DIVERSIFICATION STRATEGIES OF CHRISTIAN COMMUNITY SERVICES OF MOUNT KENYA EAST REGION

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DECLARATION

I the undersigned, declare that this is my original work and has not been submitted to any other institution or university other than university of Nairobi for academic credit.

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This project has been presented for examination with my approval as the university supervisor.

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DEDICATION

To my family members with love and gratitude

To all is love

ACKNOWLEGEMENT

Praise and honor be to the Almighty God for granting me this opportunity in life. This far He is my Ebenezer.

My appreciation to all those who assisted me, this includes all my lecturers, fellow MBA students, family members and friends. I have had great good fortune to interact with all of you. It would have not been possible without your sincere support, patience and encouragement.

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May God bless you.

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ABSTRACT

There has been strategic diversification trend which started with companies diversifying in the areas unrelated to their core business. This later reversed due to the threats of hostile takeover and corporate acquisitions, and today companies are concentrating on boosting their core product lines. A continuous change in the environment associated with major resources providers translates into specific threats and emerging opportunities for non-profit organization funding. Other changes include advance in technology, political changes, ecological and economical changes. These have led to organization consideration for diversification strategy in order to cope with the environmental impacts and for survival of the organization.

The study sought to determine the reasons for diversification of the Christian Community Services of Mount Kenya East region, to establish the strategies adopted and the effectiveness of these strategies. The study was done by the use of a case study that led to in-depth exploration of the strategies. The sources of the data were both the primary and secondary data and the data was qualitative in nature hence content analysis was done.

The findings indicated that the organization considered the following reasons for diversification, growth, profitability, economies of scale, and competitive advantage among others. The organization adopted both the profit making strategies and non-profit making strategies. This includes the concentric, which is commonly practiced, horizontal diversification and vertical integration. The organization faired well in most of it activities though it have under achieved in some areas due to some limitations.

CHAPTER ONE: INTRODUCTION

1.1 Background

Since the post world war two the business environment has been characterized by advance of technology, dynamism of worldwide changes in market structure, development in international markets and saturation of demand in many parts of the world. These changes have led to Organizations refocusing their diversification strategies in response to the strategic change in the environment. Chandler noted that the rapid strategic change required a continuous survey of the environment in search for diversification opportunities (Ansoff, 1965). The presence of numerous opportunities and threats to businesses led to inevitable consideration of diversification strategy in order to strengthen the firm's financial position and profitability.

In the world of continuing changes, strategies need to relate to the mission defined in terms of customer needs or problems to be solved. This is because industry boundaries are no longer defined by the products but rather by the ability to perform the critical functions for meeting customer needs as pointed out by Weston, Chung and Hoag (1990). That is, regionalization and globalization developments have led the organizations to be in vulnerable situations as competition increases. There are threats of losing the market share, changes in customer values and ease of entry because of critical factors for success in the changing environment. These changes in the environment have led organizations to consider the move from one line of business to several lines of business concentration hence diversifying their operations.

Most of the organizations are prone to the environment turbulence. Therefore a change in the environment necessitates redefining of the strategy for success and survival of the organization. This means that there is need to modify the strategy with changes in the organizations environment. A well formulated strategy is modified with passage of time in order to achieve the set objectives and should match with environment and organization capabilities (Thompson, and Strickland, 1989). Thus a firm's strategy does not remain static but evolves over time in response to changes in the environment hence acting as an interface between the environment and the firm as pointed out by Ansoff (1965).

1.1.1 Diversification Strategies

The strategy is concerned in determining the general direction of the firm and formulation of overall business policies as coined by Bennett (1994) It is the direction and scope of organization over the long term which achieves advantages in a changing environment through configuration of the resources and competencies with the aim of fulfilling stakeholders' expectations (Johnson, Scholes and Whittington, 2005). It is an action that a company takes in order to attain the competitive advantage by matching the strengths of the organizations with the opportunities while overcoming the threats. It is therefore a result of decisions made about the positioning and repositioning of the organization in terms of its strengths in relation to the market and turbulent environment. The corporate strategy is a sort of route map for guiding the overall progress of the firm.

Diversification is a form of corporate strategy. This is whereby a business builds its total sales by identifying opportunities to build or acquire businesses that are not directly related to the company's current business. Diversification strategies are used to expand the firm's operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from the current operations. It is therefore a process of adding new businesses to the company that are distinct from its established operations. Thus a diversified company is one that is involved in two or more distinct business as coined by Hill and Jones (2004).

The role of the management is to identify which industries a company should invest in to maximize its long run profitability. Kotler (2003) states that diversification makes a good sense when good opportunities can be found outside the presence of businesses and a good opportunity is one in which the industry is highly attractive and the company has a mix of business strengths to be successful. This means that for diversification to be successful the strategy managers need to identify the opportunities accruing to it and match these with the firm's strength. Firms should only take this strategy if it can yield benefits. Ansoff pointed out the diversification as a form of growth strategy. This can be illustrated by the growth vector component as shown in figure 1.

Figure 1: Growth vector components

Product / Mission	Present	New
Present	Market penetration	Product development
New	Market development	Diversification

Source: Ansoff, H.I, *Corporate Strategy* (1965, pg 109)

There are two broad categories of diversification strategies. The related diversification is a strategy that adds new business activities in different industries that are related to company's existing business activities. This means that there are several lines of business that are distinct but posses some kind of fit. Fit can be based on shared technology, common labor skills, common distribution channels, and common suppliers and raw materials sources. Thus this is any aspect where meaningful relatedness or sharing opportunities exist in respect to business activities that are attractive to turn strategic fit into competitive advantage.

The related diversification can be subdivided into two categories. The concentric diversification occurs when a firm adds related products or markets. The goal of this kind of strategy is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. Synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed up (Johnson and Scholes, 2002). This can be achieved by combining firms with complementary marketing, financial, operating or management efforts.

Horizontal diversification occurs when there is addition of new unrelated products or services for present customers as pointed out by David (1997). The company adds new products or services that are technologically or commercially unrelated to the current products but which may be appealing to current customers (Kotler, 2003). This form of diversification is desirable if the present customers are loyal to the products and new products have good quality and are well promoted and priced for an organization to achieve its competitive advantage. This implies that the firm needs to be familiar with its present customers and take into consideration their product perception. The strategy is applied to increase the firm's dependence on certain market segments.

Vertical integration is the degree in which the firm upstream its suppliers or down stream its customers. It can be either backward or forward integration of the adjusted activities of the firm value system. Backward integration refers to development into activities that are concerned with inputs into current business. Forward integration refers to the development into activities that are concerned with company output. The integration can also be pursued horizontally by developing into activities that are competitive with or complementary to the company's present activities (Johnson and Scholes, 2002)

The unrelated diversification is a situation where by an entry into an industry has no obvious connection to any of company value chain activities in its existing industry. This means that there is no common linkage of strategic fit among the several line of the business as pointed by Hill and Jones (2004). The value chain has no meaningful value of interrelationship. The strategy deals with venturing into any industry or business in which management thinks it can make profit. Firms pursuing this kind of diversification are referred to as conglomerates.

1.1.2 Christian Community Services in Mount Kenya East Region.

The Christian Community Service (CCS) in Kenya is faith-based organization. It was started under the outreach arm of the Anglican Church of Kenya. It aims at the development of society that is intellectually, socially and economically through philosophical and theological principles. The CCS operates at national and regional levels. The regional organizations are autonomous with specific legal entities, board of directors, competent staff and church ownership. They cover a niche in the overall holistic ministry that believes in abundant life for all people of God. There are eight regions created in order to achieve their goals namely, Coast, Eldoret, Nairobi/Kajiado, Nakuru, Nyanza, Mt. Kenya, Mt. Kenya East, South Eastern and Western region.

Mount Kenya East diocese was created in 1975 and in 1977 a feasibility study was conducted on the development needs in the diocese. The result of the study recommended immediate start of the three departments which were to offer health, education and rural development. In 1980 the

Christian community services in Mt. Kenya East region (CCSMKE) was started as an organization for delivering the developmental activities to the communities. It is an autonomous development organization that is a registered company limited by guarantees and comprises of four dioceses namely, Kirinyaga, Embu, Mbere and Meru diocese.

The CCSMKE applies biblical theology and philosophy in their services delivery in support of the holistic ministry which means that the bible is the source of information that guide peoples way of life based on the principle of God's love and love for neighbors. This ministry is justified by the bible teaching in the Acts 6:1-7 a story about the selection of the seven deacons to serve the table while the other eleven disciples continued the work of prayer and preaching. This is an indication that the early church was involved in the holistic mission. The ministry is concerned and committed to the plight of the excluded that is the poor and marginalized people.

The CCSMKE has it's headquarter in Kerugoya, Kirinyaga district and covers ten administrative districts, one in Central and the rest in Eastern province. It has a population of three million people and covers approximately 34% of the Kenya total land area. The mission of the organization is achieved through the use of the smaller development units located in different parts of the region. The organization operates both in short and long term community development programs which are disaster, health, HIV /AIDS control and food security. The efforts of the organization are geared toward the achievement of their mission by enabling people to have a balanced life.

1.2 Statement of Problem

Despite the decline in popularity of diversification strategy, the Christian Community Service organizations in Kenya have adopted this strategy in response to changes in the environment. This strategy ought to present numerous opportunities for effective alignment of the firm to the changing environment. This is because they depend on the environment for their inputs, processes and outputs. That is, they draw problems from the society, process the solutions internally and offer back the services to the society. Thus changes in the environment call for continuous survey on diversification opportunities and refocusing of strategies so as to curb the impacts.

The Christian Community Services in Mt. Kenya East region offers developmental activities to its communities. It achieves this through integrated programs such as health, HIV/AIDS control and food security. In the recent years, the organization has been involved in the rapid growth of its operations in order to improve people's quality of life and for survival. In spite of the efforts the society has continued to face many challenges such as high level of poverty, lack of education, poor sewerage and sanitation, conflicts among members of society, poor health, HIV/AIDS related issues and the environmental degradation. This raises the issue as to how effective is the organization's corporate diversification in meeting the expectations of the communities.

Some of the diversification studies includes Rumelt (1974), Rumelt(1982), McDougall, Fred and Round (1984), Montgomery (1985) , Montgomery and Wernerfelt (1988) and Young (2005). The local studies on diversification strategies include Mwanzi (1991) the diversification strategies and performance. She found that the levels of diversification were not associated with profitability of the firm. Mwindi (2003) did the analysis of application of unrelated diversification strategy by major oil companies. He found that the companies used the strategy to enhance customer satisfaction rather than for improving the companies financial performance. Kiilu (2004) carried out a survey on the extent of the application of Ansoff's growth strategies to the public sector. He established that market penetration and market development had moderate extent while product development and diversification had a small extent. Wakwoma (2007) carried out a survey of product diversification strategies adopted by firms in banking industry. She found that majority of banks pursued related product diversification where the product had some kind of strategic fit.

The above studies focused on different aspects and are only applicable to relevant industries. Only Kimani (2006) has studied on CCS in Kenya and he focused on the strategic response to the changes in the environment. He found that the organizations adopted diversification amongst other strategies to effectively face the challenges. However, the study on CCS did not explore the diversification strategies applied and their effectiveness hence there is an existing gap in the research on the diversification strategies. This study sought to determine the experience of diversification strategies on CCSMKE and it addressed the following questions. Why do Christian Community Services in Mt Kenya East region diversify? What diversification strategies do Christian Community Services in Mt. Kenya East region apply? How effective are these diversification strategies on Christian Community Services in Mt Kenya East region?

1.3 Research Objectives

i. To determine the reasons for diversification in Christian Community Services in Mt. Kenya East region.

ii. To establish the diversification strategies adopted by Christian Community Services in Mt. Kenya East region.

iii. To determine the effectiveness of diversification strategies of Christian Community Services in Mt. Kenya East region.

1.4 Importance of Study

The finding of this study will be useful to several parties. These include the managers and other decision makers who will find it relevant especially when contemplating to diversify their organizations. The community will get to know some of the development activities of CCS in Mt Kenya East, which are geared towards raising their living standards as well as improving their lives. It will also contribute to strategic management body of knowledge on the diversification strategies. The academicians will have the basis for further research on diversification strategies applied in other organizations. Finally it will benefit the researcher in understanding the challenges facing the managers in the formulation and implementation of the diversification strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

A strategy is a set of decision-making rules for guidance of an organizational behavior. There are four distinct types of such rules. Firstly, it is the yardstick by which the present and future performance of the firm is measured. This means that a strategy can be used to set the future target based on the direction or guideline of the organization. Secondly, the rules for developing the firm's relationship with its external environments, that is it gives guide in the search for new opportunities both inside and outside the firm as well as minimizing the threats. Thirdly, the rules establishing the internal relations and processes within the organization and finally, the rules by which the firm conducts its day to day business, which are operational activities as coined by Ansoff and McDonnell (1990). Strategy can also be viewed as a blue print for all important organizational moves and managerial approaches that are to be taken to achieve the organizations objectives and to carry out the organizations mission (Thompson and Strickland, 1989).

There are three levels of strategy in decision-making hierarchy. The corporate level is the top most level in the hierarchy. This comprises of the chief executive officer and the other corporate executives. They are responsible for determining the business in which the firm should invest in. They also set the objectives and formulate strategies that are executed at functional level (Pearce and Robinson, 1997). The key role is to exploit the distinct competencies of the firm and develop the long-term plans. This level is concerned with the overall purpose and scope of an organization and how value will be added to the different parts of the organization

The middle level of decision-making hierarchy is the business level. The divisional manager formulates strategies for the business and determines how the firm will compete in the environment. The lowest level of decision-making hierarchy is the functional level. It is concerned with how the component parts of organization deliver effectively the corporate and business level strategies in terms of resources, processes and people (Johnson and Scholes ,2002). It comprises of managers at functional areas such as product managers, marketing managers and operational managers. They develop short-term objectives and strategies that aim at doing things right, that is address the efficiency.

Corporate strategy is the pattern of decisions in the company that determine and reveal its objectives, purposes and goals. It produces the principal policies and plans for achieving the goals and defines the range of the businesses the company is to pursue, the kind of economic and human organizations it is in or intends to be in and the nature of economic and non economic contribution it intends to make to its shareholders, employees, customers and community as coined by Mintzberg, Lampel, Quinn and Ghoshal(2004) . Ansoff (1965) viewed it as a common thread that gives the relationship between the present and the future which would enable outsiders to perceive where the firm is heading and the inside management to give it guidance.

2.2 Diversification Strategies

There is a great variation in the way the diversification is defined and classified as revealed by the literature review. It can be referred to changes in products, markets and functions. It can be done internally, externally, horizontal or vertically and can involve related or unrelated changes (Glueck and Jauch,1998). Internal diversification occurs when a firm enters a different but related line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification occurs when the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification. Kamien and Schwartz (1975) defined diversification as the extent to which firms classified in one industry produce goods classified in another industry. It is the entry of a firm or business unit into new line of activities either by process of internal business development or acquisition which entails changes in its administrative structure, systems and other management processes (Varadarajan and Ramanujam,1989)

2.2.1 Types of Diversification Strategies

There are two broad classifications of the diversification strategies. That is the related diversification and the unrelated diversification. Related diversification occurs when the firm expands in similar lines of products. That is, remaining in the market or industry that the firm is familiar with. This can be subdivided into concentric diversification, horizontal diversification and vertical integration. Unrelated diversification is where the firm has neither previous industry experience nor market experience, for example a manufacturing firm investing in advertising business. The diversification strategy can be summarized by the growth vectors as shown in figure 2

. Figure 2: Growth vectors in diversification

New mission: Customers \ Products	New product	
	Related technology	Unrelated technology
Same type	Horizontal diversification	
Firm its own customer	Vertical integration	
similar type	Market and technology related	market related
New type	Technology related	conglomerate diversification

Source: Ansoff, H.I, *Corporate Strategy* (1965, pg 132).

Concentric diversification involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products as pointed out by Pearce and Robinson (1997). The selected new businesses possess a high degree of compatibility with the firm's current businesses that is having strategic fit. The ideal strategy occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk .This focuses on creating a portfolio of related businesses. The portfolio is usually developed by acquisition rather than by internal new business creation. Product and market synergies are a major issue in creating the portfolio of related strategic business units (Pearce and Robinson, 1997). This is the growth strategy in which company adds new lines of product but related to existing line of products to attract new customers. The lines of product have synergy such as marketing and technology though appealing to new customers and it is used in order to strengthen the organization position in the field that it has knowledge and experience (Byars, 1991).

It aims at marketing existing products in new markets in order to broaden its geographical base. A firm may find new users for its current product by attempting to change markets through increasing or decreasing the price of products to make them appeal to consumers of different income levels. Thus organizations market their new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. For instance retailers change product lines to include new items that appear to have good market potential. East Africa breweries have added a line of non-alcoholic product to its existing line of drinks and likewise most of fast moving consumer products industries have added herbal options to existing product lines.

Horizontal diversification occurs when a firm enters a new business either related or unrelated to its current products or services. The company adds new products or services that are technologically or commercially unrelated to the current products but which may appeal to current customers (Kotler, 2003). The present customers need to be loyal to the current products and new products should be of good quality as well as well promoted and priced. The firm can pursue this growth strategy by acquiring organizations that compete with its products or services. This can be done by purchase of common stock, assets and by pooling the interest of the two companies' together. It is mainly accomplished through mergers in order to eliminate the competition. According to Ansoff (1965) the horizontal diversifications have limited contribution to flexibility and stability and contribute to other objectives only if the present economic environment of the firm is healthy and growing.

Most of the firms' opt to pursue related diversification due to the benefits that accrue to it such as allowing the firm to maintain unity in business activities and gain benefits of skills transfer or cost sharing while spreading risks on a broader base. It defines what firm does, boost and allows transfer of core competencies from one business to another Hill and Jones, 2004). It helps achieve economies of scale and offer a competence advantage over the competitiveness. Johnson and Scholes (2002) outlined some of the drawbacks of these strategies such as the time taken by the management while trying to ensure that the products or services have relatedness benefits, lack of new ideas or innovation due to the rigid focus on diversity limited to market and technology synergy, Lack of competence to develop the related lines of products or services and the reluctant of managers in sharing the ideas from different levels of business because their aim focus on the performance.

Conglomerates occur when a firm looks outside of its current operations and gets access to new products or markets. The company markets new products or services that have no synergies such as technological or commercial with current products but which may appeal to new groups of customers. The conglomerate diversification has no relationship with the firm's current business (Hills and Jones, 2004). This strategy would entail marketing new and unrelated products to new markets. It requires the company to enter new market where it is not established. This strategy is the least used among the internal diversification strategies as it is the most risky.The main reasons of adopting this strategy are to improve the profitability and the flexibility of the company and to get a better reception in capital markets due to large size of the organization.

Some of the reasons for pursuing conglomerate path are: the firm may have no strategy beyond a desire for profitable opportunity, the capabilities of firm are highly specialized, too obsolete to have synergy with other kinds of business, the depth of competence is too shallow to offer opportunities for synergy, and management preference and training structure dispose it towards conglomerate as coined by Ansoff(1965). Therefore, the decision lies broadly on the shoulders of management. They should determine whether the business will be profitable enough to meet the cost of production and have the excess as a profit (Hill and Jones, 2004). They should also consider the required capital to sustain the operations of the business. The growth potential of the business is also a vital consideration. Thus the benefits of the business and the challenges or difficulties to be faced should be analyzed before venturing into conglomerates.

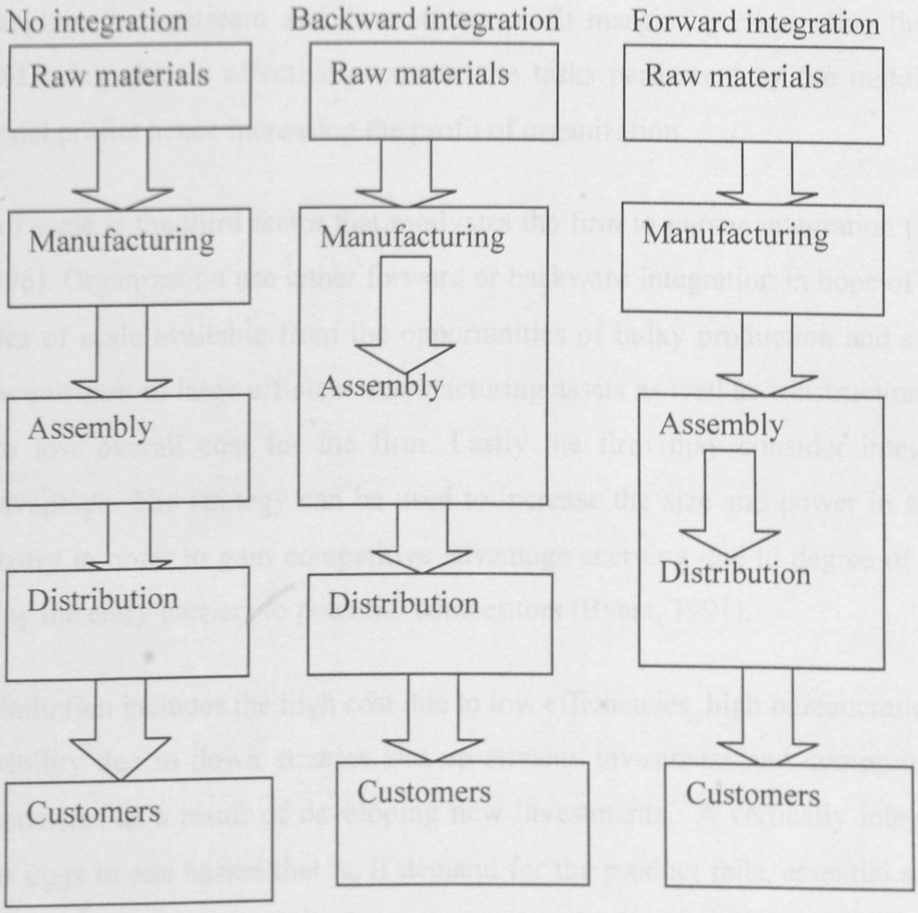
Some of the advantages accruing to this form of strategy are: it improves the overall profitability and flexibility of the firm through acquisition of industries that have better economic characteristics. It gives a potential advantage of better access to the capital markets and better stability of earnings under normal conditions as outlined by Ansoff (1965). The business risks are scattered over different businesses. The capital resource is invested on those industries offering best profit. There is stability of profit because the industries or business can offset each other during the good times and hard times as coined by Thompson (1998). The wealth value of the shareholders is enhanced due to sound decision by the management on the prices of the business. The major drawbacks are dilution of the stockholders earnings, extensive diversification that may add operational cost or make the firms to deviate from their objectives.

Diversification strategies can also be classified by the direction of the diversification. Vertical integration occurs when firms undertake operations at different stages of production. It is the process in which several steps in the production and distribution of a product or service are controlled by a single company or entity in order to increase that company's position in the marketplace.Thus a firm owns its upstream suppliers and its downstream buyers. According to Ansoff this strategy increases the firm's dependence on a particular segment of economic demand and it can be developed inside the company that is internal diversification or by acquiring another firm that is external diversification.There are two major categories of vertical integration the backward (upstream) vertical integration and forward (downstream) vertical integration.

In backward vertical integration, the company sets up subsidiaries that produce some of the inputs used in the production of its products. The firm diversifies closer to the sources of raw materials in the stages of production. The control is aimed at creating a stable supply of inputs and ensures a consistent quality in their final product. It allows the diversifying firm to exercise more control over the quality of the supplies being purchased and also undertake to provide a more dependable source of needed raw materials. It also helps in improving returns on the investment because it enables a business to take advantage of production economies without having to tackle new marketing problems (Brayrs, 1991)

In forward vertical integration, the company acquires the procuring organizations in the distribution channels for the products or services. That is setting up subsidiaries that distribute or market products to customers or use the products themselves. This occurs when firms move closer to the consumer in terms of the production stages. It allows a manufacturing company to assure itself of an outlet for its products and also allows a firm more control over how its products are sold and serviced. It also enables the company to differentiate its products from those of its competitors. For example, opening of own outlets will lead to better control, train of the personnel selling and servicing of its equipment. This can be illustrated by the figure 3.

Figure 3: Example of Backward and forward integration



Source: *http://www.quichmba.com/strategy/vertical-integration/* retrieved on 24th April 2008.

Some of the motivations for vertical Integration include need for control as pointed out by K'Obonyo and Odera (1996). The firm may find it necessary to control its cost by engaging in backward integration that gives the organization more control over the cost such as transport cost, availability and quality of inputs. The forward integration gives the firm control over sales and distribution channels which may help in eliminating the delay in production and just on time supply of the products or services. The control helps in coordination of the supply and provides the opportunities for differentiating the products.

Secondly is profitability. Middlemen lead to low profit due to cost incurred by the firm in payment for their services. The firm may consider integrating if its suppliers of the products or services have large profit margin by converting the cost into profit through backward integration. It can also integrate forward if the distributors have large markups (Byars 1991). Thus the organization capture the upstream and downstream profit margin by eliminating the profit of middlemen and being able to effectively execute the tasks performed by the middlemen and receive additional profits hence increasing the profit of organization.

An economy of scale is the third factor that motivates the firm to pursue integration (K'Obonyo and Odera, 1996). Organization use either forward or backward integration in hope of benefiting from economies of scale available from the opportunities of bulky production and sales of the products and acquisition of large efficient manufacturing assets as well as construction of plants. This results to low overall cost for the firm. Lastly the firm may consider integration for competitive advantage. The strategy can be used to increase the size and power in a particular market or industry in order to gain competitive advantage accruing due to degree of monopoly hence increasing the entry barriers to potential competitors (Byars, 1991).

Some of the limitation includes the high cost due to low efficiencies, high bureaucratic costs and decreased flexibility due to down streams and up streams investment and compromise of the existing competencies as a result of developing new investments. A vertically integrated firm places all of its eggs in one basket that is, if demand for the product falls, essential supplies are not available or a substitute product displaces the product in the marketplace in which case the earnings of the entire organization may suffer. This is the major drawback of this strategy.

Some of the scholars have considered horizontal diversification as form of integration. This occurs when a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets (Pearce and Robinson, 1997).

2.2.2 Strategic Fit

This exists when different businesses have sufficiently related value claims that permit transfer of skills and expertise's from one business to another. It allows combination performances of related activities so as to reduce cost and it capture benefits of interrelations of firm's portfolio. According to Grant (1998) strategy can be successful, if it consists with the firm goals and values, with its environment, resources, and capabilities as well as with its organization and systems. The fit is aimed at creating a competitive advantage through the exploitation of the resources. The resources should be combined and managed in such a way that the benefits which accrue exceed those which would result if the parts were kept separate as coined by Thompson (1990). It's applicable to the related diversification hence capable of being a 2 + 2 = 5 phenomenon or the exploitation of a synergy. The synergy is mainly concerned with the desired characteristics of fit between the firm and its new product market entries. This is a useful common thread in the new growth areas where industry boundaries are ill defined and changing. It is also a key variable in the choice of diversification strategy (Ansoff, 1965).

There are three types of strategic fit. Namely, the market related fit, operating fit and management fit. The market related fit arise when the value claims of different business overlap so that the products can be used by the same customers, marketed and promoted in similar ways as well as being distributed through the same channels. This can be achieved through, common sale force, advertising related products together, use of the same brand name, same delivery and shopping, joint sales services and ordering and billing processes. Thus the products uses the common distribution channels, common sales administration and warehousing. This kind of fit increases the productivity of the sales forces due to the opportunity offered by the complete line of related products as coined by Ansoff (1965).

The operating fit, this arises when different business present opportunities for cost sharing or skills transfer. This means that there are interrelationships in the procurement of purchased inputs, production, technology and administrative support areas. Thompson (1990) considers this as functional by sharing facilities and competence. It leads to increased operating efficiency through sharing of related activities and enhancing economies of scope or scale. It can be achieved in the areas such as procurements, research and development, technology, administrations support functions and marketing and distribution services.

Management fits emerges when different business units have comparable types of entrepreneurial, administrative and operating problems. Management will consider venturing into business that has similar problems to those they have encountered in the past. That is use of compatible style of management and values as outlined by Thompson (1990). It allows accumulated managerial know-how in one business to be useful in managing another business. The transfer of managerial know how can occur anywhere in the activity cost chain. This fit can be based on the use of the same type of generic business strategy and competitive approach, use of similar configuration of the activity cost chains and application of proprietary technology in related products or production processes. The above types of synergy help in determining which diversification strategies to pursue as illustrated by the diagram below.

Figure 4: Internal development versus Acquisition

synergy		Preferred method	Applicable diversification growth vectors
start up	operating		
Strong	strong	Internal development	Market development Product development Technological related Horizontal and vertical diversification
Strong	weak	Internal development Combination of acquisition and internal development	Unrelated horizontal and vertical diversification
Weak	weak	Acquisition	Concentric diversification
None	none	Acquisition	Conglomerate diversification

Source: Ansoff, H.I , *corporate strategy* (1965, pg 199).

2.3 Motivation for Diversification Strategies

2.3.1 Growth

This is the main reason for diversification on the part of individual businesses. Ansoff growth vector components reviews the opportunities for developing new products for new markets as illustrated in figure 1(pg 3). There are two parameters in this model that determine the kind of strategy to be pursued that is the products and the market. Diversification strategy is applied where a firm has excess financial resources beyond those necessary to satisfy its expansion plans in the existing markets. It can also be chosen because the existing business is seen as being vulnerable in some way as coined by Thompson (1990). This include the limited growth potential, unjustified internal growth investment, threat by new technology, under valued stock market making them vulnerable if they do not diversify. The company may also have growth objectives that stretch beyond the existing businesses and cash generators may have little prospect for future growth.

2.3.2 Risk reduction

Business pursues this strategy in order to spread their risk among different units. The corporate risks can be distributed by venturing into different portfolio. For instance if the present markets of a firm are subjected to variability due to changes in environmental factors, activities which are less affected by these factors should be combined to reduce risk(Howe,1993). Entering businesses that will counter or reduce the cyclical nature of existing earnings can also reduce it. Amihud and Levi (1981) noted that risk reduction motive of managers as a rationale for pursuing the related diversification. They further noted that managers who have large and non-tradable human capital investment in their firms may opt for conglomerate diversification strategy.

2.3.3 Competitive advantage

The diversification is aimed at increasing the competitive advantage in the existing industries or leading to sustainable competitive advantage of new businesses. This strengthens a firm's position against its key competitors and also dictates the need to match competitors' diversification. Porter (1985) noted that diversification that is based on interrelationships has the greatest likelihood of increasing competitive advantage in existing industries and leads to sustainable competitive advantage in new industries. The threat of unfriendly takeover can be used to acquire other related or unrelated businesses in order for the firm to retain its competitive advantage. This strategy is used as a means of managing rivalry in the industries and holding competitors in check, those who have either entered the industry or have the potential to do so. This is because the diversification will lead to spread of the risk among the business and counter attacking of the rivals by developing or entering into businesses that are profitable. For instance, the firm can venture into business of advertising in order to reduce the promotion cost as well as check on the rivalry of the firm in the same industry.

Leveraging competencies by continuous taking distinctive competences developed by a business in one industry and using it to create new business in a different industry can lead to creation of a cost base or differentiations competitive advantage. The size and reputation of a firm also acts as a barrier for entry of other industries. Thus diversification into the related businesses enhances the market power of consolidated firm allowing it to have a long-term competitive advantage (Amit and Livnat, 1988)

2.3.4 Profitability

The profit maximization is the fundamental objective of any organization. Porter (1985) states that for any organization contemplating to venture into diversification need to apply the following tests. Firstly is the structural attractiveness test. The industry must be structurally attractive. Secondly is the entry cost test. The cost must not capitalize all the future profits. The cost needs to be low so as to yield gain in future. Lastly is the test of better off. The business needs to gain the competitive advantage from its links with corporation. The diversification should present greater opportunities to the firm in the new markets areas than would accrue from its existing activities. Thus diversification strategy has been used by different organizations in order to enhance their profitability and financial position of the firms.

2.3.5 Economies of scale

Diversification may occur because a company has developed a particular strength or expertise and feels of that it could benefit from transferring this asset into other possibly unrelated businesses

(Thompson,1990). The transfer of competences among existing business involves taking distinctive competencies developed in another industry and applying them to an existing business in another industry. The acquisition of related business lowers the cost of value creation and allows a company to create value in a way that lead to differentiation and yield a premium price. All the activities of the company must be important for establishing a competitive advantage. The resources may include, manufacturing facilities, distribution channels, advertising campaigns and research and development cost. Penrose as coined by Rumelt, Schendel and Teece(1994) pointed out that for diversification to realize economies of scale it requires the sharing of resources and transfers of skills between two or more otherwise distinct businesses. The sharing of resources leads to low cost of investment. This is possible when there are significant commonalities between one or more value creation function of the company existing or new activities. Thus diversification may be used to facilitate use of excess resources thus enhancing efficiency (Amit, Lavnat and Zorowin ,1989)

2.3.6 Professional interest

Some of the management may pursue this strategy as a way of fulfilling their interest that is prestige of having a large organization (Aaker, 1998). Thompson (1990) pointed that the strategic changes results from the ego or the ambitions of the strategic leaders who may feel that he or she can run any type of the business successfully regardless of the degree of unrelatedness. Rewards for managers are usually greater when a firm is pursuing a growth strategy. For managers who are paid on a commission based on sales, the higher the sales level, the larger the compensation received. The recognition and power also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed and written about by the press than are managers of companies with greater rates of return but slower rates of growth. Thus, growing companies also become better known and may be better and able to attract quality managers. Managers may use the diversification that creates the agency conflict between them and the stockholders, as they are motivated in reducing the probability of bankruptcy to enhance their job security and preserve their firm's specific human capital investment. Others may diversify by acquiring the undervalued firms with large tax loss carry over or merger with firms that have underutilized tax incentives to make capital investment through tax exemptions (Aaker ,1998).

2.3.7 Refocus a firm

This occurs when firm objectives cannot be achieved by continuing to operate in their existing markets. There is neither the growth nor satisfactory profit but the business poses a lot of risk. The objective would be to change the thrust of a firm from one set of industries to another (Aaker, 1998). The key is to identify the firms that are undervalued with respect to their potential after refocus. The firms' diversification opportunities should promise a greater profitability as compared to the expansion opportunities and the objectives are such that they can no longer be met within the product market scope defined by other strategies as denoted by Ansoff as the reason for diversification of the firms. For instance a marketing firm may refocus by acquiring an undervalued manufacturing firm which will yield more profit in the long run.

2.3.8 Exploitation of the general organization competencies

According to Penrose as coined by Rumelt, Schendel and Teece(1994) there is need to fully utilize excess capacity in human capital as engine that drives corporate growth and diversification. These helps organizations to perform at higher level than would be the case were they independent companies. It is based on three forms of capabilities. The entrepreneurial capabilities helps in encouraging managers to take risk on ideas as well as allocate resources and time on them. The second form of capabilities is development capabilities. These provide the context in which managers of business units run them. It is mainly on business level where the organization is subdivided into divisional units hence the managers' potential skills can be effectively and efficiently portrayed. The last form is superior strategic capabilities. These gives the top management the intangible governance skills that allow them to manage the different business unit within the organization in ways that allows them to perform better than independent company as pointed out by Hill and Jones (2004).

2.4 Strategy Choices

This involve understanding the underlying bases for future strategy at both the corporate business unit levels and options for developing strategy in terms of both the directions and methods of development (Johnson and Scholes,2002). The choice may include the business level strategy for competing within organization and the method of strategy development. There are several factors that influence strategic choice. These are:

2.4.1 Organization structure

Organizations have identifiable structures. As they grow they face predictable crises. To cope with these crises they change structure. Rue and Byars(1992)defined an organization structure as a framework that defines the boundaries of formal organization within which the organization operates. The structure defines the configuration of the relationships that exist between the various parts of the company, that is it reflects how groups compete for resources, where responsibilities for profits and other performance measures lies, how information is transmitted and how decisions are made (Aosa 1992). In order for the strategy to attain its objectives the organization must be well structured. The structure can either facilitate or inhibit strategy implementation. Chandler pointed out that structure follows strategy and this implies that structure should be compatible with the chosen strategy. The change in strategy ultimately leads to change in organization structure. Thus organization structure influences the choice of the strategy.

2.4.2 Leadership

According to Rue and Byars (1992) leadership has been defined as the ability to influence people to willingly follow ones guidance or adhere to ones decision. Effective leadership in an organization creates a vision of the future that considers the legitimate long-term interest of parties involved in an organization and develops a strategy for moving toward that vision. Leadership skills of strategic managers help in the achievement of the goals. Therefore leadership is vital in strategy formulation and implementation.

2.4.3 Management

The functions of management are the planning, organizing, controlling and directing. The managers need to possess the managerial skills in order to effectively and efficiently perform the tasks (Thompson and Strickland, 1989). Success in diversification is likely to be significantly influenced by the quality of the management of the acquired business interest, the synergy that can be created between the different fields of operation and the manner in which diversified expansion is implemented (Howe, 1993). The success of strategy also depends on the building portfolio of business which fits with managerial dominant logic of top executives and their management style. Managers need to develop decisions which are appropriate in a particular environmental and organization context.

2.4.4 Mission

Mission is a general statement of overriding purpose of an organization. Bennett(1994) viewed it as a concise summary of fundamental purpose of the enterprise. It communicates the overall direction of an organization and links the company vision, values and its strategy. It provides the guidelines and rules on which all the organization resources are directed toward the achievement of the goals. It also acts as a target for the organization and incase of any deviation a correction action is carried out. The mission of an organization determines the choice of the strategy for this may leads to the achievement of the goals or may impede the achievement of the goals. A good strategy should be formulated and implemented in order to execute the goals of the firm (Thompson and Strickland, 1989).

2.4.5 Resources and capabilities

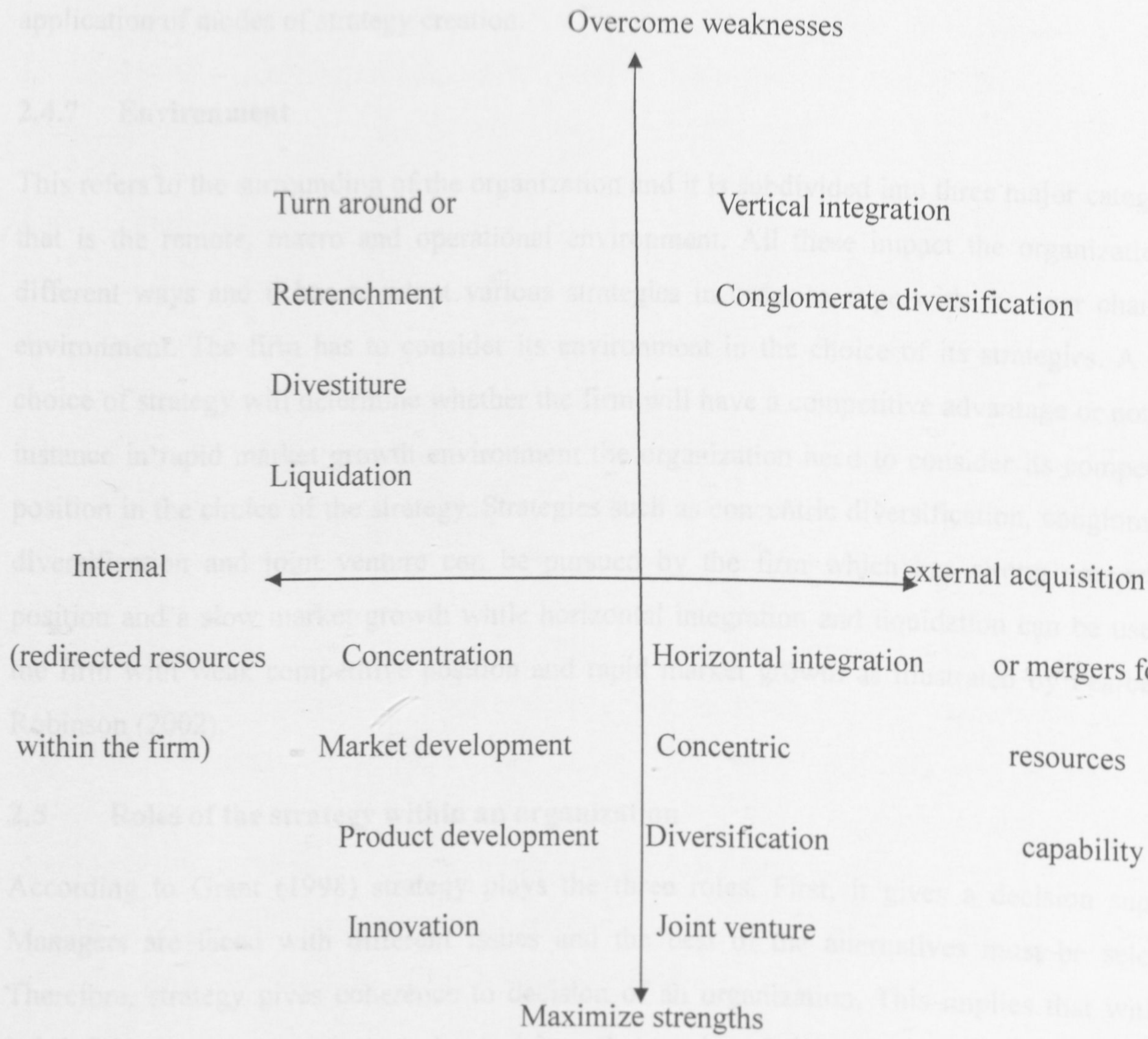
A strategy is used to match the firm's resources and capabilities to the opportunities that arise in the environment as pointed by Grant (1998). The organization environment is turbulent and the resource and capabilities of a firm define the identity. The dynamism of the environment leads to the change of the internal resources and capabilities. This means that for organization to adopt to the environment effectively it needs to have a continuous improvement of its internal resources and capabilities and this must match with the strategy to be pursued by the firm.

The firm's resources can be classified into three categories. First class is the tangible resources. These are easily identified and evaluated. This can also be classified further into physical and financial resources. The borrowing capacity and the internal fund generators characterize financial resources. These determine the firm capacity for investment. It can borrow the fund and invest in order to earn a return to the organization. The excess profit of the company can be ploughed back by investing in other profitable projects. The physical assets are characterized by the size, location, technical sophistication and flexibility of the plants and equipments. They constitute the firms cost of production. The tangible resources should be employed more profitably in order to add value to the organization.

The second category of resource is the intangible resources. This includes, goodwill, research and development and intellectual property items such as trademarks, rights and patents. The goodwill and trademarks are part of the reputation assets where value is in the confidence they instill in customers. The technology of an organization is valued through its application to production of goods and sources. This includes the copyrights and patents. The last class of resources is the human resources. These are productive services human being offer the firm in terms of their skills, knowledge, reasoning and decision making capabilities (Grant, 1998). These resources are created through investment in education and training.

Different strategies require different kinds of resources. A good choice of strategy would lead to optimum utilization of resources. Chandler as pointed by Rumelt, Schendel and Teece (1994) emphasized that much diversification would ensure the continuing full use of resources. A poorly formulated and implemented strategy would lead to underutilization of resources hence severe effects on operations of the firm. Managers' need to put into consideration the resources required for the various kind of strategies before implementation. This is because the strategy formulation and implementation process require different kinds of resources to meet its formulation and monitoring costs. Pearce (1982) developed a model that would assist the decision makers in selection of grand strategy as follows.

Figure 5: Grand strategy selection matrix



Source: Pearce 11, *Selecting among Alternatives Grand Strategies*. California Management Review 30, No 2, 1982, pg 29

2.4.6 Organization culture

These are the beliefs, attitudes and the ways of behaving of people in an organization. It is reflected in the ways in which tasks are performed, objectives are set and allocation of resources is done to achieve these objectives. The culture affect the way people think, make decisions, feel and act in response to opportunities and threats in the environment. The organization with a learning culture environment will have innovations and creative ideas which are geared toward the success of the organization. The cultures impede or facilitate the change of an organization. With changes in the environment which necessitates for redefining of the organization strategies culture should be supportive to the changes in the strategies. Thus culture affects the choice and application of modes of strategy creation.

2.4.7 Environment

This refers to the surrounding of the organization and it is subdivided into three major categories that is the remote, macro and operational environment. All these impact the organization in different ways and it has to adopt various strategies in order to cope with the ever changing environment. The firm has to consider its environment in the choice of its strategies. A good choice of strategy will determine whether the firm will have a competitive advantage or not. For instance in rapid market growth environment the organization need to consider its competitive position in the choice of the strategy. Strategies such as concentric diversification, conglomerate diversification and joint venture can be pursued by the firm which has strong competitive position and a slow market growth while horizontal integration and liquidation can be used by the firm with weak competitive position and rapid market growth as illustrated by Pearce and Robinson (2002).

2.5 Roles of the strategy within an organization

According to Grant (1998) strategy plays the three roles. First, it gives a decision support. Managers are faced with different issues and the best of the alternatives must be selected. Therefore, strategy gives coherence to decision of an organization. This implies that with the help of the strategy, managers make decisions that are beneficial to the organization. There are quality decisions because of the competent staff and their focus in analysis of situations (Ansoff,1965). Secondly, strategy is a vehicle for coordination and communication. It is by the application of the strategy that consistency in decision making across different department and individuals is achieved. It acts as a communication mechanism within an organization for it gives the guidelines or direction to be followed by the members of the organization. The underlined guideline helps in coordination because all the efforts of an organization are geared towards a common goal.

Finally, strategy indicates the targets. It is through strategy that the mission and vision are linked together. Thus it sets aspirations for the company and gives guidance on direction toward the set standards. According to Ansoff (1965) it ensures that there is a periodic appraisal of the firm to ensure that the overall resources allocation is efficient. Incase of deviation from the predetermined target, measures are taken to correct this in order to achieve the overall goals of the organization.

2.6 Challenges of diversification

Bureaucratic cost is the major drawback of diversification. This is caused by the extensive diversification that tends to depress rather than improve the profitability of the firm. The cost is incurred in monitoring of the strategy exceeds the value created. There are other costs that are incurred in terms of coordination of the firm different business in order to realize the value from the diversification strategy. The different number of businesses in a company portfolio requires large capital investments as well as monitoring cost (Hill and Jones,2004).

The other limitation of this strategy is conflicts of professional interest. Management appear to be somewhat over optimistic in respect of its ability to manage varied interest and also being over optimistic regarding the rate at which diversified interest will generate greater profits as outlined by Ansoff(1965). This is because their aim focuses on the performance of the firm at different levels and over look at the overall performance of the organization. Diversification will only be successful if the management levels work together as a team, for this allow the sharing of the skills and eliminate all the differences among them.

The next limitation is deviation from the objectives of the firm. The extensive diversification of the firm may lead to refocusing the firm to the other objectives that are not its main incorporation purpose. This may also result to greater loss to the firm due to the risks that are involved in the operations in terms of capital investment in the areas that are not profitable to the organization. The short run window opportunities presented by diversification strategies may lead to deviation of the organizational objectives due to massive investment for business activities which yield profit for a short period of time.

2.7 Non profit Organization Diversification Strategies.

According to Ben-Ner as coined by Theuvsen(2004) non profits are private ,non governmental organization that do not aim to maximize profits for distribution to their owners or controllers, but they do have some service objectives to members, users or other beneficiaries. They aim at creating value and this is considered as an outstanding characteristic of non profit organizations (Quarter and Richmond as coined by Theusen, 2004)

A continuous change in the environment associated with major resource providers translates into specific threats and emerging opportunities for non profit funding. This is because of competition for funds which is an integral part of lives of non profit organizations as coined by Froelich (1999). Non-profit organizations rely on a variety of activities and resources providers to support their mission related work. They should therefore create a classic image to attract charitable donations from individuals and corporations for socially valued programs. The diversification is consistent with prescription for reducing resources dependence and maintaining organizational autonomy

Some of the diversification strategies adopted include the revenue strategies. The organizations involve themselves commercial activities which are either related or unrelated to the mission. Hodgkinson, Weitman, Noga and Gorski as coined by Froelich(1999) noted that the commercial activities related to the mission or linked to the program services appears to be far more common than unrelated activities. The approaches used in commercial activities are selling products or charging fees for program services. The other commercial funding strategy is the variation of goal displacement or creaming. The organizations shift their programs to areas that have greater appeal to donors(Boris and Odendahl pointed out by Froelich,1999). The revenue diversification is meant to shift sources of funds and alter the dependency relationships.

The other strategy used by these organizations is the market piggybacking. This strategy uses the profits or surpluses produced from serving one demand side consumer submarket constituency less related to the organization's specialized mission in order to subsidize another consumer submarket constituency more related to the specialized mission. The supply side shared common and joint cost based related diversification can both help subsidized and better utilization of resources of non profit organization as pointed out by Nielsen(1986). Both common and joint shared cost related diversification uses the resources and strengths of the organizations.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

The study was carried out by the use of an exploratory case study. This design provided an in depth information on the strategies used by Christian Community Services in Mt Kenya East region. It allowed contextual analysis of events or conditions that led the organization to consider diversification strategies in its operations hence determining factors and the relationships for diversification. It also generated the answers to the questions why, what and how as pointed out by Saunders, Lewis and Thornhill (2003).

3.2 Data collection methods

The data collected was both primary and secondary data. The primary data was gathered by use of a structured interview guide (See the appendix I). The interview guide was divided into four major parts that helped in addressing the research questions. This method enabled probing for clarifications. The researcher administered the interview to the respondents who were members of management team and comprised of the executive director, program manager, station development heads and chief accountant. This eliminated the bias information of relying on few top management decision makers. Secondary data was collected from management reports and journals that gave detailed information relating to the strategies adopted, efficiency on performance and challenges faced by the organization in the implementation of its strategies. This was achieved by the use of secondary data collection form (see the appendix II).

3.3 Data analysis

The analysis was done using qualitative techniques. This is because the data was qualitative in nature therefore the ideal method of analysis was content analysis. This was carried out in six major steps as outlined by Mugenda and Mugenda(2003). The first step was data organization that entailed editing and cleaning up. The next step was to decide on the units of analysis. Then the data was categorized following the research questions. The fourth step was to code the data. This was followed by drawing conclusion from the code data that is making sense of the generated categories. The results compilation and interpretation marked the last step. The qualitative content analysis method was simple to use and easy to understand.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The research was carried out by the use of a case study and was being guided by three objectives which were; to determine the reasons for diversification in Christian Community Services in Mt. Kenya East region, to establish the diversification strategies adopted by Christian Community Services in Mt. Kenya East region and to determine the effectiveness of diversification strategies of Christian Community Services in Mt. Kenya East region. Ten members of management team were interviewed. They included the executive director, program manager, station heads and chief accountant. The results of the study were qualitative in nature and content analysis was done. Therefore, the results are presented in the order of the objectives as listed above.

4.2 Reasons for diversification

Growth was the major reason for diversification because majority of the respondents interviewed show the strategy as an opportunity for the growth of the organization. Initially the organization served only three administrative districts but currently it serves about eleven administrative districts with distinct services for each and operates through the seven stations namely, Wanguru, Macumo, Mitunguu, Maua, Mayori, Marshabit and Isiolo. The growth is based on community needs that are interrelated and dynamic in nature such that the satisfaction of one leads to the demand for the other services. For instance, the agricultural activities being interrelated to health and education issues. The need for filling the gaps of the services required by the community led to the wide geographical coverage.

Sustainability was also considered as a major reason for diversification. This is because out of the respondents interviewed, most viewed it as a means of survival. The organization diversified in order to make profits as well as counter the effects of the withdrawal of the donors funding. This has also reduced the donors' dependency syndrome by ploughing back the profits to the organization activities. The organization achieves this through the sustainable programs that are basically for income generation and also through fees charged for some of their activities and sale of the produce.

The need for reduction of the operation cost was the other reason for the consideration of diversification by the organization. The organization needed to lower the cost by delivering the services to the large social groups. They also considered transferring of the skills and competence to various program by hiring of human capital that has the capability of handling the integrated programs portrayed this. This has been portrayed by the formation of lobby groups and some of the services being mainly focused to small social groups rather than the individuals for example rural financing programs, value adding programs and group and youth globalization program.

The other reason for diversification as pointed out by the respondent was a means of complementing the other programs. This has led to competitive advantage of the organization and full exploitation of the general competencies. Environment changes were another reason for diversification. The change leads to the continuous emerging of the human needs. These changes include operational, change of lifestyles, conflicts among the members, technological and the recent political crisis in our country. Therefore, diversification strategies are used to fill in the gaps for the society needs that arise.

Efficient services were outlined as a reason for diversification. The organization needed to offer services that are satisfactory to the customers in terms of quality of the activities, fair charges, reliability and accessibility of the services. The other reasons include mobilization of the communities, outreach to the communities, recreation and strengthening of the unity, advocacy and population pressure.

4.3 Diversification strategies adopted

The organization mainly pursues the related diversification that has kind of strategic fit. This is also restricted to the vision and mission of the organization. The strategies pursued include the concentric diversification, which is the main type of diversification practiced by this organization. This is mainly based on the need to fill the gaps, emerging community needs, technological advancement, competent human resources, need for accessibility of the services, value addition to community, income generation and for wider geographical coverage. Some of the programs include capacity building, group and youth globalization, rural micro finance and training programs such as computer colleges, environment conservation program, HIV/AIDS programs, disaster management and sustainability programs. There were other programs such as social welfare program which included the vocational training in the polytechnics, special education for disabled and orphans care, relief and resources center. The water related projects such as digging of boreholes and small-scale irrigation. These programs failed due to threat of competition, inadequate financial resources and ineffectiveness of the feasibility study recommendations.

Vertical integration strategy is widely practiced by the organization. With backward vertical integration having majority of the respondents accounting for it practice in various station development units of the organization. It deals with the supplies of the inputs to the communities. Some of the reasons for pursuing this include the reduction of dependency syndrome of the suppliers, income generation, accessibility of the services, efficiency of the organization, quality services and catering for the neglected areas. Some of the activities include supplies of farm inputs through agro vets outlets, farm produce stores and seeds banking. The respondents pointed out that the organization has practiced the forward integration twice since its incorporation in the area of disaster management and relief programs. This was due to operational costs and insecurity mainly in the northern part of the region.

Horizontal diversification has been practiced to some extent and this mainly involved the related activities. This has been driven by technological changes, need for survival, need for the factors of production that is the income generated from these activities are used for acquisition of the factors of production for other programs. Other reasons include the emerging opportunities, cost sharing, wide coverage and efficiency of the services. The strategy involved acquisition of a hospital in Kirinyaga district, opening of dispensaries, food processing for example the uji mix, construction of hostels, conference halls, cafeteria and communication bureau which deals with secretarial services, sale of stationeries, sale of computers and computer accessories, mobile phones and accessories. Other projects included the Internet Services Provider (ISP), which failed due to inadequate feasibility study, and an insurance project by the name Tegemeo insurance agency that was later sold to an individual entrepreneur. No unrelated diversification has been pursued by the organization. This is because the organization strictly relied on the vision and mission in its services delivery.

4.4 Effectiveness of diversification strategies

The practice of the vertical integration seems to be well performing. This is because majority of the respondents pointed out that it has somehow achieved its objectives. However, the prejudices, uncommitted communities, threats of competition, socioeconomic factors and financial constraints have limited the performance. Some of the measures taken include empowerment of the communities, leasing and closing down of the premises, change of the organization practices, use of consultations and marketing of their activities through advertising.

Horizontal diversification is fairing well as gathered from the respondents in terms of its goals achievement. This has been limited by threat of competition and lack of resources. This has also been contributed by lack of adequate feasibility study and lack of proximity of some of their premises to the customers especially the Macumo conferencing hall and hostels. The measures taken include the public awareness, improvement of services delivery, advertisement and renovation of the premises.

According to the findings concentric diversification has not fully achieved its objectives. The responses show that little has been achieved. The deviation has been accredited to change of external factors, resistance of the communities, financial constraints, unfavorable government policies, change of community needs and poor infrastructures. Some of the measures taken include search for networking organizations, partners and donors, empowerment of communities, fund raising, initiating income generating activities, civic education and planning.

4.5 Challenges of the diversification

The collected data indicated that the main challenges of implementation of these strategies include inadequate of resources such as finances and competence staff. This is due to donors' funds withdrawals and staff turnovers. These have the impact on the implementation of the strategies by delaying them and lack of the key players in the implementation stage. The resistance of the community, and technological changes led to some of the program being taken over before full implementation. Ecological factors such as draught have led the organization to divert its resources in the relief programs. The political factor that is, the ever-changing policies of the government has hindered the progress of implementation of programs. Other limitations are weak leadership skills, community dependency syndrome, lack of monitoring and control, lack of commitment, résistance of change by the personnel, large area of coverage, threat of competition and lack of consistency of the participant by community

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary, Conclusion and Recommendations

The first objective was to determine the reasons for diversification for the CSSMKE. The organization mainly diversified in order to enhance the community satisfaction. That is, meeting the community expectations by addressing the emerging needs. These reasons included the need for growth that is, wider geographical coverage, accessible services, operation cost reduction, complementation of other programs, efficient services, recreation, strengthening of the unity, advocacy, emergency, community mobilization, the survival of the organization, population pressure and changes of the environment.

Although CSSMKE is a non-profit making Christian organization the results of the study shows that its diversification was mainly motivated by the reasons as listed in the literature review. These reasons include the growth, which is indicated by the need for a wide geographical coverage. The profitability of the firm was the other factor that motivated the organization to diversify. This was addressed by the need for survival through use of sustainable programs to generate the income. The economies of scale were the other motivation where the organization desired to lower the cost of operations by serving a large group of people at a time, competitive advantage and exploitation of the general competencies of the organization were also reasons as cited in the literature.

The findings are consistent with most of the previous studies concerning the strong relationships between diversification and growth and also studies in respect to relationship among diversification, profitability and risk. McDougall, Fred and Round (1984) pointed out that firms diversified in order to increase profitability, reduce the risks, enhance competitive advantage, for higher growth and efficient resources allocation. They established that there was no significant difference on diversification as a means of overcoming the limitations of small markets with low growth rate and competition among the diversified and non-diversified firms. They further noted that the strategy of diversification did not result in significantly higher profitability or lower risk for diversified firms compared to the non-diversified firms. Rumelt (1982) established that there was no significant of the organization diversification and profitability. Mwanzi (1991) found that there was no association of the levels of diversification and the firm's performance. Montgomery (1985) found that there was no higher market share for diversified firms than the less diversified. The organization mainly diversified to enhance the community satisfaction rather than for financial performance. This concurred with the findings of the study carried out by Mwindi (2003) who established that oil companies practiced the strategy in order to enhance the customer satisfactions rather than the financial performance.

The study also focused on the diversification strategies adopted by the CCSMKE. The findings indicate that the organization practiced mainly the related diversification that has kind of strategic fit. The fit include the marketing, operation and management. This is also restricted to the reliance on the mission and vision of the organization. The strategies included the concentric diversification, which is highly practiced, vertical integration that is both the backward and forward integration, and horizontal diversification.

The findings conformed to the types of the diversification strategies cited in the literature review, which were concentric, vertical integration and horizontal diversification. They also adopted the revenue diversification strategies for non-profit making organizations. These include engaging in commercial activities such as sale of the products and charging of some fees for the services. The other strategy is implementation of the donors appealing programs so as to create classic image and attract charitable donations. However, the commercial activities of the organization are related to its mission. They also practice the market piggybacking strategy where they use the profit or surpluses produced from programs less related to mission to subsidize the costs of the programs that are more related to the mission. For example use of the profits or surplus of the sustainability programs to subsidize the operation costs of the community based programs such as agriculture and health.

The organization seems to be moving from the diversification strategies of the profit making and engaging in the nonprofit making diversification strategies. The programs used in the non profit making strategies include the integrated agricultural activities, health, HIV/AIDS, poverty alleviation and peace resolution programs which are appealing to the government of Kenya and other donors both local and international. The firm needs to consider diversifying in related and unrelated activities to its mission in order to have a competitive advantage and for the survival.

They need also to fully integrate the diversification strategies for non-profit making organization with the strategies for profit-oriented organization.

The findings were consistent with studies done which include the Wakwoma (2007) who found that banking industries pursued the diversification strategies which had some kind of strategic fit. Rumelt (1974) established that highest profitability were exhibited by those having strategy of diversifying primarily into those areas that drew on some common core skill or resources. The lowest levels were those of vertical integration and finally the unrelated diversification. Montgomery and Wernerfelt (1988) reported that efficient diversifiers which were firms pursuing related types of diversification focused on specific related skills, performed better than the inefficient diversifiers. A survey which was carried out by Young (2005) on community and economic development of non profit enterprises also show that the organization practiced the mission related activities such as promotion of employment and training, supporting local business development, improving local community infrastructure and helping low income residents.

The last objective was to address the effectiveness of the strategies adopted. The organization under achieved its goals. This means they have partly achieved its objectives for implementations. The concentric diversification has not fully achieved its objectives likewise the vertical integration and horizontal diversification. The number of the failed programs is one of the indicators for ineffectiveness as outlined in chapter four on strategies adopted by the organization. The Geneva Global Inc HIV/AIDS results report also indicated that the organization underachieved on the fight for HIV/AIDS activities.

The ineffectiveness has been attributed to financial constraints, changes of environment, resistance of the communities, ineffective recommendations of the feasibility study, ecological factors such as draught which has hindered the success of income generating activities hence the funds being spent on the relief programs. This has also delayed the implementation of the programs. The other limitation is the design of the programs. Some of the programs such as HIV/AIDS program lack a solid structure. This is evidence by absence of counseling and testing services in some locations.

In conclusion, for the organization to be effective in the diversification strategies it should be limited to those businesses with synergy and should focus on exploiting the core competencies across different businesses. The success of diversification also depends on building portfolio of business, which fits with the managerial dominant logic of the top executives and the management style. Managers need to develop decisions that are appropriate in a particular environment and organization context. This means the programs should be tailored to the need of the communities rather than duplication of the activities in all the stations. There is need to conduct extensive feasibility study before the implementation of the programs as this will help address some of the challenges such as the proximity of some of the premises.

5.2 Limitations of the study

Most of the studies are limited by the resources that is, the time, personnel and finances. This study targeted the top most management team who present the broad-spectrum views of the organization. Majority of the respondents were co-operative though not accessible. Some of them were unwilling to give the relevant information and others were lacking the knowledge on the diversification strategies used by the organization as the resourceful persons had retired or left the organization. This was complemented by the secondary data.

The study only focused on the CCSMKE region and this does not form the fundamental basis for generalization for the other CSS regions. This is because they operate in a diverse environment and more conclusive results would be achieved if all the regions were studied. The study did not try to find the effect of the diversification strategies and the effectiveness of the other types of strategies.

5.3 Recommendation for further research

The environment turbulence will necessitate the corporate managers to refocus their strategies in order for their organizations to survive and have a competitive advantage. The study only focused on the diversification strategies of the CCSMKE, as a non-profit making Christian organization and this is an interest area that has not yet been explored. Therefore, further research can be done on the diversification for the faith based non-governmental organizations in order to establish the relationship between the strategy and the financial performance of the organization.

5.4 Implications of the study for policy and practice

With an ample evidence of diversification, today's corporate managers needs to respond significantly to the takeovers threats by concentrating on the core product lines of the firms. A good diversification strategy needs to be well matched to industry and competitive conditions, market opportunities and threats and other aspects of enterprise external environment. It has to be tailored to the company resources strengths and weaknesses, competencies and competitive capabilities. The goods or services of the organization should combine both the revenue generation activities and the mission-contributing dimension. This means the profit making on the goods or services need to have some comparative economic advantage. Thus the enterprises are not likely to fall far from their mission related work.

The success of diversification strategy of CSSMKE will depend on the clarity of the mission and discipline to maintain mission focus in the face of financial opportunities and pressures. The corporate managers should have the capacity to manage cultural conflicts that may arise between profit oriented and mission oriented groups within the organization. They need to have the ability to accurately assess the risk of diversification ventures. They should be able to manage multiple stakeholders such as donors, employees, communities, government and church ownership who may have the influence on the diversification policies. The organization should also try to maintain its trust and reputation in the commercial activities for this might have severe effects on the financial funding of the organization especially from the donors who may view it as the dilution of the mission of the firms.

The diversification venture of the organization should contribute in net terms, financial support of the organization and contribute to the mission impacts. The corporate managers should not undertake any programs or activities unless it contributes at least to one of these dimensions. The combination of the ventures and activities of the organization should add up to the maximal impacts on the mission. Lastly, the addition of new products or services should not affect the existing products or services in any adverse way unless they are intended to be replacement.

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APPENDICES

Appendix I: The Interview Guide

Part A: General information

1) What is your name?………………………………………………

2) The gender of the interviewee. Female ☐ Male ☐

3) For how long have you worked for this organization?…………………………

Part B: Diversification motives

1) When did you start offering these activities? ………………………………..
2) Which activities did your organization start with?

   a)……………………………………………………………………………

   b)……………………………………………………………………………..

   c)……………………………………………………………………………..

   d)……………………………………………………………………………..

   e)……………………………………………………………………………

3) a) Did the organization consider adding new activities later on? Yes ☐ / No ☐

   b) If yes, which are they?

   ……………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

c) What were the reasons that led you to consider addition of new activities?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Part C: Strategic choice

1) Who are involved in the development of strategies?……………………………

2.a) Has your organization involved itself in activities which were offered by your suppliers?

Yes ☐ / No ☐

b)If yes, what were the reasons?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

c) Name some of these activities? ....

....

....

....

3. a) Have you considered offering the services directly to the customers which were being offered by others? Yes ☐ / No ☐

b) If yes, what were the reasons?

....

....

....

c) What are some of these activities?

....

....

4.a) Has your organization considered adding new activities that are related to the existing ones in order to attract new customers? Yes ☐ / No ☐

b) If yes, what are some of these activities?

....

....

....

c) What are some of the reasons for venturing into these activities?

....

....

....

5.a)Has your organization ventured in offering new activities to the existing customers?

Yes ☐ / No ☐

b) If yes, which are they?

....

....

....

....

c) What were the reasons that led to the choice of these lines of new activities?

....

....

....

6.a) Has your organization considered adding new activities which have no connection with the existing ones in order to attract new customers? Yes ☐ / No ☐

b) If yes, what were the reasons?

....

....

....

c) Name some of these activities?

....

....

....

Part four: Diversification results.

1. i) By engaging in suppliers activities have you met your objectives? Yes ☐/ No☐

ii) If no, what are the reasons?

....

....

....

iii) What measures were taken to correct the deviation?

....

....

2. i) In offering services directly to communities have you met your target? Yes ☐/ No☐

ii) If no, what are the reasons?

....

....

iii) What measures were taken to correct the deviation?

....

....

3.i)Have the new activities for the current customers achieved their objectives? Yes ☐ /No ☐

ii) If no, what are the reasons?

....

....

....

iii) What measure did you take to correct the deviation?

....

....

4.i)Have you experience any deviation from the set objectives by adding new activities which are unrelated to the existing ones for your current customers? Yes ☐ /No ☐

ii) If no, what are the reasons?

....

....

iii) What measures have you taken?

....

……………………………………………………………………………………

5.i) Have the new activities for the new customers which have no connection with existing activities achieve their objectives? Yes☐ / No☐

ii) If no, what are the reasons?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

iii) What measures have taken?

……………………………………………………………………………………

……………………………………………………………………………………

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6 Have these strategies led to the firm profitability or efficiency in customers' services?

……………………………………………………………………………………

……………………………………………………………………………………

7 Did you experience difficulties in implementing these strategies? Yes☐ / No☐

ii) If yes which were they?

……………………………………………………………………………………

……………………………………………………………………………………

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Appendix II: The Secondary Data Collection Form

1. The seen communities activities which are:

a) Vertical integrated in nature.

……………………………………………………

……………………………………………………

b) Concentric diversification.

………………………………………………………

………………………………………………………

c) Horizontal diversification.

………………………………………………………

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d) Conglomerate diversification activities

………………………………………………………...

………………………………………………………

2. The amount invested in these strategies……………………………………………
3. The returns of these investments in terms of monetary and non monetary values…………
4. The challenges highlighted in the reports of service delivery of the organization.

……………………………………………………………………………………

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