ADOPTION OF DIVERSIFICATION STRATEGIES AND THE PERFOMANCE OF STATE OWNED SUGAR FIRMS IN WESTERN REGION IN KENYA

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DECLARATION

This thesis is my original work prepared with no other than the indicated sources and support and has not been presented elsewhere for a degree or any other award.

Signature………………………………. Date……………………

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MBA/G/39/12

CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance of Masinde Muliro University of Science and Technology a thesis entitled "diversification Strategies and the performance of state owned sugar firms in Western Region in Kenya".

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DEDICATION

This thesis is dedicated to my family who supported me throughout my period of study.

ACKNOWLEDGMENT

I wish to acknowledge with much gratitude the Almighty God for his grace and everyday provision while writing this thesis. I wish to appreciate the tireless effort by my supervisors Dr Moses Ngoze and Mr. Dishon Wanjere in guiding me through this thesis. Their critique, concern and support have enabled me to successfully complete the thesis. Special thanks go also to my colleagues and family for the moral and emotional support offered to me to the completion of this thesis. I say thank you and may God bless you abundantly.

ABSTRACT

Diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification even though the nature of this relationship still remains largely unresolved. Several scholars view diversification as the strategy of adding related or similar product/service lines to existing core business, either through acquisition of competitors or through internal development of new products/services, which implies increase in available managerial competence within the firm. The main objective of this study was to examine the effect of diversification strategies on the performance of state owned sugar firms in Kenya, and considered the motives of diversification by sugar firms in Kenya, the effect of horizontal diversification, concentric diversification and conglomerate diversification on the performance of state owned sugar firms. The study employed descriptive survey study research design. The target population of the study comprised of all sugar firms, found in western Kenya; Nzoia sugar, Sony sugar, Chemelil sugar, Muhoroni and Miwani, that are state owned. From the accessible population, the unit of analysis was Heads of departments and senior sectional heads involved in strategic decision making, ten managers from each firm. Primary data was collected using structured questionnaires which were administered to the respondents. The data collected in the questionnaire was coded and analyzed using Statistical Package for the Social Sciences, version 20 and the results presented in form of tables. Pearson's coefficient of correlation, simple regression and multiple regressions were used to ascertain the relationship between organizational performance and diversification strategies. From the results, the R coefficient of horizontal diversification and performance was 0.027 while R square was 0.001 at p=0.880. That meant the relationship between horizontal diversification and performance was insignificant. The student t test reduced from 5.981 at p=0.000 to 0.5942 at p=0.877 which was insignificant. Therefore horizontal diversification did not have any significant influence on performance of state owned firms. The hypothesis was therefore accepted. The findings showed that 13.8% (given R square was 0.138, p=0.033) of performance of state owned firms was explained by concentric diversification. That meant the relationship between concentric diversification and performance was significant. The student t test reduced from 5.981 at p=0.000 to 0.5942 at p=0.877 which was insignificant. In other words, the concentric diversification had significant influence on performance of state owned firms. The hypothesis was therefore rejected. The relationship between conglomerate diversification and performance of state owned firms had R coefficient of 0.204 while R square was 0.0311 at p=0.256. That meant conglomerate diversification had insignificant effect on performance of state owned firms. The student t test reduced from 2.1901 at p=0.000 to 0.5942 at p=0.791 which was insignificant. In other words, the conglomerate diversification did not have any significant influence on performance of state owned firms. The study concluded that horizontal diversification, concentric diversification and conglomerate diversification had a significant influence on firm performance of state owned sugar companies. The study recommends the concerned management of state owned sugar firms should be updated on matters pertaining diversification strategies and thus embrace positively strategies that will enable them make wise decisions as far as management of manufacturing companies is concerned. Also the management of state owned sugar firms need at all times evaluate and monitor the implementation of the diversified strategies employed for them to have an overview of their progress and if they are achieving their intended goals and objectives.

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OPERATIONAL DEFINITION OF TERMS

Concentric Diversification is acquisition of a new business that is related to the current business, such as ethanol production in terms of its key assets, technology, markets, distribution channels, resources or products.

Conglomerate diversification is moving to new products or services by the sugar firms that have no technological or commercial relation with current products of sugar and molasses such as hiring out construction equipment.

Corporate strategy: The overall scope and direction of a firm and the way in which its various business operations work together to achieve particular goals.

Diversification: adding or moving to other products and businesses other than sugar production such as cogeneration, ethanol production and dairy farming.

Horizontal Diversification is acquiring or developing new products or offering new services such as packaging of sugar in packages of 2kgs that could appeal to the company's current customer groups.

Investing: Spreading the available funds over a wider selection (portfolio) of types on investment, such as farming of cane, production of sugar, cogeneration.

Market share the percentage that a company has of the total sales for a particular product or service.

Performance the accomplishment of a given task measured against preset known standards of accuracy, completeness cost and time frame.

Production this is the process of transforming (converting) raw materials in this case sugarcane into sugar, molasses & bagasse (outputs).

Profit the surplus remaining after total costs are deducted from total revenue.

Related Diversification A process that takes place when a business expands its activities into product lines that are similar to those it currently offers such as packaging sugar in 2 kgs packets (branded sugar) instead of the current 50kgs bags

Unrelated Diversification The production of diverse products which have no relation to each other such as processing milk while still producing sugar.

ABBREVIATION AND ACCRONYMS

COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
GOK	Government of Kenya
KSB	Kenya Sugar Board
KTDA	Kenya Tea Development Agency
OT	Outturn
R&D	Research and Development
SDL	Sugar Development Levy
SUCAM	Sugar Campaign for Change
TI	Transparency International
VAT	Value Added Tax
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Markets are more integrated globally and market manufacturing systems have been strengthened through quick distribution of goods and data to other countries (Thomas, 2012). In many companies around the world, business diversification has become a reality (Williamson, 2015). Corporate companies utilize diversification to achieve fast returns to remain competitive on the market. In his study of manufacturing diversity and performance in Nigeria. Oladere Olajide (2012), a diversification acknowledged, is important for the continued profitability of a business. Furthermore, the movement of labour, employees and the distribution and consumption of goods and services throughout the world has become less costly and thus modified (Thomas, 2012).

John and Richard (2009) suggested that policy diversification is widely discussed in the tactical sector where, although the essence of this partnership is still mostly unclear, the majority of studies have explored the effects of diversification. Further arguing that diversification is useful, John and Richard (2009): from a conceptual point of view increasing levels of diversification should have a positive impact on performance due to cost and scale savings, market impacts, risk reduction effects and learning effects.

Several scientists regard diversification, through either the takeover of competitors or through internal development of new products / services, as the strategy of adding related or similar product-service line to current central business which indicates an increase in accessible management skills within the firm. Diversification is in this case a question of the degree of relation between a company's operations. Brand relationships are described as the degree to which an organization has a similar capacity, demand, purpose or asset in its various areas of business (Luo, 2002).

Numerous studies have aimed to explore diverging trends in relation to fundamental demands for resources: to what degree, two sectors use or depend on the same output of software, the same forms and ratios of human experience. These researches, however, only characterize resources at the level of the industry which limits the ability of companies to address heterogeneity issues. In fact, therefore, the number of activities carried out by an organization in various sectors is usually calculated as diversification. Searching market power, management motive, motive of profit maximization, solution to the Company problems; asset capacity, the motive for risk diversification and the use, among others, of bundles of resources in order to achieve a competitivity gain (resource-based view), Saunders (2002) discusses motives for business diversification.

The economics of the transaction costs indicates that diversification is an alternate solution contractual method through which a company can exploit its surplus resources, focusing on the factors that shift its activities across industry besides the focus on vertical integration. Diversification can be used to extend the boundaries of an enterprise in the presence of internal coordination problems that naturally occur in large companies according to Sindhu, Ehtasham, Sajid, & Muhammad, (2014) and Grossmann, (2007). Cross-subsidization practices allow several consumer companies to increase their market power, i.e. market dominance can be used for maintaining low-price policies in other countries of one specific industry.

Empirically, Klein & Lien (2009) is blended in the effect of diversification on company performance. Some studies suggest that diversification into linked markets generates higher returns than non-related markets; other suggests that companies less diversified than companies with greater diversity. Some argue that economies with integrated operations and core skills gained from related diversification weigh on internal capital markets costs and smaller sales variances generated by unrelated diversification say it is not product-market diversity that determines the effect of diversification on performance, but the strategic logic employed by managers. Tran & Santarelli, (2012) argues that it is not management conduct, but industry structure that governs firm performance.

Tran & Santarelli, (2012) also states that diversification usually focuses either on the synergies used by diversified firms and an appropriate organizational structure for the operation of a multi-product company (strategic managers approach) or on the interaction between consumer and industrial structure. Together, many reports have tried to highlight the impact of diversification on the success of companies (Onur and Akpinar, 2016). In his research on separation policy and market results in India Karla and Abbrca (2017) referred to the detrimental and important impact on the company's output of the related business diversification approach. In a study conducted in Malaysia, Kwok Hung (2006) found that an undiversely qualified company could do better in terms of income than a highly diversified company but would be far more risky. In a separate Thomas study (2016), profitability was positive for product diversification and geographical diversification of large British manufacturing firms.

In comparison, Rogers (2017) noticed that more concentrated companies were more efficient than non-centered firms in its analysis on the effects of diversification on company performance. His findings suggest two possible explanations: low profits are diversified in order to seek higher returns; diversification is seen by companies as a means to mitigate risk. From the perspective of the world, an 800 Chinese company study by Chang and Timosohn (2010) found that companies that focus on their co-competencies identify diverse companies across all classes of ownership. However, insubstantial proof of a positive connection between group diversification and achievement in Turkish industrial firms were found in a related study conducted by Chopra and Meindl (2016). Mixed data on the cost-benefit effect of diversification on results leads to the conclusion that the correlation between diversification and corporate success is not straightforward (Ichoho, 2013).

The fundamental challenge to diversification in companies is to "manage the new-and-old conflict and overcome the unavoidable tensions that such a conflict brings to management" through conflicting forces arising from synergy and responsiveness. There are concerns as to how administrators could reinvent complex organisations to effectively maximize possible synergies with and other strengths and to avoid conflicts of interest (Isoe, et.al., 2013). Empirical synergy studies also permit us to determine whether diversification has a positive effect on company's performance (due to synergy) or a negative effect (based on response) and which kind of diversification is most advantageous, whether it is linked or unrelated. With regard to the curvilinear relationship between diversification and business performance, it is not possible to explain how the positive effect of synergy is lost and how the negative effect of responsiveness can be replaced, or why moderate diversification levels produce higher levels of efficiency than either limited or extensive differences (Tran & Santarelli 2012). Enterprises will be required to have broad technological capabilities, which allow them to diversify their goods according to the strategy of the industrial organization. A businesses that have a diversified product portfolio can be better able, because it is capable of capturing internal information spillovers and more likely to engage in research and technology than those that market a smaller range of products, to assess the general applicabilty of new ideas. In terms of the same basic production and delivery capabilities and the same opportunities for diversification, firms with a larger competitive potential can extend their product range more often (Muchiri 2009).

One of the main advantages of diversification is the convergence generated (Harry and Bowen 2014) in the management literature. When entering new sectors, the entire process of working on new services or products offers the opportunity for developing new partnerships. Ravichandran and Bhaduri separately (2015) believe that the associated diversification increases the value of the company and that unassociated diversification decreases the value, and the results of research into the effects on productivity of global diversification are conflicting in nature. Findings suggest that vertical diversification implies that highly diversified businesses underperform whereas horizontal diversification has a positive impact.

Companies may wish to generate and take advantage of economies of extent in which they try to use their existing resources and capabilities in other markets. That can often be achieved when enterprises are not readily exposed and opened to underused assets and skills. Onsomu (2013) argued by using a plan of diversification that companies will be willing to use all of their capabilities (in this case resources) to attract new enterprises from market sectors that were not historically discussed until diversification. Diversity may be related or unrelated as a response to competition. This may take the form of vertical integration due to higher competition with the advantages of reduced costs, combative market power and market power. Return to suppliers needs retro-integration mainly to boost performance of suppliers. Forward alignment means moving nearer to the consumer and supplying the client with a certain production of its key products / services. Future integration can mean that demand for output can be increasingly predictable. Unlike today's brand and consumer reach, unrelated diversification may include acquisitions of companies (Awino, 2009). Lole, (2009) said diversification is a prevailing term in the fields of growth, banking, strategic management and marketing. Diversification, Lole says (2009), was used to describe companies ' economic outcomes, financial quality, the domination of the industry and the elimination of risks. In his study, Muchiri (2009) cited the importance of diversification for other business type although most of the research available is focussed on large industrial companies. For example, Onsomu (2013), which carried out a study in the Kenya Tea Development Agency, has demonstrated that diversity is equally important for the state corporation. Diversification offers competitive advantages in reducing or distributing market risks through businesses. For this reason, it is an excellent tool to develop businesses (Onsomu 2013).

In Kariuki (2006), businesses face new risks and effects in the 21st century that endanger the very survival of all organisations, including the sugar sector. The sugar industry sub sector of the Kenyan economy is threatened by economic liberalization and international trade de-regulation. Consequently, sugar players do all they can to minimize financial risk, enhance profitability and stay competitive. Wanyande, (2001) observed that the brand diversification strategy that makes companies merge, build and reconfigure internal and external company specific competences into new competences that suit their volatile climate is one aspect that this industry should recognize.

Sugar companies operate in a very volatile world and business activities are heavily affected by changes in a climate. Strategy helps the company to connect to its environment and provides the company with a guide to what they are trying to do and achieve (Wefwafwa, 2009). Diversification in three groups is known as conglomerated, vertical and focused by other researchers. The corporation develops new products and services in conglomerates (mixed) diversification that do not affect the present business (Ticha & Hron 2007). The development of new products and services is part of a vertical diversification, which does not apply to the current business operation, but is sold to the existing customer (Ticha & Hron 2007). The company adds a new range of products and services to the focused diversification, which have a technological or economic overlap with current products that cater to new customers (Ticha and Hron 2007).

1.1.2 Sugar Industry in Kenya

Kenya's sugar production forms part of a whole of Kenya's dominant agricultural activities. 24 per cent of the nation's gross domestic product is accounted for by agriculture. More than 200,000 investors across the country still receive income (KSB, 2015). In the former Western and Nyance provinces, sugar cane is predominantly cultivated. The crops are also cultivated in the counties of Nandi, Kericho and Narok, Kwale and Tana-River. Small-scale farmers contribute about 90% of the total sugarcane production. Sugar cane production is 10 percent of the total of large-scale growers and farmers operated by sugar mills (Nucleus Estates) (KSB, 2015). This is in contrast to other COMESA countries where plantations owned by sugar firms (Nucleus) account for at least 60% of total cane production (KSB, 2015). The industry has eleven operational sugar factories namely: Chemelil Sugar Factory; Kibos Sugar and Allied Factories; Muhoroni Sugar Factory (in receivership); Mumias Sugar Factory; Nzoia Sugar Factory; Soin Sugar Factory; South Nyanza Sugar Factory; Sukari Industries Limited; Transmara Sugar Factory; West Kenya Sugar Factory and Butali Sugar Factory. Kwale International Sugar Company is yet to be commissioned (Kenya National Assembly: March, 2015).

The first introduction of sugar cane cultivation in 1902 was in Kenya. In Miwani near Kisumu the first manufacturing plant was founded in 1922 and in Ramisi in 1927. The government then became widely involved in the production of sugar due to the increased demand for sugar cane through additional investments into sugar cane growing systems and factories. The sugar companies are privately owned (KSB 2016), West Kenya (1979), Butali (2010), Kibos (2008), Soin (2008), Sukari (2011), and Transmara (2011). Kenya's participation in the sugar industry has been driven by the need to respond by self-sufficiency in sugar production to the country's sugar consumption needs. The introduction of sugar production was aimed at reducing overdependence on sugar imports and at saving sugar imports on foreign exchange. Development was also to be driven by improved livelihoods through job creation and wealth creation in rural areas (Sserenkuma and Kimera, 2006).

The AFFA Directorate of Kenya Sugar is Kenya Sugar Industry's regulatory body. It regulates, develops and promotes the Kenya Sugar Industry. Kenya's Sugar Research Institute (SRI) conducts sugar production research by developing appropriate and appropriate technologies for Kenya Agricultural and Cattle Research Organization (KALRO).

Wanyande (2001) investigated "The Towards Effective Policy Framework: Kenya's Sugar Industry Case" to give some clues as to the sugar sub sector's poor performance. Through his research, the academic has shown that sugar companies still have marginal production, through part due to unsuitable management decisions in an unpredictable investment climate. The sugar industry has currently developed mostly under a secure environment to make it powerful and stable. But the extended protection, which was evident from the low production and paltry exports, hindered strategic implementation, export focus, and convergence with the rest of the world.

Furthermore, the study done in September 2009 by Transparency International (TI) and the Sugar Change Campaign (Sucam) shows that sugar firms have been heightenedly owing to producers, Kenya Sugar Commission (KSB) and other Kshs lenders. As of June 2007, 50.175 billion. The sugar producers have therefore had serious problems with cash flow and liquidity. There is no accountability for the sugar industry to collapse. In Kenya, like other foodstuffs, sugar is not tax-exempt and thus attracts a 16 per cent VAT. The sugar millers also have a rate of 4 percent for the sugar development levy. Most inputs from the farm are imported and taxes are levied. Unlike places including Egypt, sugar cane producers unlike Kenya do not received government subsidies as is the custom. This leads to high manufacturing costs, resulting in high domestic sugar prices. Double taxation has been made, which levies tax on inputs used in the production of sugar and excise duties on local sugar, before it is allowed on the market. There are also double tax claims. Dual taxation is the cause of high regional sugar prices (Jabuya 2015). An agricultural ministry tasking force appointed in 2003 to examine industry problems cited poor management, inefficiency, low productivity, sugar markets distortions, inadequate lending facilities and constant droughts and fires (Institute of Economic Affairs ' Public Forum, 2004).

1.2 Statement of Research Problem

Ideally, diversification strategy has been adopted by many state-owned corporations all over the world, Wefwafwa, (2009). The major aim of this is improvement in the organizational performance and also changes in strategic direction. The issue of diversification has assumed a position of centrality and universality in the management process because rapid and often discontinuous change is taking place in the business environment and has a direct impact on the manner in which businesses are managed and even their performance. Whether the corporations achieve their goal through diversification strategy begs for an answer.

The Kenyan sugar industry has been undergoing changes in an effort to diversify their product line and strengthen their revenue base in this current turbulent business environment. Multi-lateral and regional trade treaties, like COMESA, EAC and WTO, have facilitated the importation of sugar into Kenya at minimal or Zero tariffs from producer member states and has had an adverse impact on the marketability of locally produced sugar, which because of its high production cost, attributed with high taxation like VAT, CESS and SDL as indicated by Wanyande, (2001) relative to imported sugar, cannot compete head to head with foreign sugar in the domestic and foreign markets.

However, despite the government's efforts to improve on the manufacturing sector, the sugar industry has failed to realize any significant positive performance. In an effort to bring change and adapt to the new economic landscape many companies have embarked on a series of diversification strategies and this is also in a bid to restore productivity and profitability. These failed to yield meaningful results, has led to some of the company closures and liquidation while some firms have been placed under statutory management, carry out board and management changes, introduced strategies such as realignments among others but still revolving around the same dismal performance of not meeting the stakeholders expectations of prompt payment, profit and wealth maximization, good service delivery and general growth and development (Otieno, 2014).

For instance, according to Muhoroni Sugar Annual Report and Financial Statement, (2018), in the year 2017 and 2018 the company posted losses of six billion shillings and nine billion shillings respectively therefore recording loss per share value to Ksh. 3.11 and Ksh. 4.43 in 2017 and 2018 respectively. It is also under receivership (Muhoroni sugar annual report and financial statement, 2018). Moreover, the sugar sector in Kenya has struggled to achieve meaningful capacity utilization. Although they are a hallmark of corporations that have diversified to other revenue streams such as electricity generation and water bottling, many state-owned sugar firms in Kenya like the Nzoia Sugar Company are having financial difficulties (KSA 2016).

Various research on diversification techniques have been conducted globally, regionally and internationally and have shown mixed results. Several studies have demonstrated convergence on diversification and efficiency approaches, and some have not shown a consensus on them. In contrast, some studies are carried out using methodologies that are distinct from the sugar industry in various economic sectors. Shuguang and Karen (2010) found that a well-diversified company can catalyze the performance of the firms in its study on the effect of diversification on Indonesian production companies. Columbus, A. (2014) alleged that the integration of the related and unrelated diversification could lead to synergies between firms. The productivity of diversified companies was close to the profitability of non-diversified firms in Asman research (2013). Kim et al. (2011) noted that the vertical and horizontal differentiation conglomerate contributes to a firm profit stability, which is essential to the survival of the company. Marangu and Oyagi (2014) found out that the statistically significant positive linear connection between concentrated diversification and market competitiveness exists in a study evaluating the concentrated diversification approach on operational competitiveness of sugar manufacturing companies in Kenya. The reviewed studies present the main motivations for this study: conceptual, methodological, contextual and theoretical gaps. This study therefore aimed at filling the gap and examining the adoption of diversification strategies on the performance of state-owned Sugar firms in Western Region in Kenya and provides more empirical evidence on the effects of diversification strategies on firm performance.

1.3 Objectives

1.3.1 General Objective

The general objective of this study was to examine the effect of diversification strategies on the performance of state- owned sugar firms in Western Region in Kenya

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

i. To establish the reasons for the adoption of diversification strategy by the state-owned sugar firms in Kenya

ii. To find out the effect of horizontal diversification on firm performance of state-owned sugar firms in Kenya.

iii. To determine the effect of concentric diversification on the performance of state owned sugar firms in Kenya.

iv. To establish the effect of conglomerate diversification on the performance of state owned sugar firms in Kenya.

1.4 Research Hypothesis

$H0_1$. There is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya

$H0_2$. There is no significant relationship between adoption of horizontal diversification strategy and sugar firms performance in Kenya.

$H0_3$. There is no significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms.

$H0_4$. There is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms.

1.5 Significance of the study

The results of this study will help sugar companies to reform their operations and to address any challenges ahead. This helps them to reassess their market position in the industry and to find a way to adapt accordingly. In its mission to support and preserve the security, nutrition and dignity of the sugar production sector, policy makers and government agencies would find it helpful. The results of the study would also be invaluable to scientists as they form a basis for further research. This research will be used by students and scholars for discussions on Sugar corporations ' successful diversification approaches as well as the development of new hypotheses in the same sector.

The new research will also allow professionals and corporate managers to incorporate the findings of the study and take future decisions and to understand the fields we have not properly addressed with respect to diversification.

1.6 Scope of the Study

The study was carried out in Western part of Kenya in the five state owned Sugar firms. These sugar firms are Nzoia, Muhoroni, Chemelil, Sony and Miwani. The employees of the sugar manufacturing firms were targeted as the study respondents and specifically strategic managers, ten in every firm, thus yielded 50 respondents.

1.7 Limitations of the study

Interested parties were unable to provide data with believes that the knowledge obtained will be used to bully them or to publish a negative picture of them or the organisation. Many respondents refused the questionnaire queries. Through delivering an explanatory letter from the University the author dealt with the problem and informed them that the data they provided would be handled with confidentiality and would only be used for scientific purposes.

Sugar plants operate in tight schedules; questionnaires may not be complete in time and data collection may be over-extended. The research used the network to convince the client to complete and submit questionnaires, as well as the research assistant used, and also presented participants with a two-week time frame to answer the questions in the questionnaire.

The researcher may encounter problems in eliciting information from the respondents as the information required is subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively. This might lead to lack of response due to the veil of confidentiality surrounding the sugar factories. The researcher however encouraged the respondents to participate without holding back the information they might be having as the research instruments would not bear their names and would be used for academic purposes.

1.8 Conceptual Framework

The conceptual showed the connection between variables. In this study, the independent variable is adoption of diversification strategies whereas the dependent variable is the performance of state owned sugar firms as shown on figure 1.1

Independent Variables **Dependent Variable**

Adoption of Diversification Strategies **Performance of State owned sugar Firms**

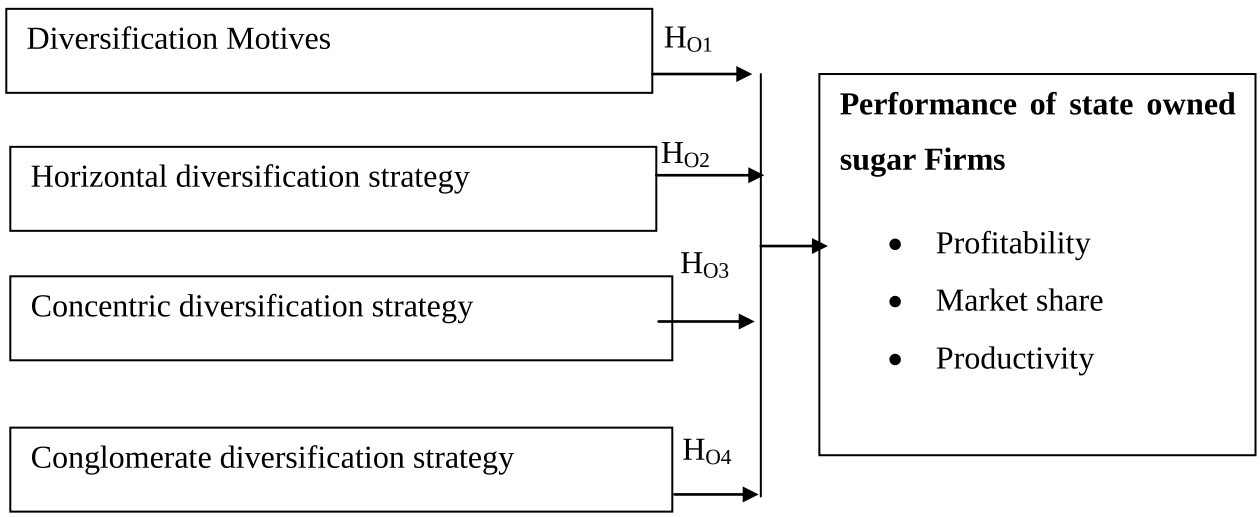

Figure 1. 1: Systematic presentation of Conceptual Framework

Source: Researcher's own conceptualization 2019

As per the above Figure, 1.1, the researcher intends to find out what motivates state owned sugar firms to embrace diversification strategies and then examine the effect that adoption of horizontal, concentric and conglomerate diversification (independent variables) would have on the performance of state owned sugar firms (dependent variable). The study established the effect of horizontal diversification to packaging sugar in branded packages of 5kg, 2kg, 1kg, ½ kg and ¼ kg in contrast to the current packaging in bags of different sizes; the effect of concentric diversification to production of ethanol, manufacture of fertilizer and cogeneration; and the effect of conglomerate diversification to other sectors such as dairy sector and hiring out construction machinery on the performance of state owned sugar firms. The organizational performance of the sugar firms was determined by looking at the effect of the above on market share, profitability and the productivity of the sugar firms as a result of their adoption.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

This section seeks to review critical points of current knowledge including significant outcomes of strategy of diversification and institutional efficiency, conceptual and analytical input. Theoretical studies give conflicting argument about the connection between diversification and quality, just as contrary evidence is found on the empirical level Therefore, it is the logical starting point to comprehend the performance of diversified companies that are responsible for diversification.

2.2 Theoretical Foundation of the study

Diversification strategies may have many possible motives (Jung, 2003; Sambharya, 2000), but the researcher want to discuss the performance related motives within this research field. This is the Market power motive, Resource Based motive, Agency motive, financial motive and synergetic motive.

2.2.1 The Market Power theory

Treacy and Wiersema (1995) suggested the concept of market power. The idea is that business quality can be created by market forces. The winning of competition in the industry from this philosophy viewpoint is a positive effect of a multi-segment strategy (Christingrum, 2015). By reducing competition on the market because of its dominance, diversification strategy can increase market share in the industry, so that diversification will have positive effects on corporate performance. Diversified companies are less competitive than other businesses; they have a conglomerate force to maximize their flexibility (Christingrum, 2015). Unless a company holds large positions in a number of markets, it can not have monopoly control. Industries extending the range to other industries primarily for purposes of rivalry. (Yuliani et al. 2013) outlines three potential market power sources.

Cross-subsidization may allow a corporation to use excess profit from one industry to join another, and thus offer this new enterprise an advantage, reciprocal forbearance, companies may come across on an alternate market for less extreme competitive transactions. Diversification was designed to counter competition, a means of creating market power, on the basis of the market power sense. This strategy seeks primarily to boost cost effectiveness and enhance finances (Yuliani et al. 2013)

2.2.2 The Resource-Based Motive

The Resource Based View Theory was originally coined by Wernerfelt in (1984) and later advanced and expanded by Barney (1991) as a theory of competitive advantage that emphasizes the link between a firm's internal resources, strategy, behavior and performance. The organization is expected to gather sticky assets or capacities, imperfectly emulated, which allow it to compete effectively with other businesses (Barney, 2006). It is a competitive philosophy of how a company can use the resources to achieve its financial goals or a permanent benefit in expertise over its rivals. Therefore, diversification is seen by the study stand as a technique used by a business to use its capital profitablely (Xiaorong, 2007). In order to grow, the organization should specialize and the benefit and benefits gained from good development is underutilized and eventually used to improve diversification. This mechanism is referred to as the vicious cycle, in which specialization contributes to diversification (Lindgren et al. 2005). According to Barney, (2006) a company has to obtain and manage valuable, inimitable and wasteful assets, skills, and the organisation that can consume and deploy them in order to benefit from a sustained competitive advantage. Resources are inputs into the production process and can be categorized into six types: financial resources, physical resources, human resources, technological resources, reputational and organizational resources. The theory of resource view suggests that diversification should yield in greater profits. However, this is only true to a certain extent since transaction costs will eventually raise corporate governance costs and thereby reduce profits.

2.2.3 The Agency Motive

This theory was proposed by Jensen and Meckling(1976). An agency relationship is defined as one in which one or more persons (the principal) engages another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). Diversification from a company point of view has a variety of reasons, which mostly do not favor the manager. This is because the holder and the director are divided where the boss has no shareholdings. This correlates to the inspiration of Sambharya (2000) to diversify and represent the expectations and goals of top management. This theory further assumes that, while investor capital reduces, management sustain a diversification policy, thus gaining from diversification which increases the expense they incurred. It therefore follows, diversification is justified by the private benefits and personal preferences of the managers. Four main reasons for managers to diversify the company are sorted out (Lindgren *et al.* 2005)

Managers are diversifying into industries and services so that competition for their expertise and resources is improved, managers are trying to reduce the threat of their jobs, diversification into various marketplaces or goods, and thus making companies less reliant on their own domains (Montgomery, 1994), managers ' restructuring, leadership, and managers. Based on portfolio theory, an organization should not put its assets into a single basket concept or free cash-flow; the managers invest the excess cash flow on investments instead of charging investors. This is because there are some lucrative reinvestment incentives at the end of the business life cycle, but once the organization becomes grown-up those resources are scarcer and thus the cash flow of past developments is used for opportunistic diversification.

2.2.4 Portfolio Theory

Markowitz's (1952) supported this idea. Markowitz (1952) built on the idea that, by diversifying capital with decreased covarianism, shareholders must construct their portfolios on projected (desirables) returns and (undesirable) variances to optimize former portfolios and mitigate later ones. Markowitz (1952) rejected the idea of shareholders relying on the largest expected return alone because implementation of this criteria may contribute to the assignment of two resources to an investment portfolio with different returns without an evaluation of their contribution to their threat. He also clarified that the portfolio with an optimum expected return is not inherently the least threat, emphasizing that a naive, diverse portfolio not automatically mitigates danger when understanding and taking into account the interaction between resources (stocks). In Markowitz's view (1952), diversification, while causing the uncertainty in investments to be increasing, does not eradicate asset volatility, implying that the threat inherent in an investment portfolio does not stop with diversification. One can argue that the definitions of systemic (non-diversifying) and non-systematics (diversifying) hazard that was subsequently expressly discussed by Sharpe (1964) were indirectly introduced by Markowitz (1952). The model Markowitz (1952) was therefore important because it permitted an intuition to evolve that diversification of the portfolio is essential for minimizing portfolio variances as regards its anticipated productivity (risk) by retaining capital with a reduced degree of correlation (covariance). In his article, Markowitz (1952) explained that combining all assets and all risks allows the portfolios with the greatest level of return for a given amount of risk to be identified out of a set containing all possible portfolios.

This is focused on the fundamentals of portfolio theory, that "pure eggs should not be packed into a bowl." If cash flows from a single business in an organization are not completely associated, diversification may reduce the risk (Thompson & Strickland, 2006). Santalo and Becerra (2008) also point out that when their cash flows are highly volatile, a business should diversify. Some scholars reject the idea that if no organizational synergies were anticipated, an organization should not diversify.

2.2.5 Synergetic Motive

In France, Essen (1971), synergetic theory was established. Synergy exists when the combined total of all firms is more than the number collectively (Hitt et al., 2001). Hoechle et al. (2009) suggest that diversification into related businesses can boost the diversified company's market strength, which can in effect help the company strengthen its strategic long-term role. As businesses diversify, synergies are of great importance. The possible effectiveness of the plan of diversification must suit the various business divisions and their working relationships. The administrators of the different units are granted an opportunity to consider their relations in order to increase the probability of cooperation (Wefwafwa, 2009). Some authors concluded that although shareholders must diversify, companies should not be abused without synergies. Therefore, diversification may be a bad long-term solution if not enough synergies or competitive advantages are gained from various companies in the corporate portfolio (Collins & Montgomery, 2008).

2.3 Diversification Strategy and Organizational Performance

There have been several longitudinal research to understand the correlation between diversification and quality. Onsomu (2013) tried, for instance, to tie diversification to corporate results. He claims that different levels of diversification have differences in performance, arguing that businesses have limited capacity buildings due to the lack of managerial skills and resources. He further claimed that the correlation between diversification and efficiency can shape both linear or non-linear curves, which could have a negative or positive effect on the organisation's results.

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Richard, et al. (2009) emphasized that the diversification approach is a strategy for business development that allows a company to join other business lines that vary from those currently in operations.

In the context of an extensive study in this field, the results of studies aimed at demonstrating the impact of diversification on quality have remained inadequate in spite of the huge quantities of research carried out on diversification-performance relations. Michael (2008) argued, for instance, that more than others dominated diversified corporations in general and associated diversifiers in particular. In comparison, a longitudinal study by the US pharmaceutical industry showed that diversification resulted in lower quality as a consequence of practices of diversification, which diverted resources away from management, including R&D and marketing and thus influenced creativity and brand loyalty.

In order to establish the links between corporate diversification and financial performance, Xiaorong (2007) conducted research in china. The research sought to identify reasons that justify the diversification of businesses. The results showed that organizational diversification initiatives and financial performance are not substantially related. In China, the study showed the conceptual divide which the current study needs to address.

In another report, Mwangi (2015) tried to determine how the financial performance of listed manufacturing companies in Kenya has been impacted by corporate diversification. All 19 manufacturing companies mentioned in NSE were inhabitants of his research. The system of 18 census was used and five years of secondary information (2010-2014) were used. Statistics have been obtained from databases for financial statements. When analyzing the data obtained, the regression method was used. The results show that the financial performance of listed manufacturing companies in Kenya is linked to corporate diversification. A business has a negative impact on the financial performance of reported manufacturing companies, in terms of size and development. The corporate diversification and financial performance of the manufacturing company listed in NSE were found to be low, but medium.

Research by Michael (2008) also shown on the other side that businesses diversified into unrelated fields could produce higher performance compared with those with mainly related companies. Various researchers either find support for various aspects of the quality-diversification partnership or claimed that diversification has a detrimental effect on performance or nothing. The experimental specimens have been selected as one of the main reasons for such mixed results. Michael (2008) has warned against studying a mixed group of companies or using “pooled data” unless tests of sample homogeneity yield positive results. According to Michael (2008), if the possibility can be admitted that the relationship between diversity and performance can be industry- or environment-specific, then pooling of data is a critical issue that needs to be addressed. Michael (2008) has also concluded that industry level models and indiscriminate pooling of data can produce results that are misleading if used at the firm level. Ghazanfar *et al*. (1985) argue that careful industry studies are necessary prerequisites for making sense of complex industries, understanding the relationship between diversification and performance**.**

2.4 Diversification Strategies

Diversification is a part of a company's corporate strategy. This aims to increase the competitiveness of new products and new markets by growing their sales volume. Diversification may happen at the level of both the business unit and the sector segment. It is most likely to expand at business level to a new sector in an area in which the firm is already involved. At the corporate level, joining a new company outside the existing business group is usually quite important.

Collins and Montgomery (2008) stress two main diversification approaches: related and unrelated. When diversification happens with the purchase of similar business alternatives, such diversification is considered related (or concentrated). It coincides with unintended diversification and conglomeration of products or services beyond the current capacities of organizations. Johnson et al. (2006) have outlined the options offered by the linked and separate diversifications. Such diversification happens when the current goods / services are consistent with and complemented with those transferred. The main advantage of such diversification is that it enables the creation of economies of scale. The key drawbacks are the time and cost of running it, as well as the complexities of sharing resources. It is important to get both vertical integration (both backward and forward) and horizontal integration within the broad theory of linked diversification

Vertical backward incorporation relies on changes in input-related activities in the current system of organizations. For starters, stretching backwards to collect the raw material which goes into an operation could be involved (Sudarsanam, 2010). In comparison, the emphasis here is to grow into operations that interact with the inputs of a business. Power is obtained over the networks and sources of the supply. Diversification happens here in Horizontal Integration into tasks related to the delivery of products / services. There is a recognition that in other countries there are prospects that draw on the competitive capabilities of the enterprise. Specific diversification is perceived to be equivalent to irrelevant diversification. The fundamental policy has nothing to do with having exposure to compatible technology, services and customers through different diversification. The main goal is to gain valuable assets to increase profitability.

Horizontal Diversification acquires and develops new goods and provides new services that may target current customer classes of the business (Klein and Lien, 2009). In this situation, the company relies on the existing product lines on marketing and technical partnerships. The processing of milk, for instance, adds a new type of cheese to its products. Alternatively, vertical diversification consists of organizational penetration into more than one market through non-related businesses. The philosophical basis behind horizontal diversification is less clear in terms of vertical integration. There are two partly conflicting hypotheses at play, in general. On the other side, industrial organisation indicates that organizations may gain from synergies by allocating internally generated cash flows through different businesses due to commonalities in technologies and economies of scale (Mohamed, 2005). In addition, through internally diversifying, companies could grow without carrying the burden of contractually charging the transaction costs associated with the creation of synergies. As a consequence, diversification occurs across related industries, while conglomerates often say that expansion through unrelated businesses can provide significant synergies through economies of scale and reach that are not unique to industry (Mashiri & Favourate, 2014).

Concentric diversification is a great strategy including the activities of a second company which profits from exposure to the core competencies of the organization (Pearce and Robinson, 2010). Concentric diversification is where an organization can diversify into a business related to it. Compared to the dangerous complexity of diversification, due to the reduced compatibility with contradictions and loss of focus in the current and acquired sector, diversification approaches that minimize this threat and contribute to highly compatible acquisitions are attractive (Klein, & Lien, 2009). A variety of aspects of effective focused diversification strategies include the following themes: presence of a strong core sector; diversification into near-core business adjacencies; and exploiting core business expertise. Concentric diversification contributes to a highly compatible purchase of a new business similar to the buying company in terms of its core asset software, industries, networks of sales, assets and goods. Growth achieved was based on existing strengths and weaknesses and the company's diversified earnings from enhanced strengths and diminished weaknesses resulting in synergies.

Wakwoma, (2007) concludes that most diversification approaches fail to deliver profitability and that most successful companies achieve their development by growing through rational adjacencies that have common economies, not from arbitrary diversification or going to "cold" markets. According to Wakwoma, (2007), many businesses fail to achieve sustainable successful growth as they diversify from their core business incorrectly. Organizations must first recognize their "key assets" in order to succeed –aligned with focused diversification. Companies should, for instance, recognize their clients, resources, goods, networks of distribution, and other strategic assets such as trademarks, labels, and location. Within their core business, they will reach their full capacity and then grow into logically neighboring core businesses. Wakwoma, (2007), further suggests that when embarking on diversification approaches, executives need to understand not only what their business is doing, but also what it is doing differently than its rivals, that is, what is their competitive advantage? Such companies must first focus on identifying their true strengths and competitive resources in order to achieve successful integrated diversification, expanding their strategic positions and achieving the full potential of the core business. Mwau (2005), this will guarantee that[their existing] competitive advantage is not "undermined." Tran & Santaralli, (2012) argues that businesses need to expand their existing resources to all sectors where they can add for competitive advantage. Therefore, businesses must not lose sight of their current competitive advantage and use it in their growth plans, by diversifying concentratively.

Conglomerate Diversification Strategy is when a company adopts a strategy demanding that one or more of its companies be defined in terms of their respective client segments, product roles and alternate technology (Manu, 2015). Also lateral diversification approach, as in the case of horizontal diversification, emphasizes goods that are not connected to the existing product range. However, the only exception in this situation is that instead of sticking to its current loyal customers, the business seeks a new segment of consumers. The business is selling innovative products or services that do not have technical or economic synergies with current products, but that may attract new user segments. The diversification of the company has very little to do with the existing business of the organization (Fisman & Khanna, 2004). The main reasons for implementing such a policy are therefore first to boost the company's efficiency and stability, and then to get a better reception on capital markets as the company grows larger. Although this approach is very costly, it could also provide increased growth and profitability if it is effective.

2.5 Empirical Literature Review

This section reviews what others have studied on diversification strategies firm and performance and clearly showing the findings from such studies;

2.5.1 Horizontal Diversification Strategy and Firm Performance

Doaei, Anuar, and Ismail (2014) conducted research on corporate diversification and financial performance exploring the connection between consumer diversification and global manufacturing diversification in Malaysia. The study's range included 102 for the

2006-2010 period. The study variables included Return on Assets (ROA) combined with various forms of diversification including: total product diversification (TPD), related product diversification (RPD), unrelated product diversification (UPD), and international diversification (ID). The results indicated no significant relationship existed between diversification. There exists a contextual and conceptual gaps since the study focused on manufacturing firms in Malaysia while the current study was conducted in Kenya.

Boz, Yigit and Anil (2013) tried to engage with the company's diversification and business performance in Belgium and Turkey and the degree of diversification formed had different repercussions on the financial performance of companies. Compared to the 2007-2011 span with a total of 114 Belgian business groups and 118 Turkey business groups. The results showed that high performance was reported by diversified firms relative to undiversified firms.

Njuguna (2019) conducted a study on the effect of diversification approaches on the quality of non-financial firms listed on the Nairobi Stock Exchange in Kenya. The development of the descriptive correlation survey showed that the goods diversification, geographical diversification, vertical integration, horizontal integration and quality of listed non-financial firms in Kenya is significantly beneficial. Regression analysis found that a combined use of diversification techniques contributed for 56.3 percent of improvements in the company's performance. In this report, diversification approaches are found to be important techniques for businesses to use to increase their level of profit.

Rakki (2016) study on the effects of diversification strategy on the performance of Kenyan Commercial state-owned corporations. It critically looks at whether or not these corporations use diversification strategy and then goes ahead to examine the relationship between diversification strategy and performance of the same corporations. A cross-sectional survey study was conducted on 14 Kenyan commercial state-owned corporations and revealed that different types of diversification strategies have a positive relationship with performance in the Kenyan commercial state-owned corporations.

Onsomu (2013) studies the impacts on the quality of an organization on diversification approaches, with respect to KTDA management agency. He concluded that quality differences exist at different levels of diversification and highlighted the fact that companies lack management skills and resources to build large market potential. He concluded that the interaction between diversification and efficiency can shape linear or non-linear curves, which implies that the diversification approach can have a positive or negative effect on organizational results.

Wefwafwa (2009) also found that diversification helps companies to expand and diversify creatively through moving the company away from the current markets and commodities with the overall aim of growing the variety that must be managed by the organisation, through a study of consumer diversification approaches implemented by Nzoia Sugar Company Ltd. Diversity has become the main driver for the business in all of its ramifications. Muchiri (2009) stated that diversification requires both input and output analysis and promotes convergence by heading into new areas and creating new interconnections through the practical process of working on new services and markets.

Wanyonyi (2018) conducted research on the financial performance impact of NSE-listed farming enterprises on asset diversification. Descriptive experimental models were used in the analysis. There were seven listed farm companies in the NSE study population. Due to the small number of farms in the NSE, the analysis used a survey method. For a span of seven years (2011-2017), secondary panel information was used. The analysis found a positive correlation with financial performance with horizontal diversification, consolidated diversification, corporation diversification and vertical diversification. The study indicated that businesses should look for better methods of minimizing the risk of doing business or doing trade. A business does not focus on a small number of products, locations and industries to remain competitive and succeed in a diverse economic environment by diversification.

2.5.2 Concentric diversification strategy and Firm Performance

Okuom (2013) carried out a study to determine whether or not Sony Sugar diversification processes have been successful. All primary and secondary information are gathered. The main data was obtained from the updated annual budgets of Sony Sugar, and the secondary data was gathered. The study showed that Sony Sugar's diversification policy had strengthened Sony Sugar's efficiency and reduced its operating costs. The study established that the diversification strategy had increased the profits and revenue of the company by 30%.The study is similar to the current study though there is a conceptual and methodological gaps since the study covered only Sony Sugar Company while the current study considered all the sugar manufacturing firms in western Kenya using descriptive research design.

Makumbi (2012) carried out a study to determine variables in HACO Industries that affect diversification strategies. To achieve this goal, a case study analysis model was used. The key data was gathered via a guide to the interview. Secondary material was also used from catalogs and other articles. This data was evaluated using a content analysis tool. The study found that HACO Industries has established diversification approaches through the market environment, collaborations, agreements and joint ventures. The leadership led by its chairperson has also played an integral part in determining the diversification strategies. The study revealed that the firm's investment in information systems, sales distribution, marketing and talent development have also shaped diversification strategies. The study indicates conceptual and contextual gaps as it focused on HACO industries while the current study focused on sugar manufacturing firms.

Ndege (2017) did a study on effects of concentric diversification strategies on growth of cosmetic firms in Nakuru County, Kenya. The objectives were Product and market diversification where descriptive research design was adopted with a target population of 210 cosmetic firm owners and found out that significant relationships between product diversification, market diversification and growth of cosmetic firms. The study concluded that related diversification increases growth of cosmetic firms, offering unique products enhances competitive advantage, diversifying into new lines gains new market share, cosmetic firms are always adopting new diversification strategies.

Marangu (2014) analysed concentric diversification strategy on Organization Competitiveness, a Case of sugar firms in Kenya**.** The study adopted descriptive correlational survey design and found out that concentric strategies had overall significance impact on competitiveness. The results also show that at individual level, there was a statistically significant positive linear relationship between concentric diversification and firm competitiveness. The study found out that concentric diversification had positive effect on sugar firms' competitiveness in that 54.8 percent of the sugar firm competitiveness can be explained by concentric diversification

A study conducted by Hitt, Hoskisson and Kim (2011) on effects on innovation and firm performance in product-diversified firms in Malaysia found out that firms that have diversified into products that use the existing internal resources or capabilities benefits from economies of scale and earn higher returns. The payoff created by diversification may be magnified when multi-national corporations capitalize on economic rents derived from product and market diversity. They also gain from various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction and complementary synergies.

A study by Tanriverdi & Venkatraman (2005) on Knowledge relatedness and the performance of Multi business firms in Japan found that concentric product diversification leads to achievement of superior performance. Related diversification lead to achievement of superior performance than unrelated diversification and product diversification dynamics of the Japanese economy showed that profitability was generally lower in industries in which companies highly diversify in unrelated fields. Investment in portfolio structures related to existing business lines earned profits for a company portfolio structures related to existing business lines earned profits for a company. There studies did not provide the factors of concentric product diversification that affect firm performance.

2.5.3 Conglomerate diversification strategy and Firm Performance

Kering (2015) conducted a study to establish the influence of diversification strategies on the competitiveness of Safaricom (K) Limited. The research used a case study approach to give an in-depth understanding of the diversification as a competitive strategy by Safaricom Company Limited in Kenya. Primary data was collected using an interview guide and data collected was analyzed using content analysis. The study established diversification had been a key factor in the success of Safaricom and that the innovative culture within the organization had highly contributed to the success of the diversification strategy. The study also established that through diversification, the company has been able to increase its revenue streams and hence increased profitability. This study concluded that one of the contributing factors to the success had been diversification. This study indicated conceptual gap as it was based on Safaricom Limited while the current study was based on the performance of sugar manufacturing firms.

Mwanzi (2016) conducted a study with the objective of finding out whether highly diversified firms performed better than the less diversified firms. A questionnaire was used to collect primary data from the insurance firms. The findings of the study revealed that when the firms were classified on the basis of product diversification, the firms with medium diversity performed better than either the low or high diversity firms. When the firms were categorized on the basis of geographical diversification the firms that were highly diversified performed better than the two other groups the findings may help to explain the weak but suggestive relationship found between the extent of diversification and performance, as measured by Return on Assets (ROA). This implies that performance is responsive to diversification. The study was conducted for all the companies in the economy, and it was not for a specific company hence indicating conceptual and contextual gaps with the current study which focused on the sugar manufacturing firms in western Kenya.

A research by Kumar (2008) on growth, acquisition, and investment: an analysis of the growth of industrial firms and their overseas activities, found that conglomerate diversification strategy if successful, provided increased growth and profitability. The conglomerate expansion has little relationship with the firm’s current business. Therefore, the main reasons of adopting such a strategy were first to improve the profitability and the flexibility of the company, and second to get a better reception in capital markets as the company got bigger. Even if this strategy is very risky, it could also, if successful, provide increased growth and profitability.

Maina (2016) did a study on product diversification strategies as a determinant of performance of Real estate companies in Nairobi City County in Kenya. The study used Balance scorecard model to inform the study where explanatory research design was used and found out that some concentric and conglomerate diversifications were found to be significantly correlated with firm performance. Concentric product diversification positively affects firm performance although not statistically significant, Conglomerate product diversification significantly affects firm performance, and horizontal product diversification has no significant effect on firm performance while Vertical product diversification has significant effect on firm performance.

Picone and Giovanni (2015) conducted a study on conglomerate diversification strategy and corporate performance in Catania and found out that conglomerate diversification may impact on corporate performance by considering the strategic role of managerial leadership within corporate diversification processes. Moreover, conglomerate diversification strategy does not lead to superior economic effectiveness vis-à-vis related diversification.

2.6 Organizational Performance

Performance in an organization context refers to the quality of process or end product with both quantity or quality considerations, (Isoe, *et.al*, 2013), while Richard, *et al.* (2009) defined organizational performance as the actual output or results of an organization as measured against its intended outputs or goals and objectives. Organizational performance has been one of the most extensively researched issues since the early development of organizational theory. Under the profit maximization hypothesis, it can be assumed that a corporation undertakes diversification strategy with the expectation that it will lead to improved performance. The performance of the corporation is measured in terms of profits taken gross of interest, depreciation and taxes. According to Clawson, (2012) diversifying in to new products and service lines can provide an effective path to fast growth, as firms sell more products to existing customers or establish new markets. Wakwoma, (2007) indicated that organizations spend their resources to diversify with the main aim of improving their organizational performance.

According to Richard et al. (2009) organizational performance encompasses three specific areas: (a) financial performance (b) product market performance and (c) shareholder return.

In line with this situation, organizations have been grappling with ideas and efforts on how to remain relevant and competitive in this turbulent environment. A number of them have ventured into diversification as a strategy for survival in the name of meeting the above mentioned performance indicators, (Maithulia, 2005).

2.6.1 Profitability

Diversification is one significant method firms use to maintain their competitiveness and enhance their profitability. This they do in order to achieve value creation through economic of scope, financial economies, or market power, (Chen & Yu, 2012).

Empirically, the impact of diversification on firm profitability is mixed (Mwau, 2005). Some studies claim diversifying into related product markets produces higher returns than into unrelated markets, others propose that less diversified firms perform better than highly diversified firms (Michael, 2006),. Some claim that the economies in integrating operations and core skills obtained in related diversification outweigh the costs of internal capital markets and smaller variances in sales generated by unrelated diversification While Michael (2006), claim that it is not product-market diversity but the strategic logic applied by managers that determines the effect of diversification on profitability, Montgomery (1985) argues that it is not management conduct, but industry structure that governs firm profitability.

2.6.2 Market share

Market share can be defined as the percentage of a market accounted for by a specific entity and it is an advantageous way of measuring business competitiveness since it is less dependent upon macro environmental variables such as the state of the economy or changes in tax policy, (Marangu, *et.al* ,2014). According to Marangu, *et.al*, (2014), firms with higher market share are stronger than those with lower market share. Firms diversify as long as they see the opportunity to consolidate their market power, which predicts a linearly positive relationship between diversification and profitability. Diversification strategies undertaken by growth-oriented managers may both well exploit scope economies and at the same time increase firms' market power. An efficient way to increase firms' market power is the multimarket contact hypothesis (Michael, 2006), following which firms meeting in several markets have a greater incentive to network with each other in order to sustain collective power. By diversifying in a similar way (in order to exploit cost synergies), a group of firms might create and consolidate a situation of multimarket contacts where collusive practices are more likely to emerge. With respect to the effects, good performance outcomes for diversified firms are consistent with both market power, i.e. firms meeting in several markets co-ordinate to increase their bargaining power on setting higher prices, and efficiency reasons, i.e. firms diversify to exploit positive cost externalities

2.6.3 Productivity

As stated, a rich body of researched topics in the strategy literature is the relationship between firm productivity and diversification (Doving & Gooderham, 2008). There still remains some argument about the diversification and productivity relationship. However, some researchers believe that the relationship between diversification and productivity is moderated by the type of diversification being pursued (Doving & Gooderham, 2008). In particular, related and unrelated diversification both have an impact on firm productivity, although in opposite directions. The commonly accepted rule of thumb is that related diversification is associated with higher levels of productivity, while unrelated diversification tends to result in lower productivity. The main determinant of the productivity of a sugar firm is the ratio of total sugar cane crushed to total sugar made (TC/TS ratio). This shows the MT of cane crushed to yield one MT of sugar. (Jabuya, 2015). According to Chisanga, *et.al*, (2014), the ratio also captures the efficiency of the sugar firms in terms of sugar they are able to extract from delivered cane although the latter is also affected by the quality of the cane delivered. It is expected that sugar firms which are relatively more productive will have a lower ratio as they are able to convert more of the cane they receive into sugar. The productivity of these sugar firms has been declining for several years due to ageing machinery, low reinvestment in new technologies, frequent mill breakdowns and poor maintenance programmes especially at older mills. (Chisanga, *et.al*, 2014)

2.7 Summary and Research gap

Sustaining business growth is one of the key challenges to the business leader. Diversification is one of a few answers to this problem. There are many reasons why companies implement diversification as a strategy. Most companies implement diversification to enhance overall corporate strategic competitiveness and performance. If this is achieved, firm total value will increase (Yuliani *et al.*, 2013). These reasons are summarized as the motive increasing economic value that includes the scope, financial strength and market economy; value-neutral motive consisting of tax incentives, anti-trust regulation, future cash flow, reduction of corporate risk and devaluation, managerial job risk diversification and improved managerial competencies. Researchers, however, claim that most companies struggle to diversify profitably. (Michael, 2008), points out that 90 percent of companies' efforts to diversify outside of their core business have failed over the past decade. His research shows that diversification around the core business (concentric diversification) has a higher success rate than other approaches to diversification.

Michael (2008), observes companies erode their competitive advantage through poor diversification strategies. Thus, diversification often results in the decay of the very competitive advantage that made the business successful in the first place. It would seem reasonable to expect that, if a firm was able to maintain or manage its competitive advantage while diversifying, it would result in successful diversification. Several studies related to the implementation of diversification strategy and its effect on firm performance (Galvan et al., 2007) lead to the conclusion that the higher the level of diversification of the company through increasing the number of segments especially those unrelated, after having increased performance due to the implementation of this strategy, at a certain point will decrease in value creation. This is due to the increased internal transaction costs and reduced control in the highly-diverse business operations. These findings indicate that the selection of diversification strategy can have a positive effect on firm performance only at a certain point in time. If diversification continues to be developed by extending the segment, at some point the benefits will be reduced and tend to create discount effect on the performance of the company, so the relationship becomes quadratic (curvilinear) (Christingrum, 2015).

Recent studies have shown that diversification effects on performance remain inconclusive (Michael, 2008). Most of the study conducted establishing the relationship between diversification strategies and organization performance has been conducted on developed world, using different concepts and methodology. The studies were also guided by different theories. This study sought to fill the existing research gap between developed and developing economies by conducting a study to investigate the effects of diversification strategies on organization performance in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at: Research design, the population of the study, Sampling techniques and sample, data collection procedures, data collection tools, pilot study, data analysis and Presentation and ethical considerations.

3.2 Research Design

Descriptive survey was used. Descriptive survey study design is concerned with describing the characteristics of a particular individual, or of a group. Descriptive survey research is therefore concerned with specific predictions, with narration of facts and characteristics concerned with individuals, group or situations. The advantage of the design is that it allows flexibility in data collection and also makes use of open ended and closed ended questions which allows the respondent to give extra information freely. It is also appropriate because respondents cannot be manipulated. According to Kothari (2005) survey research design allows fact finding enquiries of different kinds, in this case information regarding diversification. In descriptive survey the researcher is able to define clearly, what he/she wants to measure and must find adequate measures of finding it along with a clear cut definition of "population" he wants to study.

3.3 Population of the study

Target population as defined by Frederic (2010), is a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The population of the study included all Kenyan state-owned sugar firms which in this case are commercial and then the employees of these sugar firms specifically the functional heads and top level managers. The sugar firms are, Nzoia, Muhoroni, Chemelil, Sony and Miwani.

3.4 Sampling techniques and sample

The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2008). It is a physical representation of the target population and comprises all the units that are potential members of a sample (Kothari, 2005). In Kenya we have about 146 state-owned corporations that have been listed. These corporations are mixed; some of them are commercial while others are not. For the purpose of this research, out of the 146 state corporations purposive sampling method was used to select 5 Kenyan state-owned sugar firms found in western Kenya region, these are; Nzoia sugar, Sony sugar, Chemelil sugar, Muhoroni and Miwani those were considered commercial in their operations. This method ensured that the researcher got the relevant sample that gave data relevant to this study. Afterwards the researcher sampled using purposive sampling approach to select the heads of departments working in the state owned sugar firms, 10 in every sugar firm. This yielded a total of 50 respondents.

3.5 Data collection procedures

In research, data collection refers to gathering specific information aimed at proving or refuting some facts, (Kombo & Tromp, 2006). The researcher personally administered the research instrument after prior visit that assisted in refining, timing and distribution of questionnaires. The researcher agreed with the respondents when the research instrument would be administered and specific date of collecting the questionnaire after all the respondents have had a humble time to make a response. A letter of research for facilitation was also obtained from the University and used as a cover letter to secure permission to carry out the research from respondents' the researcher distributed the data collection tools randomly to within the sampled departments.

The questionnaire provided a major source of primary data that was used in the study. It was used to collect data from the 50 sampled strategic managers of the targeted sugar firms. It was developed on a five point likert scale that measured from strongly agree as response 1 to strongly disagree as response 5, (Sekaran, 2003). The researcher administered the questionnaire to the ten employees of the 5 selected sugar firms. The merits of a questionnaire are that it generates a considerable amount of information that can allow a researcher to obtain a wider coverage of description data at a relatively low cost in terms of time, money and effort.

3.7 Validity and Reliability

Pilot study was carried out to enhance validity and reliability of the research instrument. The instrument was tested with non-state owned milk processing firm with a population of 3 functional managers so that it could be corrected and enhanced. This commercial milk processing firm was New Kenya Cooperative Creameries. The responses given by employees in this other state owned firms was compared to those from the 5 firms owned by the state to establish the validity and reliability of the instruments. According to

Mugenda and Mugenda, (2003), the accuracy of data to be collected largely depended on the data collection instruments in terms of validity and reliability.

3.7.1 Validity

Validity of an instrument or scale is the success of a scale in measuring what it sets out to measure, so that differences in individual score can be taken as representing true differences on the characteristics under study. (Kothari, 2005). Validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity therefore, has to do with how accurately the data obtained in the study represents the variables of the study. If such data is a true reflection of the variables, then the differences based on such data will be accurate and meaningful.

The instrument would be rated in terms of how effectively it samples significant aspects of the purpose of the study. The content validity of the instrument was determined in two ways. The researcher discussed the items in the instrument with the managers from the department and supervisors. These people were expected to indicate by a tick for every item in the questionnaire if it measured what is supposed to measure or not. The advice included suggestions, clarifications and other inputs which were used in making necessary changes.

3.7.2 Reliability

Reliability is a measure of the degree to which a research instrument yield results after repeated trials. Reece, (1980) defined reliability as a quality attributed to propositions or measures of the degree to which they produce consistent results. An attitude scale is considered reliable for example, to the degree to which the same respondents or very similar respondents receive the same or very similar score upon repeated testing. Kothari (2005) postulates that reliability has to do with consistency, practicability and accuracy. Reliability estimate of the instrument was measured using Cronbach alpha of internal consistency. The coefficient of consistency was put at a scale of 0.70, this value or above is considered reasonably high for research purpose (Kothari 2005). The Cronbachs Coefficient alpha of 0.70 and above of research instruments is reliable and therefore the researcher adopted the research instruments as it was above 0.7. Twenty one questionnaires were sent and twenty were returned. The data gathered was subjected to cronbach's alpha coefficient of reliability. According to Zinbarg (2005), cronbach's alpha is a coefficient of reliability that gives an unbiased estimate of data generalizability. A commonly accepted rule of thumb for describing internal consistency is 0.7 (Ritter, N. 2010). The data was then analyzed and the results were correlated to determine their reliability coefficients. All variables combined had a reliability coefficient of 0.833. The dependent and independent variables were found to be more reliable with alpha coefficients of more than 0.70, which is acceptable in the non-clinical research work.

Table 3. 1: Reliability Statistics

Cronbach Alpha Value	**Number of items**
0.833	**20**

Source; Research study 2017

3.8 Data analysis and Presentation

The raw data collected was systematically organized in a manner that would facilitate analysis. Both qualitative and quantitative approaches were used to collect data. The data collected in the questionnaire was coded then descriptive and inferential statistics used to describe and summarize the data. Percentages, frequency and distribution tables were used to meaningfully describe the distribution scores and perception of issues raised in the research. Multiple regression was then used to estimate the effects of independent variables on the dependent variable.

3.9 Ethical considerations

All ethical standards of research were upheld. The research followed the following guidelines:

The respondents' privacy was fully represented. The personal name of the respondents was not included in the questionnaires to enhance more privacy and to protect the rights of the respondents. The researcher did not use intimidating language or force respondents to give responses when collecting data from the respondents during interviews.

The researcher also protected the integrity of other researchers, that is, the researcher acknowledged the work of other researchers, all sources of information cited and no plagiarism was practiced.

Finally, the researcher maintained honesty that is, fairness and objectivity was practiced, the findings and interpretation presented the way the respondents gave data; there was no altering of data or biasness.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter gives the analysis of data, presentation and interpretation of findings of this study on diversification strategies and the performance of state owned sugar firms in Western region in Kenya.

4.2 Response rate

At the time of sending out questionnaires, Miwani sugar factory was not in operation and hence no response was realized. A total of 40 structured questionnaires were distributed to the four sugar factories. The study collected data from 33 respondents which constituted a response rate of 82.5%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. In this regard, a response rate of 82.5% was adequate for the purpose of this study.

4.3 Descriptive Statistics

This section presents descriptive statistics which included:

4.3.1 Findings of the diversification strategies and the performance of state owned sugar firms in western region in Kenya

The general objective of this study was to examine the effect of diversification strategies on the performance of state owned sugar firms in Western Region in Kenya. The mean which is a measure of central tendency was used to examine the responses of the respondents on sugar firms' performance. A mean of closer to five was considered high.

4.3.1.1 Diversification and Firm performance

From the finding as shown by table 4.1, the respondents highly agreed that diversification had helped the firm maximize profits (mean 4.39). They also agreed that because of diversification, market share held by the firm was significant (mean 4.27). Further the respondents indicated that diversification improved firm productivity (mean 4.09). They further confirmed that diversification was a wise strategy adopted by the firm (mean 4.45). Finally, respondents highly recommend other firms to adopt diversification strategy in order to improve their performance (4.52). The results concur with Clawson (2012) that diversifying in to new products and service lines can provide an effective path to fast growth, as firms sell more products to existing customers or establish new markets.

Table 4. 1: Diversification and Firm performance

Diversification and Firm performance	N	Mean	Std. Deviation
Diversification maximizes profitability of a firm	33	4.39	0.788
Diversification increases market share of a firm	33	4.27	0.839
Diversification improves productivity of a firm	33	4.09	0.980
Diversification is a wise strategy to adopt	33	4.45	0.905
I advise other firms to adopt diversification	33	4.52	0.870

Source: Field Research 2018

4.3.2 Diversification Reasons

From the findings as shown by Table 4.2, the respondents agreed that diversification were necessary to enable the firm to compete in COMESA after safe guards are removed (mean 4.42). They further indicated that diversification will enable the firm to increase revenues earned (mean 4.70). Most respondents agreed that diversification helped a firm to maximize its profits (mean 4.55), and improve its financial efficiency as indicated by returns on assets, equity and sales (mean 4.39). The respondents further indicated that diversification ensured steady cash flows (mean 4.39), and spread a firm's financial risks (mean 4.39). Respondents agreed that diversification made it possible to handle many activities thus improved their management skills (4.06).

Montgomery (1994) distinguishes three motivations for diversification: the search for market power; the solution to agency problems; and the application of bundles of resources to attain a competitive advantage (resource-based view). Focusing on the determinants of the distribution of the firm's activities over industries beside its primary focus on vertical integration, transaction cost economics suggests that diversification is an alternative contractual method by which a firm can exploit its surplus resources (Silverman, 1999). By the same token, Grossmann (2007) submits that diversification may be a mean to extend the boundaries of a firm in the presence of internal coordination problems, which naturally arise in large firms. Multiproduct firms can increase their market power by cross subsidization activities, i.e. market strength in one particular industry may be used to sustain low price strategies in other markets. Similarly, Teece et al. (1994), Christensen and Foss (1997), Foss and Christensen (2001) agree that diversified firms can create positive spillovers since the value of resources in one industry increases due to investment in another industry. Finally, the internal capital markets hypothesis indicates that diversified firms arise when financial market imperfections force managers to allocate funds more efficiently than the external capital market (Klein and Lien, 2009).

Table 4. 2: Diversification Reasons

Motives	N	Mean	Std. Deviation
To compete in COMESA after safe guards are removed	33	4.42	0.751
To increases revenues of a firm	33	4.70	0.467
To maximize profits	33	4.55	0.564
To improve financial efficiency (Returns on Assets, Returns on equity, Returns on sales)	33	4.39	0.609
To ensures cash flow stability	33	4.39	0.609
To spreads financial risk	33	4.39	0.659
To maximize managers skills	33	4.06	0.864

Source: Field Research 2018

4.3.3 Horizontal diversification strategy

From the findings shown by table 4.3, respondents greatly agreed that by selling sugar in packages of 5, 2, 1, 1/2 and ¼ kgs had a positive effect on the profitability of the firm (4.27). They further highly agreed that by selling sugar in packages of 5, 2, 1, 1/2 and ¼ kgs had a positive effect on the market share of the firm (4.24). They however indicated that by selling sugar in packages of 5, 2, 1, 1/2 and ¼ kgs had slightly effect on productivity (3.79).

East African Breweries Limited made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. It also changed the basic products by adding new features (Njau, 2000). The University of Nairobi responded to environmental changes by introducing new programs based on the needs of the stakeholders, ensuring staff had performance skills and conducting review exercises. Diversification involves developing new products for new markets. Diversification makes sense when good opportunities can be found outside the present business circuit. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the firm has the mix of business strengths to succeed. Diversification involves developing new products for new markets. Diversification makes sense when good opportunities can be found outside the present business circuit. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the firm has the mix of business strengths to succeed.

Table 4. 3: Horizontal diversification strategy

Horizontal	N	Mean	Std. Deviation
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the profitability of the firm	33	4.27	0.674
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the market share of the firm	33	4.24	0.792
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the productivity of the firm	33	3.79	0.992

Source: Field Research 2018

4.3.4. Concentric diversification strategy

From the findings in table 4.4, respondents to a great extent indicated that cogeneration had a positive effect on profitability of the firm (mean 4.42). They further indicated that cogeneration had a slightly positive effect on the market share of the firm (3.88). They also greatly agreed that cogeneration had positive effect on productivity of the firm (4.27). They agreed that ethanol production had positive effect on profitability of the firm (4.39).

They also indicated that ethanol production had improved the market share of the firm (mean 4.09). It was further indicated that ethanol production had positive effect on productivity of the firm (mean 4.42). The respondents indicated that mineral water production had a moderate positive effect on profitability of the firm (mean 3.67). They also indicated that mineral water production had a moderate effect on the market share of the firm (mean 3.70). And finally they indicated that mineral water production had a moderate effect on productivity of the firm (mean 3.60). The results concur with Tran & Santaralli (2012) suggesting that companies must leverage their existing resources into all the markets in which those resources may contribute to competitive advantage. Therefore, in diversifying concentrically, firms must not lose sight of their existing competitive advantage and leveraging it in their expansion programmes. Chang and Wang (2007) investigated the effect of product diversification strategies on the relationship between international diversification and firm performance.

The findings indicated that the number of M&A and strategic alliances are positively related to the performance. Similarly, Qiu (2010) found that a large number of cross-border strategic alliances are marketing and distribution alliances that reduce distribution costs for the allied companies. Cross-border mergers and acquisitions are often found to be motivated by taking advantages of each other's distribution networks. Ortiz-de-Urbina-Criado et al. (2014) found that external growth has strong effect on organizational performance when the involved parties seek to diversify their businesses.

Table 4. 4: Concentric diversification strategy

Concentric	N	Mean	Std. Deviation
Cogeneration has a positive effect on profitability of the firm.	33	4.42	0.663
Cogeneration has a positive effect on the market share of the firm.	33	3.88	0.893
Cogeneration has a positive effect on productivity of the firm.	33	4.27	0.761
Ethanol production has a positive effect on profitability of the firm.	33	4.39	0.704
Ethanol production has a positive effect on the market share of the firm.	33	4.09	0.843
Ethanol production has a positive effect on productivity of the firm.	33	4.42	0.614
Mineral water production has a positive effect on profitability of the firm.	33	3.67	1.021
Mineral water production has a positive effect on the market share of the firm.	33	3.70	0.918
Mineral water production has a positive effect on productivity of the firm.	33	3.61	1.059

Source: Field Research 2018

4.3.5. Conglomerate diversification strategy

From the findings in table 4.5, the respondents agreed that engaging in dairy farming had slightly effect on the profitability the firm (3.67). That engaging in dairy farming has a moderate effect on the market share the firm (3.82). They also indicated that engaging in dairy farming had moderate influence on the productivity the firm (mean 3.64). They also felt that hiring out of construction machines slightly improved the profitability of the firm (3.67). Respondents indicated that hiring out of construction machines slightly improved the market share of the firm (3.36).

Product diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification – even though the nature of this relationship still remains largely unresolved (Park, 2002). Early studies have argued that product diversification was valuable: from a conceptual perspective, increasing levels of product diversification should have a positive influence on performance due to economies of scope and scale, market power effects, risk reduction effects, and learning effects (Christensen and Montgomery, 1981).

In contrast, more research has found that conglomerate firms have significantly lower profitability (Varadarajan and Ramanujam, 1987; Davis et al. 1992). The wide belief that product diversification is inefficient is also partly attributed to its contradiction to one of the oldest economic theorems that argues that specialization is productive (Matsusaka, 2001). It has also been shown that highly diversified firms have less market power in their respective markets than more focused firms (Montgomery, 1985). Product diversification has been found to be negatively related to firm value (Lang and Stulz, 1994; Servaes, 1996) and to occur in firms with less managerial and shareholder equity ownership (Denis et al., 1997).As far as unrelated product diversification is concerned, previous research found a correlation between failures of diversification and failure to establish relatedness among various business lines at the corporate level (Narasimhan and Kim, 2002).

Table 4. 5: Conglomerate diversification strategy

Conglomerate	N	Mean	Std. Deviation
Engaging in dairy farming will have positive effect on the profitability of your firm	33	3.67	1.051
Engaging in dairy farming will have positive effect on the market share of your firm	33	3.82	0.769
Engaging in dairy farming will have positive effect on the productivity of your firm	33	3.64	0.994
Hiring out of construction machines will improve the profitability of the firm	33	3.67	0.890
Hiring out of construction machines will improve the market share of the firm	33	3.36	1.025

Source: Field Research 2018

4.4 Inferential statistics

Inferential statistics were used to determine the relationships between diversification motives, concentric diversification strategy, horizontal diversification strategy conglomerate diversification strategy and performance of sugar firms. This comprised of correlation analysis, simple and multiple regressions. Correlation analysis by means of Pearson Product Moment Correlation Coefficient technique was used to determine nature and magnitude of the relationships R between diversification strategies and performance.

4.4.1 Correlation and Regression Analysis

4.4.1.1 Diversification reasons and performance of state owned sugar firms

The Pearson correlation analysis was used to investigate the relationship between diversification motives and the performance of state owned sugar firms. The objective tested the first hypothesis of the study which is there is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya. The results in Table 4.6 indicated there is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya, positive and statistically not significant ($R = .032$, $p>.858$) with 99.0% confidence level. The study accepts the first null hypotheses since the significance level is more than 0.05 and confirm there is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya.

Table 4. 6: Diversification reasons correlations

		Y	X1
Y	Pearson Correlation	1	.032
	Sig. (2-tailed)		.858
	N	33	33
X1	Pearson Correlation	.032	1
	Sig. (2-tailed)	.858	
	N	33	33

Source: Field Research 2018

The study used simple regression analysis to establish the effect of diversification reasons on performance of state owned firms. The findings were as summarized in Table 4.7

Table 4. 7: Model Summary of Diversification motives on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Significance
1	.032[a]	.001	.001	1.3491	0.858

a. Predictors: (Constant), Diversification reasons

b. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

From the results, the R coefficient was 0.032 while R square was 0.001 at p=0.858. That meant the relationship between diversification reasons and performance was insignificant. From the results in Table 4.8, the student t test reduced from 3.1762 at p=0.000 to 1.5728 at p=0.671 which was insignificant. In other words, the diversification reasons did not have any significant influence on performance of state owned firms.

Table 4. 8: Coefficients of Diversification reasons and Performance of State owned Firms

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.972	1.199		3.1762	.000
	Diversification reasons	.518	.041	.032	1.5728`	.671

a. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

4.4.1.2 Horizontal diversification strategy and performance of state owned sugar firms

The Pearson correlation analysis was used to investigate the relationship between horizontal diversification strategy and the performance of state owned sugar firms. The objective tested the second hypothesis of the study which is There is no significant relationship between adoption of horizontal diversification strategy and sugar firms' performance in Kenya. The results in Table 4.9 indicated there is no significant relationship between horizontal diversification and the performance of state owned sugar firms in Western Region in Kenya, positive and statistically not significant (R = .-027, p>.880) with 99.0% confidence level. The study accepts the second null hypotheses since the significance level is more than 0.05 and confirm there is no significant relationship between adoption of horizontal diversification strategy and sugar firms' performance in Kenya

Table 4. 9: Horizontal Diversification correlations

		Y	X2
Y	Pearson Correlation	1	-.027
	Sig. (2-tailed)		.880
	N	33	33
X2	Pearson Correlation	-.027	1
	Sig. (2-tailed)	.880	
	N	33	33

Source: Field Research 2018

The study used simple regression analysis to establish the effect of horizontal diversification on performance of state owned firms. The findings were as summarized in Table 4.10

Table 4. 10: Horizontal Diversification on Performance of State owned Firms

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Significance
1	.027[a]	.001	.001	2.8913	0.880

a. Predictors: (Constant), Horizontal diversification

b. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

From the results, the R coefficient was 0.027 while R square was 0.001 at p=0.880. That meant the relationship between horizontal diversification and performance was insignificant.

From the results in Table 4.11, the student t test reduced from 5.981 at p=0.000 to 0.5942 at p=0.877 which was insignificant. In other words, the horizontal diversification did not have any significant influence on performance of state owned firms. The hypothesis was therefore accepted.

Table 4. 11: : Coefficients of Horizontal Diversification and Performance of State owned Firms

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.0812	2.0813		5.981	.000
	Horizontal	.843	.018	.027	0.5942`	.877
a. Dependent Variable: Performance of state owned firms						

Source: Field Research 2018

4.4.1.3 Concentric diversification strategy and performance of state owned sugar firms

The Pearson correlation analysis was used to investigate the relationship between concentric diversification strategy and the performance of state owned sugar firms. The objective tested the third hypothesis of the study which is there is no significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms. The results in Table 4.12 indicated there is a significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms, positive and statistically significant ($R = .372$, $p<.033$) with 99.0% confidence level. The study rejects the third null hypotheses since the significance level is less than 0.05 and confirm there is a significant relationship between adoption of concentric diversification strategy and sugar firms’ performance in Kenya.

Table 4. 12: Concentric Diversification correlations

		Y	X3
Y	Pearson Correlation	1	.372*
	Sig. (2-tailed)		.033
	N	33	33
X3	Pearson Correlation	.372*	1
	Sig. (2-tailed)	.033	
	N	33	33

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

Source: Field Research 2018

The study used simple regression analysis to establish the effect of concentric diversification on performance of state owned firms. The findings were as summarized in Table 4.13.

Table 4. 13: Concentric Diversification on Performance of State owned Firms

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Significance
1	.372[a]	.138	.130	3.1801	0.033

a. Predictors: (Constant), Concentric diversification

b. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

From the results, the R coefficient was 0.372 while R square was 0.138 at p=0.033. That meant that 13.8% (given R square was 0.138, p=0.033) of performance of state owned firms was explained by concentric diversification. That meant the relationship between concentric diversification and performance was significant.

From the results in Table 4.14, the student t test increased from 5.981 at p=0.000 to 8.5942 at p=0.007 which was insignificant. In other words, the concentric diversification had significant influence on performance of state owned firms. The hypothesis was therefore rejected.

Table 4. 14: Coefficients of Concentric Diversification and Performance of State owned Firms

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.6751	2.0813		5.981	.000
	Concentric	.451	.018	.372	8.5942`	.007

a. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

4.4.1.4 Conglomerate diversification strategy and performance of state owned sugar firms

The Pearson correlation analysis was used to investigate the relationship between conglomerate diversification strategy and the performance of state owned sugar firms. The objective tested the fourth hypothesis of the study which is there is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms. The results in Table 4.15 indicated there is no significant relationship between the adoption of conglomerate diversification strategy and the performance of state owned sugar firms in Western Region in Kenya, positive and statistically not significant (R = .204, p>.256) with 99.0% confidence level. The study accepts the fourth null hypotheses since the significance level is more than 0.05 and confirm there is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms.

Table 4. 15: Conglomerate Diversification correlations

		Y	X4
Y	Pearson Correlation	1	.372*
	Sig. (2-tailed)		.033
	N	33	33
X4	Pearson Correlation	.372*	1
	Sig. (2-tailed)	.033	
	N	33	33

*. Correlation is significant at the 0.05 level (2-tailed).
Source: Field Research 2018

The study used simple regression analysis to establish the effect of conglomerate diversification on performance of state owned firms. The findings were as summarized in Table 4.16

Table 4. 16: : Conglomerate Diversification on Performance of State owned Firms

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Significance
1	.204[a]	.0416	.0311	2.9012	0.256

a. Predictors: (Constant), Conglomerate diversification
b. Dependent Variable: Performance of state owned firms

Source: Field Research 2018

From the results, the R coefficient was 0.204 while R square was 0.0311 at p=0.256. That meant conglomerate diversification had insignificant effect on performance of state owned firms. From the results in Table 4.17, the student t test reduced from 2.1901 at p=0.000 to 0.7652 at p=0.791 which was insignificant. In other words, the conglomerate diversification did not have any significant influence on performance of state owned firms. The hypothesis was therefore accepted.

Table 4. 17: Coefficients of Conglomerate Diversification and Performance of State owned Firms

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.0911	2.981		2.1901	.000
	conglomerate	.336	.3021	.204	0.7652`	.791
a. Dependent Variable: Performance of state owned firms						

Source: Field Research 2018

4.4.2 Summary of Hypothesis testing

The rule is; accept the null hypothesis if the calculated p-value is greater than the table t-value otherwise reject the null hypothesis.

Table 4. 18: Summary of Hypothesis testing

	Hypothesis	t-value	Calculated p-values	Accept/ Reject null hypothesis
H1	There is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya	p<0.05	p=0.838	Accept (p>0.05)
H2	There is no significant relationship between adoption of horizontal diversification strategy and sugar firms performance in Kenya.	p<0.05	p= 0.880	Accept (p>0.05)
H3	There is no significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms.	p<0.05	p= 0.033	Reject (p<0.05)
H4	There is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms.	p<0.05	p= 0.204	Accept (p>0.05)

Source: Field Research 2018

4.4.3 Overall Correlation results

Person's product moment correlation analysis was used to assess the correlation between the variables. The results in table 4.13 indicate that, there is positive significant correlation between concentric diversification strategy and performance of sugar firms ($r = 0.372$, $p = 0.033$), there is no significant correlation between diversification motives and performance of sugar firms ($r = -0.032$, $p = 0.838$), there is no significant correlation between horizontal diversification strategy and performance of sugar firms ($r = -0.027$, $p = 0.880$) and that there is positive but not significant correlation between conglomerate diversification strategy and performance of sugar firms ($r = 0.204$, $p = 0.256$).

Table 4. 19: Correlations

		Y	X1	X2	X3	X4
Y	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	33				
X1	Pearson Correlation	.032	1			
	Sig. (2-tailed)	.858				
	N	33	33			
X2	Pearson Correlation	-.027	.247	1		
	Sig. (2-tailed)	.880	.165			
	N	33	33	33		
X3	Pearson Correlation	.372*	.505**	.350*	1	
	Sig. (2-tailed)	.033	.003	.046		
	N	33	33	33	33	
X4	Pearson Correlation	.204	.446**	.207	.640**	1
	Sig. (2-tailed)	.256	.009	.247	.000	
	N	33	33	33	33	33

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Research 2018

For meaningful analysis inferential statistics was carried out using regression model to establish the effect of independent research variables on the dependent variable. Regression model established how and to which extent each of the independent variable explained the dependent variable. From the findings as shown by table 4.16 below, the diversification motives explained negative 18.9% of the performance of sugar firms, horizontal diversification strategy explained negative 16.5% of the performance of sugar firms, concentric diversification strategy explained 54.0% of the performance of sugar firms and conglomerate diversification strategy explained negative 2.4% of the performance of sugar firms.

Table 4. 20: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	4.075	1.434		2.842	.008		
	X1	-.341	.362	-.189	-.942	.354	.713	1.402
	X2	-.186	.205	-.165	-.905	.373	.869	1.150
	X3	.648	.289	.540	2.244	.033	.497	2.013
	X4	-.023	.218	-.024	-.105	.917	.569	1.757

a. Dependent Variable: Y

Source: Field research, 2018

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter focused on the major findings from the analyzed data to establish a logical conclusion and possible recommendations based on the research objectives. It covers the summary, conclusions, recommendations and areas suggested for further research.

5.2. Summary

The study set out to meet the following objectives: To establish the motives for the adoption of diversification strategy by the state owned sugar firms in Kenya, to find out the effect of horizontal diversification on firm performance of state owned sugar firms in Kenya, to determine the effect of concentric diversification on the performance of state owned sugar firms in Kenya and to establish the effect of conglomerate diversification on the performance of state owned sugar firms in Kenya.

5.2.1. Diversification and performance

The study found out that diversification had helped the firm maximize profits (mean 4.39). The respondents agreed that because of diversification market share held by the firm was significant (mean 4.27). Further the respondents indicated that diversification improved firm productivity (mean 4.09). They further confirmed that diversification was a wise strategy adopted by the firm (mean 4.45). Finally, respondents highly recommend other firms to adopt diversification strategy in order to improve their performance (mean 4.52).

5.2.2. Diversification motives

The study found out that diversification was necessary to enable the firm to compete in COMESA after safe guards are removed (mean 4.42). The respondents indicated that diversification will enable the firm to increase revenues earned (mean 4.70). Most respondents agreed that diversification helped a firm to maximize its profits (mean 4.55). They also agreed that by diversification, the firm improved its financial efficiency as indicated by returns on assets, equity and sales (mean 4.39). The respondents further indicated that diversification ensured steady cash flows (mean 4.39). They further agreed that diversification spread a firm financial risks (mean 4.39). Respondents agreed that diversification made it possible to handle many activities thus improved their management skills (mean 4.06).

The results indicated there is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya, positive and statistically not significant ($R = .032$, $p>.858$) with 99.0% confidence level. The study accepts the first null hypotheses since the significance level is more than 0.05 and confirm there is no specific motive for the adoption of diversification strategy by the state owned sugar firms in Western Region in Kenya.

5.2.3. Horizontal diversification strategy

The study found out that by Selling sugar in packages of 5,2,1,1/2 and ¼ kgs had a positive effect on the profitability of the firm (4.27). The respondents highly agreed that by selling sugar in packages of 5,2,1,1/2 and ¼ kgs had a positive effect on the market share of the firm (4.24). They whoever indicated that by selling sugar in packages of 5,2,1,1/2 and ¼ kgs had slightly effect on productivity (3.79).

The Pearson correlation analysis was used to investigate the relationship between horizontal diversification strategy and the performance of state owned sugar firms. The objective tested the second hypothesis of the study which is There is no significant relationship between adoption of horizontal diversification strategy and sugar firms' performance in Kenya. The results indicated there is no significant relationship between horizontal diversification and the performance of state owned sugar firms in Western Region in Kenya, positive and statistically not significant ($R = .-027$, $p>.880$) with 99.0% confidence level. The study accepts the second null hypotheses since the significance level is more than 0.05 and confirm there is no significant relationship between adoption of horizontal diversification strategy and sugar firms' performance in Kenya.

5.2.4. Concentric diversification strategy

Findings show that cogeneration had a positive effect on profitability of the firm (mean 4.42). Respondents indicated that cogeneration had a slightly positive effect on the market share of the firm (3.88). They also greatly agreed that cogeneration had positive effect on productivity of the firm (4.27). They agreed that ethanol production had positive effect on profitability of the firm (4.39). They also indicated that ethanol production had improved the market share of the firm (mean 4.09). It was further indicated that ethanol production had positive effect on productivity of the firm (mean 4.42). The respondents indicated that mineral water production had a moderate positive effect on profitability of the firm (mean

3.67). They also indicated that mineral water production had a moderate effect on the market share of the firm (mean 3.70).

The results indicated there is a significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms, positive and statistically significant ($R = .372$, $p<.033$) with 99.0% confidence level. The study rejects the third null hypotheses since the significance level is less than 0.05 and confirm there is a significant relationship between adoption of concentric diversification strategy and sugar firms' performance in Kenya. That meant the relationship between concentric diversification and performance was significant.

5.2.5. Conglomerate diversification strategy

Results indicate that engaging in dairy farming had slightly effect on the profitability of the firm (3.67). That engaging in dairy farming has a moderate effect on the market share the firm (3.82). Respondents indicated that engaging in dairy farming had moderate influence on the productivity of the firm (mean 3.64). They also felt that hiring out of construction machines slightly improved the profitability of the firm (3.67). Respondents indicated that hiring out of construction machines slightly improved the market share of the firm (3.36).

From the findings, there is no significant relationship between the adoption of conglomerate diversification strategy and the performance of state owned sugar firms in Western Region in Kenya, positive and statistically not significant ($R = .204$, $p>.256$) with 99.0% confidence level. The study accepts the fourth null hypotheses since the significance level is more than 0.05 and confirm there is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms. From the results, the R coefficient was 0.204 while R square was 0.0311 at p=0.256. That meant conglomerate diversification had insignificant effect on performance of state owned firms.

5.3. Conclusions

The study sought out to examine the effect of diversification strategies on the performance of state owned sugar firms in Kenya. The specific objectives were, to establish the motive of diversification by sugar firms in Kenya, to establish the effect of horizontal diversification on firm performance of sugar firms in Kenya, to establish the effect of concentric diversification on the performance of state owned sugar firms and to establish the effect of conglomerate diversification on the performance of state owned sugar firms.

The study concluded that diversification strategies influence the performance of state owned sugar firms in Kenya. It was concluded that diversification was necessary to enable the firm to compete in COMESA after safe guards are removed. Further, selling sugar in packages of 5,2,1,1/2 and ¼ kgs had a positive effect on the profitability of the firm. Therefore it was clear that there is no relationship between adoption of horizontal diversification strategy and sugar firms' performance in Kenya. It was further concluded that there is significant relationship between adoption of concentric diversification strategy and the performance of state owned sugar firms since cogeneration had a positive effect on profitability of the firm and it had a slightly positive effect on the market share of the firm.

Lastly it was concluded conglomerate has an influence on firm performance where engaging in dairy farming had slightly effect on the profitability of the firm and has a moderate effect on the market share the firm. However, it was established that there is no significant relationship between adoption of conglomerate diversification strategy and the performance of state owned sugar firms.

5.4. Recommendations

The study gives crucial recommendations which are for policy and practice in agreement with the findings obtained by the researcher from the study

From the study the researcher recommends that the concerned management of state owned sugar firms should be updated on matters pertaining diversification strategies and thus embrace positively strategies that will enable them make wise decisions as far as management of manufacturing companies is concerned.

Also the management of state owned sugar firms need at all times evaluate and monitor the implementation of the diversified strategies employed form them to have an overview of their progress and if they are achieving their intended goals and objectives.

Sugar firms should adopt or use the most effective diversification strategy and should ensure that it is cost effective and has the highest returns on their operations.

The study further recommends that state owned sugar firms should diversify their asset base and also differentiate properly their products for them to reduce the risks that are associated with the operations and also increase their market niche and build good customer relations.

To the government, the study recommends that they should have in place procedures, measures and guidelines that oversee how state owned sugar firms operate more so on issues relating to diversification of strategies.

5.5 Suggestions for Further Research

Regarding suggestions for further studies, the study suggests that other researchers in future need to carry out a research on moderating influence as well as mediating effect on the relationship between diversification strategies and performance of sugar firms in order to determine the effect of such diversification strategies and performance. Further, studies establishing the factors leading to diversification, to find out the effect of horizontal diversification on firm performance, the effect of concentric diversification on the performance and the effect of conglomerate diversification on the performance of other public entities. The study finally suggest that more research needs to be done on the same area but concentrate on other factors influencing performance of state owned sugar fims, SMEs, banks, MFIs and other organizations.

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APPENDIX I. QUESTIONAIRE

Introduction

My name is Gladys Ndungu, a student at MMUST conducting a research on a topic entitled **'Adoption of Diversification strategies adoption and performance of state owned sugar firms."** This is in partial fulfillment of the requirements for the Award of a post graduate degree of Business Administration in strategy. Please spare your ten minutes to respond to this questions. All information you provide will be treated with utmost confidentiality, not identifiable to you and only used for academic purposes. Thank you in advance.

SECTION A: DEMOGRAPHIC INFORMATION

Kindly insert a (√) in the appropriate box

1. Age bracket:

25 – 34 yrs.	35 – 44 yrs.	45 – 54 yrs.	55 – 64 yrs.	Above 65yrs

2. Indicate your highest qualifications achieved.

Diploma	Degree	Masters	Other Specify

3. Indicate your organization.

Nzoia Sugar	Sony Sugar	Muhoroni	Miwani	Chemilil

4. Indicate your department…………………………………………………………………

5. How many years have you been in the sugar industry?

1 – 5 yrs.	6 – 10 yrs.	11 – 15 yrs.	16 – 20 yrs.	Above 21yrs

SECTION B: DIVERSIFICATION AND FIRM PERFORMANCE.

6. In your own opinion, how do you agree to the diversification statements below on firm's performance?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Diversification maximizes profitability of a firm					
Diversification increases market share of a firm					
Diversification improves productivity of a firm					
Diversification is a wise strategy to adopt					
I advise other firms to adopt diversification					

SECTION C: DIVERSIFICATION STRATEGIES

7. In your opinion, how do you agree with the following statements indicating the level of diversification in your firm?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
We have more than one product or service					
Should develop new products to improve performance					
Engage in other business not related to sugar production (co generation, water)					
Engage in other business related to sugar production (Fuel, Liquor, sweets, Biscuits, etc.)					

8. In your own opinion, how do you agree to the following statements on motives of diversification in your firm?

Diversification;	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
To compete in COMESA after safe guards are removed					
To increases revenues of a firm					
To maximize profits					
To improve financial efficiency (Returns on Assets, Returns on equity, Returns on sales)					
To ensures cash flow stability					
To spreads financial risk					
To maximize managers skills					

SECTION D: HORIZONTAL DIVERSIFICATION

9. In your opinion, rate the following aspects of performance in relation to horizontal diversification that your organization has adopted?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the profitability of the firm					
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the market share of the firm					
Selling sugar in packages of 5,2,1,1/2 and ¼ kgs has a positive effect on the productivity of the firm					

10. Which other Horizontal diversification strategies do you think can improve your firm's performance?..

....

SECTION E: CONCENTRIC DIVERSIFICATION

11. In your opinion, how could the adoption of concentric diversification strategies affected the performance of your organization?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Cogeneration has a positive effect on profitability of the firm.					
Cogeneration has a positive effect on the market share of the firm.					
Cogeneration has a positive effect on productivity of the firm.					
Ethanol production has a positive effect on profitability of the firm.					
Ethanol production has a positive effect on the market share of the firm.					
Ethanol production has a positive effect on productivity of the firm.					
Mineral water production has a positive effect on profitability of the firm.					
Mineral water production has a positive effect on the market share of the firm.					
Mineral water production has a positive effect on productivity of the firm.					

12. Which other concentric diversification strategies both related and unrelated do you think can improve your firm's performance?

…………………………………………………………………………………………
…………………………………………………………………………………………

SECTION F: CONGLOMERATE DIVERSIFICATION

13. In your opinion, how can the following aspects of Conglomerate Diversification improve your organization‘s performance if adopted?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Engaging in dairy farming will have positive effect on the profitability of your firm					
Engaging in dairy farming will have positive effect on the market share of your firm					
Engaging in dairy farming will have positive effect on the productivity of your firm					
Hiring out of construction machines will improve the profitability of the firm					
Hiring out of construction machines will improve the market share of the firm					
Hiring out of construction machines will improve the productivity of the firm					

14. Which other diversification strategies both related and unrelated do you think can improve your firm’s performance? Briefly outline them

…………………………………………………………………………………………………

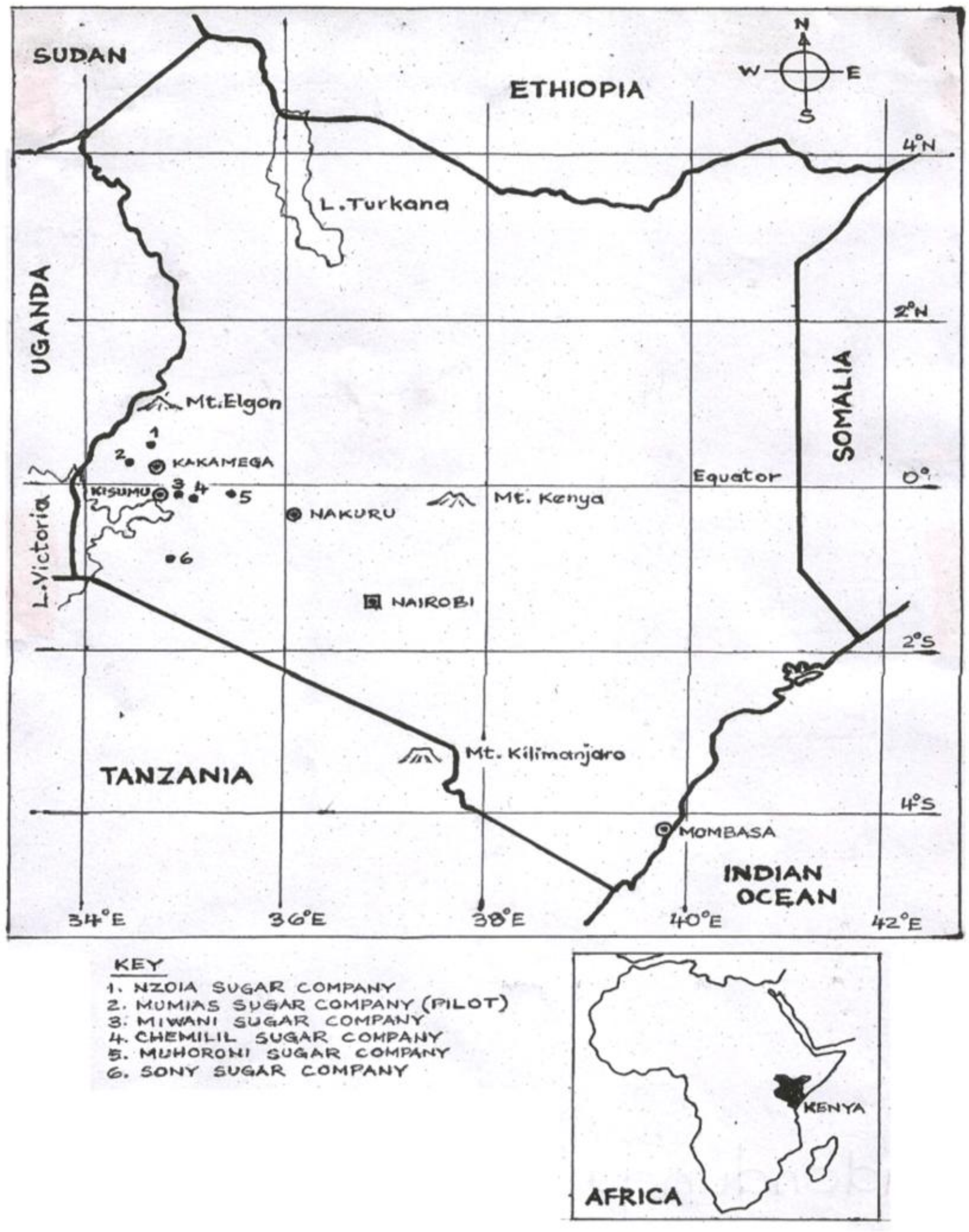
…………………………………………………………………………………………………

………………

Thank you for your participation!

APPENDIX II.MAP

THE LOCATION OF STATE OWNED SUGAR COMPANIES IN KENYA



Sourced from: Oxford Primary Atlas, 2nd Edition, (March 2011)

APPENDIX III: AUTHORIZATION LETTER

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone:+254-20-2213471,
2241349,3310571,2219420
Fax:+254-20-318245,318249
Email: dg@nacosti.go.ke
Website : www.nacosti.go.ke
When replying please quote

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. **NACOSTI/P/18/15134/24366**

Date: **6th September, 2018**

Gladys Wanjira Ndungu
Masinde Muliro University of Science and Technology
P. O Box 190-50100
KAKAMEGA

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Diversification strategies adoption and the performance of State Owned Sugar Firms in Western Region in Kenya"*** I am pleased to inform you that you have been authorized to undertake research in **selected Counties** for the period ending **5th September, 2019.**

You are advised to report to **the County Commissioners and the County Directors of Education of the selected Counties** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioners
Selected Counties.

The County Directors of Education