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Effects of Product Diversification Strategy on Supply Chain Performance of Delmonte Kenya

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Abstract

The purpose of the study was to establish the effects of product diversification on supply chain performance of Delmonte Kenya. The research design employed in this study was descriptive research design. The target population for this study was 44 management employees of Delmonte. The study adopted census approach since the population of the study was small. Therefore, the total number of respondents to be selected was 44. Primary data was collected using semi structured questionnaires. The findings revealed that there was a significant association between product diversification and supply chain performance of Delmonte Kenya. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed. This was also supported by the regression results which revealed that product diversification and supply chain performance were positively and significantly related. Based on the research findings, the study recommends that managerial departments of the company, particularly the IT department should consider the adoption of new technology and employment of skillful and competent personnel who will ensure constant and updated market information flow in to the company for market decision making. The study also recommended that the management should consider the aspect of job satisfaction of the staff.

Keywords: *Product diversification strategy, supply chain performance, Delmonte Kenya Limited*

1.0 Introduction

Diversification strategy is a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets. Organizations spend their resources to diversify with the main aim of improving their organizational performance. Organizational performance is defined as the actual output or results of an organization as measured against its intended outputs or goals and objectives. According to Richard et al. (2009) organizational performance encompasses three specific areas; financial performance; product market performance and shareholder return.

According to Calori and Harvatopoulos (1988), there are two dimensions of rationale for diversification. First, the diversification may be defensive or offensive. Defensive reasons may be spreading the risk of market contraction, or being forced to expand when current product or current market orientation seems to provide no further opportunities for growth. Offensive reasons may be conquering new positions, taking opportunities that promise greater profitability than diversification opportunities, or using retained cash that exceeds total diversification needs. The second dimension involves the expected outcomes of diversification. Management may expect great economic value (growth and profitability) or first and foremost great coherence and complementarities with their current activities (exploitation of know-how, more efficient use of available resources and capacities). In addition, companies may also explore diversification just to get a valuable comparison between this strategy and diversification.

Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations. When the new venture is strategically related to the existing lines of business, it is called concentric diversification. Conglomerate diversification occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated (Thompson & Strickland 1993).

Del Monte Kenya is one of the leading producer and marketer of quality foods and beverages. The company produces canned solid pineapple, juice concentrates, mill juice sugar and cattle feed. Kenya’s largest single manufactured export is canned pineapple, and the country ranks among the top five pineapple exporters in the world, both of which feats are direct results of the company’s existence and operations (https://softkenya.com/kenya/del-monte-kenya). The ability of this company to maximize production largely depends on its supply chain system. As such, it is critical to understand factors that influence supply chain performance among manufacturing firms. This study, thus sought to explore the role of product diversification strategy in influencing the supply chain performance of firms, with particular focus on Del monte Kenya.

1.1 Research Problem

Kenya has been experiencing turbulent times with regard to its organizational performances and this has resulted in declining profits in the manufacturing sector (Mutindi, Namusonge & Obwogi, 2013). Statistics from World Bank show that Kenyan manufacturers of large scale firms have registered declining profits and stagnation for the last five years (World Bank, 2014). It is estimated that large manufacturing companies have lost 70 per cent of their market share in East Africa largely attributed to operation issues (Republic of Kenya, 2014).

Product diversification strategies influence on the organizational performance of the manufacturing firms still remains uncertain (Wagana & Kabare, 2015). Different scholars have conducted studies product diversification strategies and how they influence performance. However, there exists scanty literature on the influence of product diversification strategies on supply chain performance. Therefore, this study sought to establish the influence of product diversification strategy on supply chain performance, a case of Delmonte Kenya limited.

2.0 Literature Review

2.1 Theoretical Review

Transaction Cost Economics (TCE) theory is useful in organization of new activities in firms which are within their boundaries and also its valuable in sharing of resources across various businesses in their own firm boundaries. This theory’s framework submits that obtaining greater market influence is possible by obstructing competitors and vertical assimilation which firms get by diversification. More explicitly, Miller (2009) contended that it is possible to reduce prices in diversified companies thus able to block new entrants or crush competitors out of the market. Vertical integration as indicated by Penrose (2009), it permits firms in avoidance of market costs, quality control of products and prevention of spilling over its technology from to suppliers and other intermediaries.

According to Williamson (1985), this theory is grounded upon several critical postulations about the behaviour of human beings and characteristics of the environment. These postulations explain why there may be some superior costs faced by organizations for market-based transactions and the reason behind some organizations being more efficient at organizing transactions. The firm selects the governance form amongst the various alternatives in the organizational menu which minimizes transactions and productivity costs. Hence, increasing the market influence by firms as depicted by the TCE, it is important to diversify and also firms can organize their extra activities in a more efficient way as compared to the prevailing market or their contenders. The Transaction cost theory suggested that geographical diversification will lead to production of heavy costs which include market entry costs, costs of coordination among business units in different countries, and information-processing costs.

2.2 Empirical Review

Doaei, Anuar, and Ismail (2014) conducted a study on corporate diversification and financial performance examining the relationship between product diversification and international diversification among manufacturing in Malaysia. The scope of the study comprised 102 for the period 2006 to 2010. The study variables included Return on Assets (ROA) combined with various forms of diversification including: Total Product Diversification (TPD), Related Product Diversification (RPD), unrelated product diversification (UPD), and International Diversification (ID). The results indicated no significant relationship existed between diversification. There exists a contextual gap since the study focused on manufacturing firms in Malaysia while the current study will be conducted in Kenya.

Afza, Slahudin and Nazir (2012) conducted a study in Pakistan with the aim of establishing the relationship between diversification and financial performance. The scope of the study was 65 firms classified as either diversified or non-diversified. The dependent variable was measured in terms of Return on Assets and ROE. The findings show better performance among non-diversified firms compared to the diversified firms. However, non-diversified posted low performance with high return whereas diversified firms had high performance with low returns. The study was conducted in Pakistan illustrating geographical gap with the current study which will be conducted in Kenya.

Kariuki (2013) examined the effects of corporate diversification on performance of firms whose shares are trading at the NSE through a descriptive research design. The population comprised all the 60 listed firms at the NSE hence a census. From the findings, the findings indicate that all the variables under study had a positive relationship with firm performance including the control variable firms' size. The study portrays conceptual gap as it focuses on the companies listed in the NSE while this study will concentrate on the supply chain performance of the food and beverage company.

3.0 Research Methodology

The research design employed in this study was descriptive research design. The target population for this study was 44 management employees of Delmonte. These comprised of top managers, line managers and supervisors who are directly involved in the supply chain process. The study adopted census approach since the population of the study was small. Therefore, the total number of respondents to be selected was 44. The respondents were purposively selected.

Primary data was collected using semi structured questionnaires. Data was edited, classified, coded and keyed into the computer for analysis. Statistical Package for Social Sciences (SPSS) was used to aid the processing and analysis of the data collected. SPSS has the capability of offering extensive data handling and numerous statistical analysis routines that can analyze from small to very large data statistics (Muijs, 2004). This study was expected to generate quantitative data which according to Kothari (2004) is appropriately analyzed using descriptive statistics, that is, graphical and numerical methods, measures of central tendencies as well as measures of variability. The particular inferential statistic was correlation analysis.

4.0 Results and Discussion

4.1 Descriptive Statistics

Table 1: Product Diversification

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total	Standard Deviation
The firm has developed New product varieties	4.35	4.35	15.22	36.96	39.13	4.02	1.06
The firm invests in consultancy services other than products	10.87	8.7	8.7	41.3	30.43	3.72	1.29
The company generates synergies between Sales and marketing of its products	4.35	13.04	17.39	43.48	21.74	3.65	1.1
The firm has considered adding more products in the market	6.52	6.52	10.87	34.78	41.3	3.98	1.18
Average						**3.842**	**1.157**

The results in Table 1 revealed that majority of the respondents (76.09%) agreed with the statement that the firm has developed new product varieties. The results also revealed that majority of the respondents (71.73%) agreed with the statement that the firminvests in consultancy services other than products. Furthermore, the results reveal that majority of the respondents (65.22%) agreed with the statement that the company generates synergies between Sales and marketing of its products. In addition, the results showed that majority of the respondents (76.08%) agreed with the statement that the firm has considered adding more products in the market. This implies that the firm has been diversifying its products in the firm which might attribute to the performance of the company. On a five-point scale, the average mean of the responses was 3.84 which mean that majority of the respondents agreed with the statement; however, the answers were varied as shown by a standard deviation of 1.16.

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Table 2: Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
The company has experienced increase in profits	8.7	8.7	10.87	34.78	36.96	3.83	1.27
Operational flexibility in the company has improved	17.39	8.7	4.35	28.26	41.3	3.67	1.52
There has been positive productivity (increased output) in the firm	8.7	6.52	8.7	30.43	45.65	3.98	1.27
The needs of the customers are sufficiently and timely met	6.52	13.04	13.04	34.78	32.61	3.74	1.24
Average						**3.805**	**1.33**

The results in Table 2 revealed that majority of the respondents (71.74%) agreed with the statement that the company has experienced increase in profits. Furthermore, the results reveal that majority of the respondents (69.56%) agreed with the statement that operational flexibility in the company has improved. In addition, the results showed that majority of the respondents (76.08%) agreed with the statement that there has been positive productivity (increased output) in the firm. Furthermore, the results indicated that majority of the respondents (67.39%) agreed with the statement that the needs of the customers are sufficiently and timely met. This implies that the performance of the company has significantly improve due the diversification processes applied in: marketing, product, management and geographical perspectives.

On a five-point scale, the average mean of the responses was 3.81 which mean that majority of the respondents agreed with the statement; however, the answers were varied as shown by a standard deviation of 1.33.

4.2 Inferential Statistics

Correlation analysis was conducted to show the relationship between product diversification and supply chain performance.

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Table 3: Correlational Analysis

		Performance	Product Diversification
performance	Pearson Correlation	1	
	Sig. (2-tailed)		
product diversification	Pearson Correlation	.594**	1
	Sig. (2-tailed)	0.000	

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

The results in Table 3 revealed that there was a positive and significant association between product diversification and supply chain performance (r = 0.594, p = 0.000).

4.3 Summary of Findings

The objective of the study was to establish the effects of product diversification on supply chain performance of Delmonte Kenya. The findings revealed that there was a significant association between product diversification and supply chain performance of Delmonte Kenya. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed. This was also supported by the regression results which revealed that product diversification and supply chain performance were positively and significantly related.

5.0 Conclusion

Based on the findings above the study concluded that Product diversification had a positive and a significant effect on supply chain performance of Delmonte Kenya. The study concluded that the firm has been diversifying its products in the firm which might attribute to the performance of the company. The study also concluded that the firm had developed new products and of new varieties over and above the presently produced one and also incorporated consultancy services which would benefit the clients/customers.

6.0 Recommendations

Based on the research findings, the study recommends that managerial departments of the company, particularly the IT department should consider the adoption of new technology and employment of skillful and competent personnel who will ensure constant and updated market information flow in to the company for market decision making. The study also recommended that the management should consider the aspect of job satisfaction of the staff.

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