

# **DIVERSIFICATION STRATEGY //**

**THE CASE OF NATION MEDIA GROUP.**

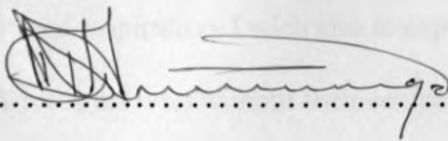
**PRESENTED BY: NJOROGE THUO**

**A MANAGEMENT PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION, FACULTY OF  
COMMERCE, UNIVERSITY OF NAIROBI**

**2003**

## DECLARATION

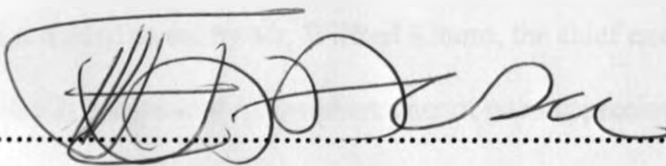
**This is my original work and has not been submitted for a degree in any other university.**

Signed.....

**Njoroge Thuo**

Date ..... 07 - 11 - 2003 .....

**The project has been submitted for examination with my approval as the university supervisor**

Signed.....

**Prof. Evans Aosa**

Date..... 7/11/2003 .....

## ACKNOWLEDGEMENTS

I feel duty bound to acknowledge the many people who were instrumental in the completion of this project.

I wish to thank and acknowledge my supervisor, Prof. Evans Aosa for his enduring guidance, support and inspiration. I wish also to express my thanks to the Faculty Commerce MBA lecturers who without their contribution in class sessions, this work would have not been possible. Others including, my lecturers at Daystar University, and teachers at other levels, I am grateful. Mrs. Muturi, whose work can be traced on every alphabet of this paper and I am truly indebted.

Judy, Kamathi, Hilda, Wakhisi, Suzanne, Lillian, Maggie and others whom I have shared classes with, your contribution and critique as friends and colleagues in college is immense. Not to forget Nicholas Gichiri who provided me with the computer facilities and Florence Koros, for your assistance, I couldn't be more grateful.

The help accorded to me by Mr. Wilfred Kiboro, the chief executive of the Nation Media Group (NMG) and other staff members cannot go unappreciated.

I am grateful to my family, particularly my parents who denied themselves so much to for the sake of my future. I am also grateful to my siblings who gave me a chance to advance this far. Ngugi, Kamau and Wambui you are the greatest.

Lastly and certainly not the least, I wish to acknowledge and be grateful to God Almighty, in whom I live, I move and have my being.

## **DEDICATION**

**To my parents, who besides providing, challenged me in the way of excellence.**

**To Ngugi, Kamau and Wambui who were pillars of my psyche and inspiration.**

**Lastly to Evanson Njoroge Wa Gutu.**

## ABSTRACT

The study was undertaken to investigate and document the experiences of a diversified firm. This stems from the fact that there have been a number of studies that have been conducted in the past and have yielded mixed results.

The study took the Nation Media Group as a unit of study. The research problem was therefore to document the experience of Nation Media Group with diversification. To be able to derive this information, a case study design was used. This is because of the very probing nature of a case study that would help achieve the objective of the study.

The study results gave indications to the extent of NMGs diversification, the reasons for diversification, the implementation of the said strategy and the performance of the firm in the light of this strategy. The extent of diversification was looked at from the perspective of diversification by breadth, diversification mode and geographic diversification.

Diversification by mode established that the company largely used internal diversification or start-ups in Kenya with an exception of a few and went for external diversification for all the international ventures. For geographic diversification, it was established that the company has entered so far to all the countries in East Africa but so far to none to the central African region despite the desire to be the leading multi-media company in the East and Central African region. It was established that choice of diversification was mainly due to the strategic intent of the company. In implementation, the major structures included the board and the executive committee. The process, that the strategy was planned and the chronology of diversification since 1998 is given.

The performance indicators of the firm have also been presented. These indicators include the financial, internal as well customer perspective. The indicators present an all rounded perspective on diversification and why NMG may be considered successful with diversification.

The limitations of the study included; the company policy on information outflow, significant use of secondary data, other factors contributing to performance other than diversification and the policy of consolidating the accounts.

For further research, it was recommended that there should be a study on a firm that has had disastrous results with diversification; a study on a number of firms in the same industry and find out their experiences with diversification; a study on competitive advantage derived from diversification and a study impact of diversification on the different business units in a diversified firm.

<b>TABLE OF CONTENT</b>	<b>Page</b>
Declaration.....	ii
Acknowledgments.....	iii
Dedication.....	v
Abstract.....	vi
Table of contents.....	viii
List of tables .....	x
List of figures.....	xi
List of appendices.....	xii
<b>CHAPTER ONE: BACKGROUND.....</b>	<b>1</b>
1.1 Statement of the problem.....	5
1.2 Objective of the study.....	6
1.4 Importance of the study.....	6
1.5 Overview of the study report presentation.....	7
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>8</b>
2.1 The Corporate Strategy.....	8
2.2 Diversification.....	12
<b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>	<b>23</b>
3.1 Research Design.....	23
3.2 Data Collection.....	23



3.3	Data Analysis.....	24
<b>CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS.....</b>		<b>25</b>
4.1	Introduction.....	25
4.2	The Organization’s profile.....	25
4.3	Extent of diversification.....	26
4.4	Implementation.....	37
4.5	NMGs Performance.....	46
4.6	Discussions.....	51
<b>CHAPTER FIVE: SUMMARY AND CONCLUSIONS.....</b>		<b>53</b>
5.1	Conclusions.....	53
5.2	Recommendations.....	54
5.3	Limitations of the study.....	55
5.4	Suggestions for further research.....	56
<b>REFERENCES.....</b>		<b>59</b>
<b>APPENDICES.....</b>		<b>62</b>

**LIST OF TABLES**

**Page**

---

Table 1: Products and services of NMG.....27

Table 2: Company/ Division Diversification.....33

Table 3: Product/ Service diversification.....34

Table 4: Five-Year Financial Summary.....46

Table 5: Percentage Marginal increase in the financial figures.....47

Table 6: Return on Shareholders Fund.....47

---

Figure 1: Strategy – Capability Environment Link.....8

Figure 2: Cross business benefits.....50

**LIST OF APPENDICES**

**Page**

---

Appendix 1: Request letter to study the Nation Media Group.....63

Appendix 2: Questionnaire / Interview Guide.....65

Appendix 3: Financial Results and Performance Indicators.....69

Appendix 4: Consumer Insight Performance Indicators.....74

Appendix 5: AGM agenda that opened up the diversification option.....84

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Diversification has had more than its fair share of prominence in strategic management literature as well as other related subjects. The reasons for this prominence are enormous and diverse. It is generally agreeable that, as one begins to move away from the concept of business strategy to that of corporate strategy, complexity increases. Such complexity does not only result to divergent thinking in terms of the approach to corporate strategy, but also in terms of the expected results of such a strategy. This divergent thinking is to the extent that there is no consensus on whether there is correlation between diversification and performance, and as it were if there were such a correlation, would it mean causation. (Kay 1993)

There are a number of views on diversification. On two extremes are those convinced that diversification and performance are correlated and those who take the view that diversification and performance correlation is purely coincidental. For the latter group, the performance of any firm is highly dependent on the management and the management style adopted.

Those contending that there is indeed correlation have demonstrated so by both practical as well as empirical evidence. For instance, Grant et al (1998) conclude that profitability does increase with diversity. Montgomery (1985) on the other hand provides empirical evidence in support of the hypotheses that diversification does not contribute to firms profitability. As a matter of fact, it negatively impacts on profitability. The only major

problem here is that, while there is clear evidence on correlation, the presence of both positive and negative correlation makes the case both complex and confusing. The two examples provided attest to this fact.

The 'management style' theorists have also demonstrated their case. They have held up their argument on the fact that the correlation theorist cannot explain the presence of both negative as well as positive correlation in their evidence. According to the management style theorist, it is not pragmatic enough to use one variable to indicate the performance of a given firm. In any case, there are many variables and environmental dynamics that shape up the performance of a firm. (Lenz 1980)

Away from the theories, the trend and performance of diversified firms over a period of time has been varied. For instance, the performance of diversified firms in the 1950s to the 1970s was the least to say satisfactory. However, from the 1980s and beyond diversification began to become unpopular. Firms that were reputed for their performance began to sink. Most of them divested from most of the business area that were not performing well. Of course a number of reasons were advanced as to why the firms were not performing as they previously did. What became apparent however was that, there was a change in the environment. The change in the environment due to increased environmental turbulence required that firms should have made adjustment to their strategies. Most had not, resulting to strategy gaps of which one would argue resulted to the difference in performance between the two periods.

One of the responses to this problem was the concept of stick to the knitting. This was a concept hatched by Peters and Waterman (1980). Stick to the knitting meant that firm should focus on their core business area. This further meant that diversification was not a prudent strategic option for any firm. Stick to the knitting made sense in all virtues considering the downtrend that businesses were on. This fad consistently held true and many firms did and still do apply it. However, of late there has been a challenge to this concept. In fact, there has been a revisit to the concept of diversification. There has been an increasing desire to understand the whole concept of diversification in totality. This spans from the fact that, there are a number of firms that have pursued this strategy and have consistently performed well. So far, no consensus has been reached but issues like, economies of scope, competence transferability and market power have helped advance the case for diversification (Kay 1993, Teece 1980)

The Kenyan environment has become more complex over time. This has seen the rise and fall of many firms. A good number of firms have at one time practiced diversification. Due to environmental constraints, a good number have had to limit their scope of business to accommodate the not so friendly environment particularly in the post liberalization period. The increase in competition, the general macro economic downturn and other factors has played a role. However even in such constringent terms, a few firms have moved against the current. Such firms have re-invented themselves and swam against the current. Today, more and more firms are daring to match up

The Kenyan media industry is the most diverse in East Africa with the Nation Media Group (NMG) being certainly the largest of all the media companies in Kenya and East Africa as a whole. The firm was established in 1960 as a newspaper company. During this time, the struggle for independence was at the peak and its newspaper became instrumental in championing the interests of the African population in Kenya. Since this period, the group has grown to be the dominant media company in Kenya and the rest of East and Central Africa.

Though the company has been consistent in its good performance record over the period of its existence, it was not until 1999 that the group became a force to reckon with in the international media industry. In the said year, the government issued broadcast licenses to the independent Nation Group liberating it from the limitations that inhibited its growth. From then on, the group got into the media industry in East Africa with a bang. The media industry consists of the electronic media (radio and television), the print media (newspaper) and the e-media (internet). It also extended its interest in Uganda and Tanzania. This expansion created new competitive horizons as well as exposing new market gaps that have a great potential for profitability.

Apart from the firm's diversification style, the firm has shown that diversification can indeed be a viable strategy. The persistent good financial results by the Company attest to this notion. More recently the group announced a 77.8% leap in half-year profit. It attributed this to among other things the strong growth in the market share of its subsidiaries (Daily Nation Wednesday July, 18, 2002).



Such performance amidst challenges and the uncertainties associated with diversification makes NMG an interesting case to study. Strategic issues that concern the question of why the company chose diversification, the extent of diversification and the implementation process are of importance. This importance is derived from the fact that, there is inconclusive information from previous researchers, for or against diversification. Thus to understand this concept, it has become necessary to analyse and document the group's experience. Probably by doing so it would be possible to provide guidelines on diversification.

## **1.2 Statement of the problem**

As earlier indicated, there is no agreement on the suitability of diversification as a strategy. The body of evidence so far provided is mixed. The presence of mixed evidence also means that there is more to the concept of diversification than have been empirically evidenced. The problem with previous studies is that they largely used the survey research design to be able to arrive at their conclusion. This is despite the fact that the evidence continuously swerved with changes in variables. Change of industry, time period and place affected the result. In such instances, it would be proper to examine a single unit in the light of its circumstances and hence eliminate the problem of changes in variables.

A case study design best suits this challenge since it probe its way into issues without neglecting detail that would be of interest to the subject matter. This research adopts the Nation Media Group as its case study. As earlier indicated, the Nation Media Group is

one of the most diversified firms in the East African region. Its potential for failure is equal to any other firm that has done so, but also is the potential for success. So far, it has been posting good financial results for good period of time. Like any other firm, it faces the challenges resulting from environmental challenges. How it maneuvers, and is able to post good results despite its size and composition is a matter of interest.

This study therefore endeavors to document the firm's experiences with diversification. This entails answering the questions; why did the firm choose diversification? What is the extent of its diversification? And how it has gone about implementing this strategy?

### **1.3 Objective of the study**

To investigate and to document the experiences of Nation Media group with diversification.

### **1.4 Importance of the study**

The study will provide insight on how diversification contributes to the performance of an organization. This is of particular importance to the shareholders who need not only see the figures but also appreciate intricacies involved in the investment of their resources. The study will also provide an underpinning for management excellence. Practitioners would be most interested and particularly those contemplating diversification. Finally, for researchers, the study shall contribute to the existing literature in strategic management and provide a basis for further research.

## **1.5 Overview of the study research presentation**

This study is structured into five chapters. The first chapter is an introductory one. It provides the background of the study, statement of the problem, objectives and importance. The second chapter provides a review of the literature in strategic management and more specifically literature on diversification. Here, different aspects of diversification have been discussed. This includes, the trends on diversification, the views, and the motives and lastly the classification on diversification. This chapter also discusses the case of the Nation Media group.

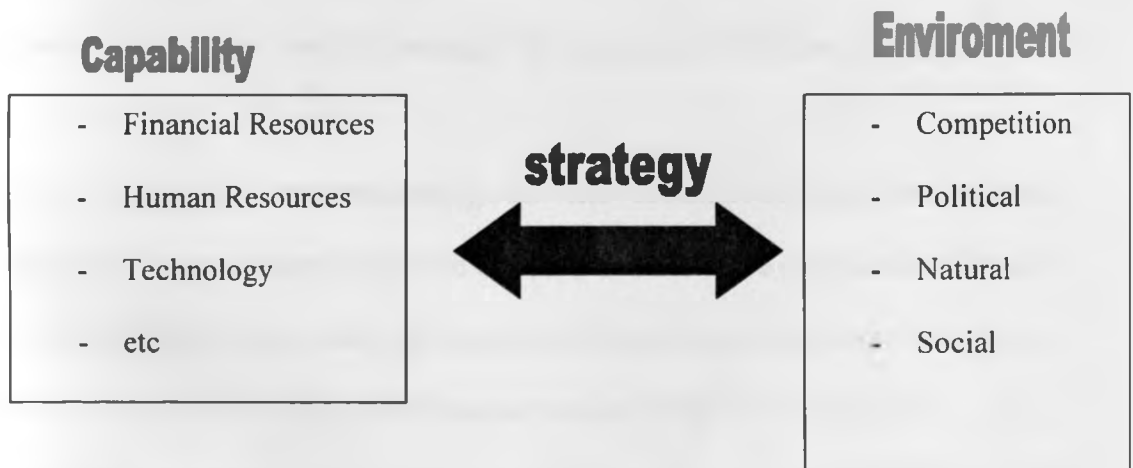
The third chapter outlines the research design, the data collection method and the means of data analysis. Chapter four presents the findings of the study and data analysis. The last chapter contains a summary of the research findings, recommendations, conclusion, limitations and further research direction.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Corporate strategy

All organizations are an open system. They not only depend on the environment for their provision of inputs and the disposal of their output to the same, but that they are part of the environment and an integral one for that matter. Thus, for an organization to achieve its objectives and ultimately success, realistic approaches that are considerate of the environment must be taken into account (Rue and Holland 1986). Organizations cannot survive let alone succeed if they cannot match their capability to the environmental requirements. The framework therefore that links an organization's capability to its environment is referred to as strategy (Ansoff 1990). Figure 2.1 below helps to illustrate this.

**Figure 1. Strategy- capability environment link**



Source: Ansoff and McDonnell 1990

Jauch and Gueck (1988) view strategy as the framework of choices that helps an organization to respond appropriately to the environmental requirements to achieve success. This is to say strategy is not an abstraction. It indeed requires conscious efforts to achieve it. Where conscious does not mean deliberate but does not exclude it. In other words, strategy does not just happen it is caused. Therefore one can say that strategy defines an organization, in terms of its future nature and direction (Johnson and Scholes 1999).

If strategy were defined as above, corporate strategy would then be seen to be concerned with the purpose and scope of an organization as a whole. According to Johnson and Scholes (1999) corporate strategy is concerned with the overall purpose and scope of an organization in meeting the expectations of its owners and add value to the different parts of the enterprise. It looks at the entire firm and specifies the firm's overall approach to the achievement of its mission and objectives. It also explores the ways in which a firm can develop a favorable "portfolio strategy" for its activities (Wheelen and Hunger 1989).

In the development of a corporate strategy, the "end" should be addition of value to the proprietors, or at least where it is not the case; any end should be seen to coincide with this objective. Note, occasionally, the creation of value to the owners is not always the priority. For instance, in cases where firms are run on behalf of the owners, the management may not necessarily work toward the goal of value creation. This has in fact led to the prominence of the agency problem. As will be mentioned later on, some of the corporate strategic moves are not initiated on the basis of merit, but are to say the least,

egocentric. In this case, value creation for the owners' is not primal. Meeting the top executives' goals is, and as such recede the owners interest to a secondary position. However having said that, going by the assumption that the fundamental goal of any firm is to earn a return on its capital that is higher than its cost of capital, the principal concern then is the identification of business areas in which a company can and should participate in order to maximize its long-term profitability (Hill and Jones 2001).

This principal concern stems up from the economic imperative of corporate strategy. In this imperative, the essence of corporate strategy is to ensure that the value of the whole firm is comparatively bigger than the sum of the contribution of its businesses as independent units (Hax and Majluf 1996, Porter 1987). This involves competence transferability (coordination of the business activities that allow sharing of assets and skills), economies of scope and of scale and the wielding of market power.

Corporate strategy is composed of three grand strategies i.e. stability, retrenchment and growth. Stability strategies are concerned with the maintenance of the status quo and involve stretching what the organization has been doing in the past into the future. Usually, they work well for relatively successful firms that operate in reasonably predictable environments. The implicit assumption is that the conditions existing in the present will persist into the future (Bates and Eldredge 1984). The industry within which such an organization operates probably faces a moderate growth so that the incentive for heavy investment or diversification to other industries is minimal.

Retrenchment strategies on the other hand are concerned with steering an organization 'back to track'. In most cases, the firm might be experiencing or potentially facing a decline in profitability. This can be achieved through turnaround or divestment strategies. In turnaround strategy, the firm puts emphasis on operational efficiency (Wheeler and Hunger 1989). This strategy is appropriate when a firm is in a highly attractive industry and its problems are pervasive but not critical (Wheeler and Hunger 1989). The cause of decline is usually an internal action such as improper strategy selection or poor implementation of strategy. Divestment on the other hand, involves selling off a major part of the business. To consider divestment usually, the problems of a firm are critical and poor performance can be attributed to a business unit or a product line which is unable to synchronize itself with the rest of the corporation (Wheeler and Hunger 1989, Byars 1987).

Finally, when the competitive domains and the growth potential starts to wane, strategic options are either to attempt a more intensive implementation of the current line of business, or to begin to search for more opportunities in other industries or markets (Thompson and Strickland 1990). The objective is to increase the volume of business or expand the scope of the firm's operations, which might be facing threats or opportunities. In such a case, taking this perspective would reflect a firm's adoption of a growth strategy and a must choice for a firm that is considerate of its survival (Wheeler and Hunger 1989). Growth strategies are therefore partly a reaction to environmental turbulence besides other factors. As noted earlier, growth can be by concentration in one industry or by diversification into other industries (Grant 1998). If the current industry is

highly attractive concentration of resources on that one industry makes sense. However, if the current industry is low in attractiveness, the firm may choose diversification if it wishes to pursue growth strategy (Wheeler and Hunger 1989, Kay 1993).

Having said that however, it should be observed that growth strategies could be a reaction to the environmental requirements and or other factors. These factors may border on egoistic tendencies on the part of the top management and mere adoption of copycat strategies that may appear populist in a given industry.

## **2.2 Diversification**

Diversification means or involves the direction of development that takes an organization away from its present markets and/or its present products. Since the early nineteenth century, large companies have expanded their scope across geographical areas, across the value chain and across products (Johnson and Scholes 1999). This expansion, particularly diversification has been and still is a popular strategy among chief executives. Porter (1987), refers to diversification as a darling of contemporary management. He says, a darling because most chief executives have been obsessed with it. It is however not short of controversies and contradictions. This time, Porter (1987) sees diversification as a stepchild of contemporary management. This is because there is almost no consensus on how to go about it.

Critical analysis in the last four decades or so, by practitioners and academics has been undertaken and differing evidence adduced. The objective of these analyses has been to



understand this concept of diversification more fully and specifically the successes as well as the inhibiting factors. This arises from the fact that there have been a number of factors that could be probed further so as to explain the whole concept of diversification. One factor for instance is the difference in the performance of diversified firms in different time periods (Rumelt 1982). Another would be of course, the differing schools of thought for instance, the 'stick to the knitting' school versus the latter thinking Kay 1993, Peters and Waterman 1982). Most profound would be the diversification-performance correlation factor. Here, a large body of evidence has been produced in support of this theory. But on this there has been a major problem due to the lack of consensus in the said body of evidence. The evidence displayed has shown the presence of both positive and negative correlation. (Grant et al 1998, Porter 1987). This of course suggests that there is more to diversification than would be revealed by simple correlation.

### **2.2.1 Trends on diversification**

The 1950s saw the development of new management principles. These developments provide a shift from specialized management thinking to general management thinking. General management involves a common set of management principles and techniques, which are believed to be applicable across industries. As such those who possess these skills can manage organizations regardless of which industry or its circumstances since management to this extent is generic. The application of these principles seemed to have justified a kind of a virtuous circle of corporate growth and diversification, as they were deemed to add value to the firms (Thompson et al 1995). In the 1960s, however, the

performance of most of the diversified firms was unsatisfactory leading to search for a new approach to the corporate management of diversified firms. Note that during this period the quest for growth was largely accredited with the adoption of diversification strategy. It is however clear that this quest was not as a result of strategic motivation of the top management, but rather the enhancement of the senior management ego interests. Empire building as an interest superceded the desire to maximize profits and was in line with the theory of managerial capitalism. This theory assumes that, management growth preference encourages the firm to invest at a greater rate than is consistent with profit maximization (Thompson et al 1995).

Though strategy and strategic management concept attracted the attention of senior management in the 1970s, problems arose from its analytic approach. Portfolio planning techniques were used to help resolve the problem of resource allocation in the multi-business firms. These analytic approaches however failed since they overlooked the problem of manageability and many companies found it difficult to manage businesses facing different strategic issues. During the 1980s, poor performance by diversified firms still persisted and it was becoming increasingly clear that diversified firms did not add value and this led to rethinking diversification. It is during this period that there was a sharp reversal on the trend towards diversification. Peters and Waterman (1982) led the campaign against diversification with the catch match phrase 'stick to the knitting', which meant that firms should stick to their core business (Kay 1993). Since then, the "stick to the knitting" has become one of the major views affecting the choice of diversification as a strategy.

However, from the 1990s to date, it has become increasingly questionable what ‘stick to the knitting’ in practice really implies and secondly, how should companies add value to the remaining core business especially where competitive advantage has been eroded and the industry attractiveness is low (Thompson et al 1995, Grant 1998). This has led to the emergence of themes like; search for synergy and building of core competences.

### **2.2.2 Views on diversification**

Stick to the knitting is one of the views of diversification. It focuses on answering the question, “What business are we in?” By doing so a firm is able to focus its capabilities to the locus of its core business. According to Peters and Waterman (1982), the concept of corporate success is based on the core business. They observed that successful corporations tended to specialize in particular markets as opposed to firms that had spread themselves widely. Certainly it had become increasingly apparent that many of the conglomerate businesses put together in the pre-1980 period in pursuit of diversification diminished or concealed value rather than added it (Rue and Holland 1986). This led to the sharp reversal in the diversification trend. As such, stick to the knitting was and is largely a reaction to the fallout on diversification strategy because of the not so encouraging results.

Stick to the knitting underscored a number of issues that were taken for granted in the pursuit of diversification strategy. But the core issues included the understanding of a firm unique environment, the nature of environmental turbulence, the respective competitive domains and the bureaucratic costs of diversification. Unique environmental

factors meant that the application of a common set of management principles and techniques to a number of firms would be short of addressing the individual concerns of any given business unit. This would in turn suggest imminent failure in the making. On the other hand, environmental turbulence especially on the higher scale would mean the need for higher flexibility on the firm. However, due to the very complex nature and size of a diversified firm, flexibility would be difficult. Grant (1998) strengthens this by saying that the dynamic market conditions expose the sluggishness of the complex corporate planning systems of diversified corporations and overload the decision-making capacity of corporate top management. As such, the performance is less satisfactory compared to that of specialized firms. On the other hand, the competitive domain of a firm is specific to its business units. This means that diversified firms do not compete; only their business units do (Porter 1987). Finally, the bureaucratic costs (both the corporate overhead costs as well as hidden costs) in diversified firms are usually high. Sometimes so much high, that they supercede the value created through synergy, which is the condition in most cases.

Stick to the knitting is a doctrine that has gained prominence in the last two decades. As a management fad, many organizations have adopted it by a clear understanding of the insight behind, while others have done so, blindly. The trend towards this has gained a following evidenced by nature of divestures and restructurings that has been taking place. Also researchers discrediting diversification have echoed this line of thinking. For instance, Montgomery (1985) provided empirical evidence that showed that highly

diversified firms had a lower market share compared to less diversified firms and that the strategy of diversification does not contribute to the profitability of the firm.

With all the steam focused towards the core business, several organizations seem to go upstream against the current. Their successes have not been compromised and as such have reopened the now closing chapter on diversification. As opposed to diversification being a blind entry in to any business, firms seek for the corporate advantage that can be created from such growth before embarking on diversification. This is a shift from the former expansionist strategy, which had its thrust in getting bigger and with no deep interest in getting better. Probably the assumption was that getting better was going to be an automatic consequence of getting bigger, a strategy that was a failure from the word go. The pivot of this latter thinking on diversification is the understanding that the underlying purpose of corporate diversification should be built on shareholders value (Thompson and Strickland 1990). Superior profit potential of an industry to be entered and/or the ability of a firm to create competitive advantage (competitive advantage can be created through economies of scope, competence transferability and use of market power) should be the basis of adopting diversification as a strategic option.

The major change from the former diversification style is that strategic analysis has become more precise about the circumstances in which diversification can create value from multi-business activity. Mere linkages between businesses are not enough, the key to creating value is in the ability of the diversified firms to share resources and transfer

capabilities more efficiently than alternative institutional arrangements, where additional costs of management do not outweigh the value created.

Firms like General Electric, Disney, 3M and at a local level Sameer group of companies, are just but a few examples of success with diversification. Empirical evidence has also been provided by the study done by Grant et al (1998) in which the focus was on British companies. It concluded that profitability does increase with diversification.

### **2.2.3 Motives of diversification**

It is almost impossible to know and understand all reasons behind diversification.

However it is important to mention but a few that are thought to be major. They include growth, profitability and risk reduction. Growth can be seen from the strategic objective of a firm moving beyond their current boundaries. If a firm's objectives cannot be achieved in the current market, diversification may be the option to take (Howe 1986). It is also reasonable to say that if opportunities are presented to the firm in new market areas than accrue from its existing activities then a diversification program may be undertaken to benefit from such opportunities (Ansoff 1968). Finally as shall be seen later, growth can be because of the individual interest of the chief executive. In this case however, objectivity may be compromised in coming up with this decision and the results are usually disastrous. That notwithstanding the search for intrigue and challenge especially for entrepreneurs is not necessarily bad, but there is need to have a clear understanding before jumping into diversification.

The desire to spread risks is also another reason for diversification. This is especially so when cash flows of the different businesses are inversely correlated. This is however not a very convincing reason to diversify since shareholders can diversify their own portfolio of stocks by selecting those that best match their preferences and risk profiles (Salter and Weinhold 1979). Shareholders can often diversify more cheaply than a corporation can (Porter 1987).

A profit motive is another reason for diversification. The underlying purpose of corporate diversification is to build shareholder value. Superior profit potential and ability of a firm to create competitive advantage can best describe this motivation. Porter (1987) suggests three tangible benefits of diversification which if present are capable of increasing shareholder value. That is,

- The industry chosen must be attractive enough to produce above average return on investments.
- That the cost of entry must not erode potential profitability.
- And lastly, that the corporation must bring some potential for competitive advantage to the firm or better still the new business should bring added competitive advantage potential to the corporations other business units.

#### **2.2.4 Classification of Diversification**

The scope of diversification is so wide. The sheer size of its scope may probably explain why there is so much about it. As one will realize, two people may be talking about diversification and yet speak of different things altogether. For simplicity, it would help

to do a classification. Further, for the purpose of this study the researcher has decided to view the classification in three major dimensions though not collectively exhaustive. These dimensions view classification by breadth, by mode and by geographic and/or market scope. (Johnson and Scholes 1997, Pearce and Robinson 1994).

Diversification by breadth looks at diversification either related or unrelated. Related diversification is also known as concentric diversification and refers to development beyond present product and market but still within the broad confines of the industry in which the company operates (Johnson and Scholes 1997). It involves the acquisition of business that is related to the acquiring firm in terms of technology, markets or products. The selected businesses possess a high degree of compatibility with the firm's current business (Pearce and Robinson 1994). Related diversification can further be disintegrated into vertical and horizontal integration.

Vertical integration refers to the integration of the adjacent (either forward or backward) activities in the value chain (Johnson and Scholes 1997). It determines the breadth of the value chain (Hax and Majluf 1996). The choice of vertical integration strategy is varied and sometimes less obvious. Main reason for backward integration is the desire to increase dependability of the supply or the quality of raw materials used (Pearce and Robinson 1994). The desire is especially large when the number of suppliers is small and the number of competitors is large. By vertically integrating, a firm can better control costs and thereby improve profit margins. The big disadvantage however is that it locks a firm deeper into an industry and unless it builds competitive advantage it is a



questionable strategic move (Thomson and Strickland 1993). Diversification across the value chain fits into this category (Johnson and Scholes 1997). On the other hand horizontal integration refers to the development into activities that are competitive with/or directly complementary to the companies' present activities (Johnson and Scholes 1997). According to Pearce and Robinson (1994), the principle attractions of a horizontal integration grand strategy is that a firm is able to greatly expand its operations thereby achieving greater market share, improving economies of scale and increasing the efficiency of capital use. One could argue that horizontal strategies are the primary sources for corporate advantage of diversified firms (Hax and Majluf 1996). Product diversification does fit onto this category (Johnson and Scholes 1997).

Unrelated or conglomerate diversification (which is the other major form of diversification by breadth) is where an organization moves beyond the confines of its current industry. That is, if a firm plans to acquire a business because it represents the most promising investment opportunity available. Pearce and Robinson (1994) argue that the principle concern and often the sole concern is the profit pattern of the venture. Unlike concentric diversification there is little concern to creating product-market synergy with existing markets.

The other major classification of diversification is the mode classification. The mode classification looks at how diversification has been achieved i.e. if a company enters new industries by acquisition or start-ups (Porter 1987). Internal diversification would mean that a firm has built up from scratch the specific area of diversification. External

diversification on the other hand would encompass mergers and acquisitions. Strategic alliance may also be included to the extent that such an alliance is a joint venture and not collaboration.

Finally, diversification by geographic and/or market scope represents the last major classification on diversification. It means that a firm moves beyond its current market in terms of the geographic location (Johnson and Scholes 1997). It may be differentiated from diversification by market scope when a firm targets a different market but within the same geographical perimeters. In most cases however, the two are not mutually exclusive. This form of diversification may involve a move within the local boundaries or even beyond international boundaries.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research design**

The case study design was the design by which the research was conducted. The case study focuses on the Nation Media Group as the unit of study. Most of the previous studies have used surveys to derive their evidence. The problem that became apparent however is the presence of both positive and negative correlation on performance and diversification. This calls for a more in depth study to be able to derive the dynamics involved. A case study thus becomes a handy tool since, it does not only look at the 'end', but probes the means to the end itself.

### **3.2 Data collection**

This study used multi sources of evidence. These included an interview with the Chief Executive, current documentation and other archival records. The interview with the Chief Executive was conducted using unstructured as well as a structured interview questionnaire. The unstructured interview was used first because, of the iterative nature of the study. This is because a structured interview would have limited the quantity and quality of information that would have been provided. Secondly, the researcher was interested in discussing data from other sources with the interviewee.

Secondary data, which consists of both current documentation as well as archival records, was solicited from both the internal as well as from other external sources. Internal sources were from the firm's library and other material from the firm. External sources

included Consumer Insight research reports, Nairobi Stock Exchange (NSE) reports and others.

### **3.3 Data Analysis**

The mode of analysis was by content analysis. The data collected was qualitative in nature. Any quantitative data used was important in collaborating evidence already existing in the qualitative form. Since the objective of the study was restrictive to the nature of information required content analysis was the right tool for analysis. Such qualitative descriptive analyses have been applied in related studies in the past by the likes of Bett (1995) and Thiga (1999).

## **CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter provides the results of the study. The objective of the study was to investigate and document the experiences of NMG with diversification. This chapter therefore looks at the different issues in the light of this objective. The fundamental questions of why the firm diversified, the extent of diversification and the implementation of the strategy have been answered in this chapter.

### **4.2 Organization's profile**

The firm was established in 1960 as a newspaper company. This was the pre-independence period, when struggle for independence was at its peak. The newspaper endeared itself to the Africans and thus became instrumental in the championing of the African population interests in Kenya. Since then, the firm has grown to be a media giant in the East and Central Africa region. It is not only a medium for championing the interests of the citizenry within the region, but also has become a major investment group in the region. Thus expanding its focus from the independence theme in Kenya to its current vision of being a leading multi-media company in the region.

Currently it has a market capitalization of 4.492 billion making it not only the largest media companies in East and Central Africa, but also one of the largest firms in the Region. It is listed in the Nairobi Stock Exchange. Being a public limited company, it

has its shareholding spread across the public with His Highness the Aga Khan being the majority shareholder.

Nairobi is the headquarters of the company. Most of the executives are located in here except for those managing the Uganda and Tanzania based subsidiaries. The firm tends more to a centralized structure. The adoption of a division structure for its core activities in 1999 and subsequently making of Nation Newspaper Ltd, Nation Carriers Ltd and Africa Broadcasting Ltd into dormant companies gives further indication to this fact.

#### **4.3 Extent of diversification**

NMG has not only diversified in terms of the number of companies under its portfolio, it has also done so in terms of products and services that it offers. Specific subsidiary companies as well as the group's divisions have increased the number of products and or services that they deal with. This is besides the markets that they target. However broadly speaking, the group has diversified as shown on the Table 1. below.

**Table 1 Product and Services of NMG**

<b><u>Division/Subsidiary company</u></b>	<b><u>Product/Service</u></b>
Nation Broadcasting Division	Nation FM Radio Nation TV
Nation Newspaper Division	Daily Nation Sunday Nation Taifa Leo Taifa Jumapili Coast Express The East African Saturday Magazine Nation Media Website
Nation Carriers Division	Nation Courier Services
Nation Marketing and Publishing Ltd.	Nation Business Directory 2003 The Weekly Advertiser What's On Magazine
Monitor Publications Ltd.	Daily Monitor Sunday Monitor Monitor FM Radio Publication Services
Mwananchi Communications Ltd.	Mwananchi Newspaper Mwanasporti Uhuru FM Radio
Industrial Promotion and Building Ltd.	Nation Center Vienna Courts IPS Building

Source: NMGs 2002 Financial Report

### **Nation Newspaper Division (NND)**

The newspaper division was formerly known as Nation Newspaper Limited (NNL) until the change of structure and the adoption of the divisional structure. It would be said to be the cradle of Nation Media Group (NMG). The history starts from the very start of

printing newspapers to date. Both as a subsidiary company and as a division it has consistently performed well and has been a market leader in the country within the newspaper sector. In fact it was able to displace the other papers that preceded it in the market. Some have since gone out of existence while the remaining ones are trailing behind. Many factors can be attributed to the success. But significantly it has been the editorial policy of the paper that has endeared it to the readers. Its objectivity and credibility has been some of the greatest assets that have propelled it to the top. The performance of the company is what led to the conviction that there could be more room for expansion and the possibility of repeating such success in other ventures. As a matter of fact, the brand name was taunted to be a great asset in approaching other markets and products.

The financial performance has been satisfactory through the time of existence even though it has experienced significant challenges in keeping to this. Factors like the government fiscal policy, the economic conditions with the country, politics and so forth have affected performance. However, adequate responses and at times patience have seen its stabilization. Other performance indicators like the customer perspective have held up well over time.

### **Nation Broadcasting Division (NBD)**

The African Broadcasting Limited (ABL) preceded this division. It was not until May 1998 that ABL began serious work toward this sector. This was after the award of licenses to broadcast in Nairobi, which had been applied for about seven years before. In



October and December 1999, Nation radio and Nation television went on air respectively. This only covered the Nairobi region and its environs. Licenses to broadcast further were awarded but due to delays encountered at the Communication Commission of Kenya (CCK), the company was not awarded necessary frequencies. This also meant that the company continued to maintain provision for this investment and that in turn affected the return for this period of time.

The division also for a while continued to experience problems with a court case over the East African Television Network (EATN). The company bought 90% stake of EATN in 1998 but soon got into a legal tussle which has taken unnecessarily long period of time to get settled. Therefore the expansion of the division has not been at the desired rate and achievement of the desired effect.

The performance of the division has been satisfactory. However, serious competition has been the order of the day to the extent that the division has not been exactly able to exactly replicate the performance of NND. However, the swing between the first and the third position has been the experience over time. This has of course shown the division as a serious contender for the existing and potential market share. The statistics by consumer insight give this indication.

### **Nation Carriers Division (NCD)**

This was initially Nation Carriers Limited (NCL). It has existed primarily for the purposes of taking care of the distribution needs of the newspaper division. However over

time the company couldn't help but notice other opportunities that were in existence. These opportunities were both internal as well as external. They were internal in the sense that the firm previously outsourced its staff transportation for especially the newspaper division to an outsider. Externally on the other hand, was to the extent that there was unutilized capacity for its vehicles on their way back to Nairobi from delivering newspaper. This opportunity has since been captured and the division serves both the sister companies all over the country and also to other third parties. A courier business is indeed one of the ways the division has been able to get to the third parties. The performance both from the internal perspective as well as from the external perspective has been good. The group because of this has saved significant costs and also there has been revenue generation that added up to the total turnover for the company.

#### **Nation Marketing and Publishing Limited (NMPL)**

This was not included in the division structure and as such remained as an active subsidiary company. It has in its business publishing and marketing as the name suggests. To this end its products include The Weekly advertiser, What's On and The Nation Business Directory (formerly Kenya Business Directory). It also does publishing for third parties.

Probably this has been the most challenged among the subsidiary companies and divisions. This is told by the launch and the re-launch of What's On and The Business Directory. For instance, in 1998, NMPL published the Kenya Business directory after a break lasting several years. In 2003, the company re-launched again the business

directory as Nation Business Directory 2003. On the other hand, What's On was re-introduced in 1998. In 2000, What On was re-launched again. However the acquisition of The Weekly Advertiser was more of a blessing. The Weekly Advertiser, which deals with classified advertisements, had been persistently performing well. This is well above the performance of the other two products. In fact the company regard it as the main publication.

### **The Monitor Publications Limited (MPL)**

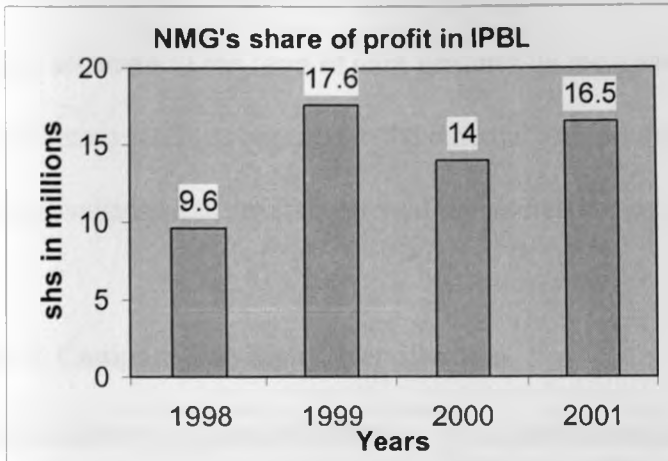
NMG acquired a 60% stake of the Monitor Publication Limited in the year 2000. Prior to the acquisition, MPL published the leading independent newspaper in Uganda. This was a case of entry in order to fulfill the quest of becoming the leading multi media company in the region. MPL also owns Monitor FM and Ngoma, a publication in Luganda. MPL is also involved in publishing business and in some occasions gets into other related businesses. For instance, in 2001, the World Bank awarded a tender to supply textbooks to primary schools for four years to MPL.

The performance of MPL has been satisfactory. Its performance in the year of acquisition was higher than that of subsequent years. This is attributed to the fact that the year 2000 was an election year in Uganda and as such higher readership for the paper. However, despite the overall shrinkage in overall circulation volumes, the market share has increased by an average of 3% since.

## Industrial Promotion and Building Limited (IPBL)

IPBL is a subsidiary that NMG does not have controlling interest. However, the group has interest since it not only contributes to the end value but also that it provides the housing for the group's headquarter.

Chart 1: NMG's Share of Profit in IPBL



Source: NMGs 2002 Financial Report

As shown on the chart 1, the performance of the company has not been consistent and consequently, groups share of profit has been on a roller coaster. This may be as a result of among other things, the refurbishments on the Vienna Court property and the revaluation of the properties.

## Mwananchi Communications Limited.

NMG acquired 90% stake of MCL in late 2003. MCL is a Tanzanian registered company, which is involved in the printing and broadcasting business. Though a good performer, MCL is yet to be evaluated in the light of its acquisition by NMG. However, it

has started to adopt the policy of the group. This policy cut across the different business units that the group has invested in.

**4.21 Diversification Mode**

NMG has used both the internal or start up mode diversification as well as the external diversification mode. External diversification would include mergers, acquisitions as well strategic alliances in the form of joint ventures. In most cases, NMG has used the internal diversification mode as opposed to the external one. As a matter of fact, only three of the active subsidiaries fall into the external diversification mode as shown in *table 2*.

**Table 2 Company/Division Diversification**

<u>Internal/start-up diversification</u>	<u>External/Mergers, Acquisitions &amp; Strategic alliances</u>
Nation Broadcasting Division	Industrial Promotion and Building Ltd.
Nation Newspaper Division	Monitor Publications Ltd
Nation Carriers Division	Mwananchi Communications Ltd
Nation Marketing and Publishing Ltd	

Source: NMGs 2002 Financial Report

**Table 3. Product/Service Diversification**

<b><u>Internal/start-up diversification</u></b>	<b><u>External/Mergers and Acquisitions</u></b>
Nation FM Radio	Daily Monitor
Nation TV	Sunday Monitor
Daily Nation	Monitor Publication Services
Sunday Nation	Mwananchi Newspaper
Taifa Leo	Mwanasporti
Taifa Jumapili	Uhuru FM Radio
Coast Express	IPS Building
The East African	Vienna Courts
Saturday Magazine	The Weekly Advertiser
Nation Media Website	
Nation Center	
Nation Courier Services	
Nation Business Directory 2003	
What's On Magazine	
Ngoma	
Monitor FM	

Source: NMGs 2002 Financial Report

Table 3 shows the product/service diversification of NMG. Its worth noting however that both Ngoma and Monitor FM are unique. This is because they are products resulting

from the external diversification of the group. But they themselves are post-acquisition start-ups, as opposed to the others, which are pre-acquisition start-ups. Same for the weekly advertiser only this time it is an acquired product by a subsidiary that is an internally diversified unit of the group.

#### **4.22 Geographic diversification**

The group has stretched its tentacles across the East African region. Uganda hosts the Group's subsidiary Monitor Publication Ltd, which has diversified into, printing, publishing, broadcasting and supplies. Tanzania on the other hand has, the Mwananchi Communications Ltd, which is diversified in printing and broadcasting. While in Kenya, the company has diversified into, carrier business, printing, broadcasting and finally publishing and marketing. It also has an alliance with a real estate firm.

In terms of products, the geographical diversification is wide in the respective countries. However, some of the products are still growing into different geographic regions of their given countries. For instance the Nation TV and radio is yet to fully grow into the whole country though that is the intent.

#### **4.23 Market/Product Diversification**

In Kenya, The newspaper division has diversified its products in light of its market. The Nation Newspaper is generally for English readership while Taifa Newspaper is for Swahili readership. The East African is meant for the whole East African literate populace.

The TV and radio audience have been targeted by the Nation TV and radio respectively. This is outside the readership of the group's papers. However, the Nairobi market is the major target.

Through the NMPL, the group has targeted different groups. The Weekly Advertiser has targeted the classified advertisers, while What's On magazine targets those wanting to pass messages to people visiting Kenya. The Nation Business Directory, targets all the people in the business sector for advertisements.

The Monitor newspaper targets the English readership in the whole of Uganda, while Ngoma targets the Luganda speaking people. Monitor FM on the other hand targets the FM listeners within Uganda and particularly those within Kampala and its environs.

Mwananchi and Mwanasporti are targeted toward the general readership in Tanzania and the sport lovers respectively. Uhuru FM is on the other hand is targeted to the radio audience mainly in Dar es Salaam.

#### **4.24 Reason for diversifying**

The group's diversification is based on the strategic intent or vision of the company. The underlying conviction is that, diversification should be able to bring growth and subsequently secure healthy and growing returns for the shareholders and guarantee a strong future. This is through increased efficiency of capital use, increasing the market share, utilization of excess capacity, economies of scale and scope and the advantage of



market power. The need also to increase dependability with the value chain is also a significant reason for diversifying.

#### **4.25 Industry**

Nation Media Group as the name suggests is in the media industry. Since the media industry is wide, the group has a wide area of options for diversifying into. However it has interests in other industries, where it considers those interests necessary in the perpetuation of its objectives besides forming part of its value chain. Thus, the entry to the areas that are not necessarily in the media industry is aimed at utilizing capabilities and competences as well strengthen the groups position in the industry. Carrier business for instance, is integration in distribution, a support to the company's welfare facility as well as utilization of the excess vehicle capacity.

#### **4.1 Implementation**

##### **4.41 Structures and Systems of Implementation**

All the organizations structures and systems have been involved at different levels and stages of the strategy. In the stages that include formulation, implementation and evaluation, mainly it is the board and the executive committee that were involved. On the other hand, at the levels of implementation that include tactical planning and operations, the executive committee and the different teams both at functional and operation levels that were involved.

## **The board**

The role of the board is to determine the company's direction and strategy, to monitor the achievements of business objectives and to ensure that the company meets its responsibilities to the shareholders. It is responsible for maintaining the group's internal control systems that are designed to safeguard the group's assets and to ensure the reliability of financial information used within the business. To this end the board has different committees that take this responsibility both as a desire of the group and as a requirement by the Institute of Certified Public Accountants of Kenya and Capital Markets Authority.

- The Strategic Planning Committee is responsible for general strategy of the firm. It considers and advises on the group's strategic aims and direction both at the long term and on the short term.
- The Finance and Audit Committee takes the duties of ensuring that the systems of internal control are effectively administered. It defines the responsibilities of the internal auditor and reviews the financial statements and interim results.
- The Editorial Committee considers and advises on the group's editorial strategy.
- The Remuneration Committee considers the remuneration of the executive and non-executive directors.
- Finally the Nominations Committee is responsible for executive and non-executive appointment.

As such, the board is in charge of the company's strategy. For this case, diversification being the main strategy of the company, it automatically falls within the responsibility of the board.

### **The Executive Committee**

The executive committee comprises the chief executive, the company secretary, the managing directors of the respective divisions and subsidiary companies as well as the functional manager of the group. It is headed by the chief executive and deals with operational matters as well as work to improve the communication and coordination through the group's various subsidiary companies and divisions. One can say that it largely works on the implementation of the strategy that is passed on from the board.

Each and every executive ensures the implementation of the strategy on the areas of their jurisdiction. That is, the functional leaders ensure that the specifics of the strategy that concern their functional department are done, same for division and subsidiary companies leaders.

Note: Due to the iterative nature at the levels of strategy, there is significant interaction between the respective teams in the hierarchy.

### **4.32 Process of implementation**

The decision to fully diversify was reached at the annual general meeting of 1998. In the said meeting, the memorandum of Association was amended to reflect the development into a multi-media organization. The amendments allowed the firm to expand to all the areas affecting their value chain and thus diversifying their core business. (See appendix 98a)

Diversification within the group is a planned one. Though not always systematic, muddling through has not been the group's style. The board through the strategy planning committee plans the group's diversification strategy. Since the board has the blessing of the shareholder, it does the choosing of the business ventures it would get into, how it would do that and when to do so. Once it has done so, the executive committee becomes instrumental in helping such a unit in getting entrenched into the NMG's way of doing things. For instance, in the adoption of the group's financial, editorial policy and such like things.

#### **4.33 The chronology of diversification in NMG**

As earlier indicated the NMG started as a Newspaper printer in 1960. In 1998, the NCL expanded its services to third parties. It also took over NNL transport services that were previously sub-contracted. The group also acquired 90% stake of EATN

In 1999, ABL went on air on schedule with Nation Radio and Nation TV in October and December respectively. In the period, the three principal operating subsidiaries, NNL, NCL and ABL were merged into divisional structure within NMG Limited. They became

NND, NCD and NBD respectively. However, NNL, NCL and ABL were retained as dormant subsidiary companies.

The same year saw also the acquisition of The Weekly Advertiser by NMP Ltd and the registration of NCD as a company. The Weekly Advertiser is a free sheet distributed in Nairobi and is exclusively devoted to classified advertising. NCD on the other hand was registered as a company in order to enable its vans to make use of the spare capacity by carrying parcels on their return journey. This was to maximize vehicle utilization.

In the year 2000, NMG acquired 60% of MPL making it have controlling interest on the said firm. NMG helped in the restructuring of the finance and editorial departments. MPL adopted NMG's editorial and finance policy. In the same year, MPL started a radio station – Monitor FM.

In 2001, NMPL re-launched the tourist magazine What's On. There was need to re-launch in order to boost again the performance of the magazine in terms of the revenue generation that was not so good. The re-launch proved well and led to improved revenues. Meanwhile, MPL was able to launch a Luganda publication called Ngoma. In the same year also, NCD took over the whole of Kenyan transport requirements for the group. This eliminated all outward sourcing of the transport services for the group.

In the year 2002, NMG acquired interest in MCL. MCL publishes Mwananchi, and Mwanasporti and owns Uhuru FM.

#### **4.34 Factors that have affected NMG's Diversification**

Government policy and Politics have affected the diversification of the firm. For instance, the license to broadcast was granted to the group through its ABC subsidiary after more than seven years of original application. Thereafter, the group for a long time continued inexplicably to be denied frequencies to broadcast outside Nairobi in spite of having obtained the said licenses from the government.

The depressed economy, a weaker shilling and declining purchasing power of consumers has affected the financial strength of the group. In other words this has meant that the consumers would not use the services of the group even though they have had the interest of doing so. This means in turn that the revenues of the group would not grow as desired and thus the expansion of the group would be affected. On another note, financing through other means like bank loans has been expensive.

Accompanying the economic condition is Kenya's fiscal policy. Tax increases have affected the profits of the firm. Import duties and other custom related taxes have increased the cost of production. On the other hand, corporation tax and VAT also interfered with the profit available for re-investment and that of the shareholders.

The level of competition has had an effect on diversification. Some of the products have faced significant competition to the extent that the group has had to look for ways to salvage one of its subsidiaries. For instance, competition that has faced Kenya Business Directory saw the directory go down in sales to the level of putting it on rest for some

time. The directory was later, it was re-introduced but the turnover was and has not been encouraging.

Finally, the legal matters have also significantly inhibited the expansion of the firm. For instance, the tussle on the ownership of EATN, both the case and the process of having it solved have been slow, making it difficult for the group to quickly utilize the capacity of EATN for its expansion purposes.

#### **4.35 Factors affecting performance**

Politics have played both an enhancing and destructive role in performance of the players. In enhancement for instance, the general election in Uganda saw a general increase in purchased volumes of The Monitor. This saw a significant increase in the turnovers and consequently the profits. However after the elections, the volumes shrank. Destruction on the other hand, has been experienced in many instances. For example, the passing of the media bill by the Kenyans legislature. This meant that the companies had to spend resources to lobby against the bill besides the loss of readership resulting from the censoring of the content published.

Legal issues have also affected the performance of the players. This has taken the form of the legal fee and fines imposed against the group's companies. For example, the court case revolving around the ownership of EATN has taken up a lot of company's resources. This is because the case has been in the courts for an excessively long time. This is not to mention the stuck investment cash whose

opportunity cost has continued to increase by the day. Meanwhile, the court systems have been very punitive against the media. The award of millions of shillings against the company has affected the returns of the company but much more the morale of the journalists. In which case there are not very motivated to do their best in fear of getting into problems with judicial system.

Increased competition within the industry has been the order of the day. More innovative capabilities have been experienced making the share ratio a volatile thing for all the players. This has been the experience with the group leading to occasional fall in revenues and consequently profits, at product, subsidiary/division and group levels. For instance, competition against Nation radio by firms like Kiss FM has meant that most of the advertising revenues have gone to Kiss FM who are the current Market Leaders in Nairobi and therefore affecting the revenues of the group to some extent.

The structure of management and the policy of the company have been instrumental in controlling the performance of the group. Centralization and the use of common functional departments has had the impact of rationalizing the companies and ensuring that the performance is to the desired expectations. The use of common policies has created uniformity. This helps in monitoring any diversion that would be to the detriment of a product, unit or the group at large. Other factors include, coordination, communication and high levels of operational efficiency in various



composite companies. ISO certification to a number of subsidiaries is a clear indicator of this.

The fiscal policy of the government has had an impact on the performance. Increases in the custom duty, corporate tax and so on meant that the group's returns cut. On the other hand when the company has decided to push over this effect to the consumers, the revenues have dropped, since the turnover in volumes has gone down.

Occasionally, the firm recovers and the situation go back to normal. However this is not always the case.

The economy of the country has been on the downtrend for a number of years. The economy has not only been in regression but at one point it slipped off to depression. In the 2001/02 government financial year the country experienced growth of  $-0.3$ . With such growth and coupled with other macro-economic conditions, the marginal propensity to consume of the general masses is low. Therefore consumption of the products offered by the various group's companies would not be at optimum.

The infrastructure of the country has not been so good. This has seen the significant rise on costs. For instance, in 1998 during the El Nino season, NNL was forced to transport the newspapers in a special chartered aircraft. These costs went way out of the budget since the cost of chartered aircraft was more than that of the road transport. The situation has not significantly improved over time making the company to incur high costs of maintaining its fleet.

#### 4.4 NMGs performance

Diversification strategy can be checked against a number of factors to determine how successful it has been. This is because, though the financial result are the most significant to the shareholders, they are not exhaustive. In fact they may give indication of good performance on the short run but fail to give a clear picture on the future since they are historical in nature. As such, an all rounded perspective is more accurate. In this case, financial results, customer and internal perspective have been used.

##### 4.41 Financial performance

Since financial result tend to be more operational in nature, one can trace the strategic element by checking the trend over a period of time. Usually above three years one would get a better picture since short-term manipulation of the financial position cannot be sustained over a long period of time, Table 4. Shows how the group has been performing over the last five years.

**Table 4. Five year financial summary**

<b>Year</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Turnover	2410	2451	3023	3539	4103
Expenses/costs	1921	2111	2727	3149	3468
Profit before tax	488	340	296	390	635
Profit after tax	316	248	203	257	404
Shareholders fund	1491	1807	1891	2082	2400

Figures in millions of shillings

Source: NMGs 2002 financial report

**Table 5. Percentage marginal increase in the financial figures**

<b>Years</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>
Turnover	2	20	17	16
Costs	1	29	15	1
Profit before tax	-30	-13	32	63

Source: NMGs 2002 financial report

From Table 5, it is apparent that as the group has continued to expand in terms of diversification, the turnover has also continued to grow. However, as shown on table 5, the marginal increased significantly in the period between 1999 and 2000 and later it kind of stabilizes though on a decreasing note. This increase coincides with the start of operation of the Broadcasting Division.

In both tables 4 and 5, the profits show a decline in 1999 and 2000. However, this changes in 2001, and in 2002 it is on its all time high. As a matter of fact the marginal increase in profits are quite encouraging in 2002.

**Table 6. Return on Shareholders Fund**

<b>Years</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Return on Shareholders fund in %	21	14	11	12	16

Source: NMGs 2002 financial report

According to Table 4, the face value of the shareholders fund continues to increase despite the changes in profits. However, as shown on Table 6, the return on shareholders

fund begins at 21% in 1998 and declines through to the year 2001 where there are signs of revival begin. At 2002, the same revived streak continues and ends at 16%.

It's worth noting that the company uses the consolidation accounting policy. In this, subsidiary undertakings are consolidated from the date of effective control to that of disposal. As such, there is no individual financial evaluation of the specific subsidiary companies. However, separate disclosure is made for minority interests.

#### **4.42 Customer perspective.**

Diversification did not have any significant impact on the customers. However it is worth noting that the individual performance of the units was good. For instance, according to consumer insight, Nation TV had the highest rating in terms of TV stations watched most often, for the months of November, December and January (see figure RC1 below). Other evaluations by Consumer insight can be seen on the appendices. The groups website has been the most popular website in East and Central African region. It achieved a record of 3.3 million hits in December.

#### **4.43 Internal perspective**

Internal perspective can be explained both by systems and the people. The systems focus on the cross business benefits that would result to synergy, while the people part would focus on the personnel perspective on diversification. The researcher was not allowed to do an evaluation on the personnel perspective on diversification.

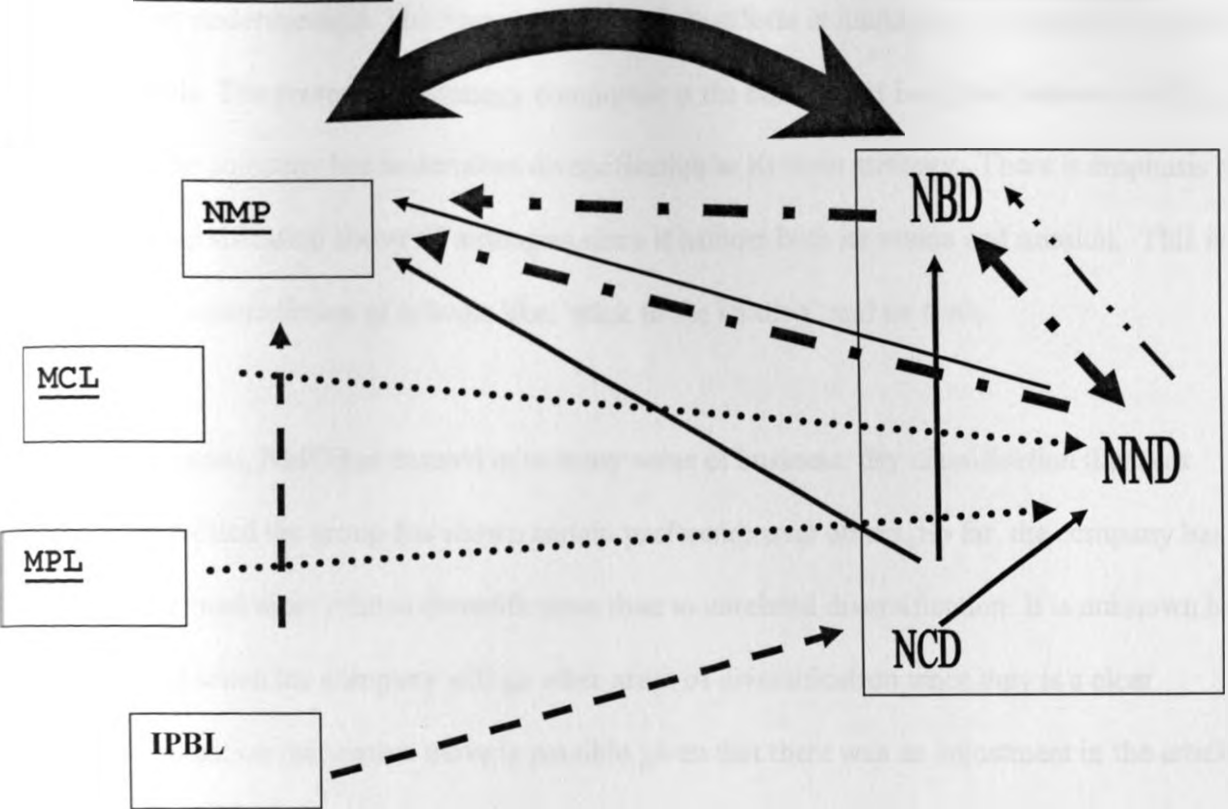
The figure 2 below shows the areas of synergy that have resulted from diversification. From this one can see the benefits that result from the relationships of the different business units that form the NMG. It is true that the different business units would have to outsource such benefits and at a higher price than when done by the sister company.

One sees that NMG's divisions share resources within themselves and with the other active subsidiaries. The sharing is as a result of vertical as well as horizontal integration the business units possess with each other. The centralization of the functional departments also means that there is more sharing of resources and expertise. But it is worth noting that the subsidiary companies outside Kenya, have they own functional departments. However these departments in the bigger picture fall under the functional departments in the headquarters.

**Figure 2. Cross Business Benefits**

Active Subsidiaries

NMG Divisions



- Key**
-  Brand name (Competence and credibility)
  -  Distribution of the East African
  -  Office space
  -  Promotion
  -  Transportation
  -  Printing
  -  Sharing Resources - Finance  
- Marketing  
- Human Resources

## 4.5 Discussions

The results from the study indicate that NMG is a firm that not only aware of its strategy but understands it. The firm shows conscious efforts in managing its strategy to meet its ends. The presence of a strategy committee at the board level is a good indicator of this.

The company has undertaken diversification as its main strategy. There is emphasis on diversification above all strategies since it harbors both its vision and mission. This is to the contradiction of schools like, 'stick to the knitting' and so forth.

As seen, NMG has entered into many areas of business. By classification that was provided the group has shown certain preference over others. So far, the company has inclined more towards related diversification than to unrelated diversification. It is unknown how and when the company will go into other areas of diversification since there is a clear indication that such a move is possible given that there was an adjustment in the articles of association in 1998. One would say that the company is trying to be systematic in its investment pattern and is sensitive to ensure only areas that yield more wealth and areas where the firm possesses competencies are entered into.

The preference for internal diversification in Kenya is also evident. NMG has been in the habit of starting from scratch most of its business units. Probably this can be attributed to the strength of their brand name. However, for its international investments, the firm has gone for external diversification. Buying established companies with established brands eliminates many of the problems associated with entry into new markets. For instance, it would take long before it establishes itself if it were to go the start-up way.

The performance of the firm is encouraging. Its financial indicators as well as the customer and internal indicators are significantly above average. That is not to mean that there is no room for improvement. As a matter of fact, it needs to work more since the competitive pressures are increasing by the day.

All in all the company is slowly but steadily pushing towards its strategic intent. So far it is the largest and the leading multi-media firm in East and Central Africa. It seem its inclined to hold on that position and working to that end to ensure it is not threatened.



## CHAPTER FIVE: CONCLUSIONS AND RECOMEDATIONS

### 5.1 Conclusions

Going by the indicators provided, the group's diversification seems to have gone and held well. The financial results over at least five years have indicated that the group has been able to have positive returns.

Diversification is not responsible for the performance of the individual units. There are other factors that contributed to the performance of such units. For instance, the firm's has been above excellent in operational efficiency. This has not only resulted good financial performance but also receiving of ISO certification to a number of its subsidiary companies.

Lack of controlling interest has an effect on the management and hence the difference in performance between the companies that the group has control and those it has no controlling interest. For instance, one can compare the performance of IPBL and the Group's performance generally.

Competence sharing and transfer and high level of communication and coordination take place between the subsidiary companies. This is probably why the company has adopted common functional departments to help in this. To this end one can see or easily identify the specific units as being part of the whole. Also, the cross business benefits are part of the package that indicates the synergy created as a result of diversification. This has had a positive impact on total performance of the company.

All products of diversification are not at par in regards to performance even though the management style and policies are almost the same. Different environmental conditions determine the performance of any unit or product.

## **5.2 Recommendations**

Though the company has so far been successful with diversification, there is increasing need for caution as they further expand. This is because, as seen in many other diversifications, it is difficult to have competences in every area of investments. This is demonstrated by the performance of products like What's On and The Kenya Business Directory.

The company should review their evaluation policy for its subsidiaries.

Consolidation for instance would only help to conceal ailing subsidiaries and may in the long run affect the whole company.

There is no definite policy on divestiture. The company needs to have one since there is no assurance that all the investments will be perpetually profitable. The firm should consider divesting from not so well performing products. If a product is re-launched and does not realize the expectation, it is a clear indication of lack of some competencies in the said product. Such competencies would be necessary for successful venture.

The firm needs to have a more definitive strategic intent for all its ventures. For instance define the business unit either in terms of the position or in terms of the

returns or both. In terms of position the company should aim to occupy either the first or second position in the market for any of its products and or its business units. In terms of financial returns the group should have a calibration showing the lowest expected rate of returns for all the units. Such a limit should not be exceeded, and if a company does so consistently over a period of time, consideration for divestures should be considered. However all this should be alongside the vision of becoming the leading multi-media company in the region.

Going by the minutes of the meeting that adopted diversification, it means that the group intends to invest in all the said areas. This in the long run would mean that the company cannot define what industry it is in, let alone its core business, which is currently non existent because of diversification. This could further prove disastrous if no caution is taken.

### **5.3 Limitations of the study**

Information availability was restricted. The company policy on information outflow could allow for free exchange of information with the respondent. This inhibited the provision of information. Further to this only one respondent was available for the interview.

The significant use of secondary data some of which do not give the specifics that is of interest for the study. Most of the information was provided in the secondary data format. In that nature, its not possible to get deeper in enquiring especially given the

very fact that the respondent would not be willing to go deep into the confidential areas.

Diversification alone is not the only factor contributing to positive results. Other operational efficiencies may contribute to the success of the group. There is therefore a blurred demarcation between the results springing from diversification and those resulting from operational efficiencies.

The policy of consolidating the accounts makes it difficult to evaluate the performance of any one unit at a given time. This is with the exception of the subsidiaries where the group has controlling interests. So far only IBPL is exempted.

#### **5.4 Suggestion for further research**

There are many conceptual issues that arise from the study of diversification. Some are controversial and almost impossible to reach a consensus while others are easily agreeable. There are a number of studies that have been conducted in order to investigate the relationship between diversification and performance. The only problem has been the result of such studies has been divergent as the number of studies done. It therefore adds no value to add one more to the already congested controversial area. As with study the focus is on the different elements of diversification and how different units have handled diversification.

Since this study used a firm that has so far been successful with diversification, it would be interesting to study a firm that has not had every good results with diversification and much more a firm that has had disastrous results with diversification. Probably by so doing, the conclusions of the study would help in indicating to a firm things that are not to be done in diversification. More insight may be derived from that and help in understanding why some of the reasons that have led to firms failing with diversification and by extension reflect on the same to the studies that have been done.

Another area of interest would be to find out if there is competitive advantage derived from diversification. Firms are able to excel if they possess competitive advantage over and above that of the competition. This is unless a firm exists in imperfect competition environment, a situation that is becoming rare considering the nature of the world today and the tendency towards becoming a global village. In this study, if it were true that diversification creates competitive advantage, what would be the specific part of the diversification that causes such an advantage? And secondly, how would one tell out an advantage due to diversification and that due to other factors? If there is no advantage created, one would want to find out for instance, why a new business unit linked to an excelling firm would have similar tendency and would there be benefits like brand name that may cause such excellence.

Since this study focused on an individual unit of study by design, it would be interesting to study a number of firms in the same industry and find out their experiences with diversification. One would want to look at their responses to similar environmental

stimuli and their maintenance of the balance between their capacity and their environment.

Finally, it would add value to do a study on the different business units in a diversified firm. One of the important things one would be interested in finding out is impact diversification has on the individual units. This includes both the positive as well as the negative impact of diversification. This may probably explain the performance of diversified firms, depending on the individual impact diversification has on each unit. Since studies have been done on the impact of business units on diversification, it may not be important to duplicate the same, it is more important and necessary to understand the reverse.

## **REFERENCES.**

- Ansoff, I. and E. McDonnell (1990). **Implanting Strategic Management 2ed.** Prentice Hall, New York
- Ansoff, I. (1968). **Corporate Strategy.** Penguin, Harmondworth.
- Bates, D.L and D.L. Elgredge (1984). **Strategy and Policy: Analysis, formulation and implementation. 2ed.** Wm. C. Brown Publishers, Iowa
- Baumol W.J. J.C Panzar and R.D Willing (1982). **Contestable Markets and The Theory of Industry Structure.** Harcourt Brace Jovanovich
- Bett, S.K. (1995) **Strategic Marketing of Dairy Products in Kenya**, Unpublished MBA project, University of Nairobi
- Byars, Lloyd L. (1987). **Strategic Management: Planning and implementation. 2ed** Harper and Row Publishers, N. York
- Collis, D.J. and C.A. Montgomery (1998). **Creating Corporate Advantage: Harvard Business Review May-June pp71-83**
- Daily Nation, Wednesday, July 18, 2002, **Nation Profits up by 78 p.c.**
- Fombrun, C.J. and V. P. Rindova (1999). **Constructing Competitive Advantage: The Role Of Firm-Constituent Interactions: Strategic Management Journal, Vol. 20, pp 691-710**
- Grant, R.M, A.P. Jammie and H. Thomas (1998). **Diversity, Diversification and Profitability among British Manufacturing Companies 1972-84; Academy of Management Journal; Vol. 31, No. 4 pp 771-801**
- Grant, R.M. (1998). **Contemporary Strategy Analysis 3ed.** Blackwell Publishers Inc. Massachusetts.
- Hax, A.C. and N.S Majluf (1996). **The strategy concept and Process: A Pragmatic Approach;** Prentice Hall New Jersey.
- Hill, C.W. and R.E. Hoskisson (1987). **Strategy and Structure in Multi-product Firms: Academy of Management Review. Vol. 123 pp 331-341**
- Howe, W.S. (1986) **Corporate Strategy: Macmillan Press Ltd, London**
- Itami, H. T. Kagoro, H. Yoshihara and A. Sakuma (1982). **Diversification Strategies and Economic Performance: Japanese Economic Studies. Vol.11 No.1 pp 78-110**

- Jammine, A.P. (1984). **Product Diversification, Interaction Expansion and Performance: A study of strategic risk management in U.K. manufacturing firms.** Ph.D. Dissertation: London Business School.
- Jauch L. R. and W.F. Gluek (1998) **Business Policy and Strategic Management 5<sup>th</sup> ed.** McGraw-Hill Book Co. New York
- Johnson, G. and K. Scholes (1999). **Exploring Corporate Strategy 5<sup>th</sup> ed.** Prentice Hall Europe, Hertfordshire
- Kay, J. (1993). **Foundations of Corporate Success:** Oxford University Press Inc. New York
- LenZ, R.T. (1980). **Environment, Strategy, Organization Structure and Performance: Patterns in One Industry:** Strategic Management Journal. Vol. 1 pp 209-226
- Makides C.C (1997). **To Diversify Or Not To Diversify:** Harvard Business Review Nov-Dec
- Ohmae, K. (1983). **The Mind Of A Strategist:** Penguin Books, Harmondworth
- Pearce II, J. A. and R.B. Robinson Jr. (1994). **Formulation, Implementation and Control of Competitive Strategy 5<sup>th</sup> ed.** Richard D. Irwin Inc. Illinois
- Penrose, E. T. (1959). **The Theory of Growth of the Firm:** Wiley, N. York
- Peters, T and R. Waterman (1982). **In search of Excellence:** Harper & Row, N. York
- Porter, M.E. (1985). **Competitive Advantage:** Free Press, N. York
- Porter, M.E. (1987). **From Competitive Advantage to Corporate Strategy:** Harvard Business Review May-June 1987 pp43-59
- Rue, L.W and P.G Holland (1986). **Strategic Management: Concepts and Experiences:** McGraw-Hill Inc. New York
- Rumelt, R. (1982). **Diversification strategy and Profitability:** Strategic Management Journal. Vol. 3 pp 359-370
- Salter, M.S. and W. Weinhold (1979) **Diversification Through Acquisition:** Free Press New York
- Scherer, F. and D. Ross (1990) **Industrial Market Structure and Economic Performance;** Houghton Mifflin Inc, Massachusetts



- Teece, D.J (1980). **Economies of Scope and the Scope of the Enterprise: Journal of Economic Behavior and Organization**. Vol. 3 pp 223-247
- Thiga, J.K. (1999). **Business Process Reengineering: A Case study of Kenya Power and Lighting Company Limited**, Unpublished MBA project, University of Nairobi.
- Thompson Jr, A.A. and A. J. Strickland III (1990) **Strategic Management Concepts and Cases 7<sup>th</sup> ed.** Richard D. Irwin Inc. Illinois
- Thompson Jr, A.A. and A. J. Strickland III (1993) **Strategic Management Concepts and Cases 5<sup>th</sup> ed.** Richard D. Irwin Inc. Illinois
- Thompson Jr, A. A; A. J. Strickland III and T.R. Kramer (1995). **Readings in Strategic Management 5<sup>th</sup> ed.** Richard D. Irwin Inc. Illinois
- Wheeler, T.L. and J.D. Hunger (1989). **Strategic Management and Policy 3ed.** Addison-Wesley Publishing Company Inc. Massachusetts.

**APPENDIX 1**

**REQUEST LETTER TO STUDY NATION MEDIA GROUP**

**D. Njoroge Thuo**  
University of Nairobi  
Faculty of Commerce  
P.O. Box 30197  
Nairobi  
25th July 2002

Mr. W. Kiboro  
Chief Executive Officer  
Nation Media Group  
P.O. Box 49010-00100  
Nairobi.

Dear Sir,

**RE: REQUEST TO DO A STUDY ON YOUR COMPANY**

I am a student in the Faculty of commerce of the University of Nairobi. In partial fulfillment of the requirements of Master of Business Administration (MBA) degree, I am conducting a study in the area of **Diversification strategy practice**. The excellence of your company in this area provides a good ground for academic study and documentation. It is on this interest that I would like to document your company's experience.

The intended study would like to use a case study design to meet its objectives. The study is limited to answering three generic questions. Namely:

- Why has your company diversified?
- What is the extent of diversification?
- How successful has diversification as a strategy been?

And to do so it may be necessary conduct interviews with the different managers besides collecting data from your library. Any information within and without this framework will be restricted to academic purposes only and above all to your consent. I am willing to clarify any issues that would be of interest to you prior and after your consent.

Attached is a copy of my introductory letter from the university.

I'm looking forward to favorable response towards this request.

Truly yours

**Njoroge Thuo**

**APPENDIX 2**

**QUESTIONNAIRE / INTERVIEW GUIDE**

## QUESTIONNAIRE / INTERVIEW GUIDE

Name of the respondent (Optional).....

Designation.....

Name of the organization.....

Address.....

### THE ORGANIZATION'S PROFILE

1. Which year was the organization established?
2. What business was the organization when it started?
3. a) Is the firm privately or publicly owned?  
b) What is the shareholding structure like? (optional)
4. What is the current size of the business in terms of the staff numbers and the market capitalization?

### EXTENT OF DIVERSIFICATION

1. To what areas of business and markets have you grown into since the company started?
2. If any, which of the said business areas do you regard as your core business?
3. Kindly list chronologically the order of diversification
4. What are the specific reasons for diversifying into each and every business area?

5. What criterion or guiding principles were used in the choice of a business area?  
E.g. a question like “ Can we out perform our competitors in the potential area for diversification?”
6. Are there environmental dynamics that have enhanced, justified (e.g. government licensing) and /or inhibited (e.g. increased competition) diversification?
7. With most companies opting to move away from diversification why has your company chosen to that way anyway?
8. What industry do you consider your company to be?

## **IMPLEMENTATION**

1. Who is in charge of the whole process of diversification?
2. Was the strategy implemented in a pre-determined way or was by muddling through?
3. Was the strategy team coordinated or individually coordinated?
4. Are there changes that have occurred because of diversification? E.g. Change of the mission statement, change of the staff levels and so forth?
5. a) What is the organization structure like?  
b) To what extent is the firm centralized or decentralized?
6. What obstacles has the firm encountered in the implementation of this strategy?

## **RESULTS**

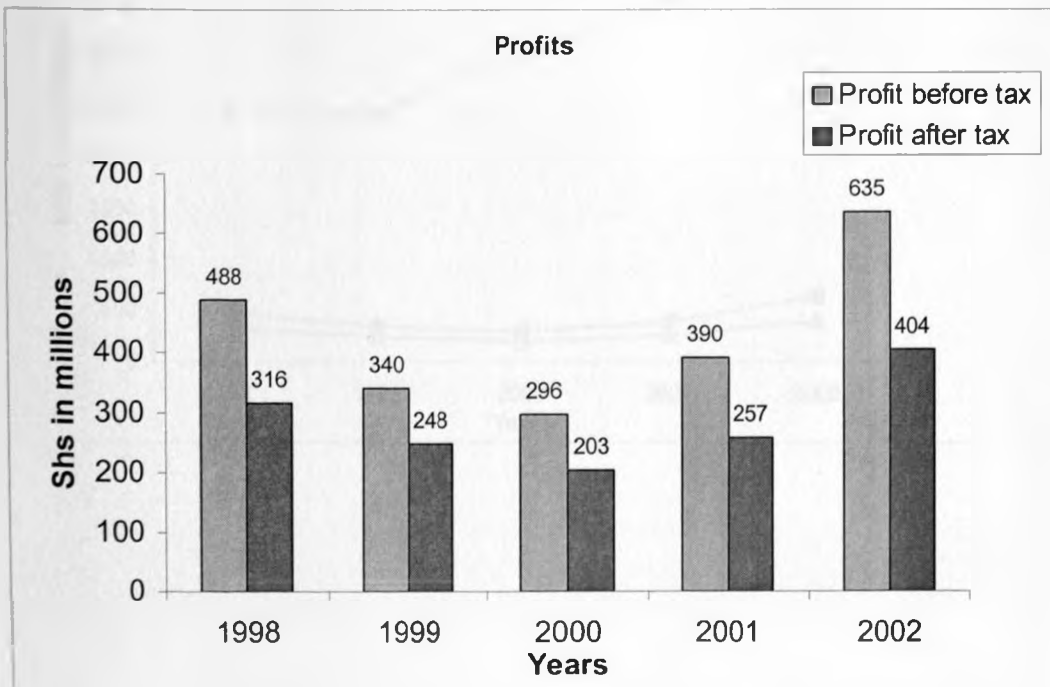
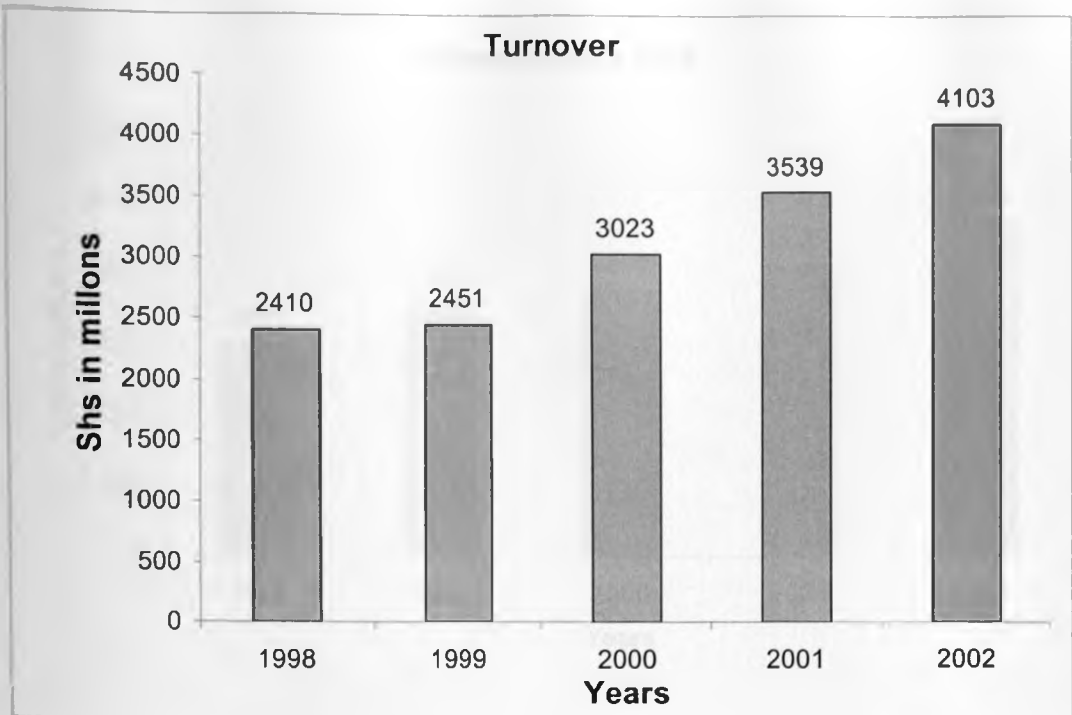
1. How successful would you consider the strategy to be?
2. Has the strategy impacted in any way on your customers?

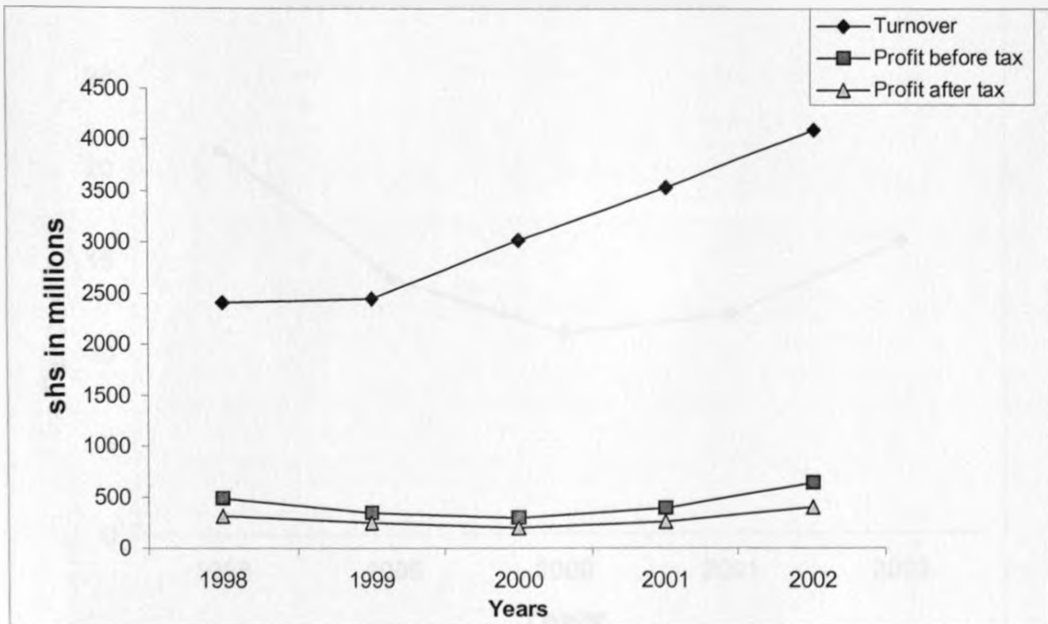
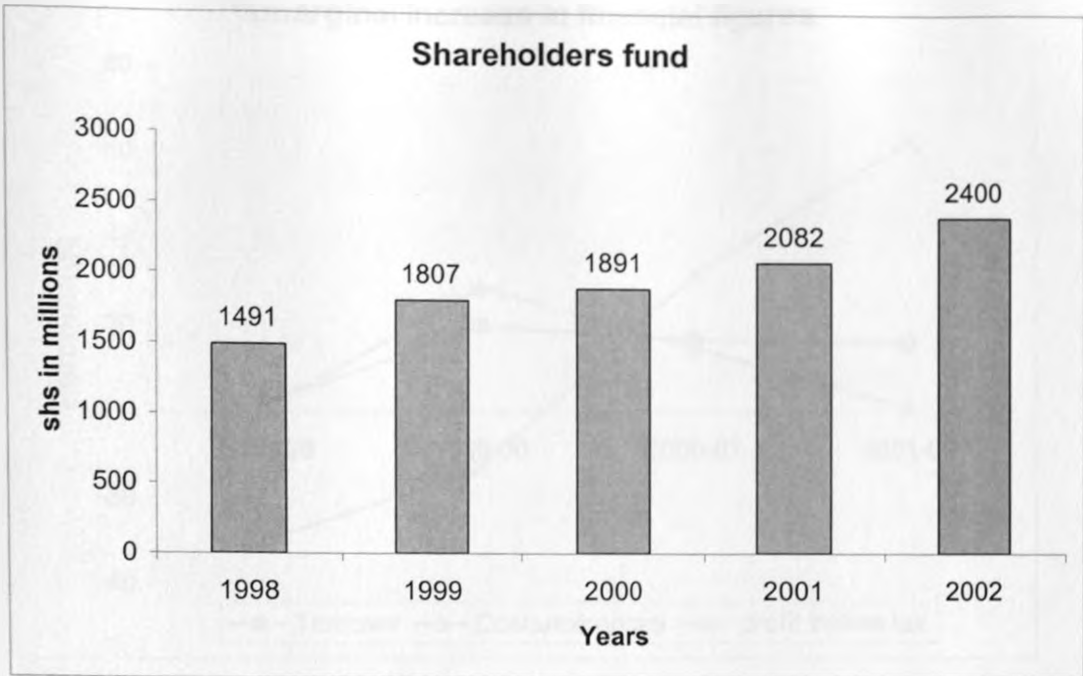
3. Has the strategy influenced the internal organizational focus both at the management level and at the employee level?
4. Has the strategy enhanced the company's innovative capabilities?
5. Are there other reasons attributable to the success of the company other than diversification?
6. Are there any cross business benefits accrued from each business? E.g. the brand name

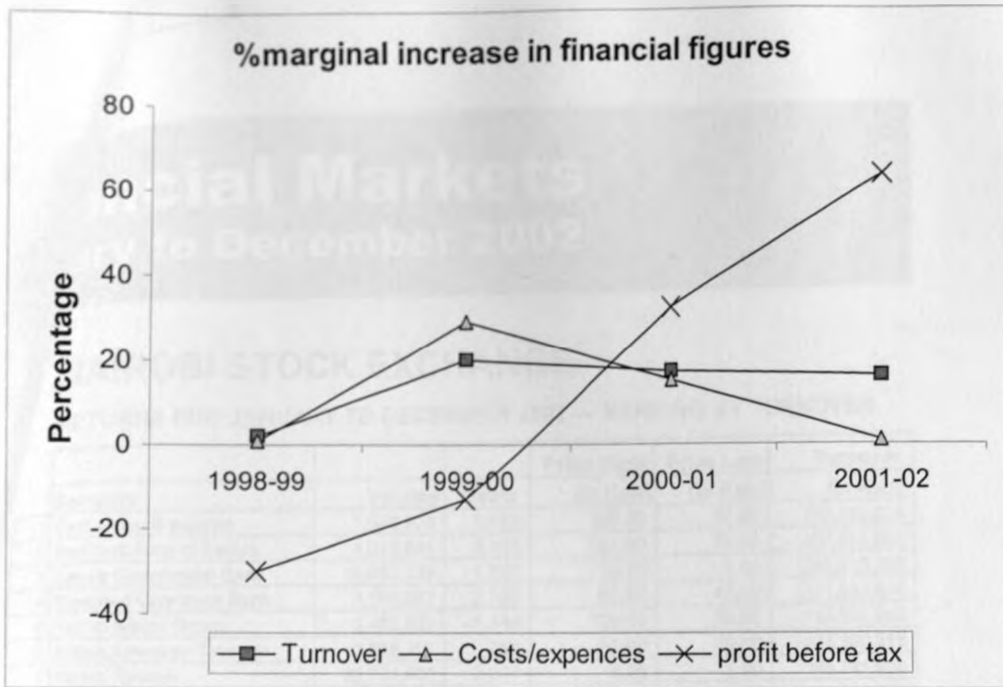
**APPENDIX 3**

**FINACIAL PERFORMANCE AND INDICATORS**









# Financial Markets

## January to December 2002

### NAIROBI STOCK EXCHANGE

RETURNS FOR JANUARY TO DECEMBER 2002 — RANKING BY TURNOVER

			Price High	Price Low	Turnover
Security	Volume	Deals	(In Ksh)	(In Ksh)	(In Ksh)
1 East Africa Breweries	7,998,928	1,485	128.00	70.00	737,496,524
2 Barclays Bank of Kenya	4,016,644	3,438	101.00	70.00	337,513,650
3 Kenya Commercial Bank	16,982,239	1,860	18.70	7.50	241,612,289
4 Standard Chartered Bank	3,188,062	2,782	62.00	43.00	171,843,536
5 Nation Media Group	3,452,530	1,348	700.00	38.50	165,846,289
6 British American Tobacco	2,836,119	759	62.00	40.00	145,390,815
7 Kenya Airways	23,731,605	2,910	8.00	5.00	145,241,958
8 NIC bank	8,413,229	731	19.70	11.60	141,511,322
9 Bamburi Cement	6,440,281	503	43.75	15.00	129,514,243
10 Kenya Power & Lighting	13,529,738	1,053	19.30	6.00	126,773,735
11 Uchumi Supermarkets	5,009,285	929	33.75	12.00	82,149,777
12 Sasini Tea & Coffee	4,505,864	180	16.05	12.00	66,521,219
13 ICDC Investments	2,905,055	760	38.75	17.00	59,545,218
14 CMC Holdings	3,559,757	195	27.00	7.70	49,393,513
15 BOC Gases	1,159,733	263	40.25	24.00	32,826,745
16 Cabacid Investments	808,399	185	60.00	31.00	30,390,020
17 HFCK	7,873,263	644	5.20	2.75	27,752,275
18 Jubilee Insurance	1,659,583	214	16.60	14.00	28,373,197
19 Kakuzi	1,440,239	170	36.00	13.75	20,784,986
20 Total Kenya	1,291,467	497	25.00	8.70	20,025,055
21 Unga Group	4,486,441	457	7.10	2.75	17,309,573
22 Firestone (EA)	2,250,053	371	14.00	6.50	17,213,915
23 Kenya Oil	175,439	108	107.00	70.00	14,347,521
24 Crown Berger	2,456,558	145	8.00	4.85	13,983,201
25 Diamond Trust Kenya	1,499,211	192	11.30	7.45	13,883,538
26 Mumias Sugar Company	4,954,622	410	6.45	2.00	12,346,425
27 Athi River Mining	2,763,754	251	5.10	3.00	10,197,980
28 E A Cables	1,154,704	122	10.05	7.00	9,161,855
29 Brooke Bnd	181,766	123	66.00	36.00	8,994,949
30 Williamson Tea kenya	239,142	117	57.00	24.00	8,823,009
31 National Bank of Kenya	2,691,141	676	7.00	2.20	7,950,770
32 CFC Bank	859,970	126	9.40	6.00	7,894,448
33 TPS Serena	361,938	378	19.25	15.75	6,156,026
34 Panafira Insurance	604,832	46	13.00	6.70	4,322,501
35 Rea Vipingo	1,446,632	133	3.25	2.00	3,858,574
36 Kenya National mills	1,043,741	102	8.50	2.40	2,593,143
37 Standard Newspapers Group	326,371	120	10.10	3.50	2,352,385
38 Kenya Orchards	210,744	21	5.30	5.30	1,116,943
39 A. Baumann	97,757	40	9.25	4.20	805,572
40 East Africa Portland Cement	44,880	32	13.80	10.00	567,784
41 George Williamson Kenya	10,185	10	59.50	34.00	450,660
42 EA. Packaging	44,298	17	8.00	7.70	353,888
43 Africa Lakes	17,100	25	26.50	15.80	346,850
44 Dunlop	59,145	37	5.30	4.70	298,941
45 City Trust	13,122	16	19.30	17.50	239,235
46 Eaagads	12,950	3	17.70	17.40	225,495
47 Express Kenya	15,625	21	7.00	6.80	109,187
48 Marshalls EA.	20,001	5	5.80	5.00	100,680
49 Car & General	10,199	6	10.00	8.95	100,060
50 Kenya Power & Lighting (4%)	10,908	7	6.00	5.00	62,798
51 Kenya Power & Lighting (7%)	572	2	8.00	8.00	4,578
<b>TOTAL</b>	<b>148,865,821</b>	<b>25,025</b>			<b>2,924,686,607</b>

91 Day T-Bill Rates



## Market Report

Economic indicators for the first seven months of 2002 shows that the real GDP grew at an annualized rate of 0.7% in the first eight months of 2002 compared with 0.8% in the same period of 2001. Inflationary pressure increased marginally to 1.9% in September 2002 from 1.8% in September 2001, while the 12-month underlying inflation rose slightly to 1.5% in October from 1.4% in September 2002. Interest rates for the 91-day treasury bills increased to 11% in October 2002 from 7.6% in September. Money supply increased by 8.4% in the year to September 2002 due to increases in both foreign and domestic net assets of the banking system.

Compared with 3.0% increase over the same period in 2001. The banks' non-performing loans net of interest-in-suspense, have declined to Ksh72.5 billion in September 2002.

The government's fiscal operations during the first three months of the fiscal year 2002/3 resulted in a deficit on a commitment basis of Ksh10.4 billion or 1.1% of the GDP, compared with a deficit of Ksh3 billion registered over a similar period in the previous fiscal year. The stock of public debt also increased to Ksh626.2 billion in September 2002 from Ksh613.8 billion in June 2002.

The Kenya shilling marginally weakened against the US dollar in October 2002 to exchange at Ksh79.3 compared with Ksh78.8 in September 2002. However, the overall balance of payment improved to US\$93 surplus in the year to September 2002. Trading at the NSE was mixed in October 2002. Turnover improved in the equity market but declined in the bond market. The index increased 7% to close at 1116.36 in October from the previous level of 1043.36 in September 2002. Market capitalization increased by 6.4% to Ksh91.2 billion in October from Ksh85.8 billion in September 2002. Turnover ratio was 0.31% in October compared with 0.28% in September 2002. Activity in October was largely dominated by the industrial and allied sectors which

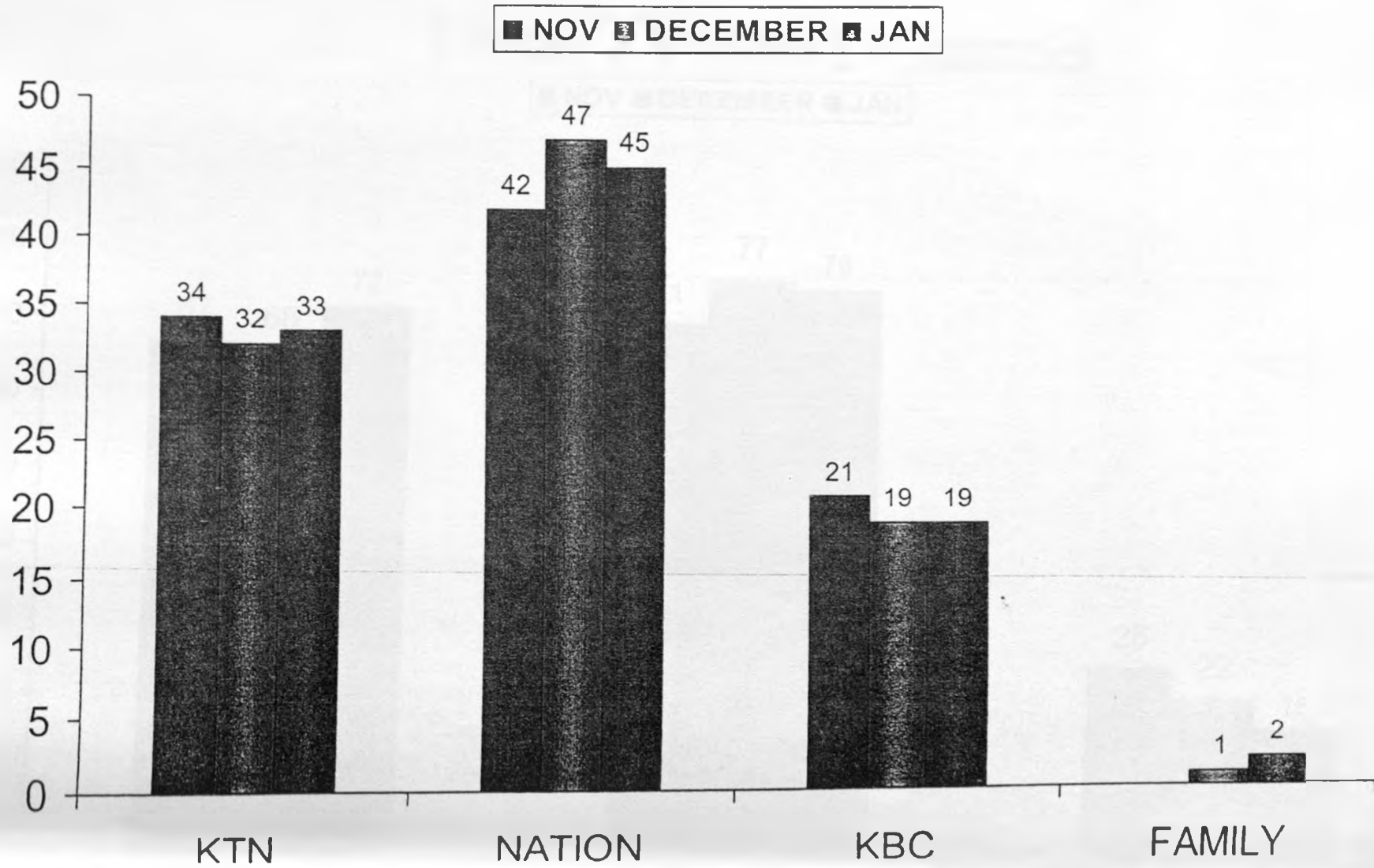
## MARKET STATISTICS SUMMARY (YEAR 2002)

Ordinary Shares	Par Value	Opening Price	Closing Price	Price Change	Total Shares Issued	Mkt Cap. Ksh Mn.	EPS	DPS	P/E	Dividend Yield
	JAN 2002	31-Dec-2002	%							
Ranked by % price change winners										
Bamburi	5/-	16.25	43.75	169.2%	362,959,925	15,878.50	1.65	1.00	26.52	2.3%
CMC	5/-	9.00	21.00	133.3%	24,279,560	509.87	3.66	0.75	5.74	3.8%
Nation Media Group	5/-	43.00	84.00	95.3%	53,478,945	4,492.23	7.20	2.35	11.67	2.8%
E A Breweries	10/-	74.00	128.00	73.0%	109,030,504	13,955.90	21.16	11.50	6.05	9.0%
Kenol	5/-	74.00	107.00	44.6%	10,079,612	1,078.52	37.21	9.50	2.88	8.9%
Standard Newspapers	5/-	7.00	10.10	44.3%	65,133,359	657.85	4.90	0.00	2.06	0.0%
HFCK	5/-	3.80	5.20	36.8%	115,000,000	598.00	0.19	0.00	27.37	0.0%
Barclays Bank	10/-	74.00	101.00	36.5%	185,166,000	18,701.77	16.00	14.00	6.31	13.9%
National Industrial Credit	5/-	14.95	19.70	31.8%	82,414,551	1,823.57	3.04	1.60	6.48	8.1%
Standard Chartered Bank	5/-	47.75	62.00	29.8%	247,243,464	15,329.09	9.04	8.25	6.86	13.3%
Firestone E A (1969)	5/-	7.05	8.70	23.4%	278,342,400	2,421.58	1.04	0.50	8.37	5.7%
BOC (K)(formerly E.A.O)	5/-	30.00	37.00	23.3%	19,525,446	722.44	5.40	4.35	6.85	11.8%
Total	5/-	19.00	22.75	19.7%	174,813,306	3,977.00	-2.23	0.00	-10.20	0.0%
National Bank	5/-	3.05	3.65	19.7%	200,000,000	730.00	1.49	0.00	2.45	0.0%
Atni River Mining Ltd	5/-	4.00	4.70	17.5%	93,000,000	437.10	0.41	0.30	11.46	6.4%
Crown Berger	5/-	6.00	7.00	16.7%	21,570,000	150.99	1.23	0.50	5.69	7.1%
K.C Bank	10/-	16.45	18.70	13.7%	149,600,000	2,797.52	-9.31	0.00	-2.01	0.0%
Diamond Trust	4/-	9.00	10.00	11.1%	79,500,000	795.90	0.51	0.40	18.61	4.0%
Tourism Promotion Services	5/-	17.10	19.00	11.1%	38,879,000	734.90	2.15	1.10	8.84	5.8%
British American Tobacco	10/-	49.00	54.00	10.2%	100,000,000	5,400.00	4.67	4.00	11.56	7.4%
Carbacid	5/-	34.50	37.25	8.0%	9,438,963	351.60	4.93	23.10	7.56	62.0%
E.A Portland	5/-	12.70	13.00	2.4%	90,000,000	1,170.00	1.37	1.50	9.49	11.5%
CFC Bank	5/-	9.00	9.20	2.2%	120,000,000	1,104.00	1.18	0.67	7.80	7.3%
Unchanged Stocks										
Mutchings Bemer	5/-	20.25	20.25	0.0%	360,000	7.29	-18.34	0.00	-1.10	0.0%
Jubilee	5/-	15.50	15.50	0.0%	36,000,000	558.00	2.82	1.75	5.50	11.3%
Dunlop	5/-	5.00	5.00	0.0%	10,000,000	50.00	0.32	0.40	15.63	8.0%
E A Cables	5/-	9.20	9.20	0.0%	20,250,000	186.30	0.24	0.00	38.33	0.0%
E A Packaging	5/-	8.00	8.00	0.0%	7,680,000	61.44	1.63	0.00	4.91	0.0%
Kapchorua	5/-	137.00	137.00	0.0%	3,812,000	535.84	-4.08	0.50	-33.58	0.4%
K Orchards	5/-	5.30	5.30	0.0%	7,800,000	41.34	19.20	0.00	-0.28	0.0%
Limuru Tea	20/-	394.00	394.00	0.0%	600,000	236.40	-4.97	0.00	-79.28	0.0%
Ranked by % price change losers										
Express	5/-	7.00	6.80	-2.9%	4,800,000	32.64	-6.55	0.00	-1.04	0.0%
City Trust	5/-	19.20	18.00	-6.3%	4,166,046	74.99	1.28	2.00	14.06	11.1%
Kenya Airways Ltd	5/-	7.35	6.85	-6.8%	461,815,484	3,162.07	1.88	0.60	3.64	8.8%
Eagads	1/25	19.00	17.40	-8.4%	8,039,250	138.88	0.48	0.50	36.75	2.9%
X Pow & L	20/-	19.05	17.35	-9.9%	79,128,000	1,372.87	-23.75	0.00	-0.73	0.0%
Rea Vipingo	5/-	2.90	2.60	-10.3%	60,000,000	156.00	-0.11	0.00	-23.64	0.0%
Car & Gen	5/-	10.00	8.95	-10.5%	22,279,560	199.40	-0.26	0.00	-34.42	0.0%
Sasini	5/-	15.90	13.60	-14.5%	38,009,250	516.93	-0.18	0.50	-75.56	3.7%
Uchumi Supermarkets	5/-	31.50	25.75	-18.3%	60,000,000	1,545.00	1.49	1.60	17.28	6.2%
ICDC	5/-	38.25	29.00	-24.2%	54,982,863	1,594.50	4.83	2.00	6.00	6.9%
B Bond	10/-	72.00	54.00	-25.0%	48,875,000	2,639.25	4.57	2.00	11.82	3.7%
Unga	5/-	6.70	5.00	-25.4%	63,089,124	315.45	-1.07	0.00	-4.67	0.0%
G Williamson	5/-	66.00	43.75	-33.7%	8,756,320	383.09	-3.93	0.50	-11.13	1.1%
A Basimani	5/-	8.05	5.30	-34.2%	3,840,066	20.35	(12.52)	0.00	0.42	0.0%
Mumax	2/-	6.35	4.00	-37.0%	510,000,000	2,040.00	0.13	0.10	30.77	2.5%
African Lakes Corporation	5/-	26.50	15.80	-40.4%	156,729,077	2,476.32	-3.31	0.00	-4.77	0.0%
Pan Africa Ins	5/-	13.10	7.00	-46.6%	48,000,000	336.00	-3.17	0.00	-2.21	0.0%
Kakuzi	5/-	36.00	14.65	-59.3%	19,599,999	287.14	-1.19	0.00	-12.31	0.0%
Marshalls	5/-	18.30	5.10	-72.1%	14,393,106	73.40	2.03	0.00	2.51	0.0%

**APPENDIX 4**

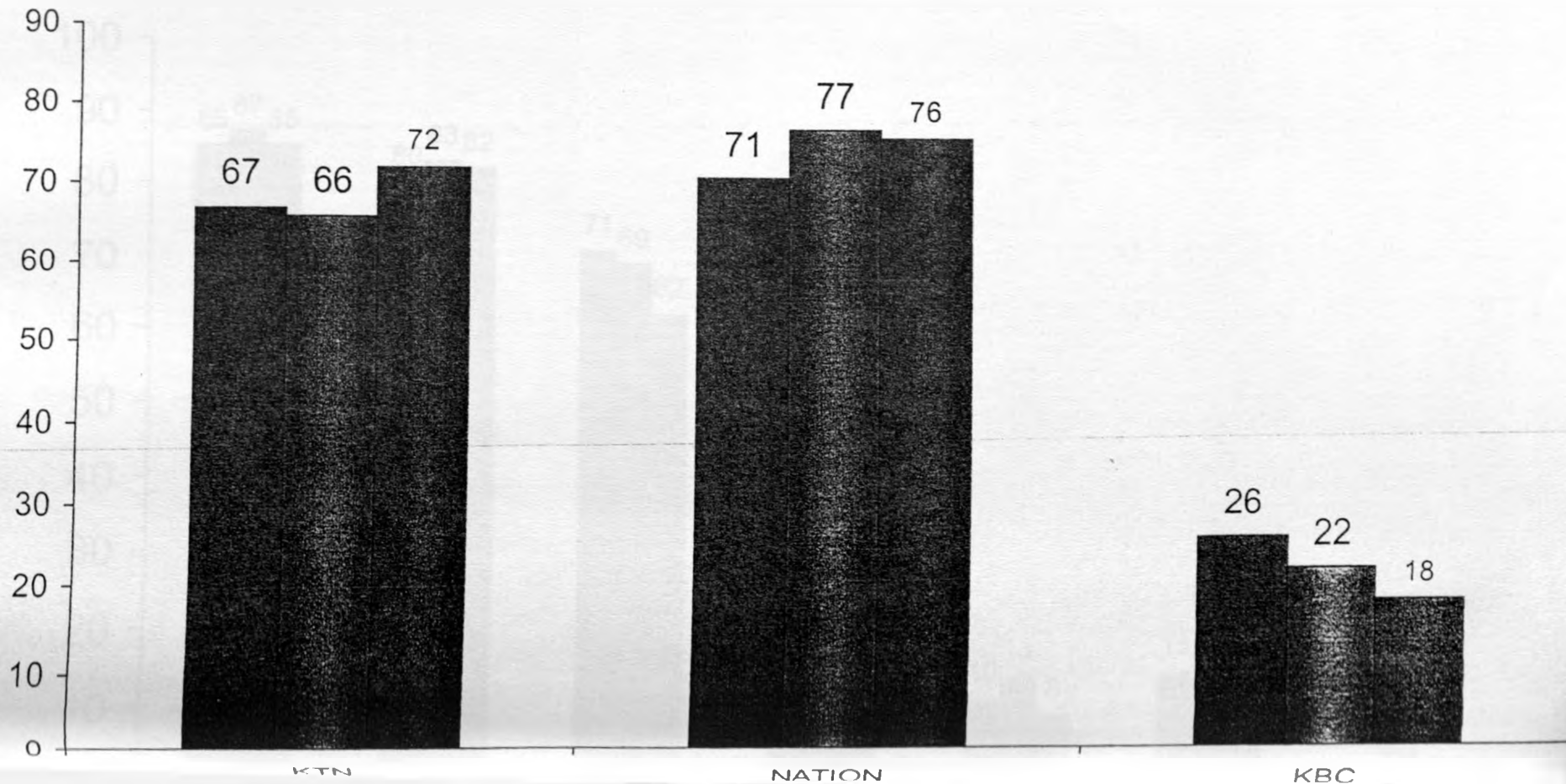
**CONSUMER INSIGHT PERFORMANCE INDICATORS**

# TV Stations Watched Most Often



# Usual TV News Channel

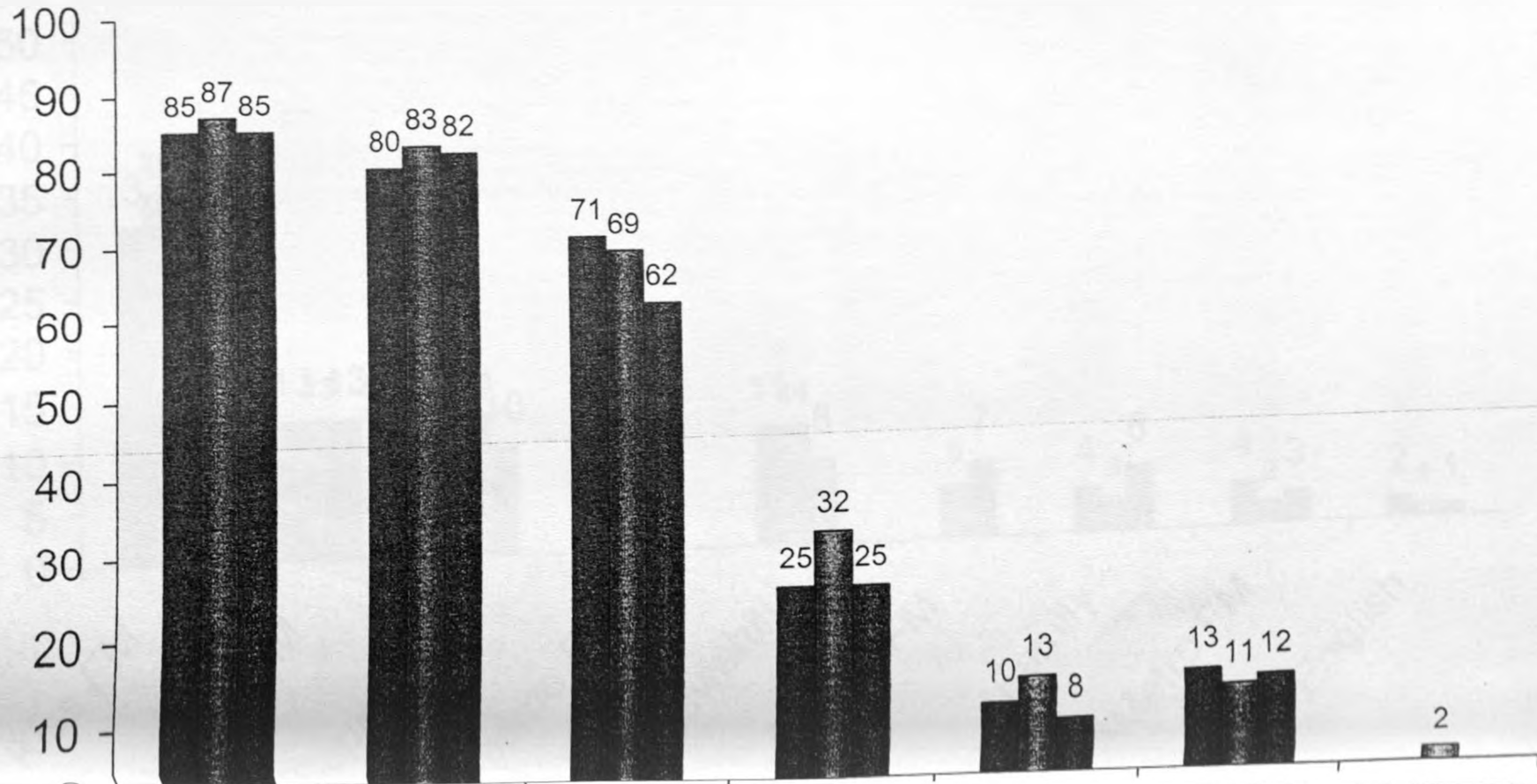
■ NOV ■ DECEMBER ■ JAN



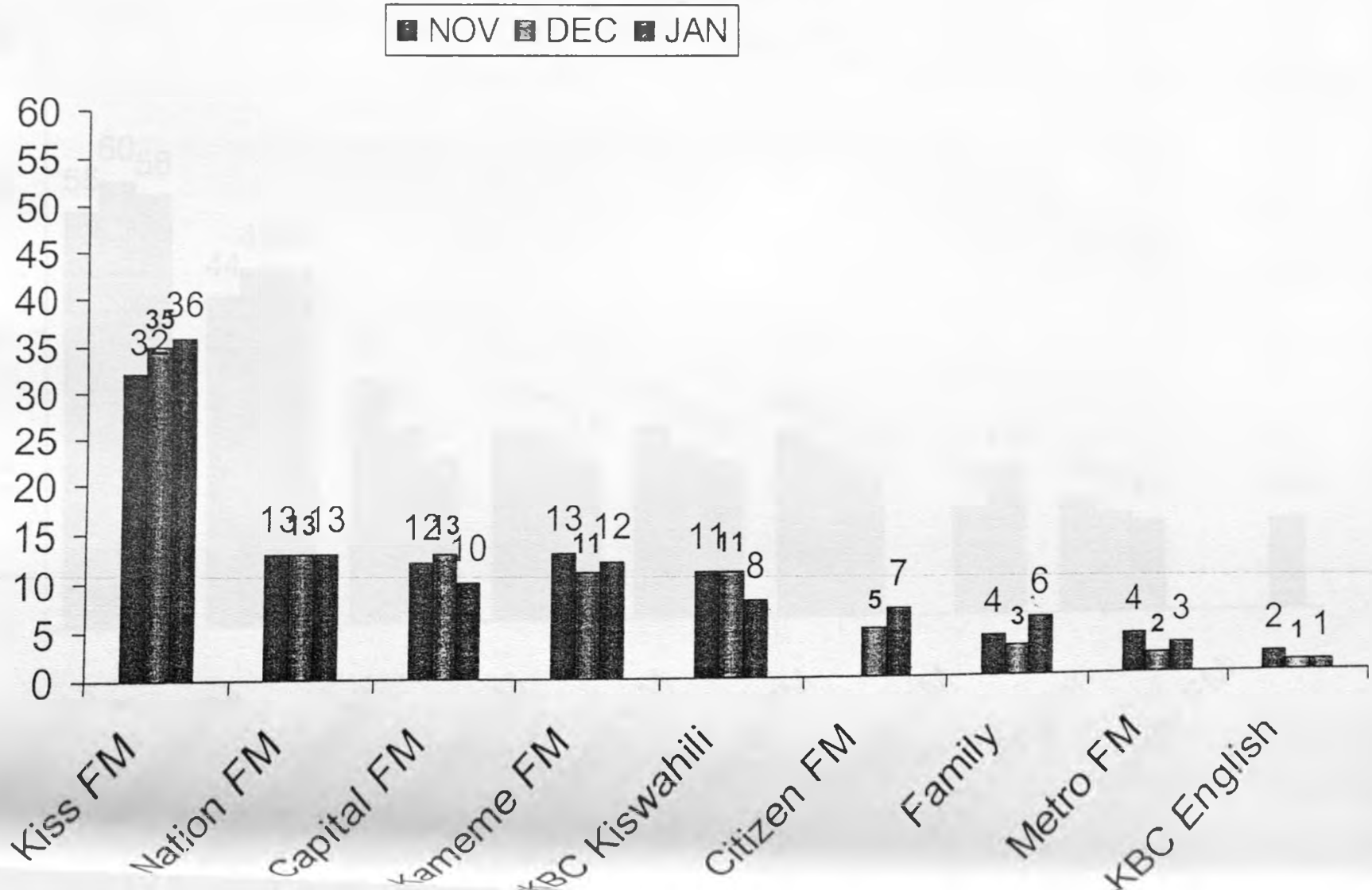


# TV Stations Watched Nowadays

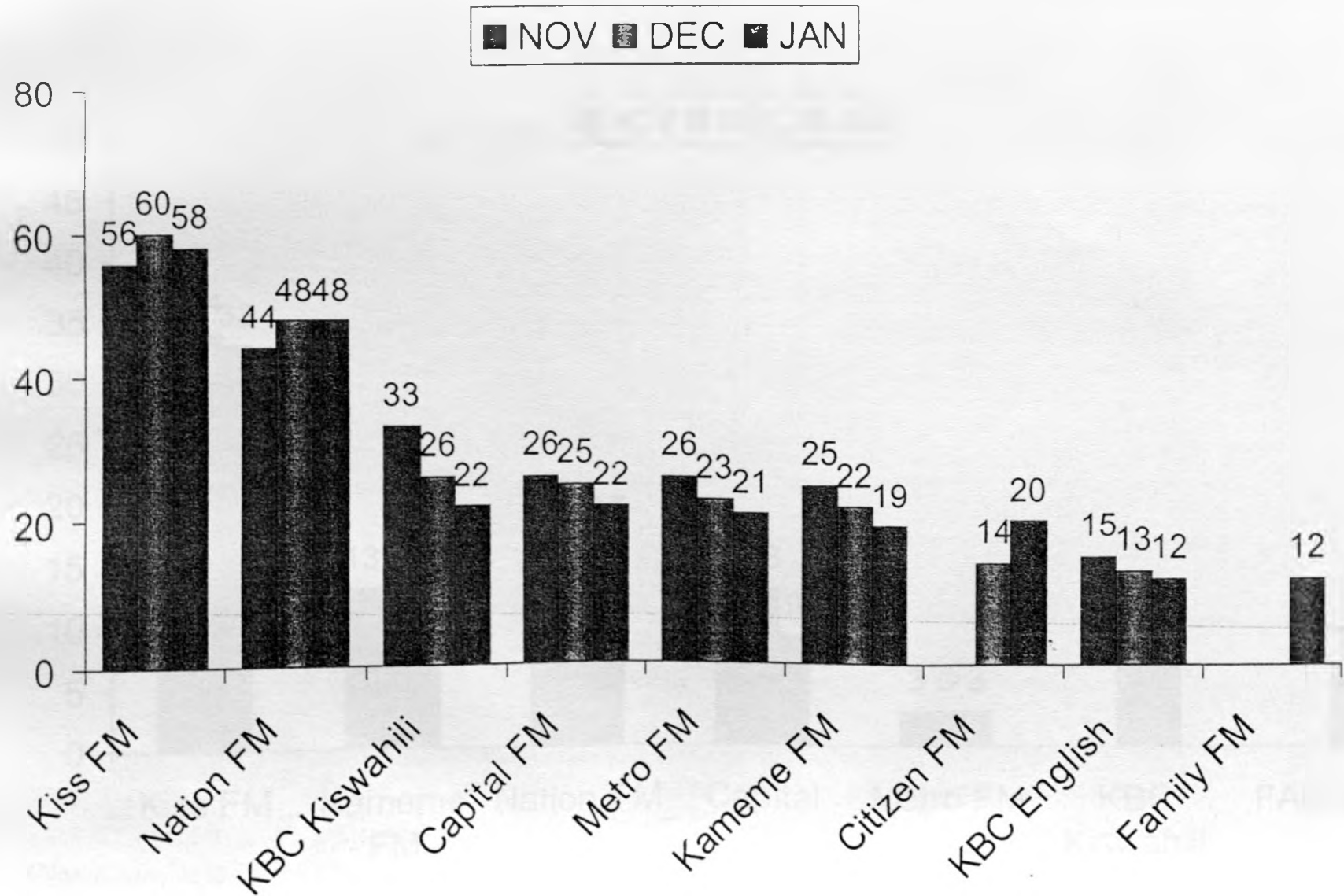
■ NOV ■ DECEMBER ■ JANUARY



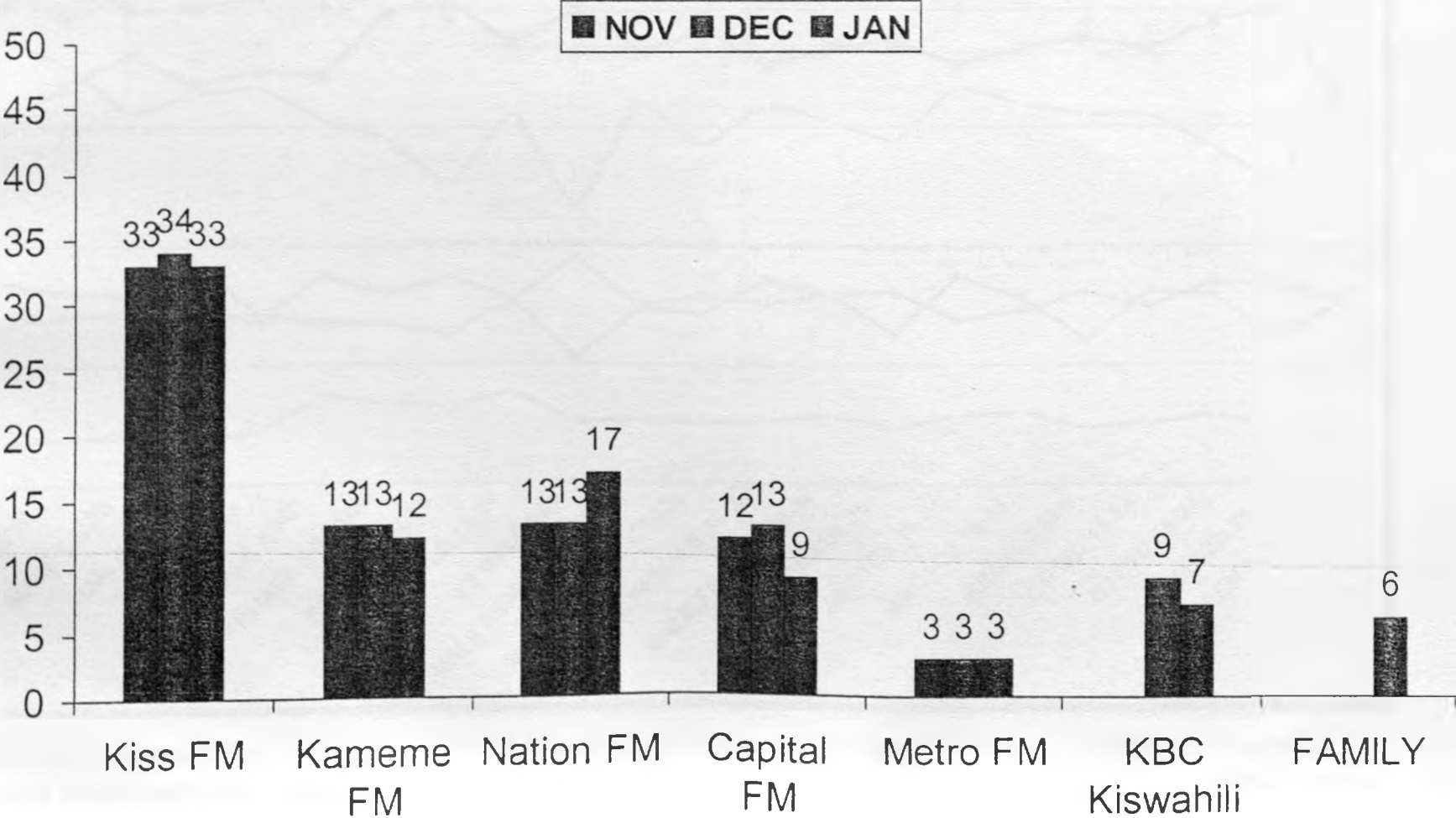
# Radio Stations Listened to Most Often

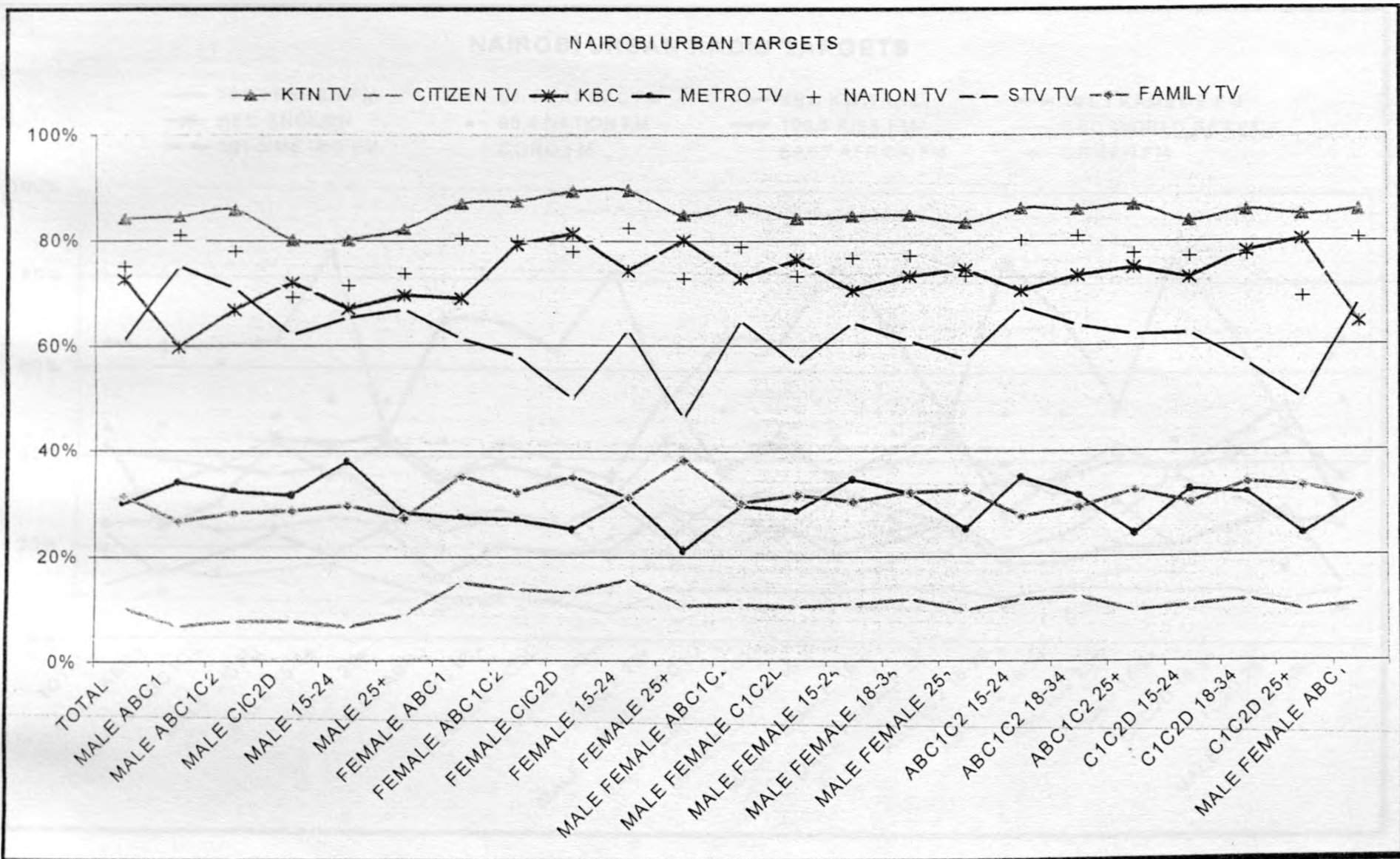


# Radio Stations Listened to Nowadays



# Most Liked Radio Stations

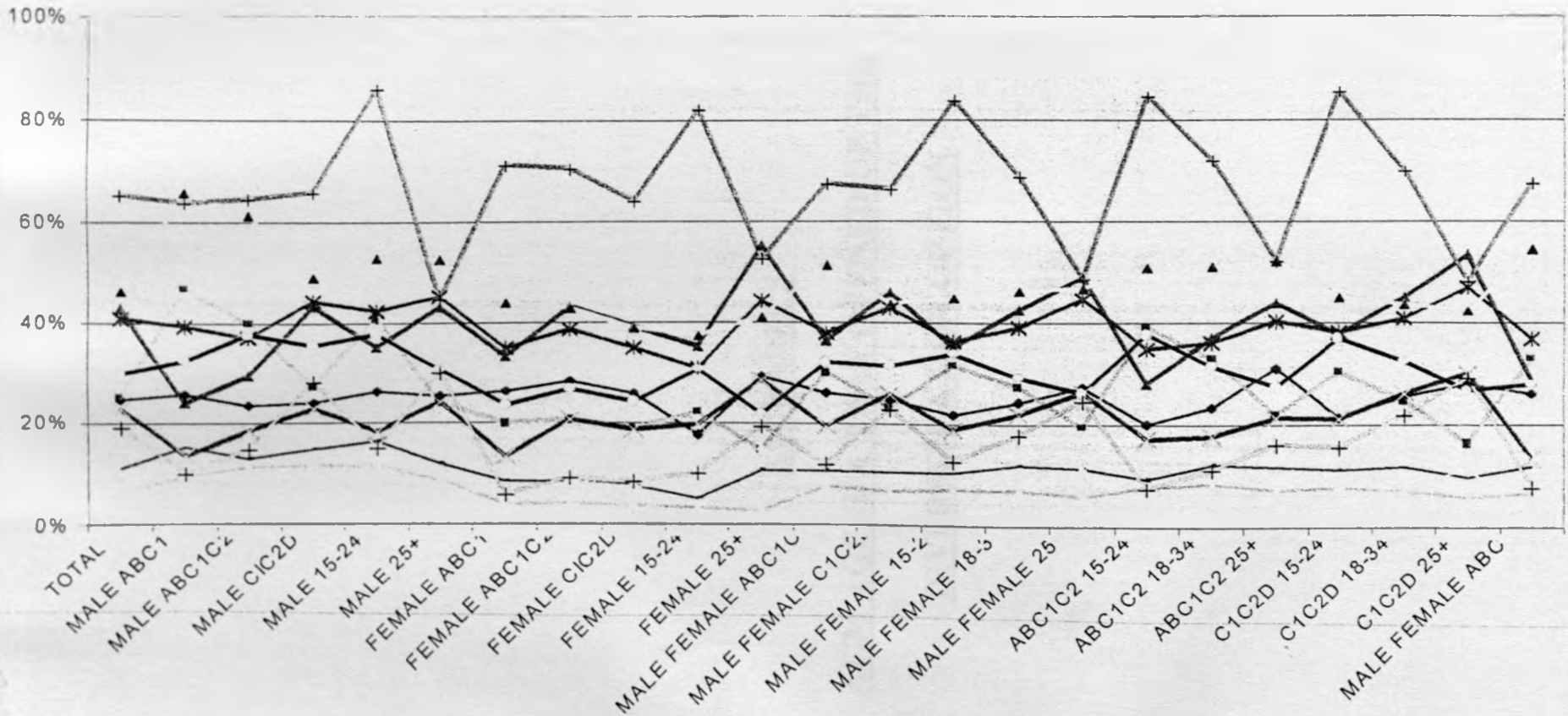




The chart above shows targets each TV station achieved from Nairobi Urban past 7 days TV viewers. KTN cuts across all target groups while Nation and KBC interchange at different targets. Nation TV shows its highest strength among the Female 15-24 target group. Male Female ABC1 is also a strong target group for Nation TV.

The charts are computed on each stations reach of each targets base.

## NAIROBI URBAN RADIO TARGETS



On radio stations, Kiss FM's potential targets are Male Female 15-24 and ABC1C2D 15-24 target groups. Nation FM on the other hand, has its strength among the Male ABC1 and Male 25+. The ABC1C2 25+ target group is a potential audience for both Kiss FM and Nation FM. KBC Kiswahili reach is highest among Female 25+ and C1C2D 25+ between the three stations.

Capital FM's highest target is also Male ABC1 but in terms of numbers Nation FM reaches more of this target group.

**APPENDIX 5**  
**AGM AGENDA THAT OPENED UP THE**  
**DIVERSIFICATION OPTION**

(j) To carry on all or any of the businesses of a telephone, telegraph, cable and wireless, communications company and to establish, work, manage, sell, hire-out and maintain radio and television receiving and transmitting stations, telephone exchanges, cable communications, telegraphs, faxes, pagers, offices and any other systems for communications whether consisting of sound, visual images, electrical impulses, digital, laser or otherwise or in any combination thereof.

(k) To carry on all or any of the businesses of electronic engineers, manufacturers, installers, maintainers, repairers of, dealers in electrical and electronic appliances and apparatus of every description, and of and in radio, television, and telecommunication requisites and supplies, and electrical and electronic apparatus, and appliances, equipment, and stores of all kinds.

(l) To carry on business as business consultants, market research consultants and business transfer agents, and to act as intermediaries in the introduction of sellers, purchasers, partners, employees, dealers and brokers.

(m) To carry on business as advisers on problems relating to administration and management of industry and business,

the training of personnel for industry and business and the means and methods of expanding, developing and improving all types of business and all systems or processes relating to production, storage, distribution, marketing and sales of goods and relating to the rendering of services

(n) To engage in or procure and organise research in relation to all problems relating to personnel and industrial and business development and management, and distribution, marketing and selling, to collect, prepare and distribute information, data and statistics relating to any type of business or industry and to promote and propose such methods, procedures and measures as may be considered desirable or beneficial for all or any of the company's objects.

(o) To act as agents, or managers in carrying on any business concerns and undertakings and to employ experts and consultants to investigate and examine the condition, management prospects, value and circumstances of any business concerns and undertakings and generally any assets, property or rights of any kind."

By order of the Board

J C Kinyua

Secretary

15 April, 1999

Note: A member entitled to attend and vote may appoint a proxy to attend and vote for him on his behalf. Such proxy need not be a member of the company. To be valid, proxy forms must be deposited at the company's registered office not less than 48 hours before the appointed time of the meeting.

## Annual Highlights 1998

Total revenue increased by 10% to Kshs. 2.4 billion.

Operating profit before interest improved by 12% to Kshs. 563.6 million.

The group was awarded radio and television licences and frequencies to operate in Nairobi only.

The group's associated company Industrial Promotion Building Limited contributed profit before tax of Kshs. 9.9 million

Profit before taxation increased by 19% to Kshs. 297.7 million

The group installed a state of the art advertising system.

Nation Carriers Limited had another excellent year despite the further deterioration in the road infrastructure following the El Nino rains.

Profit attributable to shareholders increased by 15% to Kshs. 326.5 million.

Recommended dividend total of 33% for the year, an increase of 20% over 1997

Proposal to amend the group's Memorandum of Association to reflect its development into a multi-media organisation.



Notice is hereby given that the thirty sixth Annual General Meeting of the shareholders of the Nation Media Group Limited will be held at the Hotel Inter-Continental, Nairobi, on Thursday, 10 June, 1999 at 3.00 p.m. for the following purposes:-

## ORDINARY BUSINESS

1. To receive the accounts for the year ended 31st December, 1998 and the chairman's, directors' and auditors' reports thereon.
2. To confirm the payment of the interim dividend of 11% and to approve the payment of a final dividend of 22% on the ordinary share capital in respect of the year ended 31st December, 1998.
3. To ratify the appointment of Messrs PricewaterhouseCoopers as auditors of the company and to authorise the directors to fix the remuneration of the auditors.
4. To re-elect the following directors.

In accordance with Article 110 of the company's Articles of Association Mr. H. H. O. Awori, Mr. A. Bekah and Mr. L. Huebner retire by rotation and, being eligible, offer themselves for re-election.

## SPECIAL BUSINESS

5. To consider and, if thought fit, pass the following resolutions as Special Resolutions:

(i) That Dr. B. M. Gecaga, a director who retires by reason of his having attained the age of 74 shall, notwithstanding that fact, be re-elected a director of the company for a further period of three years.

(ii) That in accordance with sub-sections (a), (b) and (d) of Section 8(1) of the Companies Act (Cap. 486) the company's Memorandum of Association be amended to reflect the development into a multi-media organisation by the inclusion of the following objects' clauses to be numbered 3(d) to 3(f) (the existing objects' clauses to be renumbered accordingly).

(d) To carry on business as proprietors, publishers and distributors of newspapers, magazines, journals, books, newsletters and other literary works and undertakings.

(e) To carry on all or any of the businesses of printers, stationers, lithographers, type foundries, stereotypers, photographic printers, photo-lithographers, chromo-lithographers, computer and laser printers, engravers, die-sinkers, book binders, designers, draughtsmen, paper and ink manufacturers, book sellers and importers, exporters and manufacturers of and dealers in newsprint, paper, information technology and any other equipment articles or things similar or analogous to the foregoing or any of them.

(f) To carry on all or any of the businesses of makers, creators, producers, lessors, lessees and broadcasters of radio, television, video and film programmes, and to carry on the business of broadcasting by radio and television.

(g) To carry on all or any of the businesses of communication and promotion whether digital or otherwise, electronic mail and web sites or otherwise, and of buyers, sellers, hirers, importers, exporters and manufacturers of and dealers in radio and television equipment and sets, and sound producing and communication machinery, information technology, and equipment and technology of all kinds.

(h) To carry on the business of transporters, distributors and carriers of every nature and kind, of transport by land, sea, lakes and rivers, and air, and of warehousemen and custodians and storers of goods, wares and merchandise of every kind and description, and to lease, hire, build, contract and maintain buildings, godowns, stores and facilities for all or any of the foregoing.

(i) To manufacture, import, export, repair and deal in motor vehicles, pick-ups, trucks, tractors, prime movers, ships, boats, hovercraft, aircraft, helicopters and balloons.