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An analysis of concentric diversification strategy on Organization competitiveness: Case of sugar firms in Kenya

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Abstract

Sugar industry in Kenya has faced a lot of challenges in the recent past. Inefficient production process and stiff competition from low cost producers as well as high cost of sugar production in Kenya are among the main challenges faced by the sector. The sugar firms have resulted into using various diversification strategies in order to build a competitive edge over their rivals and try to overcome these challenges. The paper analyzes the contribution of concentric strategies on sugar firm competitiveness in Kenya. The study adopted descriptive correlational survey design and this being a census study; all the nine main sugar firms in the Kenya were studied. This being a census study, all the sugar firms in Kenya which were registered and licensed by the Kenya Sugar Board as at February 2013, and still in operation at the time of data collection in the year 2013 were studied. Using a questionnaire, primary data was collected from the production and marketing managers as key informants of each of the sugar firms. The production and marketing managers of every sugar firm were selected to take part in the study as they are perceived to be knowledgeable on the issues under study and for which they are either responsible for their execution or they personally execute them. The data collected was analyzed using descriptive and inferential statistics. Cronbach's alpha coefficient was used to measure the reliability of the scale, which was used to assess the interval consistency among the research instrument items. In order to determine the strength and the direction of the relationship between the study variables, the researcher used simple regression analysis. The regression results reveal that concentric strategies had overall significance impact on competitiveness (p-value = 0.000). The regression results also shows that at individual level, there was a statistically significant positive linear relationship between concentric diversification and firm competitiveness ($\beta = 0.269$, p-value 0.001) in that the p-value is less than α ($0.001 < 0.05$). The study found out that concentric diversification had positive effect on sugar firms' competitiveness in that 54.8 percent of the sugar firm competitiveness can be explained by concentric diversification (R square= 0.548).

Key Words: Concentric Diversification, Competitiveness, Sugar Firms in Kenya

1. Background Information

Every business enterprise aims at maximizing its profits and this is mainly achieved if the enterprise has a competitive edge over its rivals. Sugar firms in Kenya have resulted in diversifying their operations in an effort to build a competitive edge over their competitors. Diversifying means developing a wide range of products, interests or skills in order to be more successful or reduce risks. It involves buying of different investments alternatives to spread the risk of investments (Nickels, 2002). It is a strategy used by many firms not to become too dependent on only one product line, but get involved with new products aimed at penetrating new markets (Nickels, 2002). Diversification merits strong consideration whenever a single business company is faced with diminishing market opportunities and stagnation of sales in principle business (Thompson et al, 2005). According to Thompson et al (2010), diversification is due if a firm expands into industries whose technologies and products compliments its present business. When a firm is diversifying into closely related business, it opens new avenues for reducing costs which can be a major driver to strategic diversification. Concentric or related diversification is seen where the firms have diversified into related businesses like the generation of power and water project which in turn help in cutting down the production costs. It is on this view that this study on the effect of concentric diversification on competitiveness of sugar firms is aimed at accessing how concentric diversification strategy has influenced the sugar firms' competitiveness in Kenya.

Competitiveness on the other hand, is where a firm is able to create more economic value than other competing firms (Barney, 2010). Economic value is the difference between perceived benefits gained by a customer that purchases a firms product or service and the full economic cost of these product and services (Barney, 2007). Competitiveness in Sugar firms was measured by their ability to turn input into output in the most efficient and economic way. According to Pearce & Robinson (2010), a scheme developed by Michael Porter, for a firm that seeks to build competitive advantage, it should strive for overall low-cost leadership in the industry, the firm should be able to use its low cost advantage to charge lower prices and yet enjoy higher profit margins. This enables the firm to be able to defend it in price wars and attack its competitors to gain market share and growth in sales which shows that the firm is competitive (Pearce and Robinson, 2010). In this study, competitiveness of sugar firm was used to refer to being able to produce quality sugar at lowest cost possible hence being able to charge lower price of the commodity and yet enjoy higher profit margins than the rivals. Competitiveness in this study was characterized by market share, growth rate and production expansion.

2. Literature Review

A related or concentric diversification strategy involves building the company around businesses whose value chains possess competitively valuable strategic fits. Strategic fit exists whenever one or more activities comprising of the value chain of different businesses are sufficiently similar as to present opportunities for the diversifying firm (Arthur, 2004). Concentric diversification is a grand strategy that involves the operations of a second business that benefits from access to the firm`s core competencies (Pearce and Robinson, 2010). Concentric diversification is where a firm can diversify into a related business. It is also referred to as related diversification and its where a firm diversifies to a company whose value chain posses completely valuable strategic fits (Arthur, 2005).

According to Thompson et al, (2004) Strategic fit exists when the value chain of different businesses present opportunities for cross-business resource transfer, low cost through combining the performance of related value chain activities, cross business use of potential brand names, and cross-business collaboration to build new or stronger competitive capability. Achieving superior performance through diversification is largely based on relatedness. Related diversification allows the firm to reap the competitive advantage benefits of skills transfer, lower cost, common brand names and still spread the investors risk over a broad business base (Thompson et al, 2004). On the other hand, Barney (2007) suggests that relatedness hypothesis loosely claims that multi-business firms holding portfolios of similar or related businesses might obtain efficiency advantages unavailable to non-diversified firms and firms with unrelated portfolios. This gives the diversified firm competitive advantage over the undiversified one. If all the business in which a firm operates shares a significant number of inputs, production technologies, distribution channels, similar customers, then the diversification strategy is called related constrained as suggested by Barney (2007). In essence, 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.

A firm is said to be competitive over rivals when it is able to create more economic value than other competing firms (Barney, 2010). Economic value is the difference between perceived benefits gained by a customer that purchases a firms product or service and the full economic cost of these product and services. Berry (1995) argues that competitiveness grows fundamentally out of the value that a firm is able to create for its buyers, do more business with the existing ones, and reduce the loss of customers. Once more and more customers perceive benefits they gain by purchasing a sugar firms product, then they tend to buy more of the product which leads to gaining more market share which is an indicator of competitiveness (Barney2010).

According to Thompson et al (2006), firms with high relative market shares normally have greater competitive strength than those with lower shares. Market share can be defined as the percentage of a market accounted for by a specific entity and it is an advantageous way of measuring business competitiveness since it is less dependent upon macro environmental variables such as the state of the economy or changes in tax policy (Gregory, 2005). Market share is a key indicator of firm competitiveness in that it shows how well a firm is doing against its competitors. Sharma and Kesner (1996), argues that diversifying entrants enter at a bigger scale and are more likely to survive and grow than undiversified entrants; consequently diversifying entrants pose a bigger threat, in increasing rivalry and challenging incumbents' market share, than undiversified entrants. This means that a more diversified firm is more competitive and can survive the stiff competition in the industry.

There are a lot of studies which have been carried out on diversification and mainly on both strategic and financial diversification. Most of these studies tend to associate diversification with performance of organization. Landi and Venturelli (2002) did a study on the determinants and effects of diversification or efficiency and

profitability among the European banks and found out that diversification affects efficiency in terms of profit, cost and revenue growth positively. The study done by Landi and Venturelli on the other hand concentrated on the effects of diversification on efficiency of European banks and not the competiveness while that which was done by Mwau focused on the effect of financial diversification on the performance. Most of the studies done on diversification are mainly geared towards its effects on performance. Little has been done on the effect of concentric diversification strategy on competitiveness of sugar firms' in Kenya.

3.0 Methodology

3.1 Research Design

A research design is the arrangement of conditions for collection, measurement and analysis of data in that aims to combine relevance to the research purpose Kothari (2010). This study used descriptive correlational survey design as it sought to describe and establish the relationships among the study variables namely concentric diversification strategy and competitiveness. Descriptive correlational survey design allows the researcher to describe and evaluate the relationship between the study variables which are associated with the problem. Correlational survey design also allows a researcher to measure the research variables by asking questions to the respondents and then examining their relationship (O'Connor, 2011).

This being a census study, all the sugar firms in Kenya which were registered and licensed by the Kenya Sugar Board as at February 2013, and still in operation at the time of data collection in the year 2013 were studied. A list of the sugar firms which were registered and licensed by the Kenya Sugar Board indicated that there are nine sugar manufacturing firms in Kenya. Sugar industry was deliberately chosen in this study due to the fact that the sector has faced a lot of challenges in the recent past to the extent that some sugar firm closed hence the need for the study.

Both descriptive and inferential statistics were used in the analysis then presented using frequency and contingency tables. Descriptive statistics were used to deduce any patterns, averages and dispersions in the variables. They include measure of locations (mean) and measure of dispersions (standard error mean). These measures were used to describe the characteristics of the collected data. Inferential statistics were used to determine the relationship between the study variables and these inferential statistics included correlation and regression analysis. The primary association among the study variables were assessed using correlation which were tested at 95 percent confidence level (level of significance, $\alpha = 0.05$) and 99 percent confidence level and the hypothesis tested at 95 percent confidence level (level of significance, $\alpha = 0.05$).

4. Findings

The regression results (Table 1) reveal that concentric diversification strategies had overall significance impact on competitiveness in that they had a p-value < 0.05 (p-value = 0.000). The regression results also shows that at individual level, there was a statistically significant positive linear relationship between concentric diversification strategies and firm competitiveness ($\beta_1 = 0.269$, p-value 0.001) in that the p-value is less than α ($0.001 < 0.05$). The hypothesis criteria was that the null hypothesis H_0 should be rejected if $\beta \neq 0$ and p-value $\leq \alpha$ otherwise fail to reject H_0 if the p-value > α. From the above regression results p-value = $0.000 \leq \alpha$, the study therefore rejects the null hypothesis since $\beta \neq 0$ and p-value < α and conclude that concentric diversification significantly affected competitiveness of sugar firms. The regression results also shows that 54.8 percent of the sugar firm competitiveness can be explained by concentric diversification (R square = 0.548). Arising from the research results, a simple regression equation that may be used to estimate sugar firm competitiveness in Kenya given its existing concentric diversification is stated as follows;

$$C = 1.347 + 0.269CD + \varepsilon$$

Where:

1.347= y-intercept constant,

C= is the Competitiveness,

0.269= an estimate of the expected increase in firm competitiveness corresponding to an increase in use of concentric diversification

CD = Concentric Diversification

ε= the error term- random variation due to other unmeasured factors.

Table 1: Regression Results of concentric diversification against competitiveness

Goodness of fit analysis

Sample size	R	R Square	Adjusted R Square	Std. Error of the Estimate
18	0.269	0.548	0.527	0.328

Predictors: (Constant) Concentric Diversification

Overall significance: ANOVA (F-test)

	Sum of Squares	DF	Mean Square	F	Significance(p-value)
Regression	2.208	1	2.208	34.018	0.000
Residual	1.430	14	0.134		
Total	3.638	15			

Predictors: (Constant) Concentric Diversification

Dependent Variable: Competitiveness

Individual significance (T-test)

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta (β)	T	Significance(p-value)
(Constant)	1.347	2.087		3.412	0.040
Means of Concentric diversification	0.252	0.184	0.734	2.089	0.001

Dependent Variable: Competitiveness.

Lever of significance, α = 0.05

Based on the findings and conclusions of the study, the following recommendations were made; there is need for the sugar firms to use concentric diversification strategy to diversify their operations as this improves their level of competitiveness. Concentric diversification strategy increase firms' efficiency in terms of reduction in production cost. Concentric diversification has been found by this study to have the great effect on improving sugar firm competitiveness hence the need for sugar firms in Kenya to employ concentric diversification in their operations.

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