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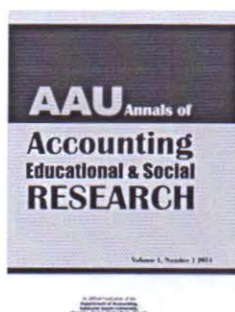
AAU Annals of

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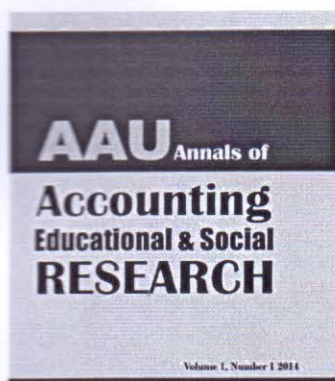
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PRODUCT DIVERSIFICATION AND PERFORMANCE IN SELECTED NIGERIAN FOOD AND BEVERAGE FIRMS

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Abstract:

The intense competition among rival firms in different sectors of the Nigeria economy has led competing firms in search of growth and surviving strategies in transiting economy. This paper examines the effects of products diversification strategy on the performance of listed manufacturing firms in the Nigeria's food and beverage industry (F&BI). It aims to determine the effect of diversification strategy on the sales and profit performance of manufacturing firms in the F&BI. The study sampled six quoted manufacturing firms out of the seventeen manufacturing firms operating in Nigeria F&BI. It gathered its data through secondary sources and this was done through literature and various editions of Nigerian Stock Exchange Fact book. Firm's performance which is dependent variable was measured using accounting based measures of proportion of sales to assets (POSA) and return on investment (ROI) while dummy variables were introduced to represent firms that operate either related or unrelated diversification strategy. It used ordinary least square (OLS) regression analysis with dummy variable as analytical techniques. It was discovered that diversification strategy has significant effect on the sales and profit performance of manufacturing firms. The study recommends that manufacturing firms in F&BI desiring improve sales and profit performance should adopt diversification strategy.

Key-words:

Product Diversification, Related Diversification,
Unrelated Diversification Performance,
JEL codes: M31

1.0 Introduction

One of the most significant changes in the economic activities in Nigeria in the last few years is the growing number of products available to the consumers in the markets place and this is as a result of the intense competition among rival firms in different sectors of the nation economy (Food and Beverages Industry Report, 2010). Each manufacturing firm embraces product diversification as a survival strategy in response to the intense competitive environment. According to Patrick (2012) the role of product diversification strategy as a catalyst for competitive strategies is well established in the literature. In his view the role of product diversification becomes clear in terms of the gains of product diversification in improving the performance of business firms. These gains include substantial increase in market power, creation of synergy in market operations, and reduction in the probability of bankruptcy and minimization of risk (Amit and Livnat, 1988; Ramirez and Espitia, 2002; Kotler, 2003; and Patrick, 2012).

To tap from aforementioned gains inherent in the operations of product diversification strategy, manufacturing firms in Nigeria that desire improved performance have adopted product diversification strategy in order to storm the weather of intense pressure from the operating environment (Mustapha, 2013). In supporting this claim Bruche (2000) asserts that it is an empirical fact that Multi-Business Company is the prevailing model of the firm of contemporary capitalist economy and Ohiwerei (2003) affirms this claim when he observed that Unilever Plc has developed a portfolio of excellent brands supported by a capable supply chain that will enable it to meet future demands and cope with the operating environment.

The scholars in the advanced countries have made various efforts to demonstrate the effects of diversification on firms' performance but findings of these studies are conflicting and inconclusive (Mustapha, 2013, Oyedijo, 2012 and Alhorr, 2005). However, there is paucity of studies that examine the effects of diversification on the performance of firms in developing economies, thus this limits the generalisation of the findings of the diversification studies conducted in the advanced world (Mustapha, 2013 and Oyedijo, 2012).

In Nigeria, manufacturing firms operating in the food and beverage sector adopted product diversification strategy in order to spread their businesses risks and improve their performance. Hence, diversification is adopted as a strategy for coping with challenges of operating and competing in a transiting economy and in an industry characterized by high

level of environmental dynamism. However, the resultant performance of the manufacturing firms that have adopted product diversification strategy especially in the food and beverages industry remains to be tested and examined empirically, hence, a study on the effect of the product diversification strategy on the performance of manufacturing firms in the food and beverages industry provides the authors the opportunity of adding to the existing body of knowledge on the subject matter and also provides information that can assist managers' decisions making through its findings.

The aim of this study is to examine the effect of diversification strategy on the sales and profit performance of manufacturing firms in the food and beverages industry. The study identified the specific effect of product diversification strategy on the sales and profit performance of business organizations.

2.0 Literature Review

The literature on strategy enumerates different types of strategies that organizations' managers could adopt to provide different corporate directions, growth and development for their organizations (Rue and Holland, 1989; Grant 2005; and Mintzberg, Ahlstrand and Lampel 2009). Diversification is a strategy among the array of strategies available to corporate level managers to turn around the performance of their organisations all over the world. Diversification strategy is a grand strategy in which a firm directs its resources to the profitable growth of its business by venturing into other lines of businesses whether they are related or unrelated (Kotler and Armstrong, 2008).

Diversification is part of the four main marketing growth strategies propounded by Ansoff (1957) in his popular Product/Market matrix. According to Jain (1997) and Lambin (1996), Ansoff cautioned that diversification strategy stands apart from the other three concentration growth strategies, that is, market penetration, product development, and market development strategies. In the view of Ansoff the three concentration growth strategies are usually pursue with the same technical, financial, and merchandising resources use for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

Diversification strategy is a means by which a firm expands from its core business into other products or markets (Morgan and Rogo, 2008 and Aaker, 2004). Kasmi (2008) sees diversification strategy as a process involving substantial change in the business

definition - singly or jointly in terms of customer function, customer group or alternative technologies of one or more of a firm's businesses, while Hitt, Hoskisson and Kim (1997), Grant (2005) and Kotler and Armstrong (2008) see diversification strategy as the decision to expand the scope of a firm's business beyond its current markets.

There are two dimensions of rationale for diversification strategy suggested in the strategy literature by scholars such as Kasmi (2008), Amit and Livnat (1988), Rumelt (1974) *e.t.c* . The first one relates to the nature of the strategic objective, that is, diversification may be defensive or offensive. The defensive reasons may be spreading the risk of market contraction or being forced to diversify when current product or current market orientation seems to provide no further opportunities for growth, while the offensive reasons may be conquering new positions, taking opportunities that promise greater profitability than expansion opportunities or using retained cash that exceeds total expansion needs. The second reason involves the expected outcomes of diversification, that is, management may expect great economic value (growth or profitability) or first and foremost, great coherence complementary to their current activities such as exploitation of know-how, more efficient use of available resources and capacities. Furthermore, Rijamampianina, Abartt and February (2003) observe that a firm may be spurred to diversify because of profit enhancement, sales growth, stock value improvement, market efficiency and stability of income flow. On his part Rumelt (1974) firmly believed that organisations' reason for diversification might be connected to extant factors in the operating environment of business organization such as competition in the market and fall in sales.

Diversification strategies are used to expand firms' operations by adding new markets, products, services, or stages of production to the existing business. The essence of diversification is to allow the firm to enter lines of business that are different from the current operations (Ansoff, 1957). However, where a firm's new venture is strategically related to its existing lines of business, it is called related diversification, while unrelated diversification occurs when there is no common thread of strategic fit or relationship between the new and old lines of business (Tevfik and Oktay, 2008; Kazmi, 2008; Kotler and Keller, 2009). The three types of diversification strategy that are mostly discussed in the diversification strategy literature are related, horizontal and unrelated (Wheelen and Hunger, 2007; Thompson *et al.* 2007; Tevfik and Oktay, 2008; Kazmi, 2008 and Kotler and Keller, 2009).

Venturing into unrelated areas or industries is known as unrelated diversification and through this strategy organisations aim to reduce their overall risks exposure and expand their growth opportunities. On the other hand, related diversification refers to expansion of organizational activities beyond the existing product lines and/or markets or the current industry (Eren, 2005 and Wheelen and Hunger, 2006). Horizontal diversification strategy occurs when organisations seek to add new products that could appeal to their current customers though technologically unrelated to their current product lines (Kotler, 2003 and Kazmi, 2008).

Manufacturing firms in the food and beverage industry are operating in a sector characterized with dynamic customer choice(s) and other environmental uncertainties which make it pertinent for them to employ competitive strategies that can ensure their success in the market place. It is for this reason that MacGregor and Sever (1996) observed that the food-manufacturing industry, is a frequently diversified segment and this poses a big challenge to their growth and survival as they mostly depend on low profits, slow growth and high volume. Thus, Nigerian manufacturing firms in the food and beverage sector adopted product diversification strategy (related, unrelated, and horizontal) in order to spread their businesses risks and improve their firms' performance.

On the basis of the aforesaid, the study hypothesized the effect of diversification on sales and profit performance as follows;

Hypothesized Relationship between Diversification and Sales Performance (POSA)

The literature suggests that diversification strategy had effect on sales performance. Datta, Rajagopalan and Raheed (1981), Lei, Capon, Hubert and Farley (1994), and Kang and Montoya (2008) for instance pointed out that diversified operations of business organization lead to high level of revenue generation. They argued that the adoption of diversification enabled firms to derive high proportion of revenue from the mature products and markets and this they argued improves organizational performance. Thus, this study hypothesized that; *diversification strategy does not have significant effect on the sales performance (POSA) of manufacturing firms*. This is the first hypothesis to be tested in this study

Hypothesized Relationship between Diversification and Profit Performance (ROI)

A number of strategy scholars also argued that diversification impacted on profit performance of business organisations. McKinsey (2001), Matrave and Rodrigues (2005), and Delios and Xu (2008) also maintained that the adoption of diversification strategy affect profit

performance of organizations. In fact, Matrave and Rodrigues (2005) discovered that diversification strategy can be used to stimulate profit. Hence, the study hypothesized that; *diversification strategy does not have significant effect on the profit performance (ROI) of manufacturing firms*. This is the second hypothesis to be tested in the study

2.1 Previous Related Studies

The survey of the existing related studies revealed that the findings of the works in this area are inconclusive. Empirical studies such as Yaghoubi, Abidin and Yaeghoobi (2011), Chen and Yu (2011), and Matrave and Rodrigues (2005) reported that there is positive effect between diversification and firms' performance while others such as Palepu (1985) and Varaderajan and Ramanujam (1990) discovered negative effect between diversification and performance.

Yaghoubi, Abidin and Yaeghoobi (2011) examined the impact of diversification strategies on performance of Malaysian public listed companies and discovered that for some years the relationship between diversification and performance is significant. In their work, Chen and Yu (2008) examined the inter-relationships among managerial ownership, diversification, and firm performance and the results of their study showed that corporate diversification is found to be positively associated with short-term firm performance and bears no relationship with mid-term firm's performance and that there is a U-shaped relationship between managerial ownership and corporate diversification. Also, Chakrabarti, Kulwant and Mahmood (2007) explore the impact of diversification on performance of the firms operating in different institutional environments during a relatively stable period and during a major economy-wide shock in Asian. The study discovered that diversification negatively impacts performance in more developed institutional environments while improving performance only in the least developed environments. Matrave and Rodriguez (2005) through their study tried to establish the relationship between diversification, multi-nationality and profitability among leading German and UK firms during the period of implementation of the Single European Market (SEM). The results obtained from this study indicate that multi-nationality and diversification are substitute strategies for stimulating profit in UK, but not in Germany.

While these studies are valuable to the understanding of diversification operations, they are mainly advanced countries based and as such their findings may not be adequately

suitable to Nigeria's situation owing to peculiarities and the fact that Anderson and Gatignon (1997) had categorized world market environments into low, moderate and high risk market environments. Therefore, the findings of these studies may not be straight forwardly applicable to Nigeria situations owing to these peculiarities. Hence, this current study fills this gap by examining the effect of product diversification on the performance of manufacturing firms in the Nigeria food and beverage industry.

3.0 Methodological Issues

The population of this study consists of all the seventeen quoted manufacturing firms operating in the food and beverage sector of Nigerian Stock Exchange (NSE) as published in the 2011 edition of NSE Fact book. The adoption of quoted firms as case study is not unusual as studies such as Tevfik and Oktay (2008) and Abubakar, (2011) used quoted firms as their case study. The study used Cochran (1977)'s formula for sample determination to arrive at six manufacturing firms as the sample firms to be investigated. The six (6) manufacturing firms were distributed equally across the two strata, namely; three (3) from unrelated diversified manufacturing firms and three (3) from related diversified manufacturing firms. The selected related diversified manufacturing firms are Nigerian Bottling Company Plc, UTC Nigeria Plc, and P.S. Mandrides & Co. Plc, while the unrelated diversified manufacturing firms consist of Cadbury Nigeria Plc, Nestle Nigeria Plc and Flour Mills of Nigeria Plc. To arrive at the above selected firms, the study uses a combination of sampling techniques which is normally adopted when a single sampling technique is considered inadequate (Asika, 1991, Zahradeen, 2003, Adogbo and Ojo, 2003, Halliru, 2008 and Greener, 2008). The sampling techniques used for this work include simple random sampling, stratified sampling and purposive. The purposive sampling was employed to select a sample out of the two firms in the Northern stratum to refrain the samples from being excessively skewed to the southern stratum. Stratified sampling technique was used to categorise the sampled firms into related and unrelated diversified manufacturing firms. However, five (5) diversified manufacturing firms were randomly selected from the southern stratum (i.e. Lagos axis) out of fifteen (15) firms in that axis, while one was selected out of the two firms in the Northern stratum (Kano axis). Hence, five (5) firms which represent 83% of the total sample came from the southern stratum while one (1) firm that represents 17% of the total sample firms came from the northern stratum.

Secondary data were sourced from the annual reports and statement of accounts of the sampled firms published in the NSE Fact book for a period of ten years, that is, year 2000 to 2009. The adoption of the secondary data to measure the performance of corporate organisations was used in line with the studies of Abdulsalam (2006), Tevfik and Oktay (2008), Oyedijo (2012), and Patrick (2012). The firm's performance (dependent variables) is defined using an accounting-based measure of proportion of sales to assets (POSA) and return on investment (ROI) and the two were used to measure the efficiency of the sampled manufacturing firms in utilizing their firms' resources to generate sales and profit respectively. The study used these performance indicators in line with the arguments of Simmonds (1990), Chatterjee (1991), Markides and Williamson (1996), Pandya and Rao (1998) and Awang, Ishak, Radzi, and Taha (2008) that organisational performance can be measured using sales growth, profit, return on investment, return on asset, market share, overall financial performance and product success.

The study employed a dummy to represent the independent variable which has to do with the sampled firms' scope of product diversification such as that firm that operates unrelated diversification is assigned a value of one (1), while zero (1) is assigned to the firm that operates related diversification. Thus, ordinary least square (OLS) regression analysis with dummy variable was employed to analyse ten years panel data collected from the sampled firms and the analysis was conducted using E-view statistical package version 4. The study employed heteroscedasticity and auto-correlation corrected (HAC) model developed by Wooldridge (2002) to correct the variations in the sampled firms' data and this prevents the regressors from correlating with their error terms. Thus, the study's result is robust as it is free from both hetroscedasticity and autocorrelation related problems. In addition descriptive statistics of mean, standard deviation, minimum and maximum values, kurtosis, skewness and jarque-bera of the variables were analysed.

3.1 Model Specification

The models for the study are specified as:

Model for hypothesis one:

$$\text{Sales Perf.} = \beta_1 D + \beta_2 \text{Profit Perf.} + e_1$$

Where;

Sales Perf = Sales Performance

β_1 = Parameter or coefficient of diversification strategy

β_2 = Parameter or coefficient of Profit Performance

D = Diversification strategy

e_1 = Error term

Model for hypothesis two:

$$\text{Profit Perf.} = \alpha_1 D + \alpha_2 \text{Sales Perf.} + \epsilon_1$$

Where;

Profit Perf. = Profit Performance

α_1 = Parameter or coefficient of diversification strategy

α_2 = Parameter or coefficient of Sales Performance

D = Diversification strategy

ϵ_1 = Error term

The values assigned are: 1 for the conglomerate firms and 0 for the concentric firms

4.0 Data Analysis and Discussion of Results

Data Analysis Table 1: Descriptive Statistics of Sales (POSA) and Profit (ROI) Performance									
Variables	Sample Size (N)	Mean	Std. Dev.	Max. Value	Min. Value	Kurtosis	Skewness	Jarque-Bera	Prob.
POSA	60	103.94	102.45	505.65	0.32	5.89	1.55	44.83	0.0000
ROI	60	14.32	32.24	129.93	-104.40	7.78	0.69	61.80	0.0000

Source: Researcher's simulation from e-View Statistical Package.

The mean, standard deviation, maximum, minimum, kurtosis, skewness, jarque-bera and their probabilities are presented in Table 1. For POSA, the numbers of observations are 60 with a mean of 103.94 and Standard Deviation of 102.45. The maximum and the minimum values of POSA are 505.65 and 0.32 respectively. For Kurtosis, Skewness and Jarque-Bera their values

are 5.89, 1.55, and 44.83 respectively. The fact that the mean and standard deviations are approximately equal is an indication of the volatility of the level of efficiency of the manufacturing firms under investigation to use assets to generate sales. This is confirmed by the range of 505.33 and further illustrated by the coefficient of skewness of 1.55 and kurtosis of 5.89 as opposed to their normal values of 0.00 and 3.00 respectively.

In the case of ROI, the mean and standard deviation values are 14.32 and 32.24, while maximum and minimum values of ROI are 129.93 and -104.40 respectively. The values of Kurtosis, Skewness and Jarque-Bera are 7.78, 0.69, and 61.80 with a probability of 0.0000 respectively. It is apparent from these values that there is high volatility in the rate of profit performance (ROI) among the manufacturing firms under study. This is demonstrated by the high value of standard deviation which is more than double the value of the mean. This is further confirmed by the range of 234. From the above analysis, there are many variations in the values of each variable. This may be due to differences in the profit performance (ROI) of the conglomerate viz-a- viz concentric diversified manufacturing firms. This is further illustrated by the coefficient of skewness of 0.69 and kurtosis of 7.78 as opposed to their normal values of 0.00 and 3.00 respectively. All the descriptive statistics explained above are statistically significant at 1 percent level of significance as demonstrated by Jarque-Bera statistics.

Table 2: Panel regression result of diversification and sales performance (POSA)

Variables	Coefficient	Standard Error	Z-Statistics	Prob
Dummy	72.3007	5.3548	13.5020	0.0000
ROI	2.1751	0.1294	16.8169	0.0000
Adjusted R = 0.2972				
Durbin- Watson statistic 1.39				

- a. Dependent Variable : POSA
- b. Independent Variable: Diversification strategy.

Source: Researcher's Simulation from e-view

From the above results, diversification strategy has the effect of improving the level of sales performance (POSA). The result also shows that the profit performance (ROI) stimulates the level of sales performance (POSA). These results are statistically significant at 1% level of significant. The result further shows that the model explains 30% of the variation in the sales performance (POSA). The result of Durbin-Watson statistic clearly shows that we cannot

establish the presence or otherwise of auto- correlation. In other words, the value 1.39 falls in the in-decision zone.

4.1 Test of Hypothesis one

The first hypothesis states that diversification strategy does not have significant effect on the sales performance of manufacturing firms.

The critical Z-statistic based on 1 per cent level of significance is 2.56. From the above, the computed Z-statistic for sales performance (POSA) is 13.5. Since the computed Z-statistics is greater than the critical Z- statistic, we reject the null hypothesis and conclude that diversification strategy has significant effect on the sales performance of manufacturing firms. Hence, within the context of the study's analysis diversification strategy improves the sales performance of diversified manufacturing firms in the food and beverages sector of Nigerian Stock Exchange.

The result of the analysis of the data collected from the published records of the firms under study indicated that diversification strategy has significant effect on the sales performance of quoted manufacturing firms in the food and beverages sector of Nigeria economy. Furthermore, the result shows that the regression models explain 30% of the variations in the sales performance of the manufacturing firms under study. Thus, the results indicate that diversification strategy improves the sales performance of quoted manufacturing firms in Nigeria economy. The results of the test of hypothesis one indicated that ($N=60$, Z -statistic = $13.5 < 0.01$) and this simply implies that diversification strategy has significant impact on the sales performance of manufacturing firms in Nigeria's food and beverages industry.

The above result is not unusual. A number of previous studies in this area have found that diversification strategy improves organizational performance. For instance, Chakrabarti et al (2007) investigated diversification and firms' performance in East Asia and discovered that diversification strategy improves organizational performance in the least developed environment. Also, the work of Yaghoubi et al (2011) that examined the impact of diversification on the performance of Malaysian public listed companies discovered that for some years there is significant relationship between diversification and performance. In addition, the finding of the study conducted by Chen and Yu (2011) which examined

managerial ownership, diversification and firm performance discovered that established capability via diversification aided firms to pursue increased economic returns.

Table 3: Panel regression results of diversification and performance (ROI)

Variables	Coefficient	Standard Error	Z-Statistics	Prob
Dummy	3.8870	1.1450	3.3511	0.0008
POSA	0.1742	0.0103	16.9782	0.0000
Adjusted R = 0.3337				
Durbin- Watson statistic 1.55				

a. Dependent Variable : ROI

b. Independent Variable: Diversification strategy.

Source: Researcher's Simulation from e-view

Based on the above results, diversification strategy has the effect of improving the level of profit performance (ROI) of manufacturing firms. The result also shows that the sales performance (POSA) stimulates the level of profit performance (ROI). These results are statistically significant at 5% level of significant. The result further shows that the model explains 33% of the variation in the profit performance (ROI). The Durbin-Watson statistic 1.55 clearly shows that there is no problem of autocorrelation, either positive or negative.

4.2 Test of Hypothesis Two

The second hypothesis states that *diversification strategy does not have significant effect on the profit performance of manufacturing firms.*

The critical Z-statistic based on 1 per cent level of significance is 2.56. The above result shows that the computed Z-statistic is 3.35. Since the computed Z-statistics is greater than the critical Z- statistic, the null hypothesis is rejected and we conclude that diversification strategy has significant effect on the profit performance of manufacturing firms. Therefore, within the context of this study's results diversification strategy improves the profit performance (ROI) of manufacturing firms in the food and beverages sector of Nigerian Stock Exchange.

The result of the analysis of the data gathered from the published records of the firms under review showed that diversification strategy has significant effect on the profit performance of quoted manufacturing firms in the food and beverages sector of Nigeria economy. Furthermore, the result shows that the regression models explain 33% of the variations in profit performance of the manufacturing firms under study. Thus, the results indicate that diversification strategy improves the profit performance of quoted manufacturing firms in Nigeria economy. The results of the test of hypothesis two indicated that ($N=60$, Z -statistic = $3.35 < 0.01$) and this simply implies that diversification strategy has significant impact on the profit performance of manufacturing firms in Nigeria's food and beverages industry.

The above result is consistent with finding of the work of Matrave and Rodrigues (2005) that studied profitability, diversification, multi-nationality among the leading German and United Kingdom firms and found that diversification and multi-nationality are substitute strategies for stimulating profit in United Kingdom. Also, the work of Delios and Xu (2008) investigated ownership structure, diversification and performance of publicly listed Chinese firms and found that the related diversified firms out-performed the unrelated diversified firms across all measures of performance including profitability.

4.3 Managerial Implication

The managerial implications of the findings is that the study's results suggest that the findings will be useful as an important insight for policy makers, practitioners and academic researchers who are interested in strategic management and organizational performance in the manufacturing industry. Specifically, the managerial implications of this study point to the fact that managers in the manufacturing industry that desired increased sales and profit performance or need to improve and remedy their organisations' mediocre performance should adopt and operate diversification strategy.

The obvious contribution of this study is that it allows us to understand how models developed to explain the effect of diversification on manufacturing firm's performance in developed economies have been tested to ascertain their applicability in transiting or emerging economies.

5.0 Conclusions

Based on the findings of this study, the following conclusions are drawn;

Firstly, diversification strategy has significant effect on the sales performance of quoted manufacturing firms in food and beverages sector of Nigerian Stock Exchange. The adoption of the diversification strategy actually improves the sales performance of the studied firms.

Secondly, diversification strategy also has significant effect on the profit performance of quoted manufacturing firms in food and beverages sector of Nigerian Stock Exchange. The adoption of diversification strategy also improves the profit performance of the firms investigated.

6.0 Recommendations

Based on the findings and conclusion of the study, the following recommendations are made
Manufacturing firms desiring improved sales performance or remedies to their mediocre sales performance could adopt diversification strategy. Business organisation could do this by expanding its operations from its core or current business into other products or markets whether they are related or unrelated.

Firms seeking increased profit performance or remedies to their mediocre profit performance could adopt diversification strategy. Business organisation could do this by expanding its operations from its core or current business into other products or markets whether they are related or unrelated.

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