MIDLANDS STATE UNIVERSITY

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DEPARTMENT OF ACCOUNTING

AN EVALUATION OF THE IMPACT OF DIVERSIFICATION ON FINANCIAL PERFOMANCE AT TELONE

BY

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DECLARATION

I, ……………………………………., do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

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APPROVAL FORM

The undersigned certify that they have supervised the student CHIPURA CHIPURA SHELTON's dissertation entitled "An evaluation of the impact of diversification on financial performance at TelOne", submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.

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DEDICATIONS

I dedicate this dissertation to my mother Mrs S. Chipura,she is my pillar of motivation. Saving the most I dedicate it to my father Mr M.W Chipura who continually demonstrates his loving and generous commitment to me. In sweet and sour, I also dedicate this dissertation to my heroes, Munyaradzi, Toblina, Jain, Sheila, Shebah, Tafadzwa, Shamiso, Shylet and Tatenda. This is the product of your sacrifices brethren.

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Writing this part of the dissertation has been my goal for a very long time, because I thought it would mean that I was done. Others' acknowledgements intrigued me, often causing me to wonder how it would feel to be finished. I am surprised to find that my feelings are mixed; *relief*, first and foremost; *heartfelt gratitude* for so many people's assistance and that I have added some useful information to my area of practice but over whelmed by the realization that it is never really complete.

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ABSTRACT

The main objective of this project was to determine the impact of diversification on financial performance, so as toenhance the effective implementation of the diversification strategy. The central issue that gave rise to this research is the increased attention and growing popularity of diversification among Zimbabwean companies.

This study adopted the descriptive research methodology to answer the research questions which were both qualitative and quantitative in nature. Both primary and secondary sources of data were used in this study with the aid of eviews8 and stata11 packages to determine relationships between the variables under review. The variables included diversification as an independent variable and operating costs as well as operating profit as dependent variables.

The research key findings show that diversification positively impactsoperating cost by 49% and profitability by 66% at TelOne. From questionnaire and interview data analysis, it has been found that the benefits of diversification outweigh its costs. Collective marketing and continuous product analysis were considered to be best practices in diversification.

The researcher recommended the company to engage cost cutting measures to minimize the costs posed by diversification and to improve its profit margins. Collective marketing and selling of the company's services was also recommended by the researcher as it enables the company to enjoy marketing economies of scope. The company has also been advised to use internally generated funds to finance diversification strategy as that minimizes loss of collateral security and risks related to changes in interest rates.

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Abbreviations

Mc – Managerial costs

Cc – Communication costs

Cnc – Consolidation costs

Bos – Bundling of services

Eos – Economies of scope

FM – Finance director

MD – Managing director

CHAPTER ONE – INTRODUCTION

1.0 Introduction

With the need to improve profitability, various researchers have been lured to give attention to the relationship between diversification and financial performance. (Decker 2010., Mukhopadyay 2010., Didar et al 2014., Galvan 2014, Apostu2015., and Rafaela 2016.), view diversification as a catalyst which enhances the revenue earning capacity and lowers tax payable thereby increasing profit after tax for firms in developed countries. In an opposite view, (Braakmann 2011., Wagner 2011., Adamu et al 2011, Sheik et al 2012, Quresh et al 2015, and Tabatabaen 2016) concluded that diversification has a negative impact on the performance of manufacturing companies due to coordination costs associated with management of complex diversified firms in semi developed and developed countries. The relationship between diversification and financial performance has been analysed on manufacturing companies in semi-developed to developed countries in the presence of taxation. This research aims to take this relationship further and analyse it in the telecommunication sector in the absences of taxation using a case study of TelOne.

1.1 Study background

With the need to improve profitability, TelOne has diversified its activities from the supply of fixed telephone services to the supply of broadband internet and data services. The diversification project has been yielding a positive incremental benefit in the period between 2013 and 2015, the period in which the company had fully diversified. However, the incremental benefit has been declining by an average of 29% from period to period in the financial years under review. Shamu (2015), the board chairman, cited that the revenue from diversification is positively changing every year since new services have been launched but overall profits are not growing as expected. The following table summarises the financial performance of new services that the company introduced in 2013.

Table 1.0TelOne financial extracts for the period 2012-2015

	2012 $	2013 $	2014 $	2015 $	2016 $
Incremental revenue	-	28 546 723	29 488 403	30 601 072	33 988 891
Incremental costs	-	(26 548 452)	(28 508 867)	(29 989 051)	(33 344 576)
Incremental benefit	-	1 998 271	979 536	612 021	644315

Source: 2013 - 2015 Audit reports

The table above shows the incremental revenue and costs for TelOne over the period when the company diversified its activities. The data in table 1.0 above shows that the introduction of new services led to an increase of $1 998 271 in the company's marginal benefits between 2012 and 2013. However, in the period between 2013 and 2014 when the new services were fully on the market, the incremental benefit changed negatively by 50% from $1998271 in 2013 to $979 536 in 2014. It further declined by 37% from $979 536 in 2014 to $612 021 in 2015. On average, the incremental benefit declined by 29% per year between 2013 and 2015.The CEO of the company denoted that the company is still yielding a positive incremental benefit from diversification, but it should not relax on that (Chairman Report 2015).

The managing director denoted that even though there have been an improvement in the revenue earning capacity of the company due to a 44% market share that the company gained in the broadband market and data services, the company has a mandate to take a closer look into the performance of the new services and put into place measures to improve the company's performance on the market which has tight competition as well as tight liquidity (Mtasa 2015).

1.3 Problem statement

TelOne has diversified its product lines from its core business of supplying fixed telephone and began to supply broadband internet, data services and Wi-Fi hotspots. Diversification yielded a positive marginal benefit since 2013 the year in which the new services were launched, however the marginal benefit has been declining by an average of 29% per year in the period between 2013 and 2015 before inclining the effect of taxation. This gave rise to the question, to what extent does diversification improves the financial performance of a company? This has lured this research to analyse the relationship between diversification and the financial performance of TelOne.

1.4 Main research question

What is the relationship between diversification and company's performance?

1.5 Research objectives

- To determine the relationship between diversification and operating costs.
- To carry out a cost benefit analysis of product diversification on company's performance.
- To establish the best practice in diversification.
- To determine the risks that affect diversification.
- To determine the relationship between diversification and profitability.

1.6 Sub research questions

- What is the relationship between diversification and operating costs?
- Do costs of diversification outweigh its benefits?
- What are the best practices in diversification?
- What are the risks that affect diversification?
- What is the relationship between diversification and profitability?

1.7 Justification of study

This study has been designed to add some literature to the body of knowledge with regards to the impact of diversification on financial performance in and outside Zimbabwe. Further studies on this topic can benefit from the literature and results of this study. Decision makers can use the results of this research in implementing the diversification strategy if they consider it necessary.

1.7 Delimitations

This study was delimited to TelOne and the information used is that from its head offices located in Harare. The information to be used relates to 2012 and 2015. The managing director, the finance director and the services manager and other key staff members assisted the researcher in carrying out this study.

1.8 Limitations

- Access to internal company information was not possible due to confidentiality issues but however permission was sought from the relevant authorities.
- The study only used TelOne to denote the telecommunication sector.
- Inadequate responses from the questionnaires thatwere sent out hence the researcher used multiple sources of data.

1.9 Assumptions

- The respondents possess relevant knowledge and expertise to the topic.
- Management gave unbiased information.
- TelOne wouldcontinue operating for the foreseeable future.

1.10Definitionof terms

- **Diversification -** is extending the operations of a business by venturing into a variety of products or service (Rafaela (2015).
- **Financial performance** – is the process of measuring a firm's results expressed in monetary terms, (Nolan, 2013).
- **Profitability-** is the ability of a firm to make profit from its activities (Ajay et al 2013).

1.11 Chapter summary

This chapter main purpose was to introduce the reader to the topic under review. It is composed of the introductory paragraph, background of study, the problem statement, the main research question, research objectives, and justification of study, delimitations, limitations and assumptions as well as definition of terms.

CHAPTER TWO - LITRETURE REVIEW

2.0.0 Introduction

A re-evaluation of literature is vital as it furnishes a snapshot of the state of understanding in a specific area of study. Reviewed in this chapter are various sources of information in the field of diversification and the impact that it has on financial performance of organizations that were examined by previous authors.

2.1.0 The relationship between diversification and operating costs

According to (Apostu2015., Didar 2014., and Autrey 2012.), product diversification may negatively impact a company's performance due to high operating costs which are as a result of managerial costs, communication costs and consolidation costs.

2.1.1Managerial costs

Ali (2015) defined management costs as the expenditure which is incurred by a company as a result of planning, coordinating and monitoring of resources for the benefit of the company as a whole. As a result of diversification, managerial costs of a company are more likely to increases since the products and services which require monitoring and coordination increases, thereby having a negative effect on performance (Madhumathi, 2010).

Boazet (2013) supported the idea that diversification increases management costs citing the significance of planning which is related to diversification. He explained that planning requires several meetings between departments, performance appraisal and review. All this will eventually lead to the consumption of a company's resources thereby increasing management costs.

Anil and Yayit (2011) postulated that diversification may lead to the recruitment of highly experienced managers which have expertise in the management complex organizations which simultaneously supply a number of different products at the same time. Such highly experienced staffs are expensive to employ and this means that diversification increases management costs.

Furthermore, David et al (2013) postulated that managers may become too ambitious in diversification and pursue loss making projects and eventually incur costs which are not bearable by the company. He explained this using the agency model of company which was deliberated by Adamu et al (2011) to be suitable for explaining the behaviour of management in the sight of shareholders. The principal agent theory has been used as a weapon by shareholders to criticize the diversification behaviour of companies. Ahimed (2011) described why managers might pursue unnecessary diversification for their self-interest. A manager might direct the company's diversification strategy to increase the company demand for his or her own personal skills and eventually demand an increase in salaries or performance related bonuses.

In another view, Chidoko and Hove (2012) argued that diversification may not necessarily increase managerial costs if the company diversify into products which are interrelated thereby minimising the effect of management cost on performance. Ofek (2010) also supports the view that diversification does not necessarily lead to an increase in managerial costs. He cited that interrelated products require same skills and expertise, as such the company will use the available managerial resources and that might not lead to an increase in the managerial costs. Chidoko et al (2012) also concluded, from a study carried out in Zimbabwe, that diversification calls for the development of internal management staff and that minimises the cost of hiring external staff.

Christingrum (2015) are also of the view that diversification does not certainly increase managerial costs organizations were decision making authority is centralised. They denoted all costs related to planning and decision making will be minimised since the process is done by the few top managers unlike when all members of the organization are involved in the planning process.

Schoar (2012) has a neutral view with regards to whether diversification increases or decreases managerial costs. From his study carried out for five years on British listed firms he found that the average increase in managerial costs in the initial years can be compensated by average decreases in such costs when managerial staff is fully experienced in the management of complex diversified firms. Philips (2015) also concluded that the question of whether diversification increases or decreases the managerial costs depends on the company's policy. With the support of Stein (2016), they explained that some companies hire new management and some train the existing staff to manage new product lines. This will determine the management costs for each company which choose any of these options.

The topic of whether diversification increases or decreases managerial costs have been analysed in other countries with labour markets, regulatory environments, and economic environments which are different from those of Zimbabwe. This has left a gap for this study to be carried out in the Zimbabwean economic environment using the case of TelOne with the hypothesis that:***H_1**diversification is positively related to managerial costs***.

2.1.2 Communication costs

Doaei (2014) defined communication costs as those which are related to the penetration information between two or more parties. Shavazipour and Doaei (2013) and Enyi (2011) cited that the assimilation of information between different product departments attracts costs related to communication. Managers of different departments may need to communicate with higher level management who needs the information from their departments for administration and supervision thereby increasing asymmetry cost (Alzereen 2014). Acharya et al (2014) and Ottavian (2014) concluded that information asymmetry costs are high for organisations which have diversified their product lines in India.

However, Pandey (2016) empirically analysed the relationship between diversification and communication costs on Chinese organizations and found out that diversification does not necessarily increase information asymmetry cost due to the increase in the use of information technology systems. Such systems process information electronically and can be easily accessed by any level of management at any time. Mukhupadyai (2014) also observed the same notion on Nigerian telecommunication companies which are technologically advanced.

The same research carried out by Chaote (2015) in Colombia suggests that diversification neutral to communication costs. With the support of Bowen (2015) they explained that, organisations can still use the same channels of communication that they were using before diversification and therefore minimising the costs of communication.

Since there is still no agreement among various authors as reviewed above, with regards to whether diversification has an impact on information asymmetry costs? With the fact that TelOne is in the telecommunication sector in which it can use its own services for communication purpose, this research aims to assess the relationship between diversification and information asymmetry costs with the hypothesis that:H_2*diversification is positively related to information asymmetry costs.*

2.1.3 Consolidation costs.

Consolidation costs encompass those expenses related to the combination of data to process the information that is required for financial reporting (Abumuza, 2015). According to the research carried out in Tanzania by Abor (2016), diversified firms were associated with high consolidation costs. Afza (2016) used regression analysis to establish the relationship between diversification and consolidation costs and concluded that diversification has been positively related to consolidation costs.

While diversification has been observed against consolidation costs, a few authors argued that diversification in itself does not lead to an increase in consolidation costs. Bowen et al (2010), in the research carried out in South Africa, diversification proved to be unrelated to consolidation costs. This was due to the fact that the accounting staff responsible for consolidating the information possessed relevant skills in consolidation; therefore there had no challenges in consolidation of information after diversification. Bernstein (2012) denoted consolidation costs may come or may not come as a result of diversification depending on the volumes of transactions that needs to be consolidated.

After having analysed the views of previous researchers on this topic which could not come up with generally agreed conclusions, this research seeks to determine if diversification has an impact on operating costs through consolidation costs. A positive correlation among diversification and consolidation is suggested (**H_3**). Overly, this research proposes a positive connection amongdiversification and operating costs (**H_4**).

2.2.0 Cost benefits analysis of diversification.

Rumelt (2004) explains a cost benefit analysis as a process of weighing costs against benefits in order to determine whether or not to an informed decision.

2.2.1 Costs of diversifying

FoongYaug and Idris (2012) postulated that costs of diversification include bureaucratic costs, interdependence and inefficiency costs. These costs have been argued within the past decade by various authors who came up with varying results.

2.2.2 Interdependency costs

Activities are inter-reliant as performing one activity affect the additional returnsof other activities (HashaiandDelois 2011).Hilman (2015) denoted that diversification implies all types of task interdependencies. He argued that it is more complicated to supervise decidedly inter-relianttasks when the workforce can act opportunistically. Interdependency costs are the uppermostfor diversifiers and least for firms which specialize in single product lines (Indermit et al 2014).Interdependencies presents the need for synchronization of various service departments which may be competing for the same resources (Becker & Murphy, 2012). The interdependency of product or service departments may lead to the draining of resources by poor performing products or services thereby jeopardising the performance of the whole organization (Radner 2015).

Gary (2010) and Lippman (2012) explained that interdependency between service departments can lead to synergy of skills and expertise thereby improving the capabilities of employees of diversified firms and hence improving the overall performance of an organisation.

Through regression analysis, Kogut (2016) could not take a side on whether interdependence costs are high for diversified firms. He concluded that such costs are also high for specialized firms as they also have various functional departments rather than product departments.

Due to the disagreements between authors who have taken attention of interdependency costs in relation to diversified firms in various countries, this study wants to analyse whether diversification has an impact on interdependency costs for a firm in the telecommunication sector in Zimbabwe using a case of TelOne.

2.2.3 Inefficiency costs.

Bruice (2011) explained why diversified firms might be inefficient. With the support of Gerardo (2012) they denoted that inefficiencies arises when poor performing departments are compensated by performing departments thereby jeopardising overall company performance.

Chathoth (2016) argues that product or service departments might be inefficient if they buy or sell their output to each other internally. No service department would want to sell its output at a lower price but it is what usually happens when the units of the same company sell to each other hence resulting in inefficiencies.

However, Tabatabaen (2016) criticises the idea that diversification results in inefficiencies. She rather views diversification as an efficient method to utilize excess resources of an organisation. Sheik et al (2012) also supports that diversification enhances company efficiency if all products or service departments are performing to expected standard.

On the other hand, Wagner (2011) denotes that diversification is not necessarily the determinant of efficiency or inefficiency, he argues that it is the capabilities of management which will make diversified firms to be efficient or not.

Different authors came up with different views on the impact of diversification on inefficiency costs. They focused on the economic principle of diminishing marginal returns and also in the assumption that product or service departments will be interdependent. This study would want to assess whether diversification has an impact on efficiency using the accounting measure of return on assets in case of TelOne.

2.2.4 Benefits of diversification

Earlier research has supplied sufficient justification for diversification in terms of economies of scope and replication of experiences.

2.2.5 Economies of scope

Bailey and Friedlander (2012), denoted that economies of scope come to pass from sharing of inputs, cooperative use of intangible assets amid multiple products, or joint manufactureof networked products. Economies of scope achieved from joint production result in lower unit cost for each product. Resources that can be collectively used by numerous product lines includetransitional products (Lemelin, 2012), marketing and distribution channel(Montgomery and Hariharan, 2015), technology (MacDonald, 2015) and human capital (Farjoun, 2016).

Although literature is supportive of economies of scale which arise through diversification, the minority of authors examined the complications in implementing such a plan. Hill, Hitt, and Hoskisson (2011) propose that to benefit from economies of scope, firms need to establish cooperative relationships among business units, rather than resort to standard financial controls or market-based disciplines; Nayyar (2012) argues that such relationships are costly and difficult to sustain.

2.2.6 Facilitation of learning and replication of experiences or capabilities

The more closely related the business is, the easier it is for current management to replicate or train new managers with the knowledge the firm already has learned from its existing businesses (Prahalad and Bettis, 2016). A common knowledge base helps product market sequencing (Helfat and Raubitschek, 2010). According to Choi and Russel (2014) diversification enhances the replication of experiences thereby improving the performance of the organisation as a whole.

However, Ofari and Chan (2010) denoted that if the diversifying firm choose to separate the product or service department, no manager would learn from one another. LaRocca (2014) also argues that organisations which diversify into new services or products shunning their original core products, might lead to the obsolescence of original management skills thereby calling for employment of new staff.

The detailed mechanisms through which the difficulty or costs cancel out the benefits are yet to be fully developed and tested. In addition, none of these studies explains within-industry variation in limits to diversification. Given that explaining differences in firm strategies is an important mandate for strategy research, This study aims to analyse the impact of diversification on economies of scale and on the overall performance of an organization in the telecommunication sector using a case of TelOne.

2.2.7 Increase in market share

According White (2014), in his research carried out in Britain, it was concluded that diversified firms have a larger market share than those firms which concentrate on single lines of supply. Prakash (2011) noted that an increase in line of supply potentially increases the number of customers who would want to purchase an entity's output. Ungson (2015) carried a research on the impact of diversification on market share growth and found out that diversification is positively related to increased market share. Mtasa (2015) noted that diversification has been beneficial for Econet Wireless Zimbabwe since it has led to an increase in the company's market share.

On the other hand, Grifin et al (2013) argued that diversification may lead to the deterioration of a company's market share if one of its diversified products dissatisfies customers. With the support of Palich (2013), they argued that if one of the products does not meet customer's expectations, they will tend to lose trust in the products or services hence shunning them.

There is a potential gap with regards to whether diversification is associated with the benefit of increased market share since there is no agreement between different authors who carried out the same research in different countries. With the idea that economic environments differ in different countries, this research will analyse the impact of diversification on market share based on the case of TelOne.

2.3.0Best practices in diversification

In order to improve the performance of diversified, previous literature suggested various best practices in diversification (Kang (2011). These include collective marketing and selling and continuous product assessment (Jensen and Meckling, 2016).

2.3.1 Collective marketing and selling

The practice of collective marketing was traditionally practiced in agricultural businesses whereby farmers could collectively source the buyers of their produce of diverse nature (Bolton and Dewatripont, 2014). Williamson, (2011), views collective marketing and selling as a nexus for minimising costs. Marschak and Radner, (2012) argued that advertising and selling products or services as a bundle minimises marketing costs. Chaud (2012) encouraged diversified firms to collectively market their services so as to enjoy marketing economies of scope.

Literature has been in full support of collective marketing and selling of products as a best practice. The problem came in when Franclopa et al (2014) observed that sales of hardware products were deteriorating due to the fact that they were jointly marketed with tomb stones for a company in India. The market for both of the products was different and it required different marketing strategies which are specific to each market.

With the view that TelOne is still in the verge of diversification, this study aims to establish if collective marketing and selling could be a best practice.

2.3.2 Continuous product assessment

Sheik et al (2012) suggested that if diversified products are continuously assessed, their performance can be evaluated to verify if there are profitable or not.Serrul (2013) denoted that continuous product assessment was the best practice for firms in India. With the support of Williamson (2011) they argued that problem of diversification is that performing products will end up compensating for non performing products thereby destroying the overall profits of the whole company. To minimise this problem these authors suggested that diversified firms should continuously assess their products to verify if it is worthwhile to continue with a product line or not.

However, Hamelin et al (2012) postulated that continuous product assessment is a time consuming process which at times, may probe management to drop products that may seem to be unprofitable in the short run but in the long run, may be profitable.

All these suggestions were theoretical and could not be generally agreed by all scholars. This leaves a gap for this study to research on the best practices in diversification especially in the telecommunication sector of Zimbabwe.

2.4.0 Product diversification and systematic risk

Systematic risk is the risk associated with the market that an organisation operates in (Tabatabaen, 2016). These risks include commodity risk, currency risk and interest rate risk. Montgomery (2014), in his study carried out in Germany, found that diversified firms are the ones which are exposed to systematic risky. Wagner (2011) alluded that diversification means that firms will be entering markets which are characterised with systematic risks and such companies will face a risk of failure if they are do not take precaution to the risk factors associated with the market of their choice. Kritzman and Rich, (2016) also supports the notion that diversification increases risk due to complexity of managing various product lines.

Ajay et al (2012) found out that diversification is neutral to systematic risk since it is a type of risk within a business environment and is beyond the control of management. Madhumathi (2012) in an empirical study conducted in India suggest that systematic risk is a type of risk that cannot be minimised by diversification mechanism strategies and the risk is affected by many other internal factors.

The previous studies produced different results in empirical researches conducted on companies in Germany, Britain and Singapore. That gives a room for this subject to be examined in a company that is in the telecommunication sector of Zimbabwe in which there is tight liquidity as well as tight competition.

2.5.0 Product diversification and profitability

Product diversification has been the key move in which many companies in the world are partaking to improve profitability, to gain a market share and to reduce risks associated with lagging behind competition (Ajay et al, 2012). Adamu et al (2011), Wang (2011) and Madhumathi (2012) advocated that bundling of services and economies of scope which are as a result of diversification results in an increase in profitability.

2.5.1 Bundling of products or services

According to Adamu et al (2011) bundling of products or services supplied minimises the company's exposure to failure of one product in the market, therefore it increases the chances of a company to improve its performance. In an empirical study conducted in Pakistan by Sheikh and Wang (2011), it shows that companies which supply their products as a bundle yielded a strongly positive relationship between diversification profitability. These same results were supported by Wairimu (2015) in an empirical study conducted in Namibia that indicates that product diversification was positively related to profitability due to bundling of services. Wairimu also suggest that high diversified firms which supplied their products as a bundle had high earnings in average than other firms that engaged in the diversification strategy.

Manraiet al (2014) argues that product diversification strategy if it is properly and carefully planned, it produces a positive relationship with profitability. However, it is not only an act of bundling services which increases an entity's profitability. Daud (2010) in an empirical study conducted in Nigeria shows that diversification was neutral to profitability.

On the other hand, the same empirical study conducted by Adamu et al (2011) in Nigeria, suggested that firms bundle their supplies do not enjoy high profits due to many risks that can be experienced by such firms when implementing such a strategy. According to Ajay and Madhumathi (2012) in a study carried out on Indian manufacturing firms, a negative relationship exists between product diversification and profitability for firms that bundle their supplies.Helfat et al (2014) also concluded that there is weak relationship between diversification and profitability in an empirical study carried out in Japan.

The disagreement between various authors in the literature reviewed above has lured this current research to establish a relationship between bundling of diversified products and profitability with the hypothesis that: There is a positive relationship between diversification and profitability if an entity bundles its supplies (**H_5**).

2.5.2 Economies of scope

Doaei and Shavazipour, (2013), Ajay, (2012) and Madhumathi (2012) are of the view that diversified firms enjoy high profits due to economies of scope. According to Haque (2014) in the research conducted in Pakistan to determine the relationship between diversification and profitability using Tobin’s q, the conclusion was that diversification was positively related to profitability due to economies of scope.

In a different view, Militao (2015) and Qureshi et al (2013) suggested that economies of scope do not guarantee a positive relationship between diversification and profitability. According to Panda (2011), if small firms diversify, they might not be able purchase quantities of inputs that attract economies of scope. Manrai et al (2014), supports the view of Panda and he denoted that diversification yielded a negative relationship with profitability for medium sized firms in Nigeria.

Various researches which have been carried out in different countries with regards to the relationship between profitability when factoring the concept of economies of scope came up with contradicting results. This research is going to establish the relationship between diversification and profitability taking into account economies of scope under the hypothesis that: $\boldsymbol{H_6}$*there is a positive relationship between diversification and profitability due to economies of scope.* Finally, this study suggests a positive relationship between diversification and profitability ($\mathbf{H_7}$).

2.6 Summary

After having analysed literature around the impact of diversification and financial performance proffered by various authors around the world, it has been noted that there are no generally agreed conclusions on this topic. This may be due to differences in economic, business, political or social environments within which business is conducted as well as organisational cultures. This research aims to determine the impact of diversification on Zimbabwe listed companies using a case of TelOne especially when the economy ís experiencing economic deflation and liquidity challenges.

CHAPTER THREE - RESEARCH METHODOLOGY

3.0 Introduction

This chapter introduces the research methodology used to determine the relationship between diversification and financial performance and focuses on various techniques that are employed to gather and to analyze the information in this study. The main aim of this chapter is to apply different possible techniques that can help to bring together vital information for data analysis.

3.1.0 Research design

Research refers to the ways used to execute the study as well as the ways the study has been premeditated (Wairimu 2015). According to Enyi (2015) the importance of research design was to establish the appropriate research method used in the research to gather information for the research objectives revealed in the literature review.

3.1.1 Descriptive research design

Descriptive research design was adopted in this study. A descriptive research design is a specific type of non-experimental design used to describe the elements of the topic under review by analysing the prescribed responses (Enyi, 2015). This design uses both the quantitative method and the qualitative method. This has been chosen since it meets the style of research which includes both quantitative and qualitative questions. It also describes relationship between or among variables (Hale, 2013). It provides empirical evidence suggesting two or more variables are – or are not – related. This has been used for this study since its main aim is to determine the impact of diversification and financial performance. This research design has been used since it explains why there is a relationship between variables (Wairimu, 2015) and in this case the variables are diversification and financial performance.

3.1.2 Quantitative method

Quantitative method was used with the aid of eviews8 and stata11 package to establish the relationship or association between diversification and operating costs as well as profitability using the data from TelOne’s management accounts and annual reports as well as questionnaire data.

It has been used since it can best establish relationships of a numerical form, (Wairimu 2015). Quantitative research method is an excellent way of finalizing results and proving or disproving a hypothesis (Enyi2015). The structure has not changed for centuries, so it is standard across many disciplines as well as this study.

Quantitative experiments are useful for testing the results gained by a series of qualitative experiments, leading to a final answer, and a narrowing down of possible directions for follow up research to take this is why this study did not totally dismiss the use of descriptive research.

3.1.3 Qualitative Method

The qualitative research design was adopted for this study because the information obtained is mostly that which relates to the current status of the phenomena and to describe what is in existence as dictated by the variables and conditions in the situation under study, (Benjamin, 2011). Such a research design was the most suitable to address the sub research questions of this study which are mainly what and how questions (Kinmond, 2012). This Sub questions include: What are the costs and benefits of diversification, what are the best practices in diversification and what the effect of diversification on risk is. According to Hale (2011) descriptive research obtains information about a subject without influencing it, this is ideal since management and other respondents are unwilling sometimes to have their systems affected by some study.

The qualitative research method is the ideal one in identifying the attitudes and opinions of the management which are the ones who determine the diversification strategies (Remenyi et al, 2010). As alluded in the background of the study, constraints of time and finances have rendered the descriptive research design as the most preferable one compared to the quantitative as it requires less preparation and is easy to administer (Hale, 2011). Kara (2014) in conducting the research on diversification and performance in Turkey implemented the qualitative research design and argued that the approach is best especially given a limited time to complete the research and also respondents' opinions are fairly expressed. Alm et al (2010) in their research on the impact of diversification on performance used the qualitative research design but however argued that the method upon its own was not conclusive enough to give fair results as there was need to embrace the quantitative approach also. However, the researcher in conducting the research used both quantitative and qualitative research methods.

3.2.0 Research population

Population refers to a group of elements exhibiting more or less similar characteristics from which a research wishes to work a representative sample. A population is a group of individuals, persons, objects, or items from which samples are taken for measurement for example a population of accountants or professors, lecturers, books or students (Montgomery 2011*)*. The research population of the study was service department managers, finance managers, internal audit and business development managers and directors of TelOne. Table 3.1 below shows the targeted population and the accessible population.

Table 3.1 Target and accessible population.

	Target population	**Accessible population**
Development managers	8	8
Directors	3	1
Finance managers	3	3
Services managers	3	3
Internal audit	3	3
Total (%)	20 (100%)	18 (90%)

Source: Raw data

3.3.0 Sampling

A sample is a representative part of a target population taken to show what the rest of the population is like (Sokolo, 2012). It is ideally synonymous with entire population conveniently scaling down the study elements where it is impossible to study the whole population. It was selected on the basis of service departments within the organization. The services represented by the managers and senior managers for departments within the organization. The research could not use the whole population because of limiting factors. The sample size was based on the relevant subgroups of the population and proportional allocation of the subgroups was done to get a true and fair presentation of the population using convenience.

3.3.1 Convenience sampling

It is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher (Wairimu, 2015). Convenient method was used to select a number of employees from each stratum. This has been used by the researcher since it was the most suitable method in line with the limiting factors of time and financial resources as supported by Enyi (2011). The general number of employees used for the sample, in terms of departments and required number were determined for those employees of different levels and managerial status which are often available during working hours.

3.3.2Sample size

According to Gellantly et al (2012), the empirical study conducted in Canada on the impact of diversification on financial performance, used a sample size of employees of managerial status. This study used a sample of 14 employees which were selected based on convenience sampling. That sample includes are service department managers, finance managers, internal audit and business development managers and directors and proved to be the suitable for obtaining various opinions. The group of people selected represents the total population for the research.

Table 3.2 Population and sample size

	population	**Questionnaires sample**	**Interviews sample**
Development managers	8	6	0
Directors	3	2	1
Finance managers	3	2	1
Services managers	3	2	1
Internal audit	3	1	0
Total (%)	20 (100%)	14 (70%)	3 (15%)

A sample of 14 (70%) employees for questionnaires was used for the purpose of this study. Scheaffer (2014) cited that the most suitable sample size which can reliably represent the population should be 10% or more. This justifies the 70% sample chosen for this study. For best representation of an entity, Gellantly (2012) cited that senior management must be chosen for interviews. 3 (15%) employees of a managerial status were selected based on the convenience with which the managers can be able to answer the interview questions during working hours at TelOne.Since 15% is also more than the 10% suggested by Scheaffer (2014), this study can reliably depend on this sample.

3.4.0 Data sources

Data was extracted from both primary and secondary sources. Data was extracted through primary sources by employing questionnaires and interviews and through secondary sources by extracting from TelOne’s annual financial statements, brochures, and annual reports.

3.4.1 Primary sources

Primary data is the data gathered for the first time to tackle and answer the research in study (Wairimu, 2015). Allmer (2012) explains that primary data refines the secondary data gathered for the research in question. Primary data gives firsthand information to the person who had gathered the data either through observations or witnesses‟ events as they occur”. The research used questionnaires and interviews to gather some of the information from the responsible managers and directors.

The data that was gathered through primary sources was important as it gives firsthand information to the research and helps to brings out clearly the opinions of different peoples that responsible and answerable to the area under research in the company (Ghauri, 2015).

Not only does primary research enable the researcher to focus on specific area under study, it also enables the researcher to have a higher level of control over how the information is collected. Information collected by the marketer using primary research is their own and is generally not shared with others (Wairimu, 2015).

3.4.2 Secondary data

The secondary data is the data which has been collected from other sources and the information is not the first hand information to the researcher (Allmer, 2012). The secondary data was extracted from the company’s reports both quarterly and annual reports. The research gathered more of its information through secondary data as it was simple and easier to obtain. The data was extracted from TelOne’s monthly financial reports especially areas which is mainly focused by the research such as profits, Operating costs, incremental revenue and costs which are as a result of diversified projects embarked by the company.

The main reason why this study used secondary data is that, it is easily accessible and it saves the time for data collection as supported by (Wairimu 2015).Not only does secondary data saves time, it also saves money as cited in the limitations that time and finance are key factors to this research.

3.5.0 Research instruments

Rusere (2012) suggests that research instruments are tools and strategies that equip one to investigate the research under study. The research instruments helped the researcher to obtain confidential data posted for use by the public. The researcher used questionnaires and interviews to gather data related to the attitude and opinions of different personnel responsible for the execution of the diversification programs at TelOne.

3.5.1 Questionnaires

Questionnaires are constructed questions or questions that are designed in a certain way to bring the solutions to the research under study (Griffin, 2013). Alrazeeni (2015) illustrates that questionnaires are vital as they may help the researcher to gather the necessary information from the targeted respondents as they may allow respondents to answer the questionnaires at their own time. The researcher had used close ended questions to administer the questionnaire to the respondents. Close ended questions are important as they portray results that are uniform in nature which can be easily analyzed and interpreted (Hale, 2011). The researcher had used likert scale as parameter for the questionnaires hence making it easier for the information of the company gathered through close ended questions to be tabulated, interpreted and analyzed for decision making and future recommendations to be extracted. Questions were homogeneous among all respondents targeted hence eliminating bias.

Such questions were in line with the following objectives of this study: to carry out a cost benefit analysis of diversification, to establish the best practices in diversification and to analyse the risks associated with diversification.

The information gathered through questionnaires was regarded as reliable as it was the first-hand information. Also questionnaires gave the respondents enough time to answer and address the questions in their own spare time compared to interviews.

3.5.2 Likert Scales

Johnson and Renner (2012) suggest that the perceptions of the population in research are easily measured using a Likert scale. The Likert scale was employed for data collection and a rating system in which respondents shows how strong they agree with the question or disagree was used (Sang Long et al 2013).To obtain individual's opinion in any area under study, it seen necessary and important to bring the grades or ratings to the respondents (Griffin, 2013). The likert scale was designed for the questionnaires to bring results that are consistent in nature that are easily tabulated, interpreted and analyzed for the benefit of TelOne as a company for its future decision making and planning. Table 3.2 below exemplifies the Likert scale.

Table 3.3Likert scale

	Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
RATINGS	5	4	3	2	1

Source:core.ecu.edu/psyc/wuenschk/StatHelp/Likert

3.5.3 Personal interviews

The interviews will be designed in such a way that they will explore the validity and applicability of the responses towards answering the main research questions especially in major areas of interest where questionnaires might fail to express them. This will lead to the collection of more data which will be linked closely to the research objectives. The researcher will gain valuable insights from the knowledge of the interviewees. Interviews are more flexible than questionnaires and will thus enable adjustments to be made, and they also cater for the need for clarity from both the interviewee and researcher. In addition the interviews will enable the researcher to view facial expressions that will aid in the data gathering process.

As interviews are pre - arranged, the researcher expects a high response rate and a convenient time and location that will be set well in time. This will enable interviewee preparedness and all attention will be solely focused on the interview.

However interviews are time consuming and too much time will be taken up explaining irrelevant issues. Analysis of such data might prove to be very difficult as there is need to select what is important and relevant in answering the research question. Validity may be subjective as the interviewer may have great influence on the interviewee's response.

3.6.0Reliability and validity of instruments

Reliability of an instrument refers to the extent to which the technique is consistent or dependable in measuring any object. A reliable instrument should produce precise and stable results. Reliability is directly related to the number of questions used to measure the variable interest Joppe (2015).A pilot study was done to ensure that the instruments used to collect data were valid to ensure that they provided accurate results. The instruments were reliable which implies that they were free from bias and error. Validity is the ability of an instrument to measure what it is supposed to measure. Validity revolves around the defensibility of the inferences researchers make from the data collected through the use of an instrument Sunders et al (2015).

With this in mind, the researcher will use both the interview and the questionnaire to ensure that the conclusions of the characteristics are valid, that is their attitude, perception and the applicability of their responses towards answering the research question through the objectives. The aim of the analysis is to ensure that the questions asked are properly answered and do not give bias to the research results. The questions were valid and reliable while the interviews gave an atmosphere for a high response rate and for clear clarifications and explanations.

3.7.0Data presentation and analysis

The data gathered will be categorized in order to manipulate and summarize it to make it meaningful. The questionnaires will be coded as they are received by the researcher from the respondents. With the use of Microsoft Excel, data will be tabulated for easier analysis, comparison and interpretation. Data will then be presented in the form tables and graphs. Frequencies and percentages are the other statistical principles which will be used in interpreting the data.

The regression analysis model will also be used in this study with the aid of STATA 11 and e-views 8 packages. Simple linear regression has also been used to determine the relationship between diversification and operating costs. This analysis will use profits and operating costs as the dependent variables of the research. The independent variables employed by the regression model in the research were the number of the diversified products which include voice, internet and data services.

For the relationship between diversification and operating costs:

$$R^2 = [n\sum xy-\sum x\sum y] / \sqrt{} [(n\sum x^2-(\sum x)^2 (n\sum y^2-(\sum y)^2]$$

Where:

n = number of years

x = number of diversified services

y = operating costs

For the relationship between diversification and profitability:

$$\Pi = \beta_0 + \beta_1 vs + \beta_2 is + \beta_3 ds + \mu t$$

Where:

Π = *profit margin*

β_0= *constant factor*

vs = *voice services*

is = *internet services*

ds = *data services*

μt = *error term*

The formula will produce answers which show the relationship between each service to operating costs and profitability as well as the overall relationship between diversification and operating costs or profitability.

3.8 Ethical considerations

When carrying out researches it is necessary to consider the ethical issues involved in the use of data. This is supported by Signh (2013) who eluded that researchers must safeguard privacy and guard against invasion of privacy and as a general rule must respect the human sample subject included in the research. According to Milta (2013) every researcher must observe precautions regarding the collection of data which include validity and accuracy. The researcher will not involve items or variables that are not part of the sample.

3.9.0 Summary

In this chapter, outlined is the methodology which was used by the researcher throughout the research to be undertaken. It outlined the research design which was used, population, sampling techniques, data collection procedures and the techniques used. The researcher shall conduct a survey using questionnaires, interviews and observations as the research instruments. The target population is all management of TelOne at the Head office in Harare.

CHAPTER FOUR - DATA PRESENTATION AND ANALYSIS

4.0 Introduction

The data that was gathered from different sources has been analysed in this chapter. Presented also, in this chapter is the data from questionnaires and interviews. The researcher used both primary sources and secondary sources to come up with the data that has been analysed, assessed and evaluated to come up with necessary recommendation. Table 4.1 below presents the questionnaire response rate against the targeted sample.

Table 4.1 Questionnaire response rate

Participants	**Total population**	**Targeted sample**	**Fully answered**	**Spoiled**
Development managers	8	6	6	0
Directors	3	2	1	1
Finance managers	3	2	2	0
Services managers	3	2	2	0
Internal audit	3	1	1	0
Total (%)	20 (100%)	14 (70%)	13 (65%)	1(5%)

Source: Raw data

Indicated in table 4.1 above is the total number of questionnaires which were sent to the targeted sample at TelOne. The outcome indicates that 13/14 (92%) of the questionnaires were successful.

On the other hand, 8 %(1/14) of the questionnaires was not returned. This might be due to the fact that the respondent did not have enough time to attend to the questionnaire as a result of various pressures that may arise at the work place. However, 8% is considered insignificant for the purpose of this study as compared to the 92% response rate.

Finally, the overall company representation was 65% (13/20). Johnson and Wislar (2012) asserted that a response rate which ranges from 60% to 100% is considered to be adequate for a study to rely upon it.

4.1.0 The relationship between diversification and operating costs.

Regression analysis has been used by the researcher to determine the relationship between diversification and operating costs by analysing the data gathered from questionnaires. The determinants of operating costs were tested to determine if diversification is correlated to operating costs using STATA 11 package. Responses from questionnaires were averaged with the use of ratings which were coded. The table below indicates the regression results.

Table4.1.0: Regression results

Source	ss	Dfms			Number of obs	13
Model	1.5237682	3.5079227			F (3, 9)	2.94
Residual	1.5531549	9.1725728			Prob> F	0.0912
Total	3.0769230812.256410256				R- squared	0.4952
					Adj R-squared	0.327
					Root MSE	0.41542
Oc	Coef.	Std.err.	t	p>|t|	[95% Conf.	Interval]
Mc	0.0971138	0.1068034	0.91	0.387	-0.1444923	0.3387199
Cc	0.1193642	0.0967149	1.23	0.248	-0.0994201	0.3381484
Cnc	0.2068647	0.0744599	2.78	0.021	0.0384246	0.3753048
	-					
_cons	0.5309997	0.5250322	-1.01	0.338	-1.718705	0.6567056

Source: STATA 11

A result of R^2= 0.4952 indicated in table 4.1.0 above means that operating costs increased moderately due to diversification. From personal interviews, The overall population also supported that diversification leads to an increase in operating costs. Authors like Doaei (2014) and Pandey (2016) also found a positive relationship of 0.36 and 0.44respectively between diversification and operating costs for companies in the Telecommunication sector.

In comparison with the results of this study, it implies that diversification had a strong positive relationship with operating costs at TelOne.

Explanation of the marginal effects of the variables

Managerial costs

In Literature review, a positive relationship between diversification and managerial costs was hypothesized (**H_1**). The regression results from table 4.1.0 indicate a positive coefficient of correlation between diversification and managerial costs which supports the hypothesized relationship. This means that an increase in diversification by one unit will lead to an increase in managerial costs by 9% (**0.0971138**).Mukhupadhiyayi (2013) also found a positive relationship between diversification and operating costs. These findings led this study to conclude that diversification leads to an increase in managerial costs.

Communication costs

A positive relationship between diversification and communication costs was hypothesized (H_2) in literature review. The regression results in table 4.1.0 also support the hypothesized relationship. This means that an increase in diversification by one unit will lead to an increase in communication costs by 12% **(0.1193642).**

Consolidation costs

As indicated in table 4.1.0 above, there is a positive relationship between diversification and consolidation costs. An increase in diversification by one unit will lead to an increase in consolidation costs by 21% **(0.2068647).** This is in line with the hypothesized (H_3) positive relationship in literature review.

4.1.2 Secondary data analysis

Simple linear regression analysis has been used by the researcher to determine the relationship between diversification and operating costs by analysing the data gathered from secondary sources. The number of products diversified has been used as the independent variable while operating costs as the dependent variable holding constant other determinants of operating costs.

Table 4.1.1 Operating costs schedule

	Number of diversified services (X)	**Operating costs (Y)**	**(X^2)**	**(XY)**	**(Y^2)**
Year(n)		**$000'000**		**$000'000**	**$000'000**
2012	1	97,50	1	97,50	9506,25
2013	2	146,52	4	293,04	21468,1104
2014	2	150,72	4	301,44	22716,5184
2015	3	128,34	9	385,02	16471,1556
2016	3	142,40	9	427,20	20277,76
Total	11	665,48	27	1504,2	90439,7944

Source: TelOne annual reports

$$\boldsymbol{R^2} = [n\sum xy-\sum x\sum y] / \surd\ [(n\sum x^2-(\sum x)^2\ (n\sum y^2-(\sum y)^2]$$

$$\boldsymbol{R^2}= [5(1504.2) – 11(665.48)] / \surd\ [5(27) -121]\ [5(90439.7944)- 442863.6304]$$

$$\mathbf{R^2 = \underline{0.56}}$$

Table 4.1.1 indicates (R^2) of **0.56**. A result of **0.56** implies that operating costs increased moderately due to diversification at TelOne (after controlling other operating costs drivers). This result falls in the same range with the result **0.5** from primary data. Together with the support from interview data, it means that diversification has led to an increase in costs moderately at TelOne. This is in line with the hypothesis of this study (**H_4**), "*there is a positive relationship between diversification and operating costs.*"

Authors like Doaei (2014) and Pandey (2016) also found a positive relationship of **0.36** and **0.44**respectively between diversification and operating costs for companies in the Telecommunication sector. In comparison with the results of this study, it implies that diversification had a strong positive relationship with operating costs at TelOne.

4.2.0 Costs benefit analysis of diversification

The aim of this objective was to analyse the costs and benefits associated with diversification to determine if the strategy is worthwhile to improve financial performance. Questionnaires were administered to the respondents to gather information on what actually are the actual costs and benefits associated with diversification at TelOne. This study began by presenting the respondents views in relation to the costs and then went on to present the views of respondents in line with the benefits of diversification

4.2.1 Interdependency costs

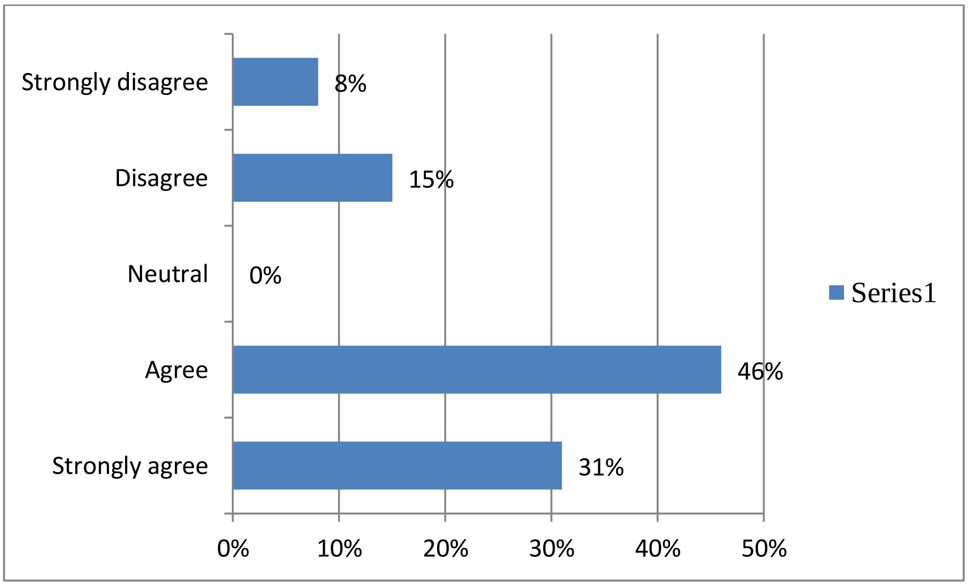
This study sought to determine if diversification is associated with interdependent costs. The respondents' views in relation to the proposed cost have been analysed from bar graph below.

Table 4.2.1 raw data

	Total	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Frequency	14	1	1	1	5	5
Rate	100%	8%	16%	0%	38%	38%

Source: Raw data

Fig 4.2.1 interdependency costs



Source: Raw data

Figure 4.2.1 above indicates that 8% of the respondents strongly disagrees that diversification is associated with interdependency costs. These are of the same view with Lippman (2012) who was certain that diversification is not associated with such costs if the tasks in the provision of services are not inter-reliant from the study conducted in Pakistan. However, this percentage of the respondents who strongly disagreed is too little to conclude that diversification is certainly not associated with interdependency costs.

15% of the respondents disagreed that diversification leads to interdependency costs. This is in line with the findings of Gary (2010) who concluded that diversification is not necessarily associated with interdependency as that depends on the management style. 15% is also not enough to be the bases of conclusion for this study. Even if the percentage of those who strongly disagree and those who just agreed to the cost under review is aggregated, 23% (15%+8%), it is apparent that it will be immature to base the conclusion of this study on the view of these respondents.

It is also shown in figure 4.2.1 that no is uncertain with regards to the association between diversification and interdependency costs. This is in contrary with the findings of views of Kogut (2016) who could not take a side on whether interdependence costs are high for diversified firms. He concluded that such costs are also high for specialized firms as they also have various functional departments rather than product departments. This implies that interdependency is actually a disadvantage of diversification.

On the positive side, 46% and 31% agreed and strongly agreed, respectively. On aggregate, 77% is positive that diversification leads to interdependency costs. These respondents are in support of the view of Becker & Murphy, (2012) Interdependencies give rise to the need for coordination of various service departments which may be competing for the same resources.

Using the mode as a measure of central tendency, it can be concluded that diversification is associated with interdependence costs since ‘agree’ is the most frequent response from the questionnaire data. Overall interview respondents also supported this view and it is in line with the findings of Manrai et al (2014) that found a positive relationship between product diversification and interdependence costs in an empirical study conducted in India.

4.2.2 Inefficiency costs

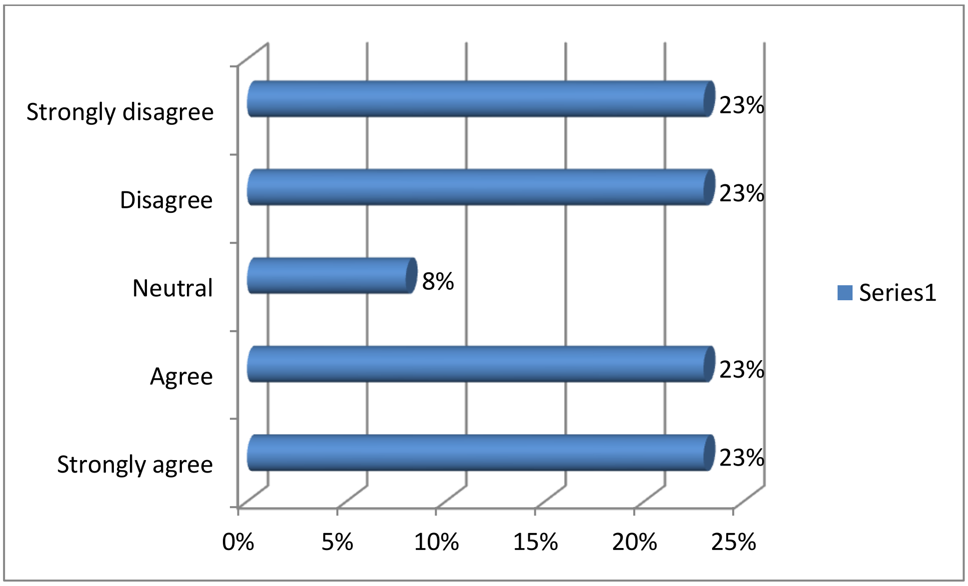
With the aim of determining whether diversification is associated with inefficiencies, this question has been administered. The responses to this question have been presented on table 4.2.2 and analysed from figure 4.2.2

Table 4.2.2 raw data

	Total	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
Frequency	14	3	3	1	3	3
Rate	100%	23%	23%	8	23%	23%

Source: Raw data

Figure 4.2.2 Inefficiency costs



Source: Raw data

The total population which agrees and strongly agrees that diversification is associated with Inefficiency amounts to 46% (23%+23%). These are in the same view with Gerardo (2012) who denoted that inefficiencies arises when poor performing departments are compensated by performing departments thereby jeopardising overall company performance. Even though these respondents view diversification as a catalyst for inefficiencies, other respondents have a different view to the same notion.

8% of the population is neutral as to whether diversification results in Inefficiency costs. This also, is in line with Chathoth (2016) who carried out this study and could not take a side as to whether diversification is associated with Inefficiency.

On the other hand, the total percentage of the population which disagree and strongly disagree that diversification results in inefficiency is also 46 %(23%+23%). These are in the same view with Wagner (2011) who suggested that diversification is not necessarily the determinant of efficiency or inefficiency, he argues that it is the capabilities of management which will make diversified firms to be efficient or not.

Finally, it shows that diversification is like a double aged sword when it comes to inefficiencies, this is evidenced by an equivalent population of 46% on the disagreeing side and 46% on the agreeing side. However, interview respondents cited that diversification is associated with inefficiencies. This has led to the conclusion that diversification has s disadvantage of inefficiencies. This is in line with the findings of Daud (2010) who also concluded that diversification is associated with inefficiencies.

4.2.3 Benefits associated with diversification

Literature in the previous chapters gave ample support to the suggestion that diversification is associated with the benefit of economies of scope, facilitation of learning and increased market share.

4.2.4Economies of scope as a benefit of diversification

Table 4.2.4 below indicates the respondent's rate and frequency with regards to economies of scope as a benefit of diversification.

Table 4.2.4 raw data

	Total	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
Frequency	13	0	1	1	5	6
Rate	100	0%	8%	8%	37%	44%

Source: raw data

It is shown in table 4.2.4 that no one in the population strongly disagrees that diversification is associated with economies of scope at TelOne. This is means that it is certain that diversification is associated with economies of scale.Only 8 %(1/13) disagrees that economies of scope can be an advantage of diversification. The view of these respondents concur with the findings ofHill, Hitt, and Hoskisson (2011) who proposed that to benefit from economies of scope, firms need to establish cooperative relationships among business units, rather than resort to standard financial controls or market-based disciplines; Nayyar (2012) argues that such relationships are costly and difficult to sustain.

On the other hand, 8 %(1/13) of the population is neutral as to whether diversification is associated with economies of scope. This is in line with the findings of Montgomery & Hariharan (2015), who argued that it is not obvious that diversification will result in economies of scale, but rather it depends with the choices of management to maintain customer supplier relationships which would in turn result in economies of scope.

On the other edge of this issue, 84 % (38%+46%) of the population agree that diversification is associated with economies of scope. These concur with findings of Bailey and Friedlander (2012) who suggested that economies of scope arise from reuse or sharing of inputs, joint utilization of fixed or intangible assets among multiple products, or joint production of networked products. Overall interviewees also support the idea.

Most of the respondents (46%) strongly agreed that diversification is associated with economies of scope. Using mode as a measure of central tendency, it can be concluded that diversification is associated with economies of scope. Interview respondents supported this view which has also been supported by previous literature from different countries which include Ajay (2013) and Tabatabaen (2016).

4.2.5 Facilitation of learning and sharing of experiences as a benefit of diversification.

In previous literature, Prahalad and Bettis, (2016) proposed that diversification is beneficial since it facilitates learning and sharing of experiences between management of different product or service departments. Questionnaires were administered to determine whether this benefit is being enjoyed at TelOne or not. The data which has been gathered was presented on table 4.2.5 and it shows that 5/13 respondents strongly agreed, 4/13 agreed, 4/13disagreed, no one is neutral, while 4/13 disagreed and no one strongly disagreed. Table 4.2.5 summarises the responses frequency.

Table 4.2.5raw data

	Total	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Frequency	13	0	4	0	4	5
Rate	100	0%	30%	0%	30%	40%

Source: Raw data

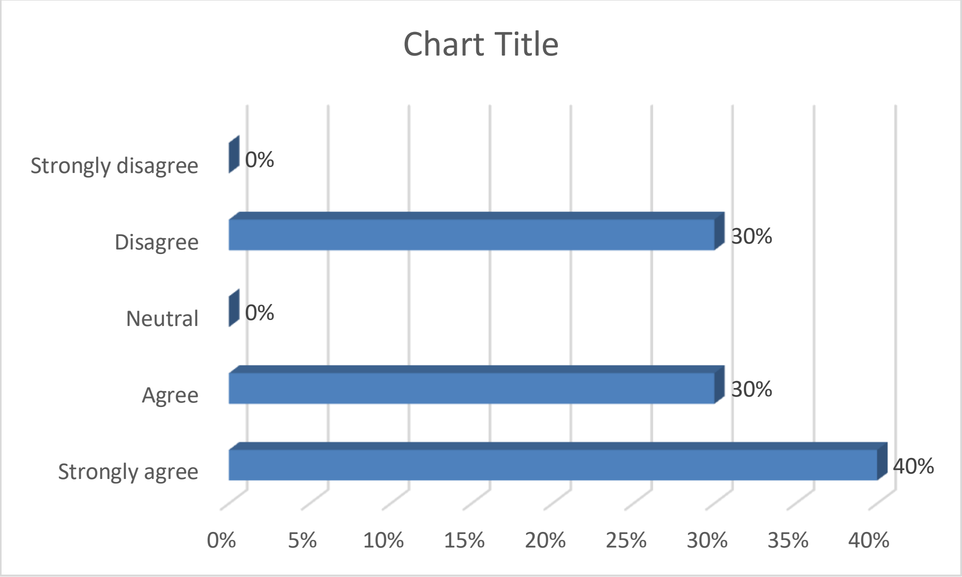
From table 4.2.5, it is indicated that 40% (5/13) of the respondents strongly agreed that diversification facilitates learning and sharing of experiences. With the support of 30% who generally agreed to the same notion, they are in line with the views of Prahalad and Bettis, (2016) who advocated that diversification is beneficial since it facilitates learning and sharing of experiences between management of different product or service departments. This means that somehow, the management of various product or service departments has to consider interacting in order to share knowledge and expertise for the betterment of the company as a whole.

No one was uncertain with regards to the benefit under review. This means that those respondents which agreed and those on the disagreeing side were certain in their views. This is in contrary with the views of Ofari and Chan (2010) who argued that if the diversifying firm choose to separate the products or services department, no manager would learn from one another. As such this study weighed the disagreeing side and the agreeing side to come up with the final conclusion.

On the disagreeing side, there is 30% (4/13) respondents which generally disagreed that diversification facilitates learning and sharing of expertise. Their view has also been supported by LaRocca (2014) also argues that organisations which diversify into new services or products shunning their original core products, might lead to the obsolescence of original management skills thereby calling for employment of new staff.

Figure 4.2.5 below has been established to determine the most frequent response (mode) which will then be used to reach the final conclusion.

Fig 4.2.5 Respondents rate



Source: raw data

Finally, it is apparent that diversificationcould facilitatelearning and sharing of experiences, as the most frequent response is strongly agree with a rate of 40% and those which strongly agreed have been supported by the other 30%which agreed to the same view. Using mode as a measure of central tendency, it has been concluded that diversification actually facilitates learning and sharing of experiences. This has also been supported by overall interview respondents and it is in line with the findings of Manrai et al (2014) that found out the same results in an empirical study conducted in India.

4.2.6 Increase in market share

Prakash (2011) and Unguson (2014) noted that an increase in line of supply potentially increases the number of customers who would want to purchase an entity's output. This has been analysed in the case of TelOne to determine if it is applicable at the company. In table 4.2.6 below shows that 69 %(9/13) of the respondents strongly agreed and 31% (4/13) agreed that diversification is beneficial since it leads to an increase in market share. There is no one on the disagreeing side as well as the neutral side. The response rate and frequency is summarised in table 4.2.6 below.

Table 4.2.6 Respondents frequency and rate

	Total	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
Frequency	13	0	0	0	4	9
Rate	100%	0%	0%	0%	31%	69%

Source: Raw data

The fact that there is no respondent who was uncertain or who disagree that diversification leads to an increase makes this study to be certain and conclude the same. However, this is in contrary with the argument ofGrifin et al (2013) who argued that diversification may lead to the deterioration of a company's market share if one of its diversified products dissatisfies customers.

On the other hand, total population which agrees and strongly agrees that an increase in market share is a benefit of diversification is 100 % (69+31).Ungson (2015) carried a research on the impact of diversification on market share growth and found out that diversification is positively related to increased market share. This is in line with the views of 100% of the respondents;interview respondents also supported the questionnaire data analysis. Based on these findings, this study concludes that diversification leads to an improvement in the market share of the company.

4.3.0 Best practices in diversification

The aim of this objective was to determine the best practice that TelOne could consider in its strategy of diversifying into other services. The best practices presented and analysed include collective marketing and selling, and continuous product assessment.

4.3.1Collective marketing and selling

Chaud (2012) encouraged diversified firms to collectively market their services so as to enjoy marketing economies of scope. To this end, the respondents' views in relation to this practice were analysed in the case of TelOne. Table 4.3.1 below presents the responses in line with collective marketing and selling as a best practice.

Table 4.3.1 Respondents rate and frequency

	Total	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
Frequency	13	0	0	4	6	3
Rate	100%	0%	0%	31%	46%	23%

Source: Raw data

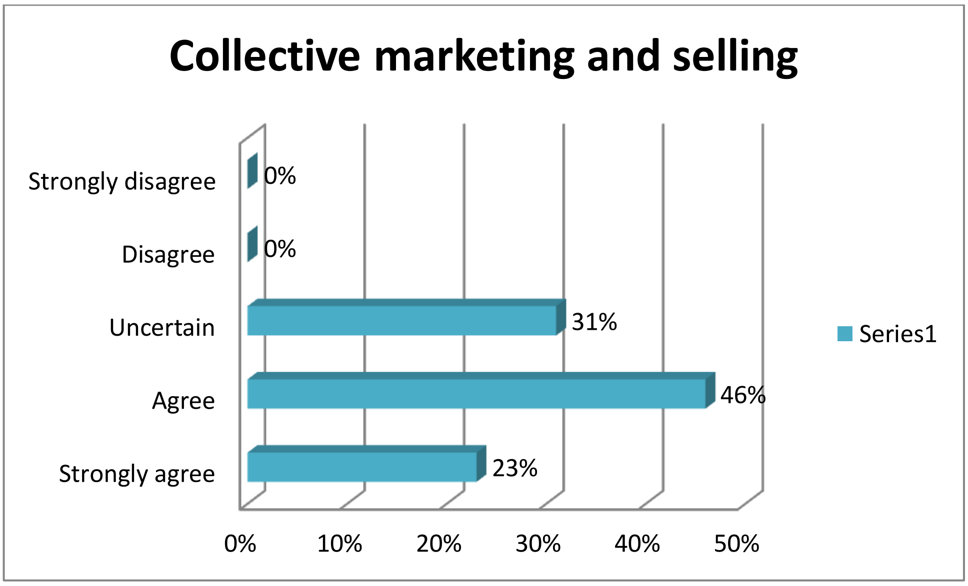
From table 4.3.1 above, it is shown that total population which supports collective marketing and selling as a best practice adds up to 69%, that is 23% and 46% in the category of strongly agreeing and agreeing respectively. Furthermore, no one from the respondents strongly disagreed or disagreed to this practice.This implies that collective marketing and selling is a best practice which should be considered at TelOne since it has been viewed positively by the greater portion of the respondents. This goes in line with the suggestions of Jensen and

Meckling, (2016), who noted that collective marketing and selling is one of the best practices to diversification in Britain.

However, the 31% (4/13) which is uncertain of whether collective marketing and selling could be the best practice to diversification supports the views ofFranclopa et al (2014) who denoted that collective selling might be ideal for other organizations but might not be ideal for all organisations.

Figure 4.3.1 below has been used by this study to determine the direction in which the responses are skewed and the modal response.

Figure 4.3.1



Source: Raw data

From fig 4.3.1 above, it is apparent that the responses are skewed to the agreeing side with a total of 69% and the most frequent response (mode) is agree with 46%. As such,it can be noted that collective marketing and selling could be the best practice at TelOne. This goes in line with the findings of Chaud (2012) who also concluded that collective selling is one of the best practices to diversification

4.3.2 Continuous product assessment

Continuous product assessment is a practice which has been done more by diversified firms in India and has proved to be a best practice in that country(Serrul, 2013) . To this end, this practice has been analysed in the case of TelOne to see if it could assist the company in its strategy. Table 4.3.2 below summarises the respondents' views with regards to this practice.

Table 4.3.2 Respondents rate and frequency

	Total	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Frequency	13	0	0	0	4	9
Rate	100%	0%	0%	0%	31%	69%

Source: raw data

It is shown in table 4.3.2 above that no one from the respondent strongly disagreed, disagreed or is uncertain to whether continuous product assessment could be a best practice for the firm. Even though it is in contrary with the views ofHamelin et al (2012) who postulated that continuous product assessment is a time consuming process which at times, may probe management to drop products that may seem to be unprofitable in the short run but in the long run, may be profitable, it supports the views of Sheik et al (2012). Sheik denoted thatsuggested that if diversified products are continuously assessed, their performance can be evaluated to verify if there are profitable or not. This view is also supported 100 % (69+31).100% of the respondents.

Since the modal response is 'strongly agree" with a rate of 69%, this study concludes that continuous product assessment is one of the best practices in diversification. This is in line with the findings of Russel (2014) and who also found out that diversification can work well if products are continuously assessed to view their performance.

4.4.0 Risks associated with diversification

The aim of this objective was to analyze risks associated with diversification so as to establish procedures and controls necessary to eradicate the effects of risk on organizational performance. Systematic risks which include commodity price risk and currency risk.

4.4.1 Commodity price risk

As reviewed in chapter two, Montgomery (2014) noted that this risk is a menace that an alteration of the prices of production inputs will adversely impact a producer who uses that input.In response to whether commodity price risk affects diversification, 38% strongly agreed that this risk affects diversification while 62% generally agreed to the same idea. On the other hand, no is uncertain, disagreeing or strongly disagreeing to this idea. Table 4.4.1 below summarises these responses.

Table 4.4.1 Respondents rate and frequency

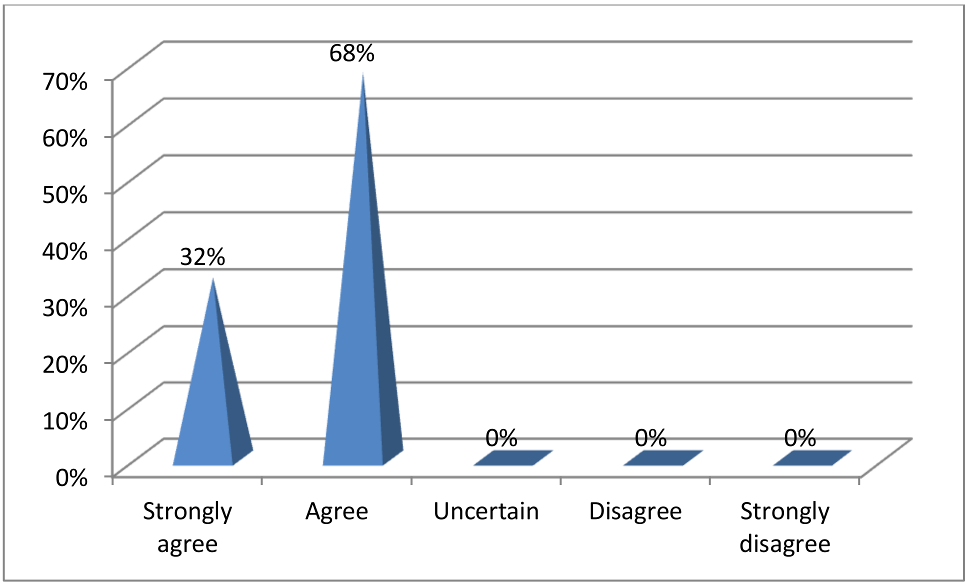
	Total	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Frequency	13	0	0	0	8	5
Rate	100%	0%	0%	0%	62%	38%

Source: Raw data

The fact that no one is on the negative side and that all respondents are in agreement to the proposed risk with 62% who agreed and 38% who strongly agreed makes it apparent for this study to conclude this risk needs to be considered by diversified firms as they have more than one product to produce. This was also supported by Wagner (2011).

Figure 4.4.1 below has been established to determine the modal response which was used as the bases of the conclusion.

Fig 4.4.1Commodity price risk



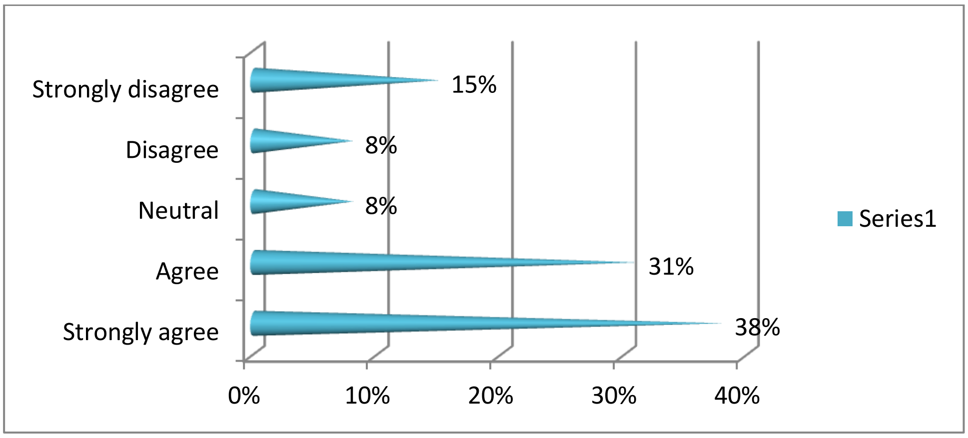
Source: Raw data

It is shown that the modal response is agree with a rate of 62%, together with the 32% which strongly agreed, 100% of the respondents supports the view of Wagner (2011) who argued that commodity price risk affects diversified firms more than specialised firms. Since the data is skewed to the agreeing direction, this study concludes that commodity risk affects diversification.

4.4.2 Currency risk?

Currency risk is the potential risk of loss from fluctuating foreign exchange rates when an investor has exposure to foreign currency as reviewed in chapter two by Ajay et al (2012). This question's aim was to determine if this risk affects diversification at TelOne. In response to this question, 38% strongly agreed while 31% agreed that this risk affects the diversification strategy at TelOne. On the other hand, 8% of the respondents were neutral, 8% of them disagreed while 15% strongly disagreed to that currency risk affects diversification at TelOne. These responses were graphically presented on Figure 4.4.2 below for analysis.

Fig 4.4.2 Respondents rate



Source: Raw data

Indicated in fig 4.4.2 above, is that total population which agrees and strongly agrees that currency risk affects diversification amounts to 69% (38%+31%). This goes in line with the views of Madhumathi (2012) who proposed that diversified firms are affected more by currency risk than specialised firms.69% the respondents which disagrees which amounts to 23% (15%+8%). These respondents concur with the views of Ajay et al (2012) who argued that this risk does not affect all diversified companies especially those which are not involved in foreign currency deals.

8% (1/13) of the population are uncertain of whether currency risk has an impact on diversification.

et al (2012) found out that diversification is neutral to currency risk since it is a type of risk within a business environment and is beyond the control of management. However, 8% is too little to be the basis of this study's conclusion

Finally, with the support of the interview respondents which support the idea that currency risk affects diversification, this study concludes that diversification is associated with currency risk at TelOne. This is in line with the findings of Manrai et al (2014) that found a positive relationship between product diversification and currency risk in an empirical study conducted in India.

4.5.0 The relationship between diversification and profitability

Regression analysis has been used by the researcher to determine the relationship between diversification and profitability by analyzing the data gathered from questionnaires. The activities in diversification which may result in an increase in profitability were tested to determine if diversification is correlated to profitability using STATA 11 package. Responses from questionnaires were averaged with the use of ratings which were coded. The table below indicates the regression results.

Table 4.5.1: Regression results

Source	ss	dfms			Number of obs	13
Model	1.5440333	3.5146778			F (3, 9)	6.07
Residual	0.763659	9.084851			Prob> F	0.0152
Total	2.3076921	12.192308			R- squared	0.6691
					Adj R-squared	0.5588
					Root MSE	0.29129
Pr	Coef.	Std.err.	t	p>|t|	[95% Conf.	Interval]
Bos	0.519532	0.0733855	0.71	0.497	0.2179626	0.1140563
Eos	0.2442256	0.0827968	2.95	0.016	0.431525	0.0569262
_cons	-1.986979	0.380885	-5.22	0.001	-1.125357	-2.848601

Source: STATA 11

The model is correctly specified as it indicates a positive relationship between diversification and profitability indicated by R^2 = **0.6691,**highlighted in yellow on table 4.5.1. This means that there is a correlation between the variables under study which are: bundling of services (bos), economies of scope (eos), and profitability (pr).

A result of **R^2= 0.6691** indicated in table 4.5.1 above mean that diversification has contributed to an increase in profitability by 67%. The other 33% may be due to exogenous factors which include other profit maximising strategies by the company. Furthermore, the interview respondents also supports that diversification is positively related to profitability.

With this in mind, this study concludes that an increase in diversification leads to an increase in profitability. Authors like Wagner (2014) and Tabatabaen (2016) also found a positive relationship of **0.76** and **0.84** respectively between diversification and profitability for companies in the Telecommunication sector. In comparison with the results of this study, it implies that diversification had a weak positive relationship with profitability at TelOne.

Explanation of the marginal effects of the variables

Bundling of services

In Literature review, a positive relationship between bundling of services and profitability was hypothesized (**H**$_5$). The regression results from table 4.5.1 indicate a positive coefficient of correlation between bundling of services and profitability which supports the hypothesized relationship. This means that an increase in bundling of services by one unit will lead to an increase in profitability by 52% (**0.519532**). Mukhupadhiyay (2013) also found a positive relationship between bundling of services and profitability.

Economies of scope (eos)

A positive relationship between economies of scope and profitability was hypothesized (H_6) in literature review. The regression results in table 4.5.1 also support the hypothesized relationship. This means that an increase in economies of scale as a result of diversification by one unit will lead to an increase in profitability by 24% (**0.2442256**),

4.6.0Analysis of data from interviews

Question 1: What are the effects of diversification on operating costs?

The aim of this question was to determine how diversification affected the operating costs of the company. All interviewees denoted that diversification is a growth strategy; as such it is related with increased costs. This supports the depicted positive relationship from regression results. An empirical study conducted byBoazet (2013) which depicted a positive relationship between product diversification and operating costs. The Managing Director explains that other elements of operating costs that have been affected by diversification include rental expenses, employee costs as well as consolidation costs. These findings have led this study to conclude that diversification results in an increase in operating costs.

Question 2: What are the costs and benefits associated with diversification?

The aim of this question was to undertake a cost benefit analysis of diversification. The costs that have been depicted by the interviews include, bureaucratic costs and interdependence costs which are as a result of coordination of various interdependent tasks. This implies that diversification is not only beneficial to the company but it has its own costs.

On the other hand, the respondents postulated that diversification is beneficial to the company since it increases the company's revenue generation capacity; minimize the company's risk of failure as well as enhancinggrowth and profitability.

From the analysis of costs and benefits of diversification, it is apparent that diversification is a worthwhile decision as the benefits from it outweighs the costs. This study concludes that diversification, to a greater extent, is beneficial to the company.

Question 3: What are the best practices in diversification and how do they affect the company's performance?

This question has been design to establish the best practice that TelOne should adopt in order to enhance the performance of the company. The interviewees depicted that diversification could work well if the service on offer are supplied as a bundle. However, the challenge would be that some service cannot be bundled due to the fact that if one of the products in diversification is not related to other products, then it cannot be combined with other products. The other best practices furnished by the respondents include sharing resources between service departments and collective marketing. Sharing of resources such as vehicles and infrastructure between service departments could minimize costs for the company. Purani (2012) who denoted that collective marketing and sharing of resources has been the best practice in Indian diversified firms.

From these views led this study to conclude that, collective marketing and selling, supplying services as a bundle as well as sharing resources between departments are the best practices in diversification.

Question 4: What are the risks associated with diversification and how do they affect the company's performance?

This question has been structured to determine the association between diversification and risk by drawing the opinions from respondents from TelOne. The main aim of this question was to unveil the risks that affect diversification strategy. Currency risk and the risk that if one product fails, it will tarnish the image of all the company's products are the risks that were noted by the respondents.

Question 5: What are the effects of diversification on profitability?

Overall interview respondents stated that TelOne posted a profit every year from 2013, the year in which the company embarked on diversification up to 2016. The Managing Director explains that since the company's has been making profits, this could mean that diversification is positively related to profitability. The interviewees explains that the company had benefited so much from product diversification strategies such as data services and internet services hence improving the overall profits of the company. Various authors including Manrai et al (2014) and Sheikh and Wang (2011) supports thisopinion. Based on these views, this study also concludes that diversification leads to an increase in profitability.

4.7.0Summary

The data that was gathered wassufficient to deal with all of the research objectives.This helpedto depictmomentous and meaningful conclusions. The data analysis has helped to confer an outline of recommendations which were viable to the company especially in its strategic management and implementing of various growth decisions like diversification.

CHAPTER FIVE - SUMMARIES, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter will bring out summaries, conclusions and recommendations as well as suggestions for further studies. These will be based on the literature, analysis and research findings from preceding chapters.

5.1 Summaries

In chapter one, the background of the study was furnished. It was aimed at introducing the broad view of the research problem. The problem statement which summarised the background of the study was also expressed in chapter one. The main research question, research objectives, sub-research questions, limitations of the study, delimitations of the study and definition of terms were also part of this chapter.

A critical analysis of literature related to this study was expressed in chapter two. This has been done in line with objectives of this study so as to acquaint the researcher with the knowledge which is already available with regards to the relationship between diversification and financial performance. Best practices in diversification were established, with the aim to help TelOne to improve its performance through diversification strategy.

In chapter three, the descriptive research method which included both qualitative and quantitativewasselected. The quantitative methods were used in conjunction with e-views 8 and STATA 11 packages. This method has been used since it is the best method to establish relationships between variables (Daud 2011). Both primary sources and secondary sources of data were used to establish the relationship between diversification and financial performance at TelOne using profit as a performance measure. The qualitative approach was used to answer the descriptive questions of this study as suggested by LaRocca (2011). A sample of 14 respondents of managerial status has been selected from a population of 20. Questionnaireswith closed ended questions using the likert scale as well as structured interview questions were used to gather primary data.

In chapter four, the data that was derived from questionnaire, interview questions as well as secondary sources was analysed. The data was presented using tables and charts which were made using Microsoft excel. STATA 11 and e-views8 packages were used to calculate correlation coefficient between diversification and profitability. Simple linear regression was also used in determining a relationship between diversification and operating costs.

5.2 Major research findings

- From research, it has been determined that there is a moderate positive relationship between diversification and operating costs of 0.49% at TelOne. This means that diversification has resulted in an increase in costs.

- In analysing the costs and benefits of diversification, it has been concluded that the benefits of diversification outweigh its costs. These benefits include economies of scope, increase in market share and the sharing of experiences among various services departments. On the other hand the costs to diversification included interdependence costs resulting from numerous departments working together.

- Collective marketing and continuous product assessment were considered to be best practices of diversification.

- Systematic risks which include, currency risk as well as commodity risk were considered to be the risks which affect diversification at TelOne since it does not operate in a vacuum without such risks.

- A positive relationship represented by R^2=0.66was established between diversification and profitability. This means that diversification has resulted in a moderate increase in profitability at TelOne.

5.3 Recommendations

In line with the research findings, the researcher has been lured to confer the following recommendations:

- TelOne should implement cost cutting measures to minimise operating costs which has shown a moderate positive relationship with diversification.

- The company should also fully implement the diversification strategy since its benefits outweigh its costs.

- More so, the company should also consider collective marketing and selling, service bundling as well as sharing resources between service departments so as to extend its market share and attain economies of scope.

- Since the diversification strategy has shown moderate positive relationship of represented by *R2* of *0.66*, the company should set competitive prices so as to promote sales growth and improve its profitability.

5.4 Suggestions for further study

Since this study has focused on relationship between diversification on financial performance at TelOne. The researcher suggests that further studies should be carried on the methods of diversification and their impact on shareholders' value.

5.5 Summary

This chapter expressed summaries of all the chapters in this study, research conclusions and recommendations. Finally, a suggestion for further study was furnished in this chapter.

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APPENDIX A

COVER LETTER

Midlands State University
Faculty of commerce

Department of accounting

P. Bag 9055

Senga

Gweru

17 March 2017

TelOne Pvt Ltd

Runhare House.

107 Kwame Nkrumah ave.

Harare.

Dear sir or madam

RE: PERMISION TO CARRY AN ACADEMIC RESEARCH

My name isChipura Shelton (R137512N). I am a fourth year student at Midlands State University and I am carrying out a research study on “The impact of diversification on performance of TelOne.” The research is conducted in partial fulfilment of the bachelor of Commerce Accounting Honours Degree with Midlands State University. The questionnaire is meant to enhance my research. I kindly request you to assist in responding to the provided questionnaire .The information obtained from the organisation will be kept confidential and used only foracademic purposes only. Your response is greatly appreciated.

Yours faithfully

Chipura Shelton

APPENDIX B

QUESTIONNAIRES

- **Do not write your name on the questionnaire**
- **Please clearly tick in the box below/ next to the appropriate answer(s)**

1). in ratings of 1-5. does diversification affect operating costs through the following?

	Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly Agree**
Management of various services increases managerial costs thereby increasing operating costs?					
Communication between several service departments and headquarters increases operating costs?					
Consolidation of diversified activities increases operating costs?					

2). a). The costs/ disadvantages of diversification include:

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Interdependence cost?					
Inefficiency costs?					

2). b). Benefits associated with diversification are:

	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
Economies of scope?					
Facilitation of learning and sharing of experiences?					
Increase in market share?					

3) The following are the best practices in diversification:

	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Collective marketing and selling?					
Continuous product assessment?					

4) The following are the risks associated with diversification?

	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Commodity risk?					
Currency risk?					

5) How has diversification affected profitability through the following?

	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Bundling of services supplied increases sales revenue thereby increasing profit margins?					
Economies of scope results in a decrease in cost of sales thereby increasing profit margins?					

END OF QUESTIONNAIRE THANK YOU

APPENDIX C

INTERVIEW GUIDE

INTERVIEW QUESTIONS SCHEDULE

The interview questions aims for the responder's view and comments on the subjects of the effects of diversification on performance of TelOne.Your contribution shall be treated with confidentiality and will be used solely for academic purposes.

Questions

1. What is the effect of diversification on operating costs?
2. In your own view what are the advantages and disadvantages of diversification?
3. What are the best practices that can be implemented for diversification to be profitable?
4. What are the risks associated with diversification and how have they affected the diversification strategy?
5. What is the impact of diversification on profitability?