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Role of Diversification Strategies on Organizational Productivity among Multinational Oil firms in Kenya: A Case of Kenolkobil Limited

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Abstract:
Diversification is one of the key strategy to plan to change and transform a loss making firm into a profitable enterprise and gaining competitive advantage. The purpose of the study was to determine the role of diversification strategies in organizational productivity within the oil industry in Kenya. The findings of the study were that diversification as turnaround strategy was important turnaround strategy, help in cutting cost, help in risk spreading, enhance organizations characterized by narrow core competence, help to reduce excess and lack of domain change that may lead to crisis, is form of divestment with the enterprise and lead to introduction of new products. The study recommends that management should encourage research and development so that the employees can come up with diversified products which help the organization achieve target markets.

1. Introduction and Background of the Study

1.1. Introduction
Global competition, technological turbulence, high costs of capital, and other factors will cause more and more businesses to face occasional hard times. Diversification is a high risk growth strategy that is a reasonable choice if the high risk is compensated by the chance of the high return. It allows the organization to expand its reach in the market through introduction of new products or services. Capability driven strategies (CDS) which align the firm's value propositions to its differentiation capabilities are necessary to create a platform for establishing value- adding competitive advantage for the entity. Fit for growth strategies become in expendable as the firm implements change management initiatives in its turnaround efforts (Bhanu & Chandra, 2015).According to the Export Land Model, oil exports drop much more quickly than production drops due to domestic consumption increases in exporting countries. Supply shortfalls would cause extreme price inflation, unless demand is mitigated with planned conservation measures and use of alternatives.

1.2. Statement of the Problem
Changes in the business environment generally affect the long term viability and Profitability of organizations and thus require timely and appropriate strategic responses in order for the firm to survive and prosper (KenolKobil, 2014). The Kenyan Oil industry and indeed the general business environment have undergone tremendous macro environmental changes. Consequently, there has been pressure on organizations to respond with strategies formulated to propel them to retain their market share and competitive position (KenolKobil, 2012). The environmental turbulence in the oil industry has not spared KenolKobil Ltd as an oil marketer because it has no ability to stop the discontinuous changes in the Environment. KenolKobil suffered a downgrade of its long-term national credit rating which signaled the firm's weakening financial position arising from disputes that have hindered its capacity to import fuel for resale in Kenya. Oil firms are operating under increasing competitive environment that puts them under pressure to continually reinvent themselves by becoming innovative and developing new strategies to remain relevant in the market. In pursuit to retain its operations KenolKobil Ltd has embraced strategic practices which have not been without challenges. Therefore, the study will focus on the role of diversification strategies in organizational productivity within the oil industry in Kenya which will be a case of KenolKobil.

1.3. Objectives of the Study
To find out whether diversification play a role on organization productivity in oil industry.

1.4. Research Questions
The research will attempt to answer the following listed research question.
How does diversification play a role on organization productivity in oil industry?

1.5. Significance of the Study

The study was significant to the following stakeholders who have different interests in the oil industry.The management of the KenolKobil benefited from the study by understanding the role of turnaround strategies used by the firm. In addition, the management was in a position of determining the productivity of the firm as given by the conclusion of the study. The study also benefited researchers and academicians who may be interested in developing literature review, identify gaps that the study may elucidated in the research for further studies. In addition, the researchers who may want to use the data for further analysis. The study was significant to the strategy implementers of the turnaround strategies. The strategy implementers were in a position to identify whether the turnaround strategies used by the KenolKobil is working whether there is need to change it. The study was significant to the shareholders who own the KenolKobil and were interested to know whether the organization is utilising the best strategies in order to increase their share price hence the wealth. Further, the study was significant to the customers who use the KenolKobil products in that they would want to know whether the organization is using the best turnaround strategies so that they can be guaranteed of fair prices of the products.

1.6. Conceptual Framework

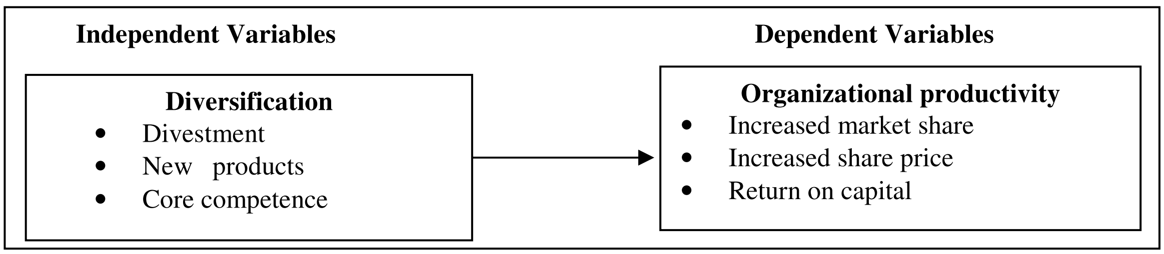

Figure 1

Diversification involves a business venturing into a variety of products or services so that they can maximize return and minimize risk (Banaszak-Holl, 2010). Diversification is important especially when the firm is facing stiff competition in the industry.

2. Literature Review

2.1. Theoretical Review: -Resource-Based View Theory

According to Rothaermel (2012) noted that the resource based view theory emerged after the maximum utilization of the resources in the organization. The resource-based view indicates that in strategic management the fundamental sources and force to firm’s competitive advantage and superior enterprise performance are mainly associated with resources and capabilities of particular firm (Peteraf & Bergen, 2003). In addition, on the assumptions which is strategic resources are heterogeneously experienced across organizations and differences are stable in the long run. Barney (1991) interrogated the relationship between enterprise resource capabilities and achieving competitive advantage. It can be noted that the four indicators of enterprise resources to generate efficiency in productivity is by non-substitutability, rareness, value and inimitability. The theory draws on marketing's heterogeneous demand theory which indicates that when the firm employs the right turnaround strategies it transforms from loss to making profit(Alderson, 2005). In addition, the theory contends that, there is intra-industry demand which is significantly heterogeneous thus various market segmentation are required hence the organization should be innovative with differentiated products hence increasing the organization productivity. Further, the theory holds that organization productivity determines the competitive advantage and market superiority is determined by financial performance. Hence, firms may possess efficiency advantage by efficiently producing value that makes the enterprise differentiate itself from the rest of the firms with the industry in this case the oil industry. Moreover, the theory contends that the use of human capital skills and knowledge to make sure that is efficient organization productivity (Eisenhardt & Martin, 2000). Thus, the human capital is important because they directly determine the enterprise productivity. Eisenhardt and Martin (2000), further noted that, organization capabilities involve the firm’s production processes through which resources are well distributed in order to foster maximum production capacities that will meet the market demand. This theory is relevant for the study because in the implementation of turnaround strategies the firm require commitment of the organization resource so as to achieve organization objectives. Turnaround is no longer being viewed as strategy to increase efficiency, growth in profits, cost cutting measures and much more. It is being appreciated that the unique resources within the organization could be the answer to the many questions on how to implement the turnaround strategy.

2.2. Empirical Review

2.2.1. Diversification

Bowman *et al*. (2013) found that diversification based recovery strategies have a significance influence as turnaround strategies and influence the organization productivity. In addition, the research found that diversification strategies entails commitment of the organization resources. Further, diversification requires identifying the niche market which the organization can tap on and achieve performance which is driven by efficiency in production. Ayiecha and Katuse (2014) found that organization turnaround strategies when they are in declining in profit are able to achieve organization productivity and avert the crisis in the organization. Harwood et al. (2016) in their study comparing between firms that recovered and those that did not recover showed that successful turnaround entails management strategies which include changes in management and organization, new investment expenditures, marketing strategies, diversification of products, efficiency in productivity.

Harwood, Nakola, and Nyaana (2016) studied fifty-four American firms and found that changes in top management, greater R&D, diversification of new products, modernization, expansion and efficiency measures of cost cutting, cost controls, and divestment as turnaround strategies increases the organization productivity. Collard (2011) found that firms achieve efficiency in production when the engage in diversification which entails the firm developing new variety of products in the market. Both Manimala and Panickar (2011) found that the strategies of turnaround on diversification has a positive relationship with the organization productivity and performance. A large sample study by Imbo (2014)found that turnaround requires organization to develop new products and adopt new market strategies to capture a wider market. A major difference between the Indian and the western cases seems to be that the former had concentrated on the short-term strategies while the latter were keen also on institutionalizing the turnaround by long term strategies, such as strengthening of R&D, introduction of new products, expansion, modernization and diversification, redefining of business, and restructuring of the firm. In addition, diversification as turnaround strategy has been identified to influence the productivity of the oil industries. Moreover, business restructuring is another variable which the literature sought to identify and the studies above have indicated that there is positive relationship between this turnaround strategy and organization productivity. Finally, the literature above have identified that change management is also another variable that influence the productivity of a firm once identified as turnaround strategy.

3. Research Design and Methodology

3.1. Research Design

This research used descriptive design; this is because the design gave a clear picture of what is happening on the productivity of oil industries in Kenya. The design relates to the procedures that are meant to gather the information on the variables.

3.2. Target Population

Consisted of 300employees of Kenol-Kobil head office Nairobi.

Stratum	Population
Top level management	50
Middle level managers	100
Lower level managers	150
Total	300

Table 1: Target Population
Source: KenolKobil (2012)

3.3. Sampling Procedures

The research utilized stratified random sampling; this is because the sample is divided into three strata according to the level of management. The sample size obtained was 150 using the strata tabulated below:

Stratum	Population	Size sample
Top level management	50	25
Middle level managers	100	50
Lower level managers	150	75
Total	300	150

Table 2: Sample Size
Source: KenolKobil. (2012)

3.4. Data Collection Procedures

Questionnaire was used as research instrument in the study.

3.5. Data Analysis and Presentation

Analysis of the data collected data was done using Statistical Package for Social Sciences (SPSS). The output was informing of descriptive that is frequencies, variance and percentages (Kothari, 2009). In addition, correlations of the variables were done to establish the relationships. The data analysed was presented inform of tabulation and graphical manner.

4. Data Analysis and Presentation of Findings

4.1. Diversification as Turnaround Strategy

This section presented the role of diversification as turnaround strategy and the influence on the organization performance. The respondents were asked to indicated the influence of diversification as; importance turnaround strategy, help in cutting cost, help in risk spreading, enhance organizations characterized by narrow core competence, does excess and lack of domain change lead to crisis, form of divestment with the enterprise, lead to introduction of new products. The results were analyzed and indicated in the table 3. The respondents were given the Likert scale of strongly disagree (SD), disagree (D), neutral (N), agree (A) and strongly agree (SA).

Response	SD%	D%	N%	A%	SA%
It is important turnaround strategy	5.1	8.7	10.1	15.2	60.9
Help in cutting cost	4.3	7.2	13.0	21.7	53.6
Help in risk spreading	5.8	2.9	8.7	26.1	56.5
Enhance organizations characterized by narrow core competence	6.5	8.0	9.4	15.9	60.1
Help to reduce excess and lack of domain change that may lead to crisis	2.2	3.6	3.6	13.8	76.8
Form of divestment with the enterprise	3.6	4.3	7.2	11.6	73.2
Lead to introduction of new products	8.0	5.8	8.0	11.6	66.7

Table 3: Diversification as Turnaround Strategy

Table 3 indicated that who rated strongly disagree that diversification is an important turnaround strategy accounting for 5.1%. Those respondents who indicated that they disagree that diversification is an important turnaround strategy with 8.7%. In addition, those respondents who indicated neutral that diversification is an important turnaround strategy accounting for 10.1%. Also, those who indicated that they agree and strongly agree that diversification is an important turnaround strategy accounting for 15.2% and60.9%. It can be deduced from the analysis that majority of the respondents stated that diversification is an important turnaround strategy, influence productivity.

Respondents who indicated that they strongly disagree that diversification help in cutting cost accounting for 4.3%. Those who indicated that they disagree that diversification help in cutting cost with 7.2%. In addition, those who indicated neutral that diversification help in cutting cost accounting for 13.0%. Also, those who indicated that agree that diversification help in cutting cost accounting for 21.7%. Finally, those respondents who indicated that they strongly agree that diversification help in cutting cost accounting for 53.6%. It can be deduced from the analysis that majority of the respondents stated that diversification help in cutting cost, influence productivity.

Also, the respondents who indicated strongly disagree that diversification help in risk spreading with 5.8%. In addition, those who indicated that they disagree that diversification help in risk spreading with 2.9%. Those respondents who indicated that they were neutral that diversification help in risk spreading with 8.7%. Also, those respondents who indicated that they agree that diversification help in risk spreading with 26.1%. Finally, those who indicated that they strongly agree that diversification help in risk spreading 56.5%. It can be deduced from the analysis that majority of the respondents stated that diversification help in risk spreading, influence productivity.

Respondents who indicated that they strongly disagree that diversification enhance organizations characterized by narrow core competence accounting for 6.5%. In addition, those respondents who indicated disagree that diversification enhance organizations characterized by narrow core competence accounting for 8.0%. Also, those respondents who indicated that they were neutral that diversification enhance organizations characterized by narrow core competence accounting for 9.4%. Those respondents who indicated that they agree that diversification enhance organizations characterized by narrow core competence accounting for 15.9%. Finally, the respondents who indicated that they strongly agree that diversification enhance organizations characterized by narrow core competence accounting for 60.1%. It can be deduced from the analysis that majority of the respondents stated that diversification enhance organizations characterized by narrow core competence hence, influence organization productivity.

Respondents who indicated that they strongly disagree that diversification help to reduce excess and lack of domain change that may lead to crisis accounting for 2.2%. Also, those respondents who indicated that they disagree that help to reduce excess and lack of domain change that may lead to crisis accounting for 3.6%. Those respondents who indicated that they were neutral that help to reduce excess and lack of domain change that may lead to crisis accounting for 3.6%. Also, those respondents who rated agree and strongly agree that help to reduce excess and lack of domain change that may lead to crisis accounting for 13.8% and 76.8% respectively. It can be deduced from the analysis that majority of the respondents stated that diversification help to reduce excess and lack of domain change that may lead to crisis hence, influence organization productivity.

Respondents who indicated that they strongly disagree that diversification is form of divestment with the enterprise accounting for 3.6%. Those respondents who indicated that they disagree that diversification help to reduce excess and lack of domain change that may lead to crisis with 4.3%. Also, those respondents who indicated that they were neutral that diversification help to reduce excess and lack of domain change that may lead to crisis accounting for 7.2%. Those respondents who indicated that they agree that diversification help to reduce excess and lack of domain change that may lead to crisis accounting for 11.6%. Finally, those respondents who indicated that they strongly agree that diversification help to reduce excess and lack of domain change that may lead to crisis accounting for 73.2%. It can be deduced from the analysis that majority of the respondents stated that diversification is form of divestment with the enterprise hence, influence organization productivity.

Respondents who indicated that they strongly disagree that diversification lead to introduction of new products accounting 8.0%. In addition, respondents who indicated that they disagree that diversification lead to introduction of new products accounting for 5.8%. Also, those who indicated that they were neutral that diversification lead to introduction of new products accounting 8.0%.

Respondents who indicated that they agree that diversification lead to introduction of new products accounting for11.6%. Finally, respondents who indicated that they strongly agree that diversification lead to introduction of new products 66.7%. It can be deduced from the analysis that majority of the respondents stated that diversification introduction of new products hence, influence organization productivity.

5. Summary of Findings, Discussion, Conclusion and Recommendations

5.1. Summary Findings

5.1.1. Objective: To find out Whether Diversification play a Role on Organization Productivity in Oil Industry.

Secondly on diversification as turnaround strategy majority of the respondents indicated that diversification is an important turnaround strategy with 60.9%.Respondents indicated that diversification help in cutting cost accounting for 53.6%.Also, respondents indicated that diversification help in risk spreading with 56.5%.Respondents indicated that diversification enhance organizations characterized by narrow core competence accounting for 60.1%.Respondents indicated that diversification help to reduce excess and lack of domain change that may lead to crisis accounting for 76.8%. Also, respondents indicated that diversification is form of divestment with the enterprise accounting for 73.2%.Respondents indicated e that diversification lead to introduction of new products accounting 66.7%. Also there was strong positive correlation between organization productivity and diversification there is a statistically significant positive relationship between organization productivity and diversification (r=.978). This indicates that is an organization uses diversification as turnaround strategy it will have increased productivity. This is because the findings found that there was a statistically significant positive relationship the variables.

5.2. Discussion

On diversification, Bowman et al. (2013) found that diversification based recovery strategies have a significance influence as turnaround strategies and influence the organization productivity. This concurs with the study which has found that diversification in the organization helps the organization achieve its objectives. In addition, the research found that diversification strategies entails commitment of the organization resources. Further, diversification requires identifying the niche market which the organization can tap on and achieve performance which is driven by efficiency in production. Ayiecha and Katuse (2014) found that organization turnaround strategies when they are in declining in profit are able to achieve organization productivity and avert the crisis in the organization. Harwood et al. (2016) in their study comparing between firms that recovered and those that did not recover showed that successful turnaround entails management strategies which include changes in management and organization, new investment expenditures, marketing strategies, diversification of products, efficiency in productivity.

5. 3. Conclusion

Secondly on diversification as turnaround strategy is important turnaround strategy, help in cutting cost, help in risk spreading, enhance organizations characterized by narrow core competence, help to reduce excess and lack of domain change that may lead to crisis, is form of divestment with the enterprise and lead to introduction of new products.

5.4. Recommendations

The management should encourage research and development so that the employees can come up with diversified products which help the organization achieve arge markets.The managegement should also allow business restructuring because it will help in making the business process efficient and effective in production activities.

5.5. Areas for Further Research

Further studies could also incorporate qualitative research as the present study only used quantitative research methodology. Including qualitative methods of data collection may enrich the data findings of such research and may provide further clarity on similar studies which elicited contradictory findings.

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