Journal of Strategic Management

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ISSN: 2616-8472

Stratford Peer Reviewed Journals and Book Publishing
Journal of Strategic Management
Volume 7||Issue 1||Page 141- 159||March||2023||
Email: info@stratfordjournals.org ISSN: 2616-8472

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Diversification Strategy and Profitability of Selected Food and Beverage Firms in Lagos State, Nigeria

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***How to cite this article*: Okegbemiro, S. A. & Adim, C. V. (2023). Diversification Strategy and Profitability of Selected Food and Beverage Firms in Lagos State, Nigeria, *Journal of Strategic Management,* 7(1), 141-159.** https://doi.org/10.53819/81018102t4126

Abstract

The rapid pace of competition in today's global business environment had prompted the need for the Food and Beverage (F&B) firms around the world to produce strategies on how best to improve performance through the provision of product varieties and the need for expansion through an increase in market share, productivity, and full utilization of resources at their disposal. Despite this awareness, a persistent decline was observed in the organizational in terms of profitability and their performance outlook remained poor. The study, therefore, examined the effects of diversification strategy on the profitability of selected F&B firms in Lagos State, Nigeria. Therefore, this study examined the effect of diversification strategy and profitability of selected food and beverage firms in Lagos State, Nigeria. The study adopted a survey design, the population is given as 12, 495 regular employees of six selected F&B firms in Lagos State, Nigeria. The research advisor sampling table was used to select a sample size of 491 from the population while data was collected using a valid and reliable questionnaire with a Cronbach alpha value greater than 0.7. The data were analyzed using descriptive and inferential tools. Multiple Regression Analysis was used to determine the impact of the variables using the Statistical Package for Science Solutions (SPSS) version 24. Diversification has a significant effect on profitability ($\beta = 0.947$, $t = 47.805$, $R2 = 0.839$, p-value = 0.001). The study concludes that diversification has a significant effect on profitability of selected Food and Beverage (F&B) firms in Lagos State, Nigeria. Thus, the study recommends that Food and Beverage firms can also explore new distribution channels, invest in marketing and branding, and enhance their operational efficiency to achieve better profitability. It's also essential for them to keep track of the latest market trends and consumer preferences to develop products and services that meet the evolving needs of their customers.

Keywords: *Competitive Advantage, Diversification, Food and Beverage Companies, Performance Outlook, and Profitability*

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1.0 Introduction

Due to intense competition, Food and Beverage (F&B) firms in Nigeria are faced low economies of scale of firms that cannot meet up with large capacities, low resources, and weak management capacities to take advantage of the opportunities that exists in the market affects the strategic growth and competitiveness. The Food and Beverage (F&B) firms in the country are experiencing challenges of growth and development that are not just as a result of the current economy decline (Ebitu, Basi & Ufot, 2016). The different factors which involve the absence of competitiveness, lack of personnel management, information asymmetry challenges, and market instabilities (Uchegbulam, Akinyele & Ibidunni, 2015). Lamm (2014) reiterates that high employee turn-over, lack and poor wages are some of the problems confronting the sector. These observed challenges to market penetration have led to decline in the growth of these firms. As a result of poor growth, retention of existing customers and revenue generation remains a challenge.

Diversification has been the subject of various research over the years. (Ndege & Wanyoike, 2017; Hossain, Kabir, & Mahbub, 2019; Sajid, Shujahat & Tahir, 2016). Capital structure, corporate capital, and corporate leverage have all been identified as predictors of business success in this research. They also confirmed that the increasing number of product/service diversification initiatives had prompted management to diversify in order to boost corporate performance. Diversification and profitability, on the other hand, have received minimal attention. Some scholars suggest that more research into the effects of innovation and conglomerate diversification on organisational growth be conducted (Ndege & Wanyoike, 2017). Diversification does not necessarily lead to improved performance and not all diversified organisations are profitable (Jasper, 2016). Also, an increased diversity within a business portfolio may result in a loss of control by top executives, which also deteriorates business performance (Yigit & Tur, 2012).

Schommer, Richter, and Karna (2018) found that the performance of diversified organisations declines with time, and decision makers who form diversification strategies find it increasingly difficult over time to avoid retrogressive performance. The increasing demand for product varieties by consumers and their continuous substitution has forced organisations to come up with strategies on how to improve performance. Irrespective of opportunities in the business environment, organisations face threats that distort their performance, hence increase the difficulty of survival. Organisations in the Nigerian Food and Beverage (F&B) firms sector find it quite challenging to create and maintain competitive advantage due to defects observed in their product development processes, huge funds wastage, unproductive management plan and financial crunches (Nwonyuku, 2016). Furthermore, poor product branding and development makes it difficult to differentiate products quality in terms of functions and use (Akram, Sanaz, & Mohammad, 2018; Osayomi, 2017).

2.0 Literature Review

2.1 Theoretical Review

2.1.1 The Resource Based Theory (RBT)

The resource-based theory (RBT) was propounded by Wernerfelt in 1984 and it is centred on the principle that sources of organizations competitive advantage lie in their internal resources as opposed to their positioning in the external environment. The theory of resource-based view (RBV) explains the firm competitive advantage through the uniqueness, rare and imitable resources that the firm created which led to firm growth. Apart from that, the RBV only explains the firm competitive advantage in the static environment, and this has become a limitation especially when the firm is dealing in the fast and

changing market environment (Samsudin & Ismail, 2019). Manyuru, Wachira and Amata (2017) averred that rather than evaluate environmental opportunities, it is more feasible to explore the external opportunities using the existing resources in a new and unique way and capabilities that an organization possesses to attain competitive advantage. Further studies by Garcia, Hidalgo and Rodriguez (2013) explained that the resource-based theory allows for a better understanding on how organizations develop scarce, valuable, difficult-to-imitate and non-substitute resources to ensure economies of scale which serves as barriers to competing organizations.

The Resource-based theory suggests that organization have in their possession several untapped resources with potential that makes them superior over competitors and enable an increase in performance when perfectly combined. Reza, Reza and Banafsheh (2015) mentioned that how organisation manages its scare resources and utilizes its capabilities brings about competitive advantage. The right combination of resources leads to economies of scope and economic quasi rent which allows for higher performance amongst diversified organisations (Nyaiangiri, & Ogollah, 2015; Sulaimon, Ogunkoya, Lasisi, & Shobayo, 2015). Also, organisations can enter different product market by leveraging on their resources and capabilities (Su, & Tsang, 2015).

Organisations resources are seen as anything which could be linked to its strength or weakness, it could either be tangible and intangible assets tied semi-permanently to the organisation. Example of such resources include technical know-how, brand, intellectual property, stock of skilled labour, trademark, capital, machines, and the procedure of operation which distinguishes it from competing organisation (Oladele, 2012). The RBT explained that what differentiate organisation performance is the outcome of resource heterogeneity and immobility across organisation. Therefore, organization that can attract rare, valuable, non-substitute, not easily moved, imperfectly intangible resources and capabilities will achieve strategic advantage over rivals (Garcia, Hildago & Rodriguez, 2017).

Rothaermel (2012) with the use of VRIO framework highlighted the insufficiency of the resource-based theory. Organizations having these rare resources if not routed properly and the right strategy implemented will not improve efficiency and effectiveness. Madsen and Walker (2003) posited that resource rarity is unnecessary to achieve competitive advantage without tangible translation for the operating organization. Lippman and Rumelt cited in Sulaimon, Ogunkoya, Lasisi and Shobayo (2015) stressed that organization that in the dilemma of managing the resources they do not know exist even when environmental change demands it which further makes the issue of rarity obsolete (Lippman, & Rumelt, 1982). Priem and Butler (2001) considered the theory tautological because it assumes that the product market is stable and ignores the real value of resources. Porter (1991) argued that the theory should be more focused on the applicability rather than on resources because different combination of resources may yield same result and there is lackey in the definition of sustainability which makes it difficult to test empirically (Priem, & Butler, 2001).

However, to outperform competitors, Barney (1991) opined that organization need to emphasize on its internal capabilities by exploiting its internal strength in response to environmental opportunities and that sustainable advantage lies on the application of the strategic resources at their disposal. Thus, the Resource Based Theory strengthens diversification strategy as organization resources and capabilities are diversified into the production of unique/new products and the identification of new markets for expansion and full utilization of rare, valuable, non-substitute resources. Organizations also increase their profit margin from diversified resources and knowledge accumulated over time (Shahmansoun, Esfahan, & Niki, 2013).

2.2 Conceptual Review

2.2.1 Diversification

Diversification is a business strategy that foster new markets development, new product development and improved profitability. Diversification helps in capturing market power (Zhou & Ji, 2015). According to Absanto and Nnko (2013) diversification is a survival strategy that aid expansion of portfolio and brand reputation into other markets. Diversification strategy is a panacea for increasing organisation's growth rate and competitive strengths. Corporate diversification refers to a firm's strategy of entering and competing in new product markets. Diversification allows firms to maximize value by enhancing the scope of markets and industries in which they compete and supply product offerings to newer customers (Purkayastha, Manolova, & Edelman, 2012).

Diversification strategy is a vital component of the strategic management of a firm, and the relationship between a firm's diversification strategy and its economic performance is an issue of considerable interest to managers and academicians (Kotler & Armstrong, 2008). Corporate diversification is one of the fundamental strategic alternatives available to organizations to sustain growth and search for higher profits. Li and Greenwood (2004) opined that companies whose products are threatened by environmental uncertainty or by declining phase of their life cycle curve will prefer to engage in diversification to overcome the risk arising from current industries. Nevertheless, Le (2019) stated that firm diversification objectives range from; increase competitiveness via diversified operation, increase economies of scale, and to achieve optimum resource utilization.

Diversification provides upper edge to meeting customer demands, market creation and increase in profitability (Chirani, & Effatdoost, 2013). Sindhu, Haz and Ali (2014) highlighted that diversification allows organisation to explore market options which invariably leads to growth. Montgomery (1984) revealed that diversification strategy is used to increase economies of scope and risk minimization while Dimitri and Mohammed (2014) stated that diversification allows for economies of scale. Ugwuanyi and Ugwu (2013) asserted that diversification is value destroying and leads to diversification discount via managerial risk aversion, agency problems between managers and shareholders. Nyiagiri and Ogollah (2015) explained that organisation diversify its product to survive societal turbulence. Su and Tsang (2015) also supported by Dimitris and Mohammed (2014) explained that diversification exist for expansion purposes while Harrigan (2012) viewed it as a turnaround strategy. Zheng-Feng (2012) opined that organisation that chose to diversify are poor performing organizations. However, Akewushola (2015) explained that organizations diversify to use up its surplus cash. Krivokapic, Njegomir and Stogic (2017) stated that organizations diversify to better position themselves in the market.

Venturing into an unfamiliar territory with unfamiliar product is an equal exposure to uncertainties (Ajay & Madhumathi, 2012; Nyaigiri, & Ogollah, 2015). Diversification has the highest level of risk and requires careful investigation (Aichner, & Colleti, 2013; Kheng, 2017; Dimitris, & Mohammed, 2014). Thus, diversification strategy is filled with uncertainties especially in developing country like Nigeria plagued with instabilities in the economic and political sphere, market failure, incessant short downs of activities because of strikes and demonstration, unemployment, and lack of technological and infrastructural facilities (Thompson & Stickland, 2010). Measures of diversification can either be Entropy Index or Herfindahl Index with organisation size, leverage, liquidity profitability, expansion and organisations value as yardstick (Hasby, Buyung, & Hasbudin, 2017; Krivokapic, Njegomir, & Oladele, 2012; Stojic, 2017; Rishi, Rudra, & Nangia, 2014; Su & Tsang, 2015).

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Journal of Strategic Management
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Email: info@stratfordjournals.org ISSN: 2616-8472

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Furthermore, firms may engage in expanding its product line and activities to different sectors where environmental uncertainty is reduced and, profitability is higher, such that a company may confirm its survival which will make its cash flow more reliable. However, Subramaniam and Wasiuzzaman (2019) asserted that geographical diversification generates profitability. Similarly, Oladimeji and Udosen (2020) confirmed that diversification strategy leads to growth and profitability and helps to cushion against firm liabilities. The scholar expressly concluded that diversification is a strategic tool for achieving strategic relevance and spontaneous performance. Contrarily, Le (2019) argued that there is still no definite answer to whether diversification strategy enhances corporate performance and competitiveness. Meanwhile, Zhou and Ji (2015) affirmed that diversification is a strategic tool for gain competitive position.

2.2.2 Profitability

Profitability is critical to a company's survival in the long-term and it measures a firm's past ability to generate returns (Santos & Brito, 2012). Odusanya, Yinusa and Ilo (2018) viewed profitability as a crucial objective and a core prerequisite for continued existence of organisations and constitutes an essential item of its financial measure. The ultimate long-term goal for a business should be growth in the bottom line. Ambad and Wahab (2013) argue that to ensure survival in the industry, profitability is a key issue for every profit-oriented firm and maximizing it is the goal of the firm. So, to achieve higher profitability, every firm must have its strategy that will fit into the current rapidly changing business environment. The final goal of every productive or industrial activity is more profitability, and this involves the correct use of productive factors like resources and facilities and engagement in cost reduction schemes all of which will increase productivity. Profitability or getting advantage means the relation of profit with used capital. So, a firm must emphasize the two cases of increasing productivity and price improvement to achieve as much profit as possible (Tangen, 2003). The consequence of this is that no business can survive for a significant amount of time without making a profit. Therefore, the measurement of a company's profitability, both current and future, is critical in the evaluation of the company.

Profitability is a relative concept while profit is an absolute connotation. Profit and profitability are two concepts with distinct roles in business. Profit means an absolute measure of earning capacity while profitability is relative measure of earning capacity (Tulsian, 2014). Profitability referred to the ability of an investment to yield returns after use. It is the primary measure of the overall success of an organisation (Amirthalingam & Balasundaram, 2013). However, increased profit does not always depict organisational efficiency and low profitability is not always a sign of organisational failure but rather profitability reveals the ability and capacity to generate earnings through rate of sales, level of assets and stock of capital in a specific period (Tulsian, 2014). Therefore, entrepreneur that is interested in leveraging synergies to grow profitability must understand the dynamic nature of the market so that a suitable strategic position can be taken (Bidley, 2015).

Odusanya, Yinusa and Ilo (2018) instituted that lagged profitability exerts significant positive effect on contemporaneous firm profitability while short-term leverage, inflation rate, interest rate and financial risk have significant negative effect on firm's profitability. This further stated that to minimize production cost, there should be reduction in the level of borrowings in the real sector economy to enhance profitability through increased production of goods and services. Etale, Bingilar and Ifurueze (2016) studied the relationship between market share and profitability of the Nigerian baking sector using data listed on the Nigerian Stock Exchange. The result revealed that market share represented by customer's deposit and loans have positive relationship with profitability. Furthermore, the Nigerian

https://doi.org/10.53819/81018102t4126

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banking sector should emphasize on high level of efficiency in managing the deposited portfolio and loan volume to boost profitability.

Profitability is a core measurement of organisations performance; the ability and capacity to generate earnings through sales, level of assets and stock of capital for a specific period (Margaretha & Supartika, 2016). Tulsian (2014) highlighted that net income alone may not be helpful in determining efficiency and performance of businesses unless it is linked with other variables such as sales, cost of goods sold, operating expenses and capital invested which are all calculated to enlighten the profitability level of organisations. In a study conducted by Amirthalingam and Balasundaram (2013) profitability of Food and Beverage (F&B) firms company was deem less satisfactory based on the variation in the indicator used by organisations – Gross Profit Ratio (GPR), Operating Profit Ratio (OPR), Net Profit Ratio (NPR), Return on Investment (ROI), and Return on Capital Employed (ROCE). These measurement ratios are not without their shortfall since they are based on accounting information and neither accounts the time value of money nor the investment risks faced by shareholders (Etale, Bingilar & Ifurueze, 2016). Empirical research conducted by the PIMS (Profit Impact of Marketing Strategy) project on the relationship between market share and profitability indicated that firms with a high market share were often quite profitable (Buzzell, Gale, & Sultan, 1975; Szymanski, Bharadwaj &Varadarajan, 1993).

Every organisation aims at profit maximization, but profitability does not necessarily imply that short-term increase in profit will result to long-term gains (Staff, 2020). Kokemuller (2020) opined that the most direct tangible advantage of earning profit is having a chance to retaining earnings, increasing equity, leveraging the income opportunity, ploughing back profit to attain business growth, and having indirect but positive impacts on company morale. Airtziber (2020) postulated that profitability results to business expansion, increase in investment capital, increase speculation and improvement in business decision making, Conversely, CFI (2020) suggested that profitability may not be an accurate and complete measure of a company's profitability as it does not include all important financial aspects and transactions that may occur during a given time frame. Also, the opportunity cost of a business activity not pursued is difficult to estimate accurately. Staff (2020) affirmed that during increased profitability, firms tend to ignore its intangible benefits such as quality, image, and technological advancement. Airtziber (2020) highlighted that firms manipulate their financial results to achieve financial targets, loss of transparency, compromise of business ethics and good practices, exposure to environmental uncertainties, profitability does not indicate measure shareholders satisfaction, or the best strategies adopted in business.

2.3 Empirical Review

Krivokapic, Njegomir, and Stoji (2017) discovered in their study that diversified firms outperform undiversified firms. While studying the Malaysian Food and Beverage (F&B) firms sector, Haim, H. (2017) revealed that the contribution of Malaysian Food and Beverage (F&B) firms sector towards economic growth and development has increased significantly over the last few decades through adoption of diversification strategy. Oladele (2012) viewed diversification as a catalyst for competitive advantage and reduces risk of bankruptcy and creates synergy in market operations. Empirical study by Oladimeji and Udosen (2020) revealed that revealed that organizations willing to achieve economies of scale and redeem its financial position in the face of downturn or decline in the product cycle should diversify its products. Also, diversification was discovered to improve profitability, enable expansion, growth, and strong capital structure to cover liabilities. Hence diversified organizations were discovered to outperform undiversified ones in terms of ROA and ROI. Consequently, empirical findings of Dugguh, Aki, and Oke (2018) showed that adoption of diversification strategies improves business

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Email: info@stratfordjournals.org ISSN: 2616-8472

profit. Hence, Emel and Yildirim, 2016; Yigit and Tur, (2012) expressed that diversification increase profitability. Companies involved in diversification strategy are more profitable and increase their tangible assets compared to undiversified organisations (Rishi, Rudra & Vinay, 2015). Diversification is associated with both costs and benefits. However, the benefits outweigh its cost (Krivokapic, Njegomir, & Stoji, 2017).

Diversification provides upper edge to meeting customer demands, market creation and increase in profitability (Chirani, & Effatdoost, 2013) and allows for economies of scale (Dimitri and Mohammed, 2014). As is compatible with resource-based approach, it is discovered that diversified firms tend to use their resources more efficiency compared to undiversified firms (Emel & Yildirim, 2016). Videlis, Josphat and George (2018) disclosed that due to the challenges faced in different industries to which these diversified firms belong in terms of cost of production, companies are opting to diversify into other product or service offerings to improve their profit margin and capacity utilization. Dimitris and Mohammed (2014) explained that diversification exist for expansion purposes while Akewushola (2015) explained that organizations diversify to use up its surplus cash. As is compatible with a resource-based approach, Emel and Yildirim, (2016) found that diversified firms tended to use their resources more efficiently compared to single firms. In a study conducted by Yigit and Akpinar (2016) in Italy specifically in Netherlands and Turkey, the result showed no correlation between total entropy and performance criterion in Netherlands while Turkey has a low-level positive correlation between total entropy and performance. Su and Tsang (2015) in their study concluded that secondary shareholders play a positive moderating role in the relationship between product diversification and financial performance. Though the study failed to analyse the difference in attitude or value as they effect shareholders decision making, it however advised that organizations should maintain its relationship with the different secondary shareholders. Whether related or unrelated, it is a strategic option used by managers to improve organizational performance (Oladimeji, & Udosen, 2020).

Venturing into an unfamiliar territory with unfamiliar product is an equal exposure to uncertainties (Ajay & Madhumathi, 2012; Nyaigiri & Ogollah, 2015). From the findings of Manyuru, Wachira and Amata (2017) that industrial diversification reduced firm's value while geographical diversification does not have significant impact on firm value, despite the negative linkage to diversification; Food and Beverage (F&B) firms forms across the global continue to diversify its product for competitive edge against rival firms. Diversification has the highest level of risk and requires careful investigation due to its uncertainties (Aichner & Colleti, 2013; Kheng, 2017; Dimitris & Mohammed, 2014). In the study of geographical diversification, firm size and profitability, Subramaniam and Wasiuzzaman (2019) study found that geographical diversification activities can only generate profits for the firms that are in the medium profitability region. Facilitating this is the assertion by Krivokapic, Nladimir, and Stogic (2017) stating that success of this corporate strategy varies not only across time but also among regions. For those firms that are extremely profitable (good profit firm) and slightly profitable (poor profit firm), geographical diversification activities do not seem to benefit them (Bamidele, Vincent, Olamide & Ruby, 2019). Ugwuanyi and Ugwu (2013) asserted that diversification is value destroying and leads to diversification discount via managerial risk aversion, agency problems between managers and shareholders. However, Nyiagiri and Ogollah (2015) explained that organisation diversify its product to survive societal turbulence. It is therefore eminent to strike a balance between organisations adoption of diversification strategy and the overall corporate philosophy to ensure strategic fit (Udosen, 2020).

Hasby, Buyung and Hasbudin (2017) in his study of organisation size and diversification on capital structure and organisation showed no effect of capital structure on organisation's value; also, diversification and organisation size affect organisation's value but does not affect capital structure.

https://doi.org/10.53819/81018102t4126

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Subsequent study in India by Rishi, Rudra and Vinay (2015) using Herfindahl Index revealed that diversification strategy has a statistically strong and positive relationship with corporate leverage while increase in asset tangibility reflects a positive relationship with corporate structure. Similar study conducted by Reza, Reza and Banafsheh (2015) used Herfindal Index and Tobin-q revealed a lack of significant relationship between diversification, firm performance, and risk.

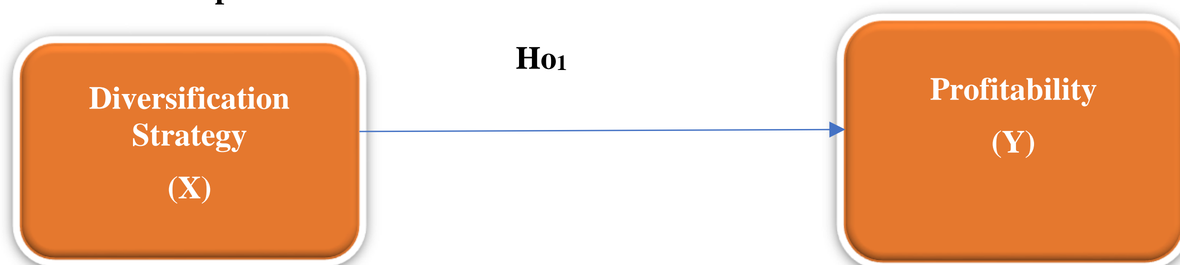
Further studies by Yigit and Tur (2012) combined Herfindahl Index and regression to disclose that the relationship between diversification and organisation performance differ across countries and negative correlation exist in developed country using India and Japan/China compared to developing countries like Turkey which exhibited a positive relationship. Le, (2019); Xu (2016) affirmed that diversification is business approach and growth behaviour. Oyefesobi and Aminu (2017) prevailing viewpoint confirmed that diversification increase firm profitability via increase market sales obtained through new product development and market development. Similarly, Feeny and Rogers (2014) disclosed that the extent of diversification appears to have little influence on profitability whereas; Hermelo and Vassolo (2007) expressly confirm that the growth of the firm was not significantly related with its size but rather on investment diversification. But Kang and Lee (2015) concluded in their study that manufacturers and service firms have actively implemented diversification strategies, operations in various geographical markets or industries to gain economies of scope, economies of scale and learning effects by internalizing markets and business activities, bur research on the effects of diversification on firm value has been rare.

The study conducted by Sulaimon, Ogunkoya, Lasisi, and Shobayo (2015) disclosed a positive significant relationship between market capabilities, diversification, and performance. Asra Haghighi, Rahman, Sambasiri, and Mohammed (2013) stated that the relationship is inconclusive. While some researcher concluded that diversification increase profitability others showed diversification is too risk and sometimes its cost outweighs the benefits. More research on the relatedness of diversification strategy on performance remains inconclusive (liner, nonlinear, curvilinear) etc. In measuring the variables, several instrument yielding varying results has been adopted. While some researchers use Entropy, Hausman, Herfindahl Index, Tobin-q, Standard Industrial Classification Code (SIC) and the likes, a perfect measure with which to capture corporate diversification as it has been conceptualized since the late 1950s does not exist (Wiersema, and Beck, 2017).

Therefore, the study hypothesized that:

Ho_1: Diversification has no significant effect on profitability of selected Food and Beverage (F&B) firms in Lagos State Nigeria.

Research Conceptual Model



Source: Authors Conceptual Model (2023)

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3.0 Methodology

The study adopted a survey design, the population is given as 12, 495 regular employees of six selected F&B firms in Lagos State, Nigeria. The researcher advisor sampling table was used to select a sample size of 491 from the population while data was collected using a valid and reliable questionnaire with a Cronbach alpha value greater than 0.7. The data were analyzed using descriptive and inferential tools. Multiple Regression Analysis was used to determine the impact of the variables using the Statistical Package for Science Solutions (SPSS) version 24.

Pilot Study

A pilot study was conducted using the regular staff of the following Food and Beverage (F&B) companies in the food and beverages industry: Tyson Foods, Real Milk Nigeria limited, Givanas Group of Companies, and Mojo Beverages Nigeria Limited, all in Lagos, given they share similar attributes with selected Food and Beverage (F&B) firms for the main study. The sample size used for the pilot study was 49, representing 10% of the sample size for the study. Tyson Foods (12), Real Milk Nigeria limited (13), Givanas Group of Companies (12), and Mojo Beverages Nigeria Limited (12). Simple random sampling was used to select respondents from the sampling unit.

Measures

The scale for this study had been an ordinal interval scale numbered from 1 to 6. The response options in the questionnaire covers, Very High (VH) = 6, High (H) = 5, Partially High (PH) = 4, Partially Low (PL) = 3, Low (L) = 2, Very Low (VL) = 1 (Onyango, 2017; Kering, 2015; Kamukana, 2013; Asamoah, 2014; Maweu, 2012).

Table 1: Summary of Sources of Research instrument

S/N	Variables	Number of items	Sources of Research Instrument
1	Diversification	5	Wioletta, & Patryk (2019)
2	Profitability	5	Oladimeji & Udosen (2020)

Source: Researchers Survey (2023)

Reliability

The reliability of an instrument is based on the degree of consistency, stability, repeatability and precision with the appropriate measure (Tepthong, 2014). Cronbach's Alpha was used to determine the internal consistency and reliability of the items in the instrument. Cronbach's Alpha analysis ranged between 0 and 1, whereby a value of 1.0 indicated perfect reliability. The Cronbach's alpha coefficient of > 0.7 but < 1 was computed using a sample of the questionnaire completed by selected staff of selected Food and Beverage (F&B) firms industries in a pilot test. Results of the reliability tests are reported in Table 2 below.

https://doi.org/10.53819/81018102t4126

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Table 2: Reliability Results

S/N	VARIABLES	ITEMS NO.	Cronbach's Alpha(θ)	CR	REMARKS
1	Product Development	6	0.756	0.763	**Accepted**
2	Competitive Advantage	6	0.790	0.833	**Accepted**

Source: Authors Computation (2023)

4.0 Data Analysis and Results

The researcher administered 491 copies of a questionnaire to staff of the six selected Food and Beverage (F&B) firms in Lagos State, Nigeria. As shown in Table a total of 441 copies of the questionnaire were fully returned and appropriately filled. This represents a response rate of 89.8%. The remaining 50 copies of the questionnaire did not meet the criterion of acceptance for data analysis due to incomplete and mixed responses. These spoilt copies of questionnaire were removed from further analysis. The response rate was considered adequate as it surpasses the sample size number calculated having made provision for non-response rate. Mugenda (2003); and Saunders et al. (2007) posited that a response rate of 50% is adequate, 60% good while 70% is considered very good. With a response rate of 89.8%, the response was considered adequate for data analysis.

Table 3: Response Rate

Response Rate	Frequency	Per cent (%)
Returned and used	441	89.8%
Incomplete and mixed responses	50	10.2%
Total	491	100%

Source: Researchers Field Survey (2023)

4.1 Hypothesis Testing

Ho: Diversification has no significant effect on the profitability of selected food and beverages firms in Lagos State, Nigeria.

To be able to test hypothesis four, simple linear regression analysis was conducted. In the analysis, Diversification strategy was independent variable while profitability was dependent variable. Data for variables were created by adding together responses of all the items under the variables to generate composite scores for each variable. The regression test results are presented in Table 4.

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Table 4: Summary of simple line regression analysis for effects of Diversification Strategy on Profitability of selected Food and Beverage (F&B) firms in Lagos State Nigeria

Coefficients[a]					
Model four $y_4 = \beta_0 + \beta_4 x_4 + \varepsilon i$	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	0.294	.088		3.355	.001
DST	0.947	.020	.916	47.805	.001
Dependent Variable: PRT R = 0.916[a] $R^2 = 0.839$ Adj. $R^2 = 0.838$					

Source: Authors Computation, 2023

Table 4 presents the findings from the regression analysis that was done to assess the effect of diversification strategy on profitability of selected Food and Beverage (F&B) firms in Lagos State, Nigeria. As shown in Table 4, diversification strategy has a significant positive effect on competitive advantage of selected Food and Beverage (F&B) firms in Lagos State, Nigeria ($\beta = 0.947$, $t = 47.805$, p-value = 0.001). The results imply that the implementation of diversification strategy at the selected Food and Beverage (F&B) firms has been useful in helping the firms to improve profitability. The t value was greater than the critical value (47.805>1.96) which indicates that diversification strategy has a significant effect on profitability of selected Food and Beverage (F&B) firms. The findings in Table 4 shows that correlations coefficient (R) is 0.947. This depicts a strong positive relationship between diversification strategy and profitability. The result of the regression analysis further shows that diversification strategy accounted for 83.9% variance in profitability of selected Food and Beverage (F&B) firms, while other factors not included in this model contribute 16.1% of the profitability of selected Food and Beverage (F&B) firms. The P-value of 0.001 (below 0.05) suggests that diversification strategy influences profitability, thus it is significant at the 5% level of significance. Going by the findings of the study, the simple linear regression equation is:

PRT = 0.294 + 0.947DST…………………………………………………………... eq. i

Where:

PRT= Profitability; DST = Diversification Development Strategy

The equation above shows that diversification strategy has a positive effect on profitability. The findings in Table 4 further revealed that profitability of selected Food and Beverage (F&B) firms would be at 0.294 holding diversification strategy constant at zero. In addition, the result shows that a unit increase in diversification strategy will lead to 0.947 increase diversification strategy. The implication is that diversification strategy being implemented in the selected Food and Beverage (F&B) firms has an effect profitability. Based on these findings, the null hypothesis four ($H_0 4$) which states that diversification strategy has no significant effect on the profitability of selected food and beverages firms in Lagos State, Nigeria is therefore rejected.

https://doi.org/10.53819/81018102t4126

4.2 Discussion of Findings

From Table 4 and as indicated, is the result from the findings of the regression analysis that was done to assess the effect of diversification strategy on profitability of selected Food and Beverage (F&B) firms in Lagos State, Nigeria. As shown in Table 4, diversification strategy had a significant positive effect on profitability of selected Food and Beverage (F&B) firms in Lagos State, Nigeria ($\beta = 0.947$, $t = 47.805$, p-value = 0.001). The results implied that the implementation of diversification strategy at the selected Food and Beverage (F&B) firms has been useful in helping the firms to improve profitability. The outcome agreed with Krivokapic, Njegomir, and Stoji (2017) who discovered in their study that diversified firms outperform undiversified firm. Also, while studying the Malaysian Food and Beverage (F&B) firms sector, Haim, H. (2017) revealed that the contribution of Malaysian Food and Beverage (F&B) firms sector towards economic growth and development increased significantly over the last prior decades through adoption of diversification strategy. Oladele (2012) viewed diversification as a catalyst for competitive advantage and reduces risk of bankruptcy and creates synergy in market operations.

Empirical study by Oladimeji and Udosen (2020) revealed that revealed that organisations willing to achieve economies of scale and redeem its financial position in the face of downturn or decline in the product cycle should diversify its products. Additionally, diversification was discovered to improve profitability, enable expansion, growth, and strong capital structure to cover liabilities. Hence diversified organisations were discovered to outperform non-diversified ones in terms of ROA and ROI. Consequently, empirical findings of Dugguh, Aki, and Oke (2018) showed that adoption of diversification strategies improves business profit. Hence, Emel and Yildirim, 2016; Yigit and Tur, (2012) expressed that diversification increase profitability. Companies involved in diversification strategy are more profitable and increase their tangible assets compared to non-diversified organisations (Rishi, Rudra & Vinay, 2015). Diversification is associated with both costs and benefits. However, the benefits outweigh its cost (Krivokapic, Njegomir, & Stoji, 2017).

Diversification provides upper edge to meeting customer demands, market creation and increase in profitability (Chirani, & Effatdoost, 2013) and allows for economies of scale (Dimitri and Mohammed, 2014). As is compatible with resource-based approach, it is discovered that diversified firms tend to use their resources more efficiency compared to non-diversified firms (Emel & Yildirim, 2016). Videlis, Josphat and George (2018) disclosed that due to the challenges faced in different industries to which these diversified firms belong in terms of cost of production, companies are opting to diversify into other product or service offerings to improve their profit margin and capacity utilization. Dimitris and Mohammed (2014) explained that diversification exist for expansion purposes while Akewushola (2015) explained that organisations diversify to use up its surplus cash. As is compatible with a resource-based approach, Emel and Yildirim, (2016) found that diversified firms tended to use their resources more efficiently compared to single firms. In a study conducted by Yigit and Akpinar (2016) in Italy specifically in Netherlands and Turkey, the result showed no correlation between total entropy and performance criterion in Netherlands while Turkey has a low-level positive correlation between total entropy and performance. Su and Tsang (2015) in his study concluded that secondary shareholders play a positive moderating role in the relationship between product diversification and financial performance.

Nyiagiri and Ogollah (2015) explained that organisation diversify its product to survive societal turbulence. Kang and Lee (2015) concluded in their study that manufacturers and service firms have actively implemented diversification strategies, operations in various geographical markets or industries to gain economies of scope, economies of scale and learning effects by internalizing markets and business activities, bur research on the effects of diversification on firm value has been rare.

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Furthermore, the study conducted by Sulaimon, Ogunkoya, Lasisi, and Shobayo (2015) disclosed a positive significant relationship between market capabilities, diversification, and performance. Finally, Kang and Lee (2015) concluded in their study that manufacturers and service firms have actively implemented diversification strategies, operations in various geographical markets or industries to gain economies of scope, economies of scale and learning effects by internalizing markets and business activities.

Thus, the null hypothesis that diversification strategy had no significant effect on profitability of the selected Food and Beverage (F&B) firms in Lagos State, Nigeria was rejected. The alternative hypothesis was accepted, which in effect implied that diversification strategy had significant effect on profitability of the selected Food and Beverage (F&B) firms in Lagos State, Nigeria. Therefore, the model was statistically significantly.

5.0 Conclusion and Recommendation

The study concludes that diversification has a significant effect on profitability of selected Food and Beverage (F&B) firms in Lagos State, Nigeria. This suggests that the selected F&B firms in Lagos State, Nigeria, who have diversified their product lines or services have experienced an increase in profitability.

Thus, the study recommends that Food and Beverage firms can also explore new distribution channels, invest in marketing and branding, and enhance their operational efficiency to achieve better profitability. It is also essential for them to keep track of the latest market trends and consumer preferences to develop products and services that meet the evolving needs of their customers.

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Journal of Strategic Management
Volume 7||Issue 1||Page 141- 159||March||2023||
Email: info@stratfordjournals.org ISSN: 2616-8472

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Journal of Strategic Management
Volume 7||Issue 1||Page 141- 159||March||2023||
Email: info@stratfordjournals.org ISSN: 2616-8472

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