

An Impact of Diversification on Multinational Organisations- A Case Study Conducted In 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 successfully, we can use an example of a family, they may be two children but they are both not likely to go to school for the same thing which is also an act of diversification. The manufacturing sector/ industry is of great importance to all nations because it holds the nations unique products that contribute largely to the economic structure of the nation.

Keywords: Business, Diversification, Economy, Product.

Introduction

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, we can use an example of a family, they may be two children but they are both not likely to go to school for the same thing which is also an act of diversification.

Background of the study

In today's business world, there are certain activities that have become the most significant issues for the global market to deal with. These include ever changing technology, competition, advertisement, purchasing power and most of all diversification.

Multinational companies and diversification are activities that are not new to the Zambian market, it is something that the Zambian market has become familiar to and accepted.

In the beginning the issue of diversification caused a lot of disturbances to small retail companies that did not have the resources or capacity to diversify, but with time small companies benefited as well because they would buy from big companies and sale to their customers at lower prices and in pre-packs. Other than that customers have a wide range of products, goods and services to choose from. It is a well-known fact that multinational companies that have diversified have not only succeeded, but they have managed to put their companies in the global market map and maintained growth and survival.

Not many studies have been conducted 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.

Profile of the Company

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.

Significance of the study

The importance of this study is to how the importance and effectiveness of diversification to a multinational company. How vital it is for such a company to deal in many products just as many states.

Statement of the problem

Business is considered one of the most vital activities of an economy, to this end, Zambian government have highlighted the need to empower individuals as well as companies and improve entrepreneurship. They have put in place programmes both locally and internationally that focuses the effort on multinational companies. Unfortunately, either by international support or local, there is very little evidence to show that these companies benefits the economy of a country other their own. It is for this reason that this study will look at the impact of diversification on multinational companies.

When looking at ideas that companies are using today for diversification, they aims to explain how it works. They put in the minds of the customers what they feel is the right information and yet it benefits these companies a lot more than it does to customers. The idea also mentions the criticism towards other companies, to the extent where these companies lose customers.

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.

Main objective

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

Specific objectives

- The specific objectives of the study are outlined below.
- 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.

Research questions

In reference to the objectives of the study, this research aims to answer the following questions:

- Are the impacts positive or negative?
- What steps will be taken to reduce the negative impact on diversification?
- What steps will be taken to increase the positive impact on diversification?
- What type of plans will be formulated for diversification?
- What impact does diversification have on small companies?
- What strategies are used for diversification by multinational companies?

Literature Review

This research focuses on the impact of diversification on multinational organizations. It covers the part of the diversification of a multinational company, diversification being the major part of the research. Today one-third of all companies have knowledge about diversification and they are quickly adapting to the needs and conditions of different countries.

Diversification has also been adopted by construction firms. The studies related to diversification for the construction sector can be classified into diversification strategy and performance measurement studies. The research on diversification strategy in the construction sector mainly investigates the growth fundamentals in construction companies for one of the various strategies. Cheah (2004) investigated the diversification strategy of 21 construction firms that conduct business in overseas construction markets according to the market segmentation matrix. The market segmentation matrix suggested in this study categorized the

diversification patterns of construction forms into (1) projecttype diversification (for example, residence construction, commercial construction, and industrialfacility); (2) regional diversification (for example, domestic and overseas); and (3) service diversification(for example, validity verification, planning, design,and construction).

Yee, C.Y &Cheah, C.Y.J. (2006) analyzed the globalization, diversification, and financial strategy of construction firms on 61 E&Ccompanies in Korea, Japan, Europe,and the US. The results found that globalized firms showcharacteristics of a high current ratio and low leverage while diversified firms show a low currentratio and high leverage.Studied the relationships among companies' scale,profitability, and diversification strategy for the same companies examined.The authors concluded that small-scale companies show a tendency to concentrate, and when the scaleand resources of a company grow to a certain degree, the company expands to new market sectors.The diversification performance measurement studies for the construction industry focused on theverification of diversification performance by measuring the rate of diversification and quantitativelyanalyzing the relationship with management performance.

Choi, J &Russell, J.S. (2005) investigateddiversification and profitability of 59 contractors and 49 non-contractors that including, for example,material suppliers, construction engineers, and environmental firms in the US based on 12 years ofdata.In this study, they divided the firms into two groups, specialized firms and diversified firms,and analyzed the difference between the two groups but found no significant difference between the firms in terms of either a high or low level of diversification.

Kim *et al.*,(2012) examined the diversification performance of 400 construction companies and 500 construction design firms in the US between 1994 and 2009.This study executed four correlation analyses;diversification and corporate scale, diversification and corporate growth, diversification and stability, and corporate growth and scale.The results showed that large-scale companies were more diversified than small-scale companies; however, diversification was not related to the corporate growth rate.

Panagiotidis, T &Printzis, P. (2016) examined the Greek market in their study of the potential interdependencies between the housing price index and various macroeconomic determinants utilizing a VECM framework. This study found that housing market fluctuations had a considerable influence on the whole construction market, concluding that when the housing market is depressed, the financial sustainability of the construction company is vulnerable.

In this study, we verify the performance of multinational business diversificationwhich hascharacteristically appeared in Korea in terms of the corporate sustainability based on the businessdiversification studies.A number of studies on the overseas expansion of construction companieshave been reported in the literature. For example, Han *et al.*,(2004) looked at how financial portfoliorisk management can be implemented for both individual and corporate

international projects in order to integrate their risk hierarchies, recommending the use of a multicriterion decision-making method to maximize total value.

Gunhan, S & Arditi, D. (2005) developed a decision-making model for construction firms intending to expand their business internationally, while Jung *et al.*, (2012) suggested several sustainable construction strategies for international construction companies that function well under changing market conditions. In particular, they found that regional diversification is a useful strategy for overcoming prolonged recessionary periods, and localization is also helpful, particularly during the subsequent post-recession boom. Jung *et al.*, (2010) suggested the use of a country portfolio model to manage such market uncertainties, proposing a quantitative diversification strategy to optimize country portfolio solutions based on four critical country-level objectives.

Research Methodology

In this study, a description of the research methods used in this study is given. The study design is case study and will be conducted at Trade kings Ltd in Lusaka district. Sample size of the study is 50 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.

Descriptive survey design and correlational design are used in the study. A descriptive survey attempts to describe or document current conditions or attitudes (Wallace, W. & Hill, G., 2011) while correlational designs allow researchers to describe the relationship between two measured variables (Bhorat, *et al.*, 2017). The study is about the impact that diversification has on multinational companies, the researcher wants to find out whether the impact is negative or positive and to what extent does it affect the company and the employees. In this case the negative and positive impact that diversification has will be measured.

The study design is a case study and is conducted at Trade kings Ltd in Lusaka district. A population is defined as a large collection of individuals or objects. Population can also refer to an entire group of persons or elements that have a common, binding characteristic or trait. The population consisted of 50 individuals and is divided as follows to 8 employees, 30 customers, 9 suppliers and 3 wholesalers.

Researchers use a table of random numbers to generate a simple random sample, there is no specific procedure of random sampling. In random sampling a representative group is easily obtainable and the possibility of error is eliminated. Most questionnaires were distributed to respondents in person, only a few were sent through mail. The researcher closely monitored some respondents in order to clarify some questions for accurate responses.

Data Analysis and Interpretation

This research is a study of “An impact of diversification on multinational organizations,” of which the researcher executed at Trade kings Ltd interviewing various individuals from various departments, the sample was therefore acquired through the administering of questionnaires to various individuals and it was an estimated sample of about 50 with respondents being only 41 in total and the remaining were errors of non-response, hence I was greatly assisted by the respondents and I am grateful to them for giving me such a great response and the information that I needed to complete my research and maintain a steady amount of results which led to the information that is well set up in the research.

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.

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. This is as I discovered at trade kings, where for most of their products they maintain a great number of flavors 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 I was able to attain 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 the study the researcher looked at the difference between a company that diversifies and that which doesn’t and she 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.

It was discovered by the researcher that a trade king gives back to the economy through;

- Partnering with Beit cure hospital on k400 000 projects 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.
- 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.
- A trade king 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 Telenovela Zuba.

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.

Recommendations

Zambia can contribute to expanding the benefits of FDI in the global economy by providing leadership in a variety of international economic institutions and setting up initiatives. The more the contribution the more benefits that comes to the multinational industry which will strategically maintain a great solid ground in the revenue area or aspect of the business thereby setting benefits for the players in the multinational firms. The relationships between the host country and other countries should be stronger and greater in order to maintain more funds.

The businesses should ensure that there is a great relationship between them and the traders from other nations because it is due to the fact that the stronger bond maintains a good relationship with strategies set up to promote great profit margins for both the host and homination.

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