requested to indicate the number of years their firms had been in operation in the soft drink processing industry. The findings were as tabulated below;

Table 4.4: Period of Operation

Period	Frequency	Percentage
0-4 years	0	0
5-10 years	0.23	4.62
10-15 years	0.38	7.69
15-20 years	0.76	15.38
Over 20 years	3.61	72.31
Total	5	100

Source Researcher (2018)

The study established that none of the firms were less than 4 years in the industry with a majority of them being over 20 years in the industry at 72.31%. This indicates that most of the soft drink processing firms had been long in the industry and understood the necessary strategies to develop to enable them compete. This indicates sufficient experience and knowledge of the industry.

4.4.6 Number of Employees among the Firms In the Industry

The researcher sought to find out the number of employees the firms in the industry had which also indicated their scale. The findings were as presented in the chart below;

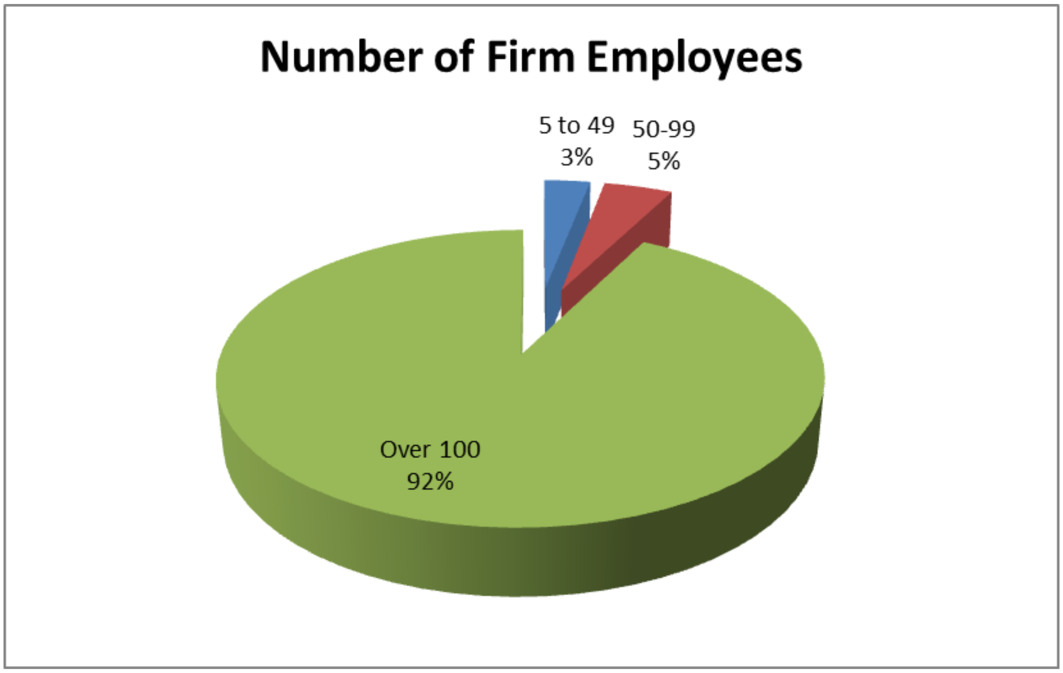

Figure 4.4: Number of Employees

Source Researcher (2018)

As shown in figure 4.4 above, 3% of the firms had between 5 and 49 employees, 5% had between 50 and 99 members of staff while 92% of the firms had over 100 employees. This indicates that most of the industry had a large pool of employees and therefore large in scale and human resource. This also shows that the industry had sufficient labour force to create, plan, implement and evaluate strategies.

4.5 Innovations Employed by the Players in the Industry

The respondents were required to identify the extent to which innovation has been employed in their firms. The findings are indicated in the Table 4.5.

Table 4.5: Extent to which innovation has been employed

Extent	Frequency	Percentage
No extent	0.154	3.08
Little Extent	0.231	4.62
Moderate Extent	0.615	12.31
Great Extent	1.46	29.23
Very great extent	2.54	50.77
Total	5	100

Source Researcher (2018)

Majority of the participants indicated that the industry to a very great extent had employed innovation as shown by 50.77%. 29.33% had employed innovation to a great extent, 12.31% to a moderate extent, 4.62% to a little extent and 3.08% of the firms had not employed any form of innovation. This reveals that the firms in the soft drink industry had employed innovation to a significant extent.

The respondents were asked to rate the extent to which innovation affected performance of the industry. The findings were as tabulated below;

Table 4.6: Effect of Innovation on Performance

Extent	Frequency	Percentage
No extent	0.231	4.62
Little Extent	0.384	7.69
Moderate Extent	0.77	15.38
Great Extent	1.384	27.69
Very great extent	2.231	44.62
Total	5	100

Source Researcher (2018)

As shown in Table 4.6 above, majority of the respondents indicated that innovation affected the performance of the industry as indicated by 44.62% while a few players especially those that never applied innovation indicated that it had no effect on their performance as shown by 4.62%. This reveals that innovation significantly affected the performance of the soft drink processing industry.

The study further sought to establish the innovation strategies employed by the soft drink processing industry players in Nairobi County. The table below indicates the findings;

Table 4.7: Innovation Strategies Employed in the Industry

Innovation Strategies	Yes (%)	No (%)
Product Innovation	71.28	28.72
Market Innovation	68.21	31.79
Process Innovation	75.61	24.39

Source Researcher (2018)

The respondents indicated that the innovation strategies used in industry were product innovation (71.28%), market innovation (68.21%) and process innovation (75.61%). This implies that the three main innovation strategies were significantly employed by the firm in their operations.

The respondents were further asked to specify the extent to which each of the various aspects in the industry had increased since they started innovation. Their feedback was as shown in the table below;

Table 4.8: Extent of Increase in Various Aspects

	Mean	**Std. Dev.**
New Product Development	2.3168	0.7984
Product quality	4.1271	0.5664
Production process effectiveness	3.9473	0.6017
Lean production	2.1871	0.8615
Market demand	2.5644	0.4855
Brand visibility	4.5424	0.6794

Source Researcher (2018)

From the results the respondents showed that product quality as indicated by a mean of 4.1271, production process effectiveness as illustrated by a mean of 3.9473 and brand visibility as indicated by a mean of 4.5424 have increased greatly since the industry started embracing innovation.

The respondents further indicated that market demand with a mean score of 2.5644 had moderately increased, lean production and new product development at a mean of 2.1871 had 2.3168 increased to a little extent since the inception of innovation among the firms. This indicates that despite the adoption of innovation the industry was not doing well.

4.6 Implementation of Diversification Strategy

The study sought to establish the extent to which diversification strategy was being implemented among the firms. The findings were as tabulated below;

Table 4.9: Extent of Implementation of Diversification Strategy

Extent	Frequency	Percentage
No extent	0.153	3.08
Little Extent	0.231	4.62
Moderate Extent	0.92	18.46
Great Extent	1.31	26.15
Very great extent	2.385	47.69
Total	5	100

Source Researcher (2018)

From table 4.9, it is evident that to a very great extent 47.69% of the players in the industry implemented diversification strategy, 26.15% to a great extent, and 18.46% to a moderate extent while only 3.08% never implemented it. This indicates that most of the players sufficiently implemented diversification strategy.

The study respondents were also to indicate the main drivers of diversification that was applicable in the industry. The findings were as presented in the figure below;

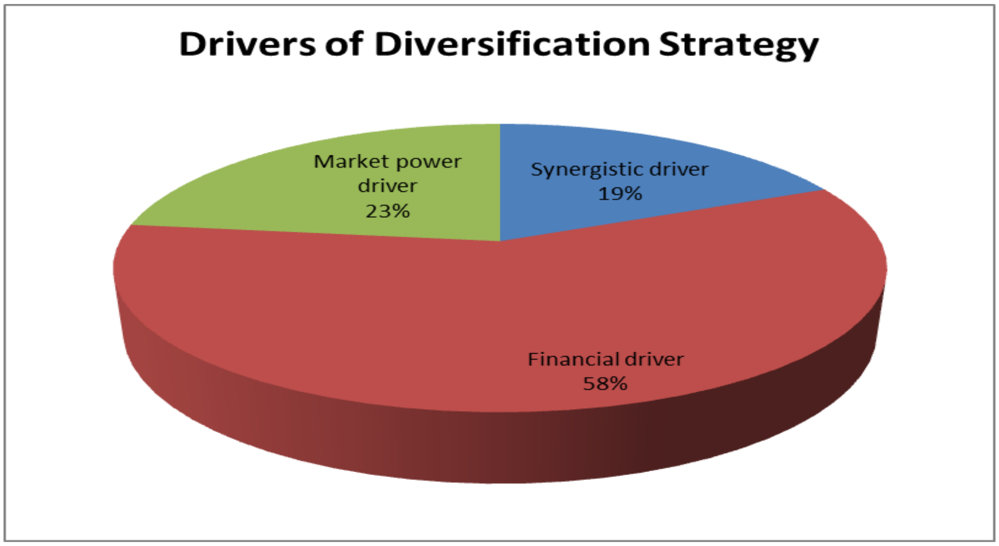

Figure 4.5: Drivers of diversification strategy

Source Researcher (2018)

As indicated in the figure above, the major driver or rationale for diversification strategy in the soft drink processing industry was found to be financial drivers at 58%, 23% market power driver while 19% was synergistic driver. This indicates that the players embraced diversification to increase their financial returns and hence profitability.

The paticipants were also requested to grade the extent to which the diversificaiton strategies given below have beeen implemented in the industry on a Likert scale of 1-5 where 1 (very low extent), 2 (low extent), 3 (moderate extent), 4 (high extent) and 5 (very high extent). The results were as shown below;

Table 4.10: Extent of Implementation of Diversification Strategies

Diversification Strategies	**Mean**	**Std. Dev.**
Development of new products	3.1261	0.43738
Production process diversification	4.0217	0.68278
Market distribution, logistics and channel diversification	3.3913	1.02151
Product range	3.7174	0.68831
Mergers or acquisition of other firms	1.2844	0.52354
Technological diversification	4.1158	0.71294

Source Researcher (2018)

As indicated in Table 4.10, most of the industry players have to high extent employed technological diversification (4.1158), production process diversification (4.0217), improved their product range (3.7174). The industry have on the other to a moderate extent developed new products (3.1261) and enhanced market distribution, logistics and channel diversification as indicated by a mean of 3.3913.

However the firms have to a low extent engaged in mergers or acquisition of other firms either backward or forward to diversify as indicated by a low mean of 1.2844. This generally indicates that the firms have implemented vertical diversification to a low extent.

Lastly the researcher wanted to show the effect of innovation on implementation of the diversification strategy in the soft drink processing industry in Nairobi City County. The respondents were therefore asked to grade the following statements on a scale of 1-5 where 5 stand for strongly agreed and 1 is for strongly disagreed. The findings were as tabulated below;

Table 4.11: Effect of innovation on implementation of diversification strategy

Statement	**Mean**	**Std. Dev.**
Use of technological innovation at all levels has improved product range	3.4130	0.80488
Product innovation has improved market penetration	2.3043	0.72632
Process innovation has enhanced production efficiency of the firm	2.6722	0.67441
Market innovation has led to efficient distribution of products	3.8478	0.36316
Development of a wide range of products has led to improved customer satisfaction	3.4421	0.69921

Source Researcher (2018)

From the study findings, the respondents agreed that the use of technological innovation at all levels in the industry has improved product range as shown by a mean of 3.4130 and standard deviation of 0.80488, market innovation has led to efficient distribution of products as indicated by a mean of 3.84478 and also developed of a wide range of products has led to improved customer need satisfaction as indicated by a mean of 3.4421.

The respondents further indicated that to a moderate extent had process innovation enhanced production efficiency in the industry as indicated by a mean of 2.6722. However it was indicated that to a low extent had product innovation improved market penetration of the players' products as illustrated by a mean of 2.3043. This indicates that innovation had a positive and significant effect on implementation of diversification strategy in the industry.

4.7 Regression Analysis

Regression analysis was employed to find out the effect of innovation on implementation of diversification strategy in soft drink processing industry in Nairobi City County.

The researcher identified the coefficient of determination and correlation. The findings are shown in the Figure 4.6.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.0.861[a]	.741	0.728	1.22867

a. Predictors: (Constant), Product Innovation, Process Innovation, Market Innovation

Source Researcher (2018)

The study found that independent variables selected for the study (product innovation, process innovation and market innovation) accounted for 72.8% of the variations in the implementation of the industry's diversification strategy. According to the model, 27.2% of the variation in implementation of the diversification strategy could not be explained by the model. The analysis of variance results for the relationship between the three variables and implementation of the diversification strategy is as show below;

Table 4.13: Summary of One-Way ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	794.550	6	264.850	53.322	.000[b]
Residual	278.150	59	4.967		
Total	**1072.70**	**65**			

a. Dependent Variable: Implementation of Diversification Strategy

b. Predictors: (Constant), Product Innovation, Process Innovation, Market Innovation

Source Researcher (2018)

The probability value of 0.000 indicated that the regression association was significant in determining the effects of production innovation, process innovation and market innovation on implementation of diversification strategy

The regression coefficient for the relationship between the three variables and implementation of the diversification strategy are shown in the table below;

Table 4.14: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.679	0.5461		5.941	.000
Product Innovation	.179	.047	.207	3.835	.000
Process Innovation	1.132	1.130	.149	3.655	.005
Market Innovation	.262	.122	.324	2.155	.036

a. Dependent Variable: Implementation of Diversification Strategy

Source Researcher (2018)

The resultant equation becomes;

$$\mathbf{Y = 1.679 + 0.179X_1 + 1.132X_2 + 0.262X_3}$$

Where; Y= Implementation of Diversification Strategy, X_1 = Product innovation, X_2=Process Innovation and X_3=Market Innovation

The above multiple regression equation has shown that taking all variables into account (product innovation, process innovation and market innovation) at zero, implementation of diversification strategy will be 1.679. The conclusions offered similarly display that taking all other independent variables at zero, a unit increase in the product innovation would lead to a 0.179 increase in the implementation of the diversification strategy

A unit increase in the scores of process innovation led to a 1.132 increased in the scores of implementation of diversification strategy. Further the findings showed that a unit increase in the scores of market innovation would lead to a 0.262 increase in the implementation of diversification strategy. Overall, process innovation had the greater effect on the implementation of diversification strategy in the soft drink processing industry in Nairobi County. All the variables were significant (p-values <0.05).

4.8 Discussion of the Findings

The following will be discussed under this section; innovation practices employed, implementation of diversification strategy by Soft drink processing firms and the effects of Innovation on Implementation of Diversification Strategy. All these areas are discussed in detail below.

The study also established that a big percentage of the work force represented by 69% of the workforce are of the male gender while the workforce of the female gender was 31% which is an indication that the industry prefer working with the male gender. It was also established that 60% of the staff in the industry are 40 years of age and below while only 40% are above the age of 40 years. This shows that the industry prefer working with younger people who are energetic and innovative.

The researcher also established that the workforce in the industry was well educated. This was well demonstrated because 71% of the workforce in the management of the industry had at least a bachelor's degree and above. The workforce with at least a diploma was 26%. This is an indication of a well-educated and innovative staff. Also the finding was that 92% of the firms in the industry had over 100 employees. This shows that most of the firms in the industry are big firms.

The study also established that 72% of the firms in the industry had operated for more than 20 years. This is as opposed to only 28% of the players who had operated for a lesser period. It was further supported by the staff working for a longer period in the industry where by 78.46% of the staff had worked for above 3 years in the industry as opposed to only 6.15% of the staff who had worked for less than a year.

4.8.1 Innovation Practices Employed

The study sought to establish the innovation practices embraced in the soft drink processing industry in Nairobi City County. The study found that the three main innovation practices were significantly employed in the industry, which included product innovation, process innovation and market innovation.

Among the three innovation practices employed by the industry, process innovation was the most employed by 75.61% of the players, followed by product innovation by 71.72, and the least employed innovation practice was market innovation which was employed by 68.21% of the industry players.

The researcher further found out that 50.77% of the industry employed innovation to a very great extent. Additionally the study findings indicate that to a very great extent innovation positively influence performance of the industry. The findings shows that the innovation practices employed by the industry improved the product quality, improved the production process efficiency and the brand visibility of the products in the market.

These findings are in line with Ansoff (1980) who described resolution to engage strategies by the industry is all aimed at managing their structural conduct and offer help in surviving instability and employ diversification to stay afloat in the dynamic market. It also supports Ansoff Matrix theory that talks about; market penetration, product development, market development and eventually diversification.

4.8.2 Diversification Strategies Implemented in the Soft drinks processing Industry

The study sought to establish the extent to which the industry had implemented diversification strategy. Diversification was to a very great extent implemented in the industry as shown by 47.69 % of the industry. The industry was found to have implemented a significant number of diversification strategies including; concentric, corporate and horizontal diversification strategy all aimed at improving the performance.

The study further showed the main drivers of diversification strategy. 58% of the industry diversified to gain financial advantage, 23% of the industry diversified to obtain market power while only 19% of the industry diversified for synergistic reasons. The findings therefore shows that much of the diversification was done to reduce the risks involved and maximize on the financial gain.

This is similar to findings by Lole (2009) who indicated that firms especially profit making embrace diversification strategies to improve their performance and stay competitive. This is so supported because from the study, the key driver of implementation of diversification strategy is financial gain. These also support the Agency theory which postulates that firms diversify to mitigate on the risks.

It was also noted that technology featured prominently in the implementation of diversification strategy. Most players in the industry embraced it to help in reducing their cost of production and also streamline their distribution channels so as to reach a bigger market and also increase their margins.

4.8.3 Effect of Innovation on Implementation of Diversification Strategy

The study further aimed to establish the effect of innovation practices in soft drink processing industry on the implementation of the diversification strategy. It was revealed that innovation had a positive and significant effect on implementation of concentric, corporate and horizontal diversification strategy.

The study showed a strong positive relationship between; product innovation, process innovation and market innovation and implementation of diversification strategy. The three innovation practices accounted for 72.8% change in the implementation of diversification strategy. Process innovation had the greatest effect on diversification implementation. The study further showed that other factors not in the study contributed to 27.2% of change in implementation of diversification strategy.

These findings are in tandem with those of Commer (2013) who also indicated that innovation type’s which included marketing, product, process and organizational innovation on different aspects of firm performance played a positive role in implementation of diversification strategy.

This is also supported by the Resource Based View which indicates that firms need to utilize their internal resources both tangible and intangible to stand out in the market place. This chapter has presented and discussed the findings. The next chapter is the final chapter of the study and it summarizes the study and gives recommendation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter the summary of the study, conclusions and recommendations are presented. The researcher talks about the three types of innovation embraced by the industry in Nairobi County. Innovations practiced in the County of Nairobi are; process innovation, product innovation and market innovation.

The study concluded that innovation affects implementation of diversification strategy in a big way. This was demonstrated by the positive and significant adjusted co efficient of determination which was 0.728 or 72.8%. The study also pointed the different drivers of diversification which include; financial, synergistic and market power drivers.

Further the researcher provides suggestions for further research on the areas. The area to study includes the informal firms in the industry. This is the final chapter of the study and it brings together all that have being discussed in the whole of the study. It also brings the opinion of the researcher on the limitation of the study.

5.2 Summary

This study aimed to establish the innovation practices used in Soft drinks processing industry in Nairobi City County. The study established that the industry employed innovation to a significant extent. This they indicated that it affect its performance positively. The main types of innovation that were embraced by over 70% of the industry players were product innovation, process innovation and market innovation. However despite the adoption of innovation the industry was not doing well.

The other objective was to establish whether diversification strategy was implemented in the soft drink processing industry. The study indicated that most of the players in the industry sufficiently implemented the diversification strategy. The key driver for diversification strategy in the soft drink processing industry was found to be the financial drivers

The study revealed that the players have implemented a significant number of diversification strategies ranging from concentric, corporate and horizontal diversification all aimed at improving their performance.

The main objective of the study was to establish the effect of innovation on the implementation of diversification strategy in the soft drink processing industry. It was generally established that innovation had a positive and significant effect on implementation of diversification strategy in the soft drinks processing industry in Nairobi City County.

5.3 Conclusion

The study concludes that the innovation practices that have been embraced in the soft drinks processing industry in Nairobi City County were product innovation, process innovation and market innovation. The three innovation practices are embraced by a big percentage of the industry.

The study concludes that the main diversification strategies employed by players in the soft drink industry were concentric, corporate diversification and horizontal diversification strategies. These were indicated by the product range of majority of the firms in the industry.

The study further concludes that process innovation had the greatest effect on the implementation of diversification in the soft drink processing industry, followed by market innovation while product innovation had the least effect. The study concludes that practice of innovation among the soft drink processing firms had a positive and significant effect on the implementation of the diversification strategy.

5.4 Recommendation

This section gives the recommendations based on the findings. The recommendations will be given based on management policies, management practices as well as for academicians.

The study recommends that management in the soft drink processing industry should come up with policies to ensure full adoption of innovation practices so as to improve on the implementation of the diversification strategy. This can be done by the players putting in place flexible organizational structures, supporting open communication and providing incentives to staff to come up with innovative ideas.

The study recommends that the management staff in the industry ought to wisely select their diversification strategy based on firm mission and vision, available resources and innovation practices selected.

The study further recommends that academicians should carry out a study to determine how the introduction of new products, cost reduction, innovation improvement process and regulations conformance affect the performance of the soft drink processing firms. This will benefit the industry to know how to vary those factors in order to tap into customers' requirements so that original products produce their own foundation of marketing drive.

5.5 Limitations of the Study

The researcher narrowed down to only 5 soft drink processing firms in the industry in Nairobi City County. These are from the six purposively selected from the population. The six re the main players in the industry because the control the biggest market share and therefore the small players input was not considered.

The study mainly concentrated on the formal soft drinks processing players in the industry. The informal firms in the industry did not take part in the study; therefore the researcher might have missed the opportunity to get their input. This is so because they interact one on one with the final consumer and are very quick in terms of responding to the needs of their customers and hence they are key in shaping the industry.

There was also limitation with the availability of data because some of the player took time to respond and the researcher had to make many trips to the firms. This was due to the bureaucracy involved in seeking approval to collect data in the firms. Even after obtaining the consent, the researcher had to wait further before response could be obtained given the time limitation.

5.6 Recommendations for Future Research

The study recommends that there is need for future research to include other soft drinks processing firms that were not included in the study and other players in the manufacturing industry in Kenya. The other firms could include alcohol or hard drink processing firms, food and related processing industries. Also in future the same study can be done by obtaining the data from the regulators.

The study used the cross sectional survey design. In future, researchers can embrace diverse designs like longitudinal survey that would suggest the influence of innovation on the implementation of diversification strategies over a time period. Also the researcher recommends a case study for each and every firm that was involved in the study. Also the researcher proposes a different sample design in future.

It's also of importance to evaluate effects of technological innovation on implementation of diversification strategy. This is important because it prominently appeared in this study and also the industry.

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APPENDICES

APPENDIX I: Introduction Letter

RE: Request to fill in the Questionnaire

I am a graduate student at the University of Nairobi, conducting a study on the effects of innovation on implementation of diversification strategy in soft drinks processing industry in Nairobi City County, Kenya. This is in partial fulfillment of the requirements for the award of degree of the Master of Business Administration of the University of Nairobi. You have been randomly selected among many to participate in this study. The study will take only 5 minutes of your time to fill the questionnaire. Please answer as candidly and objectively as possible. Your response is of importance in the execution of this study and it will be highly regarded. Your response will not be disclosed without your prior authority and will only be used for this academic purpose only.

Kindly assist in filling the attached questionnaire. Thank you.

Yours faithfully,

Samuel Mburu

APPENDIX II: Research Questionnaire

Dear Respondent,

This study is aimed at establishing effects of innovation on implementation of diversification strategy in soft drinks processing industry in Nairobi City County. This is a purely academic exercise and any information given will be treated with utmost confidentiality.

SECTION A: BACKGROUND INFORMATION

1. Name of firm (optional)________________________________

2. Gender: [ ] Female [ ] Male

   Age: [ ] 21-30 [ ] 31-40 [ ] 41-50 [ ] 51-60 [ ] 61 and above

3. Highest Level of Education

   Post Graduate [ ] Bachelors [ ] Diploma [ ] O-level [ ]

4. For how long have you worked for this firm?

   Less than 1 year [ ] 1-3 Years [ ] 3 Years and above [ ]

5. How long has your firm been in operation?

0-4 years [ ] 5-10 years [ ] 10-15 years [ ] 15-20 years [ ] Over 20 years [ ]

6. How many employees does the firm have?

   5-49 [ ] 50-99 [ ] Over 100 [ ]

SECTION B: Innovation employed by the firm

7. To what extent has innovation been employed in your firm?

Very great extent (   ) Great Extent (   ) Moderate Extent ( ) Little Extent (   )

No extent (   )

8. To what extent has innovation affected the performance of your firm?

Very great extent ( ) Great Extent ( ) Moderate Extent ( ) Little Extent ( ) No extent ( )

9. Which of the following innovation strategies does your firm engage in?

Product innovation ☐

Market innovation ☐

Process innovation ☐

10. Since you started innovation, to what extent has each of the following increased? Please tick the most appropriate option on a scale of 1-5 where 5 (very great extent), 4 (great extent), 3(moderate extent), 2 (little extent) while 1 (not at all).

Innovation Employed by firms	5	4	3	2	1
New product development					
Product quality					
Production process effectiveness					
Lean production					
Market demand					
Brand visibility					

SECTION C: Implementation of Diversification strategy

11.To what extent has your firm implemented diversification strategy?

Very great extent ( ) Great Extent ( ) Moderate Extent ( ) Little Extent ( )

No extent ( )

12.Which of the following drivers of diversification strategy is/are applicable in your firm?

Synergistic driver [ ] Financial driver [ ] Market power driver [ ]

13. On a scale of 1-5 rate the extent to which the following diversification strategies have been implemented in your firm where 1 (Very low extent), 2 (Low extent), 3 (moderate extent), 4 (high extent) and 5 (very high extent).

Diversification strategies	**5**	**4**	**3**	**2**	**1**
Development of new products					
Production process diversification					
Market distribution, logistics and channel diversification					
Product range					
Mergers or acquisition of other firms					
Technological diversification					

14. Please rate the following statement on how innovation affects implementation of diversification strategy on a Likert scale of 1-5 where 5 is strongly agreed and 1 is strongly disagreed.

Effect of innovation on implementation of diversification strategy	**1**	**2**	**3**	**4**	**5**
Use of technological innovation at all levels has improved product range.					
Product innovation has improved market penetration					
Process innovation has enhanced production efficiency of the firm					
Market innovation has led to efficient distribution of products					
Development of a wide product range has led to improved customer satisfaction					

APPENDIX III: List of Soft Drink Processing Firms in Nairobi City County

1. Premier Foods Industry Limited
2. Nairobi Bottlers Limited
3. Tropical Brands Limited
4. Kevian Kenya Limited
5. Seven up bottling company
6. East Africa Breweries
7. Orchard Juice Limited
8. Majic Juice Limited
9. Anspar Beverage Limited
10. Softa Bottling Company
11. Metrol Bottling Company
12. Beverages Services Limited
13. Fresh Squeeze Limited

Source: Kenya Association of Manufacturers (2016)