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# Analysis of Related Diversification Strategy on Organizational Performance of Cement Firms in Kenya

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**Abstract**
Cement manufacturing firms in Kenya have experienced a decline in performance. The firms have turned to innovative products diversification such as pre-cast concrete paving blocks and precast molded products. This research purposed to analyse related diversification strategy influence on organizational performance of Kenyan cement firms'. The study was backed up by resource-based review theory. The study was done in cement industrial sector in Kenya and all cement manufacturing firms were studied. The study used descriptive cross-sectional research design in collecting data relating to the research objective. The target population of research was all the marketing, finance, production managers and assistant managers from the same departments who were used as important informants. The study had a total of 108 managers and supervisors as its target population. This being a census study, all the marketing, finance, production managers and their assistants were used in this study. In piloting of study tool, respondents were nominated from Savannah cement and were having the same noticeable features as those of main study. The scholar used questionnaire as a tool to collect data from the key informants. The quantitative technique was used to analyse data where descriptive and inferential statistics were used. Related diversification strategy has significant influence on the performance of Kenyan cement firms. The related products are produced using same machinery making the cement companies to realize economies of scale for better performance. Firms aiming at increasing their performance should adopt related diversification strategy to meet the customers' demands.
**Keywords:** Related Diversification Strategy, Organizational Performance, Kenyan cement firms
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## 1. Introduction

Owing to the fact that globalization and regionalization has largely influenced business operating environment, the business environment has become very competitive and firms worldwide have been subjected into threatening competition and cement firms in Kenya have not been exempted. The cement business in Kenya has recently been suffering a decline in performance both locally and globally (Keinan & Karugu, 2018). The majority of firms in the world contemplate diversification as a method of value creation. In the last thirty years, the connection amid corporate governance and diversifications has had a number of studies done in different countries by a number of authors such, Gerald, (2013), Lien & Li, (2013). Diversification strategies empower firms in creating competitive advantage within the industry. Most firms which diversify operations end up increasing their volumes of sales and enjoy streams of income through the year as proposed by Gerald, (2013). Robert et al. (2009), are of the feeling that diversification strategies offer a number of advantages to the diversifying firms. The benefits ranges from economies of scale, new products, access to new client base, minimization of competitions and amalgamation of new skills.

Firms diversify in reaction to environmental changes, to gain market share and disperse risk. According to Hansen, Rutashobya, and Urassa (2018), another reason companies regard diversification as a strategy is that it may be an avenue to extend a firm's borders in the context of internal coordination challenges, which naturally develop in large organizations. According to Chen, Kaul, and Wu (2019), the reason why organizations diversify is to create positive spillovers since the value of resources in one industry improves owing to investment in another. Diversification should allow businesses to achieve economies of size or scope by pooling resources and spreading capacity (Chen et al., 2019).

USA implemented three M firm of Minnesota diversification using numerous innovation strategies which led it to become amongst the top greatest innovative firms in the world (Lien & Li, 2013). Additionally, IBM successfully followed diversifications in a focused and energetic manner. The diversifications were found to positively influence the performance of IBM as a result of economies of range and scales, markets power effect, risk reductions effect and learning effect. In Vietnam, a typical instance for consequences of highly unconnected diversifications that rose from reduced corporate governance remained evasion of Vietnam shipbuilding industry Groups (Vinashin) in 2010. It can be perceived as a calamity for Vietnam's economy. It presented feebleness in the administration of the Vietnamese government. It condensed appearance of Vietnam in worldwide commercial markets after all Vietnam's credits ranking were lowered as reported by Moody's Investors Service,

 

Standard & Poor's and Fitch Ratings (Hookway & Tudor, 2010). Additionally, it underdeveloped marine economic growth of Vietnam and at the same time amplified the costs burden for connected to establishments in the economy.

Intra-African local trades cooperation's are also significant channels of Africa`s trade progression and also creates new chances for export diversifications (Nasiru &Adamu 2011). In Nigeria, Nasiru and Adamu (2011) recognized diversifications as one of three business development approaches separately from concentrations and acquisitions. In developing robust strategic competences, companies need to need three types of flexibilities namely; markets elasticity, productions tractability and competitiveness tractability. Empirical examination exhibited that foreign straight investments disappoints exports diversifications in Nigeria, whereas domestic investments promote it. Nonetheless, in comparisons to extra established market, average immature businesses and fewer industrialized wealth marketplaces in developing nations propose to companies with plentiful of opportunities and explanations to follow diversifications approaches (Chen & Yu, 2012).

Kenya is a home to various cement firms. This may be the reason for an upwards trend of the real estate and property development. Cement is key construction activities hence the reason behind cement firms. Cement production has been in Kenya for a while now and more companies including Savannah and Mombasa cement firms have set based recently hence making the industry more competitive. The cement industry play an important role as an economic conditions pointer and plays a linkage role with other economic sectors and acts as a key revenue contributor and supports both energy and the community programs (Economic Survey, 2018). Cement production is both energy and capital concentrated and plays a major role in atmosphere change discuss (Economic Survey, 2018).

*1.1 Statement of the Problem*

Kenyan cement producing businesses have experienced stiff competition. The coming up of new companies has conveyed some serious competition in cement markets according to the Economic Survey, (2018). Despite high demand, the performance of cement firms in relations to profit margin and markets share, is under pressure as competition ramps up due to enlargements and formation of new companies that are anticipated to overflow the cement products into the marketplace. The firms have recorded declines in operating profits both in 2016 and 2017 as per the Economic survey, (2018). According to Molonket *et. al.,* (2018), the profit margins of the firms have declined for the last five years. Rendering to a study by Standard Investment Bank (2018), cement producing firms are facing a rough period safeguarding their territory from new companies that have clutched an important share of their market. The coming up of new companies has conveyed some serious competition in cement markets which has retained the cement prices level at between six hundred and thirty and seven hundred shillings per fifty kilogramme bag for the last one decade. According to Molonket et al. (2018), the profit margins of the industry have declined in the past five years. The arrival of new companies has resulted into solid rivalry in cement markets, which in turn has made the cement prices level at between six hundred and thirty and seven hundred shillings per fifty kilogram bag for the last one decade. The firms have turned to innovative products diversification such as pre-cast concrete paving blocks and precast moulded products.

According to the Economic survey (2018), the performance of industry in terms of profit margin is under pressure as competition ramps up due to enlargements and formation of new-fangled companies that are predicted to downpour products into the markets. During the first half of 2017, the sector documented a slowed growing rate of 7.8% compared to 15.7% growth in a similar half of 2016. According to Khamati, (2014), most of the organizations worldwide consider diversifications as a way of value creation. In the last thirty years, the association amongst corporate governance and diversifications have been deliberated in dissimilar nations as well as episodes by numerous researchers' such, Gerald (2013) and Khamati (2014). Diversification strategies permit firms to come up with competitive benefit within the sector. Companies that diversifying processes tend to upsurge volumes of sales and enjoy streams of revenues through the year (Gerald, 2013). According to Molonket et al. (2018) diversifications approaches present a numerous advantage to companies. The benefits include economies of scale, new products, new client, reduced competitions and new skills. It is for this reason that this research sought to analyse related diversification approach influence on performance of cement firms'.

*1.1.2 Research Hypotheses*

**$H_0$:** Related diversification strategy has no significant effect on organizational performance of Kenyan cement firms.

## 2.0 Literature Review

*2.1 Theoretical Review*

*2.1 The Resource Based Review Theory*

The model is a proponent of Penrose, (1959) who had the presumption that companies frequently own a number of unexploited or not fully utilized resources and capabilities. The theory is of the opinion that the company's diversification approaches using these unexploited or not fully utilized resources and capabilities become the

 

best option for strategic development (Ramanujam & Varadarajan, 1989). The consequence underneath RBT is that benefits of this approach may mainly from management economies of scales equally suggested by Chandler (1977). This leads to a foreseeable forthcoming high charges and continued fatalities that may be alleviated via cross subsidy where companies tap superfluous incomes from single product in order to give support to another via products diversifications.

A company's resources may be divided into three categories: physical, human, and organizational. To provide a company a long-term competitive edge, these resources must be valued, uncommon, unique, and non-replaceable (Barney, 1991). According to the RBV viewpoint, as was noted by Andreu, Claver, and Quer (2008), a company's growth needs striking a balance between utilizing its current resources and creating new ones.

According to Prahalad and Hamel (1990), organizations with relevant product diversity perform better than those with a narrow focus because they can allocate their resources more effectively across different business units, generating more profits. Related diversification techniques can help businesses perform better than unconnected diversification tactics can (Hitt, Hoskisson, & Kim, 1997). This is because the capacity of the company to share resources is the key to a diversification strategy's greater performance; a diversified company with no apparent ties to one another is unlikely to have resources that can benefit all of its business divisions.

*2.2 Empirical Literature*

Studies that have been undertaken on the diversifications approach include Khamati, (2014) who researched on diversification strategy effect on the performance of radio Africa limited and recognized that although performance upgraded as a consequence of the approach, the general development in incomes decreased at a declining rate. Otieno, (2013) undertook a research on application of diversification approach at KPLC Limited. The finding of the study was that diversification was an important support for the development of the firm and that it had not only amplified revenues streams but also dispensed with marketplace threats to the institute.

Kareska and Marjanova (2016) explored by through multiple regression analysis the test the empirical support of these competing hypotheses. The results indicate that as soon as we move beginning non-crisis to crisis periods, the diversification and performance relationship is certainly modified. Diversifications are less positively related to performance in times of crisis than during non-crisis years.

Njuguna (2019) conducted research to determine the extent to which diversification tactics impact the levels of success achieved by non-financial companies that are listed on the Nairobi stock exchange in Kenya. According to the findings of the study, a substantial positive correlation exists between the performance of listed non-financial enterprises in Kenya and product diversification, geographical diversification, vertical integration, horizontal integration, and all four types of integration.

Akgül (2015) centered a case study of Vestel Co. on product diversification and profitability. This study's information was obtained from several sources within Vestel. According to the findings of the study, there is a u-shaped link between diversity and the firm's profitability. The most essential finding of this study is that, with appropriate diversification, a company increases its profitability and benefits from its intangible assets over time.

The impact of strategic physical resources on the productivity of Kenya's SMEs was studied by Murimi et al. (2019). There was a significant positive association between manufacturing SMEs' performance and their availability of physical resources, as shown by these findings. Overall, the results indicated a positive association between SME performance and all physical resources, suggesting that an increase in strategic resources led to improved performance among Kenya's smallest and medium-sized factories.

In Embu County, Kenya, Njagi et al. (2018) studied the financial resources, physical resources, and operational effectiveness of public health facilities. The study showed that physical and financial resources have a favorable and statistically significant impact on the effectiveness of public health organizations.

Nkirote (2019) examined Kenya Medical Supplies Authority's supply chain integration and organizational effectiveness. According to the study's findings, supplier integration, internal integration, and customer integration have a favorable and statistically significant impact on organizational performance. It was determined that information integration had no meaningful impact on organizational performance. In addition, the results demonstrated that the combined supply chain integration characteristics have a favorable and statistically significant impact on organizational performance.

 

*2.3 Conceptual Framework*

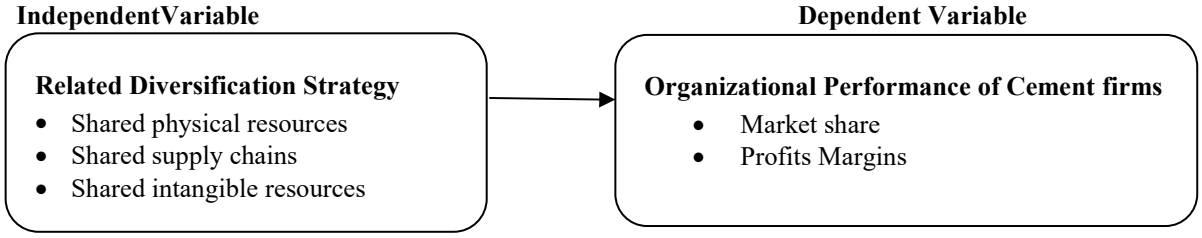


*Figure 2: Conceptualization Framework*

## 3 Methodology

This research used a descriptive cross-sectional design in gathering the data relating to research objective. The study unit of analysis was all 6 Kenyan cement firms which are licensed by the ministry of industrialization by June 2018. The target population was 108 managers and supervisors. This study was a census study because of the small number in size of target population. Being a census study, all marketing, finance, production managers and assistant managers were considered as key respondents in this study excluding managers from Savannah cement who were used in the pilot test. The study thus had a total of ninety-eight respondents. The research tool was mainly a questionnaire. Piloting was done on a pilot set of the 10 respondent managers to help in understanding if the research tool is measuring what is meant to measure. Qualitative data was examined thematically and on the other hand, quantitative technique was employed in analyzing data where descriptions alongside inferential statistics was applied.

## 4 Results

*4.1 Descriptive Statistics*

The study sought to analyse related diversification strategy influence on the performance of Kenyan cement firms.

**Table 1: Related Diversification Strategy influence on performance**

| Shared Physical Resources for related products | N | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| Related products are produced using same machinery making the company to realize economies of scale for better performance | 92 | 3.00 | 5.00 | 4.72 | 0.60 |
| Same factory area is used collectively to produce all related products to save costs and increase performance | 92 | 1.00 | 5.00 | 4.40 | 0.95 |
| Packaging of old products is modified to suit related new products to attract customers hence increase market share | 92 | 1.00 | 5.00 | 4.46 | 1.09 |
| **Shared supply chain for related products** | | | | | |
| Related products use same distribution network and transportation services resulting to cost effectiveness which improves profits | 92 | 1.00 | 5.00 | 4.08 | 1.04 |
| Shared supply chain optimizes operations by coordinating warehousing and delivery schedules for all related products leading efficiency and hence profitability | 92 | 3.00 | 5.00 | 4.55 | 0.65 |
| Shared supply chain spreads costs over a larger number of related products hence increasing production and lowering costs for more profits | 92 | 2.00 | 5.00 | 4.24 | 0.73 |
| **Shared intangible resources for related products** | | | | | |
| Technological know-how used to produce old products is also transferred for production of new related products to lower costs and improve performance | 92 | 3.00 | 5.00 | 4.42 | 0.73 |
| The company achieves synergy from product development process by combining operational support for related products, reducing operational costs, hence increasing performance | 92 | 2.00 | 5.00 | 4.51 | 0.78 |
| Related products are developed using similar processes at the same time allowing economies of scale, and thus better company profits | 92 | 2.00 | 5.00 | 4.54 | 0.75 |

*N=Number of respondents, Min=Minimum, Max=Maximum, Std. Dev. = Standard Deviation*

 

The majority of the respondents strongly agreed that related products are produced using the same machinery making the company to realize economies of scale for better performance (mean=4.72, std.dev= 0.60), same factory area is used collectively to produce all related products to save costs and increase performance (mean= 4.40, std.dev=0.95) and that packaging of old products is modified to suit related new products to attract customers hence increase market share (mean=4.46, std.dev= 1.09).

The respondents strongly agreed that a shared supply chain optimizes operations by coordinating warehousing and delivery schedules for all related products leading to efficiency and hence profitability (mean=4.55, std.dev=0.65). They were in agreement that a shared supply chain spreads costs over a larger number of related products hence increasing production and lowering costs for more profits(mean= 4.24, std,dev=0.73) and that related products use the same distribution network and transportation services resulting to cost effectiveness which improves profits mean=4.08, std.dev= 1.04).

In addition, the respondents strongly agreed that related products are developed using similar processes at the same time allowing economies of scale, and thus better company profits (mean=4.54, std.dev= 0.75), the company achieves synergy from the product development process by combining operational support for related products, reducing operational costs, hence increasing performance (mean=4.51, std.dev= 0.78) and also that technological know-how used to produce old products is also transferred for production of new related products to lower costs and improve performance (mean=4.42, std.dev= 0.73).

The respondents stated that related diversification strategies by cement companies are very effective and profitable. They noted that the strategy ensures firm products reach the diverse market and has helped to market the company's brand name and increased the market share. The respondents indicate that the related diversification strategy has made it possible to share resources and lower production costs.

The study assessed the performance of cement firms.

**Table 2: Performance of the cement firms**

| Market share | N | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| Related diversification strategy has given the firm more clients than any other cement firm in Kenya hence a bigger market share than our rivals. | 92 | 1.00 | 5.00 | 4.39 | 0.91 |
| Unrelated diversification strategy has increased the firms' market share and hence performance in past five years. | 92 | 1.00 | 5.00 | 4.22 | 1.00 |
| Both related and unrelated diversification strategies have boosted the firm's market share in the last five years hence increasing performance. | 92 | 2.00 | 5.00 | 4.33 | 0.87 |
| Hybrid diversification strategy with its low cost and high quality offers has led to the firm's market share upsurge in last five years. | 92 | 2.00 | 5.00 | 4.43 | 0.77 |
| **Profit Margins** | | | | | |
| Related diversification strategy being practiced in the cement firm has led to increase in profits. | 92 | 2.00 | 5.00 | 4.46 | 0.78 |
| The cement firm is making more profits after unrelated diversification strategies have been used by the firm in the last five years. | 92 | 2.00 | 5.00 | 4.38 | 0.94 |
| Hybrid diversification strategies have positively affected the profit maximization of the cement firm. | 92 | 2.00 | 5.00 | 4.25 | 0.75 |

*N=Number of respondents, Min=Minimum, Max=Maximum, Std. Dev. = Standard Deviation*

From the findings, the respondents strongly agreed that the hybrid diversification strategy with its low cost and high quality offers has led to the firm's market share upsurge in the last five years (mean=4.43, std.dev= 0.77), related diversification strategy has given the firm more clients than any other cement firm in Kenya hence a bigger market share than our rivals (mean=4.39, std.dev= 0.91) and that both related and unrelated diversification strategies have boosted the firm's market share in the last five years hence increasing performance (mean=4.33, std.dev=0.87). They further agreed that unrelated diversification strategy has increased the firms' market share and hence performance in the past five years (mean=4.22, std.dev=1.00).

In addition, the respondents strongly agreed that related diversification strategy being practiced in the cement firm have led to an increase in profits (mean=4.46, std.dev= 0.78), and the cement firm is making more profits after unrelated diversification strategies have been used by the firm in the last five years (mean= 4.38, std.dev= 0.94) and that hybrid diversification strategy has positively affected the profit maximization of the cement firm (mean= 4.25, std.dev= 0.75).

 

*4.2 Correlation Analysis*

The following section gave correlations between related diversification strategy and the performance of cement firms in Kenya.

**Table 3: Correlation Matrix**

| | | Performance | Shared physical resources | Shared supply chains | Shared intangible resources |
|---|---|---|---|---|---|
| Performance | Pearson Correlation | 1 | .631** | .244* | .594** |
| | Sig. (2-tailed) | | .000 | .019 | .000 |
| | N | 92 | 92 | 92 | 92 |
| Shared physical resources | Pearson Correlation | .631** | 1 | .372** | .480** |
| | Sig. (2-tailed) | .000 | | .000 | .000 |
| | N | 92 | 92 | 92 | 92 |
| Shared supply chains | Pearson Correlation | .244* | .372** | 1 | .491** |
| | Sig. (2-tailed) | .019 | .000 | | .000 |
| | N | 92 | 92 | 92 | 92 |
| Shared intangible resources | Pearson Correlation | .594** | .480** | .491** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |
| | N | 92 | 92 | 92 | 92 |

***. Correlation is significant at the 0.01 level (2-tailed).*

**. Correlation is significant at the 0.05 level (2-tailed).*

Shared physical resources and performance were statistically, significantly and positively correlated (r = .631, P 0.000< .05). The findings agree with Murimi et al. (2019) whose study established a significant positive association between firm performance and their availability of physical resources. Shared supply chains and performance were statistically, significantly and positively correlated (r =.244, P 0.019< .05). In agreement with the study findings, Nkirote (2019) who demonstrated that the combined supply chain integration characteristics have a favorable and statistically significant impact on organizational performance. Shared intangible resources and performance were statistically, significantly, and positively correlated (r= .594, P 0.000< .05). Consistent with the findings, Buliska-Stangrecka and Bagieska (2020) found that there is a link between intangible resources like employee relationships and the potential for long-term success.

*4.3 Regression Analysis*

To test the hypothesis and make inferences on related diversification strategy influence on the performance of Kenyan cement firms a simple regression analysis was conducted on related diversification strategy against performance.

**Table 4: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .613[a] | .376 | .369 | .41311 |

*a. Predictors: (Constant), Related diversification strategy*

From the model summary, the R-value of .613 shows that related diversification strategy has a high correlation with the performance of cement firms in Kenya. The value of R squared is 0.376 revealing that related diversification strategies account for 37.6% of the variance of performance of cement firms. The remaining 62.4% variation of performance of cement firms is accounted for by other factors not included in the model. Similarly, Njuguna (2019) while determining the extent to which diversification tactics impact the levels of success achieved by non-financial companies found that 56.3% of the performance improvements were linked to the collective usage of the related diversification techniques.

 

**Table 5: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 9.270 | 1 | 9.270 | 54.319 | .000[b] |
| | Residual | 15.359 | 90 | .171 | | |
| | Total | 24.629 | 91 | | | |

*a. Dependent Variable: Performance*

*b. Predictors: (Constant), related diversification strategies*

The ANOVA table shows that, F (1, 90) =54.319, P< 0.05. The obtained F-value (F = 54.319) was greater than the critical F- value 3.95 (1, 90). The overall regression model is significant. Therefore, related diversification strategy is a significant predictor of the performance of Kenyan cement firms.

**Table 6: Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 1.387 | .404 | | 3.431 | .001 |
| | Related diversification strategies | .668 | .091 | .613 | 7.370 | .000 |

*a. Dependent Variable: Performance*

Regression coefficients show that related diversification strategies had a positive and significant effect on the performance of cement firms (β =.668, p=.000<.05). The result also implies that a unit increase in related diversification strategies leads to an improvement in the performance of cement firms by 0.668 units. The null hypothesis was therefore rejected and the alternative hypothesis that related diversification strategy has a significant influence on the performance of Kenyan cement firms was adopted. Thus, related diversification strategy has a significant influence on the performance of Kenyan cement firms. The findings were consistent with the findings by Gitau (2015) who revealed that the adoption of related diversification strategies reinforced and improved competitive benefit thus improving performances and development. The findings also agreed with Akgül (2015) who established that with related diversification a company increases its profitability and benefits.

## 5 Conclusions

Related diversification strategy has a significant influence on the performance of Kenyan cement firms. The related products are produced using the same machinery making the cement companies realize economies of scale for better performance. The supply chain optimizes operations by coordinating warehousing and delivery schedules for all related products leading to efficiency and hence profitability. The findings also revealed that related products are developed using similar processes at the same time allowing economies of scale, and thus better company profits. The firms achieve synergy from the product development process by combining operational support for related products, reducing operational costs, and hence increasing performance.

## 6 Recommendations

The related strategy has a positive influence on performance, thus firms aiming at increasing their performance should adopt a related diversification strategy to meet the customers' demands. With the increased competition in the market, the adoption of a diversification strategy will also ensure that the firms stay in business. The firms should heighten the utilization of the shared physical resources, shared supply chain and intangible resources for the production of more related products as the study has provided evidence that the shared physical resources, supply chain and intangible resources correlates positively with organizational performance.

### *6.1 Suggestions for further studies*

The study revealed that related diversification strategies account for 37.6% of the variance of the performance of cement firms. The remaining 62.4% variation in the performance of cement firms is accounted for by other factors not included in the study model. Further studies could focus on the other factors that account for the remaining variation in the performance of the cement manufacturing firms in Kenya.

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