DIVERSIFICATION STRATEGIES AND PERFORMANCE OF SMALL AND MICRO ENTERPRISES FUNDED BY YOUTH FUND IN EMBAKASI CENTRAL CONSTITUENCY, NAIROBI KENYA

GITU JOHN MWANGI

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DECLARATION

This research project is my original work and has not been presented for a degree or other award in any other University. No part of this research project should be reproduced without authority from the author or/and Kenyatta University.

Signed: _____ _____

JOHN MWANGI GITU **DATE**

Department of Business Administration

This research project has been submitted to the university with my approval as the university supervisor.

Signed: _____ _____

Dr SAMUEL MAINA **DATE**

Department of Business Administration

School of Business

Kenyatta University

DEDICATION

This research project is dedicated to my Wife, Mary and daughter, Precious for their moral support during the period of study.

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This project report would not have been possible without the patience and guidance of my lecturer and supervisor, Dr. Samuel Maina.

The loving support and encouragement from my wife Mary and daughter Precious motivated me to keep going, even in the face of many challenges

My classmates, friends, and relatives also played a great role in propelling me to undertake my postgraduate studies despite my advancing years

May all our efforts be for the greater glory of God.

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OPERATIONAL DEFINITION OF TERMS

A small Enterprise: A firm or business activity with an annual turnover ranging from Ksh. 500,000 to Ksh. 5 million, employs more than 10 but less than 50 employees and whose plant/capital investment ranges between Ksh. 10 and 50 million for the manufacturing enterprises and Ksh. 5-20 million for service and farming enterprises (Republic of Kenya, 2012).

Diversification: It refers to a business strategy that involves variation and expansion of the products that a company or business enterprise is offering to the market with a view to reaching out to a wider base.

Entrepreneurship: This refers to the application of sound business practices to earn income and enhance individual or societal economic growth

Micro Enterprise: Any firm or business activity with an annual turnover less than Ksh. 500,000, has less than 10 employees and whose registered capital does not exceed 10 million shillings for manufacturing enterprises, and 5 million for the faming and service enterprises (Republic of Kenya, 2012).

Specialised firm: A firm that has not engaged related or unrelated diversification. Also called a focused firm.

Youth Fund: This refers to the Youth Enterprise Development Fund (YEDF) initiated by the Government through the Ministry of Youth Affairs and Sports to assist the youth in start-up and expansion of micro and small enterprises.

Youth: In the Kenyan constitution, youth refers to any person aged between 18 and 35 years.

ABBREVIATIONS AND ACRONYMS

BDC:	Business Development Bank of Canada
EBDIT	Earnings Before Depreciation, Interest and Tax
MOYAS:	Ministry of Youth Affairs and Sports
NPBT	Net Profit Before Tax
PM:	Profit Margin
ROA	Return On Assets
ROCE:	Return On Capital Employed
ROE:	Return On Equity
YEDF:	Youth Enterprise Development Fund

ABSTRACT

Majority of studies show that diversification relates with performance of companies significantly. However, most of these studies focus on large firms/companies. This study sought to establish whether diversification enhances the performance of small and micro enterprises funded by the Youth Fund. The main objective of the study was to establish the influence of diversification strategies on the performance of small and micro enterprises funded by the Youth Fund in Embakasi Central Constituency. The objectives of study were to determine the extent to which related diversification affects organisational performance of small and micro enterprises funded by Youth Fund; to determine the effect of unrelated diversification on organisational performance of small and micro enterprises funded by Youth Fund; and, to assess the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund. Three theories were used to explain the study: - The balanced scorecard, Modern Portfolio theory and the theory of growth of the firm. The study used descriptive longitudinal design where data was collected from a sample of companies for five years. Target population included 220 managers of the small and micro enterprises operating in Embakasi Central constituency. Stratified random sampling was used to select a sample size of 142 distributed according to the wards. A questionnaire was used to collect data while both descriptive and inferential statistics (Panel regression) were used to analyze the data. Tables and graphs were used to present summaries of results. Findings show that there is significant but negative relationship between specialization (focused firms) and performance measured by ROA ($p < 0.05$). There is significant positive relationship between related diversification and ROA. Unrelated diversified firms have high performance measured by ROCE ($p < 0.05$). Despite the performance recorded due to diversification, small and micro firms' managers think that their firms can improve their performance by diversifying further whereby related diversified firms believe that they will enhance their performance by increasing their related diversification while unrelated diversified firms think they will achieve the performance by increasing their current unrelated diversification. Managerial experience does not have any moderating influence on the performance of diversified firms ($p>0.05$) while age of the firm and size of the firm have influence on performance. The study concludes that small and micro enterprises that have adopted related diversification have high ROA while firms that have engaged unrelated diversification have high ROCE. The performance of related diversified firms increases with age while the performance of unrelated diversified firms increases with size of the firm. The study recommends that unprofitable and underperforming small and micro firms should consider unrelated diversification as a way of increasing ROCE hence profitability. Small and micro firms seeking to engage unrelated diversification strategy must first focus on their growth/accumulation of assets to attain a large firm size as this will contribute to enhanced performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Success in business has been elusive to business owners and managers who do not implement (or implement poorly) strategies aimed at increasing business value and profits and/or reducing costs. One of the strategies businesses adopt to enhance their returns and/or reduce costs is diversification (Chen & Ho, 2004; Rogers, 2001). Teo (2002) observed that when opportunity for success is limited in a firm's product offerings and market, diversification into an area with opportunity is inevitable. Thus, generally, firms diversify to minimize risks as well as attain organisational goals through increased return on investment (Li & Jin, 2006).

Diversification as a business strategy has been applied by business people both knowingly and unknowingly over the years. The benefits or lack thereof are measurable in terms of factors such as profitability (Ibrahim and Kaka, 2007), market share (customer base) and productivity (Rogers, 2001). Several studies have been conducted to indicate how diversification correlates with the profitability or value of firms. Li and Jin (2006); Chen and Ho (2004) stated that the effects of diversification in business can either be seen in terms of enhancing firm benefits or reducing firm costs. Ibrahim and Kaka (2007), on the other hand, established that the performance of moderately diversified firms and that of focused firms was similar when financial ratios-return on equity (ROE) and return on capital employed (ROCE) were used to measure

performance. However, the performance of focused firms and moderately diversified firms exceeded that of highly diversified firms when performance was measured using the same ratios. Contrastingly, when return on total assets (ROTA) and profit margin (PM) were used, focused firms performed better than moderately diversified and highly diversified firms.

To ensure that diversification leads to enhanced performance, Markides (1997) argues that six questions must be answered: what good can the diversifying company do over its competitors in the current market? Do we have the strategic assets needed to succeed in the new market after diversifying? After diversifying, will the diversifying firm leapfrog or catch up with its competitors in their own game? Can diversification cause the disintegration of strategic assets that must be kept together? Will the diversifying company become a winner in the new market or it will just be a player? What can the diversifying company learn from diversification and is it prepared to learn?

If the diversifying company can offer some good over competitors, then it means the company will offer more value to its customers hence is likely to succeed in the diversification. To achieve this, the diversifier must have strategic assets relevant or the diversified function. The assets must however not be disintegrated to ensure the realization of synergies and economies of scale. After diversification, the diversifier must be able to gain enhanced performance over competitors and learn from the strategy for future correction. Once these results are achieved, a diversifying company is likely to achieve enhanced performance (Markides, 1997).

1.1.1 Diversification Strategies

Diversification is one of the most common strategies adopted by corporations to enhance performance. However, despite this fame, diversification strategy is perceived differently by different commentators with some like Akintoye and Skitmore (1991); Markides (1997); Li and Wong (2003) arguing for diversification while Choi and Russel (2005) arguing against the strategy. Despite the numerous studies on the successes of diversification strategy, a consensus is yet to be found on whether the strategy is preferred over focusing strategy. However, it is argued that diversification is useful when a firm cannot meet its current financial expectations (Santalo & Beccera, 2008).

On the other hand, researchers like Shliefer and Vishny (2003) have argued that corporations should only diversify when synergies are likely to be achieved but argue that investors can diversify anytime they prefer the strategy. Brealey, Myers and Marcus (2007) support by arguing that only stockholders should diversify because it is easier and cheaper for them. This presents diversification strategy as a disfavoured strategy among firms unless it can lead to synergies that will give the firm competitive advantage (Collins & Montgomery, 2008). Ansoff (1957) defined diversification as a strategy that gives a business competitive advantage through the creation of new product lines or expansion of market share, which Eukeria and Favourate (2014) posit, are aimed at enhancing the competitiveness of an enterprise. As such, this argument corrects Collis and Montgomery's (2008) that firms can diversify for reasons other than attaining competitiveness.

Several diversification strategies abound but most researchers classify them into two-related and unrelated (Li & Wong, 2003; Thompson, Gamble, & Strickland, 2006; Klein & Lien, 2009). In related diversification, the firm ventures into new but related business to the core business while in unrelated diversification, the new business is different from the core business. Other like Ansoff (1957) prefer to classify them based on 'what is being diversified' in that there is (a) product diversification where the firm ventures into the creation of new or modified products to suit a given market and (b) market diversification where the firm targets a newer market segment from the one currently being targeted. Kotler and Keller (2006) divide diversification into three-concentric diversification where new but related products and/or services are added to the existing ones; conglomerate where new but unrelated products and/or services are added to the existing core business; and horizontal diversification, which involves adding new or unrelated products for present market segment (customers). Horizontal diversification is therefore a form of forward integration.

Thompson *et al.* (2006) look at diversification as a group of individual businesses through which a firm is able to operate in different businesses or markets or both-whether unrelated or related. This means that using diversification strategy, firms are able to operate in other new/similar or different markets. This is why diversification strategy is considered a corporate growth strategy (Eukeria & Favourate, 2014).

Whether related/unrelated, or otherwise classified, studies show that when implemented well, diversification leads to enhanced performance. For instance, in Li and Wong (2003) both related and unrelated diversifications had an effect to firm performance depending

on how the strategy was implemented. They argue that, compared to focused firms, a "match' between related, and unrelated diversification in a firm is critical to succeed. As such, they elaborate that the relationship of diversification and performance is determined by the extent of diversification and the measures of performance used. Akintoye and Skitmore (1991) also concur that the extent and type of diversification significantly determines the success of a diversification strategy. However, sometimes diversification does not lead to enhanced performance. For instance, Choi and Russel (2005), after studying several theoretical and empirical evidences, concluded that, generally, firms that specialized had higher performance than those that diversified.

From these discussions, it is clear that diversification strategy is categorized as either related or unrelated and is implemented for the good of the firm-to enhance competitiveness. It is also apparent that whether diversification strategy affects performance over focused strategy is still debatable. However, based on the literatures the goal and manner of implementation inform the success of the diversification strategy. This study therefore investigates the diversification strategy by focusing on the revealed types- related and unrelated.

1.1.2 Organisational Performance

For a long time, firms have only used financial measurements to show performance of firms. However, in the last two-and-a half decades, the use of non-financial indicators has been encouraged significantly (Isoraite, 2008) to accommodate not-for-profit firms and start-ups/firms that may be going through a transition that makes it challenging to measure performance using finances. This change was motivated by the invention of the

balanced scorecard theory, which offered many aspects through which a business could be analyzed.

According to Santos and Brito (2012), the performance of an organisation can be analyzed comprehensively using profitability, social performance, environmental performance, customer and employee satisfaction, and firm growth. Profitability concerns the amount of revenue earned less costs incurred, social performance refers to how the business relates with its social environment with time while environmental performance concerns how the business relates with the environment with time. Poor performance results when the business' social relationships and environmental relationships dwindle instead of bettering. A business that is doing well should also show continued customer and employee satisfaction and/or where necessary growth in their numbers. Audretsch (1995), for instance, argues that the market share (customers being reached) is a good measure of performance particularly for small firms.

While focusing on the balanced score card theory Isoraite (2008) reiterated that performance of a firm or corporation can be measured by (a) financial ratios like profitability and return on assets as well as by (b) customer factors like customer base and their satisfaction; (c) organisational learning and innovation and (d) internal operational processes. The author argues that an organisation that is performing well will show high organisational learning and acquisition of organisational abilities/skills. Similarly, a well performing firm will offer internal processes that are more focused to delivering high yield/quality. Similar to internal processes, Rogers (2001) argued that the productivity of a firm can also indicate its growth or performance. For instance, a firm

that shows improvement in production or one that shows higher yield could indicate enhanced performance.

1.1.3 Performance of SME's funded by YEDF

The Youth Enterprise Development Fund (YEDF) is one of the Government of Kenya's innovations in combating and arresting the challenge of poverty and youth employment. The fund was introduced with several objectives-notable was the aim to enhance job creation and employment among the growing number of unemployed youth. The fund targets men and women aged between the ages of 18 to 35 years. The funds are given to start new business ventures or/and to support existing business enterprises established. Since its introduction in 2006, the funds have benefited many Kenyans. Among the beneficiaries, some have recorded growth in their small and micro level enterprises while others have encountered not so positive results (YEDF, 2016).

Studies across the country show that many small businesses funded by YEDF exist. However, when the number of funded groups is compared with the existing businesses, the difference is so huge indicating that majority of the enterprises funded by the fund die early. Media reports have even indicated that 75% of start-ups in Kenya fail within the first year. A study by Audretsch (1995) explained that most start-up firms fail because they operate on a scale lower than the minimum efficient scale hence encounter cost inefficiencies compared to large and/or stable firms operating in the same business line of that market. Since most YEDF funded start-up firms begin small, they are likely to fail if they do not have a clear focus that can drive their competitiveness (Amenya, Onsongo, Guyo, & Onwong'a, 2011).

Research shows that majority of the YEDF funded projects fail to meet intended objectives hence poor performance. For instance, Kapteka (2011) studied the factors affecting repayment of Constituency Youth Enterprise Scheme (C-YES) loans among youth groups residing in Wajir East Constituency. He found that majority of the youth could not repay the loans as expected owing to poor performance of their enterprises. Similarly, Amenya *et al.* (2011) established that factors like low skills and experience in project identification and implementation caused poor performance among YEDF funded projects. Among the factors causing this poor performance is poor entry strategy and lack of focus (Kinyua, 2015). As such, Baptista, Karaoz, and Leitao (2010) argue that small firms may diversify to attain synergies or to share co-specialized innovative resources across distinct lines of business. For instance, having skilled human capital and knowledge/expertise can motivate a firm to diversify to leverage on these resources. This is based on ease with which start-ups can implement diversification as opposed to other strategies that are only suitable for 'capital-able' firms. It is based on this background that the study investigates the influence diversification has on the performance of small and micro enterprises in Kenya funded by the Youth Fund.

1.2 Statement of the Problem

A number of studies have been done in Kenya to indicate how firms can benefit from diversification, but the studies have majorly focused on non-small and micro firms. For example, Onsomu (2013) studied the influence of diversification strategies on the performance of KTDA and Muriithi's (2013) study on revenue diversification and its influence on non-interest income in the five most profitable banks in Kenya.

Despite the concentration on large firms, the importance of small and micro enterprises to Kenyan economy cannot be overlooked. As such, the performance of these enterprises is a concern to government and other key stakeholders who would like to witness the growth of small and micro firms sector. Studies like Robson, Gallagher, and Daly (1993); Audretsch (1995); Baptista *et al*. (2010) emphasize the importance of diversifying as a strategy that enhances the performance and survival of small and micro enterprises majorly by enhancing the scale of operation relevant for efficient utilizing of resources and reduction of costs. However, the relationship of diversification and performance of small and micro enterprises in Kenya is not clear, as no empirical studies have been done on it.

Embakasi Central constituency is one of the most populous constituencies in Nairobi County. Majority of the population comprises the youth whom the government is determined to provide with jobs to prevent them from engaging in social ills. Statistics at the local Youth Fund offices shows that since 2006 the Youth Fund has funded approximately 5,000 projects (YEDF, 2016). However, just less than 500 of them are active at repaying or have completed paying their loans. Majority cannot be accessed as they collapsed. What is more, a lot of government and stakeholder interest is focused on the success of small and micro enterprises funded by the Youth Fund. This is because when most of the enterprises benefiting from the fund succeed, the government will be able to achieve their goal of creating employment among the youth of Embakasi Central. As such, focus is drawn to strategies that can enhance the performance of small and micro enterprises funded by the Youth Fund. It is based on this gap that this study aims to establish whether diversification enhances the performance of small and micro

enterprises as is claimed by Robson *et al*. (1993); Audretsch (1995); Baptista *et al*., (2010).

1.3 Research Objectives

1.3.1 General Research Objective

This general objective of this study was to establish the influence of diversification strategies on the performance of small and micro enterprises funded by the Youth Fund in Embakasi Central Constituency.

1.3.2 Specific Research Objectives

This study was guided by the following specific objectives: To:

(i) Determine the extent to which related diversification strategies affect organisational performance of small and micro enterprises funded by Youth Fund

(ii) Determine the effect of unrelated diversification strategies on organisational performance of small and micro enterprises funded by Youth Fund.

(iii) Assess the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund.

1.4 Research Hypotheses

The study was guided by the following research questions:

(i) There is no relationship between related diversification and organisational performance of small and micro enterprises funded by Youth Fund.

(ii) There is no relationship between unrelated diversification and organisational performance of small and micro enterprises funded by Youth Fund.

(iii) Firm characteristics do not affect the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund.

1.5 Significance of the Study

The findings of this study will stand to benefit the small and micro enterprises that exist in many parts of Kenya. From this study, the enterprises will be informed whether diversification strategy can enhance their productivity and if so how and when they need to diversify to attain this productivity. As such, this study will inform owners and managers of small and micro enterprises on whether diversification can help them enhance their productivity or not. By establishing the relationship between diversification and performance of small and micro enterprises, the study will inform policy makers (government) of the policies relevant to guide small and micro enterprises to succeed. The management of youth fund will also benefit from the study as it will inform them on how to advice entrepreneurs who want to engage in diversification strategy. The study will also benefit researchers and scholars who will use the findings to substantiate and/or criticize discussions in the field of diversification of small and micro enterprises.

1.6 Scope of the Study

The study only aimed to investigate how diversification strategies relate to organisational performance of small and micro enterprises funded by Youth fund in Embakasi Central constituency. Therefore, non small and micro enterprises were not part of the scope. Small and micro enterprises were defined by the number of employees and scale of business-defined by the invested capital. Firms located elsewhere other than within Embakasi Central constituency were also beyond the scope of study while only variables relating to organisational performance and diversification define the scope.

The content scope will only comprise of the study objectives which are: investigating the effect of related diversification strategies on organisational performance of small and micro enterprises funded by Youth Fund; investigating the effect of unrelated diversification strategies on organisational performance of small and micro enterprises funded by Youth Fund and assessing the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund. Any other variables dissimilar to the ones presented in these objectives are not part of the scope. The research was carried out between the months of May and June, 2016. The small and micro enterprises from which data was collected are those in existence for five years by the end of 2015. Enterprises whose age is below this range are not part of the study.

1.7 Limitations of the Study

This research was case study of Embakasi Central constituency, an urban low income to middle income setting. The findings of this study were expected to have an urban inclination, both in terms of the nature of the businesses studied and the outlook of the respondents. As such, this limits the generalization of this study to other areas with varying market conditions to that of Embakasi Central.

All businesses, whether small or large, guard their competitive information (concerning profitability and competitive strategy) strictly. As such, it may challenge the researcher to collect accurate information on the variables under investigation. However, to counter this, the researcher got authorization from Youth fund and academic institution, which assured owners/managers of small and micro enterprises that information collected is not sharable to competitors.

The study aimed to study a sample of the population whose findings were then generalized to the whole population. Though the sample was calculated using scientifically acceptable methods, the generalizations cannot be 100% accurate to the entire population. However, the scientific sampling reduces the error of high inaccuracy.

1.8 Organisation of the Study

This research report is organised such that there is an introductory chapter with background information, problem statement, and objectives under study. The second chapter presents the literature review including the empirical and the theoretical reviews. The chapter also presents the conceptual framework of the study. The third chapter

presents the research methodology used to conduct the study. The fourth and fifth chapters are also presented where the fourth chapter presents the findings and results while the fifth chapter presents the summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, the researcher makes a review of selected literature on the issue of diversification as a strategy in business. This is with a view to collating views of authorities in this area as well as those of other players in similar situations worldwide as well as in Africa. The theoretical and philosophical grounds on which this topic is based will also be addressed.

2.2 Theoretical Review

This section presents the theories upon which the discussions of the study will be founded. Three key theories are discussed-The Balanced Scorecard, Modern Portfolio and the Theory of the Growth of the Firm.

2.2.1 Balanced Score Card Theory

Kaplan and Norton (1992) first coined the Balanced scorecard theory in early 90's after their researches established that the performance of a company cannot be wholly measured using the financial perspective based on two reasons: first, that the financial perspective always gives the past status of the company and cannot be relied upon to predict current or future status of that company. Second, is that the financial ratios used to measure financial performance dwell on giving the value of company assets relative to the market value, which disregards the effect of intangible assets. As such, using the

financial perspective to analyze modern enterprise performance was ineffective lading to the founding of the balanced score card (BSC) model by Kaplan and Norton (1992). The BSC analyses the strategy of an enterprise using four balanced perspectives: finance, internal processes, customers, and employee learning and growth (Isoraite, 2008).

The financial perspective looks at what a business ought to look like financially in order to succeed. For instance, what financial ratios should the business show to attract shareholder confidence? The internal perspective concerns the internal processes (operational activities) that an enterprise must excel in to attract shareholder confidence and/or succeed. The customer perspective looks at the market share that an enterprise ought to attract to succeed. It also concerns how the cu8stomers are handled by the enterprise to offer them high satisfaction. On the learning perspective, an enterprise must identify the skills, capabilities, and resources it ought to learn or have in order to grow. For instance, what kind of skills and attitudes must an enterprise have to improve its organisational performance (Isoraite, 2008)?

Proponents of the BSC have preferred it for its ability to measure company performance using financial and non-financial parameters. This makes the theory highly useful when estimating performance in finance based and non-finance based organisations. It also gives a four-pronged model of establishing the success and growth of an enterprise (Isoraite, 2008). Additionally, the theory gives a strategy for business growth as well as a model for measuring organisational performance and growth (Lawrie & Cobbold, 2004).

Despite the advantages of the BSC theory, criticisms are unavoidable. For instance, the theory has been considered incompatible with non-profit organisations (Kong, 2010).

Kong argued that the theory does not bring on board all stakeholders of a non-profit organisation hence could not be applied in such organisations. He argued that the BSC does not address the needs of the social, political, and human resource dimensions as well as the competitive and collaborative nature non-profit organisations exhibit. However, this concern has been addressed with time in latest modifications to the BSC theory available in the 3rd generation balanced scorecard model (Lawrie & Cobbold, 2004).

Other researchers have argued that the applicability of the balanced score card to SME's is poor since most of these enterprises do not have a long-time strategic goal and, that the characteristics of the SMEs make majority of the four perspectives of BSC inappropriate (Rompho, 2011). However, the lack of arguments based on causality makes most researchers overlook this criticism. Additionally, SMEs have been blamed for poor understanding of the benefits of BSC hence hampering effective implementation (Rompho, 2011). This criticism makes is more of a managerial problem than a model/theory misfit. Nevertheless, information modifications to the theory have made it easy to adopt the BSC across different organisations/enterprises (Lawrie & Cobbold, 2004).

By applying this theory, the researcher will be able to measure success of the target organisations using financial and non-financial indicators. Additionally, the ability of the theory to inform on strategy implementation relevant to meet the stakeholder interests (Isoraite, 2008), makes it appropriate for analyzing how diversification strategy can be implemented to enhance organisational performance with a focus on the four perspectives depicted in BSC theory.

2.2.2 The Modern Portfolio Theory

This theory holds that diversification of products may increase returns at given risk levels, or alternatively may provide the same returns at reduced risk. Applications of this theory use volatility of returns implied by market price fluctuations as the composite of risks (Athanassakos, 2009). Diversification may be used in a business enterprise to minimize risk at some level of imputed return. The concept is to maximize the realized rate of return within the risk constraints that one is prepared to take.

Athanassakos continues to state that diversification is a fundamental principle of the modern portfolio theory. Investors hold a large basket of stocks instead of one or a few. The assumption here is that the risks can be measured. However, with all types of business enterprises, risk is dependent on varied factors, some known, and others unknown. This reality is more so in small and medium scale enterprises. In the earlier years of the past century, it was comfortably assumed that risk could not be measured. However, according to Kor, and Mahoney (2004) risk can be quantified and measured through profitability distribution. A certain school of thought thus arose, with the assumption that risk could be mitigated through diversification. However, as earlier stated, risk is unpredictable and something out of the ordinary or expected could occur in a business enterprise.

Penrose (1995) states that for the mitigation of risks associated with diversification, a business needs to engage in unrelated diversification. This means finding securities that have low historical correlation with each other, and assume that future correlations will remain the same as they have been historically. If historical correlations prove to be an

inaccurate measure of future relationships, then this type of diversification will be unworkable. The successful application of the tenets of this theory to small and medium level entrepreneurship is possible through calculated risk-taking.

2.2.3 The Theory of the Growth of the Firm

In the late 1950, Penrose discovered that there can be no optimum or most profitable size of the firm. She established that a firm's operational activities are only a by-product of the process of its growth hence coining the theory of Growth of the Firm (Penrose, 1995). According to the theory, there is no limit to firm growth. This means that diversification, as a strategy of firm growth, is limitless (Dosi, Nelson, & Winter, 2000). The internal resources of a firm influence its productivity. This means that the human resource portfolio takes advantage of the collective human, capital, and infrastructural resources to build the productivity of the firm.

This theory is connected to the performance of a business enterprise as will be addressed in this research. The internal factors that are inherent in the business such as gender, age group and business related activities all come into play to determine the level of productivity in the enterprise. Roehl (1997) points out that because of its complexity and diversity, a firm can be approached with myriad types of analysis from whatever point of view that seems appropriate to the business problem at hand. A firm is described as a conglomeration of productive resources. An administrative decision determines the choice of the different uses of these resources. However, Chadler (2002) observes that it is indeed not just about the resources themselves, but the services that the resources can render that comprise the inputs in the productivity process and growth in size.

2.3 Empirical Review

2.3.1 Related diversification and Organisational Performance

Deng, Tian, Li, and Abrar (2012) investigated how diversification impacted corporate performance in China. The influence of political power as a mediating variable was also investigated. The sampling frame for the study included private firms listed on the Shanghai and Shenzhen Stock Exchange between the period of 2002-2005. Private firms were chosen as they had a high tendency to build good relationship with government or the success of their business activities. Companies that had special treatment, those with financial operating units, those who had failed to disclose any data for any year of the study period, and those whose disclosure did not detail political connection and companies with extreme values were excluded to arrive at a sample size of 1,084.

Corporate performance was measured using accounting performance indicators like ROE and ROA and market performance indicators like the Tobin's Q value and the returns on stock (ROS). Multivariate regression model was used to analyze the data (Deng *et al.*, 2012). Findings showed that related diversification enhances firm performance while unrelated diversification had negative statistically significant relationship with firm performance. Performance in non-politically connected related diversified companies was higher than that of specialized and unrelated diversified companies without political connection. In politically connected companies, unrelated diversification bore higher performance than that of specialized and related diversification companies. Firms with high political connection were also found to have a high tendency of engaging in unrelated diversification. The weaknesses of this study include its inability to be

generalized to SMEs and to Kenya based on its target sample and origin of population. Additionally, the Tobin's Q value that was used to measure performance is best fit for listed companies as it largely uses the shares and share value in its calculation. For small firms not listed on stock exchange, this method is less useful indicator of performance.

A study by Mishra and Akbar (2007) investigated the influence of related diversification on the performance of business groups' in emerging markets found that groups of firms that implemented related diversification strategy had higher value than groups of firms that had implemented unrelated diversification or focused. In this study, regression models and Tobin's Q ratio were used to analyze the data collected from firms listed in India's three major stock exchanges with the exclusion of firms from transport sector, firms offering services, information technology firms, and public sector enterprises. Similarly, firms whose NIC codes had less than 5 single segment firms were also excluded. A total of 3,075 firms were sampled where 699 firms were unrelated-diversified group affiliated, 311 were related while 2,065 were standalone focused firms. This study ought to be tested in other areas and on small firms in order to investigate its generalisability to small firms from other areas of the world.

2.3.2 Unrelated Diversification and Organisational Performance

Oyewobi, Windapo, and Cattell (2013) also conducted a study whose purpose was to investigate whether the relationship between extent of business diversification and performance was significant among construction firms in South Africa. The kind of diversification interrogated was unrelated since it was measured by the ability of the construction companies to do more than one class of, that is, civil engineering, general

building works, electrical and mechanical engineering among others. The study used case study design of large construction companies listed in Grade 7-9 of the contractor register of the Construction Industry Development Board (CIDB). Both primary and secondary data were collected. Primary data was collected using semi-structured interview schedules while financial statements of the companies were perused to reveal financial data for performance measurements for a period of five years. Performance was measured using Return on Total Asset (ROTA), Return on Capital Employed (ROCE) and Profit Margin (PM). Product diversification was measured using the Herfindahl index the T-statistic, Pearson's product correlation and fixed and random effects regression models were used to analyze the data.

Findings showed that construction companies listed on the CIDB contractor registers diversify more and perform better in their service/product than the newly upgraded companies based on profit margin. The study also found return on assets and return on capital employed to decrease with diversification. Contracts won also increase with increased product diversification. Just as was seen in the other studies reviewed herein, the generalization of Oyewobi *et al.*'s (2013) findings cannot fit to non-construction companies accurately. Additionally, the case study, South Africa presents a market different from that presented in Kenya/Embakasi central. More so, the Herfindahl index used is simple to use and requires small amounts of data to achieve accurate results. However, its simplicity overlooks market complexities that promote genuine and precise competitor assessment. This is a limitation as competition is one of the factors that prompt diversification in order to enhance survival chances. As such, it is also critical to conduct a similar study without the use of the Herfindahl index.

Another 2015 study done by Nielsen Consumer Insights on small and mid-sized firms in Alberta for Business Development Bank of Canada (BDC) found that modestly diversified firms outperformed those not diversified as well as those less diversified. In this relationship, the size of the business did not matter. However, the study also revealed that small and mid-sized firms that had diversified unrelated, for instance, in product diversification or/and geographical/market diversification, attained higher performance than related diversifiers (BDC, 2015). The methodology used by the study included surveying Small and mid-sized businesses in Alberta, Canada. The businesses were required to have between 5 and 499 employees and three or more years old. Sample businesses were taken from all industries except utilities and public administration. A total of 998 companies participated in the study. Telephone interviews were used to collect data while descriptive statistics used to analyze it. Performance was measured by profits (BDC, 2015). In this study, the methodology used (telephone interviews) did not guarantee accurate data collection as it is easy for one to lie on telephone as body language cannot be read. The study's geography also makes it less generalizable to Kenyan SMEs.

Mishra and Akbar's (2007) study also found that unrelated firms had lower value when compared to related ones but the value of unrelated firms exceeded that of focused firms. This study had sampled 3,075 firms where 699 firms were unrelated-diversified group affiliated, 311 were related while 2,065 were standalone-focused firms. Regression models and Tobin's Q ratio were used to analyse the data. The methodology of the study was best fit for listed firms hence compromising generalisability to small (not-listed) firms.

2.3.3 Influence of Demographics on Relationship between Diversification and Performance

A survey among developed nations by Balsmeier and Czarnitzki (2014) found that weakness in leadership and poor management capabilities and experience were the main firm-level problems affecting small firms. Leadership, skills, and experience were the drivers towards innovation and enhanced performance hence their absence or weakness in small firms meant that the survival of these firms was uncertain. However, even with this finding, many small businesses still fail to invest in equipping their managers with the appropriate leadership skills relevant for enhanced performance and growth. This study surveyed small and medium sized firms across European countries in a given point in time. However, the study was limited in the since that it did not focus on diversified firms as is the focus of the current study. However, the finding still proved the importance of managerial skills and experience towards start up small firms.

The study by Deng *et al.* (2012) investigated how political influence impacted diversified corporations in China. This study was three fold-In the first instance, the study investigated how political connection affected firm performance. The second purpose investigated how diversification affected firm performance while the third purpose was the investigation of how the political influence influenced the diversification strategy and its relationship to firm performance. The sampling frame for the study included private firms listed on the Shanghai and Shenzhen Stock Exchange between the period of 2002-2005. Private firms were chosen as they have a high tendency to build good relationship with government or the success of their business activities. Firm age, firm size, extent of

internationalization of the firm, capital structure and location of the enterprise were the control variables investigated. The findings revealed that firms with high political connection were found to have a high tendency of engaging in unrelated diversification. Generally, age and size of a firm had positive significant relationship with firm diversification and performance (Deng *et al.,* 2012). Contrastingly, the study by BDC (2015) found that the age of a company does not influence diversification as both young and old companies in Alberta implemented the diversification strategy. Deng *et al.'s* methodology (Tobin's Q) cannot be used on non-listed firms hence making the findings of the study less generalizable to SMEs in Kenya. The study also put emphasis on non-firm characteristic (politics) as the moderating factor contrary to what is done in this study.

According to Startups Team (2007), a firm should diversify when it is profitable in its core business and not when it is struggling to make sales and break even. This is because a firm struggling to make sales can lose the track of its objective if it allows diversification strategies distract it. Diversification is a strategy that must be calculated well before venturing into it. This requires strong managerial commitment and involvement which may not be available when the managers need to figure out how to make sales to break even. This makes sense particularly for small businesses whose ability to diversify may be low in the case of underperforming core business.

The study by Baptista *et al*. (2010) on diversification by young, small firms in which one of the objectives was to establish whether diversify firms had high survival chances. The study used longitudinal employer-employee matched set of data readily available at the

Portuguese ministry of Labor and Social Security. The data provides the size of firm, age, and number of branches including location, six digits SIC code and the employment. The years covered were 1988-2000. In the study firms considered to have acquired a new branch in another sector different from the original one (unrelated) were the ones considered diversified. The methodology used was such that first, a non-parametric approach where the Kaplan Meier survivor functions are indulged to establish whether there is a pattern for survival linked with the timing of diversification for those firms diversifying in different years. Thereafter, an estimate of the semi-parametric hazard model with the covariates that are time varying is done to give results.

The findings showed that majority of young firms do not diversify in their early years. Manager proportions and employee qualifications determine the likelihood of a firm to diversify. Young firms operating in markets with growth rate that is volatile or highly concentrated have a higher chance of diversifying in their earlier years. The study also found that start-ups that plan a diversification strategy before they launch and implement that strategy upon launching have higher chances of surviving. Firms that do not diversify on start-up risk failure if they diversify in their first five years of operation. However, failure due to diversification reduces as the firm's age increases (Baptista *et al*., 2010). Baptista *et al*. (2010) in identifying one of the weaknesses of their study argued that the nature of their data did not take care of a long-enough period of time. That is, the data only covered 8 years within which one could measure yearly survival rate of start-up firms. In case a firm survives in the 9^{th} or 10^{th} year, the panels are limited to offer such.

2.4 Summary of Knowledge Gaps

Generally, the gaps identified in the reviews relate to weak methodology and definition of variables as has been submitted. Additionally, the cases of firms used-listed and medium-to-large and large companies- challenge the accurate generalization of the findings of the cases to the small and non-listed firms like the ones being studied in this study. The summary of the gaps identified is in table 2.1.

Table 2.1: Summary of Research Gaps

Author	Focus of Study	Research Gaps	Focus of Current Study
Deng *et al.* (2012)	Influence of politics on the relationship between related/unrelated diversification and performance of listed private firms in China	Study cannot be generalized to non-listed SMEs in Kenya Method used (Tobin's Q) only relevant for listed firms. Moderating effect of politics was emphasized.	Establish how diversification affects performance of SMEs, which are not listed on stock exchange and in most cases lack political influence/connection. Interveners are age o firm, managerial experience and size of firm.
Mishra and Akbar (2007)	Influence of unrelated/related diversification on the performance of business groups' in emerging India	Only generalizable to listed and large corporations. Methodology only fits listed firms	Establish how diversification affects performance of SMEs which are not listed on stock exchange
Oyewobi *et al.* (2013)	Investigate whether the relationship between diversification and performance is significant among construction firms in South Africa.	Only generalizable to South African firms. Generalization is fitted to construction firms.	Investigate relationship between performance and diversification of Kenyan SMEs Target is all industries except financial industry.
BDC, 2015).	Effect of diversification on performance of small and mid-sized firms in Alberta, Canada	Geography not generalizable to Kenyan SMEs Methodology used (telephone interviews) does not guarantee accurate data collection	Study effect of diversification on performance among Kenyan SMEs using information readily available in financial documents and can be practically verified

Source: Author (2016).

2.5 Conceptual Framework

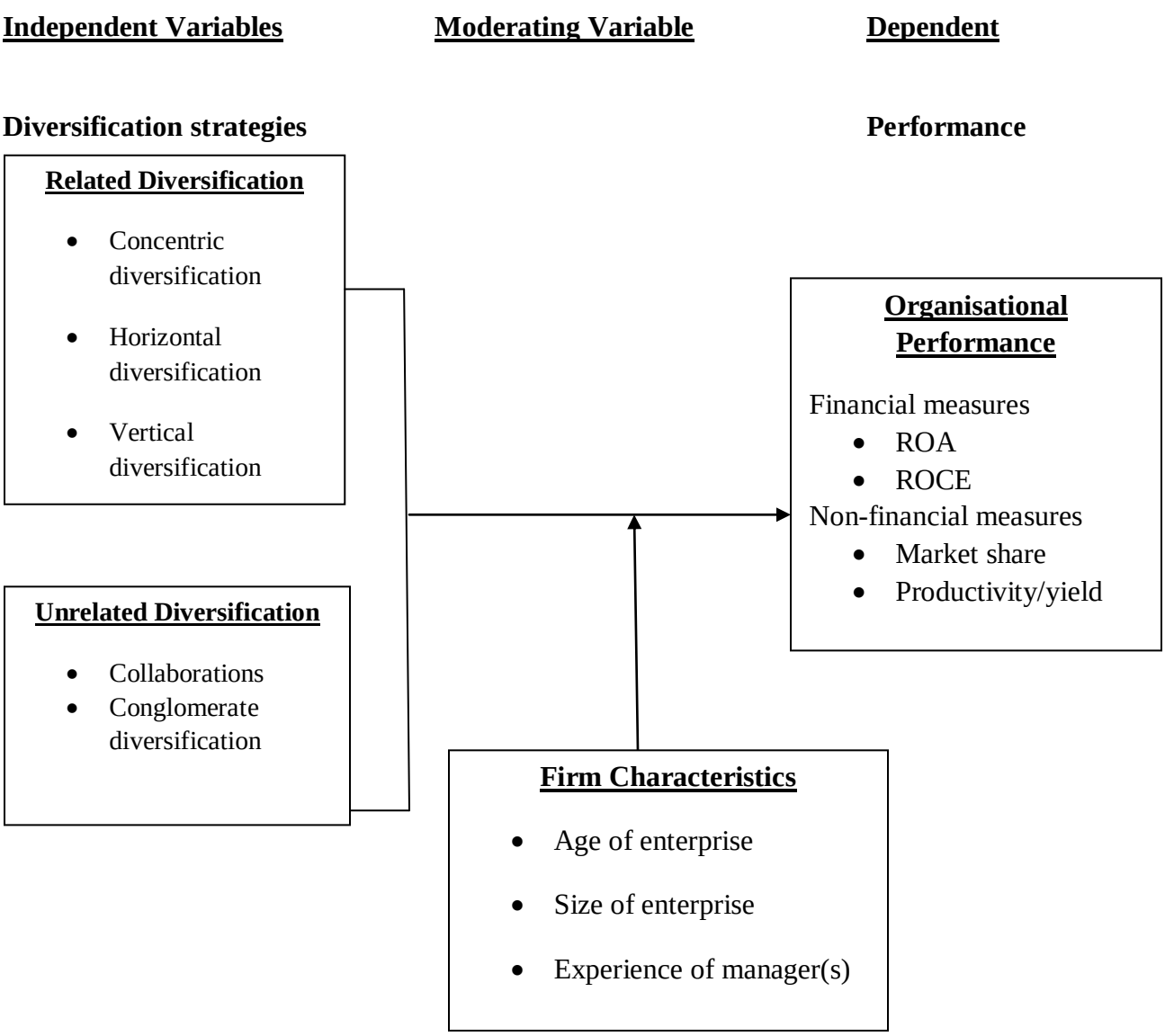

Figure 2.1: Conceptual Framework
Source: Author (2016)

As shown in the figure 2.1, the relationship between diversification and performance is moderated by the age of the enterprise, size of the enterprise and the experience the managers of the business have by the time they are starting their enterprise. Diversification is divided into related and unrelated. Under related diversification,

concentric and horizontal forms of diversification will be investigated and their relationship to performance measured. Under unrelated diversification, collaborations/acquisitions of businesses in different market and conglomerate diversification will be investigated and the resultant performance measured. The framework also shows that performance will be measured by ROA, ROCE, market share, and productivity/yield as is explained elsewhere in the study.

2.6 Chapter Summary

The chapter has presented the literatures reviewed for the study. The theoretical reviews and empirical review has been presented followed by the discussion of the research gaps and the presentation of the conceptual framework. The next chapter presents the methodology to be used to accomplish the study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter describes the design and methodology that was applied by the researcher in coming up with the relevant data that assisted in the analysis made in chapter four of this study. The researcher describes and justifies the research design, describes the target population and sampling techniques, as well as explains the instruments applied and the methods of data analysis to be applied.

3.2 Research Design

Churchill and Iacobucci (2009) define research design as a researcher's plan of work detailing the strategy to be used to collect adequate evidence that addresses the research problem. There are several research designs from which researchers can choose. This study adopted a descriptive longitudinal (survey) research design where data was collected from a sample of companies for a given period (five years). Descriptive design is characterized by its ability to establish relationships between variables (Bryman & Bell, 2011; Houser, 2012). It mainly aims to answer the question 'what' (Houser, 2012) just as is the case for this study-"what relationship exists between diversification and performance?" A descriptive longitudinal study involves investigating the relationship between variables for a given period with the aim of revealing the trends of association. By using this design, the study was able to collect information from small and micro

firms in Embakasi Central concerning how diversification influences performance for a given length of years.

3.3 Target Population

The study targeted small and micro enterprises operating in Embakasi Central constituency and were funded by the Youth Fund. According to Republic of Kenya (2012), a micro enterprise is any firm or business activity with an annual turnover less than Ksh. 500,000 and has less than 10 employees. A small enterprise is a firm or business activity with an annual turnover ranging from Ksh. 500,000 to Ksh. 5 million and employs more than 10 but less than 50 employees. Richards-Gustafson (2016) adds that small firms in Africa do not service a significant market in their industries, and they do not dominate their industries financially.

The targeted enterprises were those meeting this definition of small and micro businesses and came from all industries except the financial sector, which, as put by Selcuk (2015), has a different way of calculating market value and, to some extent, performance. The targeted enterprises were those that had begun on or before 2010 and/or were at least five years old by end of 2015. The firms were those existing by the time of this study. What is more, participating enterprises were registered by the government and had their financial records in place or were able to give a precise estimate of their financial records since their inception.

In each of the targeted small and micro enterprises, the owners/managers were targeted. This population was expected to give performance information about their businesses

since inception. Each managers (or owner) represented a single business. As of 28th February 2016, there were about 220 active registered small and micro enterprises funded by the youth fund in Embakasi Central Constituency. As such, the target population was the 220 enterprises (Listed in appendix I). A manager was targeted from each of these enterprises.

3.4 Sample Size and Sampling Design

The target population was sampled using stratified random sampling method to attain the sample size. The targeted businesses in Embakasi Central constituency were distributed across the constituency's wards with some wards having higher number of businesses than others. As such, the targeted population was stratified such that the businesses were organized according to the ward of origin to eliminate the bias of sampling majority of the businesses from a single region/ward. Stratification was based on the 5 wards of Embakasi Central constituency namely, Kayole North, Kayole Central, Kayole South, Komarock and Matopeni. From each stratum (ward), the sample size will be identified randomly to arrive at the participants.

Using published tables of sample size calculation, at 5% precision level and 95% confidence level, the study sampled a size of 142 arrived at using Yamane's formula: $n=N/\{1+N(e)^2\}$ where n=sample size to be calculated; N=target population; e=precision level/sampling error. The sample was distributed as shown in the table 3.1. Since 142 could not be equally distributed across all wards, the first two wards- Kayole North and Kayole Central produced a sample of 29 compared to the other wards. (This was done according to researcher's bias).

Table 3.1: Sample Size Distribution in Embakasi Central Constituency

Stratum (Ward)	Target population	% sample	Sample Size
Kayole North	45	64	29
Kayole Central	47	62	29
Kayole South	43	65	28
Komarock	44	64	28
Matopeni	41	68	28
Total	**220**	**65**	**142**

Source: YDF Embakasi Central Offices (2016).

3.5 Data Collection Method

Given that most small and micro enterprises lack adequate book-keeping, the managers of the businesses were surveyed to provide information about their yearly performance for the target number of years. A questionnaire was used to collect this information based on its strengths to collect information from large samples within the shortest time and lowest cost compared to other methods (Bryman & Bell, 2011). The research design used also made it easier for a questionnaire to be used. As such, using the questionnaire, a record of the financial details for the period of 2010 to 2015 was collected. Specifically, the study collected information regarding the main business strategy the enterprises had engaged at start-up time and the other strategies it changed to from starting to end of 2015. The study also sought information on initial assets and capital, revenues/sales and profits at start-up till the end of 2015. Information concerning the managerial experience, age and size of enterprise, number of employees, and quantity of sales for the same period of study was also sought.

3.6 Data Collection Procedures

The study begun with getting the right authorization and permission to carry out the research from the relevant authorities including the Youth Fund, Kenyatta University, and the management of the various targeted enterprises. The National Commission for Science, Technology, and Innovation (NACOSTI) was also contacted to provide a permit for conducting the research. After getting the relevant approval, the researcher educated the sample on the ethical considerations to be taken care of including voluntary participation, informed consent, and confidentiality.

Informed consent, voluntary participation, and confidentiality were the key ethical considerations taken into focus in the course of this research. The participants were informed of the purpose of study and what was expected from them and their enterprises so that they are aware. Participants were also allowed to participate voluntarily without being coerced in any way. Withdrawal was not prohibited as long as the participant informed the researcher of their wish to withdraw. Confidentiality of the information collected from the sampled enterprises was guarded strictly. Participating firms and their participants were identified by random numbers to conceal their identity. No third parties are allowed access to the data collected from the participating enterprises.

3.7 Reliability and Validity

3.7.1 Validity

Mugenda and Mugenda (2003) further give the definition of validity, as meaningfulness of items in an instrument with respect to what are expected/what the items should measure. Validity checks whether the instrument measures what it purports to measure.

To ensure high validity in this study, the supervisor examined and proposed corrections to the items in the instrument to the extent that the items only measured what they were expected to. Additionally, the researcher conducted a pilot test where the instrument was tested to identify whether its findings were valid. Corrections were made and the instrument re-tested until validity was achieved.

3.7.2 Reliability

According to Mugenda and Mugenda (2003), reliability is the ability of a data collection instrument to give consistent results on repeat administration. Though several methods can be used to check the reliability of an instrument, the common and most applied method is by use of the Cronbach's Alpha where the items in an instrument are checked for homogeneity (Zikmund, 2003). The alpha rates the reliability responses between 0 and 1 where 0 indicates no reliability and 1 indicates high reliability. The table 3.2 shows the different alpha readings and their respective interpretation in terms of the reliability of the instrument.

Table 3.2: Reliability Levels Based on the Cronbach's Alpha

Cronbach's alpha (α)	**Internal consistency**
≥ 0.9	Excellent
0.7 - 0.9	Good
0.6 - 0.7	Acceptable
0.5 - 0.6	Poor
< 0.5	Unacceptable

Source: Zikmund (2003).

As indicated in the table 3.2, the preferred reliability of instruments is 0.7 or more. This study considered a reliability level of 0.7 adequate for the instrument. The instrument was piloted and the resultant reliability measured. Adjustments were made to the questions

until a reliability of 0.7 or more was achieved. In the case of the final instrument used, its reliability was rated good as a Cronbach's Alpha of 0.707 was attained as in table 3.3.

Table 3.3: Reliability Statistics

Cronbach's Alpha	No. of Items
0.707	17

Source: Primary Data (2016).

A table with all reliability items is shown in appendix II.

3.8 Data Analysis and Presentation Procedures

Since the study does not aim to show the different extents of diversification, the specialization ratio presented by Ibrahim and Kaka (2007) was not used. As such, diversified firms (whether unrelated or related) were given a value of 1 while undiversified were given a value of 0. However, on analysis, enterprises that had diversified were differentiated based on the kind of diversification- whether unrelated or related. Performance was measured based on the return on capital employed (ROCE), return on assets (ROA), market share (number of customers) and productivity (yield). Age of firm was measured by the number of years the firm has existed, size was measured by size/value of assets while managerial experience was measured by the number of managerial experience the managers had.

Both descriptive and inferential statistics were used to analyze the data. Frequencies, percentages, mean and standard deviation were used as the descriptive methods while panel regression models were used to analyze the panel data inferentially. There are three common forms of panel regression that could be done - pooled OLS regression, fixed effects and random effects (GLS) regression. In pooled regression, data from all firms are

considered not different from each other hence the regression is done without considering the differences among companies. The main drawback of pooled OLS regression is that it assumes the heterogeneity of the firms being studied. This is only fit when using the same line of companies. In the case of this study, this model was not used since the firms surveyed were different from each other hence heterogeneity was considered.

Fixed effects allows for heterogeneity among the firms under study by allowing each firm its own intercept value. However the intercept is time invariant hence the name fixed effects. Random effects is similar to the fixed effects except that instead of all firms having own intercept, in random effects all the firms studied have a common mean value for the intercept. The Hausman test was used to determine which model to use between random and fixed effects. Statistically significant results for the test mean that fixed effect is relevant; otherwise, random effect is used. The Hausman's test results showed a $p>0.05$ hence allowing the researcher to accept the null; thus the random effects model was appropriate for use. The models used were:

$$ROA=\alpha+ \beta 3\text{unrelated diversification}IT+ \beta 4\text{related diversification}IT + \beta 1\text{size} + \beta 2\text{age}IT + \beta 5\text{managerial experience}IT + \varepsilon IT$$

$$ROCE= \alpha+ \beta 3\text{unrelated diversification}IT+ \beta 4\text{related diversification}IT + \beta 1\text{size} + \beta 2\text{age}IT + \beta 5\text{managerial experience}IT + \varepsilon IT$$

Where ROA=return on assets; β = coefficient term to be estimated; $I=I^{th}$ firm; T=period of time (in years); ε=error term; ROCE= return on capital employed; ROTA= return on

total assets. STATA was used to make the analysis while tables and graphs used to present the results.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings and results the study made. The chapter is organised as per the study objectives. The findings are presented first the descriptions followed by inferences. The chapter presents the background findings as well before presenting the findings based on the objectives under study. Descriptive findings are analysed using frequencies, percentages, mean and standard deviation while inferences are done using panel regression.

4.2 Return Rate and Firm Information

4.2.1 Return Rate

The study targeted to collect findings from a sample size of 142 respondents. Though the study targeted the 142, the questionnaires returned on time for analyses were 99. Out of these 99 questionnaires, 7 were deemed incomplete and exempted from analysis as they had less than a quarter of the questions answered. Four of the questionnaires were from firms that have since grown beyond the scope of small and micro firms according to the definition used in this study. Five of the questionnaires came from firms that, though started in 2010, had not operated for some years till 2015 when they re-opened. As such analysing these firms would not present a clear picture as it would be challenging to follow up with performance during the years the firms were out of operation. As such, the

number of questionnaires the researcher found valid for analysis were 83 representing 58.5% of the total target sample and distributed as in table 4.1.

Table 4.1: Distribution of Sample and Response Rate

Stratum (Ward)	**Sample Size**	**Response Rate**	**% of return questionnaires**
Kayole North	29	22	75.9
Kayole Central	29	18	62.1
Kayole South	28	13	46.4
Komarock	28	14	50.0
Matopeni	28	16	57.1
Total Sample Size	**142**	**83**	**58.5**

Source: Primary Data (2016).

For the regression, data analysed was collected over a period of five years from the 83 small and micro firms in Embakasi Central constituency. The data was sorted and cleaned resulting to 120 observations being made for analysis - arrived at after eliminating data that was incoherent for analysis with panel regression. These incoherent panels included data from firms whose assets, liabilities, sales and profits were inconsistent with the nature, history and size of the firm (e.g. overstated/understated or not stated).

4.2.2 Firm Information

4.2.2.1 Age of Enterprises

The average age of the enterprises studied was as indicated in the Table 4.2.

Table 4.2: Age of Enterprise

Age (years)	Frequency	Percent (%)
4.5-5.4	61	73.5
5.5-6.4	10	12.0
6.5-7.4	6	7.2
7.5-9.0	4	4.8
Over 10	2	2.4
Total	83	100

Source: Primary Data (2016).

From Table 4.2, it is clear that majority (73.5%) of the firms were aged between 4.5 years and 5.4 years since the time they started operation. Twelve percent of the firms had an average age of 6 years (when rounded off to nearest a year). These results generally show that all the firms analysed were aged over five years. This was achieved because the targeted firms were those aged over five years since inception. The results indicate that the firms' performance over years could be monitored against the diversification strategies taken to establish the change encountered.

4.2.2.2 Number of Managers in Target Firms

The study also investigated the number of managers target firms had by the time of study. The collected result is shown in Figure 4.1.

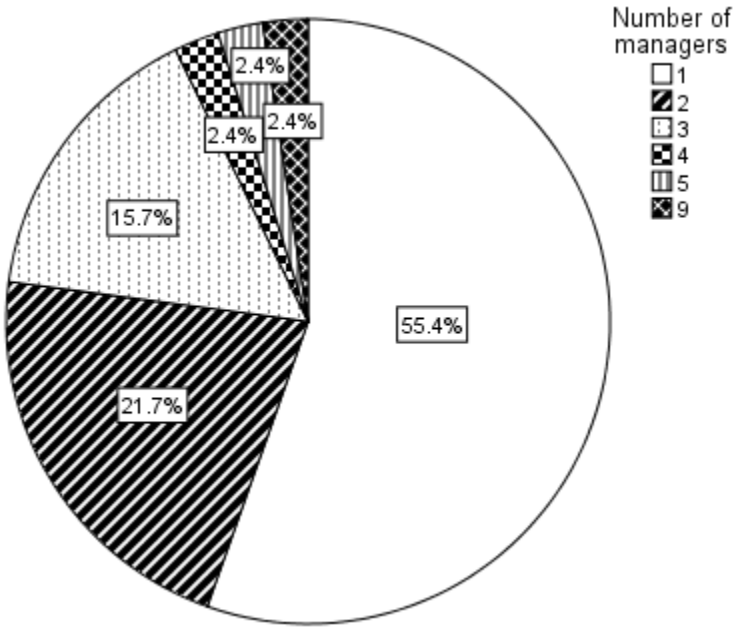

Figure 4.1: Number of Managers Small Firms Have
Source: Primary Data (2016).

As indicated in Figure 4.1, majority (55.4%) of the firms had one manager, 21.7% had 2 managers, 15.7% firms had 3 managers, 2.4% of the firms had 4 managers, 2.4% firms had 5 managers and the remaining 2.4% of the firms had 9 managers. This result shows that as the number of managers increased the number of firms reduced-indicating that most of the firms preferred having the minimum number of managers possible. Perhaps the fact that majority of the firms were small and micro firms, the scope of business they dealt with didn't allow the employment of many managers.

4.2.2.3 Experience of Managers at Start-Up

The study investigated the experience the firm managers had during start up. The results were collected and summarised as shown in figure 4.2.

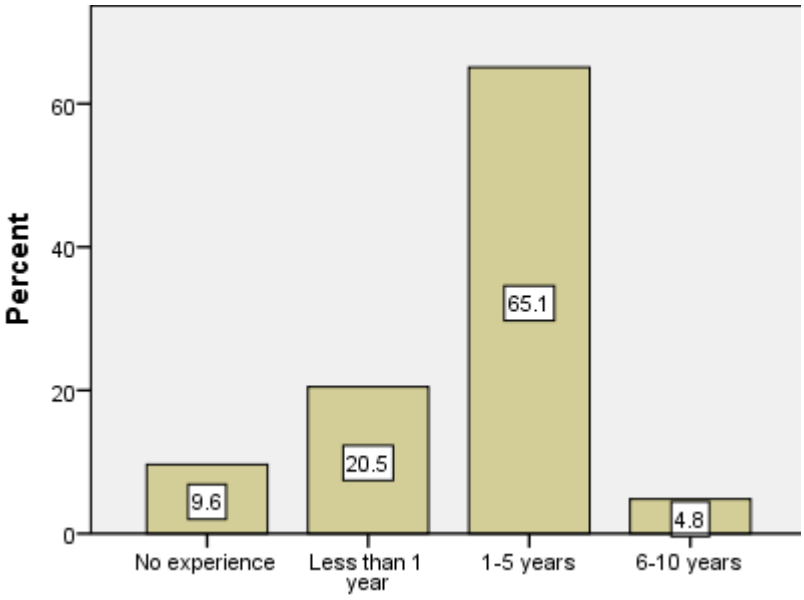

Figure 4.2: Managerial Experience during Start Up
Source: Primary Data (2016).

Figure 4.2 shows that on start up, majority (65.1%) of the firms had managers with experience ranging from 1-5 years, 20.5% firms had managers who had less than a year's experience when they started while 9.6% of the firms had managers who had no

experience at the time of start up. However, 4.8% of the firms had managers with 6-10 years experience during the start up time. This result shows that majority of the firms had managers with experience in management at the time of starting hence, assuming that other factors are constant, the small and micro firms had the managerial capability to enable them succeed.

4.2.2.4 Amount of Funds Borrowed

The table 4.3 shows the amount of funds borrowed by the firms on start up.

Table 4.3: Amount of Money Borrowed

Amount borrowed (Ksh.)	Firms	Percent of firms (%)
100000	30	36.1
50000	29	34.9
300000	10	12.0
150000	6	7.2
30000	3	3.6
350000	3	3.6
80000	2	2.4
Total	**83**	**100.0**

Source: Primary Data (2016).

From table 4.3, 36.1% of the firms borrowed Ksh.100,000 from YEDF while 34.9% borrowed Ksh.50,000. Twelve percent of the firms borrowed Ksh.300,000 and only 3.6% borrowed Ksh.30,000. Since the amounts borrowed are not significantly large, it can only be sufficient to start or continue small businesses which do not require huge capital investments. Thus the amount borrowed validates that majority of the firms were small/micro firms based on the amount they borrowed for start up.

4.3 Related Diversification and Performance of Small and Micro Firms Funded by Youth Fund

In the first objective, the study investigated the extent to which related diversification affected the performance of small and micro firms funded by YEDF in Embakasi Central constituency. The findings were as presented in the subheadings that follow.

4.3.1 Type of Related Diversification

The study investigated the type of diversification firms had adopted and the results collected presented in the table 4.4.

As indicated in table 4.4, 36.1% of the respondents argued that non diversification was not an applicable strategy to their firms, 28.9% strongly disagreed that their firms had adopted no diversification strategy while 24.1% disagreed. Six percent agreed while 4.8% agreed strongly that their firms had adopted the no-diversification strategy. These findings tend to show that majority of the small and micro firms in Embakasi Central constituency had adopted the diversification strategy. The mean of 2.05 also confirms this finding though the standard deviation of 1.71 is slightly high and shows that the feedback given by majority of the respondents differed from what the minority respondents gave. This is because the difference between the number of respondents who agreed and those disagreeing was significant. These results show that majority of small firms preferred to diversify their businesses. Perhaps this was so because diversifying enhanced survival chances by enhancing performance as noted by Mishra and Akbar (2007).

Table 4.4: Type of Related Diversification Adopted

	N/A [0]		Strongly Disagree [1]		Disagree [2]		Agree [3]		Strongly Agree [4]		Mean and standard deviation	
	freq	%	freq	%	Freq	%	freq	%	freq	%	Mean	Standard deviation
Our business/firm/enterprise has traded in the same products/services since its starting**(No Diversification)**	30	36.1	24	28.9	20	24.1	5	6.0	4	4.8	**2.05**	1.710
Our business/firm/enterprise trades in similar/closely related products to the one it started with**(Concentric Diversification)**	16	19.3	4	4.8	5	6.0	49	59.0	9	10.8	**2.37**	1.313
Our business/firm/enterprise has come up with products/services that are technologically and commercially different but appeal to current customers. **(Horizontal Diversification)**	11	13.3	2	2.4	13	15.7	21	25.3	36	43.4	**2.83**	1.369
Our business/firm/enterprise expanded by producing raw materials rather than buying them from suppliers **(Vertical Diversification)**	11	13.3	2	2.4	13	15.7	21	25.3	36	43.4	**1.70**	1.227
Our business/firm/enterprise expanded by starting distribution of ready products instead of relying with distributors **(Vertical Diversification)**	23	27.7	10	12.0	15	18.1	24	28.9	11	13.3	**1.88**	1.435

N=83 for all rows.
Source: primary Data (2016).

The table 4.4 also shows that 59% of the respondents agreed that their firms had adopted concentric diversification, 10.8% strongly agreed and 19.3% said concentric diversification was not applicable to their firms. Out of the remaining responses, 4.8%

strongly disagreed while 6.0% disagreed that their firms had adopted concentric diversification. This result show that majority of the interviewed firms had adopted concentric diversification since the total of those who agreed was higher than the total of those who disagreed. With reference to the scale used to rate the responses, the mean of 2.37 confirm that majority of the respondents agreed that concentric diversification was a strategy adopted by small firms in Embakasi Central constituency. The relatively small deviation (1.313) shows that the findings did not deviate from the mean significantly.

Table 4.4 further shows that 43.4% of the respondents agreed strongly that their firms had adopted horizontal diversification, 25.3% agreed while 13.3% said the strategy was inapplicable to their firms. Two point four percent strongly disagreed while 15.7% disagreed that their firms had adopted horizontal diversification. These findings also tend to show that majority of the firms agreed that horizontal diversification was adopted by small and micro firms in Embakasi Central as a performance enhancement strategy. The mean of 2.83 looked at in relation to the scale used to rank the level of agreement confirms that majority of the respondents agreed that the firms preferred horizontal diversification as a way of enhancing performance.

On vertical diversification where the firm ventured into the production of raw materials, the study found that 43.4% strongly agreed, 25.3% agreed, 15.7% disagreed and 2.4% strongly disagreed that their firms ventured into the production of raw materials for their products. To 13.3% of the firms, this strategy was inapplicable. However, the small mean (1.70) compared to the means of the other diversification models in table 4.4 show that among all firms that had adopted related diversification, those that had diversified by way

of producing raw materials for their products were minimal. The mean of 1.88 also shows that vertical diversification involving the venturing into distribution of ready products was not common form of related diversification compared to the other forms. However, 28.9% of the firms agreed, 13.3% strongly agreed while 18.1% disagreed and 12% strongly disagreed that their firms had adopted vertical diversification where they ventured in distribution of finished products. 27.7% said that this strategy was inapplicable in their firms.

Focusing on the means shown in table 4.4, it is clear that horizontal diversification is the most common form of related diversification among small and micro firms in Embakasi Central constituency (mean=2.83). Perhaps most small firms find it easy to increase their product range and offer them to the current customers (who the firms already have a rapport with) than engaging in any other strategy of related diversification. Concentric diversification is the second (mean=2.37) most common strategy adopted by small and micro firms in Embakasi Central constituency. Since the highest means were for diversified firms indicates that most of the small firms preferred diversification as it enhanced their performance (Mishra & Akbar, 2007; Deng *et al.*, 2012).

The least preferred form of related diversification among the small and micro firms in Embakasi Central constituency is vertical diversification. Perhaps this indicates that majority of the small and micro firms do not have the capacity to develop raw materials or come up with distribution channels relevant for their current business operations.

4.3.2 Customer Segmentation

The study also investigated the types of customer segments the firms targeted in their diversification strategies.

4.3.2.1 Firm Deals with Same Customers

Table 4.5: Firm Deals with Same Customer

	N/A [0]	Strongly Disagree [1]	Disagree [2]	Agree [3]	Strongly Agree [4]	Total
Frequency	28	12	27	5	9	81
Percentage (%)	34.6	14.8	33.3	6.2	11.1	100
Mean=1.44	**Std. Dev. =1.323**					

Source: Primary Data (2016).

As indicated in Table 4.5, majority of 33.3% disagreed while 14.8% disagreed strongly that their firms dealt with the same customers they started with. Six point two percent agreed while 11.1% agreed strongly that their firms dealt with the same customers they started with. Thirty four point six percent said that this question was inapplicable to their firms. Additionally, the mean of 1.44 shows that majority disagreed with the statement that firms dealt with same customers from start to the present time. The data used was slightly spread from the mean as indicates the standard deviation (1.323). This finding indicates that majority of small and micro firms in Embakasi Central did not essentially stick to the same market segment-perhaps this is the reason of diversifying-to target new markets.

4.3.2.2 Firm Retains old Customers as Well as Acquired New Ones

As to whether the small and micro firms funded by YEDF dealt with old customers as well as new ones, the result in figure 4.3 was collected.

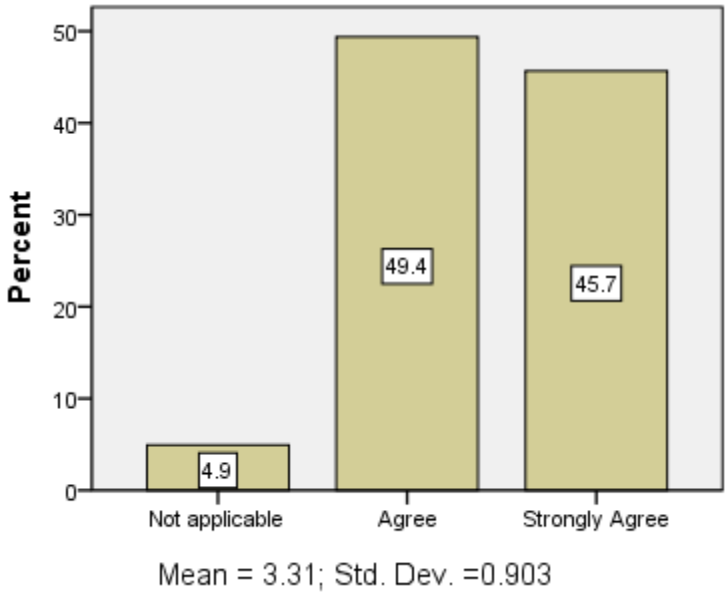

Figure 4.3: Firms Adopted new Customers and Retained Old Customers
Source: Primary Data (2016).

As shown in figure 4.3, majority of 49.4% of the managers interviewed agreed while 45.7% agreed strongly that their firms had retained old customers they acquired on start up as well as had acquired new ones when they diversified. On the other hand, the mean was 3.31 confirming that majority agreed while the standard deviation of 0.903 shows that the findings were not spread far apart from the mean. This result indicate that majority of respondents agreed that their firms adopted new customers as well as retained the old ones acquired at the start up. Only 4.9% said that this point was inapplicable to their firms. This shows that the firms did not diversify as a way of exiting given market segment but as a way of increasing their target market hence increase sales.

4.3.2.3 Firm has Discarded Customers it had at Start up and Targeted Newer Customers

The findings in figure 4.4 show results as to whether firms had discarded old customers so as to deal with new ones only.

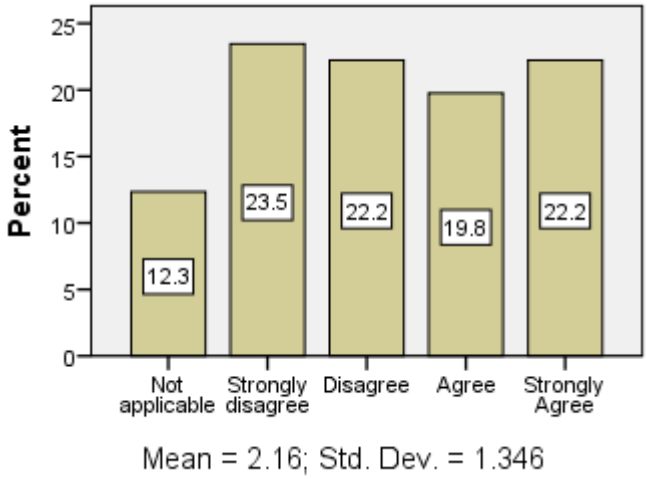

Figure 4.4: Firm has Discarded Customers it had at Start-Up and Targeted Newer Customers
Source: Primary Data (2016).

Figure 4.4 shows that majority (23.5%) disagreed strongly while 22.2% disagreed that firms surveyed had discarded customers they had on start up for newer customers. Twenty two point two percent strongly agreed and 19.8% while the remainder said the finding could not be applied to their firms. The mean of 2.16 if rounded off to nearest whole number also show that majority of respondents disagreed about discarding customers they had on start up. However, the relatively large standard deviation (1.346) shows that findings varied from the mean. This shows that among majority of the firms that adopted related diversification, both old customers and new ones were important as none had been discarded. Perhaps this means that while adopting the diversification strategy, the firms did not lose focus of the customers that they dealt with on start-up.

The findings in Table 4.5 and Figures 4.3 & 4.4 looked at together show that with diversification, small firms were able to acquire new customers on top of their retained old customers. Perhaps this is an indication that diversified firms performed better as the strategy helped them increase their market share. This analysis is in line with the findings

presented by Isoraite (2008) and Audretsch (1995) that performance of diversified firms could also be revealed through customer reached.

4.3.3 Regression Results of Diversification and Performance

This part gives the results of the relationship between diversification and performance. Though the focus of the section is on related diversification, findings for specialised firms are also given for comparison majorly because most diversified firms began as specialised ones.

4.3.3.1 Performance of Specialised Firms

The table 4.6 shows regression results of the relationship between specialised firms and their performance.

Table 4.6: Regression Summary of Performance of Specialised Firms

Observations = 120 No. of grps = 27 Wald chi2(2) = 26.41 Prob > Chi2 =0.0000			
Variable	**Coefficient**	**Z**	**P>/z/**
ROCE	-0.0017478	-1.39	0.165
ROA	-0.0173436	-2.80	0.005

Source: Primary Data (2016).

In Table 4.6, the Prob > Chi2 =0.0000 shows that the model estimating the relationship between specialised firms and their performance measured by ROCE and ROA is significant. This means that the model explains the relationship between the independent and dependent variables well. The results also show that there is no significant relationship between specialisation and performance measured by ROCE since P > 0.05. This indicates that performance of specialised firms was not best measured by their return on capital employed. However, the fact that there was significance between specialisation

and ROA ($p < 0.05$) shows that specialisation affected performance measured by return on assets. The coefficient shows that the relationship between specialisation and ROA was negative indicating that increased specialisation lowered the return on assets. This concurs with BDC (2015) study that found that performance of specialised firms was lower to that of diversified small firms in Alberta. Mishra and Akbar's (2007) study also found specialised firm to be poor performers compared to diversified firms. As such, specialising resulted in small and micro firms in Embakasi Central recording low return on assets. This means that specialisation was not a good strategy of enhancing ROA of these firms. Since small firms have a limited capacity to accumulate resources and increase production, perhaps, specialisation meant that the firms could not seek more assets for investment or increase production and sales in order to record high ROA. This then resulted in the negative but significant relationship between specialisation and ROA.

4.3.3.2 Performance of Firms that have Engaged Related Diversification

The regression results for the relationship between related diversification and ROCE and ROA is shown in table 4.7.

Table 4.7: Regression Summary of Performance of Related Diversified Firms

Observations = 120 No. of grps = 27 Wald Chi2(2) = 34.91 Prob > Chi2 = 0.0000			
Related firms	**Coefficient**	**Z**	**P>/z/**
ROCE	-0.0021431	-0.93	0.351
ROA	0.216321	4.69	0.000

Source: Primary Data (2016).

Table 4.7 shows a Prob > Chi2 = 0.0000 which indicates that the model estimating the relationship between related diversification and performance measured by ROCE and ROA is well fitting ($p < 0.05$). This indicates the model is well placed in explaining the relationship between related diversification of firms and ROCE and ROA.

The results in table 4.7 also show that there is significant positive relationship between related diversification and return on assets of small and micro firms (coef. = 0.216; $p<0.05$). This finding concurs with that by Deng *et al.* (2012) that related diversification enhances firm performance measured by ROA but disagrees with Oyewobi *et al.*'s (2013) finding that increased diversification lowers return on assets. It should be noted that ROA is good measure of how management is effective in using their assets to achieve profits. Hence, this result means that with related diversification, managers of small firms are able to efficiently use their assets/investment to attain higher profits. Since related diversification does not engage processes that are significantly different from the current ones it is easier for firms to utilise available assets/investments to enhance higher returns without inflating costs significantly. The fact that there is no significance between related diversified firms and ROCE shows that ROCE is not a determinant of performance of related diversified firms.

4.3.4 Extent to which the Business should Further Diversify

As to whether the firms that adopted related diversification should diversify further to enhance performance, the results in table 4.8 were collected.

Table 4.8: Extent to Which the Related Diversified Firms Should Further Diversify

	No extent **[0]**	Small extent **[1]**	Average extent **[2]**	High extent **[3]**	**Total**
Frequency	2	2	34	45	**83**
Percentage (%)	2.4	2.4	41.0	54.2	**100.0**
Mean=2.47 Std. Dev. =0.669					

Source: Primary Data (2016).

As indicated in Table 4.8, majority (54.2%) (Mean = 2.47) of the managers of small and micro firms surveyed argued that to a high extent their firms should diversify to enhance

the performance of their firms and 41% opined that their organisations would increase their performance if they diversified further to an average extent. This result shows that small firms believed that increasing the extent of their diversification would lead to increased results. This is in concurrence with the finding fronted by BDC (2015); Li and Wong (2003) that highly diversified firms have high performance compared to moderately diversified and specialised firms.

4.3.5 Diversification Strategy likely to Guarantee the Performance

The researcher also sought to identify the diversification strategy related diversified firms expected to adopt to further enhance performance. The results are shown in table 4.9.

Table 4.9: Diversification Strategy Likely to Enhance Performance

	Frequency	**Percent (%)**
Not applicable	26	33.3
Horizontal	16	20.5
Concentric	14	17.9
Vertical	8	10.3
Conglomerate	5	6.4
Collaboration	5	6.4
Concentric & Collaborations	4	5.1
Total	78	100.0

Source: Primary Data (2016).

Table 4.9 shows that 33.3% of the respondents said that there was no applicable strategy of diversification that would lead to the performance of unrelated firms being enhanced. This finding could be attributed to the fact that some of the respondents had adopted unrelated or specialised form of diversification which put them in an impossible position to give a diversification strategy suitable for enhanced performance among related firms.

However, 20.5% said horizontal diversification, 17.9% said concentric diversification and 10.3% said vertical diversification was the best strategy of diversification suitable for

enhanced performance among related diversified firms. Horizontal, concentric and vertical diversification are forms of related diversification meaning that majority of managers of small firms felt that related diversified firms could achieve enhanced performance if they continued with related diversification strategy as opposed to engaging unrelated strategies. This finding seem to show that respondents felt that having increased diversification enhanced performance just as was presented by BDC (2015) that modestly diversified firms outperformed those not or less diversified.

4.4 Effect of Unrelated Diversification Strategies on Organisational Performance of Small and Micro Enterprises Funded by Youth Fund

The second objective investigated how unrelated diversification affected the organisational performance of small and micro firms in Embakasi Central Constituency. The findings on this objective are as shown in the subtopics that follow.

4.4.1 Type of Unrelated Diversification Adopted

Table 4.10 shows types of unrelated diversification adopted among small and micro firms in Embakasi Central Constituency.

Table 4.10: Type of Unrelated Diversification Adopted

	N/A [0]		Strongly Disagree [1]		Disagree [2]		Agree [3]		Strongly Agree [4]			
	freq	%	freq	%	Freq	%	freq	%	freq	%	**Mean**	**Standard deviation**
Our business/firm/enterprise has collaborated with other partners to realize common goals**(Collaborations)**	13	15.7	6	7.2	10	12.0	28	33.7	26	31.3	**2.58**	1.407
Our business/firm/enterprise trades in different products/Services to the one it started with**(Conglomerate Diversification)**	16	19.3	2	2.4	12	14.5	37	44.6	16	19.3	**2.42**	1.363

N=83 for all rows.
Source: Primary Data (2016).

Table 4.10 shows that majority of 33.7% agreed and 31.3% strongly agreed that their businesses had adopted collaboration form of unrelated diversification while 12% disagreed and 7.2% strongly disagreed about their firms adopting collaborations. Fifteen point seven percent said that collaborations had not been applied to their firms. These results tend to show that majority of firms adopted collaborations as a performance enhancing strategy. The mean of 2.58 looked at with reference to the scale used to rate the responses confirms that majority of respondents agreed to have adopted collaborations. On the other hand, majority (44.6%) agreed, 19.3% strongly agreed, 14.5% disagreed and 2.4% strongly disagreed that their firms had adopted conglomeration form of unrelated diversification to enhance performance. When grouped into responses for and responses against, these findings show that majority of the respondents agreed that their firms had adopted conglomeration strategy. The mean of 2.42 (with reference to the scale used to calculate means for this subtopic) also shows that

those who agreed to the adoption of conglomeration were majority compared to those who disagreed. These findings could be relied upon if the standard deviations are considered.

Table 4.10 shows that collaborations have a higher mean (2.58) compared to that of conglomerations (2.42) indicating that collaborations are the most preferred form of unrelated diversification adopted by small and micro firms in Embakasi Central Constituency. It is likely that most micro and small firms prefer to partner with stable enterprises to reduce the risk of failure hence the dominance of collaborations over conglomerations. However, the fact that the means show that respondents agree to the adoption of conglomeration and collaboration show that small and micro firms considered these strategy important towards increasing performance just as was presented by Oyewobi *et al.*'s (2013).

4.4.2 Customer Segmentation

Concerning how unrelated diversified firms segmented their customers on diversification, the results in the subtopics that follow were collected.

4.4.2.1 Firm deals with Same Customer it Started with

As to whether unrelated diversified firms only dealt with same customers on diversification as those it had on start up, the findings in table 4.11 were collected.

Table 4.11: Firm Only Have the Customers it Started with

	N/A [0]	Strongly Disagree [1]	Disagree [2]	Agree [3]	Strongly Agree [4]	Total
Frequency	25	23	14	9	10	81
Percentage (%)	30.9	28.4	17.3	11.1	12.3	100.0
Mean=1.40	**Std. Dev. =1.406**					

Source: Primary Data (2016).

Table 4.11 shows that majority (30.9%) said the argument that after diversification firms had customers they started with was inapplicable to their firms. Perhaps this group of respondents had implemented related diversification hence felt inapplicable to answer for unrelated firms. Twenty eight point four percent of the respondents disagreed strongly while 17.3% disagreed that their firms dealt with the same customers as those they had when starting. Only 12.3% agreed strongly and 11.1% agreed that their firms dealt with the same customers as those they had when start. The Mean of 1.40 shows that majority of the respondents disagreed that firms only dealt with customers they had on start up. The findings from majority indicate that firms that had engaged unrelated diversification had sought other customer segments different from the ones they had on start up. Perhaps this was done to enhance sales and reduce risks hence improve the firms' performance.

4.4.2.2 Firm Retains Old Customers as Well as Acquired New Ones

As to whether the small and micro firms that adopted unrelated diversification dealt with old customers as well as new ones, the result in table 4.12 were collected.

Table 4.12: Firms Adopted New Customers and Retained Old Customers

	N/A [0]	Strongly Disagree [1]	Disagree [2]	Agree [3]	Strongly Agree [4]	Total
Frequency	19	3	4	18	39	83
Percentage (%)	22.9	3.6	4.8	21.7	47.0	100.0
Mean=3.72 Std. Dev. =0.872						

Source: Primary Data (2016).

Table 4.12 shows that majority (47.0%) of the respondents strongly agreed while 21.7% agreed that small and micro firms in Embakasi Central had sought new customers in addition to retaining the old customers they had on start up. Three point six percent disagreed strongly while 4.8% disagreed that small and micro firms in Embakasi Central had sought new customers in addition to retaining the old customers they had on start up. The mean of 3.72 also affirms that majority of respondents agreed strongly that firms retained old customers as well as attracted new ones. The standard deviation of 0.872 shows that majority of the findings were not significantly spread from the mean. From these findings, it is apparent that that the firms engaging unrelated diversification understood the importance of retaining old customers and targeting new ones as that would increase sales hence better their performance. The finding also shows that diversifying did not lead to discarding of initial customers but also led to acquisition of more customers.

4.4.2.3 Unrelated Firms Discarded old Customers and Target New Customers

As to whether the unrelated diversification strategy led to firms discarding old customers and get new ones, the findings collected are shown in figure 4.5.

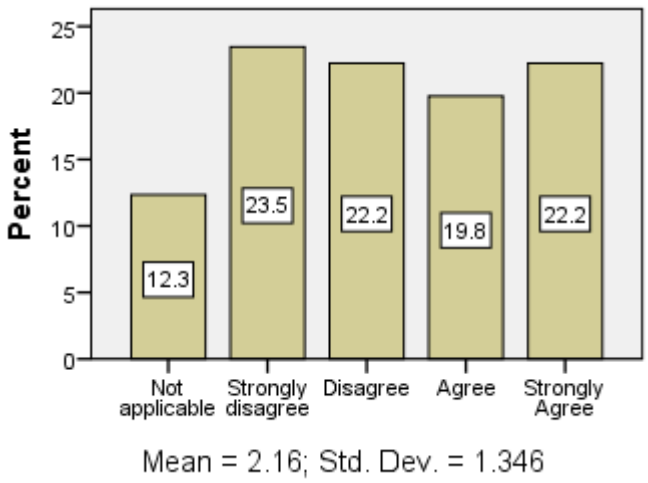

Figure 4.5: Firms Discarded Old Customers and Targeted Newer Customers
Source: Primary Data (2016).

In figure 4.5, 23.5% of the respondents strongly disagreed and 22.2% disagreed that unrelated diversified firms had discarded their old customers as they acquired new ones. Out of the remaining responses, 22.2% strongly agreed while 19.8% agreed that their firms had discarded the customers they had at start-up and in their place targeted new customers. This finding tends to show that of all the responses given, majority disagreed that their firms discarded old customers at the expense of new ones. The mean of 2.16 also confirms this finding while the standard deviation shows that the data used had a slightly significant variation from the mean. This indicates that diversifying did not influence the firms to discard their old customers hence confirming the findings given elsewhere in this study that diversifying only helped to increase the customer reach hence increase returns which in turn would enhance performance.

The findings in table 4.11, table 4.12 and figure 4.5 show that with unrelated diversification, small firms were able to acquire new customers on top of their old customers. Since increase in the number of customers correlates positively with the possible volume of sales and revenue likely to be collected, it is in line to discuss that the

increased number of customers proved that unrelated diversification enhanced the performance of small and micro firms in Embakasi Central just as was found in the studies by Isoraite (2008) and Audretsch (1995).

4.4.3 Regression Results on the Performance of Unrelated Diversified Firms

The table 4.13 shows regression results on how unrelated diversified firms performed in Embakasi Central constituency.

Table 4.13: Regression Summary of Performance of Unrelated Diversified Firms

Observations = 119 No. of grps = 27 Wald Chi2(2) = 6.33 Prob > Chi2 = 0.0421			
Unrelated firms	**Coefficient**	**Z**	**P>/z/**
ROCE	0.0048281	2.27	0.023
ROA	-0.0068263	-0.78	0.437

Source: Primary Data (2016).

Table 4.13 shows the model estimating the relationship between unrelated diversified firms and their performance is well suited since $p<0.05$. This indicates that the estimated relationship between unrelated diversified firms and ROCE and ROA shown in table 4.16 is well represented. The results further show that firms that adopt unrelated diversification record positive significant ROCE ($p<0.05$) and insignificant ROA ($p>0.05$). This means that firms that adopt unrelated diversification record high return on capital employed while ROA is not a predictor of performance of these firms. The finding disagrees that submitted by Oyewobi *et al.* (2013) since they found ROCE to decrease with diversification. Similarly, Oyewobi *et al.* found a decrease in the performance of unrelated diversified firms measured by return on total assets. This result is also inconsistent with the findings revealed in this study which found that the performance of unrelated diversified firms cannot be measured by ROA.

ROCE is a good measure of profitability and firm growth (Ibrahim & Kaka, 2007; Oyewobi *et al.,* 2013) since it gives the ratio of the profits a firm makes against the funds used to generate that profit. The results in Table 4.13 therefore show that unrelated diversified firms have high profitability prospects. Perhaps this could be caused by the fact that venturing into product lines that are different from old ones puts a firm at a better position of creating products/services with superior prices hence the potential for high profits.

4.4.4 Extent to Which Unrelated Firms Should Further Diversify to Enhance Performance

After establishing the current performance of unrelated diversified firms, the study further investigated the extent to which their managers felt further diversification would enhance performance. Findings are in table 4.14.

Table 4.14: Extent to Which the Unrelated Firms Should Further Diversify to Enhance Performance

	No extent [0]	**Small extent [1]**	**Average extent [2]**	**High extent [3]**	**Total**
Frequency	12	7	19	45	83
Percentage (%)	14.5	8.4	22.9	54.2	100
Mean=2.17 Std. Dev. = 1.091					

Source: Primary Data (2016).

In table 4.14, majority (54.2%) of the respondents said that to a high extent their firms needed further diversification to enhance their performance while 22.9% said to an average extent their firms needed further diversification to enhance performance. The mean of 2.17 which indicates majority agreed to a high extent was also realised. The standard deviation of 1.091 shows that the data varies significantly from the mean. However, the finding indicates that the management of majority of the firms that had

engaged unrelated diversification were optimistic that further diversification was relevant to increase performance. Perhaps this is motivated by, first, the fact that the current diversification strategy had attracted enhanced performance which then shows that further diversification would result into the same. Second, the fact that firms had only tried unrelated diversification strategies, they believed that trying more strategies would bare positive results for their firms which are still small and have high room for growth. Perhaps this finding is motivated by the belief that increased diversification among unrelated diversified firms' leads to increased performance (Oyewobi *et al.*, 2013; Li & Wong, 2003).

4.4.5 Diversification Preferred for Enhanced Performance

The study also investigated the diversification strategy relevant to help firms acquire enhanced performance desired. Findings are shown in table 4.15.

Table 4.15: Diversification Strategy Preferred for Enhanced Performance

	Frequency	**Percent (%)**
Collaboration	26	31.3
Conglomerate	25	30.1
Not applicable	14	16.9
Horizontal	7	8.4
Vertical	6	7.2
Concentric	5	6.0
Total	83	100.0

Source: Primary Data (2016).

As indicated in table 4.15, a majority (31.3%) of the managers thought collaboration form of diversification would help them enhance performance while 30.1% thought conglomeration diversification would help them do the same. Horizontal diversification was the third preferred form of diversification respondents felt could lead to further

performance as 8.4% supported it. At 6.0%, concentric diversification was the least preferred to lead unrelated diversified firms to enhanced performance. Overally, the finding shows that unrelated firms appreciated increased diversification within their current diversification strategy as their new way of enhancing performance. Perhaps the firms believed that having modest diversification would lead to better returns (BDC, 2015).

4.5 Moderating Influence of Firm Age, Firm Size and Managers' Experience

The third objective investigated the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund. The results are as shown in the subtopics that follow.

4.5.1 Managerial Experience

The study investigated the influence of managerial influence on the performance of specialised, related and unrelated diversified firms. The findings are in table 4.16.

Table 4.16: Influence of Managerial Experience on Performance of Diversified Firms

	Specialised firms	**Related diversified firms**	**Unrelated diversified firms**
Coefficient	0.075681	-0.0638853	-0.0458571
Z	0.89	-0.71	-0.52
P>/z/	0.372	0.475	0.604

Source: Primary Data (2016).

From table 4.16, it is clear that managerial experience did not have any moderating influence on the relationship between the diversification of firms and its performance since p>0.05. This happened for all forms of diversification. The experience managers

had did not matter to the diversification and performance of small and micro firms. Perhaps this result can be attributed to small and micro start up businesses having many issues to deal with to enhance performance to the extent that experience managers had didn't take significance. It also means that experience managers had did not matter as to whether diversification was adopted or not. These findings disagrees with the finding that managerial experience affects innovation and performance of small firms (Balsmeier & Czarnitzki, 2014).

4.5.2 Age of the Firm

The study also investigated the moderating influence of the age of the firm since it started. Results are as indicated in table 4.17.

Table 4.17: Influence of age of firm on Performance of Diversified Firms

	Specialised firms	**Related diversified firms**	**Unrelated diversified firms**
Coefficient	-0.0564342	0.0786068	0.0063436
Z	-1.96	2.74	0.34
P>/z/	0.050	0.006	0.730

Source: Primary Data (2016).

Table 4.17 shows that age of the firm influenced the performance of specialised firms as well as the performance of related diversified firms ($p=0.05$; $p<0.05$ respectively). There is negative influence of age on specialised firms indicating that the performance of specialised firms reduces as they age. As such, managers of specialised firms can engage other business survival strategies as their firms age in order to sustain their performance. The negative relationship could be attributed to the fact that as small and micro specialised firms age, they fail to produce highly performing products due to their limitations hence their performance starts to reduce. This disagrees with the finding by

Deng *et al.* (2012) that firm age has positive significant relationship with firm diversification and performance. The finding also disagrees with BDC's (2015) study that firm age has no influence on the performance of diversified companies in Alberta.

Contrastingly, the study found that among related firms, age had a positive influence just as was established by Deng *et al.* (2012). This indicates that as related diversified firms aged their performance increased. Perhaps this could mean that related diversified firms increased their production/sales with time hence leading to the improved performance as the firms aged. Basically, related diversification aims to offer increased current or new but related products/services to new or current customers hence it is possible that these activities increase with time (age) leading to increased performance with time. Age of the firm was not of significant moderating influence to the performance of firms that had engaged the unrelated diversification strategy.

4.5.3 Size of the Firm

Table 4.18 shows findings on the influence of size of the firm on the relationship between diversification and performance.

Table 4.18: Influence of Size of the Firm on Performance of Diversified Firms

	Specialised firms	**Related diversified firms**	**Unrelated diversified firms**
Coefficient	-0.0617694	-0.0201253	0.1009651
Z	-0.95	-0.23	2.07
P>/z/	0.340	0.815	0.038

Source: Primary Data (2016).

In table 4.18, the size of firm only mattered to unrelated diversified firms ($p<0.05$) and it had no influence on the performance of specialised and related diversified firms ($p>0.05$). This result shows that the performance of unrelated diversified firms increased with the

increase in the size of the firm similar to what Deng *et al.* (2012) found in their study. The bigger a firm is, the greater its ability to acquire new businesses by either conglomeration or collaboration or both hence the finding. Since size of firm was measured by asset base in this study, the finding mean that bigger firms have adequate resources or assets that they can pump into unrelated diversification strategies to acquire business lines that increase the revenues of the main firm.

4.6 Summary of the Chapter

The chapter has presented the findings collected from small and micro firms funded by YEDF in Embakasi Central constituency. The findings show that majority of the surveyed firms had engaged related diversification, while second placed were firms with unrelated diversification. Only a handful was specialised firms. However, the findings also show that most of the firms start as specialised firms only to diversify in their third year. The results also indicate that the performance of specialized firms and unrelated diversified firms was not measured by ROCE. Specialization reduced the ROA of small and micro firms in Embakasi Central while those that adopted unrelated diversification achieved high ROA and those that are unrelated diversified have high ROCE. Managerial experience is not a moderator of the relationship between diversification and performance but age of firm and size are moderators. The next chapter presents the summary of findings, conclusions, and recommendations.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summarised findings of the study, the conclusions the study makes and the recommendations for policy implementation as well as recommendations for further study. In these subheadings, the contents are presented according to the objectives.

5.2 Summary of Findings

5.2.1 Related Diversification and Performance of Small and Micro Firms

The first objective investigated the effect related diversification has on the performance of small and micro firms funded by YEDF in Embakasi Central constituency. Horizontal diversification is the most common form of related diversification among small and micro firms in Embakasi Central constituency. Concentric diversification is the second most common strategy adopted by small and micro firms in Embakasi Central constituency while the least preferred form of related diversification among the firms is vertical diversification. Even after adopting diversification, related diversified firms still transact with their old as well as new customers.

Among specialised firms, there is no significant relationship between specialisation and performance measured by ROCE ($P > 0.05$). However, there was significant but negative

relationship between specialisation and performance measured by ROA ($p < 0.05$) indicating that increased specialisation lowered the return on assets.

Among firms that have engaged related diversification, there is significant positive relationship between related diversification and ROA of small and micro firms (coef. = 0.216; $p<0.05$). This result means that with related diversification, managers of small firms are able to efficiently use their assets/investment to attain higher profits. The fact that there is no significance between related diversified firms and ROCE shows that ROCE is not a determinant of performance of related diversified firms.

Despite the performance recorded due to diversification, small and micro firms' managers think that 54.2% of the firms that have related diversification should diversify to a high extent while 41.0% should diversify to an average extent to enhance their performance. The study also found that unrelated diversified firms that wished to further diversify to enhance performance preferred diversification within their current strategy.

5.2.2 Unrelated Diversification and Performance of Small and Micro Firms

The second objective investigated how unrelated diversification affected the organisational performance of small and micro firms in Embakasi Central Constituency. The study found that collaborations are the most preferred form of unrelated diversification adopted by small and micro firms in Embakasi Central Constituency while conglomerations are the least preferred form of unrelated diversification in the same target area. Majority of the firms that engaged unrelated diversification targeted old and

new customers on diversifying. Unrelated diversification did not influence small and micro firms to discard old customers but influenced the acquisition of new customers.

On regression results, the study found that firms that adopt unrelated diversification recorded positive significant ROCE ($p<0.05$) and insignificant ROA ($p>0.05$). Since the relationship between unrelated diversification and ROCE was positive, it was submitted that unrelated diversified firms have high profitability prospects. The study also found that despite the performance of unrelated diversified firms, management felt that majority (54.2%) of the firms would attain enhanced performance if they diversified to a high extent while 22.9% would attain enhanced performance if they diversified to an average extent. The study found that unrelated diversification methods (collaborations and conglomerations) were the strategies most managers felt would enable the realisation of the enhanced performance.

5.2.3 Moderating Influence of Firm Age, Firm Size and Managers' Experience

The third objective investigated the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund. The study found that managerial experience did not have any moderating influence on the relationship between any form of diversification and performance ($p>0.05$). Concerning the age of the firm, the study found that the performance of specialized firms reduces as they aged. Contrastingly, related diversified firms increased their performance with age. To the firms that had adopted unrelated diversification, age of the firm had no influence on their performance. The study also found that firm size only mattered to firms that had adopted unrelated diversification

($p<0.05$). It was revealed that the performance of unrelated diversified firms increased with the increase of the size of the firm. However, the size of the firm did not moderate the performance of specialised and related diversified firms.

5.3 Conclusions

5.3.1 Related Diversification and Performance of Small and Micro Firms

On the first objective, the study concludes that small and micro enterprises that have adopted related diversification record high return on assets. The study also concludes that related firms can further improve their performance to a high extent by engaging increased related diversification.

5.3.2 Unrelated Diversification and Performance of Small and Micro Firms

The second objective investigated how unrelated diversification affected the organisational performance of small and micro firms in Embakasi Central Constituency. The study concludes that firms with unrelated diversification experience high ROCE. The study also concludes that unrelated diversified firms can further improve their performance to a high extent by increasing unrelated diversification (collaborations and conglomerations) adopted.

5.3.3 Moderating Influence of Firm Age, Firm Size and Managers' Experience

The third objective investigated the moderating influence of firm characteristics on the relationship between diversification strategies and performance of small and micro enterprises funded by Youth Fund. The study concludes that managerial experience does

not affect the relationship between (any) diversification and performance. The performance of specialized firms reduces as they age while the performance of related diversified firms increases with age. Age of firm does not moderate the performance of unrelated diversified firms. The study also concludes that the performance of unrelated diversified firms increases with increased size of the firm.

5.4 Recommendations

5.4.1 Recommendations for Policy Implementation

Small and micro enterprises that are not performing well should aspire to adopt related diversification as a way of increasing ROA, which will make the firms appealing to investors. Similarly unprofitable and underperforming small and micro firms should consider unrelated diversification as a way of increasing ROCE hence profitability. These strategies will ensure that small and micro firms attract adequate investment relevant for survival and expansion/growth. The study also recommends that managers of small firms adopt a mix of diversification strategies (both related and unrelated) as a way of boosting the firms' appearance to investors whether they use the firms' ROA or ROCE indicators.

Small and micro firms seeking to engage unrelated diversification strategy must first focus on their growth/accumulation of assets to attain a large firm size as this will contribute to enhanced performance. This can be achieved by bringing on board new investments or financiers.

5.4.2 Areas for Further study

The study has established that ROCE is not a good measure of performance among related diversified firms while ROA is not a good measure of performance among unrelated diversified firms. This study has not investigated why this is so because it was not within the scope. As such, the study proposes an investigation into the reasons why ROA is not a good measure of performance in unrelated diversified firms as well as why ROCE is not a good measure of performance among related diversified firms.

The study was limited to the case of Embakasi Central Constituency which means that the findings may not be readily generalizable to small and micro firms in other geographical areas. As such, the study needs to be replicated in different geographical areas to validate the findings. Additionally a study with a larger sample than the one used in the current study should be conducted to offer a better platform for validating these findings.

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APPENDICES

Appendix I: Active SMES in Embakasi Central Constituency (Target Population)

	Kayole North	Kayole Central	Kayole South	Komarock	Matopeni
1	NEKIMO NETWORKS	TITANS MUOROTO	MOWLEM TONONOKA SPARKS SELF HELP GROUP	UMOJA TALENTED SELF HELP GROUP	GALAXY SELF HELP GROUP
2	VISION ACHIEVERS EDUCATION CENTRE	GRASSHOPPER SELF HELP GROUP	TOP SHINE EDUCATION CENTRE	UMOJA EAST FOOTBALL ASSOCIATION	SPARTANS SELF HELP GROUP
3	HAMWE YOUTH ENTERPRISE CLUB	BROTHERHOOD WATCHERS SELF HELP GROUP	JEOPA SLEF HELP GROUP	SECTOR YOUTH BUNGE SELF HELP GROUP	RIVERSIDE SELF HELP GROUP
4	BARAKA MARKET SELF HELP GROUP	GIFTED EDUCATION CENTRE	ROUTE EMPOWERMENT THROUGH UNITY	MALAIKA ACADEMIC COMPLEX	KWIHOTA WOMEN GROPU UMOJA III
5	WENDANI YOUTH EMPLOYMENT GROUP	SIRA SELF HELP GROUP	MOWLEM ELITES YOUTH GROUP	INNOVATIVE YOUTH GROUP	KIONEKI YOUTH ENTERPRISE CLUB
6	NEW HOPE SELF HELP GROUP	LAVERN F C S.H.G.	HIGH ACHIEVERS SELF HELP GROUP	JEFFSTA YOUTH S.H.G.	NEW DAWN SELF HELP GROUP
7	BLESSED SELF HELP GROUP	JONVINSON EDUCATION CENTRE	CREATIVE YOUNGSTARS GROUP	KWA MAJI BODA BODA S.H.G.	DIGITAL EDITION BODA BODA GROUP
8	CDEF YOUTH GROUP	LUKAKIS SLEF HELP GROUP	MALAIKA LADIES SELF HELP GROUP	AMICABLE SELF HELP GROUP	MOESAIKA SELF HELP GROUP
9	YARDSTICK	PELIDO SELF HELP GROUP	SUNRISE PROGRESSIVE YOUTH GROUP	PEACOCK GROUP	TWAJIJENGA SELF HELP GROUP
10	KIOI ENTERPRENEURS YOUTH GROUP	GOTAB GAA SELF HELP GROUP	AMANI SELF HELP GROUP	KINGS LINK SELF HELP GROUP	FAITH ALIVE YOUTH EMPOWERMENT SHG
11	ALBRAN VENTURE SELF	BROWN HILL	OKUMBO YOUTH SELF	BRIGHT FUTURE	SHAKERS SELF

	HELP GROUP	GROUP	HELP GROUP	K.C.C. WOMEN GROUP	HELP GROUP
12	ELITE SELF HELP GROUP	THE GOODSTART SELF HELP GROUP	MABADILIKO YOUTH SELF HELP GROUP	BRIGTH FUTURE SELF HELP GROUP	CANAAAN SELF HELP GROUP
13	KOMAROCK DRIVERS AND CONDUCTORS FOR CHAN	HILLS YOUTH EMPOWERMENT SELF HELP GROUP	FURAHA YOUTH INITIATIVE	AHADI INITIATIVE GROUP	ENZI DAIMA SELF HELP GROUP
14	YOUNG DEVELOPERS ASSOCIATION	DIGITAL COMMIT YOUTH GROUP	DIROJA SELF HELP GROUP	TENA BIG YOUTH GROUP	UMOJA ICT RESOURCE CENTRE
15	WINNERS NEVER QUIT SELF HELP GROUP	I WISE SELF HELP GROUP	YOUTH LINK KENYA	PREMIER PAP YOUTH	IDEAL SELF HELP GROUP
16	CREATIVE YOUTH ASSOCIATION	STAMWAN YOUHT SELF HELP GROUP	ZINDUA YOUTH ASSOCIATION	CHANGAMKA DIAMOND SLF HELP GROUP	UFANISI WA BARAKA SELF HELP GROUP
17	SOUTH YOUNG TURKS SELF HELP GROUP	PROGRESSIVE YOUTH S.H.ASSOCIATION	KEMBO ORGANIZATION	SOWETO VISION 2020 (SOVI 2020)	TAIWAN YOUTH GROUP
18	MWASABUNI YOUTH GROUP	KEYISI YOUTH WELFARE GROUP	TIA FORA SELF HELP GROUP	GITHUNGURI CORNERSTONE S.H.G.	BENSAM COMMUNITY CENTRE
19	UPCOMING GNERATION NI SISI YOUTH CHAPTER	MAILI SABA YOUTH S.H.G.	SOWETO THRILLERS DVLPT PROGRAMME	VISION KESHO "NI SISI" YOUTH GROUP	NICE AND FOCUS SELF HELP GROUP
20	JADA MILLENNIUM SELF HELP GROUP	RUGIKA YOUTH S.H.G.	MAHAKA S.H.G.	UNITY SEEKERS GROUP	ROHI SELF HELP GROUP
21	REVELATION SELF HELP GROUP	MUKURU VUMILIA S.H.G.	MUTHIRU S.H.G.	EASTLAND YOUTH FARMERS SELF HELP GROUP	DOMINICAN SKATTERS ASSOCIATION
22	CHANGAMKA STEP BY STEP SELF HELP	LUCKY VISION S.H.G.	DANDORA POWERLINE WELFARE	WISE DOVE INVESTMENT GROUP	REUBEN YOUTH WINGU SELF HELP GROUP

	GROUP		ASSOCIATION		
23	RUSALEP YOUTH FORUM	BIASHAL INVESTMENTS	DANDORA SPRINGVALLEY YOUTH SELF HELP GROUP	GLOBAL INVESTMENT GROUP	RANDAGO KIOI WQOMEN GROUP
24	BOOKER SELF HELP GROUP	NJIRU PEACE YOUTH SELF HELP GROUP	DANDORA YOUTH FOR DVLPT S.H.G.	WOOD PEKERS YOUTH GROUP	YOUTH IN TOURISM KENYA
25	AHADI NETWORKS	MAILI SABA YOUNG GENERATION SLF HELP GROUP	DANDORA ONE DELVELOPMENT PROJECT	BONYAMAGI INKA SELF EHELP GROUP	AJENTOS FOOTBALL CLUB
26	MNAZI BASELINE SELF HELP GROUP	GATOPE YOUTH SLEF HELP GROUP	BIZ WISE GROUP	PCEA "D" YOUTH BUNGE	EBENAZA S.H.G.
27	INUA GROUP	FURAHA CENTRE FOR DEAF	FAMILY DAIRIES SELF HELP GROUP	EKIAMBOKERO VISIONED SELF HELP GROUP	VIPAWA
28	NOMAKSI SELF HELP GROUP	MAZINGIRA TIGHT YOUTH GROUP	MALIMA SELF HELP GROUP	SIRILIKA YOUTH DEVELOPMENT ASSOCIATION	FOTRESS OF HOPE EMPOWERMENT PROGRAMME
29	EASTERN CHEMO SELF HELP GROUP	MWOKI ACTION YOUTH S.H.G.	KASOWEMBA YOUTHS SELF HELP GROUP	MWAGAKA SELF HELP GROUP	SPINE YOUTH DEVELOPMENT A.H.ASSOCIATION
30	MOTO MOTO YOUTH SLE FHELP GROUP	KIFARU SELF HELP GROUP	GILERO YOUTH GROUP	DUNAMIS YOUTH GROUP	KIMAKA NEIGHBOURHOOD WELFARE ASSOCIATION
31	MEDYS SELF HELP GROUP	MATEME SELF HELP GROUP	TUMAINI LETU YOUTH C.B.O.	AIRSTARS SELF HELP GROUP	IMARA DAIMA YOUTH SELF HELP GROUP
32	MUKURU TALENT NI SISI CHAPTER	MSASA SELF HELP GROUP	THE OPTIMISTICSELF HELP GROUP	KAYOLE NORTH YOUTH GROUP	CHOKAA YOUTH JUA KALI SELF HELP GROUP
33	KWARE VISION 2030 SELF HELP GROUP	ST. FRANCIS PROGRESSIVE LEARNERS CENTRE	BROWN HILL GROUP	U2 BIZ YOUTH GROUP	GREEN HILLS GRABAGE COLLECTORS SELF HELP G

34	NAAJIA YOUTH GROUP	WOMEN OF EXCELLENCE	PROGRESSIVE YOUTH ASSOCATION	THE KEEN SCHOOLS	ADD A SMILE
35	TAARIFA SELF HELP YOUTH GROUP	PAMOJA TUJIJENGE SELF HELP GROUP	DYNAMIC SELF HELP GROUP	SOWETO SOLIDARITY SEL FHELP GROUP	NEW SPRING VALLEY DEVELOPMENT YOUTH GROUP
36	KABROSIS SELF HELP GROUP	SOWETO TRADERS YOUTH GROUP	SPRINGS OF HOPE	HUMBLE SOWETO SELF HELP GROUP	TAIWE FOUNDATION
37	GAMACHU SELF HELP GROUP	TITANIC NI SISI CHAPTER	EMBAKASI VISION TIMERS SELF HELP GROUP	GREAT VISION SELF HELP GROUP	SKY HEIGHTS SELF HELP GROUP
38	RUAI CANAAN SELF HELP GROUP	SABA SABA BASE YOUTH SELF HELP GROUP	MOONLIGHT SLEF HELP GROUP (((MSHEG)	DEBON YOUTH GROUP	REFLECTOR SELF HELP GROUP
39	UMOJA SPICERS AND CATERERS	RANGERS PROGRESSIVE SELF HELP GROUP	KENYAN ARTISTS FIGHTING HIV/AIDS AND DRUGS	JCOM ORGANIZATI ON	SPLENDOUR GROUP
40	THE YOUTH EMPOWERMEN T CENTRE	PEER EDUCATORS TEAM NI SISI YOUTH CHAPTER	2011 SELF HELP GROUP	JOSAPE ASSOCIATION	COMBINED FINANCES
41	DANDORA SMALL SCALE ENTERPRENEU RS S.H.G.	BUZZ GROUP	LUCKY YOUTH GROUP	RUAI EMBAKASI YOUHT SELF HELP GROUP	SQUIDOO SUPPORT GROUP
42	60-35 SERVICES SELF HELP ORGANISATIO N	KIRIMA UNITY SELF HELP GROUP	SOKOROMBO EMBAKASI SELF HELP GROUP	MOWLEM EAST YOUTH SELF HELP GROUP	
43	SUCEED INTERGRATED AGRICULTURA L PROGRAMME	MOONSTRIKER S NI SISIYOUTH CHAPTER	UJUZI GROUP OF SCHOOLS	PAMOJA BRIGHT FUTURE WOMEN GROUP	
44	EDUCATIONAL CENTER FOR YOUTH IN DVELOPMENT	SHULE RUAI BODABODA SELF HELP GROUP		MWERERI SEL FHELP GROUP	

45	NEW HOPE YOUTH NI SISI CHAPTER	PIN CHOKAA SELF HELP GROUP			
46		NDEGE VIEW STONE CUTTERS YOUTH SHG			
47		PENG WELFARE YOUTH GROUP			

Appendix II: Reliability table for all items (Variables)

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Our business/firm/enterprise has traded in the same products/services since its starting (**No diversification)**	40.82	119.846	-.045	.732
Our business/firm/enterprise trades in similar/closely related products to the one it started with (**Concentric Diversification**)	40.48	108.708	.411	.685
Our business/firm/enterprise has come up with products/services that are technologically and commercially different but appeal to current customers. **(Horizontal Diversification)**	40.01	106.682	.453	.680
Our business/firm/enterprise expanded by producing raw materials rather than buying them from suppliers **(Vertical Diversification)**	41.22	103.298	.657	.664
Our business/firm/enterprise expanded by starting distribution of ready products instead of relying with distributors **(Vertical Diversification)**	40.96	100.286	.646	.658

Our business works together with other businesses or firms to realise the same production goals (collaboration)	40.27	103.381	.581	.667
Our business has ventured into the production of new products/services that have no commercial or technological association with current products/services (conglomerate diversification)	40.49	104.436	.542	.671
Year of diversification	40.27	115.078	.160	.706
Enterprise deals with same customer segment it started with	41.48	123.071	-.128	.730
Enterprise has targeted newer customers in addition to the start-up segment	39.61	112.635	.363	.692
Enterprise has discarded customers it had on start-up and targeted newer customer segments	40.81	107.825	.415	.683
Extent to which the enterprise should further diversify to enhance current performance	40.43	116.825	.267	.701
Diversification that will enhance current performance	40.27	115.896	.086	.715
Changes adopted after start-up have made the enterprise	39.45	80.918	.375	.724

more profitable				
Changes adopted after start-up have made the enterprise acquire new markets	39.93	111.737	.516	.686
Changes adopted after start-up have made the levels of productivity in the enterprise to increase	40.09	114.446	.227	.700
Changes adopted after start-up have made the enterprise acquire new customers	40.22	111.510	.269	.697

Appendix III: Introduction Letter

Dear respondent,

You are requested to participate in this study whose purpose is to find out the "**Diversification Strategies and Performance of Small and Micro Enterprises Funded by Youth Fund in Embakasi Central Constituency, Nairobi Kenya**". This study will help establish how diversification affects the growth and performance of small and micro enterprises hence inform policy creation and implementation to enhance the performance of these enterprises. You are requested to fill the attached questionnaire to the most accurate level you know. Be informed that this study is purely academic and has gone through the right authorization as will be proved by the researcher. Note that ethical considerations including confidentiality of your information and voluntary participation will be ensured.

Yours

Researcher.

APPENDIX IV: Questionnaire

SECTION A: FIRM CHARACTERISTICS

1. Name of enterprise_____

2. Age of the enterprise in years _____ Years.

3. Answer the following questions about your enterprise:

   a. Number of managers _____

   b. Experience of the managers at the time of start-up (Indicate experience in managerial positions/business management only).

   Less than 1 year [ ] 1-5 years [ ]

   6-10 years [ ] Others

   _____

4. What amount of money did you borrow from Youth Fund for the start of your business?

SECTION B: RELATED DIVERSIFICATION

5. To what extent do you agree with the following statements about your business? (NA=Not Applicable; SD=Strongly Disagree; D=Disagree; A=Agree; SA=Strongly Agree). Tick as appropriate.

	NA	SD	D	A	SA
Our business/firm/enterprise has traded in the same products/services since its starting**(No Diversification)**					
Our business/firm/enterprise trades in					

similar/closely related products to the one it started with**(Concentric Diversification)**					
Our business/firm/enterprise has come up with products/services that are technologically and commercially different but appeal to current customers. **(Horizontal Diversification)**					
Our business/firm/enterprise expanded by producing raw materials rather than buying them from suppliers **(Vertical Diversification)**					
Our business/firm/enterprise expanded by starting distribution of ready products instead of relying with distributors **(Vertical Diversification)**					

6. To what extent do you agree with the following factors about the customer segment of the Small and Micro firms that adopt related diversification strategy in Embakasi Central Constituency? (NA=Not applicable; SD=Strongly Disagree; D=Disagree; A=Agree; SA=Strongly Agree). Tick as appropriate

	NA	SD	D	A	SA
Our business/firm/enterprise deals with the same customer segment it started with					
On top of the customer segments targeted on start-up, my business/firm/enterprise has targeted newer customer segments					
Our business/firm/enterprise discarded the customer segment it targeted on start up and targeted newer (unique) customer segments.					

7. Answer the following questions accurately

   a. To what extent do you think related diversified enterprises should further diversify to enhance current performance? Tick as appropriate

No Extent	Small Extent	Average Extent	High Extent

b. What form of diversification do you think will enhance the performance of your business as indicated in question 7a above? Tick as appropriate

Increasing production portfolio by increasing products with the aim o utilising current technologies & marketing systems (**Concentric Diversification**)	Venturing into the previous stages of production (e.g. Production of raw materials) or ventures into forwards cycles of current production (e.g. distributing the final product) (**Vertical Diversification**)	Developing or acquiring new products or offering new services that are suitable to the current customers (**Horizontal Diversification**).	Venturing into the production of new products/services that have no commercial or technological association with current products/services (**Conglomerate Diversification**)	Two or more businesses or firms working together to realise the same production goals (**Collaborations**)	N/A

SECTION C: UNRELATED DIVERSIFICATION

8. To what extent do you agree with the following statements about your business? (NA=Not applicable; SD=Strongly Disagree; D=Disagree; A=Agree; SA=Strongly Agree).Tick as appropriate

	NA	SD	D	A	SA
Our business/firm/enterprise has collaborated with other partners to realize common goals**(Collaborations)**					
Our business/firm/enterprise trades in different products/Services to the one it					

started with**(Conglomerate Diversification)**					

9. To what extent do you agree with the following factors about the customer segment of the Small and Micro firms that adopt unrelated diversification strategy in Embakasi Central Constituency? (NA=Not applicable; SD=Strongly Disagree; D=Disagree; A=Agree; SA=Strongly Agree). Tick as appropriate

	NA	SD	D	A	SA
Our business/firm/enterprise deals with the same customer segment it started with					
On top of the customer segments targeted on start-up, my business/firm/enterprise has targeted newer customer segments					
Our business/firm/enterprise discarded the customer segment it targeted on start up and targeted newer (unique) customer segments.					

10. Answer the following questions accurately

a. To what extent do you think unrelated diversified enterprises should further diversify to enhance current performance? Tick as appropriate

No Extent	Small Extent	Average Extent	High Extent

b. What form of diversification do you think will enhance the performance of your business as indicated in question 7 above? Tick as appropriate

Increasing production portfolio by increasing	Venturing into the previous stages of production (e.g.	Developing or acquiring new products or offering new	Venturing into the production of new products/services	Two or more businesses or firms working together to	N/A

products with the aim o utilising current technologies & marketing systems (**Concentric Diversification**)	Production of raw materials) or ventures into forwards cycles of current production (e.g. distributing the final product) (**Vertical Diversification**)	services that are suitable to the current customers (**Horizontal Diversification**).	that have no commercial or technological association with current products/services (**Conglomerate Diversification**)	realise the same production goals (**Collaborations**)	

SECTION D: ORGANISATIONAL PERFORMANCE

11. In the table below, give the most precise estimate of the state of your enterprise at the indicated year/period.

	On start- up	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
a. No. of employees							
b. Capital (in thousands)							
c. Current assets (in thousands)							
d. Non-current assets (in thousands)							
e. Total Assets (c+d) (in thousands)							
f. Current liabilities (in thousands)							

g.Non-current liabilities (in thousands)							
h.Total Liabilities (f+g) (in thousands)							
i. Sales (revenue) (in thousands)							
j. Profit before tax (in thousands)							
k.Net profit (in thousands)							

Thank You so Much for Your Co-operation

Appendix V: Authorization Letters

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 57530

Internal Memo

FROM: Dean, Graduate School

DATE: 30th June 2016

TO: Gitu John Mwangi
C/o Business Administration Department.

REF: D53/OL/22170/12

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that Graduate School Board, at its meeting of 22nd June 2016, approved your Research Project Proposal for the M.B.A. Degree Entitled, "Diversification Strategies and Performance of Small and Micro Enterprises Funded by Youth Fund in Embakasi Central Constituency, Nairobi Kenya".

You may now proceed with data collection, subject to clearance with the Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking forms per semester. The form has been developed to replace the progress report forms. The supervision Tracking Forms are available at the University's website under Graduate School webpage downloads.

Thank you.

JACKSON LUVUSI
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Department of Business Administration

Supervisors:

1. Dr. Samuel Maina
C/o Department of Business Administration
Kenyatta University

jl/ns

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone:+254-20-2213471,
2241349,3310571,2219420
Fax:+254-20-318245,318249
Email:dg@nacosti.go.ke
Website: www.nacosti.go.ke
when replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. **NACOSTI/P/16/30104/12787**

Date: **27th July, 2016**

John Mwangi Gitu
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Diversification strategies and performance of Small and Micro Enterprises funded by youth fund in Embakasi Central Constituency, Nairobi Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **26th July, 2017.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

COUNTY COMMISSIONER
NAIROBI COUNTY
P. O. Box 30124-00100, NBI
TEL: 341666

The County Director of Education
Nairobi County.

COUNTY DIRECTOR OF EDUC.
NAIROBI
08 AUG 2016
P. O. Box 74629, NAIROBI

THIS IS TO CERTIFY THAT:
MR. JOHN MWANGI GITU
of KENYATTA UNIVERSITY, 29942-100 N,has been permitted to conduct research in *Nairobi County*

on the topic: *DIVERSIFICATION STRATEGIES AND PERFORMANCE OF SMALL AND MICRO ENTERPRISES FUNDED BY YOUTH FUND IN EMBAKASI CENTRAL CONSTITUENCY, NAIROBI KENYA*

for the period ending:
26th July,2017

Permit No : NACOSTI/P/16/30104/12787
Date Of Issue : 27th July,2016
Fee Recieved :Ksh 1000

.....
Applicant's Signature

.....
Director General
National Commission for Science, Technology & Innovation

Appendix VI: Budget

Time	Activity	Cost per unit (estimates in Kenya Shillings)	Total Cost
April/May, 2016	Preparation of Proposal, questionnaire and Approval of research proposal	Internet research = Kshs. 1000 Printing of Questionnaires and interview schedules = Kshs. 1500 Transport and airtime = Kshs. 1000	**Kshs. 3500**
June, 2016	Collection of data in the 5 ward in Embakasi Central Constituency, visits to the Ward and Constituency Youth Offices	Transport = Kshs. 1500 Allowances for Research Assistants = Kshs. 2000 per head Airtime = Kshs. 500	**Kshs. 4000**
June, 2016	Presentation of the research thesis, including the data organisation, presentation and analysis, summaries, conclusions and recommendations	Internet = Kshs. 1000 Stationery = Kshs. 1000	**Kshs. 2000**
July, 2016	Approval, printing and binding of research thesis for archiving	Printing = Kshs. 3000 Photocopy = Kshs. 2500 Binding = Kshs. 2500 Transport, airtime and miscellaneous = Kshs.3000	**Kshs. 11,000**
	Grand Total		**Kshs. 20, 500**

Appendix VII: Work Plan

Time	Activity	Resources	Personnel
April/May 2016	Preparation of Proposal, questionnaire and Approval of research proposal	Research materials, text books, computer with internet connectivity and requisite stationery	The researcher and research supervisor
June 2016	Collection of data in the 5 ward in Embakasi Central Constituency, visits to the Wards and Constituency Youth Offices	Printed questionnaires, CD recorder, laptop, phone, time and office space	Supervisor, the researcher, 2 research assistants and the Youth Group leaders used as gate keepers
June 2016	Presentation of the research thesis, including the data organisation, presentation and analysis, summaries, conclusions and	Laptop, printer, internet connectivity, stationery. time and office space	Supervisor and researcher

	recommendations		
July 2016	Approval, printing and binding of research thesis for archiving	Printer, printing paper, photocopy, binding machine and materials	Supervisor and researcher