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AN EVALUATION OF PRODUCT DIVERSIFICATION AS A SURVIVAL STRATEGY. A CASE OF COMHOLD SERVICES

BY

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(HMRK)

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DECLARATION

I, R104779W 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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DEDICATIONS

I dedicated this project to my family with love………………………………………..

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ABSTRACT

This research sought to evaluate product diversification as a survival strategy, using a case of Comhold Services.Chapter one has the background of the study the research objectives, the significance of the study, limitations, delimitations and definition of key terms. The objectives were to evaluate if diversification can be relied upon as a survival strategy, to determine the impact of related diversification on company profitability and to determine the impact of unrelated diversification on company profitability. These objectives were aligned with the research questions to answer the core issues. Major thoughts, ideas and concepts of different scholars were reviewed using books, previous thesis included text books, electronic journals and Comhold company records. The concepts and thoughts of these scholars were of much help in completing this research study as the researcher managed to identify knowledge gaps and close them using the ideas of other authors. The researcher compared and contrasted the contributions of various authors to find points of convergence and divergence.Exploratory and descriptive researches were both used to carry out the research. The target population of the research was management; employees and customers of Comhold Services specifically in Harare,and the research instruments used were questionnaires and interviews.The researcher used a sample size of 30 respondents. While Microsoft Excel was used to analyse quantitative data, content analysis and thematic were used to analyze qualitative data. The data collected from these research instruments were presented, analyzed and interpreted from the data presentation techniques pie chart, bar graphs and tables for easy drawing of conclusions. The conclusions drawn from the findings are: Diversification indicates to be effective as a survival strategy. Therefore the researcher recommends its adoption in a harsh economic environment. The researcher also recommends that a similar study be carried out evaluate the effectiveness of other survival strategies on a company in a different industry.

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CHAPTER 1
GENERAL INTRODUCTION

1.0 Introduction

The purpose of this is chapter is to provide the background to the problem and highlight the research objectives, purpose of the study, delimitations, limitations, assumptions and key definitions of terms. The research focus is on the evaluation of diversification as a survival strategy, using a case of Comhold Services. The research questions are derived from the objectives and key assumptions made. This chapter will also include justification of the study and delimitations of the study which is included as parameters in conducting the research.

1.1 Background to the study

Comhold Services is a water engineering company based in Harare. The company was registered in October 1997 and started operating in November of the same year. Its registered office is at No. 20 Edmond's Avenue Belvedere, Harare. In its 17 years of existence, the company has conducted numerous irrigation projects and water reticulation works. These include but are not limited to:

Zinwa – Sanyati Catchment: Gokwe Water Supply which involved the supply and installation of seven submersible pumps at Gokwe and Nembudziya with average pumping rate of 40m3/hr. to depths averaging 150m to 200m, Ministry of Health and Child Welfare: Mashonaland Central which involved water supply schemes at three clinics in Mashonaland Central Province. The projects comprised of diesel engine pump sets at dams and about a kilometre of PVC piping to the clinics and Nyamarimbira Piped Water and Irrigation: an ITDG funded project in the Tangwena area of Nyanga involving harnessing water from the mountains, then channelling it down to generate electricity, filtration for drinking water and finally irrigation down slope.

The company deals mainly with government and NGOs who fund the projects Comhold's main customers are:

- Non-Governmental Organizations
- Department of Irrigation
- Small scale and Large scale Farmers
- Local Authorities
- Zinwa
- Individual households
- Schools and hospitals

As evidenced by the above, Comhold Services relies on Government entities and NGOs as customers. Despite Comhold Services' past successes, business is low. Sales are continuously declining. The table below shows Comhold Services sales trends:

Table1.1.1: Sales figures for Comhold 2010 to 2012

Year	Sales
2010	2 500 490.00
2011	1 778 946.00
2012	1,202,000.00

(Comhold Services marketing department, 2013)

As depicted in the table above, the firm's sales figures show a continuous decline. This intensifies the cash flow problems the firm was already experiencing as a result of the liquidity crunch being experienced in the Zimbabwean economy.

The difficulties being experienced in this sector has seen companies such as Waterflo Engineering and Toronto closing down. This is because most the companies in the water engineering industry rely mainly on the government which has been the largest sponsor of irrigation services in the country. The evidence of the same difficulties being experienced by other firms in the industry goes to show that these difficulties are not specific to Comhold, but exist in the industry.

The introduction of the multi-currency brought stability to the economy. However it brought with it liquidity problems, since the central bank became powerless regarding the control of money supply. The liquidity crunch which is reflected by the decline in money supply growth and low financial intermediation results in reduced aggregate demand.

In spite of this, government spending has reduced. The government cites the liquidity crunch as the reason for this. All this is attributed to a very high import bill in Zimbabwe. In his 2014 Budget Statement, honourable Minister Chinamasa acknowledged that the current account deficit continues to put a strain on the country's liquidity.

The high import bill compounded with a dwindling capacity utilisation shows that the liquidity crunch is bound to continue since the country is spending more money than it is generating. This is in accordance with the words of the Honourable Minister of Finance in the National Budget Statement; "the huge import bill has been a source of liquidity destruction". Unless the economy sees a turn around, the future of the country's economic situation looks bleak.

Even the NGOs who have funded numerous irrigation and water reticulation projects have now drastically reduced expenditure. They cite lack of funds as the reason for this. The major donor communities which are the USA and the European Union are in a recession and have their own problems in their respective countries. This is affecting the NGOs ability to acquire funding.

As a result of the above, the industry is facing cash flow and viability problems. Due to the problems being experienced in the industry, Comhold employedproduct diversification strategies in order to remedy the situation. The company expanded into both related and unrelated product markets. Comhold Services initially expanded from the core business of providing irrigation services and it became a water engineering firm.

In addition to offering irrigation services, the firm introduced an irrigation equipment unit that has seen it enter into agreements with manufacturers of irrigation equipment and acquire dealership deals. Recently the firm has acquired a deal to be an authorised distributor of the selectively distributed and Indian manufactured Lubi pumps and motors. The company also added water reticulation, borehole installation and a hardware division to its list of products and services offered. Comhold Services is also an approved supplier of bitumen to the Ministry of Transport

Since literature on diversification emanates from diversification and performance being studied under stable macroeconomic environments, the researcher is interested in evaluating to what extent product diversification can be used as a survival strategy in an unfavourable economic environment.

Scholars have mixed views on the relationship between diversification and firm performance in unfavourable economic environments. Some scholars such as Braakman and Wagner (2009), (Baptista, et al., 2010) and (Kitching, 2013) suggest that diversification is indeed a viable strategies for firms in unfavourable economic environments. On the other hand scholars such as Purkayastha (2013) finds that while the impact of diversification on performance changes from positive to negative when the macro environment changes from munificent to scarce. Rumelt, (1982) on the other hand finds that the effectiveness of diversification is regardless of the macro economic context.

Most of the research referred to above has been done using companies from many different industries. These studies have generally not considered that the decisions to diversify may be industry related. Empirical strategy research is generally too preoccupied with cross - industry research and places too little emphasis on diversification strategy within one group of firms. In addition to this, the research on the relationship between diversification and performance has been inconclusive. This study might provide an interesting and complementary perspective on former diversification research.

1.2 Statement of the problem

Following sales a continuously declining sales trend as a result of the harsh economic environment, Comhold Services employed product diversification as a strategy to offset this. Against this background, the researcher seeks to evaluate the effect of these diversification strategies on Comhold Services' performance and if deemed necessary, recommend alternative strategies Comhold Services can use.

1.3 Research Objectives

- To establish the extent to which product diversification can be relied upon as a survival strategy.
- To assess the impact of related diversification on company profitability
- To assess the impact of unrelated diversification on company profitability

1.4 Research Questions

In conducting the research, the researcher was guided by the following questions:

- Can product diversification be relied upon as a survival strategy?
- What is the effect of related diversification on company profitability?
- What is the effect of unrelated diversification on company profitability?

1.5 Assumptions

- The researcher assumed that no major changes in the company took place during the period of research.
- The researcher assumed that there was to be maximum cooperation from staff and customers to be interviewed.
- The researcher assumed that the respondents gave honest and unbiased information
- The researcher assumed that no change occurred in the economic environment during the period under study

1.6 Significance of the study

To the researcher/student:

- The research will equip the student with necessary research skills thus, preparing the researcher for future similar tasks.
- The research enabled the student to gain a better understanding of diversification.
- The research gave the student an understanding of diversification can be used to increase earnings
- It also helped in the partial fulfilment of the project research.

To the company:

- This research is a source of information to Comhold about the effects of the diversification strategies from a management, employees and consumers' point of view.

- The research findings also shows the viability of diversification as a growth and survival strategy

To the university:

- The research can be used for referencing on articles related to the research in the future.

To the water engineering industry:

- The research provides other water engineering companies with information about the diversification strategies they can implement in order to increase their earnings.

1.7 Delimitations

- The research involved the employees and customers of Comhold Services.
- The study was limited to Harare and the adjacent areas
- The data used in this research was from the period of 2010 to 2013
- The researcher used exploratory and descriptive research designs
- The research will be focused on related and unrelated diversification

1.8 Limitations

- The study was limited to only one company (Comhold Services) so the outcomes may not be a true representation of the effect of diversification strategies on all companies in the industry.
- The respondents may withhold information. However the researcher assured the respondents that the information given will be strictly for academic purposes and highlighted the importance of the research

- The sample size used was small, however the researcher ensured that the respondents represented the target population

1.9 Definition of Key Terms

1.9.1 Diversification

This refers to the act of taking a new product into a new market. There are two major types of diversification. These are concentric or related diversification and conglomerate or unrelated diversification.

Concentric diversification

This is also known as related diversification. It is when a firm diversifies into field where there are synergies and similarities between the firm's current business and that which it would have diversified into.

Conglomerate diversification-Seeking new businesses that have no relationship to the company's current technology, products or markets (Kotler and Armstrong, 1996; 28)

Horizontal diversification-Refers to a search for new products that appeal to the company's current customers but are technologically unrelated to the current product line(Kotler and Armstrong, 1996; 28).

1.9.2 NGO

NGO is the abbreviation for Non-Governmental Organisation. These are charitable organisations which neither make profit nor are government owned.

1.10 Chapter Summary

This chapter gave an account of the background of the study, statement of the problem, research objectives, research questions, and significance of the study. The chapter also highlighted the assumptions, delimitation and limitations of the research and included the definition of terms. The next chapter looks on the empirical and theoretical literature review of diversification strategies.

CHAPTER 2
LITERATURE REVIEW

2.0 Introduction

This will provide a critical insight into the topic under investigation through a review of key concepts, models and theories related to the subject of diversification.

2.1 Diversification overview

Igor Ansoff put forward a matrix which identified strategic development directions. In this model, diversification was one of the four growth strategies a firm could use. The other three were:

- Market penetration
- Market development
- Product development

. The matrix is illustrated below fig 2.1.1:

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

(Ansoff, 1999-2014)

Fig 2.1.1 Ansoff Matrix

From the above fig 2.1.1, it can be deduced that diversification can be defined as introduction of a new product or products to a new market or markets. Proponents of this definition include Aaker D et al (2010) who suggest that diversification involves a firm expanding from its core competencies into other product markets. This is also supported by Johnson and Scholes (2002) who agree that diversification involves a firm moving away from its core competences. These definitions clearly involve new products being taken into new markets and they are clearly in agreement with the definition premised on the Ansoff matrix.

According toChandler (2010) diversification is a strategic option employed by firms when they have consolidated their positions in their base industries and hold underutilized resources that can be used in other sectors of the economy at a low opportunity cost. This view is shared by Evans et al. (2003) who also cite under exploitation of resources as a driver for diversification.Evans et al go on to state that when the organization wants to address more than one product or market segment they may engage in diversification.

Pils (2009) includes an element of relatedness in his definition of diversification. He states that, diversification is a strategy where firms spread their activities and products across different product markets that are more or less related between each other. Johnson, et.al (2007) adds risk to their definition of diversification. They definediversification as a risky strategy that involves adding products, services, location, customers and markets to a firm's portfolio. The author believes that diversification is a way of managing risk. By operating in many product markets, a company is better protected against shocks in the market since a decline in revenue in one product market can be offset by an increase in revenue in another product market. However in order to fully hedge against risk a firm has to operate in unrelated product markets. This is very risky as chances of failure are high since the firm will be moving away from its core competences.

Ansoff (1987) showed that diversification is a strategic development option for firms. However, Allen and Geogeon, (2010) state that diversification is both a proactive and reactive strategy. It is a proactive strategy in that firms can use diversification to manage risk and it is a reactive strategy in that firms can diversify when their current businesses are not doing well. This is in support of Robson, et al., (1993) who state that diversification can be a survivalist strategy. The researcher is of the view that while diversification is usually viewed as a growth strategy in large corporations, small firms use it as a survivalist strategy in which they diversify when their current business is suffering.

2.1.1 Diversification Strategies

(Hunger and Wheelen 2009) state that there are three major types of diversification strategies; these are concentric or related diversification, horizontal diversification and conglomerate or unrelated diversification.

2.1.2 Concentric diversification strategy

Hunger and Wheelen (2009) and Peng (2008) all concur that related diversification is when a company introduces new products and or services which are related to the firm's current core competences. This means that the firm can utilise existing competencies to gain a competitive advantage. Concentric diversification is done so that the firm may achieve strategic fit or synergy. Synergy is concept based on the notion that the whole is greater than the sum of parts. This means that if a firm achieves synergy, the two businesses will be generating more revenue together than they could generate separately.

2.1.2.1 Classifications of concentric diversification

Thomas (2010) states that concentric diversification the direction of diversification can be used to classify it. This definition leads to two types of concentric diversification which are: vertical integration (forward and backward) and horizontal integration.

2.1.1.1.1 Vertical integration

This consists of forward integration and backward integration. Forward integration is when a firm's diversification takes it closer to the consumer in terms of production stages whereas backward integration occurs when a firm's diversification takes it closer to the sources of raw materials in terms of stages of production. (Thomas 2010).

2.1.1.1.2 Horizontal integration

Lynch (2003) and Macmilan et al (2000) share the view that horizontal diversification is when a firm moves into businesses related to its current strategic business area.

2.1.3 Conglomerate diversification strategy

As the name suggests, this is when there are no synergies or similarities between the firm's current business and the new business. Ansoff (1987) goes on to state that it is when the firm's new business is not related to its core strategic business area either through technology or through market needs.

Singh et al (2003) assert that both new products and new mission of a conglomerate are unrelated to the existing product or mission of the business. The author adds that a conglomerate is a company with interests in several business areas of which none has any intentional relationship or similarity with any other. There is no synergy at all other than the management skills required to make a conglomerate function. The most common type of conglomerate diversification is company take overs. If a company acquires another firm it is likely to improve its profitability and flexibility. Conglomerate firm production represents more than 50% of production in the United States (Marinelli 2011).

2.1.4 Horizontal diversification strategy

Horizontal diversification occurs when a company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers (Berry et al 2000). In supporting this definition, Hall (2005) adds that in a competitive environment horizontal diversification is desirable if the present customers are loyal to the current product and if new products have a good quality and are well promoted and priced. Horizontal diversification is also referred to as unrelated diversification. Johnson et al. (2007) contend that unrelated diversification refers to the development of products or services beyond the current capabilities and value network.

Horizontal diversification is defined by Berger et al (1999) as a strategy of adding new unrelated products or services to the present customer. According to the authors this strategy is not as risky as conglomerate diversification. The firm will be familiar with its present customers.

Singh et al (2003) talks of horizontal integration as expansion of business at the same point in the supply chain. According to him this strategy is adopted when companies have their existence in the same product line or market. The goal of horizontal integration is to consolidate the market by acquiring or merging like companies and exploit the market by monopolizing the industry. The phenomenon is also referred to as horizontal expansion because it is an expansion of a firm within an industry for increasing its market share for a particular product.

Bhide (1993) believes that most organisations confuse new product development with diversification. Singh et al (2003) also states that the new products are marketed to the same economic environment as the existing products which may lead to rigidity and instability. In other words, horizontal diversification tends to increase the firm‘s dependence on certain market segments.

The researcher used the definition by Jones and Hill (2009) who define horizontal diversification as “a firm’s development into activities which are competitive with or complementary to a company‘s present activities”, to carry out this study.

The researcher used horizontal diverisification strategy as he felt that this was the best strategy most applicable in this instance.

2.1.5 Internal vs External diversification

Thomas, (2010) further categorises diversification strategies into two: internal and external diversification. Internal diversification occurs when the firm ventures into a new business by making the product itself. This normally occurs when the new business is related to the firm’s original core competence. External diversification is a strategy whereby a firm enters a new business through the purchase of another companies or business unit. It is commonly referred to as acquisitions or mergers

2.1.6 Drivers of diversification

Ansoff (1987) showed that diversification is a strategic development option for firms. However, Allen and Geogeon, (2010) state that diversification is both a proactive and reactive strategy. It is a proactive strategy in that firms can use diversification to manage risk and it is a reactive strategy in that firms can diversify when their current businesses are not doing well.

2.1.6.1 Classifications of motives for diversification

According to (Montgomery, 1994) the motives for diversification can be classified into 3 classes. These are:

- Market power motives
- Resource utilisation motives
- Agency relationships

Market power motives

This set of motives is centred on diversification being a means of exploiting market or conglomerate power. Conglomerate power is influence emanating from a firm's ability to use the scope and character of its activities to influence other players (Edwards, 1955). Such power enables a firm to reduce the degree of competitiveness in order to deny markets to smaller competitors. This is supported by Chen and Yu (2011) who assert that firms diversify so as to exploit economies of scope in various resources including tangible and intangible resources. Their findings further showed that exploitation of established capabilities via diversification aided firms to pursue increased economic returns.

However, Griblin (1976) and Baptista, et al., (2010) argue that this motive is not applicable to small firms. They postulate that if a small firm has insignificant positions in a number of markets, it will not necessarily have conglomerate power. Baptista, et al (2010) goes on to state that "To wield power across markets, a firm must first have some measure of strength in its individual markets"(Baptista, et al., 2010).

Resource utilisation

Penrose, (1959) is of the view that rent-seeking firms diversify in order to utilise excess productive capacities. According to the theory put forward by Penrose, firms cannot achieve equilibrium due to the indivisibility of resources and alternate uses of resources in different situations. The theory goes on to state that firms want to grow and as a result use related diversification when the resources are specific and unrelated diversification when dealing with less specific resources. In other words, diversifying firms will gain more opportunities to use their superior resources (Jensen & Ruback, 1983).this view is shared by Singh et al (2003) who states that firms diversify so as to increase the economies of scale and economies of scope, thereby increasing their efficiency, learning, and innovation respectively.

Firms can also implement diversification strategies in order to take advantage of synergies. Synergies are when two or more businesses generate more revenue and profits together than they would apart. Therefore, in order to increase their revenue, companies diversify in order to enjoy the benefits emanating from synergy by acquiring businesses with a strategic fit (Wheelen & Hunger , 2009). Allen and Geogeon, (2010) postulate that the main reason why most firms diversify is to exploit synergies.while Wheelen & Hunger , (2009) are of the view that synergies are enjoyed by firms which implement related diversification, Allen and Geogeon (2010) are of the opinion that firms can exploit synergies regardless of the the type of diversification they pursue (related or unrelated).

Allen and Geogeon (2010) use the value chain analysis to explain the synergies that firms can exploit through diversification. The value chain identifies nine strategically important activities that a business can use to create value and manage costs. Therefore diversification offers firms synergies that enable them to increase value for their consumers and lower the costs they incur in providing value to their consumers.

Agency Relationships

This set of motives views diversification as a means for managers to minimise their risk exposure (Amihud & Lev, 1981). Jensen & Murphy, (1990), Hoskisson & Hitt, (1990) and Amit & Livnat, (1988) share the view that diversification puts managers in a better position to increase their power, prestige and level of remuneration. Hoskisson and Hitt, (1990) go further and show that there is a high correlation between management remuneration firm size and diversification.

From the above mentioned classifications of motives for diversification, one can deduce that diversification is mainly a growth strategy. Of the above mentioned classifications, only one seems to apply to Comhold Services, the resource based perspective. For Comhold Services one of the reasons for engaging related diversification is to be able to exploit synergies.

reduce uncertainty. The reactive and proactive drivers for diversification can be summarised as follows:

Table 2.3.1 Summary of Drivers for diversification

	Internal	External
Proactive	➢ Managerial urge ➢ Growth and profit goals ➢ Unique product competence ➢ Economies of scale	➢ New market opportunities
Reactive	➢ Risk diversification ➢ Extend sales of seasonal products ➢ Excess capacity of products	➢ Small current market ➢ Stagnant or declining market

Source: ***Designed by researcher***

2.2 Diversification as a survival strategy

Rumelt (1974) implicitly assumed that the diversification-performance relationship is consistent, regardless of the macro-economic context. Purkayastha (2013) finds that while the impact of diversification on performance changes from positive to negative when the macro environment changes from munificent to scarce, the moderating influence of business group affiliation remains constant, irrespective of the macro-environment. A few recent studies (Chakrabarti, Singh &Mahmood, 2007; Coplan&Hikino, 2005; Mayer & Whittington, 2003), however, have concluded that the relationship between strategic choices and financial outcomes are dynamic and contingent on the environmental context.

However, Berry et al (2000) states that diversification is caused by several other factors. These include:

- Quantum shift in market structure
- Loss of key customer
- Shrinking customer base

It should be noted that the drivers for diversification mentioned by Berry et al (2000) are also characteristics of a recession. Therefore

Sandvig, (2000), and Filatotchev & Toms, (2003) share the opinion that signals of insufficient demand are bound to force firms to look for alternative industries to enter. Chandler, (1962) and Miles, (1982) go on to propose that when faced with insufficient demand, firms look for possible alternatives so that they are in a position to gradually redeploy their assets and reorganise their businesses. How useful is diversification in the event of an economy wide shock? The researcher believes that not all areas of the economy are equally affected even in the face of an economy wide incident. Some areas are less affected than others. Therefore these reasons can lead to unrelated diversification.

From the above-mentioned factors, one can deduce that not only is diversification a growth strategy. Diversification is also a turnaround or survival strategy that a firm can use to offset an unfavourable situation. This view is supported by Burgelman (2003) and Hall (2005) who postulates that diversification is a corrective tool that can be used to remedy inferior company performance.

Sometimes companies will diversify because of the opportunities associated with diversification. Ansoff, (1987) states that if diversification opportunities are more profitable than expansion opportunities, the company is bound to diversify.

In addition to the factors mentioned by Berry et al (2000) diversification can also be used to hedge against risk. Baptista, et al., (2010) suggests that risk reduction strategies will cause firms to diversify. Single product firms are susceptible to demand shocks and the impact of new entrants, all of which make sales and profit unpredictable. Braakmann and Wagner (2009) state that while single product firms are defenceless in the face of adverse shocks that hit their market, multiple product firms are in a better position to reduce their exposure to these shocks, especially if their product markets are randomly distributed and negatively correlated.

If the product life cycle of a company's product or industry is at the maturity stage, the company can use diversification as a strategy that will reduce dependency on one product or market. Aaker (2010) shares this view along with Amihud and Lev (2001) and Markides (1995) who suggest that diversification will reduce reliance on a few product markets and

(Kitching, 2013) finds that firms who use cost cutting measures in a recession struggle with post-recession performance. Those that employ revenue generating measures in a recession successfully adapt in post-recession performance. This research seeks to put Kitching's view to the test. The researcher endeavours to determine if diversification, (a revenue generating measure) is indeed viable in a depressed economy. On the other hand, Baker (2004) states that diversified organisations seem to be more acutely affected by economic recessions than other organisations. Diversified firms are likely to be adversely affected by an economy-wide shock since they operate in multiple environments simultaneously. As the multiple environments in which a diversified firm operates undergoes changes, the firm will be forced to deal with multiple challenges concurrently.

2.2.1 Harsh economic environment defined

(Mager 1987). Kondratiev identified three phases of the economic cycle while studying international data on prices from the late-18th century through to the start of the 20th he termed these fluctuations: expansion, stagnation and recession – each complete cycle taking approximately 50 years. At that time, Kondratiev claimed to have identified three cycles. Economists such as (Freeman 1984) have claimed to have detected a fourth and a fifth 'Kondratiev wave' based around oil, cars and mass production, and information and communications technologies respectively. The researcher will use the term recession synonymously with harsh economic environment.

Bryson (1996) states that recessions are periods of 'creative destruction', of economic restructuring, during which industries decline, often terminally, while new ideas, technologies, products and industries emerge and become the driving forces of subsequent economic growth. This view is supported by Kitching, (2013) who concurs that recessions are characterised by reduction in overall industry performance.

Recessions present businesses with a dilemma (Chastain 1982; Deans et al. 2009). On the one hand, firms experience pressures to cut costs in order to maintain survival in the short-run at the risk of reducing capacity to such a degree that the firm is unable to adapt adequately when recovery comes. On the other, businesses might also face pressures to maintain greater capacity, and thereby incur higher costs in the short-run, in order to retain the capability to adapt when the upswing comes and realise opportunities for long-term value creation (Kitching, et al., 2009).

More recent studies stress the need to perceive the recession as an opportunity, not a threat (Kitching, 2013; Rumelt 2008; Williamson and Zeng 2009).

2.3 Diversification and performance

(Marinelli, 2011) takes the view of (Chandler, 1962) that the gains diversification comes from increased economies of scale, and that of (Baptista, et al., 2010) that they come from the exploitation of firm specific assets in several businesses and that of (Wenerfelt & Montgomery, 1988). There is a lot of literature of diversification in strategic management. The research has been normally focused on what diversification strategies (related or unrelated) enhance performance. Early research (Rumelt, 1974) suggested that firms which developed through related diversification outperformed both those that remained specialized and those which developed through unrelated diversification.

Marinelli, (2011) cites the research conducted by Palich, Cardinal and Miller (2000) who after studying 55 quantitative studies of diversification performance linkage confirmed that there is a U – Curvilinear relationship between diversification and performance. However, (Marinelli, 2011) argues that the research still has an element of subjectivity since there is no standard way to measure the method of relatedness. For example, if Comhold diversifies from irrigation services to hardware supply, this diversification can be construed as unrelated in that the different businesses are not similar, it can also be taken as related diversification in that some of the components used in the supply of irrigation services are from hardware suppliers. Therefore the results of these researches have been to some extent influenced by the researchers' perceptions of relatedness.

From the research that has been conducted, the general trend that seems to appear is that a positive effect occurs as a firm moves into a related field and the opposite is true. If a firm moves from a related strategy to an unrelated strategy, the benefits of diversification are offset by the costs of diversification Oladele (2012), Braakman and Wagner (2009) and Porter, (1985). This is in line with the resource based motive of diversification by Montgomery, (1994). The researcher is of the view that the findings in these researches are again compromised by the fact that there is no standard measure of relatedness.

Some studies claim diversifying into related product-markets produces higher returns than diversifying into unrelated product-markets and less diversified firms perform better than highly diversified firms (Christensen and Montgomery 1981, Keats 1990, Michel and Shaked 1984, Rumelt 1982). The researcher shares the view of Prahaladand Bettis (1986), who while agreeing that related strategy is better than unrelated, clarify that the key to successful diversification is the insight and the vision of the top managers in choosing the right strategy (how much and what kind of relatedness), rather than diversification per se. this is also supported by (Pandya & Rao, 1998)

According to Santalo & Becerra, (2008) despite the research accumulated in the last three decades, there is no widely accepted causal relationship between diversification and performance. Despite being a central topic in the field of strategy and finance, the evidence about the effect of diversification on performance is still inconclusive. The most recent research in finance casts serious doubts into the existence of a diversification discount and the methodological limitations of the accumulated evidence. Thus, the question of whether diversification improves or worsens firm performance is still worthy of further research. A recent meta-analysis of the literature finds evidence of this idea, supporting an inverted U relationship between diversification and performance, though several other functional relationships have been found in the literature (Palich, Cardinal, and Miller, 2000).

2.3.1 The bright side of diversification

Pandya and Rao (1998) say that the impact of diversification on firm performance is mixed. Reviews carried out by Datta, Rajagopalan and Rasheed (1991), Hoskisson and Hitt (1990), Kerin, Mahajan and Varadarajan (1990) conclude: (a) the empirical evidence is inconclusive; (b) models, perspectives and results differ based on the disciplinary perspective chosen by the researcher; and the relationship between diversification and performance is complex and is affected by intervening and contingent variables such as related versus unrelated diversification, type of relatedness, the capability of top managers, industry structure, and the mode of diversification.

Marinelli (2011) and Martin and Sayrak (2003) are of the same opinion and believe that despite almost 40 years of research identifying the bright and the dark side of corporate diversification, it is possible to affirm that a definitive consensus has not been reached to determine whether diversification strategy is positive correlated with firm's performance and shareholder value or, in other terms whether a firm has to diversify or needs to remain focused on its core activities.

Other authors believe there are benefits to be bone when a firm diversifies. Clarke (2005) says the main purpose of diversification is to increase the benefits of economies of scope through a more efficient utilization of business resources across multiple markets. Chandler (2002) talks of benefits being derived from economies of scale when a firm diversifies while Lewellen (2001) talks of increased debt capacity and Berger et al (1999) says that firms benefit from exploitation of firm specific assets in several businesses.

The effective and efficient resource deployment encompasses two fundamental elements of any company's strategy: the range and relatedness of the products sold and the company's relative emphasis on foreign versus domestic operations (Geringer, Beamish, &daCosta, 1989).

Hoskisson (2007) says that some of the benefits of concentric diversification are: operational synergy, economies of scale, utilizing excess productive capacity and reinvesting of earnings. The author identifies benefits which accrue from horizontal diversification as including the following: financial synergy, economies of scope, increasing market power and spreading risk across a range of businesses.

Jensen and Ruback (1983) and Lehn and Mitchell 1993) believe that corporate takeovers discipline managers who waste shareholder resources and bust-ups promote economic efficiency by reallocating assets to higher valued uses or more efficient uses. .

Diversification also allows for the separation of operational and strategic control, thereby, insulating top executives from agency problems (Williamson 1981). By separating the strategy component from the day-to-day operational component, managers are better able to focus their attention on a specific aspect of the organisation, such as monitoring the organisation's various businesses and their performance, instead of suffering from information overload (Hall 2005).

Benefits include substantial increase in market power, creation of synergy in market operations, and reduction in the probability of bankruptcy and minimization of risk (Kotler, 2003).

Intra-industry product diversification can uniquely drive two benefits; premiums from mutual forbearance brought by multimarket competition and efficiencies from market structure Li and Greenwood (2004). Mutual forbearance is defined as tacit collusion to mitigate intensity of competitive behaviours at multiple points of competition and it is more likely to exist in the intra-industry diversification context than in the inter-industry context. Oladele (2012) supports this point and says when firms compete within a constrained market with a higher probability of multiple contacts; severe rivalry may be alleviated due to a greater tendency to mutually forbear offensive activities.

The effects of these benefits suggested by Li and Greenwood (2004) will vary from firm to firm and therefore should be interpreted cautiously according to the specific study's context. Jayachandran et al. (1999) for instance says that mutual forbearance is dependent on the degree of familiarity between firms and their abilities to hinder each other while Golden and Ma (2003) assert that organizational structure that enables intra-firm cooperation and incentive systems which induce cooperation, are critical when implementing a mutual forbearance strategy. A high degree of familiarity due to the homogeneity of businesses and unique organizational characteristics, such as a high turnover rate may exist among firms (Kang et al. 2011).

The above discussion suggests a lot of benefits to be derived from diversification. The strategy offers opportunities to expand product offerings or expand into new geographical areas. Synergies are created at the corporate level deriving from the ability to apply common management capabilities to different businesses.

A diversification strategy helps firms to improve asset deployment and profitability (Teece 1982, Williamson 1981). If one business unit develops specialist skills, those skills can be transferred to other business units to improve their performances. A diversified firm can transfer funds from a cash surplus unit to a cash deficit unit without taxes or transaction costs (Bhide 1993). The author further alleges that diversified firms pool unsystematic risk and reduce the variability of operating cash flow and enjoy comparative advantage in hiring because key employees may have a greater sense of job security.

Horizontal diversification has a number of advantages which include the following: the reduction of risk associated with dependence on slow moving product lines, the introduction of new products which is likely to attract new opportunities, an increase in economies of scale, an increase in negotiating power with both suppliers and customers and an increase in economies of scope.

2.3.2 The dark side of diversification

Chakrabarti et al (2007) puts forward questions as possible challenges for diversification:

- Will firms be able to manage their diversified operations in environments characterized by economy-wide uncertainties?
- Specifically, would firms in less developed institutional environments benefit from being diversified when a major economy-wide shock radically alters the economic environment?

Jones and Hill (1988), and Porter, (1980) assert that not only is diversification costly, it also places considerable pressure on top management. Oladele (2012) explains that this is because of the additional costs relating to corporate diversification which are related to the private and family-related benefits of owner-managers, arising from disputes that arise between owner-managers and shareholders. The costs can also be attributed to training or induction costs that will be required for new skills needed to make the workforce and management appreciate and involve themselves in managing synergies across the business.

(Braakmann and Wagner 2009) also cite costs as a possible deterrent to diversification and point out that there are usually costs associated with the serving of different markets. When serving different markets, a firm will no longer be fully able to enjoy economies of scale in advertising and product development.

Groonroos, C (1999) and Delios et al., (2008) share the view that scarcity of resources is a significant limitation of diversification. Berry et al (2000) asserts that diversification is resource intensive. Therefore, a firm diversifying at a high level struggles to fulfil the resource requirement of diversification. Delios et al., (2008) go on to say that high product diversification increases the costs of control and coordination as the firm attempts to avoid the competition on the scarce resources among different products. Wernerfelt and Montgomery (1988) state that in addition to increasing coordination and control costs; diversification may worsen firm performance by bringing about inefficiency when transferring core competencies to varying markets.

The management of different but related businesses is a complex and difficult task.This is augmented in the case that managers lack expertise or knowledge about the diversified businesses. Furthermore the gains expected to arise from economies of scope may be offset by the increase in administrative costs involved in their exploitation.

Charles et al (2004) points out experience as a challenge of diversification. He supposes that when a company moves into a new field and it starts competing with companies that have been in the business for a long time, and it will lose unless it has a unique competence that the existing companies do not have.

Hall (2005) says that a challenge with diversification is that profitable firms may overrate the significance of their core competence in other industries or the transferability of these competencies. As the degree of product diversification within a certain industry increases, a higher probability exists for disturbing managerial skills and alignment of activities that are well suited to the core business of a firm. Consequently, the firm becomes incapable of successfully operating diverse businesses and marketing various products (Oladele 2012).

According to study conducted by Hoskisson and Hitt (1990), diversification, firm size, and executive compensations are highly correlated. This goes to infer that diversification provides benefits to managers that are inaccessible to investors. Economists call it the agency problem (Fama 1980).

Understanding the coordination of diversification activities with existing businesses can present serious challenges. When taking on conglomerate diversification, there are risks that synergies may not be achieved. This may be due to managers: neglecting to perform an adequate strategic analysis of firm to be acquired, attempting to complete takeover deal before other prospective buyers instigate a bidding war, focusing on the attractive features of a prospect while giving less attention to the negative features, failing to assess the risks related to the new investment opportunity or to adequately address variances in organizational cultures.

2.3.3 The 2. Curvilinear relationships

Empirical evidence on the relationship between diversification and performance suggests two curvilinear relationships that exist between diversification and performance. These are:

i. The inverted U model
ii. The Intermediate model

2.3.3.1 The inverted U model

Limited diversification presents a strategy of restricted business where the firm

focuses on a single industry, thus limiting opportunities to leverage resources and capabilities across divisions. The argument outlined above (i.e. Linear model) indicates that limited diversifiers as a group are unlikely to generate above average profits. Lubatkin and Chateree (1994) observe that single business firm do not have the opportunity to exploit between unit synergies or the portfolio effect that are available only to moderately and highly diversified firms. That is, focused enterprises do not have multiple businesses, so they do not enjoy scope economics. Also these firms bear greater risk since they have not diversified away that risk by combining less than perfectly correlated financial streams from multiple businesses. This has negative implication for the debt capacity, cost of capital, and market performance of single business entities (Shleifer and Vishny, 1991).

2.3.3.2 The intermediate model

In general, the Intermediate Model can be tied to the notion that diversification yields positive but diminishing returns beyond some point of optimization. Markides (1992) provides a helpful review of the argument supporting this view. He pointed out that has a firm increases in diversification, its moves further and further away from its core business, and the benefit of diversification at the margin of decline.

The empirical evidence on performance and diversification can be divided into three different groups:

a) Related performs better than unrelated.
b) No differences between related and unrelated.
c) Unrelated outperforms related.

contradictory results is related to: different time periods, various measures on profitability, and different measures on diversification.

2.4 Related diversification and company profitability

Oyedijo (2012) believes a firm can diversify its operations into related markets in order to achieve economic benefits by sharing physical, human and intangible resources across those markets. By engaging in related diversification, a firm can exploit various synergies. To better explain this benefit, Allen and Geogeon, (2010) use the value chain to explain how a firm may exploit synergies through the implementation of related diversification.

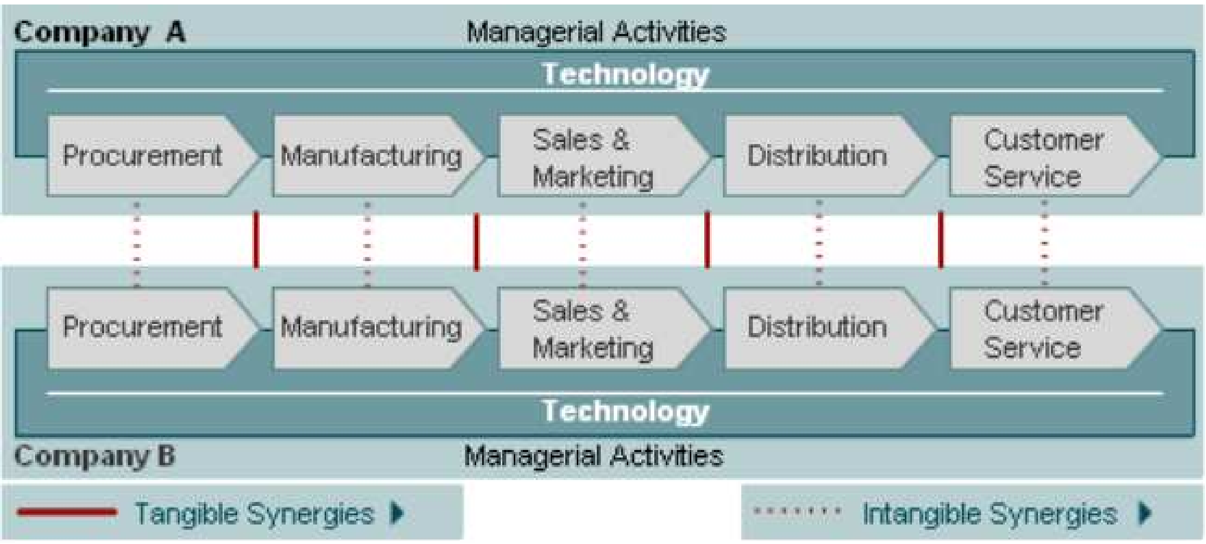

Fig 2.6.1 Primary activities of a value chain
(Allen & Geogeon, 2010)

Synergies are competitive advantages that arise from relationships between a firm's different business activities. On the other hand a value chain shows the activities that a business does to create value for its customers. These activities are categorised into two, these are primary activities and secondary activities. A firm can therefore use one or a combination of these activities to enhance value for its customers. All the components of the value chain are shown below:

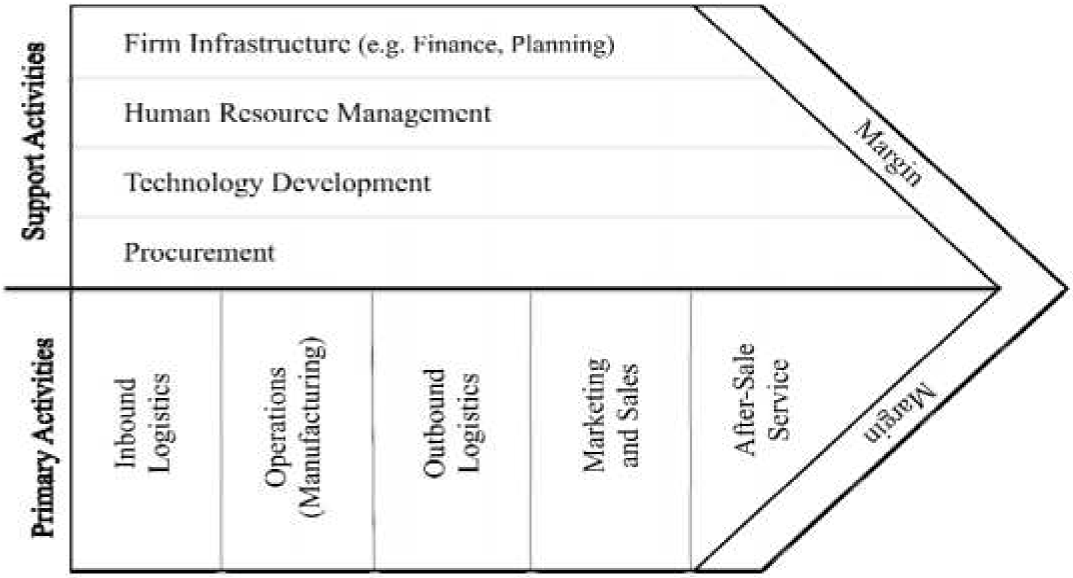

FIGURE 5. Porter's Value Chain

Source: Porter, M. (1990), p.41

Fig 2.6.2 Activities in a value chain

Firms can also use the linkages in the value chain to increase market power as they would be able to guarantee sales and distribution. Furthermore the firm's established brand names and corporate identity is bound to give the firm a competitive edge in new market… (Kitching, 2013)

Diversification enables a firm to exploit existing expertise, knowledge and resources in the company when expanding into new activities Braakmann & Wagner, (2009) go on to add that. this will in turn lead to a skills transfer such as Research & Development. In addition to this, sharing of resources will lead to the firm enjoying economies of scale.

Diversification provides better risk control since it ensures that a firm does not become reliant on a single market. By operating in multiple markets, a firm is better protected from shocks in the market.

2.5 Unrelated diversification and profitability

Baker (2004) says conglomerate diversification is afforded better access to capital due partly to size and partly to the stability that comes from a wide portfolio of activities. The company may move quickly, usually by acquisition into any area seen to be profitable. Subsidiaries of a conglomerate benefit from the prior market presence of the parent firm because product awareness and a customer base have already been established.

Diversified firms are better at making resource allocation decisions since corporate management has access to more information on the productivity of individual factors of production than if they have to rely on external sources (Alchian and Demsetz 1972). The availability of information and its accuracy is superior to specialised firms, who have to rely on external resource markets for such resources as labour and capital (Williamson 1981). Due to the larger size of the diversified firm it has the ability to transfer knowledge, training, and personnel among businesses within the organisation, providing the firm with its own labour market. Diversified firms have the benefit of an internal capital market, which makes additional financial resources available for allocation to the most promising businesses (Hall 2005)

Some authors argue that unrelated diversification is profitable to a firm since it reduces the risks of economic shocks. Kranenburg, (2004) states that conglomerate diversification reduces the risk of diversification. This is supported by Jensen, (1986) who goes on to argue that conglomerate diversification increases employment security and motivates managers.

Rumelt (1974) found a relationship between diversification strategy and performance. The related diversified firms were found to outperform the no diversified and unrelated diversified firms. The unrelated diversification strategy was found to be one of the lowest performing on average. (Kranenburg, 2004). This was supported by Markides (1995) whose study showed that a curvilinear relationship appeared between diversification and performance. This implies that there exists a limit to how much a firm can grow and diversify. An explanation for this inversed u -shaped relationship is that as firms diversify away from their core businesses, their assets lose some of their efficiency and earn declining returns.

However Rumelt,s findings where disagreed upon by Betis and Hall (1982) who stated that the performance advantages in Rumelt's study were due to industry effects. Betis and Hall's argument was supported by Varadarajan and Ramanujam (1987) who suggested that though related diversification may be a necessary condition, it is not a sufficient condition for superior performance, and that unrelated diversification serves a number of firms as well, if not better than, more related or focused strategies.

2.6 Chapter summary

The chapter gave an analysis and explanation of literature related to product diversificationstrategies while attempting to respond to the research objectives. The next chapter looks on research methodology used by the researcher.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter looks at the research design and various sources of data which are primary and secondary .Secondly, the chapter focuses on the sampling techniques used and justification for their use. Thirdly, it involves identifying the population from which the sample will be drawn. Furthermore it focuses on the data collection instrument were used to gather necessary data for the research .Fourthly, the chapter includes validity, reliability and analysis of data that was gathered. The chapter ends with a chapter summary.

3.1 Research design

A research design is a framework or blueprint for conducting a marketing research project. It details the procedures necessary for obtaining th`e information needed to structure or solve marketing research problems. Although a broad approach to the problem has already been developed, the research design specifies the details – the practical aspects – of implementing that approach. A research design lays the foundation for conducting the project…(Mahotra & Birks, 2006)

Kotler 2012 states that there are basically three types of research design namely the exploratory, descriptive and casual. For the purpose of this research, the researcher is used exploratory and descriptive research designs

3.1.1 Exploratory research design

According to Aaker, et al., (1998) exploratory research design is defined as marketing research to gather preliminary information that will help define problems and suggest hypothesis. Mahotra & Birks, (2006) state that an exploratory research design formulates problems more precisely, clarifies concepts, gathers explanations, gains insights, eliminates impractical ideas, and formulates hypotheses.Zikmund (2005) states that exploratory research often relies on secondary research such as reviewing available literature and / or data, or qualitative approaches such as informal discussions with consumers, employees, management or competitors, and more formal approaches through in-depth interviews, focus groups,projective methods, case studies or pilot studies.

In this study, the researcher used secondary data to review information available before looking at additional research as it is more convenient and readily available.The researcher also made use of in-depth interviews in engaging management of Comhold Services. In addition to this, exploratory research design was invaluable in assisting the researcher to get information regarding issues involving diversification such as why companies diversify, how they diversify and when they should diversify.

3.1.2 Descriptive research design

Mahotra & Birks, (2006)assert that descriptive research design is typically concerned with determining the frequency with which something occurs or the relationship between two variables. This research design was also appropriate in trying to establish the relationship that exists between various diversification strategies and company performance.

3.2 Sampling

Gilbert et al (2002) define a sample as an abstract of the entire population. It was not practical to study the whole population therefore there was need to sample that is a representative as possible of the whole population in order to enable one to research conclusions that are characteristic of a larger number of a population.

3.2.1 Target population

Boone and Kurtz (1998) define population as the total group of people that the researcher wants to study. This represents the larger group from which the researcher chooses the sample. The researcher used Comhold Services' customer and supplier listing to come up with a target population.

3.3 Sample frame

The research targets a total population of 153 comprising of customers, suppliers, and management and employees of Comhold.To qualify the customer should have done business with the company for 5 years and should be located in Harare.

Table 3.3.1 Sample frame

Sample Frame	Number of Participants
Individual customers	113
Corporate customers	13
Management and employees of Comhold	27
Total	**153**

3.3.1 Sample size

Churchill (1999) defines a sample as "a subset of the target population from which information is gathered to estimate something about the population".Aaker et al (1998) says that a minimum sample size of 30% gives a true representation of the entire population.The population under study was 153 therefore, using Saunders's approach the sample size used in this research comprised of 34 customers (= 30% of 113), 4 corporate customers (= 30% of 13), and 8 members of management and employees of Comhold (= 30% of 27) i.e. a total of 46 respondents. All members of management were deliberately included in the sample because of their small number.

Table 3.3.1.1 Sample size

Sample Frame	Number of Participants
Individual Customers	34
Corporate customers	4
Management and employees of Comhold	8
Total	46

3.3.2 Sampling procedure

There are two sampling techniques that marketers can choose from when faced with research. These are probability and non-probability sampling.Probability samples are distinguished by the fact that each population element has a known, non-zero chance of being included in the sample (Churchill, 1999), Boone and Kurtz (1998). It is not necessary that the probabilities of selection be equal, only that one can specify the probability which each element of the population will be included in the sample. Probability samples include simple random samples, stratified samples and cluster samples but for the purpose of this research, the researcher used non-probability sampling.

3.3.2.1 Non-Probability sampling

Non-probability is an arbitrary grouping that does not permit standard statistical tests. It involves personal judgment somewhere in the selection process. Sometimes the judgment is imposed by the researcher and in other cases the selection of the population elements to be included is left to individual field workers. The researcher took into consideration the potential buying power of customers as a result, the researcher used the non-probability sampling technique and both judgment samples and convenience samples were used.

3.3.2.1.1 Convenience sampling

Convenience sampling attempts to obtain a sample of convenient elements. The selection of sampling units is left primarily to the interviewer. Often, respondents are selected because they happen to be in the right place at the right time (Mahotra & Birks, 2006). The researcher chose the population based in Harare. The researcher used this sampling approach due to limited time and resources.

3.3.2.1.2 Judgemental sampling

Judgemental sampling is a form of convenience sampling in which the population elements are selected based on the judgement of the researcher. The researcher, exercising judgement or expertise, chooses the elements to be included in the sample because he or she believes that they are representative of the population of interest or are otherwise appropriate (Mahotra & Birks, 2006). This approach was used on management and staff. The researcher chose management and staff that were in a better position to provide the researcher with relevant information about the diversification strategies employed by Comhold Services and their impact on profitability.

3.4 Data sources

In conducting this research, the researcher used both primary and secondary data sources

3.4.1 Secondary data

According to Churchill (1999) secondary data is statistics not gathered for the immediate study at hand but for some other purposes. The secondary sources the researcher used were government publications such as the Ministry of Finance's Blue Book which contains annual government budgets, annual company reports and the Zimbabwe Stock exchange. For Comhold he used internal sales records, company brochures and the company profile.

3.4.2 Primary data

Boyd et al (2004:235) defined primary data as "data collected especially to address a specific research objective." The researcher made use of questionnaires and interviews to collect data pertaining to the research topic.

3.5 Research instruments

Research instruments are tools used to collect information and data needed to find solutions to the problem under study. These tools include observations, interviews, questionnaires and experiments. For this study, the researcher usedquestionnairesand face to face interviews.

3.5.1 Questionnaires

According to Brar and Kular (2010), a questionnaire is an instrument used for seeking and recording data either by interviewing or observation of a meaningful measurement of data. This instrument assisted the researcher to ensure standardisation and uniformity in the data collection process. Questionnaires were used by the researcher to gather information concerning the effect of diversification on Comhold company performance. Questionnaires were also used because they do not have interview bias and they do not put pressure on respondents. In conducting the research, the researcher used both open ended and close ended questions.

According to Hair et al (2000) open-ended questions are "questions formatted to allow respondents to reply in their own words." Open-ended questions were used in the study coz a wide range of responses can be obtained which is very useful especially when the range of responses is not known. Bias is also eliminated coz of the lack of influence in the responses from pre-specified categories. Hair et al go on to state that closed-ended questions are "questions that require the respondent to choose from a predetermined set of responses or scale points." The researcher also used closed-ended questions because they require less effort by the researcher and they make tabulation and analysis easier and the answers are directly comparable from respondent to respondent.

3.5.2 Personal interviews

Zikmund (2000) defined personal interviews as "face to face communication in which an interviewer asks respondents to answer questions." The researcher used face to face interviews because they provide the opportunity for immediate feedback and they offer the lowest chance of misinterpretation of questions because the interviewer can clarify any questions the respondents might have. Interviews were used also because they provide an opportunity for the interviewer/researcher to probe for more comprehensive or clearer explanations.The researcher conducted face to face interviews with Comhold management and employees because they were the ones on the ground and they were in constant touch with customers and suppliers. Furthermore, the interviews enabled the researcher to obtain management views on product diversification by Comhold.

3.6 Data collection procedure

Pre-tests to the questionnaires were done. The questionnaire after being structured was given to colleagues to attempt to fill it. This assisted the researcher in clarifying aspects on the questionnaire so as to avoid ambiguity in the questions. After suggestions made the questionnaires were revised, corrected and issued.A week prior to conducting the interviews, the researcher had to make appointments with the management team at head office in Harare. The interview was carried out with six managers in one office and the interview was allocated twenty minutes. Questionnaires were administered to the corporate clients of Comhold Services with the help of the marketing staff of Comhold Services.

3.7 Data validity and reliability

Saunders et al (1997) says that validity is concerned with the degree to which chosen research instruments serve the purpose, for which they were constructed, as well as the extent to which the conclusions drawn from the experiment are true. Zikmund (2000) describe reliability as "the extent to which a test or procedure produces similar results under similar conditions or different occasions."

3.8 Chapter summary

The researcher made use of Exploratory and Descriptive research designs. Also used was non-random sampling, questionnaires and interviews as research instruments. This allowed the researcher to acquire all the information that will be presented in the next chapter.

CHAPTER 4

Data presentation, analysis and interpretation of findings

4.0 Introduction

This chapter presents focuses on the presentation, analysis, interpretation and discussion of findings of the research based on the response the researcher got from therespondents. The data the researcher gathered is presented in the form of tables, bar graphs, line graphs and pie charts.

4.1 Response rate

The researcher distributed a total of 46 questionnaires34 questionnaires to individual customers, 4 questionnaires to corporate customers, and 8 questionnaires to members of management and employees of Comhold. The broken down response rate for the questionnaires is illustrated in the table below.

Table 4.1.1 Response rate

Respondents	Number of questionnaires administered	Number of questionnaires returned	Number of questionnaires not returned	Response rate
Individual customers	34	30	4	88.24%
Corporate customers	4	4	0	100.00%
Management and employees	8	8	0	100.00%
TOTAL	**46**	**42**	4	**91.30%**

As depicted in the illustration above, from a total number of 34 questionnaires given to individual customers, 30 were returned, giving the researcher a response rate of 88%. The corporate customers had a response rate of 100% since all the 4 of the administered questionnaires were returned. The employees and management of Comhold services also gave the researcher a response rate of 100%. All this gave the researcher a total response rate 91%. According to Aaker (1998) a response rate of 75% is enough to allow the researcher to proceed to analysis of findings. Given a response rate of 91%, the researcher proceeded to analysis of findings.

4.2 The effectiveness of diversification as a survival strategy

This section presents the data collected to find out if diversification can be relied upon as a survival strategy in an economic recession.

4.2.1 Approprietness of diversification

The effectiveness of diversification as a suvival strategy in a recession was corroborated by all the employees and management of Comhold services. 75% of the employees strongly agreed that diversification is an appropriate strategy in a recession while 25% ageed to that statement. On the customer's side, 59% strongly agreed that product diversification reduces the negative effects of a recession while 21% agreed, 15% were uncertain and 5% disagreed. So, all in all of the respondents who undertook the study, 62% strongly agreed, 21% agreed, 11% where uncertain and 5% disagreed. This is graphically illustrated below:

Appropriateness of Diversification

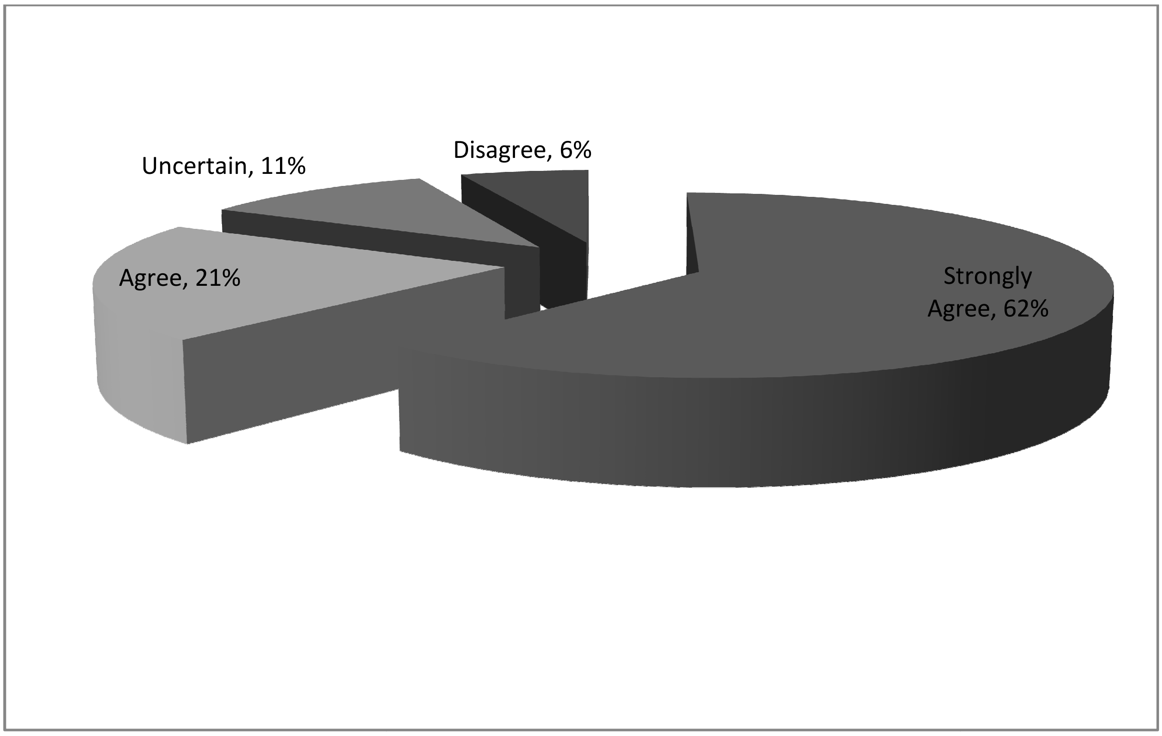

Fig 4.2.1.1 Appropriateness of diversification

4.2.2 Effectiveness of diversification

100% of Comhold Services employees and management concurred that the performance of Comhold Services was better than that of its competitors and they attributed this to the diversification strategies employed by comhold services. 56% of the customers who undertook the study strongly agreed that diversification resulted in Comhold Services performing better than its competition, 9% agreed, 11% were uncertain 15% disagreed and 9% strongly disagreed. This data is presented in the table below;

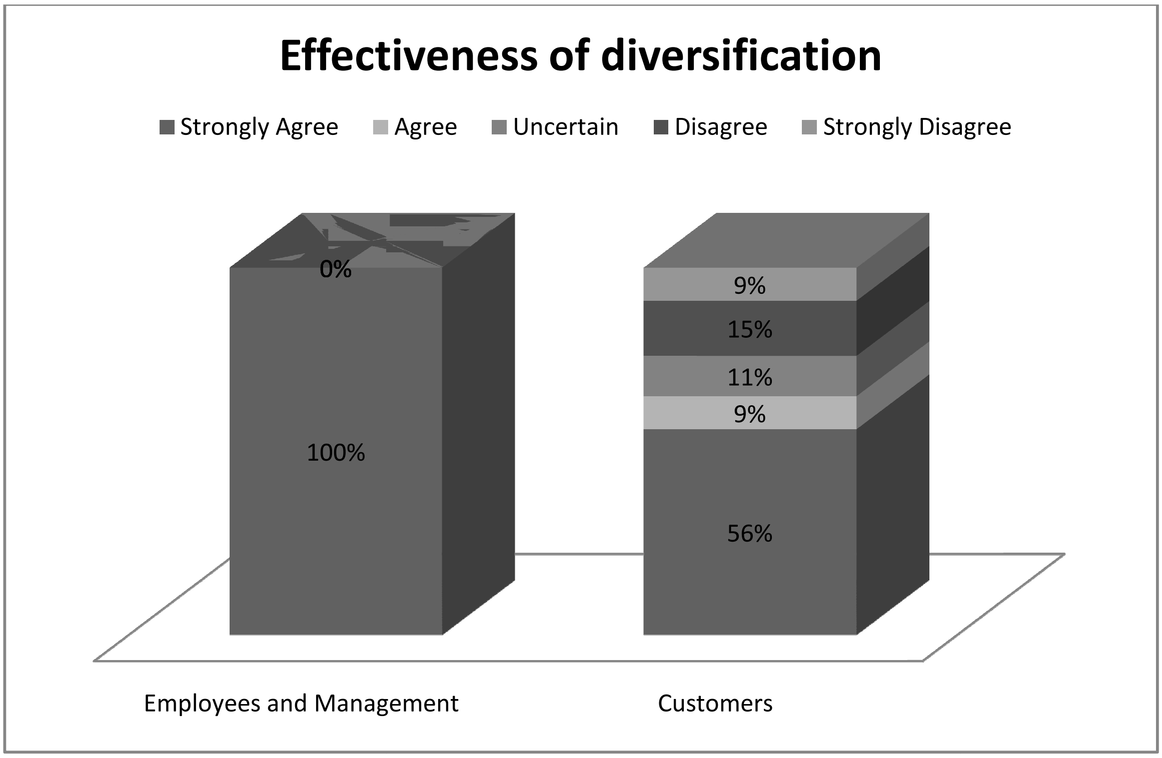

Fig 4.2.1.2 Effectiveness of diversification

Thirdly, all of the respondents (employees and management of Comhold services) agreed that the main reason for diversification was to survive a tough economic environment. 75% strongly agreed that they felt that diversification had been successful in meeting its objective while 25% agreed.

Effectiveness of diversification (employees)

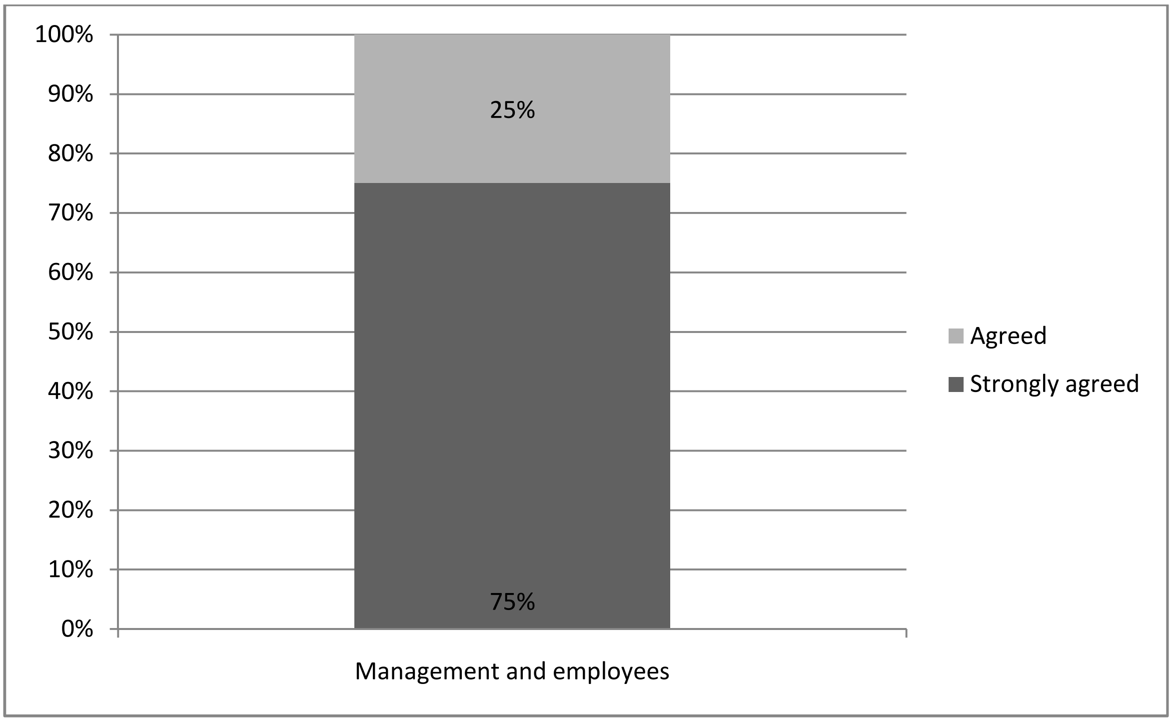

Fig 4.2.2.3 Effectiveness of diversification (employees)

From the data gathered on whether diversification can be relied upon as a survival strategy it can be deduced that most of the respondents feel that diversification is an appropriate strategy in a recession. The majority of the respondents also feel that diversification was adopted as a survival strategy and has been successful in meeting this objective. The respondents revealed that they felt that Comhold was performing better than its competition and they cited diversification as the reason for this. In addition to this, company records show that revenue was increasing as a result of the sales records. This is presented in fig 4.2.1.4 below

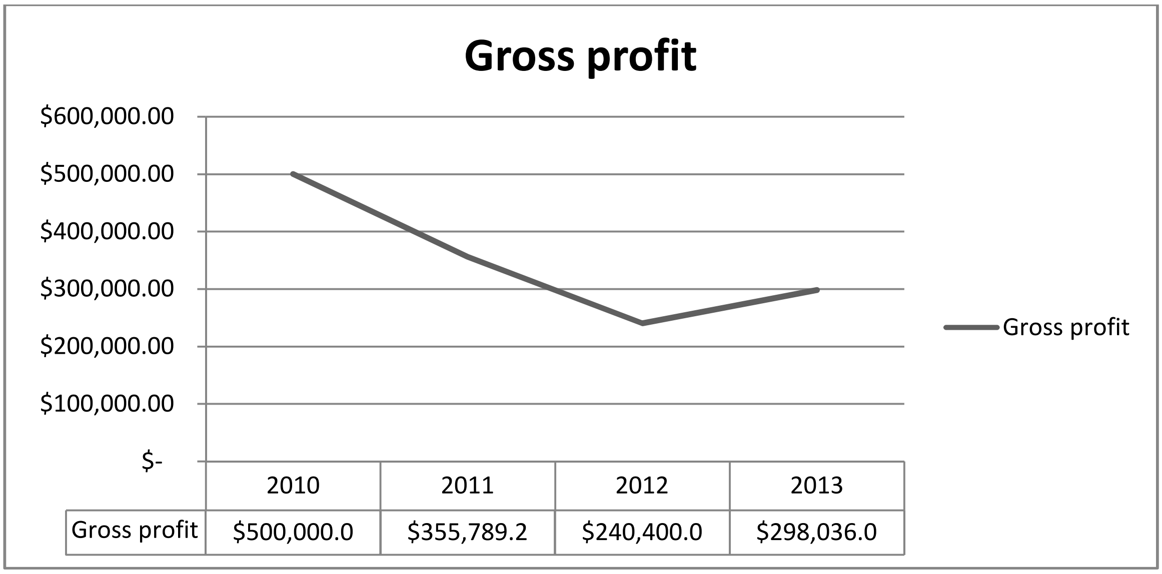

Fig 4.2.2.4 Gross profit
Source: Comhold Services financial records

As depicted in fig 4.2.1.4 profitability has increased in the year 2013. Comhold Services' financial records also show that the new business units have contributed 35% of the profits.

The management of Comhold Services during the interviews disclosed that diversification led to Comhold Services performing better than its competition during the economic recession since the firm's various revenue streams made it easier for Comhold to operate amidst the liquidity crunch. Management also revealed that though the profitability figures may look good on paper, the core business of irrigation is still struggling since most of the debtors are struggling to fulfil their financial objectives. On the other hand, the cash flow in the other business units is more reliable as the majority of the customers pay cash and the payment terms are less flexible than in the irrigation services division. This indicates that diversification is an effective survival strategy. This is in line with the findings of Kitching, (2013) who finds that firms who use revenue generating measures in a recession outperform those who use cost cutting measures.

4.3 Impact of related diversification on profitability

This section presents data gathered on the impact of related diversification on company profitability levels. It was the researcher's objective to determine the impact of related diversification on profitability

4.3.1 Related diversification and profitability

88% of the employees and management strongly agreed that related diversification has a positive effect on profitability while 12% agreed. Management disclosed during interviews that the new business units are a vital revenue stream which is playing a crucial role in keeping the capital intensive Irrigation Services division afloat in an economy experiencing a liquidity crunch. Furthermore, management also stated that related business units such as the irrigation components division have lowered the costs of procuring components needed in installing irrigation systems. Management strongly agreed that related diversification has a positive impact on profitability. Management also stated that related diversification has significantly contributed to profits. However some of the related business units such as the irrigation equipment division like the core business of irrigation services are not very liquid, (in terms of cash flow)

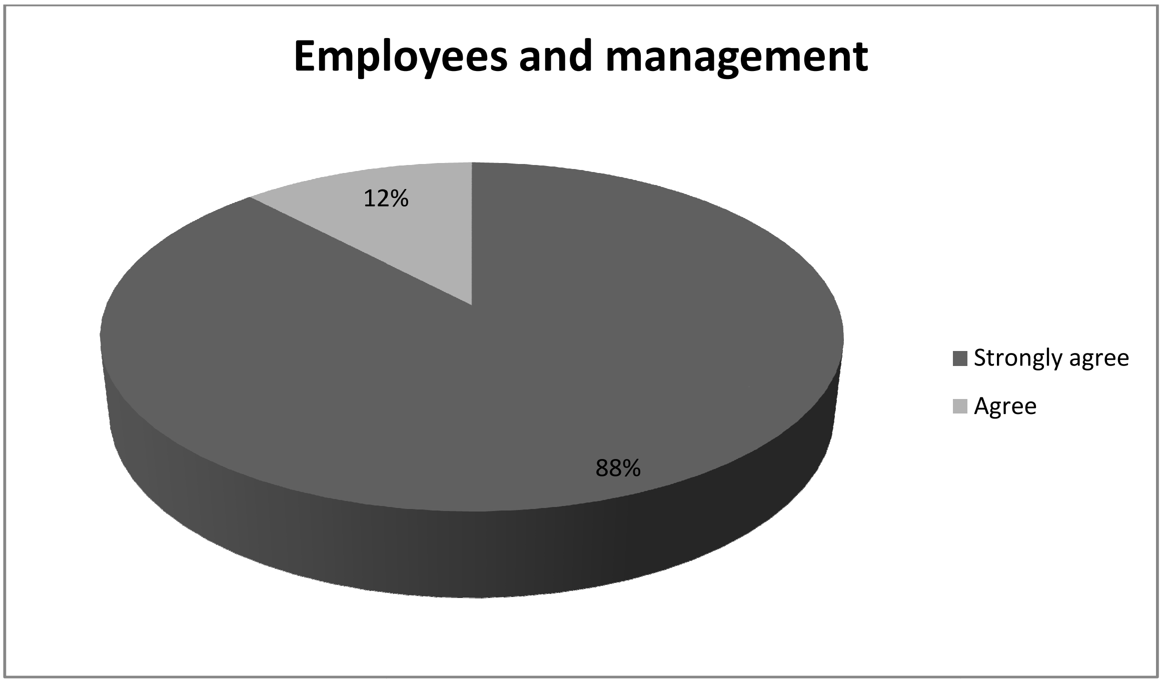

Fig 4.3.1.1 related diversification and profitability (employees)

Of the customers who took part in the study, 29% strongly agreed that diversification has a positive impact on profitability, 44% agreed, 18% where uncertain, 6% disagreed and 3% strongly disagreed. This data is presented below

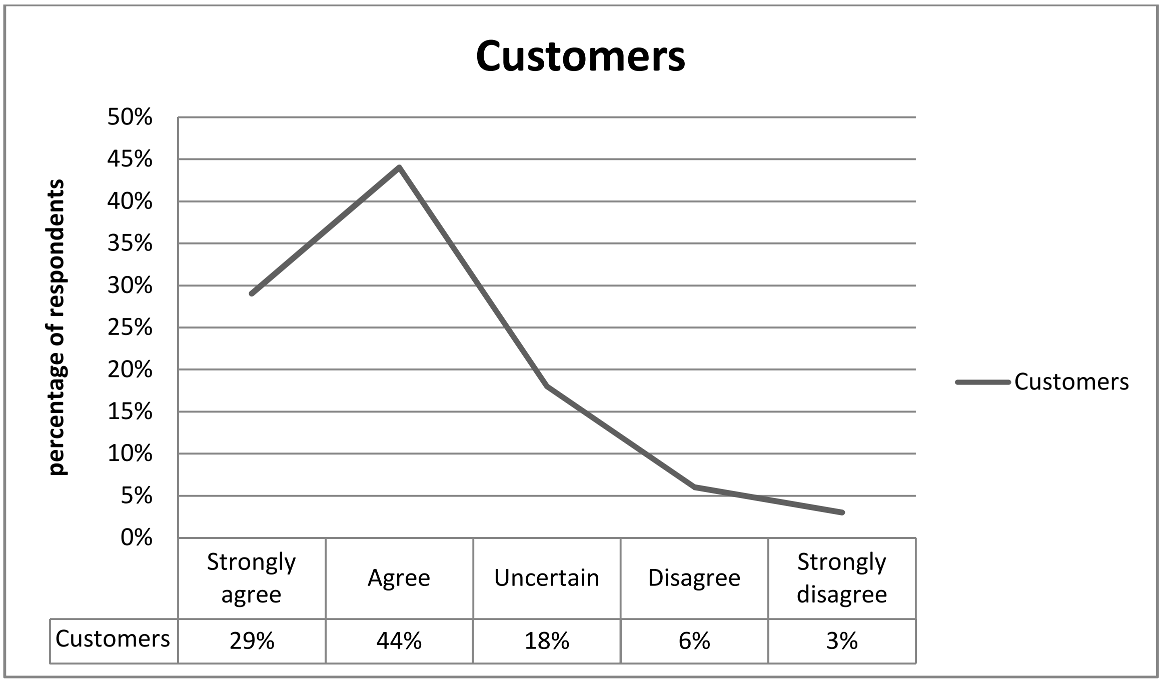

Fig 4.3.1.2 Related diversification and profitability (customers)

The data above in Fig 4.3.1.2 shows that the majority of the respondents feel that diversification has a positive impact on profitability. The employees and management were on the ground and could see first-hand the impact of related diversification on profitability. The responses from the customers were supporting sentiments

The findings of the research show that related business units has increased costs by approximately 11% and they have increased revenue by approximately 21%. Therefore the research findings suggest that related diversification has increased profitability by about 10%. The positive impact of related diversification has been supported by empirical evidence by (Christensen and Montgomery 1981, Keats 1990, Michel and Shaked 1984, Rumelt 1986).

4.4 Impact of unrelated diversification on profitability

This section presents data gathered on the impact of unrelated diversification on company profitability levels. It was the researcher's objective to determine the impact of on related diversification on profitability

4.4.1 Unrelated diversification

25% of the employees and management strongly agreed that unrelated diversification has a positive effect on profitability while 12.5% agreed, 25% were uncertain, 25% disagreed and 12.5%strongly disagreed Management disclosed during interviews that while unrelated business units brought in some revenue, their upkeep was costly. Management also stated that though unrelated diversification proved to be profitable in the short run they are not viable in the long run. Management also stated that the revenue accrued from profitability levels of unrelated business units are very low. On the customers' side, 30% strongly agreed that unrelated diversification has a positive effect on profitability, 9% agreed, 21% were uncertain, 35% disagreed and 15% strongly disagreed. This is illustrated below:

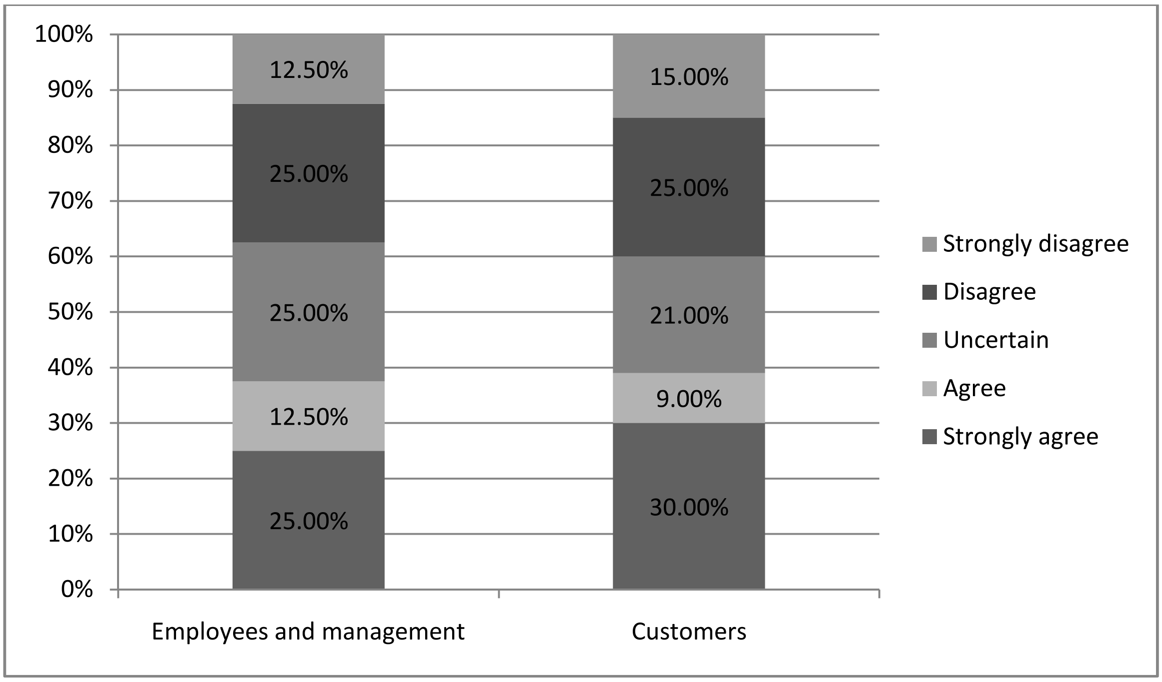

Fig 4.4.1.1 unrelated diversification and profitability

The research findings showed that the unrelated business units such as the Hardware Division and the Commodity Brokering Division were the most liquid.

The research findings indicate that though related diversification may have a small but positive impact on profitability; it appears to be a solution to the cash flow and viability problems being experienced in the in the Irrigation Services Industry. The findings on the impact of unrelated diversification on profitability are in line with the findings of(Rumelt, 1982), (Prahalad & Bettis, 1986) and (Baptista, et al., 2010) who all agree that related diversification out performs unrelated diversification.

4.5 Chapter Summary

An analysis was conducted using both qualitative and quantitative approaches. The analysis produced the following findings:

- A consensus among respondents was that diversification can be relied upon as survival strategy in a recession. The majority of respondents felt that the reason Comhold Services was performing better than most of its competitors despite the harsh economic environment was a result of the diversification strategies employed by Comhold Services. Management felt that diversification resulted in the increase of revenue streams that are playing a pivotal role in keeping the capital intensive core business afloat in an economy experiencing a liquidity crunch. The business units Comhold Services has diversified into have made a significant contribution towards increasing profitability.
- The results also showed that there was a general feeling among respondents that there was a positive relationship between related diversification and profitability. Management also revealed that related diversification lowered the costs experienced by the firm
- Management of Comhold Services felt that though unrelated diversification yielded revenue for the firm, it is not viable. This is because of the low margins yielded by the unrelated business units. The results of the impact of unrelated diversification on profitability show that the respondents have mixed feelings.
- The unrelated business units make the most significant contributions Comhold services cash flows.

The drive of this chapter was to analyse the data that was collected for the research. The next chapter had a revisit of the research objectives, results of the research were summarized, conclusions were made and recommendations were given to Comhold Services on the effectiveness of the diversification strategies.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary

This research sought to evaluate the effects of the diversification strategies adopted by Comhold Services on company performance. The objectives were to evaluate if diversification can be relied upon as a survival strategy, to determine the impact of related diversification on company profitability and to determine the impact of unrelated diversification on company profitability.

Major thoughts, ideas and concepts of different scholars were reviewed using books, previous thesisincluded text books, electronic journals and Comhold company records. The concepts and thoughts of these scholars were of much help in completing this research study as the researcher managed to identify knowledge gaps and close them using the ideas of other authors.Exploratory and descriptive researches were both used to carry out the research and the research instruments used were questionnaires and interviews.

While Microsoft Excel was used to analyse quantitative data, content analysis and thematic were used to analyze qualitative data. The findings of this research are as follows:

- Diversification indicates to be effective as a survival strategy. 100% of the employees believe that diversification is an appropriate strategy in a tough economic environment. 80% of the customers also agree that diversification is an appropriate strategy in a tough economic environment. The majority of respondents feel that product diversification has been successful in achieving its objective of surviving a tough economic environment. 100% of the employees and 63% of the customers feel that Comhold Services is performing better than the competition because of the diversification strategies it has employed. Management revealed that diversification has been the source of revenue in a an economy characterized by a liquidity crunch.
- 100% of the employees and management feel that related diversification has had a positive effect on profitability. Management revealed that related diversification has

led to a decrease in the costs in the core business unit (irrigation). 100% of the employees and management feel that the revenue bought in by related diversification outweigh its costs. 75% of the customers feel that related diversification has a positive impact on profitability

- Unrelated diversification 37.5% of employees believes that unrelated diversification has a positive effect on company profitability while another 37.5% disagree and 25% are uncertain. On the customers side, 39% feel that unrelated diversification has a positive effect on profitability while 40% disagree the remainder 21% are uncertain. Management disclosed that unrelated diversification has had a small effect on profitability. The research findings suggest that though related diversification has the least impact on profitability and the Management of Comhold Services feel that unrelated diversification does not seem to be viable for Comhold Services in the long run.

  The research findings also show that the unrelated business units are behind the majority of the cash flow that is sustaining Comhold Services. Based on these findings, the researcher concludes that unrelated diversification has small impact on the profitability of Comhold Services.

5.1 Conclusions

The researcher has made the following conclusions:

5.1.1 Can diversification be relied upon as a survival strategy

One of the objectives of this research was to determine if diversification can be relied upon as a diversification strategy. The employees and management of Comhold Services are all in agreement on that diversification is an appropriate strategy in a depressed economy. This is in line with Kitching, (2013) who suggests that in tough economic environments, firms should employ revenue generating measures.

The results of this research gave rise to the conclusion that diversification has proved to be appropriate and effective despite the harsh economic environment. The respondents are in agreement over survival being the reason for Comhold Services diversification and they are in accord over diversification having fulfilled this objective. This is supported by 100% of the employees and management of Comhold Services. Furthermore diversification has contributed approximately 35% to the profitability of Comhold Services.

While the core business is still contributing the majority of profits, management disclosed that most of the debtors are having trouble fulfilling their debts. Therefore diversification has played a pivotal role in improving Comhold Services liquidity.

In addition to this, diversification has led to Comhold Services operating better than its competition.

In spite of this, diversification can be relied upon as a survival strategy.

5.1.2 The impact of related diversification on company profitability

This research also sought to determine the impact of related diversification on company profitability. The findings of this research showed that the majority of the respondents feel that related diversification has a positive effect on profitability: (90% of the employees and management and 73% of the customers share this view. Furthermore, the research revealed through interviews with management that related diversification leads to lower costs. Management also stated that related diversification has significantly contributed to profits. However some of the related business units such as the irrigation equipment division like the core business of irrigation services, are not very liquid, (in terms of cash flow)

In spite of these findings, the researcher concluded that related diversification has a positive effect on profitability.

5.1.3 The impact of unrelated diversification on company profitability

- The research sought to determine the impact of unrelated diversification on company profitability. Management disclosed that unrelated diversification has had a small effect on profitability. Research showed that management of Comhold Services feel that unrelated diversification does not seem to be viable for Comhold Services in the long run. The research findings suggest that though related diversification has the least impact on profitability it plays a pivotal role in providing Comhold Services working capital as the unrelated business units are the most liquid (in terms of cash flow).

Based on these findings, the researcher concluded that unrelated diversification has a positive but small impact on profitability. It however plays an important role in alleviating the cash flow challenges of a firm operating in an economy experiencing a liquidity crunch.

5.2 Recommendations

The major research conclusions allowed this study to recommend the following:

5.2.1 Effectiveness of diversification as a survival strategy

Comhold Services should continue using diversification as a survival strategy since the introduction of additional business units has ushered in several revenue streams that have been crucial in sustaining Comhold Services in an economy experiencing a liquidity crunch. Furthermore, diversification has made Comhold Services more competitive in this economic environment. In addition to this, diversification has been instrumental in addressing the cash flow challenges being experienced by most firms in the Irrigation Services industry. This is supported by Kitching, (2013) who states that firms who use revenue generating measures in a recession outperform those who employ cost cutting measures.

5.2.2 Related diversification and profitability

This research recommends that Comhold Services should continue implementing related diversification and identify ways of exploiting the synergies that exists among the various business units so as minimize its costs and maximize its profits. However, the researcher also recommends that Comhold should consider prioritizing related business units that do not put a strain on its cash flow.

5.2.3 Unrelated diversification and profitability

The research recommends that Comhold Services should continue with the unrelated diversification strategy. However, due care should be taken in the selection of unrelated diversification ventures to engage. It is the researcher's recommendation that Comhold should select unrelated diversification opportunities that require the least investment and offer the quickest returns so as to survive the cash flow problems that are being experienced in the industry as a result of the liquidity crunch.The research recommends that Comhold Services should employ qualified personnel to head the business unit unrelated to the core business of irrigation services

5.3 Further research

The current research was center on evaluating diversification as a survival strategy on a company in the irrigation services sector. In light of the economic environment in the country, the researcher recommends that a similar study be done to evaluate the effectiveness of other survival strategies on a company in a different industry.

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APPENDIX I

Letter of Approval

The Director

Comhold Services (Pvt) Ltd

20 Edmond's Avenue

Belvedere

Harare

Dear Sir

Re: Request to use Comhold as a case study.

My name is R104779W, a final year Marketing student at the Midlands State University. It is a pre-requisite that students carry out research in partial fulfilment of the requirements of the B.Com (Honours) Degree in Marketing Management.

It is in this regard that I am kindly seeking permission to use your organization, Comhold as a case in my study of the topic, **"The evaluation of diversification as a survival strategy"**. The information envisaged therein will strictly be for academic purposes and hence treated with utmost confidentiality.

Regards

R104779W.

Reg Number: R104779W

Approval

For and on behalf of Comhold Services (Pvt) Ltd

Name: E.Mashinya……………………………

Signature: …………………………………….

Designation: ………………………………… Date ……………………….........................

APPENDIX II

QUESTIONNAIRE FOR EMPLOYEES

My name is R104779W; I am currently studying Bachelor of Commerce Honors Degree in Marketing Management at the Midlands State University. I am conducting a study on the evaluation of diversification strategies adopted by Comhold Services. I will be grateful for your assistance by answering the questions below. Please note that your responses will be treated with utmost confidence.

Please tick where appropriate and insert answers in spaces provided. Thank you for your contributions.

1. Has the introduction of new business units related to irrigation added to the costs incurred by Comhold Services?

   Yes ☐ No ☐

2. If yes, by what percentage

   0-10 ☐ 11-20 ☐ 21-30 ☐ +30 ☐

3. Has the introduction of new business units related to irrigation added to revenue?

   Yes ☐ No ☐

4. If yes by what percentage

   0-10 ☐ 11-20 ☐ 21-30 ☐ +30 ☐

5. Has the introduction of new business units unrelated to irrigation added to the costs incurred by Comhold Services?

   Yes ☐ No ☐

6. If yes by what percentage

   0-10 ☐ 11-20 ☐ 21-30 ☐ +30 ☐

7. Has the introduction of new business units related to irrigation added to revenue?

   Yes ☐ No ☐

8. If yes by what percentage

   0-10 ☐ 11-20 ☐ 21-30 ☐ +30 ☐

9. Is the impact of related diversification on the profitability of Comhold Services positive

   Strongly agree ☐
   Agree ☐
   Uncertain ☐
   Disagree ☐
   Strongly disagree ☐

10. Is the impact of unrelated diversification on the profitability of Comhold Services positive

    Strongly agree ☐
    Agree ☐
    Uncertain ☐
    Disagree ☐
    Strongly disagree ☐

11. How do you compare the performance of Comhold with that of competitors in terms of profitability?

    a) Very good ☐
    b) Good ☐
    c) Average ☐
    d) Poor ☐

12. Do you think that the product diversification strategies adopted by Comhold are responsible for this difference

    a) Strongly agree ☐
    ☐

b) Agree

c) Not sure

d) Disagree

e) Strongly disagree

f) There is no difference

13. In your view, what were the reasons / objectives for adopting diversification?

    To attain growth

    To utilize opportunities

    To utilize resources

    To survive a tough economic environment

14. In your view has the product diversification strategy been successful in meeting the organizational objectives?

    Strongly agree

    Agree

    Uncertain

    Disagree

    Strongly disagree

15. Do you think the diversification is an appropriate strategy in this economic environment

    Strongly agree

    Agree

    Uncertain

    Disagree

    Strongly disagree

16. which diversification strategy has been more effective for Comhold Services

    Related Unrelated

17. Any other information

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………

18. How long have you been employed at Comhold Services?

Less than 1 ☐ 2 - 5years ☐ 6- 10 years ☐ + 10 years ☐

19. Which department are you in?

Sales & Marketing ☐ Finance ☐

HR ☐ Engineering ☐

APPENDIX III

QUESTIONNAIRE FOR COMHOLD SERVICES' CLIENTS

My name is R104779W; I am currently studying Bachelor of Commerce Honors Degree in Marketing Management at the Midlands State University. I am conducting a study on the evaluation of diversification strategies adopted by Comhold Services. I will be grateful for your assistance by answering the questions below. Please note that your responses will be treated with utmost confidence.

Please answer the following questions by ticking the box with an answer which most closely represent your opinion and fill in the spaces provided.

1) Product diversification reduces the negative effects of an economic recession

a) Strongly agree ☐
b) Agree ☐
c) Not sure ☐
d) Disagree ☐
e) Strongly disagree ☐

2) How do you rate the performance Comhold compared to that of its competitors

a) Better ☐
b) the same ☐
c) Worse ☐

3) Do you think that the product diversification strategies adopted by Comhold are responsible for this difference

g) Strongly agree ☐
h) Agree ☐
i) Not sure ☐

☐

j) Disagree

k) Strongly disagree

l) There is no difference

4) Product diversification is an appropriate strategy in tough economic conditions

   Strongly agree ☐
   Agree ☐
   Not sure ☐
   Disagree ☐
   Strongly disagree ☐

5)

6) Related diversification has a positive impact on profits

   Strongly agree ☐
   Agree ☐
   Uncertain ☐
   Disagree ☐
   Strongly disagree ☐

7) Unrelated diversification has a positive impact on profits

   Strongly agree ☐
   Agree ☐
   Uncertain ☐
   Disagree ☐
   Strongly disagree ☐

8) Would you stop buying at a company if it introduces products outside its current range

   Yes ☐ No ☐ Not sure ☐

9) Any other comment

…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………………….

10) Gender

1) Male ☐

2) Female ☐

What products or services do you get from Comhold?

a) Borehole equipmment ☐

b) Irrigation equipment ☐

c) Irrigation services ☐

d) Water reticulation ☐

e) Hardware ☐

f) Bitumen ☐