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Diversification Strategy on Organizational Performance. A Case Study of Beverage Company, Coca-Cola Company in Kiambu County, Kenya.

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Abstract

Purpose: The study sought to critically examine how different diversification strategies influence key performance indicators, with a specific focus on Coca Cola company in Kiambu county, Kenya.

Methodology: Secondary data was to be obtained from print media, journals, books, internet sources and by use of online repositories. Primary data for this study was collected by use of questionnaires. Questionnaires had both open ended and closed ended questions. This study used descriptive research design. The study also purposed to use simple and stratified simple random sampling method in order to come up with the sample size. The population of study consisted of the 1900 Staff members from Coca-Cola company within Kiambu County. The sample size of 180 respondents was selected. Data analysis was achieved through descriptive and inferential statistics using SPSS Version 21 and Excel sheet. Hypothesis testing was done by use of the Chi-square.

Findings: The findings of the study were that availability of resources for Diversification, stakeholder engagement, Geographical market reach, and use of appropriate technology and training influenced successful implementation of Diversification.

Unique Contribution to Theory Practice and Policy: The study recommended the development of a clear, data-driven framework to guide diversification decisions.

Keywords: *Beverage Industry, Corporate Strategy, Diversification Strategy, Organizational Performance*

INTRODUCTION

In today's globally competitive and increasingly volatile business environment, diversification has emerged as a strategic tool for organizations aiming to mitigate risks, access new revenue streams, and sustain long-term growth. Globally, firms engage in product, geographic, and industry-based diversification to improve resilience and capitalize on economies of scope and synergy (Johnson et al., 2018). Regionally, African markets have seen a rise in corporate diversification through mergers, acquisitions, and strategic alliances, motivated by shifting consumer patterns and expansion opportunities. In Kenya, diversification is actively pursued by firms seeking to navigate market saturation, resource limitations, and institutional inefficiencies. The Coca-Cola Company in Kiambu County exemplifies this trend, having adopted diversification strategies to strengthen its market position and operational sustainability.

However, literature remains divided on the impact of diversification. While some scholars argue it enhances performance through efficiency and capability extension (Markides, 1995; Palich et al., 2018), others warn that excessive diversification may strain managerial capacity and erode profitability. This study seeks to evaluate how different diversification strategies affect organizational performance at Coca-Cola Kiambu. Findings will contribute to both theory and practice by guiding managerial decisions and tailoring strategic choices to Kenyan market realities.

Problem Statement

The strategic expectation is that diversification improves organizational performance by enhancing financial outcomes, expanding market share, and increasing customer reach. However, in Kenya's beverage sector specifically in Kiambu County, empirical indicators challenge this assumption. Despite Coca-Cola Beverages Africa maintaining a dominant 65% share nationally, its regional growth in Kiambu has stagnated, with annual revenue rising only 2.5% between 2020 and 2023, falling below the 6% FMCG benchmark (Calleo Solutions, 2024), and market share holding flat at 18% over five years (Statista, 2025). These figures suggest Coca-Cola's diversification efforts may not be delivering expected performance improvements.

Stakeholders affected include managers, retailers, and consumers who rely on strategic product and regional expansion to deliver value and variety. Existing studies offer conflicting conclusions: Kim and Hwang (2020) link geographic diversification to market share growth, while Gupta (2018) highlights inefficiencies from unrelated diversification. Lee and Lee (2020), studying Korean firms, found related diversification beneficial but warned of negative effects from

unrelated approaches. However, these insights lack localization and fail to reflect Kenya's unique market dynamics.

This study responds to that gap by assessing how product and geographic diversification affect performance metrics at Coca-Cola Kiambu, while also exploring implementation challenges and contextual influences. It aims to generate actionable evidence for strategic decision-making in Kenya's beverage industry and enrich diversification scholarship in emerging market contexts.

LITERATURE REVIEW

Theoretical Framework

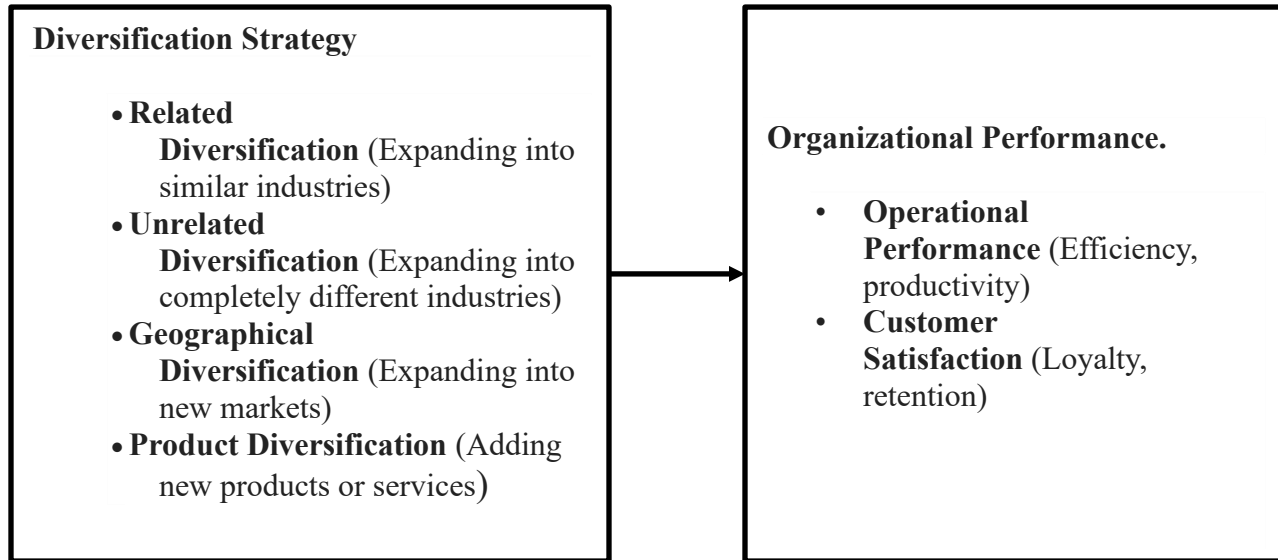
Diversification strategy which is defined as expanding into new products, markets, or services, can influence organizational performance through multiple lenses. The Resource-Based View (RBV) (Wernerfelt, 1984; Barney, 1991) suggests leveraging unique internal resources to generate competitive advantage and new capabilities. Transaction Cost Theory (TCT) (Coase, 1937; Williamson, 1985) emphasizes reducing external transaction costs by internalizing operations, enhancing efficiency. Agency Theory (Jensen & Meckling, 1976) highlights how diversification aligns manager-shareholder interests and improves governance. Strategic models like the Ansoff Matrix (Ansoff, 1957) classify diversification as a high-risk growth path, while Porter's Five Forces (Porter, 1979) assess market viability before entry. The Make-or-Buy framework (McIvor, 2000) further supports diversification decisions by evaluating whether firms should internalize or outsource new activities. Together, these theories inform the study's analytical framework by explaining how diversification may enhance performance through resource alignment, efficiency, governance, strategic fit, and operational integration.

Conceptual Framework

The study conceptualizes diversification strategies as independent variables, organizational performance indicators (market share, operational efficiency) as dependent variables, and organizational size as a moderating factor. A schematic model will illustrate how these variables interact to influence performance outcomes.

Independent Variables

Dependent Variable



Source: Author 2025

Figure 1: Conceptual Framework

Empirical Review

Yang, Kim and Hwang (2025), investigated the impact of business area diversification across vertical and horizontal dimensions on the efficiency of Korean biopharmaceutical companies. Utilizing data from 187 firms and 1,830 observations between 2015 and 2021, this study employs Stochastic Frontier Analysis (SFA) and Meta-Frontier Analysis to examine how diversification strategies influence firm efficiency. The results indicate that vertical diversification, particularly in high-value sectors like biopharmaceutical equipment, shows a strong potential for enhancing firm efficiency. On the other hand, the effects of horizontal diversification vary, with efficiency improvements depending on the level of diversification pursued by each company. These findings offer strategic insights for optimizing business diversification in the Korean biopharmaceutical sector and guiding decision-making for long-term competitiveness. This study presents a geographical gap as it was based in Korea while the current study will be based in Kenya. The study also presented a contextual gap as it examined biopharmaceutical sector while the current study will be specific to Coca-Cola which is a non-alcoholic beverage company.

Andreasson et al. (2024), employed a multiple case study approach to uncover the varied processes and outcomes of implementing digital diversification programs in established firms. The findings reveal that established firms frequently refine and adjust their digital diversification strategies to achieve desired results. Specifically, related digital diversification strategies benefit from well-defined market segments, clear technological focus, and robust senior management support. In contrast, unrelated digital diversification strategies thrive through extensive exploration and experimentation with novel digital technologies and markets, reduced senior managerial intervention and increased middle- and lower-level management involvement. Semi-related digital diversification strategies, which incorporate elements of both related and unrelated approaches, often encounter tensions owing to conflicting traditional and new program execution methods, posing significant realization challenges. Key factors identified as instrumental in the success of digital diversification strategies include technology, markets, management & organization, and program execution. The study concludes by discussing the managerial and academic implications and offers recommendations for future research in this domain. This study presents a conceptual gap as it only focused on related and unrelated digital diversification. This gap was filled by the current study as it generalized on diversification strategies.

Cerrato et al. (2023), examined the financial factors across multiple levels of analysis that influence the performance effects of the unrelated diversification strategy, including institutional-, industry- and firm-levels. Using a unique panel dataset of Italian firms from 1980 to 2010, the study tested hypotheses on how industry external financial dependence and the firm's financial constraints both separately and jointly alter the performance benefits of unrelated diversification in contexts with financial market inefficiencies. The study concluded that unrelated diversification increases performance in weak financial contexts and such positive effect is enhanced by greater industry external financial dependence and greater firm financial constraints. However, as financial markets develop, the moderating effects of firm financial constraints shrink. The study highlighted the importance of recognizing the multiple financial contingencies that may alter the benefits of the unrelated diversification strategy, suggesting caution in its pursuit to boost firm performance. This study presented a conceptual gap as well as a geographical gap which were filled by the current study.

METHODOLOGY

The study adopted cross sectional research design as it allowed the researcher to collect data of the phenomenon under study in its natural environment and without any manipulation of the variables. The target population was elderly employees (30 Years of age) who work in the coca cola industry.

From a study population of 1900, a sample size of 180 participants was determined using Nassiuma's formulae (Nassiuma, 2000). Proportionate sampling was used to determine the study sample. Since the number of senior managements was small the researcher used census to include all the targeted participants in the study. Primary data was sourced from the respondents through questionnaire and interviews schedule. The interviews enabled the participants to discuss their ideas, issues and insights. Research questionnaire was important in collecting more relevant information from the staff of coca cola company in relation to the stated objectives. A pilot study was conducted on Manufacturing industry -coca cola company, the participants were the immediate leaders in hierarchy then employees. Validity of the data collection instruments was tested by the experts at university and their comments were used to improve on them. Reliability of the instruments was determined using Cronbach Alpha. Items with reliability coefficients of at least 0.70 were accepted as valid and reliable in research. Both quantitative and qualitative techniques were employed in the data analysis. Qualitative data was analysed by use of content analysis. Quantitative data was analysed through Pearson's Correlation Coefficient (r) and presented in tables and charts. This was done using the Statistical Package for Social Sciences (SPSS) Version 24. Hypotheses was tested at $\alpha = 0.05$ level of significance.

RESULTS

Product Diversification and Financial Diversification

Table 1: Product Diversification Frequency

Specialized	Frequency	Percentage	Traditional	Frequency	Percentage
Yes	130	72.3	Yes	120	66.6
No	50	27.7	No	60	33.4
Total	180	100		180	100

The researcher found that 72.3% of the respondents required specialized skills on diversification concepts while 27.7% did not require specialized skills. Additionally, 66.6% of them use the Traditional ways in operating the Coca-Cola company, Kiambu, Kenya, for specialized know how only 33.4% use the knowledge of diversification on products. This shows that a significant number of the staff depend on the traditional way of manufacturing.

Impact of Geographic Diversification on Market Share and Customer Reach

The researcher sought to find out how the Geographic diversification, and how it affected the abilities to participate market share activities and customer reach for the products of coca cola company.

Table 2: Geographical Diversification on Customer Reach Activities

Geographic diversification			Customer reach		
	Frequency	Percentage		Frequency	Percentage
Yes	110	61.1	Yes	60	32.6
No	69	38.9	No	120	67.4
Total	180	100		180	100

From the table, it is easy to see that 61.1% of the participants use the geographic diversification on market share activities while 67.4% of the participants argue that the customer reach is not reached widely.

Significance of Diversification on Organization Performance

Table 3: Types of diversification, positions diversification, organization diversification

Type of diversification	Frequency	Percentage
Yes	156	59.7
No	24	13.3
Total	180	100
Available positions on diversification	Frequency	Percentage
Poor	65	35.4
Good	115	64.6
Total	180	100
Organization diversification	Frequency	Percentage
Structured	96	52.8
Semi-permanent	53	29.9
unstructured	32	17.4
Total	180	100

The findings showed that most firms 59.7% used the diversification concept in job enlargement as compared in product diversification. Additionally, 64.6% of them are comfortable with the available positions while 35.4% dwelled in poorly unstructured work with no job descriptions. 52.8% of the staff people have known how of the diversification and can be able to explain the basic concepts, while 29.9% of them have heard the concept of product diversification and organizational diversification and 17.4% are not informed on the structures

Cross Tabulation

Participants were also asked to indicate whether they use diversification as an organization performance tool and their responses are shown below.

Table 4: Do you use diversification as an organization performance tool?

		Do you use diversification?		Total
		No	Yes	
How often?	Poor	80	10	90
	Good	17	73	90
Total		97	83	180

The respondents indicated that among those who do not use diversification (97 individuals), 80 (82.5%) reported poor organizational performance while only 17 (17.5%) reported good performance. Among those who use diversification (83 individuals), 73 (88%) reported good organizational performance while Only 10 (12%) reported poor performance.

Table 5: Chi-Square Test Results for the Association Between Diversification and Organizational Performance

	Value	df	Asymp. Sig. (2-Exact sided)	Sig. (2-Exact sided)	Sig. (1-sided)
Pearson Chi-Square	52.826 ^a	1	.000		
Continuity Correction ^b	50.276	1	.000		
Likelihood Ratio	55.203	1	.000		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	52.459	1	.000		
N of Valid Cases	180				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 20.54.

b. Computed only for a 2x2 table

The Pearson Chi-Square value of 52.826 with a p-value of .000 (i.e., $p < 0.05$) indicates a statistically significant association between use of diversification and organizational performance. The continuity correction and likelihood ratio also confirm this significance. Fisher's Exact Test result (.000) further validates the finding for this 2x2 table. The linear-by-linear association confirms that as diversification usage increases, performance tends to improve in a linear pattern. Since 0 cells have expected counts less than 5, the Chi-Square assumptions are fully met, making the result statistically reliable. This confirms that diversification strategy is significantly associated with better organizational performance among the respondents.

Participants were also asked to indicate what type of diversification exist in the organization and which one do they use.

Table 6: Cross-tabulation of effect of diversification types existing in the organization

		Do you use diversification in daily activities and operation?		Total
		No	Yes	
What type of diversification do you use?	Structured	27	49	76
	Semi-structured	23	20	43
	Unstructured	8	17	25
Total		58	86	180

The results show that 49 participants out of 76 (64.5%) who use structured diversification do so in daily operations. 23(53.5%) who use Semi-Structured Diversification do not use it daily, while 20 (46.5%) do. 17 out of 25 (68%) who use Unstructured Diversification use it in daily activities.

Table 7: Chi-Square Tests on the effect of Diversification used on organization and type of structure

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.545 ^a	2	.103
Likelihood Ratio	4.505	2	.105
Linear-by-Linear Association	.118	1	.731
N of Valid Cases	180		

a.0 cells (0.0%) have expected count less than 5. The minimum expected count is 10.07

The results above show that no significant statistical relationship between the type of diversification (structured, semi-structured, unstructured) and the use of diversification in daily organizational activities. The Pearson Chi-Square value of 4.545 with $p = .103$ indicates no statistically significant association between the type of diversification structure and whether diversification is used in daily activities. The Likelihood Ratio test confirms this with a similar p -value of .105. The Linear-by-Linear Association statistic ($p = .731$) further shows there is no linear trend between the type of diversification and operational use.

Challenges Manufacturing Industries Face When Implementing Diversification Strategies

The researcher sought to find out diversification challenges in the implementation of diversification at coca cola company.

Table 8: Use of Diversification on production and adequacy on produce.

Use in production	Frequency	Percentage	Adequacy on produce		
				Frequency	Percentage
Yes	110	61.1	Adequate	70	38.2
			Not Adequate		
No	70	38.9	Adequate	110	61.8
			Not Adequate		
Total	180	100		180	100

The table above shows that out of 180 respondents, 110 (61.1%) reported using diversification in their production processes. While the remaining 70 (38.9%) do not use diversification in production. Out of the 180 respondents only 70 reported adequate produce while the rest 110 reported not adequate produce.

Table 9: Cross-tabulation of funds use on production and adequacy of outcome.

		Is the production adequate		Total
		Not Adequate	Adequate	
How often do you use funds on production?	Do not use	30	26	56
	Use	59	29	88
Total		89	55	144

Among those who use funds on production (88 respondents), 59 (67%) reported production not adequate while 29 (33%) reported adequate production. Among those who do not use funds (56

respondents), 30 (53.6%) reported production not adequate while 26 (46.4%) reported adequate production.

The researcher established that the money received for the diversification program helps to boost production activities as majority of the respondents were from the firm interviewed. However, when money spend on productivity, the researcher established that the amount received could not significantly increase variety of products for the market as per market needs availability to the respondents but general growth of the firm.

Table 10: Chi-Square Tests showing effects of cash transfer on food production

	Value	df	Asymp. (2-sided)	Sig.Exact sided)	Sig. (2-Exact sided)	Sig. (1- sided)
Pearson Chi-Square	2.632 ^a	1	.103			
Continuity Correction ^b	2.092	1	.148			
Likelihood Ratio	2.617	1	.106			
Fisher's Exact Test				.116		.074
Linear-by-Linear Association	2.614	1	.106			
N of Valid Cases	180					

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 21.39.

b. Computed only for a 2x2 table

The Pearson Chi-Square test value of 2.632 with a p-value of 0.103 is greater than the standard significance level (0.05). This means the association between cash transfer and food production is not statistically significant. The continuity correction (a more conservative test for 2x2 tables) also shows a p-value of 0.148, confirming non-significance. The Likelihood Ratio and Linear-by-Linear Association yield similar non-significant results ($p > 0.05$). The Fisher's Exact Test, which is used when sample sizes are small, also gives a non-significant p-value of 0.116 (2-sided). Therefore, there is no statistically significant association between the use of cash transfer and food production outcomes.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Diversification is defined by Johnson et al., (2018) as a strategy that allows a business to enter new markets for their goods or services. Diversification is used by businesses for a variety of reasons. Diversification, for starters, improves efficiency and this is created by a company's current resources or competencies being applied to new markets for their products, or services. It introduces scope economies, which are savings realized by broadening the scope of an organization's activity. It introduces synergy, which indicates that when activities or assets are employed together, they are more effective than when they are used. It also expands the possibilities of corporate parenting into new markets, goods, and services accomplished by putting current skills to use in new areas. Diversification can take the form of linked diversification, which involves growing the Coca Cola company's capabilities beyond current goods and markets while remaining inside the organization's value network. This can be accomplished by vertical or horizontal integration (concentric strategy).

Diversification can also be achieved through disconnected diversification, which requires the development of products and services that exceed current capabilities and value networks - c Diversification requires a corporation to acquire new skills, techniques, and facilities (Makokha, et al, 2016).

Recommendations

Based on the findings of the study, the study recommended: Developing of a clear, data-driven framework to guide diversification decisions. This should include market research, customer insights, competitor analysis, and risk assessment to ensure that new products or markets align with the organisation's core competencies and long-term vision; Prioritization of staff training programs before and during diversification to equip employees with the skills needed for new product lines, markets, or operational processes. This will enhance adaptability, reduces errors, and fosters innovation within the workforce; Pilot programs should be introduced first, with clear performance indicators, before committing to full-scale launches; Establishing financial safeguards such as diversification budgets, contingency funds, and continuous financial performance reviews. This will protect the organisation from potential losses if new ventures underperform; Encouraging innovation teams to design products and services that cater to the preferences, values, and cultural contexts of diverse target markets. This will improve acceptance rates, customer satisfaction, and market penetration in new geographical locations.

Suggestions for Further Study

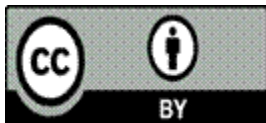
While this study provided valuable insights into the influence of diversification strategy on organizational performance, it was limited in scope and methodology. This study focused on one county which is Kiambu County. Future research should be carried on several rural counties across the country and bring out comparative findings in diversification strategies. Future research should consider the impact of Diversification not only to the staff and organization but the society at large impact.

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