**ASSESSMENT OF DIVERSIFICATION AS A SURVIVAL AND GROWTH STRATEGY**

**Abstract**

The competitive nature of the economy, cause many products and services to lose their distinctiveness, the competitors’ offering of lower prices, and the deteriorating public perception of the business organizations have called for the strategies,  and public relations in the marketing of consumer goods. The concept of Diversification strategy is that, the organization’s eggs are kept in different basket so that the risk of becoming bankruptcy will be reduced.   This research examined the significant impact of Diversification to the Nigerian Bottling Company.  The objectives of the study were to assess the success of Diversification strategy to the organization and to also assess those problems associated with Diversification strategy. The methodology included Survey Design to gather primary data from the 60 questionnaires for the study, Percentage used in presenting and analyzing the gathered data, and Chi-Square used in testing the null hypotheses. The major findings of the study were that; Diversification strategy has a significant impact on the survival and growth of the Nigerian Bottling Company.

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**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

The world economy today is gradually integrating into one as a result of rapid technological growth especially in the areas of information and communication technology. This have broken down trade barriers across the nations and deepened competition. Moreover, economic crunch which in most cases affect the financial system led by the banking sector makes it imperative that banks should ensure that their investment portfolio mix is managed in such a strategic manner that non-banking operations can contribute meaningfully to the survival of the banks. One of the worst hit in any banking sector crisis is the micro finance sub-sector. Micro-finance bank which is critical to the economic growth of every nation must search for operational models that can help it survive in times of industry challenges. This requires that micro-finance banks must formulate strategies to create profit centers outside its conventional banking operations. Again, in order to enhance their competitive capacities, micro-finance banks must attract and sustain confidence from their various stakeholders or publics. This enunciates the need for diversification in micro-finance banks in Nigeria. In the view of Akanwa et al (2006), the formulation of a strategy for diversification must begin with an examination of the firm’s basic objectives, skills, and resources and an appraisal of its’ strategic design. They posits that the movement into diversification usually necessitates a change in the company’s root strategy and a complete recycling of the policy making process. In its meaning, Hao et al (2011) defined diversification strategy as a technique for the identification and assessment of potential risks and combine a diverse array of investments in a portfolio. They assert that the justification is that fluctuations in the value of single security will have smaller negative impact as a part of a diversified portfolio. In this way, diversification reduces the overall risk of the investments. To Hao et al (2011), there are three major strategies to enhance the quality of diversification. Firstly, the portfolio may comprise of various investment instruments such as bonds, cash, and stocks, among others. Secondly, one may employ various mutual fund strategies such as investment in balanced and index funds. This approach entails the creation of portfolio which comprises of instruments with varying levels of risk. Losses incurred by investments in some areas will be compensated by profits gained in other areas. Thirdly, one may diversify the industry type and geographic locations of the securities. This approach aims to lessen the impact of risks associated with the possible decline of particular industries. Moreover, weather conditions such as regional floods, storms, and floods may cause extensive damages on certain locally based industries. Furthermore, it is best to simultaneously invest in domestic and international securities. Even if one country is experiencing economic decline, the overall portfolio will include other countries of varying degrees of economic growth. In the view of Dastidar (2009), Diversification strategy comprises of horizontal and vertical diversification. The first type occurs when the investor holds securities in various companies which engage in a certain activity at the same stage of the production process. Vertical diversification refers to investment in companies which are engaged in different phases of production: from raw materials to finished products. In general, horizontal diversification narrows the investment to companies within a single sector. Vertical diversification increases the scope of investment to the purchases of stocks in different branches. Moreover, broader diversification may entail the purchase of both, stocks and bonds within diverse array of sectors. Levy and Sarnat (1970) say that organizations will attempt to diversify into a wide range of industries in order to lower their likelihood of failure. Weston and Mansighka (1971) indicated that firms may undertake corporate level diversification to defend against the possibility of a deteriorating industry environment. They suggest that organizations can survive, or at least affect their rate of decline if they react correctly to environmental change. Pfeffer and Salancik (1978) and Thompson (1961) state that firms can buffer against environmental effects through diversification of the firm’s activities or markets. The implication is that more diversified firms should be less inclined to fail. In the world of business, subsequent studies have shown that modern portfolio theory applies only in a limited way to individual firms. From the perspective of large enterprises, several studies have shown that those that are somewhat diversified in products and services, sectors, or geographical region are likely to outperform those with a narrow focus, as well as those that are highly diversified.2 Put differently, optimal diversification for large businesses—unlike optimal portfolio diversification—appears to entail finding a “sweet spot” in which a firm is neither overly concentrated, nor spread too thinly. Thus, a car manufacturer would usually be better served by making other types of vehicles than by diversifying more narrowly by simply offering a wider range of cars. Furthermore, diversifying across the transportation sector would normally be more beneficial than moving into a totally unrelated sector. What about small and mid-sized businesses, whose organizational constraints differ from those of large firms? For this type of business, diversification is arguably a more complex issue and one that has been researched less fully. For one thing, small businesses can have high risk exposure in ways that large firms do not. In some industries, for instance, small and mid-sized businesses often maintain significant exposure to a single major client. These industries, which include natural resources and aerospace, tend to be characterized by having just a few large firms at the top of the supply chain. High risk exposure can also arise from offering just one product or service line, even if a business has a broad customer base. Not all small and mid-sized firms are undiversified, however, and diversification is not merely a function of size or age. Our survey shows that some small businesses decide early on that diversification is important. Similarly, while highly diversified businesses are—as one might expect—larger, on average, than their undiversified counterparts, diversification is positively linked with financial performance regardless of firm size

* 1. **STATEMENT OF THE PROBLEM**

The diversification strategy, according to Palepu (1985), is an important component of the strategic management of a firm, and the relationship between a firm’s diversification strategy and its economic performance is an issue of considerable interest to managers and academics. The volatility of the construction market makes the strategic decision to diversify through knowing the correct combination of a company’s strength and business mix very important for a firm to survive and keep up with its competitors (Teo, 2002). It is in view of the above that the researcher intends to assess diversification as a survival and growth strategy.

* 1. **OBJECTIVE OF THE STUDY**

The main objective of this study is on assessment of diversification as a survival and growth strategy; but to aid the completion of the study, the researcher intend to achieve the following specific objective;

1. To assess the effectiveness of diversification as a growth strategy
2. To examine the impact of product diversification in increasing sale volume
3. To examine the relationship between product diversification strategy and survival strategy
4. To examine the effect of diversification on product sustainability
   1. **RESEARCH HYPOTHESES**

To aid the completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** there is no significant relationship between product diversification strategy and survival strategy

**H1:** there is a significant relationship between product diversification strategy and survival strategy

**H0:** product diversification does not have any impact in increasing sale volume

**H2:** product diversification does have an impact in increasing sale volume

* 1. **SIGNIFICANCE OF THE STUDY**

It is believe that at the completion of the study the findings will be of great importance to the management of Nigerian bottling company in formulating policies and adopting strategy that will give their product an edge over their rivals. The study will also be of great importance to the marketing department of Nigeria bottling company as the study seek to explore and assess product diversification as a survival strategy and organizational growth. The study will also be of great importance to researchers who seek to embark on a study in a similar topic as the study will serve as a reference point to further research;

* 1. **SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers an assessment of diversification as a survival and growth strategy; but in the cause of the study, there are some factors that limit the scope of the study;

**Time constraint:** The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

**Inadequate Materials:** Scarcity of material is also another hindrance. The researcher finds it difficult to long hands in several required material which could contribute immensely to the success of this research work.

**Financial constraint:** Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).

**1.7 OPERATIONAL DEFINITION OF TERMS**

**Diversification**

Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is the most risky section of the [Ansoff Matrix](https://en.wikipedia.org/wiki/Ansoff_Matrix" \o "Ansoff Matrix), as the business has no experience in the new market and does not know if the product is going to be successful

**Growth**

Economic development is the process by which a nation improves the economic, political, and social well-being of its people.

**Growth strategy**

Strategy aimed at winning larger market share, even at the expense of short-term earnings. Four broad growth strategies are diversification, product development, market penetration, and market development

**1.8 ORGANIZATION OF THE STUDY**

This research work is presented in five (5) chapters in accordance with the standard presentation of research work.

Chapter one contains the introduction which include; background of the study, statement of the problem, aim and objectives of study, research questions, significance of study, scope of study and overview of the study. Chapter two deals with review of related literature. Chapter three dwelt on research methodology which include; brief description of the study area, research design, sources of data, population of the study, sample size and sampling technique, instrument of data collection, validity of instrument, reliability of instrument and method of data presentation and analysis. Chapter four consists of data presentation and analysis while chapter five is the summary of findings, recommendations and conclusion.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 Introduction**

Different authorities have adduced diverse meanings to the concept of diversification as a strategy in business. In the view Lyon et al (2002) most often, diversification strategies are implemented to broaden company’s activities by increasing services, markets and products. The objective of diversifying is to enable a firm to enter other business units that are divergent from prevalent activities. Diversification strategy in itself does not exist in one single form. Schwartz and Kaimen (2000) believe that diversification is when a firm operating in one industry produces outputs which are classified under another sector. Hopkins and Pitts (2000) perceive diversification as when broad business operates simultaneously. According to Hamilton and Booze (2001), diversified firms are those that extend their business base in order to decrease overall risk and improve the growth rate of the firm. In the opinion of Luxenberg et al (2004), Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. In its early days, diversification came about either by accident or pure intuition. Embarking a conglomerate diversification was a way to decrease the risk involved in the existing operations of the business (Mueller, 1977). As identified by Montgomery (1994), there are three primary reasons that result in a company’s conclusion to diversify. The first reason is the Market – Power belief which assumes that as a firm becomes conglomerate, it can obtain stronger position. The second one is identified as the agency attitude. This is when managers implement diversification to uplift the status of the firm and provide protection to the financial conditions of the firm in times of economic turbulence. Finally, the third reason known as the resource view encourages diversification when there are excess resources in the firm that can be elsewhere and be more productive. To Qian (2010) diversification strategy is a risk management technique a company uses that makes use of a wide variety of investments within the company. The under lying principle behind this system is that it asserts that different kinds of investment on an average will give in higher returns and also create a lower risk than an individual investment in a company. The main aim of diversification is to reduce or minimize the risk of the company. Diversification tries to even out the random risks that a company can have and provide with a better way to improve on investments, and neutralize the negative survival of investments in the future. It is a wellknown fact that maintaining a well-balanced and diversified company can help a company in yielding cost and minimize the risks involved. An investment in securities would yield far more profits for the company but in a limited time when compared to big investments. Qfinance dictionary (2011) asserts that diversification strategies deal with developing new areas for growth or risk reduction as a way to increase the variety of business, service, or product types within an organization. Diversification can be a growth strategy, taking advantage of market opportunities, or it may be aimed at reducing Qfinance dictionary (2011) asserts that diversification strategies deal with developing new areas for growth or risk reduction as a way to increase the variety of business, service, or product types within an organization. Diversification can be a growth strategy, taking advantage of market opportunities, or it may be aimed at reducing risk by spreading interests over different areas. It can be achieved through acquisition or through internal research and development, and it can involve managing two, a few, or many different areas of interest. Diversification can also be a corporate strategy of investment in acquisitions within a broad portfolio range by a large holding company. One distinct type is horizontal diversification, which involves expansion into a similar product area, for example, a domestic furniture manufacturer producing office furniture. Another is vertical diversification, in which a company moves into a different level of the supply chain, for example, a manufacturing company becoming a retailer. The term “survival” has many connotations -- both subjective and objective. The most objective way to measure survival in organizations is to observe their continuing existence. This is problematic given the nature of mergers and acquisitions, Delacroix, and Glenn (1983). A way of clarifying the matter is to employ a resource dependence approach (Pfeffer and Jerry 1978). An organization survives as long as it “acquires inputs from suppliers and provides outputs to a given public (customers, clients, patients, etc.). According to Altman (1968), organization fails when coalitions of resource providers cannot be induced to supply resources and the firm cannot repay resource providers for past support (Shephard 1989). There is general agreement among the stakeholders that the firm has failed once it has entered bankruptcy proceedings (Moulton 1988). In other words, the firm has failed to return investors’ and creditors’ capital in the agreed to manner, to provide workers with job security, to provide cities with tax revenues, etc. For the purpose of this study therefore, survival is simply ability of the micro-finance banks to overcome competitive pressures and environmental threats.

**2.2 PRODUCT DIVERSIFICATION**

Although many studies abound on the diversificationperformance relationship (Ofori and Chan, 2000; Choi and Russel, 2004) and why firms diversify or refuse to diversify (Hua and Pheng, 1998; Cho, 2003), the findings are somewhat inconsistent. For example, Choi and Russel (2004) found that the profitability growth rate of undiversified firms was lower than that of diversified firms. In contrast, Ofori and Chan (2000) found that undiversified firms have performed better by remaining focused despite the perceived risks and uncertainties resulting from inherent fluctuations. Furthermore, Teo and Runeson (2001) found that substantial proportions of firms are not prepared for diversification; rather, they elect to operate in one market only despite the advantages of diversification. Some studies assert that diversifying into related product markets produces higher returns than diversifying into unrelated product markets, and less diversified firms have been argued to perform better than highly diversified firms (Christensen and Montgomery, 1981; Rumelt, 1974; 1982). Some claim that the economies in integrating operations and core skills obtained in related diversification outweigh the costs of internal capital markets and the smaller variances in sales revenues generated by unrelated diversification (Datta et al., 1981). While they agreed that related diversification is better than unrelated diversification, Prahalad and Bettis (1986) clarified that it is the insight and the vision of the top managers in choosing the right strategy (how much and what kind of relatedness), rather than diversification per se, that is the key to successful diversification. Accordingly, it is not product-market diversity, but the strategic logic that managers use, that links firm diversification to performance, which implies that diversified firms without such logic may not perform as well. However, others argue that it is not management conduct so much, but industry structure, which governs firm performance (Christensen and Montgomery, 1981; Montgomery, 1985). In addition to diversification types and industry structure, researchers have also looked at the ways that firms diversify. Simmonds (1990) examined the combined effects of breadth (related vs. unrelated) and mode (internal research and development versus Mergers and Acquisitions) and found that relatedly diversified firms are better performers than unrelatedly diversified firms, and research and development-based product development is better than mergers and acquisitionled diversification. However, the results of studies on acquisitions are inconsistent. Some report that related acquisitions are better performers than unrelated ones (Kusewitt, 1985) while others report that there is no real difference between them (Montgomery and Singh, 1984).

**2.3 PRODUCT DIVERSIFICATION IN THE CONSTRUCTION INDUSTRY**

In the construction industry, strategic management issues have recently gained attention, and managers recognise their importance for firm survival and success (Choi and Russel, 2005). However, the number of strategic management practices in the construction industry that have reached the implementation or measurement stage remains limited at best (Chinowsky, 2001). The construction industry is known to be highly competitive and generally poor in terms of profitability. An investigation into the possible reasons for the differences in profitability among firms by Akintoye and Skitmore (1991) showed that the degree and type of diversification are major factors. The subject of diversification is hence an important consideration in a construction firm’s strategy (Ibrahim and Kaka, 2007). Studies have shown that construction firms diversify into both related and unrelated businesses (Ibrahim and Kaka, 2007). According to Langford and Male (2001), UK contractors operate in five main business areas: civil engineering, building, property development, estate development and construction product development. In addition, Hillebrandt and Cannon (1990) identified such other activities as time share, form work, healthcare, waste disposal, mechanical and electrical engineering and mining. Hillebrandt (1996) asserted that the most important activities into which large contractors diversified were construction related. These activities include housing development, property development and material production, especially aggregate as well as sand and gravel. An investigation into the possible reasons for diversification indicated that growth and profit, as well as the desire to make good use of positive cash flows, are the major reasons for diversifying into property. She also identified boat building (in one case) and meat processing as other areas. Cho (2003) found that some Korean house building firms diversify into totally unrelated businesses, such as forestry and logging, sales of motor vehicles, the hotel and restaurant business and financial institutions, while others diversify into related businesses such as civil engineering, plant hire and property development. Ofori and Chan (2000) asserted that the more successful Singaporean contractors diversify into both construction-related and construction-unrelated businesses both at home and overseas. They found that the most common construction-related business Singaporean contractors diversify into is property development. Non-construction-related areas into which contractors diversify include commerce, material manufacture and securities trading.

**2.3 RELATIONSHIP BETWEEN PRODUCT DIVERSIFICATION AND PERFORMANCE**

The link between diversification and corporate performance is one of the most researched topics in strategic management, yet there does not seem to be available robust knowledge, and empirical studies are often contradictory. The variation in the results of empirical studies is so large that it often leads to confusion and contradicting interpretations (Mohindru and Chander, 2007). A review of the empirical literature from Management/Marketing disciplines and the theoretical and empirical literature from Finance broadly reveals that (a) the empirical evidence is inconclusive; (b) models, perspectives and results differ based on the disciplinary perspective chosen by the researcher; and (c) the relationship between diversification and performance is complex and is affected by intervening and contingent variables such as related versus unrelated diversification, the type of relatedness, the capability of top managers, industry structure and the mode of diversification (Pandya and Rao, 1998). Synergy theories, according to Markides (1992), suggest that a firm may achieve benefits from low to moderate levels of diversification through the sharing of activities or leveraging of competencies among its business units up to a point and then would be faced with higher marginal costs with respect to the increased marginal benefits. Thus, this interplay between synergies and limits would suggest an inverted U-shaped relationship between the level of diversification and business unit performance. Rumelt (1974) compared the performances of corporations pursuing related diversification strategies with those of corporations pursuing unrelated diversification strategies. He found that related diversification strategies produced higher performance than unrelated diversification strategies. He also found significant performance differences between related firms on the basis of the relatedness strategy they were pursuing. Furthermore, Montgomery (1985) and Bettis and Hall (1982) claimed that a related diversification strategy is more profitable than a single industry strategy and that a single industry strategy is more profitable than an unrelated diversification strategy. Recognising that the inconsistencies in reported findings may be attributable to differences in methodologies and to sampling errors, Palich et al. (2000) conducted a study that synthesised over three decades of research on the impact of diversification on firm performance. They found that diversification is related to both accounting and market performance outcomes. For both the market- and accounting-based measures, diversification appears to be positive for firms up to a certain point. Beyond this point, diversification seems to cause problems. In general, they concluded that the relationship is an inverted-U, with related diversification being superior to unrelated diversification for both the market- and accounting-based measures. It is clear that the findings regarding the impact of diversification and firm performance are inconsistent, at least in the nonconstruction research fields. In the construction industry, the theoretical and empirical evidence regarding the diversificationperformance relationship are also somewhat mixed. Ofori and Chan (2000) found that Singaporean construction firms have grown by focusing their operations at home and into contracting, despite the perceived risks and uncertainties due to inherent fluctuations in constructions. However, Choi and Russel (2005) found that the profitability growth rate of focused firms in the US was lower than that of diversified firms, implying that diversified firms have some growth advantage. Hillebrandt (1996) found that diversification by UK contractors into other businesses has not been successful. Similarly, Ibrahim and Kaka (2007) concluded that diversification does not help the performance of UK construction firms. It is clear that both construction and non-construction firms adopt diversification strategies both as a short term survival strategy and as a long term growth strategy with varying results. Additionally, the relationship between diversification and performance is inconsistent both within and outside the construction industry. These inconsistencies have been attributed to differences in methodologies and to sampling errors. Although these studies have made significant contributions to the field of strategic management, they are, however, not contextually applicable to Nigeria because of differences in business environments. The level of competition, general economic conditions and government regulations vary from country to country. Thus, construction companies are exposed to different challenges depending on the country in which they operate. This study therefore addresses this shortcoming by appraising the impact of the diversification strategy on the financial performance of construction firms in Nigeria. Uncovering this impact will elucidate the nature of the diversification-performance relationship in the Nigerian context and will also prove invaluable for managers in formulating appropriate future strategies to survive the highly volatile and competitive construction market.

**2.4 DIVERSIFICATION AND SURVIVAL RELATIONSHIP**

The issue on whether and how diversification affects organizational survival has been extensively investigated in empirical research for over 40 years. Literature indicates that varied theoretical perspectives and methodologies were proposed which is the main reason why the outcomes are often inconsistent. Chatterjee and Wernerfelt (1988, 1991) suggest that the relationship between related diversification and survival is positive. Berger et al (1995) support their view by explaining further that if related diversification is continued over a period of 3 to 5 years, the survival levels would stabilize. In other words, even if the related diversification was discontinued, the survival level would not drop; instead it will stay the same for another 3 years (Markides et al, 1996). Calvo and Wellisz (1978) assume that a firm has to be diversified into related businesses for at least 5 years for it to see an improvement in its survival quality. They also urge firms that get engaged in related diversification not to measure survival in financial terms, but instead use market share or customer satisfaction measures (Calvo et al, 1978). The reason for this being financial measures can be misleading at the beginning because a lot of investment will be required which will show up negatively on financial statements. Palich et al (2000) affirm that related diversification is positively connected with survival as long as the required resources and capabilities are available. Managers should know how to operate the systems in the required firm and fully understand ways to merge it with the organization in order to achieve synergy and develop the learning curve even further. In addition to that, it is also mentioned that the firm has to continuously develop its organizational knowledge, especially within industries. Organizational knowledge should be gained by in accumulating skill and experience through sharing activities and routines across all business lines. Grinyer et al (2010) impose that without initiating organizational knowledge, it will be difficult to optimize the benefits obtained from related diversification on organizational survival. As firms expand and become complex, personnel need to share the expertise they have acquired among other departments. Organizations are more likely to realize competitive advantages through activities and production processes. This is only possible through tacit knowledge, i.e. processes can be achieved more efficiently as time goes by because of gaining experience. Another capability needed to enhance the diversification survival relationship is the ability to operate in a value network. In the view of Dubofsky et al (2007), in organization, it is critically important to create a value network and to come up with an arrangement of inter organizational connections which are important to produce products or services. All workers should understand the supply chain within the firms operations and be skilled at managing the whole process and linkages between them in order to ensure that the best value is delivered to the Client. A third capability required to boost diversification survival linkage is the identification of profit pools and focusing more on them by providing necessary resources . Palepu, (2005) averred that Profit pools are those parts of the organization or acquired business divisions that are more profitable than others. Even in diversification, when acquiring a related business line, it is necessary that the new venture is profitable. A further area essential to support the affirmative relationship between diversification and survival is benchmarking. It’s essential to measure survival against other survival levels to get an idea of the actual corporate position. Benchmarking also helps firms understand their capabilities when compared with other firms. Comparing survival to those of best practicing helps to change the executive’s mindset in making them accept incremental improvements in competences and resources which eventually will have a favorable effect on survival.

**2.5 PRODUCT DIVERSIFICATION STRATEGIES**

In the application of product diversification strategies, a good opportunity can be found outside the present businesses (Kotler, 2006). A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Ansoff (1990) in the market grid notes that on the other hand diversification strategies can also decrease risk because a large corporation can spread certain risks if it operates on more than one market. Product diversification strategies are broadly classified into related diversification (different lines of products are linked) or unrelated diversification (no links between 10 products). Related diversification is diversifying into businesses that posses some kind of „strategic fit‟. Strategic fit exists when business es have sufficiently related value chains that give rise to important opportunities for example, transferring skills and expertise from one activity to another (Johnson and Whittington 2008). It involves developing beyond one‟s product but still within the confines of the industry (Kotler and Keller, 2006). Related diversification as well refers to getting into a new business activity in a different industry that is related to a company‟s existing business activity(s) by commonalities between one or more components of each activity‟s value chain. These commonalities are mainly marketing, manufacturing or technological. Gains arise from the transferring and leveraging of competencies and from the sharing of resources (Johnson and Whittington 2008). Lepetit et al (2007) suggests that the ideal concentric diversification occurs when the combined company profits increase strengths and opportunities, as well as decrease weaknesses and exposure to risk. Product diversification may also take the form of unrelated (conglomerate) diversification that is entry into industries that have no obvious connection to any of a company‟s value chain activities in the present industry. The chief focus is to increase profitability by exploiting general organization‟s competencies however, it is difficult to transfer or leverage competencies and to realize economies of scope (Griffin and Pasta, 2010). Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. Hamel and Prahalad (1998) states that the principal and often sole concern of the acquiring firm is the profit pattern of the venture and thus there is little concern given to creating product market synergy with existing businesses, unlike the approach taken in concentric diversification. Miles and Snow (1987) states that firms adopting a concentric diversification are seeking a balance in their portfolios between current businesses with cyclical sales and acquired businesses with counter-cyclical sales, between high-cash/low-opportunity and lowcash/high-opportunity businesses, or between debt-free and highly leveraged businesses. Since conglomerate diversification involves seeking new businesses that have no relationship to its current technology, products or markets, this gives an impression that 11 firms can be involved in businesses that are completely in a different industry for example banks venturing into hospitality industry. However, in its quest to diversify its products in unrelated industries, the firm may encounter significant challenges. A question therefore arises: “To what extent can firm s diversify into non-core industries?” That is, are there businesses that firms should not engage in, possibly because of conflict of interest, lack of adequate expertise, among other constraints that may arise? (Pearce and Robinson, 2007).

**2.6 EMPIRICAL LITERATURE ON PRODUCT DIVERSIFICATION**

Berger and Ofek (2010) in their study on diversification effect on firm value describe diversification as the entry of a company into new lines of activity through a process of internal development or through acquisition, which entails changes in its administrative structure, system or other management procedures. Any modification of a current product that serves to expand the potential market implies that the company is following a strategy of product diversification. Product diversification strategy is different from product development in that it involves creating a new customer base, which by definition expands the market potential of the original product. This is achieved through brand extensions or new brands, but in some cases the product modification may create a new market by creating new uses for the product. The study suggested that related product diversification achieves competitive advantage for firms through economies of scale and other synergies from using the firm‟s resources and capabilities across different product lines. Luo (2009) adds that such synergies from product diversification are more likely to be realized when firms expand into related lines of business or industries. Furthermore, product related diversification emphasizes on operational synergy (economies of scale), that is, increase on competitiveness beyond what can be achieved by engaging in two markets or activities separately. This translates to firms benefiting from declining unit costs by leveraging on product relatedness and thus expand the firms‟ performance gains. Kiyohiko and Rose (2008) did a study on Japanese firms and established that most of these firms appear to have shifted their operational focus from developing growth-enabling core competencies to reducing organizational costs through diversification. 12 Most Japanese firms experienced extensive Mergers & Acquisitions (M&A) activity at earlier points in their corporate histories. According to Kiyohiko and Rose (2008) the recent flurry of M&A‟s in global market is nothing new, but rather a resurgence of past practices in a bid to allow rapid downsizing and increased scale of economies while avoiding massive layoffs. Rowley and Baum (2009) from their study on 40 Canadian firms with special focus on the financial industry developed the theory that brokerage and investment activities that financial firms are recently engaging in allow them to have a greater discretion in choosing syndicate partners and together are able to provide access to timely and non-redundant information to investors. Lepetit et al (2007) in their research in the financial industry states that the banking industry is consolidating at a rapid pace, with integration of related financial services (insurance, credit card) along with input services (cheque clearing payments, electronic funds transfer and money transfer services) into the parent companies. This in effect results to the banks acquiring operational synergy. The study points that product related diversification “essentially putting ones eggs in s imilar baskets” has emerged as a balanced way to both reduce risk and leverage synergy. When diversification involves the addition of a business related to the firm in terms of technology, markets or products, it is concentric diversification. With this type of strategy, the new businesses selected possess a high degree of compatibility with the current business, thus the acquiring company needs to search for new businesses with products, markets, distribution channels, technologies and resource requirements that are familiar but not identical, synergistic and not wholly interdependent. This diversification mode therefore means seeking new products that have technological or marketing synergies with existing product lines, even though the products themselves appeal to a different group of customers. The study suggested that concentric diversification, as a strategy, may be more logical for service firms than for product firms because many offerings of new core services by a firm are not compatible with the existing line or existing market segments. A study conducted by Hitt, Hoskisson and Kim (2011) shows that firms that have diversified into products that use the existing internal resources or capabilities of the firm 13 will benefit from economies of scale thus earn higher returns. The study asserts that the payoff created by diversification may be magnified when Multi-national corporations capitalize on economic rents derived not only from product and market diversity but also from the various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction and complementary synergies. Yaser (2010) on a study on competitive strategies and firm performance acknowledges that while unrelated diversification helps firms achieve economies of scope, the benefits of this strategy might be offset by several disadvantages when implemented in international markets. International diversification into unrelated product areas means a broadened scope of operations, which implies that additional costs may be incurred because the transferability of a competitive advantage between countries can be inhibited by institutional and cultural barriers. Diversifying into unrelated product areas in foreign market places also frustrates corporations due to the difficulty of applying existing product experience to unfamiliar market conditions. By contrast, related diversification allows multinational corporations to realize economies of scale and since foreign markets represent additional sales outlets for existing products, potential profit gains are made possible. According to Matsusaka (2010) study on Chinese firms, related diversification strategy is preferable because it enables subsidiaries of MNCs to export more products to international markets through their foreign parents' distribution channels and global networks. It also helps local firms upgrade technological skills and managerial expertise. This institutional effect reduces transaction costs and operational uncertainty, and is thus beneficial to subsidiary performance.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 RESEARCH DESIGN**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to assess diversification as a survival and growth strategy.

* 1. **SOURCES OF DATA COLLECTION**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **POPULATION OF THE STUDY**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information for the study assessment of diversification as a survival and growth strategy. 200 staff of Nigerian bottling company was selected randomly by the researcher as the population of the study.

* 1. **SAMPLE AND SAMPLING PROCEDURE**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

1+N(e)2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 INSTRUMENT FOR DATA COLLECTION**

The major research instrument used is the questionnaires. This was appropriately moderated. The principals were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staffs of the five institutions: The questionnaires contained about 16 structured questions which was divided into sections A and B.

* 1. **VALIDATION OF THE RESEARCH INSTRUMENT**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **METHOD OF DATA ANALYSIS**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis were laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion.

The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Gender distribution of the respondents** | | | | | |
| Response | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

**TEST OF HYPOTHESES**

There is no significant relationship between product diversification strategy and survival strategy.

**Table III**

|  |  |  |  |
| --- | --- | --- | --- |
| **there is no significant relationship between product diversification strategy and survival strategy** | | | |
| Response | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | there is no significant relationship between product diversification strategy and survival strategy |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. | |

Decision rule:

There researcher therefore reject the null hypothesis that state that there is no significant relationship between product diversification strategy and survival strategy as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted thatstate that there is a significant relationship between product diversification strategy and survival strategy.

**TEST OF HYPOTHESIS TWO**

Product diversification does not have any impact in increasing sale volume.

Table V

|  |  |  |  |
| --- | --- | --- | --- |
| **product diversification does not have any impact in increasing sale volume** | | | |
| Response | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |  |
| --- | --- |
| **Test Statistics** | |
|  | product diversification does not have any impact in increasing sale volume |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. | |

Decision rule:

There researcher therefore rejects the null hypothesis that state that product diversification does not have any impact in increasing sale volume as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that product diversification does have an impact in increasing sale volume.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was on assessment of diversification as a survival and growth strategy.

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of product diversification

**5.2 Summary**

This finding suggests a relationship between the level of diversification and performance. The implication is that a high degree of diversification does not seem to improve performance in terms of profitability. Nigerian construction firms are therefore advised to remain undiversified if their aim is to improve performance.

**5.3 Conclusion**

Conclusion of the study findings are advanced based on the relationships that were established for each of the different research objectives. It can be concluded that the commercial banks are mainly adopting related product diversification strategies which enables the commercial banks to achieve a high degree of compatibility with the existing business structures and platforms and thus leverage on operational synergy. From the study, the diversification strategies adopted by the commercial banks have been noted to have a positive relationship with performance.

**5.4 Recommendations**

The study established that 94.7% of the organizations are solely using related diversification however its highly recommended that there is need to incorporate unrelated diversification specifically to maximize on revenues. The Nigerian economy has experienced a boom in the real estate sector and given that the sector is majorly financed by the commercial banks there is need for banks to come up with full packaged offerings for their customers who seek to own homes.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been working in NBC
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….

**SECTION B**

1. There is a significant relationship between survival and conflict growth strategy?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Does diversification have any effect on product sustainability?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Is there any relationship between product diversification strategy and survival strategy?
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Is there any impact of product diversification in increasing sale volume?
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. How effective is diversification as a growth strategy?
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. Product diversification does have an impact in increasing sale volume?
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Product diversification does have an impact in increasing sale volume?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. There is a significant relationship between product diversification strategy and survival strategy?
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. There is no significant relationship between product diversification strategy and survival strategy?
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }