



## Business diversification and market-based performance of selected corporate organizations in the conglomerate sector of the Nigerian economy

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### ABSTRACT

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This study investigated the effects of diversification strategy and synergy on the performance of selected corporate organizations in the conglomerate sector of Nigerian industrial economy. A descriptive survey research design was adopted as the study guide. The population of the study comprises of all corporate organizations that operate in conglomerate sector of Nigerian industrial economy. Using purposive sampling technique, five (5) corporate organizations were selected for the study. The selected companies were listed on the Nigerian Stock Exchange. A sample size of 398 respondents was selected. A structured questionnaire was used as research instrument. Cronbach's Alpha reliability coefficients for the research instrument ranged between 0.79 and 0.83. Data generated were analyzed using parametric statistical tool for regression analysis. The findings reveal that diversification strategy and synergy can positively enhance corporate performance in terms of market penetration, market development and product lines expansion at 0.05 level, as the study empirically proved that significant positive relationships exist among these variables. Diversification therefore becomes an attractive strategy when a company runs out of profitable growth opportunities in its present business operations. Moreover, going against the core values of the company for the sake of profit maximization need to be avoided in order for diversification to be truly strategic and synergic.

**Key words:** Conglomerate sector, Diversification strategy, Diversification synergy, Market development, Market penetration, Product line development

## **1. Introduction**

Diversification strategies are not only favored by contemporary management theorists, but are actively pursued by corporate managers (Kerin, Vijay & Varadarajan, 1990; Ghosh & Das, 2003). Diversification is a means by which a firm expands from its core businesses into other product markets (Migel, 2008). There is no gainsaying that firms spend considerable sum acquiring other firms to diversify away from their core products/markets. As in any economic activity, however, there are costs and benefits associated with diversification and ultimately, a firm's performance must depend on how managers achieve a balance between cost and benefits in each concrete of the identified cases. Meanwhile, these benefits and costs may not fall equally on managers and investors.

In Nigeria, conglomerates are the biggest players in the manufacturing sector of industrial economy. Companies such as Unilever Nigeria Plc, PZ Cussons Nigeria Plc and the Dangote Group focus primarily on consumable and household products. The other group of conglomerates, such as John Holt Plc, Transactional Corporations of Nigeria Plc, AG Leventis Nigeria Plc, UAC of Nigeria Plc and the Dana Group, works largely with chemicals, pharmaceuticals, plastics and engineering; while others focus on foods, beverages, household durables and personal products.

Diversification by going into new products/markets can improve debt capacity, reduce the chances of bankruptcy, and improve assets deployment and profitability (Teece, 1982; Yadav & Kumar 2005). However skills developed in one business and transferred to other businesses can increase labour and capital productivity. A diversified firm can transfer funds from a cash surplus unit to a cash deficit unit without taxes or transaction costs (Bhide 1993; Anyafo, 2000). Diversified firms also pool unsystematic risk and reduce the variability of operating cash flow, and as well enjoy comparative advantage in hiring because key employees may have a greater sense of job security (Lippomen, Olkkonen & Moilanen, 2004).

The recent global economic trends have placed unusual increasing demand on corporate organizations to apply strategic business approaches to remain relevant and profitable to their various stakeholders. This situation has meant that corporate organizations have employed a number of strategies to remain in business. Some of the type II changes that have occurred have been the option to merge in acquisition bids (Gaughan, 2007). The less drastic of the options, the type I change, has been to scale up performance by diversification of strategy. Meanwhile, the impact of diversification on an organization's performance has been reported to have mixed results and the dynamics of the relationship that exist in the phenomena is not well understood. According to Kerin *et al.* (1990), the empirical evidence on the relationship between diversification and organization's performance are inclusive; models, perspectives and results differ based on the disciplinary perspectives chosen by the researcher to study the phenomena. However, 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 (Datta, Rajagopalan & Abdul, 1981; Kerin *et al.*, 1990).

More so, undiversified firm may perform better than a highly diversified firm in terms of return, however, it is believed that its riskiness will be much greater. If managers of such firms opt for diversification, their returns are likely to decrease, but with reduced riskiness disproportionately more in the reduction in their returns. In such firms, there will be a tradeoff between risk and return. Consequently,

the impact of diversification strategy on the performance of an organization becomes an empirical question. Further recent reviews of the rather extensive literature do not find agreement about the direction of association between firm diversification and corporate performance. The lack of a clear answer in the literature motivates the present study.

Importantly, it is an irreconcilable fact that diversification continues to be an important strategy for the growth in an organization despite an unclear dynamics of the relationship of all variables that are involved. This study hence aims to provide a clear understanding of the dynamics of interplay between diversification and the performance of selected corporate organizations in the type I organizational change in business operations in Nigeria. To achieve the main objective that necessitates this research, this study therefore seeks to provide answers to the following questions:

1. To what extent do diversification strategy and synergy enhance market penetration of selected corporate organizations in conglomerate sector in Nigeria?
2. What level of relationship exists between diversification strategy and synergy and market development of selected corporate organization in conglomerate sector in Nigeria?
3. To what extent do diversification strategy and synergy enhance product line development in selected corporate organizations in conglomerate sector in Nigeria?

Furthermore, in an attempt to consolidate the research questions highlighted above, the following null hypotheses were tested.

**Ho<sub>1</sub>:** There is no significant relationship between diversification strategy/synergy and market penetration of selected corporate organizations in conglomerate sector in Nigeria.

**Ho<sub>2</sub>:** There is no significant relationship between diversification strategy/synergy and market development of selected corporate organizations in conglomerate sector in Nigeria.

**Ho<sub>3</sub>:** There is no significant relationship between diversification strategy/synergy and product line development of selected corporate organizations in conglomerate sector in Nigeria.

## **2. Methodology**

The descriptive survey research design as suggested by Asika (2004) was adopted as the study guide. The population of the study comprises of all corporate organizations that operate in the conglomerate sector of Nigerian industrial economy. The purposive sampling technique was used to select five (5) corporate organizations that operate in this diversified sector of the Nigerian industrial economy. The selected companies were listed on the Nigerian Stock Exchange (NSE). Furthermore, a convenience sampling technique was used in drawing the working population which consists of senior managerial employees of Unilever Nigeria Plc, PZ Cussons Nigeria Plc, UAC of Nigeria Plc, AG Leventis Nigeria Plc, and Transactional Corporation (Transcorps) of Nigeria Plc. It is the belief of the researchers that the selected sample frame would constitute a true representation of the dynamism inherent in the total population.

Since the population of the entire senior managerial employees of Unilever, PZ Cussons, UAC, AG Leventis and Transcorps, totaling 794 employees, is a finite element. The sample size which consisted of

398 senior managerial employees of the selected companies was hence adopted using a statistical formula for sample size determination by Yamane (1967) as cited in Enwurum (2004). The sample size, which was drawn from many senior managerial employees' cadres that cut across various units of the selected organizations, ranging from finance, internal control, human resource, logistics, production planning, marketing to customer services, was adopted as the working population for the study.

A structured questionnaire was used as a research instrument for the study. Likert's type interval rating scale which allows the respondents to grade their opinions on a scale of 1 to 5 was adopted to elicit appropriate responses; where 5 = strongly agree, 4 = agree, 3 = neither agree nor disagree, 2 = disagree and 1 = strongly disagree. A pre-testing of the research instrument that consisted of fifty two construct items each in a closed-ended format was undertaken at the pilot stage to evaluate the effects of diversification strategy and synergy on the performance of selected corporate organizations that operate in the conglomerate sector of Nigerian industrial economy at micro level.

The reliability of the research instrument was determined using the test-re-test reliability. In the use of the test-re-test reliability technique, the research instrument would be used to take two separate measurements on the same population at different but similar occasions (Anastasi & Urbina, 2008). Responses from the two tests were subjected to Cronbach's Alpha reliability co-efficient. The co-efficient of the reliability measurement ranges between 0.79 and 0.83 which guaranteed internal consistency of the measuring instrument (Nunnally, 1993). Expert opinion validation method was also used to ensure that the research instrument measures what it purports to measure. To ensure the validity of the research instrument, copies of the questionnaire were administered and given to the senior academics specializing in the management technique adoption strategies and the management of cross-border mergers and alliances; as well as some senior executives that work in the companies categorized under conglomerate/diversified sector on the Nigerian Stock Exchange for content validity. Data collected were analyzed using f-test with the aid of Statistical Package for Social Science (Version 16).

In this study, the researchers performed regression procedure to evaluate the three hypotheses in line with the research suggestions of Howitt & Cramer (2008).

$$y = a + \beta_1 X_1 + \beta_2 X_2 + \mu$$

Where

y = Dependent Variable (Corporate Performance)

The dependent variable is decomposed as thus:

$y_1$  = Market Penetration

$y_2$  = Market Development

$y_3$  = Product Line Development

X = Independent Variable (Diversification)

The independent variable is decomposed as thus:

$X_1$  = Diversification Strategy

$X_2$  = Diversification Synergy

$\beta$  = Intercept or Autonomous Variable

a = Co-efficient of the Independent Variable or the Slope

$\mu$  = Stochastic Variable. (This represents other variables that can cause changes in the dependent

variables, which are not represented in the stated model).

So,

$$y_1 = f(X_1 \text{ and } X_2) \dots\dots\dots (1)$$

$$y_2 = f(X_1 \text{ and } X_2) \dots\dots\dots (2)$$

$$y_3 = f(X_1 \text{ and } X_2) \dots\dots\dots (3)$$

∴ Bringing equations 1–3 together shows that:

$$y_1 + y_2 + y_3 = f(X_1 \text{ and } X_2) \dots\dots\dots (4)$$

Equation (4) is the working equation for the research model.

### 3. Empirical Results

Findings based on the survey revealed that diversification can positively enhance corporate performance in terms of market penetration, market development and product lines expansion. Considering the hypothesis I which states that “there is no significant relationship between diversification strategy/synergy and market penetration of selected corporate organizations in conglomerate sector in Nigeria”; the findings as depicted in table 1 below revealed that diversification strategy and synergy can positively enhance market penetration of corporate organizations.

**Table 1** Test of Hypothesis I

| Model                    | Unstandardized Coefficients |             | R <sup>2</sup> | F      |
|--------------------------|-----------------------------|-------------|----------------|--------|
|                          | B                           | Std. Error  |                |        |
| 1(Constant)              | 0.294 0.831                 | 0.096 0.074 | 0.812          | 67.279 |
| Diversification Strategy |                             |             |                |        |
| Diversification Synergy  | 0.572                       | 0.185       |                |        |

Dependent Variable: Market Penetration

**Source:** Authors’ computation (2015). SPSS output. Significant at .05 level

From table 1 above, the coefficients of the independent variables in hypothesis I are positive. This shows that there is a positive relationship between the dependent variable and the independent variables. This invariably means that diversification strategy and synergy will bring about a corresponding improvement in market penetration activities of the Nigeria's corporate organizations. This also confirmed the first research question. The overall coefficient of determination  $R^2$ , which is the explanatory power of the model, is 0.812. This implies that 81.2% of the variation in the dependent variable is explained by independent variables. The remaining 18.8% variation is explained by the stochastic error term. The f-test at .05 level of significance shows that since the f-calculated of 67.279 is greater than the f-tabulated of 3.04, using the degree of freedom of (2,139), we hereby reject the null hypothesis ( $H_{01}$ ) which states that 'there is no significant relationship between diversification strategy/synergy and market penetration of selected

corporate organizations in Nigeria'. This means that the parameters,  $\beta_1$ ,  $\beta_2$ , are statistically significant in explaining the market penetration.

Similarly, considering the hypothesis II which states that "there is no significant relationship between diversification strategy/synergy and market development of selected corporate organization in Nigeria;" the findings as depicted in table 2 below revealed that diversification strategy and synergy can positively enhance market development of corporate organizations.

**Table 2: Test of Hypothesis II**

| Model                       | Unstandardized Coefficients |            | $R^2$ | F      |
|-----------------------------|-----------------------------|------------|-------|--------|
|                             | B                           | Std. Error |       |        |
| 1(Constant) Diversification | 0.414                       | 0.127      | 0.791 | 59.316 |
| Strategy                    | 0.832                       | 0.069      |       |        |
| Diversification Synergy     | 0.615                       | 0.228      |       |        |

Dependent Variable: Market Development

**Source:** Authors' computation (2015). SPSS output. Significant at .05 level

From the table 2 above, the coefficients of the independent variable in hypothesis II are positive. This shows that there is a positive relationship between the dependent variable and the independent variables. This invariably means that diversification strategy and synergy will bring about a corresponding improvement in market development activities of the Nigeria's corporate organizations, all things being equal. This also confirmed the second research question. The overall coefficient of determination  $R^2$ , which is explanatory power of the model, is 0.791. This implies that 79.1% of the variation in the dependent variable is explained by independent variables. The remaining 20.9% variation is explained by the stochastic error term. The f-test at .05 level of significance shows that since the f-calculated of 59.316 is greater than the f-tabulated of 3.04, using the degree of freedom of (2,139), we hereby reject the null hypothesis ( $H_{02}$ ) which states that 'there is no significant relationship between diversification strategy/synergy and market development of selected corporate organizations in Nigeria'. This means that the parameters,  $\beta_1$ ,  $\beta_{02}$ , are statistically significant in explaining the market development.

**Table 3: Test of Hypothesis III**

| Model                       | Unstandardized Coefficients |            | $R^2$ | F      |
|-----------------------------|-----------------------------|------------|-------|--------|
|                             | B                           | Std. Error |       |        |
| 1(Constant) Diversification | 0.388                       | 0.085      | 0.758 | 72.554 |
| Strategy                    | 0.964                       | 0.071      |       |        |
| Diversification Synergy     | 0.579                       | 0.196      |       |        |

Dependent Variable: Product Line Development.

**Source:** Authors' computation (2015). SPSS output. Significant at .05 level

Moreover, considering the hypothesis III which states that "there is no significant relationship between diversification strategy/synergy and product line development of selected corporate organizations in Nigeria"; the findings as depicted in table 3 below revealed that diversification strategy and synergy can positively enhance product line development of corporate organizations.

From table 3 above, the coefficients of the independent variables in hypothesis III are positive. This shows that there is a positive relationship between the dependent variable and the independent variables. This invariably means that diversification strategy and synergy will bring about a corresponding improvement in product line development activities of the Nigeria's corporate organizations, all things being equal. This also confirmed the third research question. The overall coefficient of determination of  $R^2$ , which is the explanatory power of the model, is 0.758. This implies that 75.8% of the variation in the dependent variable is explained by independent variables. The remaining 24.2% variation is explained by the stochastic error term. The f-test at .05 level of significance shows that since the f-calculated of 72.554 is greater than the f-calculated of 3.04, using the degree of freedom of (2,139), we hereby reject the null hypothesis ( $H_{03}$ ) which states that 'there is no significant relationship between diversification strategy/synergy and product line development of selected corporate organization in Nigeria.' This means that the parameters,  $\beta_1, \beta_2$ , are statistically significant in explaining the product line development.

#### 4. Discussion

The coefficient of the independent variables in hypothesis I are positive. This shows that there is a positive relationship between the dependent variable and the independent variables. This invariably means that an increase in diversification activities will bring about a corresponding improvement in market penetration. This result is in consonance with the findings of Demetriades & Devereux (1992), Demetriades & Hussein (1996) and Meier & Rauch (2005) that diversified firms trade at a discount compared to stand-alone firms, meaning that diversified firms could embark on strategic market penetration via trade discount which cuts across the entire supply chain. On the other hand, the result of the present study diametrically contradict the empirical findings of Datta *et al.* (1981), Bettis & Hall (1982), McDougall & Round (1984), Dubofsky & Vardarajan (1987), Blide (1993) and Lipponen *et al.* (2004) that diversification can turn out to be tedious task if the organization is not armed with people that are well-versed with the processes that need to be followed for diversification to be strategic.

Similarly, the coefficients of the independent variables in hypothesis II are also positive. This also shows that there is a positive relationship between the dependent variable and the independent variables. This, however, means that an increase in diversification activities will bring about a corresponding improvement in market development. This result is in conformity with the findings of Yadav & Kumar (2005) that diversification strategy can further help the companies in expanding their aggregate customer base which could translate to market development on the long-run. The result is also in congruence with the findings of Sangosanya (2011) that diversification can help the companies to achieve their potentials in a developing economy. On the other hand, the results of the present study diametrically contradict the empirical findings of Datta *et al.* (1981), Bettis & Hall (1982), McDougall & Round (1984), Dubofsky & Vardarajan (1987), Bhide (1993) and Lipponen *et al.* (2004) that lack of knowledge about the current position of the market can really backfire on the corporate organization that embark on diversification strategy from all sides.

Moreover, the coefficients of the independent variables in hypothesis III also stand on the positive end. This further shows that there is a positive relationship between the dependent variable and the independent variables. This invariably means that an increase in diversification activities will enhance a corresponding improvement in product line development. This result confirms the findings of Hendricks & McAfee (2007) that diversification can enhance companies' capacities to build a strong brand name that can help in leveraging the new products that belong to the corporate brand identity. It also helps in building the product portfolio of the company via the introduction of complimenting products in the market (Hendricks & McAfee, 2007).

## **5. Concluding Remarks**

This study attempts to evaluate the effects of diversification strategy and synergy on the performance of selected corporate organizations in Nigeria, using a variety of different samples, estimators and measures of performance. The overall aim is to uncover any evidence on the diversification-performance link in large sample analysis, as well as to establish the importance of multi-industry firms in the Nigerian economy. The results in this study are based on the data obtained from selected senior managerial employees of five (5) – firm sample. The generalizations, therefore, apply primarily to large companies. However, measures of diversification for the sample as a whole cannot be taken as accurate estimates of average diversification for all large firms, since the sample is not representative of the universe of large firms especially in terms of industry composition. Nevertheless the measures give a rough indication of the level of this average as well as a number of other characteristics of diversification for large companies in general.

Further, this study examines the association between diversification and performance of corporate organizations in terms of market penetration, market expansion and product line development. The results of this study are interesting enough to warrant the inclusion of variables that control for industry structure and contingency variables such as interest rates or the state of the economy; or underlying managerial motivation such as risk reduction, agency problem or moral hazard. Such controls will provide greater insight into the diversification strategy, as a practice and as a phenomenon. Meanwhile, it becomes essentially imperative to emphasize that, diversification strategy and synergy go a long way to enhance corporate performance via market penetration, as well as market expansion and product line development since the study empirically proved that positive relationships exist among these variables.

Finally, diversification therefore becomes an attractive strategy when a company runs out of profitable growth opportunities in its present business. The reasons for diversifying into unrelated business however hinge almost exclusively on opportunities for attractive financial gain and corporate growth. However, corporate organizations need to take into consideration the efforts required to run additional business unit(s), and if the efforts required are more in terms of value than the value of the profit margin obtainable, it is better-off to stay away from such additional venture(s). Moreover, going against the core values of the company, just for the sake of profit maximization need to be avoided in order for diversification to be truly strategic and synergic. Meanwhile, for a firm to be successful, it must invest in acquiring the right skills or at least, provide the opportunities to enhance those critical skills within. All these will go a long way to ensure that corporate goals via diversification are achieved with minimum losses both in the short term and the long run.

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