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Effects Of Unrelated Diversification Strategy On Competitive Advantage Of Energy Companies In Nairobi County, Kenya

By

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Abstract

Organizations often adopt growth strategies for various reasons, such as boosting profits, supplementing income, and seizing emerging opportunities in new markets and regions. These strategies include related diversification, unrelated diversification, and multinational diversification. This study aimed to examine the influence of unrelated diversification strategies on the competitive advantage of energy companies. A mixed research design was employed, using both primary data (through questionnaires and interviews with senior management) and secondary data (from published information on energy companies). Descriptive statistics, correlation, and regression analyses were conducted using the Statistical Package for Social Sciences (SPSS). The results indicated a positive and significant relationship between unrelated diversification ($r = 0.718$, $p = 0.000$) and competitive advantage. The model's statistical significance was demonstrated by the coefficient of determination (R^2) and ANOVA results, showing that unrelated diversification explains a significant portion of the competitive advantage. Based on these findings, the study recommends that energy companies diversify their product portfolios and establish policies to effectively guide their diversification efforts.

Keywords: Kenya, growth strategy, unrelated diversification, competitive advantage, energy companies

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Introduction

In today's dynamic and uncertain business environment, characterized by intense competition, economic liberalization, expanding markets, and globalization, organizations are increasingly adopting various strategies to maintain competitiveness and ensure long-term growth. Among these strategies, diversification plays a crucial role at the corporate level, as it allows companies to expand into new markets, products, or services, thereby leveraging existing resources and achieving synergy. Diversification strategies can be classified into related and unrelated diversification, each with distinct advantages depending on the firm's goals and industry conditions.

Unrelated diversification, which involves expanding into products or services beyond the current capabilities or value network of a company, is particularly significant for industries like energy, where external pressures and market volatility require firms to remain flexible and adaptable. In this context, energy companies face the challenge of maintaining competitive advantage while responding to environmental and economic shifts.

This study seeks to investigate the impact of unrelated diversification strategies on the competitive advantage of energy companies in Nairobi County, Kenya. While there has been substantial research on diversification strategies in other industries and regions, there is limited understanding of how unrelated diversification specifically affects the performance of energy companies within the Kenyan market. This research aims to fill that gap by examining the role of unrelated diversification in enhancing the competitive advantage of energy firms operating in this unique and evolving context.

Hypothesis Arising from the above objectives, the study proposed the following hypothesis:
H01: There is no significant relationship between unrelated diversification strategy and competitive advantage of energy companies in Nairobi County, Kenya.

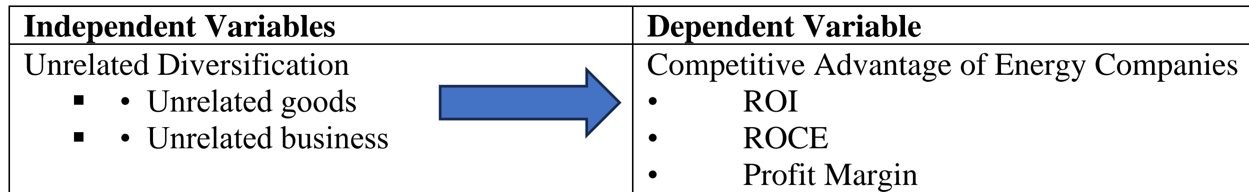

Figure 1: Conceptual Framework
Source: Field Data 2024

Review of Related Literature
This chapter reviews literature related to the study based on themes such as unrelated diversification, unrelated diversification, diversification into new markets, competitive advantage of energy companies in Kenya, and capital structure as a moderating variable on the relationship between diversification strategies and competitive advantage of energy companies in Nairobi County, Kenya.

Cash Management Theory Developed by Morton Miller and Daniel Orr in 2009, this theory offers a more practical approach to finance management, enhancing strategy implementation. It posits that total cash flows are distributed with minimal mean and standard deviation to minimize risks. The theory accepts uncertainty in strategy management and sets limits within which cash should be managed: a maximum cash value, a minimum cash value (zero), and an optimal target amount.

Resource-Based View (RBV) Theory Emphasized by Rothaermel (2012), this theory considers a firm's resources as fundamental determinants of performance and competitive advantage. Originating from Penrose's (1959) enterprise growth theory and popularized by Wernerfelt (1984) and Barney (1991), RBV categorizes resources into physical, human, and organizational, which should be valuable, rare, inimitable, and non-substitutable for sustainable competitive advantage. RBV underscores the importance of exploiting existing resources and developing new ones for company growth. Diversification allows firms to acquire additional resources, improving their competitive ability by creating or modifying capabilities.

Agency Theory Developed by Jensen and Meckling (1976), this theory explains the relationship between principals and agents in business, focusing on resolving conflicts of interest. Agency problems can arise between stockholders and creditors, and debt holders and shareholders. The theory suggests that managers can pursue interests that may not align with shareholders, complicating diversification strategies. It stresses the importance of optimal capital structure to mitigate agency costs and ensure efficient firm management. Financing options, including debt and equity, are crucial governance mechanisms for adequate funding and risk management in business ventures.

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Empirical Literature Review

The empirical literature explores the practical applications and findings related to the diversification strategies of energy companies Related Diversification Unrelated diversification involves building a firm around businesses with valuable strategic fits, enhancing performance through shared resources, skills transfer, and combined capabilities. Studies by Thompson et al. (2012) highlight that unrelated diversification can reduce costs and create new strengths, leading to competitive advantages. Unrelated Diversification Unrelated diversification focuses on acquiring businesses beyond current capabilities for profitability and return on investment. Managers emphasize good performance and growth potential in unrelated diversification, as noted by Thompson et al. (2012). International Diversification International diversification extends operations into new countries, offering growth opportunities. It involves acquiring additional businesses and expanding existing operations into new markets. Studies by Alvi (2017) and Foss and Christensen (2001) suggest that diversified firms can create spillovers, increasing resource value through investment in new industrie

Methodology

The study utilized a mixed research design to establish relationships between independent variables, collecting information without altering the environment. This design was appropriate for describing a group of people, phenomena, or events based on their influence on another variable, particularly due to the observational nature of the data sourced from annual reports. The research was conducted in Nairobi County, Kenya, focusing on Rubis Energy Limited, National Oil Corporation, OiLibya Limited, and Hashi Energy Limited. The study targeted 603 respondents from various departments across the selected energy companies. Given the relatively small population size, a census method was adopted, ensuring complete enumeration of all items in the population.

DEPARTMENTS	Rubis Energy Ltd	National Oil Corporation	OiLibya Ltd	Hashi Energy Ltd	TOTAL
Strategic Managers	01	01	01	01	**04**
Sales Managers	01	01	01	01	**04**
Operations Management	117	91	104	97	**409**
Administrative Assistants	31	59	42	54	**186**
GRAND TOTAL	**150**	**152**	**148**	**153**	**603**

Source: Field Data 2024

Data was collected using questionnaires, interviews, and observations. The study utilized both primary and secondary data, with closed-ended questionnaires being the preferred method for their ease of coding and analysis. A pilot study involving 30 questionnaires was conducted to refine the data collection instruments. Reliability was ensured through a pilot test, confirming that the instruments produced consistent results. Adjustments were made based on feedback from the pilot study to improve the instruments' reliability. Content validity was established through

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discussions with colleagues and consultations with research experts, experienced graduates, lecturers, and supervisors.

Results and Discussions

The study aimed to examine the effect of unrelated diversification strategy on the competitive advantage of energy companies in Nairobi County, Kenya. The results indicate that unrelated diversification strategy has a significant and positive impact on the competitive advantage of these companies. The analysis revealed a mean of 3.71 and a standard deviation of 1.068, suggesting that the data collected is normally distributed.

The regression analysis demonstrated that unrelated diversification strategy (β = 0.519, p = 0.000) significantly influences the competitive advantage of energy companies, suggesting that a unit increase in unrelated diversification strategy leads to a 0.140 unit increase in competitive advantage (see Table 1).

Table 1: Regression Summary Results

Variable	Unstandardized Coefficients (β)	Std. Error	t	Sig.
(Constant)	0.656	0.184	3.558	0.000
Related diversification strategy	0.140	0.056	2.514	0.000
Unrelated diversification	**0.519**	**0.065**	**7.940**	**0.000**
Diversification into new markets	0.026	0.072	0.359	0.000
Capital structure	0.212	0.014	2.115	0.000

Source: Field Data 2024

The ANOVA test results indicate that the regression model is statistically significant (F = 90.534, p = 0.000), confirming that the independent variables collectively influence the competitive advantage of energy companies. This supports the conclusion that un related diversification strategy is a significant predictor of competitive advantage (see Table 2).

Table 2: ANOVA Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	187.907	4	46.977	90.534	0.000
Residual	153.072	295	0.519		
Total	340.979	299			

Source: Field Data 2024

Correlation analysis further supports the significant positive relationship between unrelated diversification strategy and competitive advantage (r = 0.458, p = 0.000). The study found that unrelated diversification has a significant positive correlation with competitive advantage, indicating that this factor contributes to enhancing the competitive position of energy companies (see Table 3).

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Table 3: Overall Correlation Analysis

Variable	Related Diversification Strategy	Competitive Advantage
Unrelated Diversification Strategy	1.000	0.656**
Competitive Advantage	0.656**	1.000

Source: Field Data 2024

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

The results showed that the standardized coefficient beta and p value of recruitment practices were positive and significant (beta = 0.519, $p < 0.05$). Thus, the researcher rejects the null hypothesis and it is accepted that, unrelated diversification strategy has a positive and significant influence on competitive advantage. Also, for each unit increase in unrelated diversification, there is 0.519 unit increase in competitive advantage of energy companies in Kenya. The t – test value was 7.94 which imply that the standard error associated with the parameter is less than the influence of the parameter.

Conclusion and Recommendations

Unrelated diversification strategy has been found to positively impact the competitive advantage of energy companies in Nairobi County as it enables managers to use internal funds in companies to ensure competitive advantage. Since financial resources have the highest degree of flexibility, the unrelated diversification strategy is well suited for this. Unrelated diversification promotes competitive advantage by pursuit of opportunities beyond the present product and market base of a firm outside the company in question. Energy companies therefore decide to diversify into industries or businesses that have good profit opportunities to enable a competitive advantage.

Government policies should actively encourage unrelated diversification strategies among energy companies. Supportive regulatory frameworks and fair market practices will foster an environment conducive to sustainable growth and innovation within the sector. Companies should strategically implement unrelated diversification to expand their market presence and optimize underutilized resources. Careful selection of new product lines and markets will enable firms to capitalize on emerging opportunities and enhance their competitive standing.

Energy companies can also explore new geographic markets with lower competitive intensity. By strategically entering these markets, firms can leverage pricing flexibility and operational efficiencies to drive profitability and market share growth. To optimize their competitive advantage, management should focus on building core competencies before expanding into new markets. Sound financial policies and capital structure decisions should guide these expansions to ensure sustainable growth and long-term profitability.

In summary, these conclusions and recommendations are grounded in the study's findings, emphasizing strategies that energy companies in Nairobi, Kenya, can adopt to enhance their competitive advantage amidst evolving market dynamics and global competition.
firms to minimize financing costs and maximize firm value, thereby strengthening their competitive position in the market.

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