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Influence of Diversification Strategy on the Performance of Telkom Kenya Limited in Nairobi City County, Kenya

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Abstract:

The organizations through the implementation of diversification strategy are challenged in incorporating the new business units into their existing structure. The purpose of the study was to determine how diversification strategy influences the performance of Telkom Kenya Limited. A descriptive survey research design was utilized. 65 employees of the organization formed the study population. It was found that diversification strategy positively and significantly influenced performance. The study concluded that diversification helps optimize the organization's use of currently underused tools. It is recommended that the company put together diversification into its business activities by making the use of technological advances and other considerations, such as innovation and benchmarking strategies, to optimize the benefits of diversification.

Keywords: *Diversification strategy, organizational performance*

1. Introduction

The dynamic business world is considered multidimensional, with numerous and distinct impacts on the various organizational features and frameworks. The business climate gives the industry a window of opportunity and uncertainties, and all companies are a conscious reaction to these conditions (Keats & Hitt, 2017). Suikki, Tromstedt and Haapasalo (2016) argue that because the competitive business environment today is marked by volatility and the inability to predict the future is extremely challenging and therefore requires new abilities development. Therefore, environmental factors can be claimed as having a significant impact on the strategic orientations of the enterprise.

Ambler, Kokkinaki and Puntoni (2014) observe that companies ought to be successful in the efficient operation of defined segments by implementing relevant marketing strategies in a meaningful and sustainable way. A successful marketing campaign would inform a company where they would like to be long-standing, for this reason marketing strategies are often defined as a continuous process.

Diversification strategy refers to firm's development strategy enabling the company to join additional business lines which differ from the current products, services and markets (Abdulkadir (2012). Organizations are investing their money on diversification, with the main objective of enhancing their corporate efficiency. Hassan, Qureshi, Sharif and Mukhtar (2013) note that Business diversification offers competitive advantages that allow businesses to reduce or disperse risk. But its successful implementation includes a thorough understanding and detailed preliminary assessment of the organization and its environment.

Responding to environmental changes, businesses diversify; try market power and disperse danger (Tangus & Omar (2017). These authors further argue that the other reason why firms consider diversification as a strategy is since it may be a way to expand borders of an organization in the midst of internal problems of teamwork, which of course arise in big companies. Kasiso (2017) also indicate that the reason why firms diversify relates to creation of positive spillovers as resource value increases in one business due to developments in another field. Diversification should therefore allow organizations to achieving economies of scale or magnitude through resource sharing and power diffusion.

Ranasinghe and Mallika (2018) in an attempt to show the link between diversification approach and organizational success concluded that output differences exist at different levels of diversification and emphasized that organizations are limited to build large-scale business capability due to a lack of management skills and resources. Uko and Ayatse (2014) also concurred adding that, managerial and resource constraints is one of the causes of diseconomies of scope at higher diversification levels.

Diversification among telecommunication companies in Kenya is one of the strategies that are becoming popular. Telkom Kenya Limited is among these companies that have implemented the diversification approach through a long time period. There is need to establish whether diversification has an effect on the performance of the organization.

2. Statement of the Problem

The operating environment for the telecommunication companies has become very volatile and dynamic following increased innovation and globalization. According to quarterly statistics released on June 30th 2018, Telkom

Kenya recorded a decline in mobile subscriptions of 67,719, which represented 0.4 percent drop from the previous quarter. This has meant that company to constantly be prepared to build up and execute latest performance-enhancing approach. One of the strategies these companies have adopted is diversification whereby a company attempts to increase profitability by raising the volume of sales from new products to new markets. However, the company has been facing a lot of competition from other telecommunication companies investing more on the same strategy to attract more customers by increasing their networks.

Kering (2015) study examined how diversification influences the competitiveness of Safaricom Plc and found that the company capable of increasing its revenues by diversification and hence increase profitability. Nguyen, S ror and Devinney (2016) study focused on how diversification strategy relates to the performance in Canadian manufacturing firms and found that diversification of technology-related activities leads to economies of scope and increased firm performance. Mwangi, Malia, Mwangi, Kamau, Kimathi, Ogega and Wachira (2017) carried out a study on diversification Strategies and Performance of Small and Micro Enterprises Funded by Youth Fund in Embakasi Central Constituency, Nairobi Kenya and found that unrelated diversification strategy led these companies to high performance.

3. Literature Review

3.1. Theoretical Review

This research was motivated by Harry Markowitz's groundbreaking new portfolio theory in his paper 'Portfolio Selection,' published by the Journal of Finance in 1952. According to Markowitz (1952) modern portfolio theory (MPT) is a concerning on how risk-averse investors can build strategies to boost or raise potential returns on the basis of a given level of market risk, stressing that the risk is an inherent part of higher rewards. MPT demonstrates an investor should create a multi-asset portfolio to optimize the returns for a given level of risk. Likewise, an investor Should construct the lowest-risk portfolio, offered the desired level of expected return. This theory implies that commodity diversification can increase yields at a defined degree of risk or, at reduced risk, can have the same returns. Versions of this principle use variability of returns as a combination in risks, suggested by market price variations (Athanasakos, 2009). Diversification may be used to minimize risk at some degree of imputed value in a business enterprise. The idea is to optimize the achievable rate of return within the risk constraints one is willing to take.

3.2. Empirical Review

A study by Oyedijo (2012) examined how product - market diversification strategy impacts corporate financial performance and growth: An observational study of some Nigerian firms. Use of an objective triangulation methodology was carried out. The relation between financial performance and the related approach to diversification was shown to be strong and optimistic. The financial performance of related diversifiers was relatively higher than the diversifiers incompatible and combined.

A study carried out by Yigit and Behram (2013) investigated how diversification strategy relates to the performance of the organization in both Turkey and Netherlands. For 154 companies in the Netherlands and 125 business groups in Turkey, data from 2007-2011 were analysed. Based on the results, while organizational performance values for single companies and irrelevant diversification in Turkey are low, the organizational efficiency for dominant companies in the Netherlands is weak.

Mwangi (2016) studied the relationship between diversification strategies and performance of Commercial Banks in Kenya. The target population was the 42 approved commercial banks in Kenya, and the sample size was collected through a survey. They used knowledge of both primary and secondary type of data. The study found good use of mobile and internet banking as a tool to diversify medicines. In addition, new product innovations for the current product (pricing) and branding / rebranding and selling of most of the existing products are key marketing strategies that Kenya's commercial banks can use to improve their performance.

4. Research Methodology

A descriptive study design was used because the descriptive survey technique allows large amounts of data to be obtained in an affordable and efficient manner and is a quantitative method allowing data to be collected directly from a community or sample at a given time. Telkom Kenya Limited was the study context and 65 employees of the organization were the respondents obtained using a census method. The tool for data collection was the questionnaire. Content validity was done to ensure that the tools of study are transparent and articulated in a simple language with the assistance of the university supervisor. Through collecting a coefficient of correlation Cronbach's alpha method was used to calculate the internal consistency of the testing instrument. The study data was reliable because the overall coefficient obtained was higher than 0.7 at 0.764. The management was consulted to enable the analysis to conduct the study within the organisation. The researcher himself conducted the questionnaire administration. With the use of the Statistical Package for Social Sciences (SPSS), the data collected were evaluated using descriptive statistics including mean and standard deviations. Several regressions analyze were used to demonstrate to what degree variables respond to each other.

5. Findings

The study aimed at establishing how diversification strategy influences Telkom Kenya Limited performance. The findings are shown in the section below.

| Statement | Mean | Standard Deviation |
|---|------|--------------------|
| The strategy of diversification leads to increased sales and revenue from the company | 3.90 | 1.081 |
| The strategy of diversification enables greater market access for the company | 4.63 | 1.148 |
| The strategy of diversification enables the business to achieve further technological capacity | 4.75 | 0.588 |
| The organization can launch older products onto the new market through a diversification strategy or introduce new products on existing and more established markets. | 4.83 | 0.385 |
| The strategy of diversification helps in minimizing the risks | 3.95 | 0.504 |
| Average Score | 4.39 | 0.838 |

Table 1: Diversification Strategy

The results in Table 1 shows that the respondents strongly agreed that diversification strategy influence the performance of Telkom Kenya Limited in Nairobi City County, Kenya as indicated by the aggregate mean score of 4.39 with significance variance of 0.838. These results are consistent with the findings of a research conducted by Oyedijo (2012), which established a strong and positive correlation between financial performance and the related diversification strategy.

The mean of 4.83 indicate that the organization can effectively launch older products onto the new market through a diversification strategy or introduce new products on existing and more established markets with a standard deviation of 0.385. Also, the mean of 4.75 shows that the strategy of diversification highly enables the business to achieve further technological capacity with standard deviation of 0.588. Mwangi (2016) study agree with this showing that mobile and internet banking has been commonly used as a method for diversification of commodities.

The study conducted regression analysis to determine the degree to which diversification policy has affected Telkom Kenya Limited's success. The results are presented as follows:

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .724 ^a | .525 | .517 | .367 | .525 | 65.130 | 1 | 59 | .000 |

Table 2: Regression Analysis
Source: Research Data (2019)

Table 2 shows that the adjusted R square value is 0.517(51.7%) which explains Telkom Kenya Limited's performance through a diversification strategy. Hence, certain variables not examined in this study also contribute 48.3 percent of the organizational results.

The coefficient of determination was carried out to assess how well a model explains and predicts future outcomes. The results are presented as follows:

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|--------------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .828 | .345 | | 5.291 | .000 |
| | Diversification strategy | .615 | .076 | .724 | 8.070 | .000 |

Table 3: Regression Analysis
Source: Research Data (2019)

The equation obtained was as follows:

$$Y = 0.828 + 0.615X_1$$

Where Y = Organizational performance

X₁ = Diversification Strategy

From the above regression model, holding diversification strategy at constant, the performance of Telkom Kenya Limited in Nairobi City County, Kenya would be 0.828(82.8%).a unit increase in diversification strategy would lead to increase in performance of Telkom Kenya by a factor of 0.615. The results also in Table 3 show that diversification strategy has positive and significant influence on the performance of Telkom Kenya Limited as indicated by t-value (t=8.070, p>0.000). This is consistent with the research by Boz, Yiğit and Anıl (2013) which established a clear and important relationship between strategy for diversification and success of organizations.

6. Conclusions and Recommendations

The study concluded that Telkom Kenya's performance has a positive and significant relationship to the diversification strategy. The diversification approach is helping to optimize the organization's use of currently underused

capital. That helps to increase the market share of the organization and to gain financial benefit. The organization must increase its customer base by introducing new products, exploring new markets or reaching new consumer groups.

The study recommended that the organization should add in diversification into its operations of the by taking advantage of technological advances and other factors, such as competition and benchmarking approaches, to gain the full benefits of diversity. The company must draw up a strategic plan to outline all possible ways in which it can diversify its business activities.

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