

IMPACT OF PRODUCT LINE DIVERSIFICATION ON MULTINATIONAL ORGANISATIONS WITH REFERENCE A CASE STUDY OF TRADE KINGS ZAMBIA

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ABSTRACT

Diversification to a business that operates in many nations puts it out in a safe place because when it comes to the economy of the different nations, because if one product fails they can rely on the other products that they offer and if they fail in one country they are not likely to fail in all the countries that purchase their goods hence the result of diversification is that they will not suffer a loss even if they didn't not manage to be successful, The importance of this study is to show the importance and effectiveness of product line diversification to a multinational company. How vital it is for such a company to deal in many products just as many states. also not many studies have been conducted in Zambia scenario at this same title, That's why the researcher selected this topic for the research to test what extend product line diversification has supported the growth of multinational companies economy for this study the researcher used descriptive as well as analytical study as research methodology purpose and then The Sample selected that consisted of 60 individuals and is divided as follows to 12 employees, 36 customers, 9 suppliers and 3 wholesalers by using simple random sampling method by administering structured questionnaire. The collected data were analysed through using SPSS Package, MS office the findings and recommendation of this study would be benefit for the Companies, MNC who wish to diversify their product line and to assess the impact of diversification on multinational companies and the findings in most of these studies have been that the impact is positive as well as negative.

KEYWORDS: Diversification, Product line, Economic Impact.

INTRODUCTION

Multinational companies diversify because they want to introduce to other markets in other countries other than their local market in their home country, but often they want wider control and management of the market

especially in cases where another is producing the similar product to theirs. Other companies diversify because they want to have access to cheap and abundant raw materials and cheap labor.

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Diversification to different parts of the world continues and the sources of new ideas and information continue to with the change in technology, the future of a company becomes more diverse and multicultural in their operation. To manage this diversity, managers will have to learn to be more flexible. So before diversifying it is important to understand multiple cultures and adaptable to different cultural needs within the basic constraints of the business in order to effectively manage. The importance of diversification is that a company can no longer consider only their own product made for a local market; products are now developed for global markets instead of single country markets. Increased competition among companies for customers is also one of the reasons for diversification. Most companies used to ignore or fear diversification because of the production costs and labor rates in other countries because taxes, legal barriers to import or export and transportation logistics costs made it difficult, but legal barriers to trade and import or export duties are lessening with free trade agreements such as North American Free Trade Agreement (NAFTA), the European Common Market and General Agreement on Tariffs and Trade (GATT)

SUSTAINABLE EFFORT IN DIVERSIFICATION

Diversification efforts centers on job creation, industrialization and capital market development, it strikes a balance between the growth of the company and support for citizen of the host country by focusing on improving their living standards, hence the unwavering commitment to forge a working culture and environment in which the company will be able to sustain itself.

A multinational company implements programs that addresses the many problems faced in the host country, such as empowering them with means to boost their productivity and create wealth such as community support program,

farmers input support programs. The Zambian economy has attracted a lot of investors, allowing massive investments from both local and foreign investors resulting in building multi-facility economic zones across the country; a classic example is that of Trade Kings plant and company that has diversified both locally and internationally creating jobs.

Trade kings as a private sector was given a mandate to rise above the challenge of creating jobs and achieve national development for the country, a combined effort by private sectors as well as the government, this of course is through an integrated multi-sectoral approach that promotes synergies and diversification across the sector.

INDUSTRY PROFILE

Major manufacturing industries in Zambia, include copper mining and processing, construction, emerald mining, beverages, food etc. Hence a company like trade kings deal in a majority of products just as many companies around the globe, they produce products that are benefiting to the people of the populous where they are operating from. Company Profile TRADE KINGS LTD is the largest manufacturer in Zambia and one of the major manufacturers in the region.

Trade kings Limited produces a variety of products which includes detergents (liquid, paste and powder), soaps, sweets, lollipops, confectionary and soya nuggets etc. the company distributes their products throughout Zambia and the Sub-Saharan region.

OBJECTIVES OF THE STUDY

The purpose of the study is to find out the impact of diversification on multinational companies at Trade Kings Ltd, identify the both the positive and negative impacts and explore various ways on how they can be applied to businesses.

GENERAL OBJECTIVES

- The purpose of this study is to investigate the impact of diversification on multinational companies.

SPECIFIC OBJECTIVES

- To measure the impact of diversification in multinational organizations.
- To identify the diversification strategies that multinational organizations use.
- To measure the difference between a multinational company which diversifies and one which does not.
- To find out how loss of any products is accounted for.

LITERATURE REVIEW

According to the study of Fatemi (1984), Agmon and Lessard (1997), diversified operations of multinational companies has a stable cash flow, reduces the volatility of earnings, the company's operating risks and expected bankruptcy costs and has the ability to bear higher debt levels, so internationalization should have a positive impact on capital structure and improves the wealth of shareholders.

Companies or organizations were once thought of as closed systems, they were thought to operate independently free from outside environmental influences, the failure to reach goals were seen as the shortcoming within the organization rather than the development outside the organization, after so much research organizations were turned to open system organizations which allowed the organization to interact with the environment that surrounds them, but then this called for careful analysis of that environment's inputs which could easily be transformed to acceptable outputs, hence the need to diversify.

Multinational companies are diversifying and this have a profound effect on them, these effect can be new approaches to expanding, ownership regulation and buy outs of smaller companies by large companies that are about to be liquidated.

All the approaches to diversifying are constantly revised, in most cases diversification was occasioned by the development of new products meant for a global market, however many reasons for diversification is as a result of profit maximization and maintenance of survival.

Multinational companies that diversify have the intention to associate their companies with others to a degree of importance based on their performance, excellent performances and mutual relationships at the global market is considered enough to convince and attract prospective customers. In this case however, diversification is looked at as a positive impact which is regarded as a tool to growth.

RESEARCH METHODOLOGY

The study design is case study and will be conducted at Trade kings Ltd in Lusaka district. Sample size of the study is 60 respondents who are employees, suppliers and customers. Respondents will be picked randomly and interviewed through questionnaires in order to give their perceptions on the impact that diversification has on multinational companies. Small companies will be included in the study sharing their knowledge as well as the community. The collected data will be presented and analyzed in tabular form for better presentation and understanding.

RESEARCH DESIGN

The study design is a case study and is conducted at Trade kings Ltd in Lusaka district. Sample size of the study is 60 respondents who are employees, suppliers and customers.

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METHODS OF DATA COLLECTION

Data collected by using of primary and secondary methods. Primary is done through firsthand information from the respondents and observations, secondary method is collecting information from trade king records, Journals, articles the collected data were analyses through using SPSS 9.1 and also used Microsoft word, Excel for table, chart.

AREAS WISE RESPONDENTS SELECTION

Area	No. of respondents	Response rate%
Kabwata	3	6%
Makeni	9	18%
Town Center	10	20%
Woodlands	10	20%
Non-respondents	9	18%
Total	41	82%

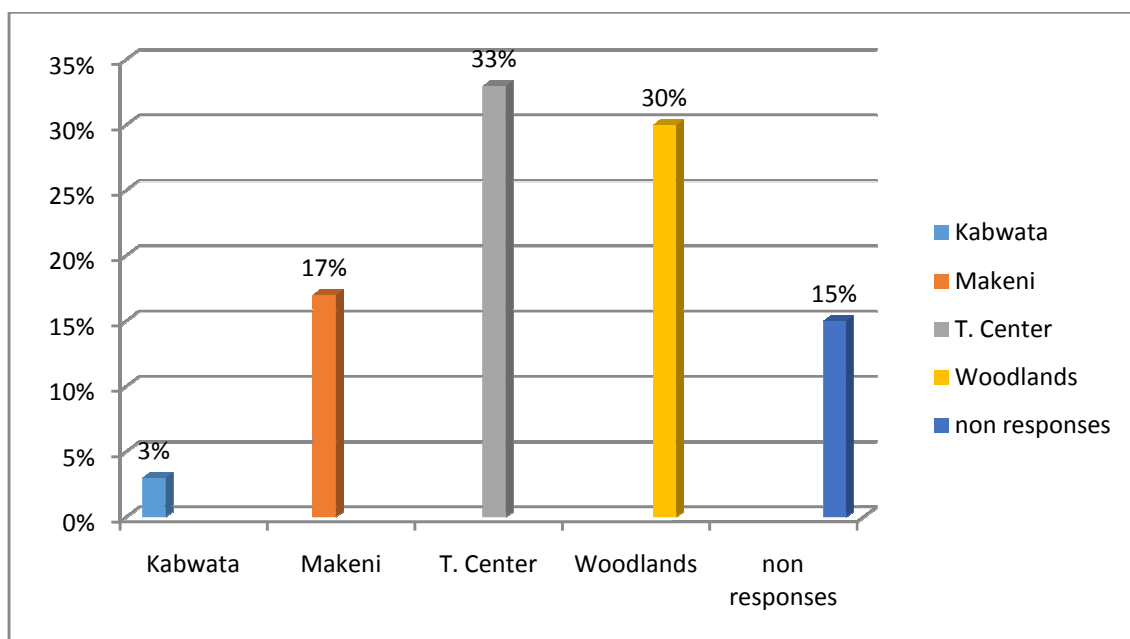


Figure 1. Areas wise respondents selection

The respondents were selected at random in relation to diversification and what impact it has on them. The most respondents are those from town center 20 respondents at a response rate of 33%, followed by 18 respondents from woodlands with a response rate of 30%, in the third place is makeni with 10 respondents and a response rate of 17% and lastly kabwata with 3

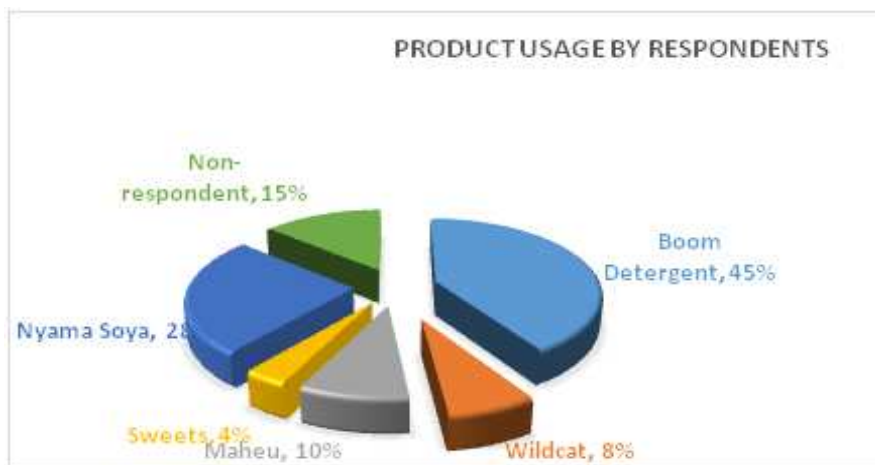
respondents at a response rate of 5%, with non-response still maintaining the same rate. Most respondents said that diversification had both negative and positive impact, in comparison to local firms multinational companies have more opportunities to diversify a combination of organizational and internal resources to spread market risks and improve

performance by means of multi nationality, it helps companies to have lower risks than domestic companies, it also helps multinational companies to diversify the portfolios of the multinational, making cash flows less dependent on local markets-levels cash flow. Others believe that multinational companies such as Trade Kings diversify to lessen the

probability of a bankruptcy. The results shows that the performance is initially positive but eventually levels off and becomes negative as international diversification increases, product diversification moderates the relationship between international diversification and performance.

TRADE KINGS’S PRODUCTS LINE DIVERSIFICATION RESPONSE BY RESPONDENTS

Products	Number of respondents	Response rate%
Boom detergent paste	17	34%
Wildcat energy drink	5	10%
Maheu	3	6%
Sweets and Candies	2	4%
Nyama soya	6	12%
Non-respondents	8	16%
Total	41	82%



The data above shows some of the products that are manufactured by Trade Kings and the ones that are mostly utilized by respondents, the product that is most used by respondents and advertised most by Trade Kings is Boom detergent paste with 17 respondents whose reason is that it is one of the detergent paste that stood the test of time and that it has proven to give the benefits required by the customers such as cleaner and brighter wash, maintains long lasting perfume and so on. The second highest product respondents said they use most is Nyama soya with 6 respondents, 3 respondents said that they take Maheu, then wildcat which is a new product of Trade Kings

has taken the market by storm, other than Boom it is one of the most products that is mostly advertised, 5 respondents said they have consumed wildcat and 2 respondents saying that sweets are mostly bought.

THE IMPACT OF DIVERSIFICATION ON NON-MULTINATIONAL COMPANIES

The respondents were asked what impact they thought that Product diversification has on non-multinational companies, the researcher asked were asked to give an explanation to their answers.

Table 2.the impact of diversification on non-multinational companies

Impact	Number of respondents	Percentages
Positive	14	28%
Negative	9	18%
Positive/ Negative	6	12%
Unclear	12	24%
TOTAL	N = 41	82%

Source: Field Data, (2018)

According to the collected data, 24 respondents with 40% which is the maximum said that diversification has positive impact on non-multinational companies, the reason given is that multinational companies increases competition among local companies, where they have to put in more effort in how they offer their services to customers or risk losing them.

18 respondents with a percentage of 30, said that diversification has a negative impact, local products cannot compete with multinational companies that have being set up in the country because they have a variety of goods and their prices are low hence that affects the product and services of local companies.

6 respondents has with 10% said that diversification has both positive and negative impact, whereas customers can buy from both companies that have diversified and not. Though non-multinational does not have a variety of products customers tend to choose products that they trust and locally produced, multinational companies provide products and services that are not available in the local market.

12 respondents which are at 20% are among those that are unreturned responses and those who are unclear about multinational companies and diversification.

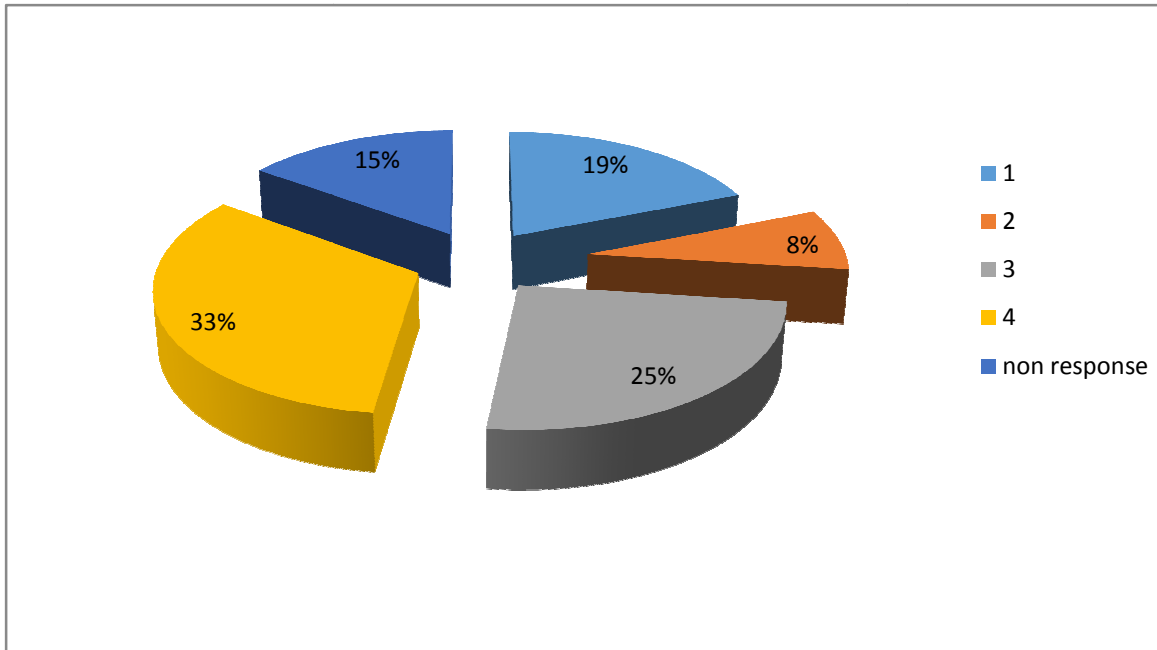
THE SALES VOLUME OF TRADE KINGS PRODUCTS

Trade kings undertake a fundamental analysis on business activities such as returns on sales, turnover, financial leverage and retention rate as in the table below to show which one of its product is likely to sustain the growth and sales volume of the products. The collected data illustrates how the company analyse their business activities from the delivery stage up to sales returns to ascertain financial capability, maintain market position and sustain growth as the image of the company.

Through interviews with employees of the company, the researcher has calculated business confidence for the year ahead from 1 (very negative, expecting large losses) to 5 (very positive, expecting high growth). The figures have been altered in order to protect the financial position of the company from competitors.

THE SALES VOLUME OF TRADE KINGS PRODUCTS

Products	Interviewees	Business rating
Detergent	12	4.5
Beverages	5	3.0
Food	3	2.5
Confectionery	2	1.0
Total	22	11.0



Source: Field Data, (2018)

From an average of 1 to 20, the business rating of total sales volume of Trade kings is at 11.0, this is just from the response of employees, suppliers and wholesalers.

REASONS WHY SMALL COMPANIES FIND DIVERSIFICATION A CHALLENGING BUSINESS ACTIVITY

Ser No.	Reasons	No. of Respondents	Percentage rate
1.	Because of scarcity of resources	11	22%
2.	They only produce for local markets	5	10%
3.	Difficulties in acquiring title deeds for land on which to develop	8	16%
4.	High interest rate for obtaining finances for expansion	10	20%
Non-respondents	None	7	14%

Source: field data (2018)

Figure 4.9 Reasons why small companies find diversification a challenging business activity Respondents were asked to list challenges that small companies faced in diversification, and most responses came from respondents who have been in the business for long and from Summary Findings and Conclusion.

Further in the study, it is discovered that a company that diversifies its products tend to stand in the greater profit generation stance

and will be able to largely contribute to the nation as well thereby generating more money in the pockets of various many individuals, employees and shareholders, and many other people that are part of the company.

Furthermore the greater the profit in the manufacturing industry the better the economy of a particular host nation provided their dealings are genuine and their aim is to

generate the greatest amount of profit than before.

In the study went on to discover the various diversification strategies which include Concentric Diversification, a concentric diversification strategy lets a firm to add similar products to an already established business. Which is as a researcher discovered at trade kings, where for most of their products they maintain a great number of flavours etc. Horizontal Diversification, the diversification that allows a firm to start exploring other zones in terms of product manufacturing. Again when we go back to the company Trade kings they maintain drinking products, snack products and a variety of food stuff, which gives them the power to still keep their customers. Conglomerate Diversification, in conglomerate diversification strategies, companies will look to enter a previously untapped market, this is for the fact that they look at the competitors and observe something that was stated previously but not implemented fully due to some certain factors that gave hindrance to the company thereby insinuating failure in a way or so.

Further in the study it was of great discovery for the above mentioned diversification strategies researcher was able to obtain from the superiors of the company on a one on one interview with them of which those that were in the company for a longer period was my target because those people have more knowledge of the company and the industry at large based on their experience in that particular field. Every so often we are given an opportunity to make a difference in someone's life. Trade Kings is a consortium of 20 companies committed to improving lives of many Zambians, especially among women and Children.

In my study I looked at the difference between a company that diversifies and that which doesn't And I discovered that every start up

reaches a market stagnation point during its transition to a bigger organization. This is the time when its product portfolio needs that little extra for further growth. Small businesses often develop from a single entrepreneurial idea or the core abilities of company founders hence the drawback of a single-business setup is that you may miss opportunities to expand your company into naturally correlated industries or marketplaces. Diversification is commonly associated with risk minimization, whether in investing or business operation. If you operate in multiple product categories or business types, you are more likely to survive failure of one format or industry but on the other hand, the extreme of diversification is spreading yourself too thin. If you try to do more than your resources, strengths and market potential can afford, you may end up not succeeding at anything.

Further in my study, I discovered that there is risk to both diversifying companies and non-diversifying companies, hence the only difference between the two is that the diversifying company or firm will be able to generate great amounts of profit compared to a company that doesn't diversify their products, who as well maintain profit but a lesser margin compared to a company that diversifies.

In the research, the researcher thereby discovered that a company that diversifies does not account for its losses by e.g. if one product fails then the other product pulls through. Trade Kings has products such as detergents specifically boom, if boom powder is not working out then the boom paste or bar could be used.

STRATEGIES TO REDUCE INVESTMENT RISK

Although diversification does not guarantee zero loss it is the most important component of reaching long-term financial goals while minimizing risk.

Increases profit by offering different types of products e.g. Boom detergent paste, boom Bar, boom powder, Maheu, Diversification is essential for it meets the demands and convenience of its customers.

(Contribution of the manufacturing industry to the society)It was discovered by the researcher that trade kings gives back to the economy through;

1. Partnering with Be it cure hospital on k400,000 project to construct a proper facility equipped to reduce special shoes for children born with club feet 100 pairs per month. This will help create employment and support the organizations which treat club foot such as the university teaching hospital.
2. Trade kings is also committed to improving lives of many Zambians especially among women and children through its foundation it also contributes to public education institution on healthy living behavior through events and projects.
3. Trade kings does not only offer beverages and detergents but it also supports and promotes the Zambian movie industry as they are the main sponsor of the first Zambian TelenovelaZuba.

CONCLUSION

In conclusion, the study proved that diversification in multinational organizations helps investors manage risk and reduce volatility of assets price movement and also brings about foreign direct investment and encourages foreign trade.

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