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Analysis of Hybrid Diversification Strategy on Organizations' Performance of Cement Firms in Kenya

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ABSTRACT: Cement manufacturing firms in Kenya have experienced decline in performance. The firms have turned to innovative products diversification such as pre-cast concrete paving blocks and precast molded products. This research purposed to analyse hybrid diversification strategy effect on organizations' performance of Kenyan cement firms and to ascertain effect of firms` characteristics as a moderator between diversification strategy and organizations' performance of Kenyan cement firms. The study was backed up by resource-based review theory, the agency theory and the market view theory. The study was done in cement industrial sector in Kenya and all cement manufacturing firms were studied. The study used descriptive cross-sectional research design in collecting data relating to the research objective. Target population of research was all the marketing, finance, production managers and the assistant managers from the same departments who were used as important informants. The study had a total of 108 managers and supervisors as its target population. This being a census study, all the marketing, finance, production managers and their assistants were used in this study. In piloting of study tool, respondents were nominated from Savannah cement and were having the same noticeable features as those of main study. The scholar used questionnaire as a tool to collect data from the key informants. Quantitative technique was used to analyse data where descriptive and inferential statistics were used. Hybrid diversification strategy has a significant influence on organizations' performance of Kenyan cement firms. The firms combine low product costs and product differentiation to enhance survival and to gain ground in new markets hence increasing profit margins. The firms should adopt all possible hybrid strategies to enter into new markets while using quality control measures to ensure that the production is up to the required standards.

Keywords*: Hybrid Diversification Strategy, Organizations' Performance*

I. INTRODUCTION

Diversification strategies empower firms in creating competitive advantage within the industry. Most firms which diversify operations end up increasing their volumes of sales and enjoy streams of income through the year as proposed by Gerald, (2013). Robert et al. (2009), are of the feeling that diversification strategies offer a number of advantages to the diversifying firms. The benefits ranges from economies of scale, new products, access to new client base, minimization of competitions and amalgamation of new skills.

Diversification can be motivated by a variety of perceived benefits, including increased market power, the use of surplus resources or assets, lower performance variability from the portfolio of imperfectly correlated businesses, and more efficient resource allocation through internal capital markets (Chakrabarti, Singh & Mahmood, 2017) Efficiencies in the domestic market are the first benefit. Gains from diversity frequently have a connection to market failure (Ghemawat & Khanna, 2018). When a company concentrates on a particular industry, it is challenging for the company to effectively apply its resources and talents to other goods, industries, or nations (Palich, Cardinal & Miller, 2020).

The hybrid strategy describes how a company differentiates itself from rivals by cutting costs and increasing value (Alnoor et al. (2022). Companies are attempting to obtain a competitive advantage by focusing on streamlining internal processes and using a cost leadership strategy. Hybrid strategy is one of the horizontal diversification where money-making organizations are implementing in an attempt to be at tandem with varying client way of life (Wambua, 2014). Businesses can build internal markets via diversification that may be more productive than ineffective external marketplaces (Ghemawat & Khanna, 2018). Some advantages of internalizing markets for businesses include economies of scale, learning opportunities, and sharing core capabilities across several industry verticals and regional marketplaces

(Caves, 2019). (Hamel, 2019). The diversified company has greater flexibility and opportunities for capital formation since it has the option to employ resources from the internal market or the external market (Lang & Stulz, 2017).

Diversification in Germany has experienced a number of reductions in bank incomes even as they control the risks (Fang et al., 2013). Moreover, individual limited instances of very extraordinary risk-taking financial institutions and manufacturing diversifications have yielded optimistic and important association amongst diversifications and banks' profits. The majority of banks had meaningfully amplified in loans selection diversifications. Sweden financial stores achieved their loans selections by investigating the loan portfolio diversification strategies (Fang et al., 2013). Most of Japanese companies have moved their operative focuses away from emerging development allowing essential capabilities to decreasing organizations expenses through diversifications (Kiyohiko & Rose, 2010).

In the UK, cement production contributed £114 million to the Gross Value Added (GVA) of the economy in 2014, while lime and plaster contributed £55 million, ready-mixed concrete contributed £332 million, and concrete, plaster, and cement products produced £68 million. In 2014, product manufacturing contributed £3.9 billion GVA, or 0.2 percent of GDP. In 2015 cement production increased by 3.1% to 9.2 million tonnes, while in 2016, it increased by 1.5% to 9.4 million tonnes. Sales are still 18% below 2007's record of 11.9 million tonnes produced, the pre-recession market's peak year. The co-processing of low-value trash as alternate raw materials and fuels is an innovation in the industry that contributes to environmental protection (Mineral Products Association (MPA, 2017).

South Africa form a sure part of diversification strategies of the great Southern African contractors who are mostly reasonably diversified and the so called 'big' companies are extremely diversified both in their operations and geographically. The degree of diversifications has an influence on performance while non-diversification is clearly related to underperformance and at the same time, moderate diversification within a particular field is associated with outperformance. Nigeria produced an estimated 22 million metric tons of cement in 2016, making it the continent's largest cement manufacturer by far. South Africa was in second position with an estimated 13 million metric tons of cement produced in the same year. There are 26 different cement manufacturers in West Africa. A rising regional player named Dangote Cement is the main producer. A 0.5Mt/yr factory is now being built in Niger, and the business has a combined 30.0Mt/yr capacity in Nigeria (28.5Mt/yr), Senegal (1.5Mt/yr), and Nigeria. Additionally, it has a sizable additional capacity across the remainder of Africa (Röder et al., 2022).

Most of the cement firms in Kenya are situated within the larger Athi River area due to cheaper land, ready markets within Nairobi and other towns in Kenya, road and rail network from Mombasa to other countries comprising of Rwanda and Southern Sudan. There is abundance of pozzollana and Gypsum which are important ingredients for cement manufacturing that are obtainable from Kajiado, Isinya and Konza, Gerald, (2013). According to the Economic survey, (2015) despite high demand, profits boundaries in cement industry are being subjected under pressure even as rivalry slopes upward. The evolution in the Kenyan constructions division which is driven by substructure projects like the Nairobi – Mombasa railway as well as the push to expansion of housing supply reached 13 percent every year since in 2014 which is more than double the 2013 statistics and constructions accounts for 4.8 percent of country's GDP in 2014 as reported by the (Economic survey, 2015). The Economic survey (2015) argues that raising activities has led to cement demand has been on increase at a rate of 12.8 percent in 2014 to a whole 5.2 metric tons as reported by the government which is almost half of the total capacity for entire East Africa. The yearly per capital demands for cement products in Kenya is on average of 100kilograms equated with 508kilograms in Egypt and 230 kilograms in South Africa (KNBS, 2018).

Statement of the Problem

Kenyan cement producing businesses have experienced stiff competition. The coming up of new companies has conveyed some serious competition in cement markets according to the Economic Survey, (2018). Despite high demand, the performance of cement firms in relations to profit margin and markets share, is under pressure as competition ramps up due to enlargements and formation of new companies that are anticipated to overflow the cement products into the marketplace. The firms have recorded declines in operating profits both in 2016 and 2017 as per the Economic survey, (2018). According to Molonket *et. al.,* (2018), the profit margins of the firms have declined for the last five years. According to Molonket et al. (2018), the profit margins of the industry have declined in the past five years. The arrival of new companies has resulted into solid rivalry in cement markets, which in turn has made the cement prices level at between six hundred and thirty and seven hundred shillings per fifty kilogram bag for the last one decade. The firms have turned to innovative products diversification such as pre-cast concrete paving blocks and precast moulded products.

According to the Economic survey (2018), the performance of industry in terms of profit margin is under pressure as competition ramps up due to enlargements and formation of new-fangled companies that are predicted to downpour products into the markets. During the first half of 2017, the sector documented a slowed growing rate of 7.8% compared to 15.7% growth in a similar half of 2016. In the last thirty years, the association amongst corporate governance and diversifications have been deliberated in dissimilar nations as well as episodes by numerous researchers' such, Gerald (2013) and Khamati (2014). Diversification strategies permit firms to come up with competitive benefit within the sector. Companies that diversifying processes tend to upsurge volumes of sales and enjoy streams of revenues through the year (Gerald, 2013). According to Molonket et al. (2018) diversifications approaches present a numerous advantage to companies. The benefits include economies of scale, new products, new client, reduced competitions and new skills. It is for this reason that this research sought to analyse hybrid diversification approach influence on organizations'performance of cement firms.

Research Hypotheses

H_0: Hybrid diversification strategy has no significant effect organizations' performance of Kenyan cement firms.

II. Theoretical Review

Ansoff Model

Ansoff created this theory (1957). When thinking about management ideas around diversification, Ansoff's work offers a suitable beginning. He created a thing or matrix that indicated strategic growth directions (Ansoff, 1988). Based on whether the strategic direction is in new or current markets with new or existing items, the matrix encourages four possible tactics. Market penetration, in which growth happens through greater share of current markets, is another strategy besides diversification. Additionally, market penetration encompasses the actions taken to raise a certain good or service's market share. Opportunities for market expansion with the same product exist in markets not presently being addressed (Kariofyllas et al., 2019).

Ansoff also created a growth matrix, which outlines four paths an organization may go down in its pursuit of expansion. Market expansion, product innovation, and product diversification are the key directives. When a business improves its sales volume by selling in the current market, it has achieved market penetration (Ansoff, 1957). Product advertising can help with this. Market development refers to the sale of an organization's current products in new markets, whereas product development refers to the creation of new items and their sale to an existing market. For this, a company needs innovations.

Empirical Literature

Wambua, (2014) evaluated the numerous products diversifications strategies that money-making banks are implementing in an attempt to be at tandem with varying client way of life, markets inclinations, technology improvements and the influence of globalization and the economics and legal controlling frameworks. Products diversifications had excessively been accepted by money-making banks in an attempt to guarantee that banks continue being pertinent and remain to exploit profits in face of inflexible competitions in the entire financial business.

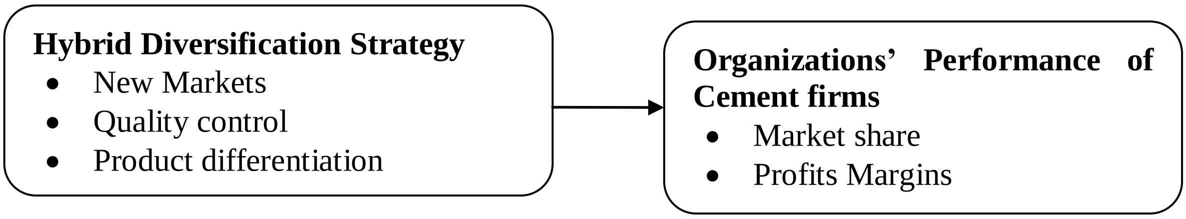
Oloo (2017) investigated the organizations' effectiveness and quality control procedures used by Kenyan mobile telecommunications companies. The study found that using quality control procedures led to improved performance, improved sales, increased market competitiveness and acquisition of a larger market share, improved service delivery within the organization, and increased retention as a result of customer satisfaction. Githumbi (2017) assessed the operation of sizable rice milling mills in Kenya's Kirinyaga County. Results showed that differentiation in product, shape, and function improved the efficiency of big rice milling operations.

Lapersonne et al. (2015) evaluated hybrid strategy, ambidexterity, and environment. The study discovered that hybridity and ambidexterity are distinct concepts that complement one another. While hybrid strategy defines the firm's value proposition (which is made up of "Low Cost" and "Differentiation"), ambidexterity focuses on how to deliver this value effectively (through Exploitation) and renew it. Gabrielsson et al. (2016) did an empirical study on developing a hybrid competitive strategy and exceptional financial performance while internationalizing in the high-technology sector. The research findings reveal that the implementation of a hybrid competitive strategy is contingent upon both the globalization phase and the key resources of a high-technology multinational corporation. Furthermore, we discovered that hybrid techniques influence these contextual aspects and hence lead to exceptional financial performance.

Odhiambo (2015) investigated the influence of marketing tactics on the performance of retail outlets in Nairobi's footwear sector. A cross-sectional descriptive survey design was used for the investigation. Product strategy, price strategy, and physical evidence strategy were all employed. The marketing tactics were found to have a positive impact on the performance of the retail outlets. Adimo (2018) conducted a study on the association between organizational performance in Sameer Africa Kenya Limited and product differentiation techniques. The study discovered a beneficial association between product differentiation and organizational effectiveness.

Conceptual Framework

Independent Variable **Dependent Variable**



III. METHODOLOGY

This research used a descriptive cross-sectional design in gathering the data relating to research objective. The study unit of analysis was all 6 Kenyan cement firms which are licensed by ministry of industrialization by June 2018. Target population was 108 managers and supervisors. This study was a census study because of the small number in size of target population. Being a census study, all marketing, finance, production managers and assistant managers were considered as key respondents in this study excluding managers from Savannah cement who were used in the pilot test. The study thus had a total of ninety eight respondents. The research tool was mainly a questionnaire. Piloting was done on a pilot set of the 10 respondent managers to help in understanding if the research tool is measuring what is meant to measure. Qualitative data was examined thematically and on the other hand, quantitative technique was employed in analyzing data where descriptions alongside inferential statistics was applied.

IV. RESULTS

Descriptive Statistics

Hybrid Strategy Influence on orgaizations'Performance

The study sought to analyse hybrid diversification strategy influence on the performance of Kenyan cement firms.

Table 1: Hybrid Strategy influence on organizations'performance

New Markets	N	Min	Max	Mean	Std. Dev
The company has used hybrid strategy to enter new markets where customers are price sensitive to boost profits.	92	1.00	5.00	4.20	0.97
Hybrid strategy has been used to gain competitiveness in new markets by combining low product costs and product differentiation	92	1.00	5.00	4.59	0.81
Hybrid strategy has helped the company to enhance survival and to gain ground in new markets hence increasing profit margins	92	1.00	5.00	4.34	0.93
Quality Control					
The company uses a quality control system to differentiate products by quality to increase market share	92	1.00	5.00	4.78	0.66
The company has a quality control system that ensures products meet a predetermined and widely acknowledged set standards to improve profits	92	3.00	5.00	4.74	0.63
The company has put in place quality control measures in production to produce unique products at lowest prices without jeopardising quality to ensure greater a market share.	92	1.00	5.00	4.58	0.88
Product Differentiation					
Products differentiation has allowed the company to have unique products enhancing customer brand loyalty and therefore a competitive advantage for better profits	92	1.00	5.00	4.55	0.91
Products differentiation provides production economies of scale which leads to improved profits	92	1.00	5.00	4.58	0.83
Products differentiation has been used to overcome competition and hence to gain a greater market share	92	1.00	5.00	4.62	0.86

N=Number of respondents, Min=Minimum, Max=Maximum, Std. Dev. = Standard Deviation

The findings show that the respondents strongly agreed that hybrid strategy has been used to gain competitiveness in new markets by combining low product costs and product differentiation (mean=4.59, std.dev= 0.81) and that hybrid strategy has helped the company to enhance survival and to gain ground in new markets hence increasing profit margins(mean=4.34, std.dev=0.93). They agreed that the company has used a hybrid strategy to enter new markets where customers are price sensitive to boost profits (mean=4.20, std.dev= 0.97).

The respondents further strongly agreed that the company uses a quality control system to differentiate products by quality to increase market share (mean=4.78, std.dev= 0.66), the company has a quality control system that ensures products meet predetermined and widely acknowledged set standards to improve profits (mean=4.74, std.dev= 0.63) and that the company has put in place quality control measures in production to produce unique products at lowest prices without jeopardizing quality to ensure greater a market share (mean=4.58, std.dev=0.88).

The respondents further strongly agreed that products differentiation has been used to overcome competition and hence to gain a greater market share (mean=4.62, std.dev= 0.86), products differentiation provides production economies of scale which leads to improved profits (mean=4.58, std.dev=0.83) and that products differentiation has allowed the company to have unique products enhancing customer brand loyalty and therefore a competitive advantage for better profits (mean=4.55, std.dev= 0.91).

The respondents indicated that the hybrid strategy has enabled the firms to enter into new markets, create a competitive advantage and provide low-cost products to suit the customers. In order to offer distinctive products at the lowest rates without compromising quality and increase market share, the companies have implemented quality control procedures in production. Differentiating products have been utilized to outperform rivals and therefore increase market share and enable production economies of scale as well as given the business the opportunity to offer distinctive goods.

Organizational Performance

The study assessed the performance of the cement firms. The study findings were as presented in Table 2.

Table 2: organizations' Performance of the cement firms

Market share	**N**	**Min**	**Max**	**Mean**	**Std. Dev**
Related diversification strategy has given the firm more clients than any other cement firm in Kenya hence a bigger market share than our rivals.	92	1.00	5.00	4.39	0.91
Unrelated diversification strategy has increased the firms' market share and hence performance in past five years.	92	1.00	5.00	4.22	1.00
Both related and unrelated diversification strategies have boosted the firm's market share in the last five years hence increasing performance.	92	2.00	5.00	4.33	0.87
Hybrid diversification strategy with its low cost and high quality offers has led to the firm's market share upsurge in last five years.	92	2.00	5.00	4.43	0.77
Profit Margins					
Related diversification strategy being practiced in the cement firm has led to increase in profits.	92	2.00	5.00	4.46	0.78
The cement firm is making more profits after unrelated diversification strategies have been used by the firm in the last five years.	92	2.00	5.00	4.38	0.94
Hybrid diversification strategies have positively affected the profit maximization of the cement firm.	92	2.00	5.00	4.25	0.75

N=Number of respondents, Min=Minimum, Max=Maximum, Std. Dev. = Standard Deviation

From the findings, the respondents strongly agreed that the hybrid diversification strategy with its low cost and high quality offers has led to the firm's market share upsurge in the last five years (mean=4.43, std.dev= 0.77), related diversification strategy has given the firm more clients than any other cement firm in Kenya hence a bigger market share than our rivals (mean=4.39, std.dev= 0.91) and that both related and unrelated diversification strategies have boosted the firm's market share in the last five years hence increasing performance (mean=4.33, std.dev=0.87). They further agreed that unrelated diversification strategy has increased the firms' market share and hence performance in the past five years (mean=4.22, std.dev=1.00).

In addition, the respondents strongly agreed that related diversification strategy being practiced in the cement firm have led to an increase in profits (mean=4.46, std.dev= 0.78), and the cement firm is making more profits after unrelated diversification strategies have been used by the firm in the last five years (mean= 4.38, std.dev= 0.94) and that hybrid diversification strategy has positively affected the profit maximization of the cement firm (mean= 4.25, std.dev= 0.75).

Inferential Statistics

Correlation Analysis

The researcher conducted a correlation between the measures of hybrid strategy and performance of cement firms in Kenya.

Table 3: Correlation matrix

		Performance	New markets	Quality control	Product differentiation
Performance	Pearson Correlation	1	.363**	.385**	.181
	Sig. (2-tailed)		.000	.000	.004
	N	92	92	92	92
New markets	Pearson Correlation	.363**	1	.123	.650**
	Sig. (2-tailed)	.000		.003	.000
	N	92	92	92	92
Quality control	Pearson Correlation	.385**	.123	1	.277**
	Sig. (2-tailed)	.000	.003		.008
	N	92	92	92	92
Product differentiation	Pearson Correlation	.181	.650**	.277**	1
	Sig. (2-tailed)	.004	.000	.008	
	N	92	92	92	92

***. Correlation is significant at the 0.01 level (2-tailed).*

The findings show that all hybrid strategy constructs and performance were positively and significantly associated. New markets had a positive and significant link with performance(r = .363, P 0.000< .05). Consistent with the study findings, Odhiambo (2015) investigated the influence of marketing tactics on performance found that marketing tactics have a positive impact on the performance. Similarly, a study in Kitengela Township, Kajiado County by Ames (2016) found that place marketing strategy, promotion marketing strategy, and product marketing strategy all significantly and favorably influence firm performance. Quality control had a positive and significant link with performance(r = .385, P 0.000<.05). Similarly, Wanyoike (2016) found that quality control and continuous improvement have a favorable and significant effect on the performance of manufacturing enterprises. In addition, the association between quality management methods and performance was partially mediated by organizational competence. Product differentiation had a positive and significant link with performance(r =.181, P 0.000< .05). The findings agree with Adimo (2018) who conducted a study on the association between organizational performance in Sameer Africa Kenya Limited and product differentiation techniques and discovered a beneficial association between product differentiation and organizational effectiveness. In contrast with the study findings, In South Sulawesi, Indonesia, SMEs, Amar (2015) found that the strategy of product differentiation has a considerable impact on the industrial SMEs' operational performance.

Regressions Analysis

To test the hypothesis and make inferences on hybrid diversification strategy influence on the performance of Kenyan cement firms a regression analysis was conducted.

Table 1: Model Summary for Hybrid Diversification Strategy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.154	.145	.48118

a. Predictors: (Constant), hybrid diversification strategy

From the model summary results in Table 68, the R-value of .392 shows that the hybrid diversification strategy has a moderate correlation with the performance of cement firms in Kenya. The value of R squared is 0.154 revealing that hybrid diversification strategies account for 15.4% of the variance of performance of cement firms. The remaining 84.6% variation in the performance of cement firms is accounted for by other factors not included in the study model.

Table 2: ANOVA Hybrid Diversification Strategy

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.791	1	3.791	16.373	.000[b]
	Residual	20.838	90	.232		
	Total	24.629	91			

a. Dependent Variable: Performance

b. Predictors: (Constant), Hybrid diversification strategy

The ANOVA table shows that the regression model is significant. F (1, 90) =16.37, P (0.000) < 0.05. The obtained F-value (F = 16.37) was greater than the critical F- value 3.95 (1, 90). Therefore, a hybrid diversification strategy is a significant predictor of the performance of Kenyan cement firms. Hypothesis three was tested using coefficients (Beta) and P-value and the results are in table 70.

Table 5: Coefficients Hybrid Diversification Strategy

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.618	.431		6.072	.000
	Hybrid diversification strategy	.381	.094	.392	4.046	.000

a. Dependent Variable: Performance

Regression coefficients show that the hybrid diversification strategy had a positive and significant effect on the performance of cement firms (β =.381, p=.000<.05). The result also implies that a unit increase in hybrid diversification strategy leads to an improvement in the performance of Kenyan cement firms by 0.381 units. The null hypothesis was therefore rejected and the alternative hypothesis that hybrid diversification strategy has a significant influence on the performance of Kenyan cement firms was accepted. Consistent with the findings, Wambua, (2014) found that firms use product diversifications to guarantee that banks continue being pertinent and remain to exploit profits. The findings also agree with Adimo (2018) who found that a hybrid diversification strategy affects organizational performance.

V. Conclusions

A hybrid diversification strategy has a significant influence on the performance of Kenyan cement firms. The firms combine low product costs and product differentiation to enhance survival and gain ground in new markets hence increasing profit margins. The companies use quality control systems to differentiate products by quality to increase market share and overcome competition and hence gain a greater market share and provide production economies of scale which leads to improved profits.

VI. Recommendations

A hybrid Strategy was found to positively influence the performance of the cement manufacturing firms. The study thus recommends that the firms should adopt all possible hybrid strategies to enter into new markets while using quality control measures to ensure that the production is up to the required standards. The study also recommends that the firms should focus on entering into new markets to gain competitiveness for increased profits. This should be done in addition to differentiating their products for unique qualities that meet different markets' tastes and preferences. This will ensure that the firms increase their market share, competitiveness, and profitability.

VII. Suggestions for further studies

The findings of the study cannot be generalized to other sectors in the economy, as such the study recommends that future studies should focus on the influence of hybrid diversification strategies on the performance of other sectors in the economy.

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