# THE EFFECT OF CORPORATE DIVERSIFICATION ON ORGANIZATIONAL PERFORMANCE

## A CASE STUDY OF STANBIC BANK, UGANDA

**Submitted by:**
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**2012-B021-10042**

**UGANDA MARTYRS UNIVERSITY**

**APRIL 2015**

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**A RESEARCH DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT**
**UGANDA MARTYRS UNIVERSITY**

**APRIL 2015**

## DEDICATION

This research is dedicated to all those that have contributed to my education; especially my parents, teachers, and lecturers.

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## LIST OF ACRONYMS

| | |
|---|---|
| **ROA** | Return on Assets |
| **ROE** | Return on Equity |
| **PM** | Profit Margin |
| **EPS** | Earning Per Share |
| **OECD** | Organization for Economic Cooperation and Development. |
| **FDI** | Foreign Direct Investment |
| **MNE** | Multi National Enterprise |

## DEFINITION OF TERMS AND CONCEPTS

**Return on Assets (ROA)** measures the rate of return (before tax and interest) earned by the total assets of a company, and is a useful indication of the efficiency of use of those assets, because it is based on the three main operating variables-total revenue, total costs and assets employed. (Cole, G, A. 1997)

**Return on Equity (ROE)** measures the absolute return on the shareholders for their investment. Net worth (the denominator in the formula for computing ROE) comprises the Ordinary Fund (ordinary shares, capital reserves and revenue reserves). It can also be measured by subtracting total liabilities from total assets. A healthy ROE leads to a high share price and is likely to attract new funds, which in turn provide opportunities for further growth and profit increases. (Cole, G, A. 1997)

**Earnings per share (EPS)**, computed by dividing profit after tax by the number of ordinary shares issued, is one of the most widely sought features of company performance, and the year on year changes for any one business are important indicators of how well it is doing.

**Foreign direct investment (FDI)** are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. (worldbank.org, accessed on 16th April, 2015)

## ABSTRACT

This study investigated the effects of corporate diversification on organizational performance. Product, technological and geographical diversification were each researched independently as variables of corporate diversification.

The research was conducted using both quantitative and qualitative approaches using cross sectional survey and case study as a research design. Stanbic Bank, Uganda, was used as a case study where a total of sixty respondents were handed questionnaires; these were sourced from various departments, for example, compliance, digital channels, and vehicle and asset financing. Data was also obtained from secondary sources like text books, journals, dissertations, and online articles. The data obtained from the field was analyzed using the Statistical Package for Social Scientists (SSPS version 16).

The purpose of the study was to add to the existing knowledge on the relationship between corporate diversification and organizational performance, but more specifically to attempt to bridge the gap in knowledge regarding the effect of corporate diversification in less developed countries.

The study found that introducing new products helped the organization capture new customers and increase its market share, improve its financial performance, acquire an edge over its competitors, and position it at the head of the banking sector in Uganda. It also revealed that introducing new technologies in its production process helped the organization reduce its cost of production, improve performance in terms of meeting set objectives, improve its competitiveness in the market place, and increase efficiency and effectiveness in production and service delivery. Findings in relation to technological diversification indicated that opening up business units in new locations helped the organization to capture more customers and increase its market share, and improve its financial performance. The study established a positive relationship between corporate diversification and organizational performance.

# CHAPTER ONE

## 1.0 Introduction:

In this chapter, some definitions of the key terms in the topic-that is, corporate diversification and organizational performance, as given by various authors, are presented.

Corporate diversification is defined as the entry of a firm into new lines of activities either by the process of internal expansion or by acquisition (Ramanujan and Varadarajan, 1989). It is the process by which firms extend the range of their businesses outside those in which they are currently engaged (Cannon and Hillebrandt, 1989).

Corporate diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of corporate diversification is to allow the company to enter lines of business that are different from current operations. (Thomas, J.)

(Businessdictionary.com. accessed on 19th February, 2015), defines organizational performance as an analysis of a company's performance as compared to goals and objectives. Within corporate organizations, there are three primary outcomes analyzed: financial performance, market performance and shareholder value performance.

Pierre, J. et al. state that organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management and that this broad construct is essential in allowing researchers and managers to evaluate firms overtime and compare them to rivals.

## 1.1 Background to the study

According to (Micheal, A. and Robert, E. 1997), international corporate diversification may be defined as expansion across the borders of global regions and countries into different geographic locations, or markets. Thus a firm's level of international corporate diversification is reflected by the number of different markets in which it operates and their importance to the firm (as measured, for instance, by the percentage of total sales represented by each market). International business scholars have argued that international corporate diversification is important because it is based on exploiting foreign market opportunities and imperfections through internationalization (Rugman, 1979, 1981). Internationalization refers to bringing new foreign operations within the boundaries of a firm rather than using arm's length market transactions. Although international markets and associated operations may yield new opportunities, they also present increased competitive challenges from international and local competitors.

Research on corporate diversification has also been carried out closer to home by various scholars in the East African region. According to (Anyango, E. 2012), research in corporate diversification has attracted a lot of researchers in strategic management over the years. Maithulia (1995) did an empirical investigation of portforlio diversification among commercial banks in Kenya. Mwindi (2003) did an analysis of the application of the unrelated diversification strategy by the major oil companies in Kenya. Njonge (2003) did a study of related diversification strategy and focused on Nation Media Group. Anyango's study focused on determining the corporate diversification strategies at Mumias Sugar Company, Kenya, the challenges of implementing them, and determining the reason for diversification. Product and market diversification strategies were identified-that is, the company expanded their market zones thus covering many customers' needs and added more products into the market thus meeting diverse needs of both existing and new customers.

Market-oriented diversification strategies at the Mumias Sugar Company were signified by the extent to which the company now supplies to not only the local market in Kenya and regional markets in East Africa but also to the European markets. This is a sign that the company, through such diversification strategies, enjoys a larger market zone thus customer-base. Product-oriented diversification strategies also signify that the company has adopted very good strategies in value addition along their supply chain.

In Uganda, the Madhvani Group is the largest diversified private-sector investor. It has a presence in agriculture and agro-processing, sugar, sweets and confectioneries, packaging, matches, steel, commercial property development, among other sectors. Other diversified (product, market, and/or technology) organizations include the Ruparelia group, Uganda Martyrs University, BMK investments, Mara investments, among others. The focus of this study is Stanbic bank, Uganda, the largest commercial bank in the country.

Stanbic bank, Uganda, offers a number of products to its customers, for example, the recent Karibu salary loan, the Ezdimes student loan, private banker facilities, and so forth. The different products are categorized under the bank's business pillars-that is, Private and Business Banking (PBB) and Corporate and Investment Banking (CIB). Through its various branches operating in different parts of the country, the bank is observed to undertake geographical diversification. Technological diversification is seen through the various technologies used by the organization in delivering services to its customers, for example, Automated Teller Machines (ATMs), Visa facilities, credit and debit cards, internet banking, and so forth.

### 1.2 Problem statement:

As organizations gain ground in the respective markets and/ or economies in which they participate, the need to improve performance beyond past levels, so as to survive and continue succeeding, becomes more significant. This improvement can be achieved through various growth strategies, one of which is diversification. However, whether or not growth and improvement in performance will be achieved through this strategy is difficult to determine. This poses a challenge for the organizations which have to adjust the allocation of their limited resources to accommodate the change created by the new ventures. Ansoff, H., in his Strategies for Diversification, states that diversification generally requires new skills, new techniques, and new facilities. As a result, it almost invariably leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experience.

> "At any time, organizations have built into them a set of ways of doing things and ways of determining what to do…. [this] is not to say it is unchanging or that it is ineffective…it is to recognize that the flexibility of routinized behavior is of limited scope and that a changing environment can force firms to risk their very survival on attempts to modify their routines". Nelson and Winter (1982), as cited by Felicai, F. (2004)

### 1.3 Broad objective:

To assess the effect of corporate diversification on organizational performance.

### 1.4 Specific objectives:

(i) To assess the effect of product diversification on an organization's profitability, earnings per share, market share and growth.

(ii) To assess the effect of geographic diversification on an organization's profitability, earnings per share, market share and growth.

(iii) To assess the effect of customer diversification on an organization's profitability, earnings per share, market share and growth.

### 1.5 Research questions:

(i) What is the effect of product diversification on an organization's profitability, earnings per share, market share and growth?

(ii) What is the effect of geographic diversification on an organization's profitability, earnings per share, market share and growth?

(iii) What is the effect of customer diversification on an organization's profitability, earnings per share, market share and growth?

### 1.6 Research hypothesis:

H1: There is a positive relationship between corporate diversification and organizational performance.

### 1.7 Significance of the study:

The purpose of this study is to add to the existing knowledge on the relationship between corporate diversification and organizational performance, but more specifically attempt to

bridge the gap in knowledge regarding the effects of corporate diversification in less developed countries. Other benefits that might arise from the study include the generation of information that can assist managers to improve policy decisions especially in the context of developing countries where resource allocation and utilization is a major challenge.

### 1.8 Justification of the study:

Corporate diversification is one of the business growth strategies used by corporate managers. As a student of business administration and management, a study of the concept will give me and my fellow student readers an understanding of how it affects organizational performance and hence broaden our knowledge of strategic management.

### 1.9 Scope of the study:

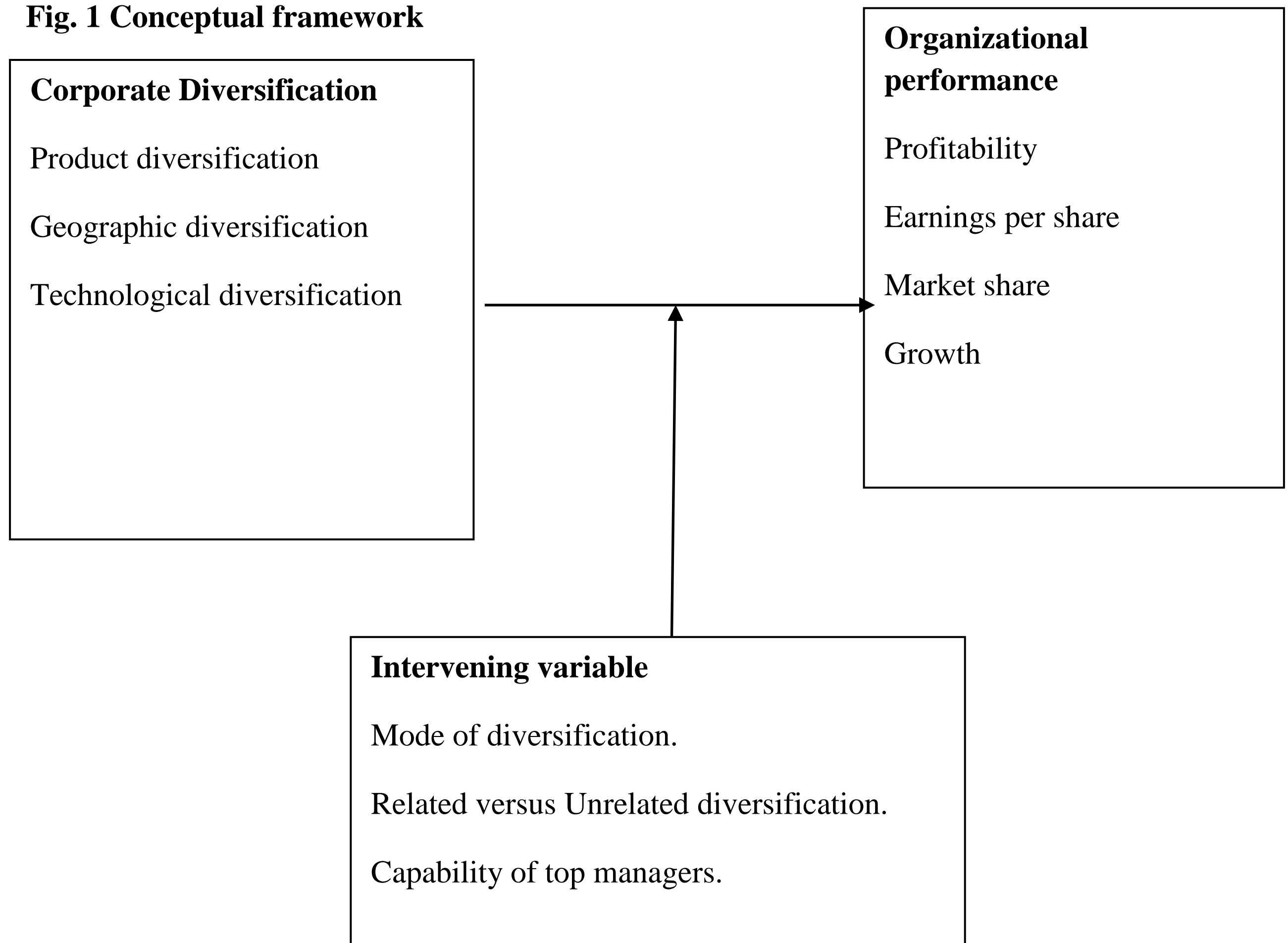
The sources of information used in the study were both primary and secondary. The secondary sources included text books, journals, dissertations, internet articles, and other documents covering firm performance, product, technological, and geographical diversification.

As a case study, the research covers the corporate diversification of Stanbic Bank, Uganda. This includes product, technological, and geographical diversification. The field survey was carried out in Kampala, Central region, where the banks' head quarters are located.

## 1.10 CONCEPTUAL FRAMEWORK

In order to understand the effect of corporate diversification, the independent variable, on organizational performance, the dependent variable, an attempt to establish a relationship between the two is made. There is need to establish whether product diversification, technological diversification, and geographical diversification translate into improved or deteriorating organizational performance. The ways in which the intervening variables like mode of diversification, capacity of top managers, and related versus unrelated diversification affect the relationship are taken into account.

**Fig. 1 Conceptual framework**




***Source:*** *Micheal, S. 2002. An analysis of the relationship between product diversification, geographical diversification and technological diversification. Department of International Management. University of Hohenheim.*

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction.

In this chapter, the researcher will present findings obtained from literature developed by different parties regarding corporate diversification at the different stages of an organization's production process-that is, the input stage (technological diversification), the output stage (product diversification), and the geographical/market stage (geographical diversification). Findings on the dependent variable, organizational performance are also presented.

## 2.1 Overview of corporate diversification.

Corporate diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations. (Thomas, J.)

Many firms are involved in more than one line of business. Large corporations like 3M and GE can be involved in dozens or hundreds of separate business activities. (Mason, A, C. and Wm, G, S. 2009). The writers go on to state that corporate strategy addresses issues related to three fundamental questions associated with managing a company that operates in more than one business:

1. In what business will we compete?
2. How can we, as a corporate parent, add value to our various lines of business?
3. How will diversification or our entry into a new industry help us to compete in our other industries?

This discussion is similar to that made by (Thompson, A. and Strickland, A. 2004) who note that as part of the decision to diversify, the company must ask itself, “What kind and how much diversification?” The strategic possibilities are wide open. A company can diversify into closely related businesses or into totally unrelated businesses. It can diversify its present revenue and earnings base to a small extent (such that new businesses account for less than 15 percent of companywide revenues and profits) or to a major extent (such that new businesses produce 30 or more percent of revenues and profits). It can move into one or two large new businesses or a greater number of small ones. It can achieve diversification by acquiring an existing company already in a business it wants to enter, starting up a new business subsidiary from scratch, or entering into a joint venture.

In an article on (entrepreneur.com, accessed on 19th February, 2015), it is noted that many small companies are one-trick ponies, betting their entire futures on a single product, a single service, a single location or even a single customer. And there’s nothing wrong with that in the beginning: A narrow focus lets a startup concentrate energy on dong one thing extremely well. But as the business grows larger, opportunities to add products, services, locations, customers and markets are found. Diversifying in this way can help the business weather tough times by providing alternate sources of revenue in the event that the original market dries up, stops growing or is hit by new competition. Most companies that survive for long periods of time find that they have to develop new sources of revenue as tastes change and opportunities evolve.

(Ansoff, H.) identifies four basic growth alternatives open to a business. It can grow through increased market penetration, through market development, through product development, or through diversification. A company which accepts diversification as a part of its planned approach to growth under- takes the task of continually weighing and comparing the advantages of these four alternatives, selecting first one combination and then another,

depending on the particular circumstances in long-range development planning. While they are an integral part of the over-all growth pattern, diversification decisions present certain unique problems. Much more than other growth alternatives, they require a break with past patterns and traditions of a company and an entry onto new and uncharted paths.

Ansoff also states that companies diversify to compensate for technological obsolescence, to distribute risk, to utilize excess productive capacity, to reinvest earnings, to obtain top management, and so forth. In deciding whether to diversify, management should carefully analyze its future growth prospects. It should think of market penetration, market development, and product development as parts of its over-all product strategy and ask whether this strategy should be broadened to include diversification.

Depending on the type of diversification under consideration, an organization is faced with choices among different alternatives, for example, which new businesses/industries, locations/markets, technology fields, or products to enter. (Stahl, M and Grigsby, D) states that however the corporate-level strategic decision is made, all organizations are faced with choices among possible businesses or industries. The decisions may result in an overall mission statement such as "The mission of Apple Computer is to design, manufacture, and market personal computers to the business, educational, and professional user." Once such a mission statement has been decided on, the organization is left with the decision of how to enter, improve, or exit the chosen business (es). This stage usually involves choices among new alternative activities.

The decision to diversify is made at the corporate level of a company-that is, by the top level managers/ directors of a company. This point is well explained by (Thompson, A. and Strickland, A. 2004) who state that because a diversified company is a collection of individual businesses, the strategy-making task is a more complicated exercise than crafting

strategy for a single business enterprise. In a one-business company, managers have to contend with assessing only one industry environment and the question of how to compete successfully in it. But in a diversified company, the strategy making challenge involves assessing multiple industry environments and coming up with a set of business strategies, one for each industry arena in which the diversified company operates. And top executives at a diversified company must still go one step further and devise a companywide or corporate strategy for improving the attractiveness and performance of the company's overall business lineup and for making a rational business whole out of its collection of individual businesses. In most diversified companies, corporate-level executives delegate considerable strategy-making authority to the heads of each business, usually giving them the latitude to craft a business strategy suited to their particular industry and competitive circumstances and holding them accountable for producing good results. But the task of crafting a diversified company's overall or corporate strategy falls squarely in the lap of top-level executives.

(Stahl, M and Grigsby, D) discuss alternative ways through which the decision may be made, stating that it may be made formally as a result of an explicit long-range planning process involving external consultants and sophisticated planning models, it may be made informally based on the insight and intuition of the firm's executive(s), or it may be made haphazardly and randomly because of the failure to make such strategic decisions explicit. In the third mode, the firm implicitly settles for the status quo.

The writers go on to present two approaches to corporate strategy that, according to them, can be used to answer the questions organizations face for example, "should we concentrate, diversify, vertically integrate, acquire, temporize, or refocus?": the Capital Asset Pricing Model (CAPM) and the concept of strategic fit. They discuss them as follows; Strategic fit relies on the concept of relatedness in making decisions concerning the appropriateness of the various operating divisions of a company. It assumes that a corporation should pursue only

those strategic alternatives in which it has some distinctive competence. This approach promotes the concept of concentric/related diversification, which maintains a common thread throughout the business activities. A company builds on the activities that it is already competent at doing and operates in a core area. The result of strategic fit is synergy in some fashion.

According to (Thompson, A. and Strickland, A.), in choosing which industries to diversify into, companies can pick industries either related or unrelated to the organization's core business. A related diversification strategy involves diversifying into businesses that possess some kind of "strategic fit". They explain that strategic fit exists when different businesses have sufficiently related activity-cost chains that there are important opportunities for activity sharing in one business or another.

A CAPM-designed portfolio of unrelated earnings streams, as discussed by (Stahl, M and Grigsby, D), stresses unrelated businesses. In accord with the CAPM, concentration is out of the question, horizontal diversification is emphasized to its limits, vertical integration across the entire spectrum is pushed, merger and acquisition is a very frequently used corporate strategy, and little corporate focus is sought.

(Thompson, A. and Strickland, A.) identified three types of strategic fit:

1. Product-market fit, which can be achieved when distribution channels, sales forces, promotion techniques, or customers can be handled at the same time for more than one product or service.
2. Operating fit, which involves economies being realized in areas such as purchasing, warehousing, production and operations, research and development, or personnel from more than one product or service.

3. Management fit, which occurs when managers are given responsibility over areas in which they have experience. This strategy allows the company to tap years of accumulated exposure from one line of business to another.

They also identify various types of diversification strategies including the following;

1. Strategies for entering new industries-acquisition, start-up, and joint ventures.
2. Related diversification strategies.
3. Unrelated diversification strategies.
4. Divestiture and liquidation strategies.
5. Corporate turnaround, retrenchment, and restructuring strategies.
6. Multinational diversification.

These are similar to those discussed by (Stahl, M and Grigsby, D)-that is;

1. Concentration: Single product and/or market.
2. Horizontal diversification: Related/concentric, unrelated/conglomerate.
3. Vertical integration: Backward or forward.
4. Merger and acquisition: Friendly or hostile.
5. Joint venture: Domestic or international.
6. Restructuring: Retrenchment, divestiture, bankruptcy, liquidation.

In an article on (Strategytrain.com, accessed on 19th February, 2015), different types of diversification are discussed as follows;

1. Horizontal diversification, involving acquiring or developing new products or offering new services that could appeal to the company's current customer groups.

2. Vertical diversification, which occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle-that is, production of raw materials or distribution of the final products.
3. Concentric diversification, which involves enlarging the production portfolio by adding new products with the aim of fully utilizing the potential of the existing technologies and marketing system.
4. Heterogeneous (conglomerate) diversification, which involves moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry.
5. Corporate diversification, involving production of unrelated but profitable goods. It is often tied to large investments where there may also be high returns.

According to (Thompson, A. and Strickland, A.) and (Thompson, A. and Strickland, A. 2004), acquisition of a new business is probably the most popular means of diversifying into another industry and has the advantage of much quicker entry into target market. At the same time, it helps a diversifier overcome such entry barriers as technological inexperience, establishing supplier relationships, being big enough to match rivals' efficiency and unit costs, having to spend large sums on introductory advertising and promotion to gain market visibility and brand recognition, and getting adequate distribution. They build on this by stating that in many industries, going the internal start-up route and trying to develop the knowledge, resources, scale of operation, and market reputation necessary to become an effective competitor can take years and entails all the problems of getting a brand new company off the ground and operating. However, finding the right kind of company to acquire sometimes presents a challenge. The big dilemma an acquisition-minded firm faces is

whether to buy a successful company at a high price or a struggling company at a "bargain" price. If the buying firm has little knowledge of the industry but ample capital, it is often better off purchasing a capable, strongly positioned firm-unless the acquisition price is unreasonably high. On the other hand, when the acquirer sees promising ways to transform a weak firm into a strong one and has the money, know-how, and patience to do it, a struggling company can be the better long-term investment.

(Thompson, A. and Strickland, A. 2004) state four distinct facets in devising a corporate strategy covering multiple businesses:

1. Picking new industries to enter and deciding on the means of entry. The first concerns in diversifying are what new industries to get into and whether to enter by starting a new business from the ground up, acquiring a company already in the target industry, or forming a joint venture or strategic alliance with another company.
2. Initiating actions to boost the combined performance of the businesses the firm has entered. As positions are created in the chosen industries, corporate strategists typically zero in on ways to strengthen the long-term competitive positions and profits of the businesses the firm has invested in. Corporate parents can help their business subsidiaries by providing financial resources, by supplying missing skills or technological know-how or managerial expertise to better perform key value chain activities, and by providing new avenues for cost reduction. They can also acquire another company in the same industry and merge the two operations into a stronger business, or acquire new businesses that strongly complement existing businesses. Typically, a company will pursue rapid-growth strategies in its most promising businesses, initiate turnaround efforts in weak performing businesses with potential, and divest businesses that are no longer attractive or that don't fit into management's long-range plans.

3. Pursuing opportunities to leverage cross-business value chain relationships and strategic fits into competitive advantages. A company that diversifies into businesses with related value chain activities (pertaining to technology, supply chain logistics, production, overlapping distribution channels, or common customers) gains competitive advantage potential not open to a company that diversifies into businesses whose value chains are totally unrelated. Related diversification presents opportunities to transfer skills, share expertise, share facilities, or share a common brand name, thereby reducing overall costs, strengthening the competitiveness of some of the company's products, and enhancing the capabilities of particular business units.
4. Establishing investment priorities and steering corporate resources into the most attractive business units. A diversified company's different businesses are usually not equally attractive from the standpoint of investing additional funds. It is incumbent on corporate management to (a) decide on the priorities for investing capital in the company's different businesses, (b) channel resources into areas where earnings potentials are higher and away from areas where they are lower, and (c) divest business units that are chronically poor performers or are in an unattractive industry. Divesting poor performers and businesses in unattractive industries frees up unproductive investments either for redeployment to promising businesses units or for financing attractive new acquisitions.

The writers also state that diversification merits strong consideration whenever a single-business company is faced with diminishing market opportunities and stagnating sales in its principal business. But there are four other instances in which a company becomes a prime candidate for diversifying:

1. When it can expand into industries whose technologies and products complement its present business?
2. When it can leverage existing competencies and capabilities by expanding into businesses where these same resource strengths are key success factors and valuable competitive assets.
3. When diversifying into closely related businesses open new avenues for reducing costs.
4. When it has a powerful and well-known brand name that can be transferred to the products of other businesses and thereby used as a lever for driving up the sales and profits of such businesses.

### 2.2 Product diversification.

In his article, Product Diversification Strategy, Ian Linton (2010) notes that a product diversification strategy is a form of business development. Small businesses that implement the strategy can diversify their product range by modifying existing products or adding new products to the range. The strategy provides opportunities to grow the business by increasing sales to existing customers or entering new markets.

As a conclusion to her research study, Maina,J,K. (2013) states that the diversification of products was an appropriate strategy to increase the profit potential.

He states that one can take a defensive approach with the objective to protect their business if, for example, demand drops for their products or they face strong competition, and that this might be important for new companies that have built their business on a single product.

The alternative he noted was where one takes an offensive approach where they see a strong market opportunity but can't take advantage of it with the existing products.

As approaches for product diversification, he notes the following; modifying ones existing products so that the new version appeals to a different group of customers, offering new products to existing customers, and adding a new product to the existing range, aimed at a new group of customers.

Ian further noted that product diversification can be an expensive, time consuming task, and that one should analyze whether they have the resources to develop new products or modify existing ones. If one does not want to develop products internally, they should consider other options such as distributing products from other suppliers, taking out licensing agreements to manufacture or supply products developed by other companies, or setting up alliances or partnerships with other companies to jointly develop or market products. Additionally, he suggests that if the company is in a strong financial position, it could consider acquisitions to gain access to products that align with their diversification strategy.

He also talks about the risk involved in product diversification, noting that it is a high risk strategy, so it is important to access both the opportunity and the level of risk, and that one should focus on product diversification that represents an attractive opportunity for the business, such as an instance where the market is growing and no other company is meeting the demand, provided the costs of developing and marketing the new product allow a profit to be earned. He also notes that risk increases if the new product might take sales away from the existing products or if the cost of market entry is very high.

In an article, entitled What is Product Diversification, on (wisegeek.com, accessed on 19$^{th}$ February, 2015), product diversification is discussed as a process by which businesses attempt to expand their market reach and customer base by delivering products somewhat different than the ones for which they are known. These new products can simply be extensions of existing brands or they may be entirely new. Diversification, in any form, is

essentially a way to manage risk. By removing all of the focus from one area and spreading it among many different areas, there is less reliance on any one area to produce. This strategy can be used by investors attempting to spread out their money and gain new areas of exposure. Companies that sell products to the public may also need diversification, especially if they can't sustain their businesses with just one product or approach. There are several ways in which a company may achieve product diversification. It doesn't necessarily have to be with a completely new product, although that is one way to achieve diversity. A particular brand might be naturally extended. For example, a company that sells cola might decide to bring out a line of diet colas based on their original formula but with fewer calories than the original product. The company will inhabit a new market of those people who are conscious of their weight. The company can also expand the audience for a particular brand, and it can improve the overall bottom line of the company if done effectively. Ideally, the new products or brand extensions can act as a complement for the original brand, so that customers familiar with the original brand might also have use for the new choices. However, it is important for business leaders to realize that there are some drawbacks associated with product diversification. Too much extension can eventually dilute the original brand and confuse the customers the company is attempting to reach. In a worst-case scenario, it may even dissuade customers from the original brand. Business familiar with making one type of product can also stumble if they are unfamiliar with a new market and its customer base.

Introducing new products or services to the marketplace can give one an instant edge. (marketingdonut.co.uk. accessed on 20th February, 2015) .

Ansoff, H. discusses three types of opportunities a company intending to diversify can look at:

1. Each product manufactured by a company is made up of functional components, parts, and basic materials which go into the final assembly. A manufacturing concern usually buys a large fraction of these from outside suppliers. One way to diversify, commonly known as vertical diversification, is to branch out into production of components, parts, and materials.
2. Another possible way to go is horizontal diversification. This can be described as the introduction of new products which, while they do not contribute to the present product line in any way, cater to missions which lie within the company's know-how and experience in technology, finance, and marketing.
3. It is also possible, by lateral diversification, to move beyond the confines of the industry to which a company belongs. While vertical and horizontal diversification are restrictive, in the sense that they delimit the field of interest, lateral diversification is "wide open." It is an announcement of the company's intent to range far afield from its present market structure.

He notes that a company's choice among these diversification directions depends in part on the reasons which prompt diversification. He illustrates this through an example as show below;

In the light of the trends described for the industry, an aircraft company may make the following moves to meet long- range sales objectives through diversification:

1. A vertical move to contribute to the technological progress of the present product line.

2. A horizontal move to improve the coverage of the military market.

3. A horizontal move to increase the percentage of commercial sales in the over-all sales program.

4. A lateral move to stabilize sales in case of a recession.

5. A lateral move to broaden the company's technological base.

**2.3 Technological diversification.**

Some organizations have adopted different categories of technology to serve different purposes in their operations. Some of the technologies are related while others are not.

Firms build up and/or acquire knowledge in different technology fields, resulting in technology portfolios which can vary in terms of technological diversification and technological coherence. Technology portfolios in which knowledge is spread over many technology fields are considered as signaling higher levels of technological diversification. When the different technology fields share a similar underlying knowledge base, a firm’s technology portfolio is considered as technologically coherent. (Bart, 2007).

Introducing new technology to one’s business, in the form of better equipment, can increase their capacity and has the potential to free up staff time if used efficiently. (marketingdonut.co.uk, accessed on 20th February, 2015)

Technological diversification can improve efficiency and effectiveness of the organization. Gregory,D (1998)

In an overview of literature on technological diversification and coherence, Bart (2007) gives the following as possible reasons for the technological diversity of large firms’ technological portfolios;

1. The increasing complexity of products and production processes over time (Rycroft and Kash, 1999), making it necessary for companies to invest in a variety of technology fields. This investment remains a necessity, even in the presence of technological outsourcing as effective assimilation of externally acquired technologies requires the presence of 'absorptive capacity' (Cohen, et al 1989).
2. Firms explore and experiment with new technologies to learn about their commercial potential, which is rarely clear immediately after a new scientific or technological breakthrough occurs (Patel and Pavitt, 1997).
3. As advanced by Penrose (1959), firms learn to use their resources (such as R&D capabilities) more efficiently over time, which leads to the creation of excess resources. Since R&D capabilities are often specific in nature, high transaction costs are associated with exploiting them in arm's length markets. Hence, firms may use these excess resources to diversify into promising new technologies.

He goes on to state that drivers of technological diversification present themselves partly as industry specific, but considerable variance in technological diversification levels remains among firms within the same sector. This variance reflects the different bets made by management in the face of technological complexity and uncertainty (Nelson and Winter, 1977; Patel and Pavitt, 1997). At the same time, there is a high persistency over time in the composition of firms' technology portfolios which can be related to the nature of the innovation process that takes place within firms. Innovation can be defined as a cumulative process of incremental problem definition and solving activities (Rosenberg 1982). As many problems are firm-specific, a firm's learning experience is distinctive. Due to the distinctiveness and cumulativeness of a firm's learning experience, its technological trajectory can be characterized as unique and path-dependent (Dosi, 1982; Garud and Karnoe, 2002). Consequently, firms' current technology portfolios are, at least partly, a reflection of

their past problems, interests and capabilities. Fai (2003) and Cantwell (2004) have found that, even over time periods of 100 years, most firms continue to develop competencies in technology fields in which they gained their initial technological competencies.

Regarding the negative consequences of technological diversification, Bart(2007) states that technological diversification may prevent firms from creating the focus needed to develop sufficiently strong capabilities in any specific technology domain, necessary to realize economies of scale in technology development. Second, firms with a technologically diversified portfolio are likely to bear larger integration, coordination and communication costs (Granstrand, 1998). These additional coordination costs arise in particular when diversifying firms try to combine more mature technologies with novel, emerging technologies that might conflict with the dominant core technologies of the firm.

Bart (2007) also talks about the notion of creative destruction, advanced by Schumpeter in the mid-1930s, stating that several scholars have pointed to the tensions that organizations encounter when organizing exploitation (of mature technologies) and exploration (of emerging technologies) simultaneously. Such tensions are experienced especially by ‘incumbent firms’ as they put in place multiple resources and capabilities aimed at exploitation. The very presence of these resources might hamper engaging in activities of a more explorative nature (Leonard-Barton, 1992). Abernathy (1991) argued that it is almost impossible for an organization to be simultaneously creative and productive. In addition, both activities do differ in terms of their contribution to the competitive advantage of a firm, depending on the stage a technology and/or industry finds itself in: whereas creativity can be seen as highly relevant during the pre-dominant design – exploration-oriented – phase; productivity dominates during post- dominant design – exploitation-oriented – phase (Abernathy and Utterback, 1978; Anderson and Tushman, 1991).

Granstrand (1998), as cited by Miklos and Silvana (2009), summarizes 5 main empirical findings on technological diversification. The findings are based on several studies of firms in Europe, Japan, and the United States, carried out in the period 1980-1994, altogether covering interviews, questionnaires and published data.

1. Technology diversification at firm level, i.e., the firm's expansion of its technology base into a wider range of technologies, was an increasing and prevailing phenomenon in all three major industrialized regions, Europe, Japan and the US.

2. Technology diversification was a fundamental causal variable behind corporate growth. This was also true when controlled for product diversification and acquisitions.

3. Technology diversification was also leading to growth of R&D expenditures in turn leading to both increased demand for and increased supply of technology for external sourcing.

4. Technology diversification and product diversification were strongly interlinked, often in a pull-push pattern in economically successful firms.

5. The high-growth corporations followed a sequential diversification strategy, starting with technology diversification, followed by product and or market diversification. This result was independent of region and industry.

Christensen (1998), as cited by Miklos and Silvana (2009), argues that technology diversification, that is, the firms expansion of its technological asset base is one of the key driving forces of corporations. To illustrate his points, he presents a case study of Danfoss, a Danish corporation operating within mechatronical markets (a fusion of mechanics and electronics). He argues that for Danfoss, technology diversification has been just as

significant as product market diversification. Thus, for example, the primarily mechanical engineering base of the early Danfoss era has been supplemented by electronics and software capabilities since the 1950s. Capabilities in hydraulics have become a decisive asset in the technology base from the 1960s and onwards. Other more specific technical capabilities (i.e. stainless steel technology, computational fluid dynamics) have been developed in the context of the expanding product portfolio.

Gamesa's technological capacity and its vertical integration approach have enabled it to strengthen its position as a global leader in electric power equipment for markets such as photovoltaic, hydroelectric and nuclear, as well as electric traction and marine propulsion, in addition to wind. The investment undertaken by the company to drive technological and industrial development has enabled it to acquire considerable expertise and competitiveness with regard to the electrical component, underpinned by the development of the wind business. This process has enabled Gamesa to make a qualitative leap in its technical and manufacturing capacities, which it is able to leverage more intensely to drive other industrial segments in which it has been working for years through subsidiary Gamesa Electric, a global standard-bearer in the design and manufacture of electric power equipment.

Oskarsson (1993), as cited by Miklos and Silvana (2009), documents the increase in technological diversification in OECD countries at various levels of aggregation (industry, firm, and product). He finds a strong positive correlation between sales growth and growth in technology diversification. As case studies, he discusses in detail the technological diversification experienced in telecommunication cables and refrigerators, documenting the various sub-technologies that enter in the production process and their evolution over time. He argues that technological diversification was the result of increased technological opportunities, partly caused by scientific progress and in particular, by rapid technological development in materials technology, physics, electronics, chemistry, and computer science.

He remarks that the possibility to improve performance and decrease the costs with new technologies not earlier present in the products was the overall reason for the increased technology diversification at the product level.

Miklos and Silvana (2007) propose a growth model of technological diversification. The model's key idea is that firms using a large variety of inputs can mitigate the impact of shocks affecting the productivity of individual varieties. This process takes place through two channels. First, with a larger number of varieties, each individual variety matters less in production, and productivity thus becomes less volatile given the law of large numbers. Second, whenever a shock hits a particular variety, firms can adjust the use of the other varieties to partially offset the shock. Both channels make the productivity of firms using more sophisticated technologies less volatile.

Chen, J, S. and Tsou, H, T. (2007) note that adopting information technology has positive effects on service innovation practices, which increase the competitive advantage of firms.

Felicia, F. (2004) cites some authors regarding technological diversification as follows; the technological environment is changing rapidly and becoming increasingly complex; different technological areas are fusing (Kodama, 1986, 1992) and others are becoming more inter-related (Patel and Pavitt, 1997). As a result, firms have found it necessary to increase the range of technologies with which they are familiar in order to access new product markets; they have become 'multi-tech' (Granstrand et al, 1997). However, at the same time, the firm is constrained by the path dependent, incremental and cumulative nature of technological change and the limits of the firm's ability to learn and manage its growth. These conflicting forces have implications for the phenomenon of technological diversification within firms and this, in turn, will impact upon the evolution of the firm's technological competencies and organizational structure.

Felicia also discusses (Nelson and Winter, 1982)'s evolutionary economics and (Penrose, 1959)'s resource-based theory, paying particular attention to how they help us understand the nature of technological diversification. He states that Nelson and Winter made the major unifying theoretical contribution to evolutionary economic theory through their establishment of three basic concepts: routines, search and the selection environment. Under routines, firms have a set of rules which are standardized within the organization and which enable the firm to go about its business. Nelson and Winter's comment (quoted below), Felicia notes, suggests that routines are at the very essence of the firm's strength, even its existence and that they tend to persist, although there is scope for incremental change.

> "At any time, organizations have built into them a set of ways of doing things and ways of determining what to do…. [this] is not to say it is unchanging or that it is ineffective…it is to recognize that the flexibility of routinized behavior is of limited scope and that a changing environment can force firms to risk their very survival on attempts to modify their routines".

The notion of routine, Felicia notes, may suggest that firms embody technologies in processes and products in a routine manner e.g. certain combinations of technologies will be used together, in the same way, time and time again to produce a product as they lie at the technological heart of the firm. Alternatively, routine may suggest that the firm uses the same technologies routinely to produce a range of products, but that the technologies are used in different combinations and in different ways. However, Nelson and Winter's definition also builds in scope for the existence of meta-routines that might bring about changes in subordinate routines. For example, firms may establish routines that require them to be on the constant look out for new technologies that will enhance the current technological combinations that then improve products and processes and so lead to incremental innovation where 'innovation' means a change in routine has taken place. The 'new' technologies need

not be ‘new’ in the conventional sense of the word to the firm or industry, just novel in its application to existing routines.

Regarding search, Felicia quotes Nelson and Winter as follows;

> “All those organizational activities which are associated with the evaluation of current routines and which may lead to their modification, to more drastic change or to their replacement”

Search itself, as Felicia notes, may be routinised and predictable but may also generate mutations. He further notes that behavior in all routines associated with success will tend to be repeated whilst behavior which is associated with failure will either not become routinised, or if embedded in existing routines, these routines will be altered or ultimately dropped altogether and replaced with new ones. By keeping in successful routines, the firm builds persistence into its profile of competencies.

He further discusses search, stating that, with respect to technological competencies and search, currently successful technologies and successful search routines for new ones will be maintained by the firm, possibly for long periods of time. On the other hand, he notes that, currently successful routines might result in shortsighted firms who will, in time, suffer from organizational inertia. If routinised search for new technologies is successful at identifying technologies of potential use to the firm and it is deemed that it is necessary for the firm to build up some level of competence in that area, or indeed own that technology, successful search routines may result in technological diversification. But that, however, diversified behavior can also potentially arise because of failures; either the technology itself failed within the context of the firm sparking the need for renewed search, or the search and selection routines that led them to choose an ‘inappropriate’ technology. Thus, routines tend

to become modified through a process of incremental and cumulative learning (Stiglitz. Et al 1987)

Under the selection environment, Felicia, quotes Nelson and Winter as follows;

> "The ensemble of considerations which affect it's [the organization's] well-being and hence the extent to which it expands and contracts. The selection environment is determined partly by conditions outside the firms in the industry or sector being considered…but also by characteristics and behavior of the other firms in the sector".

He discusses this quote as suggesting that the firm has to look beyond its own sector for opportunities and solutions to current problems, and that the most suitable of these solutions are likely to lie 'close into' the firm's current competencies, activities and interests. He also notes that Nelson and Winter's selection environment potentially has two meanings; First, it can be the environment from which the firms select potential opportunities to follow and secondly, it can be the environment in which the firm itself is selected as survivor or a victim because of its technological or other strengths or inadequacies.

Felicia discusses the resource based theory as having its foundation in the work of Edith Penrose (1959). He says Penrose perceived the firm as "more than an administrative unit; it is also a collection of productive resources". This perception of the firm considers a resource to be an asset of a given firm which at any given time, is tied semi-permanently to the firm (Wernerfelt, 1984), as cited by Felicia. It addresses the assessment of firm resources, their accumulation (Dierickx and Cool, 1989), as cited by Felicia, and how to focus these in such a way so as to convert distinctive competence into competitive advantages that match market opportunities.

He also notes that competencies and technologies as resources have been recognized to be partially codified, partially tacit, but definitely context specific, and tied to local skills and routines. And that, as a result, a firm's portfolio of technological competencies is highly firm specific.

Technological competencies (Cantwell, 1991b), as cited by Felicia, are a subset of the firm's entire profile of competencies and the competence-based theory is particularly appropriate for a study of technological change from an evolutionary perspective because in the former, "the resources with which a firm is accustomed to working will shape the productive services its management is capable of rendering". From this, Felicia concluded that past resources affect what managers can do today and current resources will affect what managers can do tomorrow.

**2.4 Geographical diversification.**

On investopedia.com (accessed on 19th February, 2015), geographical diversification is discussed as the practice of diversifying an investment portfolio across different geographic regions so as to reduce the overall risk and improve returns on the portfolio. The term also refers to the strategy employed by large companies of locating their operations in different regions or countries in order to reduce business and operational risk.

Through geographical diversification, firms set up business units in various locations. This can be either in different locations, e.g. districts, within one country or in different countries hence multinational enterprises (MNEs).

Nigel, D. et al. (2007)'s paper examines the relationship between multinationality and firm performance. The analysis is based on a sample of over 400 UK multinationals, and

encompasses both service sector and manufacturing sector multinationals. The paper concludes that there is a non-linear relationship between performance and multinationality.

Traditionally, the analysis of performance of the multinational enterprise (MNE) or its subsidiaries has focused on the ability of firms to generate and control firm specific assets, exploiting them across national boundaries. This work is largely founded on Dunning's (1988) well known 'ownership advantages' explanation of FDI. This presumes that the MNE possesses some form of technological superiority; thus where a company has some competitive advantage over its rivals, and where for reasons of property rights protection licensing is unsafe, a company will set up production facilities in a foreign country through FDI. The caveat to this is simply that there are specific advantages in the host country which make FDI preferable to exporting (Nigel, D. et al. 2007)

More recently, following Dunning (1998) some focus has turned the importance of location. Much of the analysis concerning the importance of location has traditionally been concerned with the ability of the firm to acquire raw materials by becoming multinational, and then subsequently on the ability of the firm to identify locations with lower labor costs. More recently however, analysis has turned to a wider range of location factors, both in explaining location of FDI, and also the relationships between location and performance. Many regions now see the attraction of FDI as being the most efficient way to connect to global markets for both finished and intermediate products as well as new technology. In turn, firms have responded to these policy initiatives from various regional or national development agencies and become increasingly diversified geographically (Nigel, D. et al. 2007)

As Dunning (1998) points out, international coordination of activity is becoming ever easier, and while trade growth has exceeded output growth globally, both have been far outstripped by FDI growth. Equally, there is now significant evidence that in excess of 50% of trade

between developed countries is intra-firm trade, see for example UNCTAD (1998, 2002, 2004). Production in the developed world is becoming characterized by the increased clustering of activity, with subsidiaries of multinationals looking to interact with local clusters in order to assimilate local competencies. This has been shown to be important for productivity growth, not only within the multinationals, but also within the domestic sector. Such issues are coming to be seen in the context of "technology sourcing", that is where firms engage in FDI, not merely to exploit their firm specific assets in new markets, but also acquire or assimilate knowledge from the host country (Nigel, D. et al. 2007)

Stephen, P. (2000) uses firm-level production data for 1987 and 1993, disaggregated by industry and country, to inspect the geographical diversification of the leading firms in the EU. Here geographical diversification is used to describe the degree to which a firm's operations in a particular industry are concentrated in one or a few countries, or dispersed over many.

The paper focused on two aspects of geographical diversification. These are the geographical diversification associated with: (i) the firms' home operations; and (ii) the firms' foreign operations.

"So, (i) is the extent to which a firm has dispersed production in those activities it carries out at home; and (ii) is the extent to which it has dispersed foreign production in those activities it carries out abroad. In some cases firms produce in the same industries at home and abroad. Mostly though, firms produce abroad in only a subset of the industries in which they are active at home. There are also some instances of firms having only foreign operations in a particular industry. So because, at the firm level, home and foreign operations are typically associated with different sets of industries, (i) and (ii) may significantly diverge".

Angela, K. et al (1999) examine international geographical diversification strategy, in combination with free-trade policy, as it applies to the California-Chile table grape market. They state that agribusinesses face a unique opportunity in geographical diversification strategy because of inherent seasonality of agricultural commodities. The issue of geographical diversification, they say, examines the economic feasibility of expanding production across several regions in pursuit of increased profits. Firm-level implications from increased production capabilities are two-fold: Geographical diversification could potentially increase supply levels such that prices fall, or increased market sales could translate to greater profits. The net effect on profit would depend on the sensitivity of market price to supplies from other areas, measured by the level of market integration, and the extent of the overlapping of the production seasons in geographic areas. Geographical diversification strategy presents the firm with an alternative profit strategy and corresponding risk. The primary benefit of geographical diversification would be increased sales volumes through year-round production capabilities. The corresponding risk is that a larger number of California firms diversify and oversupply the early season market such that the market price is bid down. Benefits from geographic diversification may come from being the first to implement diversification strategy. First-mover advantages often create strengthened long-run market positions by the firms. Among the advantages of early market entry are claims on premier factor inputs, namely managerial talent, laborers, and land. An important note is that first-mover advantages are presumably temporary. Market power achieved from first-mover gains is likely to erode once other firms follow the lead. The combination of lower production costs and improved economies of scale are attractive arguments for geographical diversification as well. Arguments against geographical diversification also include the increased complexity in international financing efforts (Thompson and Wilson, 1997). Firms that are unfamiliar with foreign institutional constraints typically face increased

"organizational requirements". Such requirements may include costs associated with foreign administrative and legal regulations. On the whole, geographic diversification has worked well within the United States for some firms (Thompson and Wilson, 1997).

**2.5 Firm performance.**

(Businessdictionary.com. accessed on 19th February, 2015), defines organizational performance as an analysis of a company's performance as compared to goals and objectives. Within corporate organizations, there are three primary outcomes analyzed: financial performance, market performance and shareholder value performance.

Wikipedia (accessed on 15th February, 2015), describes organizational performance as comprising the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al (2009), as cited on the website, organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.).

Corporate level performance is influenced by at least four general factors as explained by Lester Digman (Masika, P. 2003);

1. The number of business units. Corporate level growth can occur by employing corporate resources to increase the number of business units. This can be done by acquiring existing businesses or by creating new ventures internally. The reverse is also true; divesting or liquidating business units can reduce corporate size.

2. The mix of business units. Corporate performance can be improved by divesting, retrenching, or liquidating poorly performing businesses, and by acquiring or starting better performers with the additional resources provided.
3. Performance of existing business units. A firm will grow if its business units grow.
4. A combination of actions. The three actions listed above are not mutually exclusive. Firms can often use them in conjunction as part of their corporate level strategies.

Organizational performance, according to Pierre, J, R. et al, is the ultimate dependent variable of interest for researchers concerned with just about any area of management. This broad construct is essential in allowing researchers and managers to evaluate firms over time and compare them to rivals. In short, organizational performance is the most important criterion in evaluating organizations, their actions, and environments. This importance is reflected in the pervasive use of organizational performance as a dependent variable. March and Sutton (1997) found that of 439 articles in the Strategic Management Journal, the Academy of Management Journal and Administrative Science Quarterly over a three year period, 23% included some measure of performance as a dependent variable. The definition of 'organizational performance' is a surprisingly open question with few studies using consistent definitions and measures. Performance is so common in management research that its structure and definition is rarely explicitly justified; instead its appropriateness, in no matter what form, is unquestionably assumed (March & Sutton, 1997). Organizational performance encompasses three specific areas of firm outcomes: (1) financial performance (profits, return on assets, return on investment, etc.); (2) market performance (sales, market share, etc.); and (3) shareholder return (total shareholder return, economic value added, etc.).

## 2.6 Relating corporate diversification to firm performance.

Diversification, according to Anil, M, P. and Narendar, V, R. (1998), is a strategic option that many managers use to improve their firms' performance. Their research attempts to verify whether firm level diversification has any impact on performance. The study finds that on average, diversified firms show better performance compared to undiversified firms on both risk and return dimensions. It also tests the robustness of these results by classifying firms by performance class. The results show that among the best performing class of firms, undiversified firms have higher returns, but these returns are accompanied by high variance. Whereas, highly diversified firms show lower returns, and much lower variance. Results further show that diversified firms perform better than undiversified firms on risk and return dimensions, in the low and average performance classes. The paper concludes that a dominant undiversified firm may perform better than a highly diversified firm in terms of return but its riskiness will be much greater. If managers of such firms opt for diversification, their returns will decrease, but their riskiness will reduce proportionately more than the reduction in their returns. In such firms, there will be a tradeoff between risk and return.

In a review of empirical literature and hypothesis, Anil, M, P. and Narendar, V, R. (1998) state that the impact of diversification on firm performance is mixed. Three reviewers (Datta, Rajagopalan and Rasheed 1991, Hoskisson and Hitt 1990, Kerin, Mahajan and Varadarajan 1990), broadly conclude: (a) the empirical evidence is inconclusive; (b) models, perspectives and results differ based on the disciplinary perspective chosen by the researcher; and (c) the relationship between diversification and performance is complex and is affected by intervening and contingent variables such as related versus unrelated diversification, type of relatedness, the capability of top managers, industry structure, and the mode of diversification. Some studies claim diversifying into related product-markets produces higher returns than diversifying into unrelated product-markets and less diversified firms perform

better than highly diversified firms (Christensen and Montgomery 1981, Keats 1990, Michel and Shaked 1984, Rumelt 1974, 1982, 1986). Some claim that the economies in integrating operations and core skills obtained in related diversification outweigh the costs of internal capital markets and the smaller variances in sales revenues generated by unrelated diversification (see Datta, Rajagopalan & Rasheed 1991). While agreeing that related strategy is better than unrelated, Prahalad and Bettis (1986), clarify that it is the insight and the vision of the top managers in choosing the right strategy (how much and what kind of relatedness), rather than diversification per se, which is the key to successful diversification. Accordingly, it is not product-market diversity but the strategic logic that managers use that links firm diversification to performance; which implies that diversified firms without such logic may not perform as well. Markides and Williamson (1994) show that strategic relatedness is superior to market relatedness in predicting when related diversifiers outperform unrelated ones. Others however argue, it is not management conduct so much, but industry structure that governs firm performance (Christensen and Montgomery 1981, Montgomery 1985).

The early industrial organization literature has argued that no significant relationship exists between diversification and performance, meaning that, when entering new markets, existing firms have no special advantages (Enrico, S. et al.).

Enrico, S. et al. cite (Palich et al., 2000) stating that, more recently, researchers have shown that diversification generates multiple outcome directions depending on the degree of relatedness of a firm's diversification activities. These studies share one common finding that the diversification/performance relationship follows a non-linear pattern: they are positively related up to a point, after which a further increase in diversification is associated with declining performance. Usually, 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 (Bernheim and Whinston, 1990; Scott, 1993; Spagnolo, 1999), 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 powers, 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. Whereas the market power search approach is consistent with a linear positive relationship between diversification and profitability, the agency approach predicts a negative relationship as managers use free cash flow for the sake of their own goals. This leads to considering diversification in large firms as a result of the separation between ownership and control which induces managers to pursue their own objectives at the expense of shareholders. Hoskisson and Hitt (1990) suggest that diversification, firm size, and executive compensations are highly correlated to the extent that diversification provides benefits to managers that are unavailable to investors. Diversification can also lead to the problem of moral hazard due to conflict of interest between managers having interest in costly diversification as a form of compensation and investors preferring to concentrate on the core business to maximize their returns (Bhide, 1990). The same negative relationship between diversification and firm performance is also predicted by the resource-based view (Penrose, 1959). The deployment of surplus resources and free cash flows is one of the prime motives of diversification (Hoskisson and Hitt, 1990). However, asset specificity embedded in firms' resources on one hand brings sustainable competitive power for their

owner relative to competitors, but on the other hand acts as a challenge impeding firm's ability to transfer resources to new applications or "transplant" them in a new context (Montgomery and Wernerfelt, 1988). Therefore, the value of diversification will depend on the complementarities existing between internal resources and the business/industry that the firm enters, as well as the diversifying mode that it chooses. This opens the way to several empirical predictions revolving around the concept of relatedness of diversification activities: the more closely those activities are related or complementary, the more profitable diversification is expected to be.

Empirically, the impact of diversification on firm performance is mixed (Datta et al., 1991; Hoskisson and Hitt, 1990). 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 (Christensen and Montgomery, 1981; Rumelt, 1974, 1982). 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 (Datta et al., 1991). While Prahalad and Bettis (1986) claim that it is not product-market diversity but the strategic logic applied by managers that determines the effect of diversification on performance, Montgomery (1985) argues that it is not management conduct, but industry structure that governs firm performance. Successful corporate strategies are the result of organizational capabilities or competencies that allow firms to exploit potential synergies that large size or diversity can offer.

On one hand, the synergy of interrelated businesses within a diversified firm brings in the benefit of economies of scope which arise from sharing both common tangible inputs such as markets, distribution systems, product and process technologies, or manufacturing facilities (Ansoff, 1965; Rumelt, 1974; Teece, 1980), and intangible assets such as brand names and

know-how (Qian, 1997), managerial capabilities and routines and repertoires (Prahalad and Bettis, 1986; Grant, 1988). The more interrelated the businesses of a firm, the greater the potential for organizational synergy (Rumelt, 1974; Salter and Weinhold, 1981). On the other hand, synergy has harmful effects owing to responsiveness, such as higher governance costs, slower decision-making, strategy incongruence, dysfunctional control, and dulled incentives (Wit and Meyer, 2005). Thus, the fundamental challenge facing corporate diversification is the conflicting forces stemming from synergy and responsiveness, or as described by Dess et al. (2003), "managing the conflict between the new and old (business activities) and overcoming the inevitable tensions that such conflict produces for management".

Tran and Zaninotto (2012), as cited by Enrico, S. et al., note that the empirical studies of synergy and responsiveness only enable them to state whether diversification has a positive (due to synergy) or a negative (due to responsiveness) effect on firm performance, or which type of diversification, related or unrelated, is more beneficial. With respect to the curvilinear relationship between diversification and firm performance, they cannot explain to what extent the positive effect from synergy fades away and will be replaced by the negative effect of responsiveness, or why moderate levels of diversification yield higher levels of performance than either limited or extensive diversification.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction.

This section will discuss how the researcher is going to access the information concerning the case study. It details the research designs that are intended to be used by the researcher and the reasons for their choice, area of the study. The section also captures the study population and the sampling procedures, sample size, sampling techniques to be used during the study. It also describes the data collection methods and instruments, quality control methods, data management and processing, data analysis, ethical considerations and limitations of the study that the researcher may face in research methodology.

## 3.1 Research Design.

According to Byaruhanga, L (2014), evidence presented by Kombo (2008) indicates that a well thought out research design enables the researcher to think about the processes to be undertaken in any study. It acts as a road map for successful research work spelling out the plans and strategies to be used in collection of data, its processing, presentation and analysis (Saunders et al, 1997).

In this study, a cross-sectional study design was used. An article on (iwh.on.ca, accessed on 20th February, 2015) defines a cross-sectional study as an observational one, meaning that the researcher records information about their subject without manipulating the study environment. The defining feature of a cross-sectional study, as noted in the article, is that it can compare different population groups at a single point in time.

## 3.2 Area of the Study.

The study was conducted at Stanbic bank, Uganda, head quarters, located in Kampala district as a case study of examining the effects of corporate diversification on organizational performance.

## 3.3 Study Population.

A population refers to the total number of elements in a given study (Byaruhanga, L. 2014). The study population consisted of the management, employees, and customers of Stanbic bank, Uganda.

## 3.4 Sampling Procedures.

The researcher began his study by getting an introductory letter and a valid identity card from the faculty of Business Administration and Management Uganda Martyrs University, Nkozi and properly identifying himself to the management, employees and customers of Stanbic bank, Uganda. The researcher informed the management, employees and customers of the organization about the topic, the type of questions asked of them, objectives and purpose of this study.

### 3.4.1. Sample Size.

Byaruhanga, L. (2014) defines a sample as a collection of some elements of a population. He further describes it as a part of a totality on which information is generally collected and analyzed for the purpose of understanding an aspect of the population. According to Fink (1995), a sample is defined as a portion or subset of the population, the size of which is determined by the type and objective of the study, as well as time and financial constraints. The target population of this research consists of members of the case study organization. The researcher approached 60 respondents, all of whom are employees of the organization.

### 3.4.2 Sampling Techniques.

The selection of members of management and employees was done using purposive sampling.

## 3.5 Data Collection Methods and Instruments.

The data collection methods used in the study include; secondary and primary data collection methods.

Secondary data sources included published and unpublished documentations relating to the research topic. For example, journals, newspaper and internet articles, textbooks, abstracts, dissertations, and so forth. Information obtained using this method is mainly presented in the literature review.

Primary data comprises information obtained from the organization chosen as the case study and other members of the sampled population. Questionnaires were used to gather the needed information.

## 3.6 Quality Control Methods.

Quality control was done through a series of procedure. The research instruments-that is, the questionnaires, were evaluated for effectiveness and efficiency a number of times before presenting it to the respondents. This was done to ensure that the right quantity and quality of information could be obtained using it.

The information obtained from each secondary source was well read and understood to ensure that it was relevant to the topic and added value to the body of knowledge presented in the report.

### 3.7 Data Management and Processing.

An article on (libraries.psu.edu, accessed on 20th February, 2015) defines data management as the process of controlling the information generated during a research project. It is further stated that managing data is an integral part of the research process, and that how it is done depends on the types of data involved, how data is collected and stored, and how it is used throughout the research lifecycle.

In this study, data was obtained from various sources categorized under primary and secondary sources. That from the primary sources, that is, the respondents, was stored in a file where it could easily be accessed by the researcher when needed for analysis and at the same time safe from any potential damage. Data from secondary sources was managed differently depending on its nature. Books and dissertations from the University library were mostly read and left there since this is the safest place they could be stored and accessed for further analysis. Downloadable documents from the internet were stored on a file on the researcher's computer and backed up on a hard drive. Internet links to documents that could not be downloaded off the internet were recorded in a word document and stored in the same files as the downloadable documents, where they could easily be accessed incase the researcher needed to revisit the websites.

### 3.8 Data Analysis.

The data obtained from the field was analyzed in comparison with the knowledge obtained on the topic through the literature review.

The data analysis techniques used included both quantitative and qualitative techniques.

### 3.9 Ethical Considerations.

In almost every survey based study, the process of data collection is faced with the problem of persuading participants to co-operate with the researcher. It is generally acceptable that as an ethical right, every participant has a right to privacy and voluntary participation, anonymity alongside confidentiality (Byaruhanga, L. 2014).

Anonymity was ensured by allowing the respondents the option of withholding any personal information if they so wished. It was made clear to all respondents that whatever information obtained through this survey would not be linked back to them and that it would be used strictly for academic purposes.

A letter from the Faculty of Business Administration and Management, introducing the researcher, was presented to each respondent, alongside a valid identification card.

### 3.10 Limitations of the Study

The limited time the researcher had for carrying out the research project limited the number of activities that could be undertaken to gain a thorough understanding of the topic.

Each of the dimensions of the independent variable, corporate diversification, that is, product, geographical, and technological diversification is a detailed and large area of corporate strategic planning that requires lengthy study to clearly grasp and present in a way that other readers can fully learn and benefit from. The limited resources, for example, time and money, available to the researcher made it difficult to achieve this aim.

Due to the constraints placed on employees as professionals, only limited information could be provided to the researcher due to his position as an external party.

The limited information acquired on the different dimensions of the independent variable, corporate diversification, made it difficult to fully evaluate all the dimensions of the dependent variable, organizational performance.

# CHAPTER FOUR

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction:

This chapter provides the results of the study. Data was obtained using questionnaires and analyzed using SPSS v16.0. Information relating to each question in the questionnaire presented to respondents is presented in a table and descriptive information relating to it provided.

### 4.1.1 Background of the respondents in the sample.

A total of sixty questionnaires were distributed although a total of forty four questionnaires were returned fully complete, making a response rate of 73.333%, which is sufficient to draw valid conclusions on responses obtained.

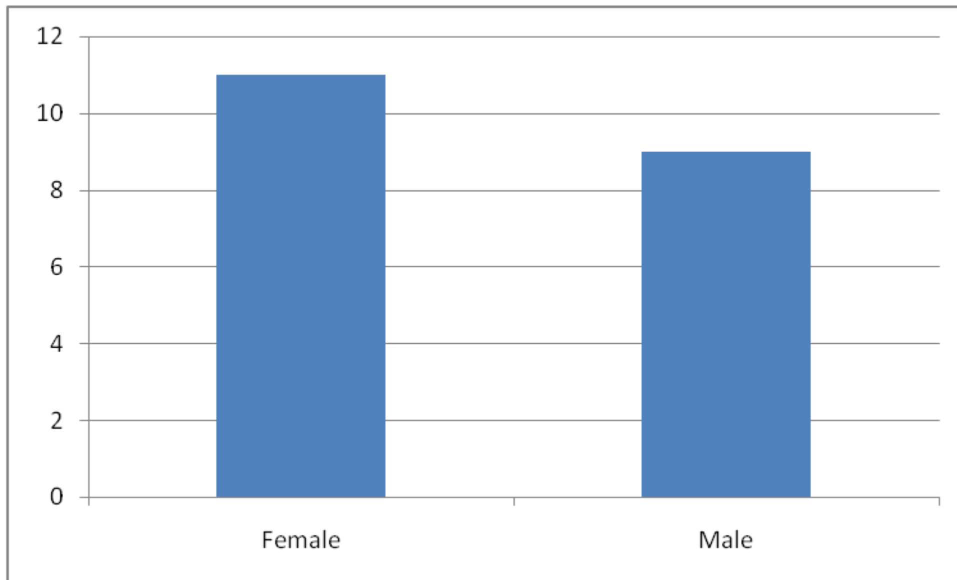
### 4.1.2 Bio data

The instrument was designed to capture data on the gender of the respondents and their age. This was intended to understand the population of respondents according to their gender and age. The results obtained are presented below.

**Table 4.1:** Frequency and percentage distribution of gender of respondents.

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 20 | 45% |
| Female | 24 | 55% |
| | 44 | 100% |

**Fig. 2 Gender composition of respondents**

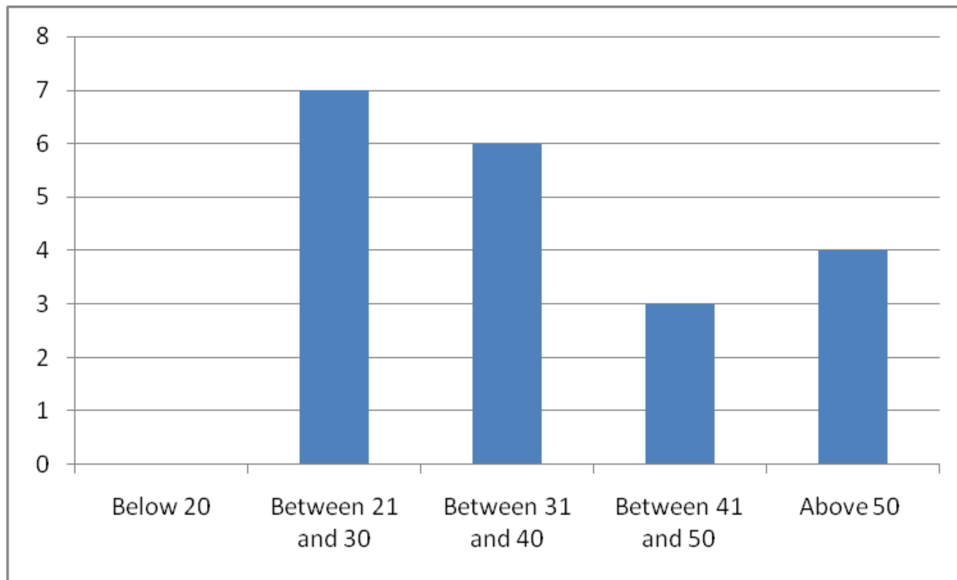



Out of those that filled in and returned the questionnaires, 24 (55%) were female and 20 (45%) were male. Implying that more females participated in the study than males.

**Table 4.2:** Frequency and percentage distribution of age groups of the respondents.

| Age group (Years) | Frequency | Percentage |
|---|---|---|
| Below 20 | 0 | 0% |
| Between 21 and 30<br>Between 31 and 40<br>Between 41 and 50<br>Above 50 years | 15<br>13<br>7<br>9 | 35%<br>30%<br>15%<br>20% |
| Total | 44 | 100% |

**Fig 3:** Age composition of respondents.




Out of those that filled in and returned the questionnaires, the majority (35%) fell within 21 and 30 years. The least (15%) fell within the 41 and 50 year bracket.

## 4.2 Product diversification.

### 4.2.1 Introducing new products has helped the organization capture new customers and increase its market share.

**Table 4.3** Frequency and percentage distribution of product diversification (Question 1)

| | Frequency | Percent |
|---|---|---|
| Valid strongly disagree | 2 | 4.8 |
| disagree | 6 | 14.3 |
| agree | 19 | 42.9 |
| strongly agree | 17 | 38.1 |
| Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new products has helped the organization capture new customers and increase its market share. The highest percentage (42.9%) agreed, followed in number by those that strongly agreed (38.1%). This implies that introducing new products has helped the organization capture new customers, which is in line with Ian Linton (2010)'s observation that product diversification strategy provides opportunities to grow the business by increasing sales to existing customers or entering new markets.

**4.2.2 Introducing new products has helped improve the financial performance of the organization.**

**Table 4.4** Frequency and percentage distribution of product diversification (Question 2)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | strongly disagree | 2 | 4.8 |
| | disagree | 4 | 9.5 |
| | agree | 25 | 57.1 |
| | strongly agree | 13 | 28.6 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new products has helped improve the financial performance of the organization. The majority (57.1%) agreed, followed by those that strongly agreed (28.6%). This implies that introducing new products has helped improve the financial performance of the organization. This is in support of the main conclusion from Maina,J,K. (2013)'s study stating that the diversification of products was an appropriate strategy to increase the profit potential.

### 4.2.3 Introducing new products has helped increase the value of the organization in the public's eye.

**Table 4.5** Frequency and percentage distribution of product diversification (Question 3)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | disagree | 4 | 9.5 |
| | not sure | 4 | 9.5 |
| | agree | 25 | 57.1 |
| | strongly agree | 11 | 23.8 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new products has helped increase the value of the organization in the public's eye. The highest percentage (57.1%) agreed followed by those that strongly agreed (23.8%). This implies that introducing new products has helped increase the value of the organization in the public's eye. This is inconsistent with Luis, M, B (2003)'s view that corporate reputation may suffer when firms diversify.

**4.2.4 Introducing new products has given the organization an edge over its competitors in the banking sector of Uganda.**

**Table 4.6** Frequency and percentage distribution of product diversification (Question 4)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | strongly disagree | 2 | 4.8 |
| | disagree | 2 | 4.8 |
| | not sure | 4 | 9.5 |
| | agree | 13 | 28.6 |
| | strongly agree | 21 | 47.6 |
| | Total | 42 | 95.2 |
| Missing | System | 2 | 4.8 |
| Total | | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new products has given the organization an edge over its competitors in the banking sector of Uganda. 47.6% strongly agreed followed by 28.6% that agreed. These results imply that introducing new products has given the organization an edge over its competitors in the banking sector of Uganda, which is in

support of the findings on marketingdonut.co.uk (accessed on 20th February, 2015) that introducing new products or services to the marketplace can give one an instant edge.

### 4.2.5 Product diversification has helped position the organization at the head of the banking sector in Uganda.

**Table 4.7** Frequency and percentage distribution of product diversification (Question 5)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | strongly disagree | 2 | 4.8 |
| | disagree | 4 | 9.5 |
| | not sure | 4 | 9.5 |
| | agree | 17 | 38.1 |
| | strongly agree | 15 | 33.3 |
| | Total | 42 | 95.2 |
| Missing | System | 2 | 4.8 |
| Total | | 44 | 100.0 |

**Primary source.**

The respondents were asked whether product diversification has helped position the organization at the head of the banking sector in Uganda. The highest percentage (38.1%) agreed, followed by those that strongly agreed (33.3%). This implies that product

diversification has helped position the organization at the head of the banking sector in Uganda. This is also in support of the findings on marketingdonut.co.uk (accessed on 20th February, 2015) that introducing new products or services to the marketplace can give one an instant edge.

### 4.3 Technological diversification.

#### 4.3.1 Introducing new technologies in its production process has helped the organization reduce its cost of production.

**Table 4.8** Frequency and percentage distribution of product diversification (Question 1)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | strongly disagree | 2 | 4.8 |
| | disagree | 4 | 9.5 |
| | not sure | 4 | 9.5 |
| | agree | 21 | 47.6 |
| | strongly agree | 13 | 28.6 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new technologies in its production process has helped the organization reduce its cost of production. The highest percentage (47.6%) agreed followed by those that strongly agreed (28.6%). This implies that introducing new

technologies in its production process has helped the organization reduce its cost of production, which is in line with the findings from marketingdonut.co.uk (accessed on 16th April, 2015) stating that introducing new technology to one's business, in the form of better equipment, can increase their capacity and has the potential to free up staff time if used efficiently.

### 4.3.2 Introducing new technologies in its production process has helped the organization improve performance in terms of meeting set objectives.

**Table 4.9** Frequency and percentage distribution of product diversification (Question 2)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | disagree | 6 | 14.3 |
| | not sure | 2 | 4.8 |
| | agree | 23 | 52.4 |
| | strongly agree | 13 | 28.6 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new technologies in its production process has helped the organization improve performance in terms of meeting set objectives. The majority (52.4%) agreed, followed by those that strongly agreed (28.6%). This implies that introducing new technologies in its production process has helped the organization improve performance in terms of meeting set objectives, which is in line with Gregory,D (1998)'s

findings that technological diversification can improve efficiency and effectiveness of the organization.

### 4.3.3 Introducing new technologies in its production process has helped improve the organization's competitiveness in the market place.

**Table 4.10** Frequency and percentage distribution of product diversification (Question 3)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | strongly disagree | 2 | 4.8 |
| | disagree | 6 | 14.3 |
| | not sure | 2 | 4.8 |
| | agree | 23 | 52.4 |
| | strongly agree | 11 | 23.8 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether introducing new technologies in its production process has helped improve the organization's competitiveness in the market place. The majority (52.4%) agreed, followed by those that strongly agreed (23.8%). This implies that introducing new technologies in its production process has helped improve the organization's competitiveness in the market place, which is in support of Chen, J, S. and Tsou, H, T.

(2007)'s observation that adopting technology has positive effects on service innovation practices, which increase the competitive advantage of firms.

### 4.3.4 Technological diversification has helped position the organization at the head of the banking sector in Uganda.

**Table 4.11** Frequency and percentage distribution of product diversification (Question 4)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | disagree | 10 | 23.8 |
| | not sure | 2 | 4.8 |
| | agree | 19 | 42.9 |
| | strongly agree | 13 | 28.6 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether technological diversification has helped position the organization at the head of the banking sector in Uganda. The highest percentage (42.9%) agreed, followed by those that strongly agreed (28.6%). This implies that technological diversification has helped position the organization at the head of the banking sector in Uganda. This is similar to Gamesa's experience where its technological capacity and its vertical integration approach enabled it to strengthen its position as a market leader (Gamesacorp.com. accessed on 16th April, 2015)

## 4.4 Geographical diversification.

### 4.4.1 Opening up business units in new locations has helped the organization to capture more customers and increase its market share.

**Table 4.12** Frequency and percentage distribution of product diversification (Question 1)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | disagree | 2 | 4.8 |
| | not sure | 4 | 9.5 |
| | agree | 15 | 33.3 |
| | strongly agree | 23 | 52.4 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether opening up business units in new locations has helped the organization to capture more customers and increase its market share. The majority of the respondents strongly agreed (52.4%). This implies that opening up business units in new locations has helped the organization to capture more customers and increase its market share which is in support of Angela, K. et al (1999)'s view that a benefit of geographical diversification would be increased sales volumes through year-round production capabilities.

### 4.4.2 Opening up business units in new locations has helped improve the financial performance of the organization.

**Table 4.13** Frequency and percentage distribution of product diversification (Question 2)

| | | Frequency | Percent |
|---|---|---|---|
| Valid | disagree | 13 | 28.6 |
| | not sure | 2 | 4.8 |
| | agree | 13 | 28.6 |
| | strongly agree | 16 | 38.1 |
| | Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether opening up business units in new locations has helped improve the financial performance of the organization. The highest percentage of respondents strongly agreed (38.1%). This implies that opening up business units in new locations has helped improve the financial performance of the organization which is in support of Steinemann, P. (2007) findings that product and geographical diversification contribute to better financial performance.

**4.4.3 Opening up business units in new locations has helped increase the value of the organization in the public's eye.**

**Table 4.14** Frequency and percentage distribution of product diversification (Question 3)

| | Frequency | Percent |
|---|---|---|
| Valid disagree | 4 | 9.5 |
| not sure | 4 | 9.5 |
| agree | 19 | 42.9 |
| strongly agree | 17 | 38.1 |
| Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether opening up business units in new locations has helped increase the value of the organization in the public's eye. The majority agreed (42.9%), followed by those that strongly agreed. This implies that opening up business units in new locations has helped increase the value of the organization in the public's eye. This is inconsistent with Luis, M, B. (2003)'s view that corporate reputation may suffer when firms diversify.

### 4.4.4 Geographical diversification has helped position the organization at the head of the banking sector in Uganda.

**Table 4.15** Frequency and percentage distribution of product diversification (Question 4)

| | Frequency | Percent |
|---|---|---|
| Valid strongly disagree | 2 | 4.8 |
| disagree | 2 | 4.8 |
| not sure | 4 | 9.5 |
| agree | 15 | 33.3 |
| strongly agree | 21 | 47.6 |
| Total | 44 | 100.0 |

**Primary source.**

The respondents were asked whether geographical diversification has helped position the organization at the head of the banking sector in Uganda. The majority (47.6%) strongly agreed. This implies that geographical diversification has helped position the organization at the head of the banking sector in Uganda. This view is supported by the findings from the other three questions-that is, improved market share, financial performance, and firm reputation. Similar results were observed to give KOBIL Oil corporation, in a study by Njoroge, I. (2006), competitive advantage.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

## 5.0 Introduction

This chapter presents a summary of the findings, a conclusion of the study and recommendations by the researcher. The discussion here is guided by the three specific research objectives.

## 5.1 The effect of product diversification on an organization's performance.

The study found out that introducing new products has helped the organization capture new customers, improve its financial performance, and helped increase the value of the organization in the public's eye.

On the same note, the results also indicate that introducing new products has given the organization an edge over its competitors in the banking sector of Uganda and helped position the organization at the head of the banking sector in Uganda.

## 5.2 The effect of technological diversification on an organization's performance.

Regarding technological diversification, the study found out that introducing new technologies in its production process has helped the organization reduce its cost of production, improve performance in terms of meeting set objectives, improve the organization's competitiveness in the market place, and position it at the head of the banking sector in Uganda.

## 5.3 The effect of geographical diversification on an organization's performance.

The research findings revealed that opening up business units in new locations has helped the organization to capture more customers and increase its market share, improve its financial performance, increase its value in the public's eye, and position it at the head of the banking sector in Uganda.

## 5.4 Recommendations.

Corporate managers should continuously review the environment so as to identify opportunities for their organizations to exploit through expansion of their product range, adoption of new technology, and/ or setting up business units in new locations.

When planning to take on corporate diversification as a business strategy, managers should identify and evaluate all the options available to them before deciding on and implementing a strategy. For example, opportunities for taking over firms in the business area of interest as well as opportunities for internal research and development for a start up should be identified and evaluated to determine which is more feasible.

Further and more detailed research into the effect of corporate diversification on organizational performance should be conducted. This research should cover more than one organization and a timeframe much wider than that covered by this study. The change in more accurate indicators like financial ratios should be examined for each new product introduced, technology field adopted, and /or new business unit established.

## 5.5 Conclusion.

Corporate diversification through its different forms-that is, product, technological and geographical diversification, is a good strategy for organizational growth and improvement in firm performance. New customers can be reached by setting up business units in new locations, efficiency improved by introducing new technology in the production process, and varying customer needs met through a variety of products, among other benefits.

Single business firms can use corporate diversification as a means to reduce risk by spreading their investments over a variety of ventures hence reducing the effect of the volatility in returns from the original business, and/ or they could use it as a growth strategy hence improving their market share and profitability.

Basing on the results obtained from the study, corporate diversification has a positive effect on organizational performance.

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# APPENDICES

## Appendix I: Research Questionnaire

**DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**FACULTY OF BUSINESS ADMIINISTRATION AND MANAGEMENT, UGANDA MARTYRS UNIVERSITY.**

**RESEARCH TOPIC: THE EFFECT OF DIVERSIFICATION ON ORGANIZATIONAL PERFORMANCE.**

1. **Researcher's Name:** SEBULIBA Vincent Martin **Reg No.** 2012-B021-10042

   Date of interview: …. / …. / …. (day/month/year)

2. Name and position of respondent (optional):

   ……………………………………………………………………………………….

3. Gender: Please tick where appropriate

   (i) Male ☐ (ii) Female ☐

4. Age bracket of respondents (Specify by ticking)

   (i) Below 20 yrs ☐ (ii) Between 21 and 30 yrs ☐

   (iii) Between 31 and 40 yrs ☐ (iv) Between 41 and 50 yrs ☐

   (v) Above 50 yrs ☐

5. Please tick to indicate: 1. Strongly disagree. 2. Disagree. 3. Not sure. 4. Agree 5. Strongly agree.

| **Product diversification** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Introducing new products has helped the organization capture new customers and increase its market share. | | | | | |
| Introducing new products has helped improve the financial performance of the organization. | | | | | |
| Introducing new products has helped increase the value of the organization in the public's eye. | | | | | |
| Introducing new products has given the organization an edge over its competitors in the banking sector of Uganda | | | | | |
| Product diversification has helped position the organization at the head of the banking sector in Uganda. | | | | | |
| **Technological diversification** | | | | | |
| Introducing new technologies in its production process has helped the organization reduce its cost of production. | | | | | |
| Introducing new technologies in its production process has helped the organization improve performance in terms of meeting set objectives. | | | | | |
| Introducing new technologies in its production process has helped improve the organization's competitiveness in the market place. | | | | | |
| The new technologies have helped increase efficiency and effectiveness in production and service delivery. | | | | | |
| Technology diversification has helped position the organization at the head of the banking sector in Uganda. | | | | | |
| **Geographical diversification.** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Opening up business units in new locations has helped the organization to capture more customers and increase its market share. | | | | | |
| Opening up business units in new locations has helped improve the financial performance of the organization. | | | | | |
| Opening up business units in new locations has helped increase the value of the organization in the public's eye. | | | | | |
| Geographical diversification has helped position the organization at the head of the banking sector in Uganda. | | | | | |

***Thank you for your time and cooperation.***