

DIVERSIFICATION: OF WHAT EFFECT ON ORGANIZATIONAL PERFORMANCE

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Abstract

This paper investigates effectiveness of diversification on organisational performance. Two hypotheses guided the study. The study adopted descriptive survey design with population of 234 staff. The sample size was 216 representing 92% of the entire population of 234 using heterogeneous purposive and convenience sampling techniques. Structured questionnaire was used for data generation. The collected data were analysed through hierarchical multiple regressions. Results showed that both related and unrelated diversification affects the organisational performance. Conclusively, it was shown that firms that adopted diversification perform better in the contemporary dynamic business environment in terms of survival, creating jobs, stand tall in term of competitive edge among other competitors and get the lion share of the market. It is recommended that firm that is opting for diversification should critically analyse its SWOT and work on the weaknesses and threats to ensure that they have little or no negative effects on firm's activities. Besides, consider its resources based if they are to adopt unrelated diversification.

Keywords: *Diversification, related, unrelated diversification, organisational, and performance.*

Introduction

La Rocca and Staglianò (2012) revealed that till the end of the 1990s vast majority of Corporate Finance studies assumed a negative effect of diversification on performance, while the Strategic Management literature highlighted the contribution of diversification to value creation processes. However, while considering the contemporary business environment, it was shown that diversification as a strategy is gaining ground in a whirlwind form among other available strategies (La Rocca & Staglianò, 2012; & Akewushola, 2015). Also, the alarming in dynamic changing in business environment via incessant markets, unstable policy, vast growth in technology, growing dependence on non-price competition among others has awakened the consciousness of various organisations and set them on their toes to be innovative in order to be able to withstand the challenges of business environment where they are currently operate.

According to Nyaiingiri and Ogollah (2015), it was shown that corporate strategy is crucial for any organization to succeed in a turbulent environment. The gains from portfolio diversification in reducing volatility and subsequently investment risks have been widely accepted.

Generally, there is no universal agreement as to what particular strategy that suitable for all businesses. Consequently, every organisation chose to adopt/adapt a strategy that will better give desired results. The word strategy is being derived from strategos. The term is being used to denote army general as a game plan used to win a war against adversary. According to Emeka,

Ejim and Amaka (2015) the concept of strategy was used to denote a general programme of action and development of emphasis and resources to attain comprehensive objectives. Vijaywargia (2012) described strategy of a corporation as a comprehensive master plan stating how the corporation will achieve its mission and objectives. From general opinion, we have arrays of strategies from which any organisation can adopt or adapt in order to enhance its performances, but for the purpose of this study, diversification strategy will be considered. Diversification according to the Institute of Business Strategy (2015) is when a company seeks to achieve a competitive advantage by creating a product or service that is perceived in the industry and by customers to be unique and generally superior in some important way. The possibility of successful diversification comes if after a company has consolidated their positions in their base industry or market they still possess underutilized resources which can be applied in other sectors of low opportunity Chandler (in Oyedijo, 2012). This shows that to diversify is a way of not putting the whole resources of the organisation into one investment. Doing this, company prevents the risk of total loss if eventually it happens. However, this study is not absolutely ignoring the use of other strategies such as concentration strategy but the fact that if this diversification strategy is successfully implemented it will go a long way to improve nation economy, creating more jobs, improving standard of living and so on. In the case of Montgomery (in Al Sayegh, 2010) states that diversification strategy is apprehended from three different but vital perspectives: The market-power, resource-based and agency perspectives. It means that when organisation is controlling lion share of the market and has the resources capability and competent agents(s) such organisation can opt for diversification in order to enhance more of its performances. For instance, Oyedijo (2012) unveiled that diversification strategy influenced the financial performance of organisation, this is similar to the findings of Yu-shaic, Chin-Yu and Ching-Hsun (2012) that related diversification has a capacity to influence innovation performance and Corporate growth. By extension, Iqbal, Hameed and Qadeer (2012) in their studies unveiled that there is no positive relationship between diversification and firm's performance. Their finding was not too far from Kanini, Patrick and Muhanji (2019) in Kenya. Vast research works had been done on this similar topic yet, with the inconsistent findings that related diversification is better enhances firm's performance than unrelated diversification and vice versa. Therefore, considering the positive implication of diversification and otherwise on the nation's economy call for further investigation especially in Southwest Nigeria. Hence, the focus of the study is Diversification: of what effect on organisation performance. Moreover, this would serve as a green-light for both the existing and the potential investors to know whether or not they should embark on either related, unrelated or both strategies. Again, what implication(s) would the adopting of any of these strategies have on job creation, risk reduction, profitability among other in the nation's economy as a whole? To achieve the objective of the study, this paper is structured into five sections. First is introduction, follow by literature review. Thereafter, is research method; followed by results and discussion. Finally is conclusion, recommendations and policy implications.

Theoretical, Empirical Framework and Hypotheses

The theory guiding this study is theory of Resource Based View (RBV). The theory primarily developed to offer a better understanding of the relationship among resources, strategies and performance. The theory step further that firm's strategy has to be concerned with the exploitation of its distinctive competencies and the more unique, difficult to acquire, difficult to imitate a competence is the easier will be for a firm to sustain its competitive advantage (Porter, 1991) hence, diversify have to do with what resources the organisation possesses. The theory assumes that the resources in any organisation may be heterogeneous and may persist over time

due to inability to imitate by other firms (Bridoux, 2015). The argument was that if firms possessed the same resources, it shows that all firms would have the same strategy readily available for them to use in the same business environment. Based on this study, it is being discovered that RBV serves as antecedent factor that ultimately influence action in order to implement effective diversification thereby sustain the competitive advantage in terms of performance.

Al Sayegh (2010) on a topic the impact of diversification strategy on the construction organisations corporate level performance in UAE construction company Dubai affirmed the positive and significant related of the diversification strategy on performance. However, the study focused mainly on related diversification. Methods employed include; primary and secondary sources were used. Besides, survey via questionnaire and interviewed and regression analysis were equally adopted. One good thing about Al Sayegh was that the measured of performance was not focused only on financial, but also investigated on productivity and quality. As a result, investigation carried out on more than one indices of performance actually indicated that a well implemented policy has tendency of producing different performance within the organisation. However, Al Sayegh declined how the respondents were selected. But in this recent study, heterogeneous purposive sampling technique was used to select various sectors that are practising diversification strategies, while stratification sampling technique was used to select respondents among selected organisations. Another issue was that the focus of Al Sayegh study centered on related diversification may not be enough to justify the effects of unrelated diversification on performance which is another construct of the diversification strategy that was used in the recent study. Hence, the focus of the study was on both related and unrelated diversification strategies. Again, the specific regression used by Al Sayegh was not mentioned. In order to untangle this problem the recent study adopted hierarchical regression. Above all, the study was carried out outside the context of the current research hence call for further investigation for generalisation of findings.

Also, Oyedijo, (2012) on effects of product–market diversification strategy on corporate financial performance and growth: an empirical study of some companies in Nigeria revealed that diversification strategy influenced the performance of organisation. He goes further to show that there is a high and positive correlation between financial performance and related diversification strategy. While a marginal correlation was found between unrelated and mixed modes of diversification and financial performance and sales growth. Methods adopted are questionnaire, convenience sampling technique and ordinary least square regression. Considering the study of Oyedijo, one noticeable issue is that emphasis was only on financial as a measure of performance, and opinion showed generally that indices of performance goes beyond monetary values. Meanwhile using various firms is commendable on the part of the author because he was able to establish that finance is an important key among indices of performance. Kanini et al., (2019) investigated on product diversification and the financial performance of manufacturing companies in Kenya. Herfindahl-Hirschman diversification index was adopted as a method, while collection of data was via secondary source. From their studies, it was shown that product diversification does not have significant influence on the financial performance of manufacturing entities in Kenya when measured against both on earnings before interest and tax (EBIT) and return on assets (ROA). Looking at the findings of these authors the negative impact of diversification on financial performance may be attributed to other factors like inability to analyse SWOT, insufficient funds unfriendly government policies, unhealthy competition and so on. Besides, Kanini et al., (2019) was not actually stated whether or not focus was on related, unrelated or both diversifications. Kanini et al., make used of manufacturing companies only while the current study use two different companies. However, the relevance of Kanini et al., cannot be ignored from the perspective of the

current study because it was able to unveil the predictive effect of product diversification on financial performance in Kenya. Irene, and Ambrose (2021) investigated the effect of diversification strategy on organizational performance of manufacturing companies in Uasin Gishu Count in Kenya. Findings showed that horizontal diversification is significant factors that influence organizational performance of manufacturing companies. Methods adopted include stratified, proportionate, simple random sampling techniques and multiple regressions.

Related Diversification and Organisational Performance

According to Akewushola (2015) on a study performance effectiveness of related product market diversification strategy in Nigerian companies: information and communication technology as a virile tool revealed that nexus exist between related product market and performance of information and communication technology. Adopted method includes; survey, questionnaire, convenience, purposive and random sampling techniques, and regression analysis. The fact that this study did not investigate performance directly it showed that related diversification as a strategy is capable of enhancing performance. In this study, the author declined on the specific regression analysis used, but the current study adopted hierarchical multiples regressions in order to show the contribution(s) of one independent variable on dependent while another is being control.

Moreover, Yu-shaic, Chin-Yu and Ching-Hsun (2012) studied the effects of related and unrelated technological diversification on innovation performance and corporate growth in the Taiwan's semiconductor industry showed that related technology diversification (RTD) has a monotonically positive influence on both of innovation performance and corporate growth. Authors further stated that the extent of the positive effect of RTD on innovation performance and corporate growth is better than that of unrelated technological diversification (UTD). If Taiwan's semiconductor companies would like to undertake technological diversification, this study suggests that they should adopt RTD, rather than UTD. The study of Yu-shaic et al., became very important to the current study because it shows that adoption of related diversification positively influence both innovation and corporate growth which are from general opinion believe to be part of performance. In addition, Koričan, Barac and Jelavić (2014) on impact of related acquisition strategy on bidding company performance in EU member countries and Switzerland finding shows that there exist relatedness between merging companies and merger's performance. Also, the result shows that related mergers have better merger scores than unrelated mergers. Hence, the study predicted that the impact of the related acquisition strategy becomes more positive as bidder premerger performance decreases. Methods employed include; survey, questionnaire Ordinary Least Square and hierarchical regression model. Although, Koričan et al., investigation centred on related acquisition, its relevance still pointed to the fact that related strategy has positive effects on performance.

Unrelated diversification and organisation performance

La Rocca and Staglianò (2012) study on Unrelated Diversification and Firm Performance: 1980-2007 Evidence from Italy indicated that diversified firms, investing in activities far from the core business, have high performance. As a result, unrelated diversification positively affects firms' performance. Secondary data source was used while OLS was use to analysed data generated. Considering the long range period of the data collections it may be reasonably agreed that unrelated diversification has to do with performance.

Nyaingiri and Ogollah (2015) study on influence of unrelated diversification strategy components on corporate performance of Sameer group in Kenya revealed that company that engaged in

unrelated diversification have upper hand in terms performance especially in risk reduction, confirmed its survival and enhancing profitability. Questionnaire, stratified technique, random sampling technique, descriptive and regression were served as methods employed. In this study, authors muted on the specific regression used. Again, using only one group of company may not actually be enough to give generalisation of findings. Hence, need for further investigation.

Ho₁ Related diversification would not influence organisation performance.

Ho₂ Unrelated diversification would not affect organisation performance.

Conceptual Framework

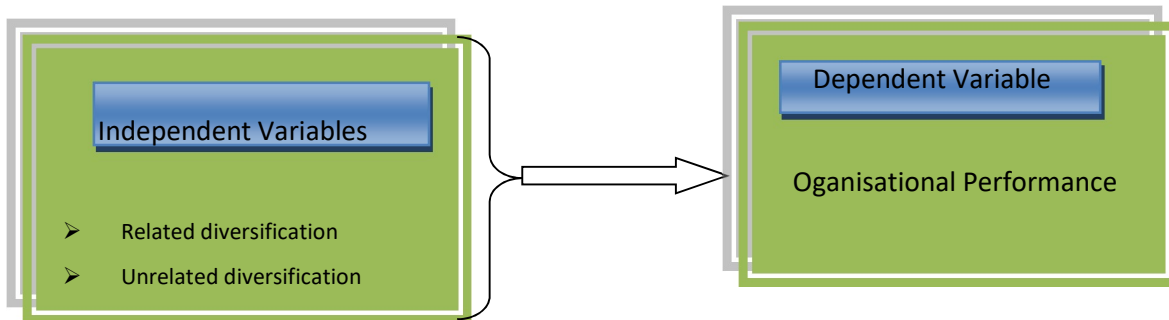


Fig. 1.1 Conceptual framework showing Business Policy and Diversification strategy on organisation performance

Source: Author's Conceptual Framework.

The model gives vivid explanation of the effect of independent variables (Diversification strategy) on dependent variable (Organisation performance) The model further shows that diversification if they were carefully established and well implemented it has positive and significant influence on performance.

Research methods

Descriptive survey with structured questionnaire was used. Six state capitals that made up of Southwest in Nigeria were selected via stratification sampling technique based on location (Ikeja, Ogun Ibadan, Osogbo, Akure and Ado-Ekiti) were used. While sixty organisations like (Services and Manufacturing companies) with at least five years in operations were selected using heterogeneous purposive sampling technique. Questionnaires were given to meddle; top levels managers and chief executive officer via convenience sampling technique. Lower level managers were excluded because it is of the general opinion that these levels of management may not possess the required information that could assist in achieving better findings of the study unless they are being instructed to do so. Content validity of the questionnaire was tested by given it to expert in the field of strategic and marketing while the respondents from pilot study were used to ascertain face validity of the questionnaires. Considering the nature of the study, stratification

sampling technique was used to select three key officers (General Manager/Chief Executive Officer, Production Manager and Sales/Marketing Manager) from each of the selected organisations across the affected areas of the study hence, brought the total population to 180 and the figure will be taken as sample size. Hence 180 are considered to be the minimum sample size. To cater for response bias cum missing values due to improper filling by these respondents, 30% of 180 (minimum sample size) provided will be added as suggested by Israel (2013). Calculation showed 54. As such, 54 respondents were added to the original sampled size (180) to arrive at 234 questionnaires. From 234 distributed questionnaires 216 were correctly filled and returned. To analysis the data collected, hierarchical regressions was used.

Results and Discussion of Findings

Table 4.1 Demographic Characteristics of the Respondents

Respondents' variables	Frequency	Percentage (%)
Sex		
Male	134	63
Female	82	37
Age		
Below 25	15	7
26-50	72	33
51and above	129	60
Position Status		
Chief Executive Officer	64	30
Top management	72	33
Middle management	80	37
Years of working experience		
Below 20	98	45
21 and above	118	55

Source: Field survey 2021

From Table 4.1, it was shown that male got the highest percentage 63% while female have 37%. In the case of age below 25 got the least percentage 7% next was 26-50 33% and 51 and above 60%. Under position status in descending order, chief executive officer took the least percentage next was top management 33% and middle management 37%. Based on years of working experience, below 20 got 45% while 21 and above have 55%.

Table 4.2 Model summary of Multiple Regressions of product related and unrelated on organisational performance.

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	.726 ^a	.527	.525	.2.575	.527	235.102	1	211	.000
2	.873 ^b	.763	.760	.1.829	.236	208.624	1	210	.000

- a. Predictors: (Constant), Product related
- b. Predictors: (Constant), Product related, product unrelated
- c. Dependence variable: Performance

Table 4.2, block 1, showed 52.7% as the predictive effects of product related diversification on firm's performance. Change in R^2 was 52.7% at significant value of .000. In the same vein, block 2 unveiled 76.3% predictive effects of product unrelated diversification on firm's performance. Change in the predictive effects was 23.6% at .000 significant values. Take a look at the two blocks, both products related and unrelated showed .763 predictive effects on firm's performance.

Table 4.3 Model summary of Multiple Regressions of technology related and unrelated on organisational performance.

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	.715 ^a	.512	.509	2.617	.512	221.148	1	211	.000
2	.861 ^b	.742	.739	1.909	.230	186.746	1	210	.000

- d. Predictors: (Constant), Tech related
- e. Predictors: (Constant), Tech related, Tech unrelated
- f. Dependence variable: Performance

Table 4.3, block 1, showed 51.2% as the predictive effects of technological related on firm's performance. Change in R^2 was 51.2% at significant value of .000. Block 2 of the same table indicated 74.2% predictive effects of technological unrelated diversification on firm's performance. Change in the predictive effects was 23%, at .000 significant values. Considering block 1&2 it shows 0.742 predictive effects of technological related and unrelated on firm's performance.

Discussion of findings

Looking from Table 4.1, it becomes cleared that male respond to the research instrument is more than female counterpart. This shows that using diversification as a strategy to boost the performance of the firm men is more active. Also, management below 25 years are very few considering those that are operating within the age bracket 26 to 50 and 51 and above. Although one noticeable issue among these management levels is that to assume the position of management has to do with maturity, wealth of experiences, strong managerial and analytical skills among other rather than age matter. To this ends it shows that person can be of age without the require ability and skills to assume the position of a manager. To the years of working experience, it is not a gain say that these respondents have been considered to have reasonable years of working experienced. These wealth of experiences has been guided them to know whether or not their firm should opted for diversification strategy be it related or otherwise.

Considering Table 4.2, block one of the explanatory variable it shows that there is reasonable level of the predictive variable effect on dependent variable. This strengthen to the fact that firms that venture into products related diversification after diligently take into consideration the firm's SWOT analysis could as well perform in the competitive market. Besides, when take a look at the predictive effect of the explanatory variable it further showed that adopted products related diversification strategy has tenacious power to enhance firm's performances. By extension, this is confirmed by take a look at the contribution of the predictor in R^2 change value and the p-value which is positive and significant related. When block 2 was entered it becomes obvious that the predictive effect of the explanatory variable and the dependent variable shoot up in terms of value and this shows a stronger effect compered to block one. Besides, at the entered of block 2 the predictive effect goes up with additional contribution of 23.6% and is positively related when look at the p-value. Moreover, from Table 4.2, it can be further deduce that adopting products diversification be it related, unrelated or both firms stand a chance of boosting their performances this is aligned with the study of Akewushola (2015). It must be noted that from the findings that for a firm to venture into product unrelated diversification it is imperatives according to Porter (1991) for such firm to carefully look inward to the available resources based as this will assist to achieve desire goal rather than otherwise.

In addition, Table 4.3 showed the results of technology diversification. Mere looking at it, It was shown that two explanatory variables were tested (related and unrelated diversification strategies). At the entered of block 1, it was shown that there exist a correlation relationship between technology related diversification and firm's performance. Although, a reasonable level of predictive effects was shown yet, it shows that beyond a mere thought it is now become imperative that firm that must venture into technology production should not permanently stick to a particular product but prepare to diversify. The reason may not be far fetch as the taste, satisfaction, life style, change in fashion among others keep on metamorphosis and alarming virtually on daily bases. Therefore, for a firm's that want to stay long in this technology competitive market must be warm enough not in planning alone but inaction. Meanwhile, the contribution made towards dependable variable seems not to be big but the reality part is that firm's that has all it takes to embrace diversification with due diligent cannot remain the same in terms of it performances. This was also proving to be right by take a look at the p-value which was positively related and significant. Moreover, when block 2 was entered, the correlation coefficient relationship shoots up ditto to the predictive effects though with a reasonable contribution. In spite of these, p-value unfolded that venture into technology unrelated diversification has positive related and significant effect on the firm's performance. This study's

finding was aligned with Yu-shaic, Chin-Yu and Ching-Hsun (2012) and Nyaingiri and Ogollah (2015). Judging from these findings, it shows that as it is now where a similar or the same studies have been carried out, adopting diversifications as a strategy goes a long way not only to improve the firms' performance but capable of sustaining the nation's economy both in terms of risk reduction, survival, job creation among others.

Conclusion and Recommendations: Stemming from the findings of the study, the fact remains that in order to enjoy a reasonable level of performance amidst these volatile competitive business environments and where consumer behaviour keeps on changing, venture into diversifications is considered as a panacea. To this end, it is concluded that diversification has tenacious power to boost firm's performance. Therefore, it is recommended that firm that is opting for diversification should critically analysed its SWOT and work on the weaknesses and threats to ensure that they have little or no negative effects on firm's activities. Besides, consider it resources based if they are to adopt unrelated diversification.

Policy Implications

Stemming from the findings, it has been unveiled that diversification affects performance of the firm as a result; an action plan policy must be put in place that provides an enable environment for firms that have intention to adopt diversification for thriving. Government must partner with financial institutions to relax the condition(s) attached to loan accessing. In addition, there must be constitutionally established independent institutions that will be monitoring the firms' activities in order to ensure that the purpose of getting credit facility is fulfilled. On the part of the firms, consistent train and re-train must be given to their workforce in order to enhance their competency and get them prepared ahead of the task. If all these can be sincerely implemented it will pave ways for the continuous sustainable of the firms in the market, more jobs will be created, living standard will improve, wallets of the government will improve, vices will be minimise among others.

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