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Influence of Diversification on Performance of Kenya Meat Commission

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Abstract:

Diversification is a major strategy used by many companies as a growth strategy. The Diversification process starts by analyzing data from both internal and external environment and then uses results from that analysis to plan a future the organization envisions. This study sought to determine the influence of diversification as the independent variable on performance of Kenya Meat Commission as the dependent variable. Government Regulation was used as the intervening variable. The generic strategy theory was used to guide the study. The context of was 107 employees at Kenya meat commission who were in the official posts that implemented the diversification strategy. The researcher undertook a census on the target population and used questionnaires as the tools of data collection. The hypotheses were tested at 85.3% confidence level. Data processing and analysis was finally done by the help of the IBM SPSS software Version 24 from which several findings were arrived at, key being that diversification strategy demonstrated a high significant positive relationship to the performance of Kenya Meat Commission. The correlation analysis in this research showed a positive relationship between the performance of the organization and the diversification strategy. The study concluded with an emphasis on the diversification strategy with key recommendation being the adoption of diversification strategy to ensure growth.

Keywords: *Diversification strategy, performance, Kenya meat commission*

1. Background to the Study

Diversification is a major strategy that has been used by many organizations as a tool for performance. Diversification applies when the declining organizations decide to start a new route so that the said companies can secure themselves and their future by the introduction of some new products, which translates into either related or also unrelated diversification. Diversification can also occur by the entry into some new markets such as international markets. Diversification can also occur by focusing and strengthening of Research and development. Diversification can also occur through backward/forward integration. (Wandera, 2019).

Thompson & Strickland, (2016) noted that the relationship that exists in between diversification of a firm and the performance of said the firm has been a subject under study by many scholars in the world. The scholars however have never agreed on effects it has on the performance of the firm. Merits and risks of diversification tend to be equal to each other. Some scholars have however claimed that diversification have shown to lead profitability. What that means is that firms that undertook diversification tended to more profitable than the others.

1.1. Statement of the Problem

Kenya meat commission had experienced stiff competition from privately owned meat processing plants and only controlled 3% of the market share by the year 2019. The management of Kenya Meat Commission aimed at turning around the situation by introducing a growth strategy, which lead to formulating and implementing a diversification strategy, where the commission, introduce new products, and targeted new markets (Kenya Meat Commission, 2019).

From the empirical literature, the researcher noted that very few studies on analysis of diversification strategy on performance government institutions have been done in Kenya. Most of the studies are from the western side of the world, which is developed hence, the recommendations may not work in a Kenyan situation. The researcher aimed to fill this gap since his study was on a government institution that is in Kenya. The researcher specifically focused on the diversification strategy used at Kenya meat commission and analyzed what influence they had with the performance of the organization.

1.2. Objective of the Study

To evaluate influence of Diversification strategy on performance of Kenya Meat Commission

1.3. Research Question

Is there any influence of diversification strategy on performance of Kenya Meat Commission?

2. Theoretical Review

The theoretical review is meant to provide evidence relevant to the research topic under the study, it here that the researcher analyzed work from other researchers.

2.1. The Generic Strategy Theory as Developed by Michael Porter (1985)

Generic Strategy theory is used by firms that are interested in seeking competitive advantage in its market scope. This theory was an improvement of the organization's performance theory. When using this theory, a firm will have to make a choice on which of generic strategy it will apply. A firm May seek to undertake cost leadership; affirm that uses cost leadership competes on the basis of pricing. The firm aims at ensuring they sell large volumes to be able to generate profit. The firm will also work to reduce the cost of goods sold by lowering the cost of production (Sije, 2017).

Sije, (2017) in their study stated that diversification could be classified into three. The three were Horizontal diversification where a firm develops products that are different from what it produces currently but the products can appeal to the current clientele. Concentric diversification is where a client produces new products but they are closely related to his line of business that he is currently undertaking. Lastly conglomerate diversification is where a producer enters into a new deal and gets into a market where they have very little knowledge.

2.2. Empirical Review

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2.2.1. Conceptual Framework

The framework described the correlation that exists among the variables the study is considering. The framework answers the question how does the researcher expect a relationship between all variables (dependent and independent) to exist.

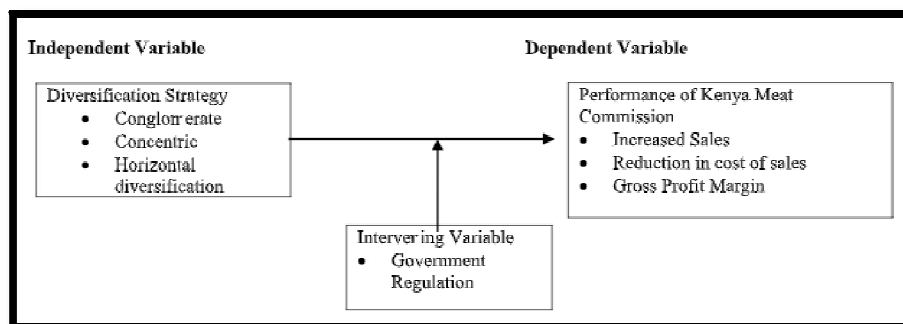


Figure 1: Conceptual Framework
Source: Researcher (2020)

3. Research Methodology & Design

Research Methodology was determined by influence of the turnaround strategy and performance of the Kenya Meat Commission. This particular study had a number of stages followed by the researcher when he was completing it to find the research main objectives. Descriptive research design was adopted by the researcher in this study. Creswell and Plano (2007), suggest that descriptive design answers the questions 'what is' or 'what was.'

3.1. Target Population

Muriithi, Horner, Pemberton & Wao, (2018) defines population is the target group, which the researcher investigates. In this study, 107 employees of Kenya Meat Commission were the target Population. The target group comprised of the tactical and operational level employees. The group gave very accurate information since; this group that implemented the strategy.

3.2. Sampling Procedure, Technique & Sample Size

The sampling frame is Kenya Meat Commission. The Research undertook a census to the target population. Muriithi, Horner, Pemberton & Wao, (2018) notes that data has always been collected using various methods, which include interviews, observation, questionnaires or secondary sources. In this research, questionnaires were used. The main reason why the use of questionnaires was preferred was because they were economical and time saving. The researcher issued Questionnaires to the target group and maintained a register to make sure that all the questionnaires had been issued out on time and had been collected on time.

3.3. Data Analysis and Presentation

Completed questionnaires in the study were perused by the researcher and the data that was collected was recorded in SPSS analysis sheet. The IBM SPSS version 24 software was then used by the researcher to analyze all the data via the use of regression model analysis. The regression analysis, which was used, is the statistical process used to estimate if relationships exist among all variables in a study. The process uses many techniques but the focus is always to check the relationship between dependent variable and independent variables.

4. Study Findings

The researcher presents the findings from the study and the analysis from the data that was collected in KMC Athi River in Machakos County and the KMC Landhies depot branch in Nairobi County. The analysis and discussion focus on the objective of the study. The response rate in the study was 81.4% of which Majority of the respondents worked at the production department while the list proportion was respondent from engineering department. The gender characteristic of these respondents showed that, majority of these respondents, which was an equivalent to 64%, were male against a 36% who were female. The respondents showed that more than half of them represented by 53% had undergraduate Qualification. The number of those who indicated that their academic level was postgraduate level was 14%. Where's those who indicated to have diploma qualification were 28%. The analysis of diversification strategy compared to the performance of Kenya Meat Commission considered mean and standard deviation.

| | N | Min | Max | Mean | SD |
|---|----|------|------|-------|-------|
| The commission implemented a diversification plan. | 87 | 1.00 | 5.00 | 4.356 | 0.792 |
| The diversification plan that was implemented aimed at increasing gross profit generation | 87 | 1.00 | 5.00 | 3.057 | 1.103 |
| The diversification plan that was implemented was in line Concentric diversification | 87 | 1.00 | 5.00 | 3.229 | 1.138 |
| The diversification plan that was implemented was in line Conglomerate diversification plan | 87 | 1.00 | 5.00 | 2.919 | 1.091 |
| The diversification that was implemented was in line Horizontal diversification plan | 87 | 1.00 | 5.00 | 3.057 | 1.358 |
| Diversification strategy (overall) | 87 | 1.00 | 5.00 | 3.318 | 1.095 |
| Valid N (list wise) | 87 | | | | |

Table 1: Diversification Strategy and Performance of Kenya Meat Commission

The statement that 'The commission implemented a diversification plan.' had 4.3563 Mean and standard deviation (SD) of 0.792. The statement 'The diversification plan that was implemented was in line concentric diversification' had 3.2299 Mean and SD of 1.1382. The statement 'The diversification plan that was implemented aimed at increasing gross profit generation' had 3.0575 Mean and SD of 1.1034 same with the statement 'The diversification that was implemented was in line Horizontal diversification plan' had 3.0575 Mean but SD of 1.3585. The statement with the lowest mean of 2.9195 and SD of 1.0914 was 'the diversification plan that was implemented was in line Conglomerate diversification plan. Overall Diversification strategy upon assessing the statements had 3.3180 Mean and a SD of 1.0953. This mean is above the midpoint and this indicates that the Diversification strategy was implemented during the implementation of the turnaround strategy.

4.1. Descriptive Research on Study Variables

| | N | Min | Max | Mean | SD |
|--|----|------|------|-------|-------|
| The Performance of KMC have improved as a result of the implementation of diversification strategy | 87 | 1.00 | 5.00 | 3.264 | 0.970 |
| Sales have increased as a result of the implementation of diversification strategy | 87 | 1.00 | 5.00 | 4.471 | 0.818 |
| Cost of Sales have decreased as a result of the implementation of diversification strategy | 87 | 1.00 | 5.00 | 3.229 | 1.138 |
| Gross Profit have increased as a result of the implementation of diversification strategy | 87 | 1.00 | 5.00 | 2.896 | 1.414 |
| Perception of Performance (overall) | 87 | 1.00 | 5.00 | 3.465 | 1.085 |
| Valid N (list wise) | 87 | | | | |

Table 2: Descriptive Statistics on Perception of Performance of Kenya Meat Commission

The results show that Sales have increased because of the implementation of diversification strategy with 4.4712644 Mean and SD of 0.8189483. The Performance of KMC has improved because of the implementation of diversification strategy with 3.2643678 Mean and a SD of 0.9700128. Cost of Sales has decreased because of the implementation of diversification strategy with 3.22988506 Mean and a SD of 1.13814567. Gross Profit had increased

because of the implementation of the diversification strategy with 2.89655172 Mean and a SD of 1.41449706. Overall, the perception of performance of Kenya Meat Commission because of implementation of diversification strategy had 3.465517 Mean, which indicates that implementation of diversification strategy yielded positive results in the performance of Kenya Meat commission.

4.2. Correlation Analysis

4.2.1. Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|
| | | | | | R Square Change | F Change |
| 1 | .924 ^a | .853 | .851 | .3739177 | .853 | 493.764 |

Table 3: Model Summary
Predictors: (Constant), Diversification strategy,
b. Dependent Variable: Performance of Kenya Meat commission

Table 3 presents a summary of the model in which the item of interest is the adjusted R2 statistics, which is .853. This suggests diversification strategy accounts for 85.3% of the variability of change in the organizational performance (R square = 0.853).

4.2.2. Regression Analysis

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|---------|-------------------|
| 1 | Regression | 69.035 | 1 | 69.035 | 493.764 | .000 ^b |
| | Residual | 11.884 | 85 | .140 | | |
| | Total | 80.920 | 86 | | | |

Table 4: Model Fit Results
a. Dependent Variable: Performance of Kenya Meat Commission
b. Predictors: (Constant), Diversification strategy

Table 4 presents the ANOVA (analysis of variance) also known as the model fit results. ANOVA test's the fitness of the regression analysis model. The F-statistics value and its associated sig. value is what is of interest. The model is fit if the F ratio is statistically significant. In this case the F ratio (F=493.764, p=0.000) making it statistically significant. This means that the model can predict the performance of KMC significantly.

4.3. Discussion on the Study Results

4.3.1. Diversification Strategy and Performance of Kenya Meat Commission

This research was undertaken with an aim of establishing the relationship between diversification strategy and the performance of Kenya Meat Commission. The descriptive statistics undertaken showed that diversification had positive influence on performance. The results in this research were consistent with previous studies done in the area. Sarkar & Sarkar, (2018) in their study on commercial banks found out that diversification affected the performance positively. Christopher, (2018) the main reasons behind diversification is to gain competitive advantage. This study has contributed to the expansion of knowledge in the management field on how diversification strategy can be used to achieve positive performance.

5. Summary of Study Findings

This objective sought to examine the relationship between diversification strategy and performance of state-owned Kenya Meat Commission. The sub-variables for this indicator were the concentric diversification, conglomerate diversification, and horizontal diversification strategies. The descriptive statistical methods were then used to arrive at the results where the respondents were generally positive on the strategy as being the key driver to performance. The descriptive statistics undertaken showed that horizontal diversification scored the highest mean, followed by concentric diversification and lastly conglomerate diversification. Notable, was that the organizations had embraced a competent structure in line to the respective vision as turnaround strategies key on improving their performance. The regression analysis conducted found out that the diversification strategies had a significant positive relationship to organizational performance with a positive value of .798

5.1. Conclusion

The research findings led to conclusions on the relationship between diversification strategy and the performance of state Kenya Meat Commission. The conclusion is based on the regression analyses results. This strategy was divided into three sub variables because of the factor analysis that was conducted; concentric diversification, conglomerate diversification and horizontal diversification strategy. Regression analysis was conducted on them and results showed that they were significant. This strategy is thus advocated for.

5.2. Recommendations

Diversification strategy has proved to have positive significant effect on performance levels. Policy makers should put measures and systems to realize the maximum benefits from this strategy. According to the study, it is worth noting that managers of the Kenya Meat Commission should focus more on diversification strategy since the strategy reveal statistically significant much high positive linear relationship in order to improve the organizational performance. The study is further recommended to the various scholars and academicians as it has made an important contribution to the scholarly world and in the general advancement of academic knowledge on diversification especially in the state-owned organizations.

5.3. Areas for Further Research

The general objective of this study was to establish influence of diversification strategy on performance of Kenya Meat Commission. Specifically, this study concentrated on the relationships that the concentric diversification, conglomerate diversification, and horizontal diversification sub-strategies had on the performance of Kenya Meat Commission. The independent sub-variables studied are definitely not exhaustive and hence further research could be carried out to unearth other diversification sub-strategies that can be applied.

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