DIVERSIFICATION STRATEGIES AND ORGANIZATIONAL PERFORMANCE AMONG STAR-RATED HOTELS IN THE KENYAN COAST

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in Hospitality and Tourism Management of Murang'a University of Technology

June, 2024

DECLARATION

Student's Declaration

I hereby declare that this thesis is my original work and to the best of my knowledge has not been presented for a degree award in this or any other university. I understand what plagiarism is and I am aware of the University's policy in this regard. I understand that any false claim in respect of this work shall result in disciplinary action in accordance with the university Anti-Plagiarism Policy.

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Supervisors' Approval

The undersigned certify that they have read and hereby recommend for acceptance of Murang'a University of Technology a thesis entitled **"Diversification Strategies and Organization Performance among star rated Hotels in the Kenyan Coast."**

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DEDICATION

I dedicate this work to the Almighty God for His never ending love, grace and favour in all my undertakings. Consequently, I dedicate this thesis to my beloved late parents Mr. John Kitoto and Mrs. Leonida Kitoto for the faith they had in me. May they continue to rest in peace. I further dedicate this work to my beloved wife - Nancy and children- Graca and Diane for their moral support toward my academic Journey.

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ABSTRACT

In order to enhance performance, continuity and competitiveness, organizations must capitalize on opportunities and eliminate threats by applying appropriate recipes and developing various strategic approaches. Diversification is one of the powerful avenue to enhance business effectiveness and performance across the industry. Limited studies have been carried out to establish how diversification strategies influence hotel sector in Kenya. This study primarily sought to establish the effect of diversification strategies on organizational performance among star-rated hotels in the Kenyan Coast. The research was guided by four specific objectives. This study acts as an eye opener to the industry stake holders since they stand to benefit from the findings. The following theories were adopted in this study; Resource based view, Dynamic capabilities and Ansoff matrix. Mixed method research design was adopted to accommodate quantitative and qualitative data. Data was collected from 383 drowned from 42 selected star-rated hotels. Stratified random sampling technique was applied to select the hotels under study. Purposive sampling was used to select Strategic managers while random sampling technique was adopted to select both middle and lower level managers. Data was collected through questionnaire and interview schedule. Descriptive statistics and multiple linear regression was adopted to analyze quantitative data. Qualitative data was analyzed thematically.383 questionnaires were distributed where 354 dully filled representing 92.7% return rate. Additionally, 29 general managers were interviewed representing 80.6%. The research findings revealed an increasing performance among star rated hotels in the Kenyan Coast ($p=\leq 0.000 \leq 0.05$). The regression model of related and unrelated strategies was statistically significant {$F(2, 351 = 20.225, p<.000$}. The regression model shows 59.8% of the variation in the adoption of related diversification strategies practice by star rated hotels in this research study ($R=.773$, $R^2= .598$. Horizontal and vertical has positive influence on performance $\beta= 425$ and vertical strategies on performance $\beta=262$. The regression model shows 55.8% of the variation in the adoption of unrelated diversification strategies practiced in star-rated hotels in this study ($R= .747$, $R^2= .558$). Conglomerate $\beta= 235$ and collaboration131, both having positive influence on performance. The regression model with moderator (Government policies & Regulations) on the adoption of diversification strategies by star rated hotel in the Kenyan Coast in this study ($R= .785$, $R^2=. 617$. This implies that government policies and regulations are statistically important in the influence of diversification strategies among star rated hotels. Based on the findings of this study, various conclusions and recommendations were made: That the performance of star rated hotels is significantly impacted by both related and unrelated diversification strategies. Recommendations; The regulatory bodies and capital market operators must implement policies that encourage hotels to diversify their operations in order to reduce negative impacts on performance. Further study to be carried out on diversification strategies and impact on organizational performance among unclassified hotels. Contributions to new knowledge; Incorporation of moderating factors in enhancing previous linear model between diversification strategies and organizational performance.

TABLE OF CONTENTS

DECLARATION ..... **ii**
DEDICATION ..... **iii**
ACKNOWLEDGEMENT ..... **iv**
ABSTRACT ..... **v**
LIST OF TABLES ..... **x**
LIST OF FIGURES ..... **xiii**
ACRONYMS AND ABBREVIATIONS ..... **xiv**
OPERATIONAL DEFINITION OF TERMS ..... **xv**
CHAPTER ONE: INTRODUCTION **1**
1.1 Background Information 1
1.2 Statement of the Problem 9
1.3 Objectives of the Study 10
1.3.1 General Objective 10
1.3.2 Specific Objectives 11
1.4 Research Hypothesis 11
1.6 Significance of the Study 11
1.7 The Scope of the Study 12
1.8 Limitations of the Study 12
1.9 Assumptions of the Study 13
1.10 Contributions of the Study 13
1.11 Organization of the Thesis 14
CHAPTER TWO: LITERATURE REVIEW **16**
2.1 Introduction 16
2.2 Empirical Review 16
2.3 Theoretical Review 17
2.3.1 Resource Based View Theory 17
2.3.2 Dynamic Capabilities Theory 19
2.3.3 Ansoff Matrix Theory 20
2.4 Review of Empirical Literature 22
2.4.1 Diversification Strategy 22
2.4.2 Related Diversification Strategy 26
2.4.3 Unrelated or Conglemeric Diversification strategy 34

2.4.4 Factors Determining the Selection of Diversification Strategy 36
2.4.5 The Moderating effect of Government Policies on the Relationship between Diversification Strategies and Performance 39
2.4.6 Organizational Performance Measurement in the Hotel Sector.....43
2.5 Conceptual Framework.....46
2.6 Chapter Summary 48
CHAPTER THREE: RESEARCH METHODOLOGY 51
3.1 Introduction.....51
3.2 Research Philosophy.....51
3.3 Research Design.....52
3.4 Study Area.....52
3.5 Target Population.....53
3.6 Sample Size and Sampling Techniques 54
3.6.1 Sampling Techniques.....54
3.6.2 Sample Size.....54
3.7 Research Instruments 56
3.7.1 Questionnaire 56
3.7.2 Interview Schedule.....57
3.8 Pretesting of Research Instruments.....58
3.8.1 Validity Testing.....58
3.8.2 Reliability Testing.....58
3.8.3 Reliability Statistics 59
3.9 Data Collection Procedure 60
3.10 Data Analysis.....61
3.10.1 Quantitative Data Analysis 61
3.10.2 Qualitative Analysis.....62
3.10.3 Diagnostic Tests.....62
3.11 Ethical Considerations 67
3.12 Chapter Summary 68
CHAPTER FOUR: RESULTS AND DISCUSSION.....69
4.1 Introduction.....69
4.2 Response Rate.....69
4.3 General Information of the Respondents (Demographic Data) 69

4.3.1 Gender of the Respondents 69
4.3.2 Age of the Respondents 70
4.3.3 Marital Status of the Respondents 71
4.3.4 Highest Level of Education of the Respondents 71
4.3.5 Current Position in the Hotel 72
4.3.6 Terms of Employment of the Respondents 72
4.3.7 Duration Worked in the Hotel 72
4.3.8 Star Rating 73
4.3.9 Performance of Star Rated Hotels in the Kenyan Coast 74
4.4 Related Diversification Strategies and Organizational Performance among star rated hotel in the Kenyan coast. 76
4.5 Unrelated Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast. 94
4.6 Factors Determining Selection of Diversification Strategies among Star Rated Hotels in the Kenyan Coast. 108
4.7 The Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast. 116
4.7.1 Extent to which Government policies and Regulations effect the choice of Diversification strategy. 116
4.7.2 Regression Model for the Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Performance of Star Rated Hotels in the Kenyan Coast. 124
4.7.3 Moderating Effect of Government Policies and Regulations on the Relationship between Unrelated Diversification Strategies and Performance 126
4.8 Chapter Summary 129
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 130
5.1 Summary of the Study Findings 130
5.1.1 Related Diversification Strategies among Star-Rated Hotels 130
5.1.2 Unrelated Diversification Strategies among Star Rated Hotels in the Kenyan Coast 131

5.1.3 Factors that determine the Selection of Diversification Strategies 133
5.1.4 Moderating effect of government policies and regulations on the relationship between diversification strategies and organizational performance 134
5.2 Conclusion of the Study 135
5.3 Recommendations for Policy, Practice and Further Research. 136
5.4 Recommendations for Further Research 137
REFERENCES 138
APPENDICES 167

LIST OF TABLES

Table 3.1: Population Description 54
Table 3.2: Description of the Sample Size..... 55
Table 3.3: Cronbach Alpha Reliability Results 59
Table 3.4: Summary of Data Analysis 66
Table 4.1: Distribution of Respondents by Highest Education Level..... 71
Table 4.2: Respondents' Distribution by Current Position in the Hotel 72
Table 4.3: Distribution of Respondents by Terms of Employment 72
Table 4.4: Respondents' Distribution by Duration Worked in the Hotel 73
Table 4.5: rating of the Hotels as Per Respondents 74
Table 4.6: Level of Performance of Star rated Hotels in the Kenyan Coast... 74
Table 4.7: Overall Performance of Star rated Hotels in the Kenyan Coast 76
Table 4.8: Extent of Adoption of Related Diversification
Strategies in Star Rated Hotels..... 77
Table 4.9: Overall Extent of Adoption of
Related Diversification Strategies..... 81
Table 4.10: Likert Scale Responses on the Effect of Related Diversification
Strategies on Performance 82
Table 4.11: Linearity Assumption Test for performance and
Horizontal and Vertical Diversification Strategies 89
Table 4.12: Multicollinearity Test for Regression between
Performance and Vertical and Horizontal Diversification Strategies..... 90
Table 4.13: Model Summary for the Regression between related
Diversification Strategies and Performance of Star rated Hotels 91
Table 4.14: ANOVA Results for the Regression between
Related Diversification Strategies and Performance of Star Rated Hotels..... 92
Table 4.15: Regression Coefficients for Regression Model between Related
Diversification Strategies and Performance of Star rated Hotels 93
Table 4.16: Extent of Adoption of Unrelated Diversification Strategies..... 94
Table 4.17: Overall Extent of Adoption of Unrelated
Diversification Strategies..... 97
Table 4.18: The Influence of Unrelated Diversification
Strategies on Performance of Star Rated Hotels..... 98

Table 4.19: ANOVA Linearity Test for the Regression between Performance and Conglomerate and Collaboration Diversification Strategies 104
Table 4.20: VIF Values for No Multicollinearity Assumption for Regression between Performance and Conglomerate and Collaboration Diversification Strategies 105
Table 4.21: Model Summary for the Regression between Unrelated Diversification Strategies and Performance of Star Rated Hotels 106
Table 4.22: ANOVA Results for the Regression between Unrelated Diversification Strategies and Performance of Star Rated Hotels 107
Table 4.23: Regression Coefficients for the Regression Model between Unrelated Diversification Strategies and Performance of Star rated Hotels 108
Table 4.24: Factors Affecting Diversification Strategies among Star Rated Hotels 109
Table 4.25: Additional Factors Affecting Diversification Strategies among Star Rated Hotels 111
Table 4.26: Extent to which Specific Government Policies and Regulations affect Choice of Diversification Strategy 117
Table 4.27: The Effect of Government Policies and Regulations on Choice of Diversification Strategy 121
Table 4.28: Model Summary Results for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance 124
Table 4.29: ANOVA Results with and Without a Moderating Variable on the Effect of Related Diversification Strategies on Performance 125
Table 4.30: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance of Star Rated Hotels 126

Table 4.31: Model Summary Results on the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification Strategies on Performance of Star rated Hotels 127
Table 4.32: ANOVA Results with and Without a Moderating Variable for the relationship between Unrelated Diversification and Performance of Star Rated Hotels 127
Table 4.33: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification on Performance 128

LIST OF FIGURES

Figure 2.1: Conceptual Framework 46
Figure 4.1: Distribution of Respondents by Gender 70
Figure 4.2: Distribution of Respondents by Age 70
Figure 4.3: Distribution of Respondents by Marital Status 71
Figure 4.4: Normal P-P Plot for Normality Assumption for Regression between Performance and Vertical and Horizontal Diversification Strategies 90
Figure 4.5: Scatterplot for Homoscedasticity Assumption for Regression between Performance and Vertical and Horizontal Diversification Strategies 91
Figure 4.6: Normal P-P Plot for Normality Assumption Test for the Regression between Performance and Conglomerate and Collaboration Diversification Strategies 105
Figure 4.7: Scatterplot for Homoscedasticity Assumption for Regression between Performance and Conglomerate and Collaboration Diversification Strategies 106

ACRONYMS AND ABBREVIATIONS

ADR:	Average revenue
COVID 19:	Corona Virus Disease 2019
FDI:	Foreign Direct Investment
GDP:	Gross Domestic Product
GoK:	Government of Kenya
HI:	Hospitality Industry
HS:	Hotel Sector
HTI:	Hospitality and Tourism Industry
ICT:	Information Communication Technology
ILO:	International Labour Organization
IMF:	International Monetary Fund
KNBS:	Kenya National Bureau of Statistics
KPIs:	Key Performance Indicators
MOTW:	Ministry of Tourism and Wildlife
NACOSTI:	National Commission for Science, Technology and Innovation
OCC:	Occupancy Rate
PwC:	Price water house coopers
RBV:	Resource-Based View
RevPAR:	Revenue Per Room
SDGs:	Sustainable Development Goals
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Scientists
TRA:	Tourism Regulatory Authority
UNWTO:	United Nations World Tourism Organizations
U.S.A:	United States of America
USD:	United States Dollar
WTTC:	World Travel & Tourism Council

OPERATIONAL DEFINITION OF TERMS

The study adopted the following definitions:

Coastal Region: An area bordering a sea or ocean. It can also mean a line which links a dry land and an ocean, a sea or a lake for example, Mombasa, Kwale and Kilifi.

Diversification: An approach used by an organization or firm to minimize losses by allocating resources in various financial investments.

Hospitality: It is an industry that deals with the provision of services such as, drinks, food, entertainment and accommodation services away from home.

Hotel: An establishment whose primary purpose is to provide food, drink, lodging facilities and sometimes recreational facilities to travelers who are willing and able to pay away.

Hotel Stars: Are arrangements made by an organization to assess the features and amenities available at a hotel which determine its service quality.

Organizational Performance:This is the capability of a firm to meet its target objectives despite of any change in business environment.

Related Diversification: This refers to development of different brand products with the objective of exploiting the full potential of current business environment and market systems.

Tourism:Is the movement of people from one place to another in such of activities such as leisure or business in a place not less than 24 hours and not more than 360 days.

Unrelated Diversification: This refers to a firm taking part in activities outside of its industry.

CHAPTER ONE
INTRODUCTION

1.1 Background Information

Hospitality and tourism industry is among the key drivers influencing various sectors and creating both economic and social benefits. According to Harwood *et al*, (2022) study revealed that hospitality is an industry whose performance is correlated to and a market that is highly conscious to the state of a country's Gross Domestic Product (GDP). The hospitality industry contributes significantly to the global economy through various sectors such as hotels, restaurants, travel, and tourism. According to the World Travel & Tourism Council – WTTC (2020), the travel and tourism sector contributed $8.9 trillion to the global economy in 2019, accounting for 10.3% of global GDP. According to International Labour Organization – ILO (2020) noted that hospitality industry is a major employer globally, providing millions of jobs across various sector. In 2019, the industry accounted 313 million jobs representing 10.7% of the global employment. Consequently, Kim *et al*., (2012) pointed out that hotels sector together with other related tourism products have major contributions to the economy than some of the income generating activities in the developing countries. National Tourism Blue Print Vision (2030) stressed on the benefits of hotel sector (HS) in increasing revenue collection rate in the tourism industry.

Hotel sector is considered as a cyclic sector, a sector that is more conscious to economic state of economy to every country (Chen, 2020). This due to high fixed cost that hotels tend to have irrespective of level of production as compared to other industries. According to Ministry of Tourism and Wildlife - MOTW (2017) hospitality industry includes sub sectors such as airlines, accommodation, food services, travel and tourism and recreation. Both regional and local economies benefit from direct and indirect revenue generated by the hospitality industry (Dogru, McGinley & Kim, 2020).

Ahmad and Scott (2021) further observed that the hospitality sector is among the major drivers in the growth of local societies by uplifting their living standards. Through provision of employment and other forms of livelihood, the hospitality sector has led to the reduction of crime rates within communities where hospitality

businesses are in operation (Rauf *et al.,* 2020). The sector has also led to the improvement of local infrastructure such as roads and communication network (Legrand, Chen & Laeis, 2022). Over decades, hospitality remains a major industry with the main social phenomenal in the United States of America (USA), and the sector has a contribution of over 11% to GDP (Khoshnevis, Yazdi & Khanalizadeh, 2017). Upadhaya *et al.,* (2022) opined that improved living standards, increased employment, improved and growth in local retail sales are the most important perceived socioeconomic impacts of hospitality industry.

In Africa, the hospitality and tourism industry (HTI) recorded 5.6 percent growth rate in 2018 as compared to Asia which recorded 3.9 percent global growth rate (Chirisa *et al.,* 2020). This places Africa to be the second fastest growing tourism destination worldwide (Apakah, 2021). The HTI is still among the major economic promoter in the region, contributing 8.5 percent, equivalent to $194.2 billion of the GDP in 2018**;** from 8.1% and 7.8% in 2017 and 2016 respectively. In 2018, the continent received 67 million international tourist arrivals (7% increase), as compared to 63 million in 2017 and 58 million in 2016 (Jumia Hospitality Report Africa, 2019).

According to Price water house coopers - PwC (2017) hospitality and tourism sector directly and indirectly provided employment for about 24.3 million people in 2018. This accounted for approximately (6.7%) of total employment in Africa. Nigeria is among the fastest growing market with a projection of 12% annual increase in terms of room revenue followed by Tanzania and Kenya, with a projection of 8.2% and 7.4 percent annual increases respectively (Lesseri, 2022). World Travel and Tourism Council (2022) stated that hospitality and tourism industry is ranked as a significant contributor to Kenyan GDP. The industry contributed 10.4% of the country's total GDP from direct contribution playing a crucial role in the country economic development. According to ILO (2020), hotels are very key in the provision of food, accommodation and other amenities and therefore deemed important in the development of any tourism destination. Through the commercial and noncommercial activities involved in the accommodation trading, the hotel sector has both direct and indirect impact to the Kenyan economy (Njoya & Seetaram, 2018).

Kenya National Bureau of Statistics - KNBS (2020) indicated that the country has been receiving a steady earning from HTI. For instance, Kenya earned 1.2 billion US Dollars from tourism expenditures in 2017 as compared to approximately 989 million US Dollars from 2016 which is equivalent to 20% rise. Hotel occupancy (bed night) improved in revenue collection of 6.4 million in 2016 as compared to 7.2 million in 2017, an increase of 11%. According to Agarwal and Upadhyay (2006), the hotel industry alone records for more than 72% of the GDP of most developed countries and 52% of the GDP of developing countries.

The sector realized an acceleration of revenue collection from USD 718 million in 2019 as compared USD 492 million in 2014 representing a 46% increase (KNBS, 2019). Consequently, the sector growth rate of the GDP increased from -16.7% 2014 to 16.6% in 2018 (KNBS, 2020). The performance of hotels in Kenya has recorded a steady rise between 2017, 2018 and 2019 with bed occupancy rate of 31.200, 32.500 and 33.800 respectively. The benefit from hospitality and tourism industry is very critical in realizing the sustainable development goals (SDGs) which is anchored in the vision 2030 agenda (UNWTO, 2020). In terms of tourism, Kenya seeks to become among the top ten long-haul distance travel destinations globally, with unique experiences, diverse and high end services on offer to the visitors (Government of Kenya, GoK, 2017).

According to United Nations World Tourism Organization's (UNWTO, 2018) long-term forecast report, "Towards Tourism vision 2030", international tourist arrivals worldwide are expected to increase by 3.3 percent per year to reach 1.8 billion by 2030. However, the performance dropped drastically in the year 2020 with only 17.800 hotel bed occupancy. The drop was necessitated by the travel ban and dusk to dawn curfew directed by the government to minimize further spread of Covid – 19 which in turn lead to the drop in demand of accommodation and other hotel products (KNBS, 2022). The HS was one of the most affected sectors in the world in the year 2020 due to the Covid-19 pandemic following control measures that was put in place by both local and national governments to reduce the spread of the pandemic (Odwori *et al.,* 2022). For instance, both international and national travel ban, lockdowns and social distancing measures led to decline in hotel bookings and occupancy rate. Hospitality affiliated businesses also shut down resulting to reduced performance of

the entire sector. However, there is enough evidence that the sector has been on a recovery path since 2021, as there is increasing number of hotels in operation, hotel bookings and bed occupancy during the year (Siringi, 2021).

Muragu, Nyadera and Mbugua (2023) indicated that even though hospitality industry is among the topmost economic contributors to Kenya's GDP. Moreover, despite the recovery from the recent Corona pandemic, the value added still remain below the expectation especially as compared to revenue collected a year before the pandemic. Understanding turbulance, opportunities and strength posed by the external environment is inevitable for an organization to retain its success in the present competitive and ever-changing business environment (Elali, 2021). In order to enhance performance, continuity, survival and competitiveness, organizations must capitalize on opportunities and eliminate threats by applying appropriate recipes and developing various strategic approaches (Triaa, Gzara & Verjus, 2016). Lei (2019), asserted that diversification is the most achievable avenue to enhance business effectiveness and performance by widely spreading firm's financial investments. Morover, Mendoza-Abarca and Gras (2019), termed diversification as a process of internal expansion or acquisition by a company through entry of new activities. Diversification is a strategy employed by firms in order to increase business sustainability as well considering all the possible uncertainties through allocation of new capital, concentration, introduction of new activities or product line (Kovalev, 2010).

The main target of firms practicing diversification is to get rid of unsystematic risk events from a portfolio (Jin, 2019). As a result, the higher performance of some investments compensates the poor performance of others (Figge, 2017). Thus, a diversified company can be considered as operating in several sectors (Ibrahim & Kaka, 2007). Diversification results to a number of investment opportunities for the firm as it enables the firm to take advantage of more profitable opportunities in previously inactive sectors of the economy (Srinivasan, 2020). According to Ojiru (2023), companies may choose to enter into diversification in order to guarantee their survival in dynamic business uncertainties as well as conducive to expansion. According to Su and Tsang (2015), diversification is about improving the profitability of the organization. Authors such as Karimi (2013) and Yigit & Tur (2012) consider

diversification as a strategy to improve the efficiency in resource use and create investment opportunities. Yucel & Onal (2016) and Hasby, Buyung & Hasbudin (2017) opined that for a firm to achieve economies of scale and to explore market options and opportunities, diversification is paramount. Oladimeji and Udosen (2019) view diversification as a recovery Strategy.

In essence, diversification is the business strategy of a firm aimed at increasing its profits through increased sales (Oyefesobi, Akintunde & Aminu, 2017). Oyefesobi *et al.,* (2017) further pointed out that diversification tend to raise financial profitability by gaining bigger market share from new products and new markets inside or outside the industry. According to Su and Tsang (2015), diversification is about changing tactics of conducting business by an organization either through pursuing new product line or exploring new market collectively or individually. Armstrong (2006) defines diversification as a strategy to achieve healthy growth by beginning to acquire businesses outside of the company's current product or market. Brand loyalty is among the potential benefits for companies adopting a diversification strategy as it leads to higher switching costs and a move away from competitive pressures (Shi *et al.,* 2021). Porter (1979) opined that differentiation can anchor the brand in the minds of consumers by desensitizing them to other features offered by competitors. This provides the business with higher profits and can neutralize the power of suppliers and buyers since they have no substitute. Mitchell and Coles (2003) stated that competitive strategies should be viewed as taking either defensive or offensive actions; with the focus of gaining a larger market share in an industry attained by successfully overcoming the five competitive forces, and thus achieving a higher return on investment.

In their study, Randeree and Youha (2009) emphasized that the success of a company relies on its capability to efficiently execute strategies in order to reach its goals. According to the findings of Richard et al. (2015), there are three main aspects that encompass organizational performance: financial performance, product market performance, and shareholders' return. These aspects include various factors such as profits, return on assets and investments, sales, market share, total shareholder return, and economic value added. In support of this, Santos and Brito (2012) state that the comprehensive evaluation of organizational performance should include measures of

profitability, social responsibility, environmental sustainability, customer and employee satisfaction, as well as business growth.

The HS has undergone significant changes in recent years. Homogeneous hotel services designed for the general public have become personalized under the influence of fierce competition (Feng, 2022). Modern literature in the field of tourism emphasizes that the adaptation of hospitality services to narrower consumer segments is of paramount importance in order to offer competitive offers. In changing market conditions, hotel companies increasingly focus on understanding the needs and expectations of users of their services in order to provide adequate services (Sohrabi *et al*., 2012).

Terrorism, tourism seasonality and the recent Covid-19 pandemic are among the increasing, dynamic and challenging environment in which hospitality industry operate presently. As a result, many businesses have been disoriented especially tourism industry to which hotels belong (Alonso *et al.,* 2020). Kalnins (2016) lamented that organizations require urgent and swift action by forecasting business future and responding to any obstacle or opportunity that may occur is required by organizations must be able to take action swiftly by scanning business future and responding to any obstacles or opportunity that may arise. In turn, this will boost the performance among the organizations. Moreover, Rizea (2015) advocated that, to achieve efficient and attractive performance alongside market competitiveness, firms must formulate proper diversification techniques.

Consequently, Heckman, Steger and Dowling (2016) argue that in order to remain highly competitive over time in unpredictable business environment, organizations must therefore learn to embrace diversification. However, Misigo (2018) narrated that diversification strategy option of a firm must be predicated on a careful assessment of its mix of resources and capabilities which should also reflect market influence. Barney (2018) reiterated that scarce, valuable, inimitable and irreplaceable resources are factors of business performance. Hotels often endeavor to meet the varied needs of their clients and maintain a competitive edge in the market with the focus in performance breakthrough despite operating in a dynamic business environment (Li & Liu, 2018). Firms employ diversification to prevent new entrants and/or existing

firms as a strategic option (Cherif *et al.,* 2022). Diversification strategies provide organizations with different advantages from a financial point, including lowering of prices, asset depreciation and threat reduction (DePamphilis, 2019). The vulnerability of the hospitality industry has led to the strategic decision to diversify by understanding the right mix of business strength and business combination which on the other hand is important as it help an organization to provide stiff competition to its competitors (Sheel, 2017). Akewushola (2015) asserts that organizations are empowered to disseminate their excess resources for financial gain through diversification approach.

In the USA, reports show that food display is changing and pushing US food manufacturers to produce and sell. Many have also ventured into related food delivery, shipping and management businesses, while staying away from the large-scale contributions of horticulture and food retailing (IBIS World, 2016). An important part of the new expansion of the food industry is based on the exchange of demonstration capabilities between the client project company and the exchange of expertise in handling and transporting goods between the product companies and manufacturer (Matarazzo *et al.,* 2021). Essentially, factors such as additional tourist attractions and leisure activities have contributed to the exponential growth of the hospitality industry in Kenya (Bama, Nyathela-Sunday & Makuzva, 2022). Even though the industry is showing appositive growth, the existing hotels and related businesses are still facing distress. In order to increase business performance, hotel managers have sought diversification as the powerful approach (Matarazzo *et al.,* 2021).

Hospitality industry has find it difficult to survive due to slowdown in the Kenyan economy, the push for privatization and the impact of globalization. As a result, the industry remains vulnerable with many competitors and unattractive profit. The industry's increased volatility and competitiveness has made the industry more vulnerable to fluctuations in demand, thus aggravating the situation and making survival more critical (Wanjala, 2020). Ringbakk (1972) and Robert-Baum & Wally (2003) assert for that for hotels to survive competitive business environment, appropriate strategic plan and management framework must be properly put in place. They further pointed out that the ability to adapt changing environments determines organization continuity and therefore, strategic planning is considered as essential tool

for managing such environmental upheavals. The Kenyan Coast hotel industry is deemed very competitive, as a result, investors need to plan ahead and find advanced technique which is appealing to the market.

It is worth noting that significant investments in the business have added value to the level of service delivery on the Kenyan coast, the main driver being diversification of business services. Despite the excellent facilities, customers may avoid the company if diverse products are not offered. Several studies have been conducted on diversification strategies and organizational performance with varying results. While other findings show a positive relationship between diversification and performance, others hold contradictory view. Asman (2013) conducted a study of the same nature but in a state owned commercial enterprises in Kenya. Among his findings, was that diversification strategies have improved business performance. Maragia and Kemboi (2021) studied diversification strategies and organizational performance in the manufacturing industry, his findings similarly revealed a positive relationship. Thus, horizontal diversification has a positive and significant impact on the organizational performance of manufacturing companies. Oyefesobi *et al*., (2017), similarly examined diversification strategies and organizational market share in Nigerian manufacturing industry. The findings show a positive correlation between the strategy of diversification and the position of the companies on the market and their market share in the manufacturing industry.

Zheng and Tsai (2019) carried out a study on diversification strategies and organizational performance in the hospitality industry in Hong Kong, Asia. Empirical results show that diversification has a positive effect on firm performance up to a certain level (0.34); however, the relationship becomes negative beyond this level. Numerous studies in this topic have been conducted in developed countries with majority focusing in manufacturing sector. Consequently, studies carried out were majorly based on porter's five forces model. However, very little is known about related and unrelated diversification strategies within the Kenyan hospitality sector especially coastal region. Thus, the researcher has recognized the need and therefore sought to investigate the influence of related and unrelated diversification strategy on the organizational performance of star hotels in the coastal region of Kenya.

1.2 Statement of the Problem

Despite the opportunities, business hurdles are still being witnessed in the hotel sector that continues to undermine their performance, thus increasing dilemma in business flow (Senbeto and Hon,2020). The performance of the hotel sector is susceptible to global uncertainties as a result of challenges in the recent year due to the negative impact of events such as terrorism attack in 2019, tourism seasonality and the recent Covid-19 pandemic (Japutra & Situmorang, 2021). Hospitality being a service industry, requires resilience to survive organizational and environmental forces such as Covid-19 pandemic, globalization, seasonality, terrorism, constant global and domestic competition, and new technologies (Baloch *et al.,* 2022). Performance enhancement is crucial for hotels in developing countries that view the global marketplace as a means to provide growth, competitiveness and survival opportunities.

Diversification strategies should be prioritized in hospitality and tourism industry especially the hotel sector to stimulate and develop resilience to counter the organizational and environmental forces especially at the backdrop of post Covid 19 business operation recovery that are characterized by sunken sales and reduced profitability level. This is necessitated by low customer demand and changes in customer expenditure as well as Competition in the hotel market that is a serious problem (Arsenieva *et al*., 2019). It is very essential to enhance competitive advantage for business advancement, and solving this dilemma will help in hardening the business position of the hotel industry, as well as enticing new customers and create extra gains. Fluctuations in the hotel business market results to the decision to diversify by understanding the right mix of business strength and weaknesses which is essential for business continuity and keep pace with other competitors (Teo, 2002). Business turbulence such as covid-19 pandemic emergence had an unprecedented negative impact on the hospitality industry performance.

The industry witnessed a sharp decline in hotel occupancy rates and over US$9 billion revenue loss and a number of staff lay off (Falk, Hagsten & Lin, 2022). The threat of job losses is continuously being witnessed across the industry due to poor performance (Arsenieva *et al*., 2019). If no intervention is urgently taken by embracing proper

diversification approaches among hotel managers to ensure full recovery, hotel markets which represent 72 percent hotel room will face recession and this will expose hotels to financial distress due loss of operational income thus poor performance.

Hotel industry operators need to implement appropriate diversification strategic path in order to experience continuous recovery from the shock of Covid-19 menace (Nation Africa, 2023). Diversification increases the range of investment opportunities for firms because it allows the firm to take advantage of more profitable opportunities in sectors of the economy that were previously inactive (Hasby *et al.,* 2017). Inability to diversify by the hotel industry has greatly affected their financial sustainability (Oyefesobi *et al*., 2017). Implementing diversification among hotels is likely counter the threats associated with increasingly, dynamic and changing business environment thus enhance sustainability level of hotel business by increasing market share among others (Oyefesobi *et al*., 2017).

Kenyan coast is the hub of tourists both business and leisure with 65 percent of employees in having a place in the sector (KNBS,2020). Lack of adequate information regarding diversification strategies has seen hotel sector suffer great deal especially during uncertainties. As a result, the industry business has become unattainable. Hospitality and tourism industry especially Coastal Kenya which is mostly affected during uncertainties such as the recent Covid-19 pandemic.

Very little is known about diversification strategies and organization performance among hotels in Kenya. This study therefore, aims to bridge the knowledge by revealing the need by the industry managers to embrace related and unrelated among other strategies to ensure steady performance despite of business economic recess among star-rated hotels in the Kenyan coast.

1.3 Objectives of the Study

1.3.1 General Objective

To evaluate the influence of diversification strategies effectiveness on organizational performance among star rated hotel in the Kenyan Coast.

1.3.2 Specific Objectives

i) To analyze the impact of related diversification strategies on organizational performance among star rated hotels in the Kenyan Coast.

ii) To evaluate the influence of unrelated diversification strategies on organizational performance among star rated hotels in the Kenyan Coast.

iii) To examine factors determining selection of diversification strategies among star rated hotels in the Kenyan Coast.

iv) To determine the moderating impact of government policies and regulations on the relationship between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

1.4 Research Hypothesis

H_{01} There is no significant influence between related diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

H_{02} There is no significant influence between unrelated diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

H_{03} Government policies & regulations do not have any moderating impact on the relationship between diversification strategies and organizational performance among star rated hotels in Kenyan Coast.

1.5 Research Question

What factors determine the selection of diversification strategies among star-rated hotels in the Kenyan coast?

1.6 Significance of the Study

This study is vital for hospitality industries as the sector is sensitive to business uncertainties such as the recent Covid-19 among others. The findings of this study sought help policy makers such as government, Kenya Association of Caterers and Hotel Keepers (KACHK) and Tourism Regulatory Authority (TRA) to amend their policies in favor of the industry during such time especially during business uncertainties.

The findings sought to act as key tool to the hotel investors when determining applicable strategy to employ in order to expand their business by increasing their

market coverage, productivity level and making the most of the resources at their disposal.

The findings of this study sought to shade light and encourage the hotel managers to spearhead sustainability strategies across tourism industry by developing packages that attract customers and especially locals during low seasons. This will ensure continuous revenue generation in time when the industry is faced by external threats. The findings are important as provide vital information to all stakeholders including employees and the community on the important of embracing strategies invented by key decision makers, investors, managers and the government.

1.7 The Scope of the Study

This study was carried out in coastal Kenya and particularly among star rated hotels. The study was confined to the effect of related and unrelated diversification strategies on organizational performance. Further, the study was limited to the hotel industry and not any other sector. The study was conducted between the year 2022 and 2023.The hotel operations may have changed.

1.8 Limitations of the Study

This researcher encountered various limitations. The population of this study represents three ties of management in star rated hotels within the Kenyan coast. Therefore, the study findings cannot be generalized to hotels outside Kenyan coast. Further, the study findings are not applicable to non-classified hotels in the Kenyan coast. However, it is hoped that the study can be reproduced to test the extent of the applicability of the findings.

Accessibility of study hotels was faced by some delays as hotel security are always under strict instructions not to allow people to access managers due to their busy schedules. However, the researcher managed to access the hotels in good time once letter of appointment request was confirmed. Most of the hotel managers and human resource managers under study were hesitant to allow the researcher access the respondents due to their busy schedules.

Never the less, after receiving researcher's prior application and further explanations of study objectives, majority of managers spared the researcher their time to provide the information required and at the same time allowed the distribution of the questionnaires among the respondents, and therefore data collection period was not delayed as was anticipated. Some respondents would hesitate to fill in the questionnaire forms with honesty due to fear of victimization, which would have interfered with accuracy of the findings. The researcher however, engaged the participants by explaining the purpose of the study as being solely for academic, not any other use, and this instilled confidence in them and which result to most of them giving their honest opinion.

Respondents were reluctant to fill in the questionnaire form due to ambiguity of the statement or language used which interfered with the validity of the study. To avoid such error, the researcher took the research assistants through training. The research assistants would later assist the respondents to interpret any statement that seemed ambiguous. Lastly, the study was faced by inadequacy of local literature as previous studies concentrated in developed countries besides studying manufacturing industries.

1.9 Assumptions of the Study

The study was conducted based on several assumptions. First, the information provided by the participants was accurate and truthful. Secondly, similar effect of diversification strategies on performance were experienced in all the hotels that are star- rated in the Kenyan coast. Thirdly, that related and unrelated diversification strategies have implications on the performance of the hotels in the Kenyan coast that are star-rated. Lastly, was assumed that the information was not bias and that the respondents had adequate knowledge on diversification strategies.

1.10 Contributions of the Study

The information and data contained in this study is essential to hotel managers and investors to make decision and product customizing in enhancing organization performance. Additionally, the study is important in advancement of knowledge by redefining and reviewing diversification strategies applicable to hotel sector.

Consequently, a new concept of moderating factors in enhancing previous linear model between diversification strategies and organizational performance was incorporated by introducing government policies and regulations. It is widely accepted that any business operations are determined by government policies and regulations. Government policies and regulations continually changing thus requires continuous review in order to support diversification strategies and enhance organizational performance.

The findings of this study further enhances the prediction of diversification strategy adoption by developing a model which will support star rated hotels to monitor adoption rate of diversification strategies and contribution level towards mitigation of negative performance. The result could also help the hotel managers to focus on the interest and the need of stakeholders by developing strategies that improve organizational performance.

The study has contributed by developing a statistical model with predictor variables. The significance of predictor variables was determined thus a possibility of application based on its impact. The star rated hotel can use the model predict the choice of diversification strategies. The study also contributed to establish a unique moderating effect of government policies on the relationship between diversification strategies and organizational performance.

1.11 Organization of the Thesis

This thesis consists of five chapters as outlined below;
Chapter One (introduction) comprise of the background of the study, statement of the problem, objectives and research hypothesis. This chapter also introduces significance of the study, scope of the study, limitations, assumption and contributions of the thesis. Chapter two (Literature review). This section presents a review of the literature on diversification strategies and organizational performance. It also covers theoretical background, theoretical and empirical reviews, critiques of the literature reviewed, knowledge gaps, summary of the literature reviewed and conceptual framework. Chapter three presents the methodology adopted by this research to achieve the study objectives. It comprises of research philosophy, research design, study area, target

population, sampling techniques and sample size, research instruments, data collection procedures, pretesting, methods of data analysis, logistical and ethical considerations. Chapter four present research findings and discussions based on the study objectives. Chapter five covers summary, conclusion and recommendations

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This section presents a review of the literature on diversification strategies and organizational performance. Consequently, it covered the theoretical background, theoretical and empirical reviews, critiques of the literature reviewed, knowledge gaps, and a summary of the literature reviewed.

2.2 Empirical Review

Ojiru (2023) pointed out that diversification strategy is one of the mostly employed as survival technique among the organizations aiming to outperform other business in similar industries. Whether relevant or not, diversification is the high level strategic choice that most managers use to enhance organizational performance (Castaldi & Giarratana, 2018; Makau & Ambrose, 2018). Out of the many strategic options available, majority of organizations choose to apply diversification to make use the most of available resources to achieve predetermined goals related to performance improvement (Carroll & Stater, 2009). According to Martin and Sayrak (2003), diversification is the bringing together business units with different product and industries but operating under the common control of one company. Hassink, Isaksen and Trippl (2019) describe diversification strategy as practice where an industry enters into different industry or market thus deviating from its main business. They further argued that diversification is about the process of initiating new business.

Su and Tsang (2015) claim that multiple entry diversification occur in situations where an organization seeks to change the definition of its business by developing new products or entering new markets, either alone or in partnership with corporate entities. Oladele (2012) argues that diversification is a game changer geared towards promoting competitive advantage; it is a means by which organizations spread risk among multiple firms to accumulate financial gain, eliminate the danger of bankruptcy, develop synergies, and improve operations and business performance. Ajay and Madhumati (2012), Adamu *et al.,* (2011) & Junior and Funchal (2013) reiterated that diversification strategies play major roles such as improving debt

capacity and asset deployment. They further noted that they allow organizations to leverage their existing skills, expertise and capabilities to produce products with unique nature. Organizations which embrace diversification can easily and effectively concentrate unsystematic risk to reduce the viability of operating cash flow; thereby gaining advantage over the competitors (Dosi & Teece, 1993). This strategy however, should not be taken as the only cure for the various business challenges facing organizations in the current business environment.

Mukhtar and Azhar (2020) claim that cost reduction is likely to be achieved when the value chains of different firms provide opportunities for inter firm resource transfer by combining the performance of related value chain activities, the inter firm use of potential brands, and the firm inter-company collaboration creating new or improving competitiveness. According to Anwar, Shah and Hasnu (2016), strategy is seen as a tool to achieve sustainable competitive advantage and ensure that resources are fully utilized to achieve underlying long-term goals and high performance. According to Sophia and Owuor (2015), strategy involves identifying long-term goals and objectives, developing action plans, and simultaneously allocating the resources needed to achieve them. This may imply that the relationship between diversification strategies and organizational performance is very prominent in the strategic management literature.

2.3 Theoretical Review

According to Collins and Stockton (2018), a theory is a formal idea or set of ideas that is intended to explain facts or event. It attempts to explain things that have already been substantiated by data. Resource based View theory, Dynamic capability theory, and Ansoff theory are key to this study, based on their ability to explain both dependent and independent variables.

2.3.1 Resource Based View Theory

Resource Based View (RBV) theory was proposed by Barney (1991). Resource-Based View Theory, as outlined by Barney (1991), is a set of theories that propose that firms can create sustainable competitive advantage through a firm's internal resources with distinct features. Such characters should be; valuable, rare, difficult to imitate, and

non-substitutable. The main intention of RBV is to answer the question of how organizations gain a sustainable competitive advantage over other organizations in the same industry and improve their organizational performance.

Barney (1991) argues that for an organization to be optimally positioned in best position in the market and for long term success, its resource must be valuable, scarce, difficult to imitate and non-substitutable resources. Barney (1991) further noted that these strategic resources can serve as the foundation for developing business capabilities, which can lead to better performance over time. Additionally, the ability to pool, manage and utilize resources in a way that adds value to customers and creates an advantage over competitors is required (Simon, Hitt & Ireland, 2007).

Resource-Based View Theory further emphasize that organizations with "strategic resources" have significant competitive advantages over organizations without "strategic resources" (Ployhart, 2021). Similarly, the theory states that firms may use internal resources in different ways to enable them exploit external resources and thereby creating sustainable competitive advantage rather than focusing on the competitive situations alone (Peteraf & Bergen, 2003).

The theory of RBV has been widely used by scholars in organizational performance research. In the hospitality sector, RBV theory has been used extensively. In Spain, Gonzalez-Rodriguez *et al.,* (2018) demonstrated that hotels' internal resources such as the assets are more influential on performance as compared to the external resources. Similar findings were demonstrated that Camison and Fores (2015) who found that internal capabilities of hotels play a more significant role in their competitive advantage as compared to its external environment's factors. Resource-based view theory has also been relevant in explaining the diversification strategies for hospitality firms especially those venturing in international markets (Kruesi, Kim & Hemmington, 2017). Manoharan, Madera and Singal (2021) found the theory being relevant in explaining the effect of the diversity techniques on competitiveness in the hotel sector.

The theory has been criticized by Huang (2013) on its applicability in the hotel sector by noting that imitation barriers are low thus opposing what RBV advocates for.

Succurro and Boffa (2018) adds to its criticism by noting that the hotel industry is not regulated through patents and that resources in the hotel sector are imitable thus making them adoptable by competitors. However, Canina, Enz and Harrison (2005) note that RBV is applicable in the hotel sector in case there are resources that can assure competitiveness despite them being imitable. Firms in the hospitality sector should gain competitiveness through resource acquisition before their competitors or through efficient use of available resources as compared to their competitors.

According to Innocent (2015) and Al-Swidi & Mahmood (2012), RBV is most useful in this study as it reveals the link between firm's internal resources and organizational performance. In other relevant literature, diversification has been considered as organization unique resources and strategic attribute of an organization which helps a firm realize higher performance and gain competitive advantage than the competitors (Ahmed & Othman, 2017; Innocent, 2015; Hafner, 2021).

2.3.2 Dynamic Capabilities Theory

The theory as proposed by Teece and Pisano (1994) who stated that firms gain competitive advantage through rapid reactions and being flexible to innovations while at the same time being in a position to manage varying capabilities so as to be in a position to manage both their internal and external resources. Under dynamic capabilities, the firm is able to renew its competences in order to adapt to fluctuations in the business world. Further, the firm is also in a position to adopt strategic management in order to utilize these competencies to match environmental needs.

Dynamic Capability Theory studies the way firms integrate, construct, and reconfigure their firm-specific internal and external capabilities into most advanced capabilities that adapt to their volatile situation (Teece, Pisano & Shuen, 1997). The theory hypothesizes that firms with bigger dynamic capabilities will have better performance as compared to firms with relatively smaller dynamic capabilities. Winners in the global marketplace are companies that demonstrate responsiveness, flexibility, and rapid product innovation, as well as the management ability to effectively coordinate and redeploy internal and external capabilities. Dynamic capabilities refer to intentional changes in the products, production processes, size, or markets that a firm serve (Winter, 2003). An organization is dynamic when it is able to integrate, build,

and reconfigure its internal and external enterprise-specific capabilities in response to changing circumstances. For example, organizational capacity involves the effective use of existing resources, while dynamic capacity refers to the effective exploration and implementation of new opportunities (Snell & Morris, 2014).

According to Helfat and Peteraf (2009) dynamic capabilities are "the capacity of an organization to deliberately create, develop and modify its resource base". An organization's resource base is composed of material, human and organizational assets (Eisenhardt & Martin, 2000). Dynamic capabilities are stable patterns of behavior through which a firm generates and systematically changes its way of doing things to ensure efficiency (Macher & Mowery, 2009; Zollo & Winter, 2002). For example, operational routines develop through experience gained by repeatedly performing same activities for longer period (Argote, 2011). The ability of firms to integrate, build and reconfigure specific internal and external skills into new skills can only be achieved through diversification strategy (Wan, 2005).

2.3.3 Ansoff Matrix Theory

Ansoff Matrix Theory was proposed by Ansoff (1987). The Ansoff Model is one of the most and widely used marketing models. It is used to evaluate opportunities for companies to increase their revenue accumulation through developing alternative combinations for new markets. The theory gives a strategic path that can boost an organization in determining their future strategic expansion. Ansoff (1987) cited four basic ways in which a firm can promote its portfolio of products and markets. Ansoff (1987) drafted a matrix that target on the firm's present areas where competences and generic strategies can be illustrated. These strategies include; product development, market penetration and market development. Diversification techniques can be employed to regulate uncertainties by Organizations can only manage risk by minimizing possible damage to the business during economic instability. Ansoff (1987) introduced phases of diversification namely; related markets -where customers and markets are new, none-related markets- where customers and markets are different.

A study by Klein and Lien (2009) on diversification found that firms are capable to diversify as long as they have valuable and difficult to imitate resources that are valuable across industries and when they have efficient and effective internal resource allocation mechanisms. Adoption of diversification strategy into related businesses was found to be preferred by majority of small and medium enterprises (SMEs) firms dealing with information and communication technology (ICT) in Kenya due to its uncontrolled risks (Murigi, 2010). Diversification is essential because of the synergy that it creates (Ensign, 1998). Engaging into new areas, opportunities emerge to develop new interrelationships through the actual process of working on new services and markets. This synergy makes it possible to produce a combined return on resources that is relatively higher than the sum of the parts (Ansoff, 1987). The study has adopted this theory as it will formulate a basis in examining the relationship between diversification and organizational performance in hotel industry.

For organizations to survive the dynamic and ever changing business environment there must be guide in order to gain competitive advantage (Quaye & Mensah, 2019). Resource Based view theory suggests that the critical elements of a business or a firm are its resources and capabilities. Capabilities simply refer to skills used in organizing the resources of the firm and placing them to productive use (Nason & Wiklund, 2018). A venture can be perceived as a collection of resources that can be transformed into strengths or weaknesses of an organization by it its management (Hampel, Tracey & Weber, 2020). Ansoff theory is based on four important resource assumptions, which include heterogeneity, immobility, valuable, and non-substitutable (Barney, 2000). Heterogeneity is concerned with different skills, capabilities and resources that firms possess and such resources differ from one company to another. These resource features resonate well with diversification strategies that allow businesses to get a competitive advantage by leveraging strategic resources, which is a solid strategy for surviving. Diversification strategy is an example of a valuable resource that organizations require to gain competitive advantage thus improves performance (Barney, 2015).

In addition, theory was adopted in this study as it provides guidance on how organizations can control business threats and enhance their performance. The theory

suggests that adopting diversification among organizations is the best approach to regulate possible uncertainties in the business during economic distress. Ansoff proposed three stages of diversification in three levels which include; related markets where customers and markets are new, none-related markets; customers and markets are different (Ansoff, 1987). This study is investigating the influence of diversification strategy on organizational performance.

2.4 Review of Empirical Literature

2.4.1 Diversification Strategy

Diversification strategy and organizational performance is a topic that has captured the interest of many international and local researchers. Thirathon and Meeprom (2020) outline diversification as entrance by a firm in new business lines. Diversification has been widely argued for based on reason, season, cost and its overall effect on financial performance. Main diversification reasons include increment of target market, utilization of untapped capacity in production, portfolio risk reduction and capability build up (Chakrabarti, Singh & Mahmood, 2007). According Anwar *et al.*, (2016), firms exploit this strategy since it leads to achieving sustainable competitive advantage by ensuring that resources are fully utilized to achieve underlying long-term goals and higher performance. Tien and Ngoc (2019) view diversification as expanding or entering into new markets which are different from the company's existing product line.

To achieve organizational goal, course of action and associated allocation of resources need to be adopted (Steiss, 2019). Several studies on diversification (Palepu, 1985; Rumelt, 1982) have focused on advanced economies, pointing out that diversification leads to positive result on firm performance. Bhatia and Thakur (2018) conducted a study in India supporting the idea that there is high level of correlation between diversification and firm performance. Consequently, Shen, Au and Yi (2018) revealed similar result from their study on some private firms in China where they found positive correlation between diversification and firm performance, indicating that firms practicing diversification outperform firms which do not. This suggests that an agreement has been reached based on recent research on developing economies. However, other researchers seem to disagree. For instance, Hashai (2015) points out

that implementing diversification can be tedious as it is associated with certain costs such as integration and coordination costs which can increase significantly. Similarly, increased diversification not only introduces costly complexity, but also exacerbates internal information asymmetries. This arises since firm size and bounded rationality limit management's ability to process large amounts of information from different business units (Schommer, Richter & Karna, 2019).

According to Roe (2021), organizations with relative forward market shares are generally more competitive than those with lower market shares. Landi and Venturelli (2002) conducted a study on the determinants and effects of diversification on the efficiency and profitability of European banks and pointed out that diversification has a positive impact on efficiency in terms of growth of benefits, costs and revenues. Akewushola (2015) points out that diversification strategies allow organizations to use their excess resources for economic purposes. However, other studies found conflicting results, some were negative and others found no relationship between the variables (Shyu & Chen, 2009). Diversification does not necessarily improve performance and not all diverse organizations are profitable (Manyuru, Wachira & Amata, 2017). Moreover, increased diversity in a business portfolio can lead to a loss of control by top management, thereby reducing firm performance (Yigit & Tur, 2012). Lim and Audia (2020) found that the performance of diverse organizations declines over time. This means that decision makers who formulate a diversification strategy find it increasingly difficult to avoid performance regression over time.

Santarelli and Tran (2016) conducted a study on corporate profitability and diversification activities in Vietnam. The study found that diversification has a curvilinear effect on profitability but results in lower performance. Sindhu *et al*., (2014) conducted a study of 20 diversified and 20 undiversified firms in Pakistan. The study shows no multi-collinearity between diversified and undiversified companies, because there is a risk for diversified companies. Qureshi *et al*., (2012) pointed out that diverse organizations are more profitable than undiversified ones. However, Oladimeji and Udosen (2019) disagreed with the credibility of subjective group organization, arguing that it is diverse, but did not clarify the degree and scope of diversification. Krivokapik, Njegomir and Stojic (2017) conducted a study of 23 industries to determine the relationship between diversification and the performance

of Siberian insurance companies. The results showed that diversified insurers perform better than undiversified insurers.

Wang and Xu (2011) conducted a research study on the diversification and performance of Chinese attraction management companies in Beijing and found a positive correlation between product diversification and return on equity. Consequently, Yang, Cao and Yang (2017) collected data in 377 urban hotels in Beijing, and the result similarly revealed that product diversification is positively correlated with hotel performance. This mirrors similar results in the study conducted by Chen and Chang (2012) which had the same findings that hotel companies with greater product diversification tend to have higher earnings rates. However, these advanced empirical studies related to diversification do not consider star rated hotels from Kenyan perspective.

Some researchers have suggested a nonlinear relationship between diversification and organizational performance (Palich, Cardinal & Miller, 2000). Palich *et al*., (2000) insist that benefits are created through diversification. Some however, disagree with such opinion and opined that diversification entails significant challenges such as costs. Markides (1995) suggested that, loss of control and effort, coordination costs, costs associated with dis economies, inefficiencies in inter-company conflicts and inefficiencies in internal capital markets are among the costs that can be incurred when a firm expands its products and operations.

According to Tallman and Li (1996), by extending its strategic resources, the company is likely to increase its product line thereby exceeding its resources, management scope, and management capabilities therefore the probability of a firm failing is very high. Senior managers may experience increasing stress as they attempt to control increasing, diverse and unfamiliar company's challenges. Kang, Lee and Yang (2011) discovered an inverted U-shaped relationship with Tobin's Q ratio and ROA concerning product diversification in a study conducted in the hospitality industry using US casinos companies. The findings were consistent with Lee, Xiao and Kang (2011) who revealed an inverted U-shape of the study the relationship between market segment diversification and adjusted corporate earnings.

A similar U-shaped relationship was discovered from a data of 482 US hotel companies by Tang and Jang (2010) in a study of the relationship between international diversification and company market goodwill. Park and Jang (2012) however, noted a non-linear relationship while comparing diversification of product of the same category and diversification of products of different category and firm performance.Jones and Hill (1988) predicted an increase in internal bureaucratic costs and reduction of performance whenever a firm decides to diversify. Moreover, increased diversification beyond a certain level has little opportunity to create synergies for firms (Stimpert & Duhaime, 1997). Schommer *et al*., (2019) call for increasing diversification to generate costly complexity and increase information asymmetry.

Pierce & Aguinis (2013) argued that the performance relationship of diversified firms can be inverted in a U-shape diversification when marginal cost of diversification gradually exceeds its marginal benefit as diversification increases. Firm performance and diversification appear not have the same view in nonlinear relationships from the perspective of these empirical studies. Therefore, this research examines the relationship between diversification and organizational performance in the Kenyan coast among star-rated hotels.

In the hotel sector, Lin and Kim (2020) evaluated strategies of diversification in the lodging sector of Texas and how the strategies influenced rates of failure. The study was a comparative analysis between franchised hotels and company run hotels. From the study, the main diversification strategies established included brand, segment and geographic diversification strategies. The study further found that brand diversification reduced failure rates of franchised hotels while segment diversification increased rates of failure of the same hotels. On the other hand, rates of failure of company run hotels increased as a result of brand and geographic diversification.

Enobong *et al.,* (2022) conducted a study on Nigeria's hospitality firms and established that the firms adopted concentric and conglomerate strategies of diversification. This ensured the firms' sustainability. In Jordan, a study by Al-Shakhsheer *et al.,* (2022) established that most hotels deployed related diversification strategies comprising of third-degree price differentiation, product versioning, value-

based pricing and rate fencing. The study further established that for the diversification strategies to help the hotels in achieving greater competitiveness they should be jointly applied rather than being adopted in isolation. Bhatia and Thakur (2017) evaluated diversification strategy choice in emerging markets.

The findings demonstrated that domestic hospitality firms have adopted diversification strategies to a larger extent as compared to multinational hospitality firms. The study further insinuated that both local and multinational hospitality firms preferred related diversification strategies as compared to other diversification choices that are deemed extreme by practitioners in the sector. Andreu, Claver and Quer (2009) noted that diversification strategy choice not only depends on the type of the hotel but also on the resources available. The study found that tangible resources such as physical and financial resources do not significantly affect the type of diversification strategy. On the other hand, intangible resources such as research and development (R&D) and advertising have a significant effect on diversification strategy choice.

2.4.2 Related Diversification Strategy

Arthur and Thompson (2004) noted that related or concentric diversification strategies involve building businesses around firms whose value chains have a strategic fit with competitive value. The authors added that activities that make up the value chains of different firms are sufficiently matched to provide opportunities for the diversified firms. According to Pearce and Robbins (2008) related or concentric diversification is a basic a strategic approach that engages operating a secondary activity that gain out of access to a firm's key product. Gyan, Brahmana and Bakri (2017) noted that related or concentric diversification is a strategic form by which firms establish different brand products with the target of utilizing the full potential of current technology and marketing system.

Al-Shakhsheer *et al.,* (2022) used a questionnaire and a sample size of 128 star rated hotels Jordan to examine related diversification on hotels' competitiveness and generation of revenue in. The study specifically evaluated the effect of new product development and price diversification on competitiveness and sales generation of

hotels. According to the findings, star rated hotels in Jordanian practice related diversification strategies which comprise of price differentiation and new product development. Enhanced revenue generation and competitiveness has been realized through adoption of related diversification strategies. The study revealed that when individual hotels practice related diversification strategies they accommodate a wide base of customers whose needs and income levels are varies. Sales in different aspects such as room occupancy, beverage and meals sales are enhanced thus promoting revenue generation.

Goryushkina *et al.,* (2019) examined the role of diversification in promoting the competitiveness of the hotel industry in Russia. The concentration was on related diversification strategies such as expansion of the range of products offered and corporate expansion through creation of new chains of hotels. As per the study, related diversification was found to enhance hotel services, thus enhancing competitiveness and survival of the hotels. Invariably, the research indicated that related diversification have an effect on the profitability of the hotels which ensured t hotels continuity. According to Arthur and Thompson (2004), related diversification allows organizations to gain skill transfer, cost reduction, competitive advantage from a common brand, while spreading investor risk across a broad industry sector. Gul (2011) collected data of 147 manufacturing industries in Denmark to analyze the impact of integrated strategies on performance and found that the manufacturing sector had the highest average performance indicators, with linked integrated companies outperforming unrelated diversified companies. Rose and Ito (2008) conducted a study of Japanese automobile companies. The study revealed a shift of operational focus by the firms from developing growth to support core competencies by reducing organizational costs through diversification approach.

According to Park and Jang (2012) noted that organizations benefit from diversification because of its economies of scale and scope effects, as well as the synergy it creates between all business units involved. The results are consistent with the suggestion of Palich *et al*., (2000), who stated that a moderate degree of diversity is beneficial for firm performance. Williamson (1981) hypothesizes from the perspective of transaction cost theory that transaction costs increase information costs, while switching from one product or service to another new product or service. With

increasing diversification, the insignificant cost of diversification continuously outruns its marginal benefit, and an inverted U-shaped relationship may be realized between diversification and firm performance (Arte & Larimo, 2022). Paul (2023) investigated on the relationship between diversified services and hotel growth in Kitui Town, Kenya. The findings revealed that hotels are likely to have positive growth when they offer new products that attract new customers. His finding echoes the result of Oyedijo (2012), whose findings noted that diversification is associated with firm performance as it leads penetration in new markets or market segments.

According to Mugo (2011) related or concentric diversification can achieve high organizational performance. His findings also show a gradual effect on organizational performance, suggesting that relevant diversity is effective and has clear benefits. Based on an agency management approach, Martinez-Campillo (2016) studies the gains of linked and unlinked diversification strategies and leadership styles among 183 companies in Spain. The results suggest that profitability and growth of various companies are positively correlated with leadership style. Makau & Ambrose (2017), in their study of portfolio diversification and financial performance of investment institutions listed on the Nairobi Stock Exchange in Kenya using a non-experimental explanatory research design, noted a none inconclusive result.

Manyuru *et al*., (2017) conducted a study of 38 NSE-listed companies in Kenya. They argued that managers should exercise caution in their pursuit of diversification because it can cause more harm than gain. Nyaingiri and Ogollah (2015) conducted a study involving the Sameer group of companies in Kenya through experimental research design. The study revealed that the performance of Kenyan diversified companies can easily be affected by the general economic environment, organizational characteristics and co-insurance. Wilfred, Bernard and George (2014) conducted a study on concentric diversification analysis on organizational competitiveness using Kenyan sugar companies and found a significant overall impact on competitiveness. The regression results further revealed a statistically significant positive linear relationship between concentric diversification strategies and firm competitiveness at individual level.

According to Barney (2007), the correlation hypothesis basically states that multi-firm firms with similar or related portfolios of activities gain in efficiency. This provides more benefits to diversified companies over undiversified companies (Barney, 2007). Sharma and Kesner (1996) have highlighted that large entrants are more likely to remain in business and perform better than single firm; likewise, diversified entrants pose a greater threat than non-diversified entrants by increasing competition for the existing market segment. This means that the more the business is diverse, the more competitive it is and able to survive in fierce industry competition. Ndege (2018) evaluated concentric diversification strategies and how they influenced cosmetic firms' growth in Kenya's Nakuru County. The concentric diversification strategies comprised of new product development. Based on the study's findings, new product development increased firms' competitive edge and market penetration thus improving the growth of the firms.

2.4.2.1 Horizontal Diversification

Klein and Lien (2009) argue that horizontal diversification exist through acquisition or new product development that may be of concern to the company's prevailing customer base. They further noted that companies depend on commercial and technical relationships with existing product lines. According to Moutinho (2000), horizontal diversification describes the process of engaging new products while targeting current groups as possible customers. It may also involve targeting complementary or competing markets (Evans, Stonehouse & Campbell, 2012). The game plan is normally employed where firms believe they have built brand loyalty with existing customers or have some understanding of their market that allows them to launch a new product. An example in the hospitality is the travel agencies that generally book and sell holidays by acquiring a company that sells travel insurance. Travel agencies will serve the same clientele in different way (Bunghez, 2020).

Stephan (2005) notes that horizontal diversification is more specifically the expansion of a firm into multiple industries, through activities that are not necessarily interdependent. The rationale of for horizontal diversification is relatively unclear in respect to vertical integration. In particular, there are two partially competing explanations at play. On the one hand, industry groups suggest that companies can benefit from synergies by spreading internally generated cash flows between different

companies due to common characteristics of technology or economies of scale. Internal diversification allows companies to grow without taking the risk of paying the transaction costs associated with the contractual exploitation of synergies (Kor & Leblebici, 2005).

Eukeria and Favourate (2014) examined the effect of horizontal diversification on performance of companies of food and beverage segment in Zimbabwe. Linear, intermediate and inverted U model was adopted by the study. The models revealed that horizontal diversification boost value creation and justified existence of the companies selected in the food and beverage industry. Further, performance of the companies was enhanced by empowering the companies leverage on their different resources in designing new products which assist them have a competitive edge, enhanced benefits and market share in terms of customer numbers. Safitri *et al.,* (2023) carried out research in Indonesia in selected hotels so as to evaluate its competitiveness and factors that would improve the competitiveness thereof. Through a SWOT analysis, the study found that the select hotel ranked second in terms of performance in two star rated hotels' sector. The study found that horizontal diversification strategy in terms of specialized rooms services would help improve most the competitiveness of the hotel. This was in terms of reorganizing the hotel's rooms based on the interests and capacities of the customers.

A descriptive survey study research design to examine the effect of diversification strategies on the performance of state owned sugar firms in Kenya was adopted by Wanjira, Ngoze and Wanjere (2020). Primary data was collected using questionnaires and data analyzed using descriptive statistics. The study concluded that there was no relationship between adoption of horizontal diversification strategy and sugar firms' performance. The study further recommended that in the current competitive business situation, firms have to strive to open other revenue streams to keep afloat.

The effects of growth strategies on organizational performance of five star hotels in Nairobi were analyzed by Mwangi (2019). The study employed a structured questionnaire to collect data. The results showed a significant positive correlation between organizational performance and product development. Moreover, the study's findings revealed that there is a strong correlation between organizational success and diversity. The study's conclusions also demonstrated that market penetration and

organizational success are significantly correlated. The study recommended that five star hotels should use diversification strategies to expand their market share by investing in related industries such as tourism services to attain a good market share in the industry.

Paul and Wachira (2021) examined service diversification methods that affect organization growth in the hotel business through a survey of registered hotels in Kitui Town, Kenya. The study was explained using Resource-Based Theory, Portfolio Diversification Theory, and Porter's Five Forces Theory. The findings demonstrated a considerable correlation between organizational growth and concentric and conglomerate diversifications. It was also discovered that there was a strong correlation between organizational growth and geographical and horizontal diversification. The study concluded that hotels should implement concentric diversification by launching new goods and services that help them cater to the particular needs of each individual guest. Additionally, the study also suggested that hotels should be urged to implement a strategy of product diversification in order to serve their clients a wide range of goods and services in addition to top-notch services. A quasi-experimental study with an ex-post facto research design was used for the study conducted by Oladimeji and Udosen, (2019) to examine the effect of a diversification strategy on an organization’s performance in the manufacturing sector in Nigeria. The study demonstrated that diversified manufacturing organizations outperform undiversified ones in terms of Return on Asset (ROA) and Return on Investments (ROI). Similarly, while related diversified organizations were discovered to be positive in terms of return on assets, unrelated and hybrid diversified organizations were positive in Return on Equity (ROE). Further, the study showed that a diversification strategy leads to growth and profitability and a strong capital structure to cover liabilities. The study concluded that diversification is a strategic tool for achieving strategic relevance and spontaneous performance. A mixed-method approach was employed by Azman (2020) to create an explanatory model of the interaction effects between ownership concentrations and formal institutional environments, as well as diversification strategies and their effects on large construction firms' performance in Malaysia. The results showed that unrelated

diversification and Market diversification decreased firm performance while related diversification had a positive impact on firm performance.

Turabamariya and Irechukwu (2022) researched the influence of service diversification strategy on organizational performance of the hospitality industry in Rwanda. The researcher focused on three types of diversification strategy which included concentric, horizontal and conglomerate strategies. The results revealed that concentric diversification strategy is very highly correlated with organizational performance. Similarly, horizontal and conglomerate diversification strategies positively correlated with organizational performance. Thus the research established that service diversification strategies highly influence the performance of hospitality industries in Rwanda. The study recommended that hospitality organizations should diversify their services implementing concentric, horizontal and conglomerate diversification strategies.

Masibo, Wanyama and Olang'o (2021) sought to determine how organizational policies moderated the relationship between star-rated hotels in Uasin Gishu County's operational performance and competitive tactics. The Resource Based View Theory, Igor Ansoff's Theory, and Porter's Five Forces Model were all used in the study. The study's findings revealed that the operational performance of the star-rated hotels in Uasin Gishu County was significantly impacted statistically by cost leadership, product differentiation, and market development. Further, the study showed that organizational policies significantly moderated the relationship between competitive strategies and operational performance of Star rated Hotels in Uasin Gishu County.

2.4.2.2 Vertical Diversification strategy

According to Monsur and Yoshi (2012), vertical integration is a business strategy that is associated with expansion through the simplification of operations. This exist when a company acquires a producer, vendor, supplier, distributor or other related company within the similar industry. Companies that choose to vertically integrate do so to build up their supply chains, minimize production costs, capture upstream or downstream profits, or access new distribution channels (Guan & Rehme, 2012). The hotel industry continues to grow at an exciting rate and becomes more competitive as

international hotel groups enter more and more destinations. This process has led to enormous consolidation among considerable hotel operators. However, international hotel operators are not limited to operations forming hotel chains, with large vertically integrated structures capable of maximizing marginal revenues and capitalizing assets (Dimou, 2004). Slow development is still being witnessed in the hospitality industry despite impressive growth rate (Munjal & Bhushan, 2017).

Profitable alternative to separate firms, where the exchange of resources takes place through market mechanisms, which can be attributed to the avoidance of associated transaction costs at the market exchange Hamilton and Mqasqas (1997). They integrate as much as distribute and are therefore characterized by complete flexibility to make relevant decisions related to production, distribution and investment. Horizontal and vertical integration can be deemed important decisions on the profitability of a given company from a general management point of view. This can be attributed to achieving greater economies of scale, product differentiation and innovation (Sinclair, Blake & Sugiyarto, 2003). According to Bulturbayevich (2019), vertical integration ensures the efficiency of the production process, delivery and transportation time reduction other than the increase of profit of newly acquired companies through direct sales of their products to consumers. Vertical integration arises when two firms engage in similar product, however, with different levels of the production process (Fresard, Hoberg and Phillips, 2013). This is termed as an expansion approach used to control the entire industry. Del Prete and Rungi (2020) named two methods of vertical integration: forward integration and backward integration.

In the case of a merger where the company takes control of its distributors, it is called forward integration. In contrast, when a company takes control of its suppliers, it is referred to as backward integration (Del Prete & Rungi, 2020). Merel and Sexton (2017) noted that the main aim of consolidating firms is to strengthen the production and distribution chain and to regulate the cost and waste of products at all levels. According to Grant & Startz (2022), consolidation will eradicate representatives by granting companies to maintain both upstream and downstream benefits.

2.4.3 Unrelated or Conglemeric Diversification strategy

Unrelated diversification strategies involve a company's activities outside of its industry. According to Lichtenthaler (2005), unrelated diversification strategies involve diversification into any industry and business that promises attractive financial returns, while the pursuit of strategic fit takes a back seat. Unrelated diversification can also lead to superior performance (Cerrato La Rocca & Alessandri, 2023). Delbufalo, Poggesi and Borra (2016) in their findings observed a linear and an inverted U-shaped relationship between the product diversification and firm performance. Oyewobi, Windapo and Cattel (2013) claim that linked and unlinked diversification have opposite effects on the financial performance of firms.

Under unrelated diversification, a firm operates in other different businesses with the ultimate goal of spreading business risks beyond its initial mandate (Kinyagu, 2021). Mammen, Alessandri and Weiss, (2021) noted that firms practice unrelated diversification strategies so as to mitigate against risk of failures. For Sun and Govind (2017) unrelated diversification strategies create strengths of the firm such as dynamic capacity and also benefit a firm in having a strong competitive advantage. Harjito *et al.*, (2021) note that through unrelated diversification, performance is improved through improved internal capital efficiency since capital is utilized for business activities related to the core business of the firm. Further, unrelated diversification enhances value creation through two approaches, structuring and internal allocation of capital market (Adner & Zemsky, 2016).

Zheng and Tsai (2019) conducted a study in the tourism industry of China by utilizing secondary data from 2008 to 2015. The study assessed diversification strategies and firm performance with the size of the board as the moderating variable. The results of the direct relationship between unrelated diversification strategies revealed a negative relationship between firm performance and unrelated diversification strategies. According to Shuhidan *et al.*, (2016), unrelated diversification positively affects the financial performance of a firm in terms of return on investment (ROI). This is because the priorities of the business will link to the goals of the company in terms of value creation; the company seeks to attain growth that is sustainable and strives to reduce possible risks.

Mishra and Akbar (2007) conducted a study among 484 manufacturing companies in India. In their findings, they conclude that unrelated business group affiliated has no impact on firm financial performance though beneficial. They further note that while advanced economies do not value uncorrelated diversification structures, shareholders are indifferent to the performance impact of excessive diversification. The study also indicates that companies with small businesses are advised to adopt unrelated diversification. Deng *et al.,* (2012) conducted research on unrelated diversification and financial performance of manufacturing firms and revealed a negative relationship between unrelated diversification and financial performance. Consequently, a positive relationship was associated with related diversification and firm performance. The performance of linked diversification is superior to that of specialization and unlinked diversification.

A study on diversification and corporate financial performance by Lee (2017) in Property and Liability Company realized a negative relationship between diversified products and corporate financial performance. This means that additional costs associated with product diversification is likely to exceed the benefit contributed by diversification. The study further noted that the performance of large insurers can significantly improve in developing capital markets, as compared to less developed capital markets. Gyan *et al.,* (2017) stated in his findings that diversification does not necessarily bring momentous performance difference to organization, but can further reduce the estimated revenue collection of industry groups. The data further indicated that, market-based performance of uncorrelated diversified firms may not be influenced by productivity; therefore, productivity has no moderating effect.

Independent diversification may be a desirable strategy in a given economic environment because the environment may not have the necessary institutions and factors to be competitive. In addition, unrelated diversification can be an advantageous strategy when companies face earnings erosion in mature markets (Neffke *et al*., 2018). Rishi, Rudra and Vinay (2014) used Tobin-Q, Ulton and the entropy index to measure diversification in their study, and the results indicated that firms that engage in product diversification are likely to collect higher revenue and have increase in their tangible assets compared to undiversified firms. Sahu (2017) argue that despite diversification being a preferred approach because of perceived profitability, it does

not guarantee improved performance. In Portugal, Mota *et al.,* (2014) evaluated the effect of unrelated diversification on hotels' financial performance. The focus of the study was on groups of hotels. Through descriptive statistics, the study established that unrelated diversification strategies had no significant effect on hotels' financial performance.

2.4.4 Factors Determining the Selection of Diversification Strategy

According to Hoskisson and Hitt (1990), there is no widely accepted theoretical framework to comprehensively examine motivations related to diversification; though it is generally accepted that the motivation for diversity comes from the internal and external environment of the company. Researchers from different professions try to solve this problem only from their own professional fields and come up with various views or theories. For example, some scholars emphasize the efficiency hypothesis based on the synergy effect; others emphasize the impact of market forces on diversification, while others defend the motivation of financial synergy behind diversification.

Gomes and Livdan (2004) claim in their study that to obtain an optimal diversification strategy, it is necessary to define the risks and model the associated investment opportunities. The study further indicates that, the strategy that produces the least variance is preferred when given a fixed level of expected return. Optimal asset diversification is generally required to achieve this objective. Trade-off between reward and risk, as well as the level of risk taken is determined by an investor's risk tolerance (Van den Bergh, 2019).

From a financial perspective, diversification offers many benefits to organizations, encompassing cost lessening, asset depreciation, and uncertainty reduction (Bergh & Holbein, 1997). According to Li and Greenwood (2004), strategic gains involve synergies or extensions, creations and improvements of long-term strategic assets. Ramanujam and Varadarajan (1989) suggested that these assumptions might ignore other more compelling grounds. Another study looking at the economic consequences of diversification found that economic motivational consequences can be the result of multiple motivations, making it difficult to reveal which is the decisive motivation

(Amanor-Boadu, 2013). Hill and Hansen (1991) argued that it is difficult to understand diversification impact on the value of the firm if initial motivation for diversification is not considered. Research by Jiang (2008) on listed Chinese companies shows appositive diversification impact on firm value. Consequently, a negative impact on the volatility of company performance was also noted.

Jiang (2008) conducted a study on listed Chinese companies and identified three determinants of diversification strategies. These include the industrial level, ownership structure and size. According to Jiang (2008), characteristics of the industry in which the company operates will majorly influence firm diversification strategies. The study further reveals that ownership structure is another determinant of firms' product diversification choices. According to Jiang (2008), different shareholders usually have a decisive influence on organizational behavior. Furthermore, the study noted that companies where the state government was the major shareholder (rather than the controlling or relative controlling shareholder) were the most diverse. The second highest is having control of the legal entity. However, companies in which the national government is in absolute control are the least diversified (Jiang, 2008). The third determinant of diversification is firm size. Jiang (2008) points out that diversity is one of the important characteristics inherent in large companies. Research conducted by Amey (1964); Gollop and Monahan (1991) in manufacturing industries similarly observed a positive correlation between firm size and diversification.

According to Mintzberg *et al.,* (1996), industry and/or market attractiveness is another factor affecting diversification. Whether due to general economic conditions or local issues, diversifying into a lagging industry or market can lead to significant losses or a sense of income and security. The market appeal includes potential market share (Brewer, 2001; Papadopoulos, Chen & Thomas, 2002) and market development (Day, Fox & Huszagh, 1988). Market size relates to market share and quantity of sales and profit. Sakarya, Eckman and Hyllegard (2007) pointed out that quantity of sales and sales volume can be obtained upon entering a market and throughout the presence of a company in that market or during the planning period. Market development composes of the quality of the market in terms of socio-economic progress.

Baptista, Karaöz and Leitão (2020) stated that the availability of resources such as labor and financial resources will determine the availability of the types of diversification an organization should adopt. He further asserted that companies bringing new products to market must first ensure that they are able to fully utilize distribution channels within the target market. Further, they must be able to meet the cost of diversification. Before embarking on any diversification process, the entry cost into the market should be considered. This is because diversification either through mergers, acquisition or expansion requires significant amounts of financial outlays. Decisions on diversification options can be influenced by government regulatory policies, both locally and nationally (Contractor *et al.,* 2020). The government has the ultimate wisdom in the diversification strategy.

Through regulations, laws and policies government can limit or de-limit a company against venturing into a certain sector (Cherif *et al.,* 2022). The institutional situation is a key element of diversification, and consolidating this element into the diversification literature can develop different conclusions for what is known as corporate diversification (Greif, 2006). Wang, Wan and Yiu (2019) adopted a perspective based on resources and institutions. They examined how Chinese conglomerates acquire resources and capabilities to thrive and their findings revealed that companies may behave differently from one another. For instance, group firms behave differently from none group firms. Moreover, Belenzon and Berkovitz (2010) show that conglomerates are highly innovative as compared to non-conglomerate firms, particularly in businesses that are more dependent on external financing and in conglomerates with different sources of capital. Betz (2016) stated that values, norms and standards (cultural diversity) are the most important factors in an organization, supporting attitudes, decision making and behavior. Successful organizations attribute their success primarily to effective culture management. Arnold and Channuwong (2018) assert that companies can base their employees' values on the principles of dignity, sincerity, transparency and merit.

According to Frigon and Rigby (2022), organizations enter into diversification into sectors utilizing resources that are almost similar to what they possess. This is also echoed by Chatterjee and Wernerfelt (1991) who stated that a firm’s physical resources comprising of plant and equipment, intangible resources comprising of the

name of the brand and financial assets influence the extent of adoption of unrelated diversification. Krause and Tse (2016) established that risk management capacity affects the diversification strategy adopted by a firm. Firms with sound techniques in risk management are able to adopt extreme strategies of diversification. In Picone and Dagnino (2016), it is evident that managers' skills such as risk management and business resources management skills significantly affect diversification strategy that a firm adopts. Staffs who are highly skilled lead to increased diversification extent.
In an Indian context, Bhatia and Thakur (2016) stated that a company's leverage has an effect on its diversification strategy choice. This implies that debt/equity ratio affects the direction of diversification change. Institutional factors comprising of labour markets in a country, capital and product markets have been found to have an effect on diversification strategy in a firm (Boschma & Capone, 2015). If the labour, capital and products markets are favourable then an industry can attract the required resources in terms of manpower and capital for diversification (Tashman, Spadafora & Wagner, 2023).

In addition, the size of a firm has been found to have a significant effect on the diversification strategy adopted. In larger firms, the systems such as accounting systems are efficient. As a result, larger firms require lesser initial frameworks for diversification (Grossmann, 2007). Most of the larger firms have technology required already in existence and all that is needed is modification to suit the diversification strategy adopted (Benito-Osorio, Colino, & Zúñiga-Vicente, 2015). According to Azar (2017), firms whose market share is large are able to attract partners for different diversification forms, more specifically, related diversification.

2.4.5 The Moderating effect of Government Policies on the Relationship between Diversification Strategies and Performance

Government policies refer to the actions and decisions made by governments at various levels to achieve specific goals and objectives. These policies can affect various aspects in the society, including businesses, the economy, and the overall welfare of citizens. Governments employ policies to safeguard issues such as economic growth, social welfare, security, and international relations (Swinburn *et al.*, 2013). Generally, government plays key roles in ensuring all business operations are

handled in accordance with the law. Beginning with regulatory policies that protect consumers to tax policies that incentivize investment, government policies and regulations can be significant, affecting everything from investment decisions to hiring practices (Kourula *et al.,* 2019). De Jong (2021 noted that there are advantages of government policies that can help businesses thrive, though a section of business may view government intervention with skepticism.

The government must implement policies in order to achieve its objectives. Liu, Zhao & Wang (2020) pointed out that government policies can have a significant impact on businesses by creating an environment that either supports or hinders their growth. They further revealed that impact can be seen in areas such as taxation, regulation, subsidies, and infrastructure development, which can affect businesses' costs, competitiveness, and market opportunities. Many of the directions the industry will take which have an impact on the relationship of the industry to other industries in that nation other economies will be determined by the government policies (Rasool, Maqbool & Tarique, 2021).

Just like any other industry, hotels experience unattractive effect of government policies such as policies on inflation rates (Khan *et al.,* 2020). Competition in business has become stiff both at the local and international markets. This has put a supplementary strain on the competitiveness of firms in the small and medium enterprise sector since they have to compete in a globalized business environment that seems to favour only larger firms (Krasniqi, 2010). However, the hospitality industry which is part of SMEs has been structurally and institutionally marginalized as a result of many factors, one of which is the non-supportive regulatory framework (Omar, Arokiasamy & Ismail, 2009). Ayoo (2022) pointed out that a good legal and regulatory framework by governments is key for job creation, poverty reduction and national economic development. The legal and regulatory framework within which an enterprise operates influences its survival and growth potentials (Alabi, David & Aderinto, 2019).

According to Luiz and Mariotti (2011); Abor and Quartey (2010), atmosphere for businesses which can result to either growth or crumble can be contributed by the government policies and regulations. Consequently, Chen and Subprasom (2007)

noted that government policies may inhibit creativity and innovation, improved efficiency and enhanced productivity and growth of business enterprises when the legal and regulatory framework in a given economy is excessive. Similarly, Nyarku and Oduro (2018) opined that entrepreneurs can get stressed in their desire to develop their business enterprises due to regulatory requirements which are in most cases not well streamlined.

Amran and Mwasiaji (2019) conducted a research study by assessing the impact of the legal framework on the performance of medium-sized manufacturing enterprises (MSMEs) in Kenya. The findings found that, intricate regulatory framework, tough customs and trade laws, expensive tax regimes, rigorous monetary and credit policies, corruption in the workforce, and labor regulations are among the obstacles the manufacturing businesses face, all of which have a detrimental impact on diversification strategy which on the other side effects performance. Additionally, the result revealed that competitiveness of a firm is mainly affected by nature of the legal framework. For instance, the current legal framework is supportive of too much liberalization and by extension, the large enterprises at the expense of firms in the SME sector.

A data of 54 respondents indicated that MSMEs face massive challenges which is brought about by complicated regulatory regime that fuels corruption, unfriendly customs and trade regulations, tight monetary and credit policies and excessive tax regimes, workforce and labour regulations, utilization of limited and outdated technology. Additionally, limited information on possible markets, and overlapping roles of institutions with regulatory roles thus impacting negatively on the competitiveness of MSMEs in the market place (Amran & Mwasiaji, 2019). This study however, was general and makes it difficult to know the specific industry. The study lacks the scope and did not reveal the extent to which the government policy may affect the sector under study.

Investigation carried out by Otwani, Simiyu and Makokha (2017) on effect of corporate income tax and the financial performance of Kenyan companies listed on the Nairobi stock exchange (NSE). According to the result, corporate income tax was found to be having favourable impact on financial performance. According to Besley

and Persson (2014), policies that lead to appropriate cost benefit to organization investing in projects can be created by the government. This research was carried out in NSE. The findings therefore, cannot be generalized to the view of hospitality industry. Another study was conducted by Argyropoulou (2022) published a report by the International Monetary Fund (IMF) on industry policy for growth and diversification. The findings pointed out that government officials, including both political leaders and workers, are influenced by incentives, similar to private sectors.

Rent-seeking by sectors seeking assistance, corruption, and mercantilist pressures may lead to government capture by special interests and amplify distortions, especially in the weak institutional environment of low-income countries. Legislators have an incentive to direct government funds to their district, regardless of the social optimal of spending in that district. As a result, governments may alter programs to ensure that there are beneficiaries in the districts of key legislators. Similarly, the findings indicated that governments may impose import tariffs and non-tariff barriers, including import quotas, local content requirements, and export subsidies are often justified on "infant-industry" arguments, to develop a sector that will eventually prove viable even without public support (Greenwald & Stiglitz, 2006).

According to Estevadeordal and Taylor (2013), there are various methods currently being employed to stimulate exports and facilitate involvement in global value chains, such as varying tax rates for export profits, granting import-tariff refunds for imported intermediates, and providing credit options for exports.

Providing financial assistance to foreign investors for buying domestic materials can have the same effect as mandating the use of local products for businesses. Nevertheless, a study by Harrison and Rodriguez-Clare (2010) in the industrial sector showed a different outcome. The findings revealed that this approach often results in an overall loss for companies, despite the fact that it may have helped domestic producers to expand and establish a competitive edge. In his study, Ohashi (2005) found that implementing tariffs on capital and intermediate goods can hinder economic growth, mainly due to the fact that these imports often bring in new technology. Argyropoulou (2022) asserts that certain measures such as tax holidays, exemptions, corporate tax structures, targeted allowances, and subsidized

infrastructure are sometimes seen as a secondary solution when the overall corporate income tax is deemed too high.

There is often a focus on luring foreign direct investment (FDI) as it is believed to bring about significant positive effects such as advancements in technology and management practices. However, tax incentives must be carefully crafted and limited in time in order to avoid diminishing revenues without corresponding gains, as noted by Abdel-Kader and De Mooij (2021) and Pack and Saggi (2006).

Effective measures such as accelerated depreciation schemes, investment tax credits, and super deductions have been successfully implemented in developed countries to lower the cost of capital. However, indefinite tax holidays based on profits have proven to be less effective and can harm the tax base (Cherif et al., 2022). Banerjee and Duflo (2014) also propose that governments can direct banks to allocate a portion of their lending to specific sectors to stimulate production in heavily credit-restricted firms. The study lacked specificity and was therefore too general. Moreover, the study's geographical coverage remains unknown.

The performance of a firm is not solely determined by diversification. Other factors such as industry settings, economic conditions, governance structure, and firm resources can also affect the impact of diversification on performance (Boshnak, 2021). The governance structure, in particular, is influenced by various elements, including government laws and policies, which can shape the relationship between diversification and firm performance. The performance of firms is influenced by government policies and laws that impact the labour, capital and product markets. This is further affected by regulatory frameworks and processes, which indirectly affect operations and ultimately performance. Despite this, diversified firms may still be appealing to both employees and investors. (Meijer, 2015).

2.4.6 Organizational Performance Measurement in the Hotel Sector

Key Performance Indicators (KPIs) are quantifiable measuring tools considered important for monitoring the performance of strategic objectives, outcomes, or key result in areas perceived critical to the success and growth of an organization (Németh & Gyurácz-Nemeth, 2022). Measuring KPIs is an important practice as it enables hotel

sector to survive an economic crisis. It informs whether the hotel company is operating in the right path and whether the company's performance is competitive. Srivastava and Maitra (2016) identified the commonly used KPIs in the hotel sector to analyze performance on daily basis as; occupancy rate (OCC), average revenue (ADR), and RevPAR (revenue per room).

According to Failte (2013), hospitality industry KPIs should be providing employees with clear goals and objectives, and should give an understanding of how they relate to the overall success of the organization. Key Performance Indicators are measurable factors that relate to an organization's objectives, that is, Average room rate, Bed occupancy percentage rate, cost per occupied room, revenue available per room and labour cost ratio. Performance has been long time measured using the revenues generated, the profit made at the end of the year, or sometimes using key financial ratios in a particular organization (Palepu *et al.*, 2020). Venkatraman and Ramanujam (1986) established ten different types of measurement and generalized the results into three dimensions: financial performance, business performance, and organization effectiveness. Ryan and Trahan (1999) used three key dimensions of performance, profit margin, total assets turnover, and equity multiplier.

A study carried out by Atkinson and Brander-Brown (2001) shows that a number of the hotels put their focus in monitoring financial dimensions of performance with minimal attention being paid to non-financial or determinant dimensions. Harris and Mongiello (2001) opined that financial measures are important, but not dominant, in a hotel general managers' decision making. According to Beatham *et al*., (2004) businesses measure their performance in financial terms, profit, and turnover. Financial measures and accounting measures are the traditional means of performance measurement (Atkinson & Brander-Brown, 2001). A study by Harris and Mongiello (2001) indicated that management performance measurement emphasize on both financial and non-financial dimensions such as competitiveness, service quality, customer satisfaction, organizational flexibility, resource utilization, and technology. Brignall and Ballantine (1996) pointed out that it is important for performance measures to direct attention to such non-financial factors as service quality and customer satisfaction. Consequently, it is considered essential that an organization's performance measures are linked to its strategic intent, its competitive environment,

revenue management, market orientation and service delivery process within hotels (Brignall & Ballantine, 1996; Kaplan & Norton, 2001; Haktanir & Harris, 2005).

Harris and Mongiello (2001) argue that though hotel is categorized as service sector, it encompasses three different types of industrial activity-food, beverages and rooms-that exhibit different business orientations. These three orientations call for a diverse set of performance indicators. Chan and Chan (2004) reported on the use of non-financial measures in the balanced scorecard as a performance management system to support reporting on various management activities. Wadongo *et al*., (2010) carried a study on KPIs in Kenyan hospitality and identified total revenue achieved, food and beverage sales, total operating costs, total sales, customer satisfaction surveys, relative market share, room occupancy, and delivery speed flexibility as the financial and non-financial KPIs for hotels. The study further revealed competitiveness and financial performance which reflect the success of an organization's chosen strategy with determinant measures such as quality of service, resource utilization, flexibility, and innovation focuses on those activities and factors necessary to achieve the organization's strategic goals.

2.5 Conceptual Framework

A conceptual framework is a diagrammatic presentation depicting the relationship among the variables of a study. The conceptual framework was developed based the literature review of previous studies related to the topic of research (Van der Waldt, 2020). The conceptual framework for this study is as shown in Figure 2.1:

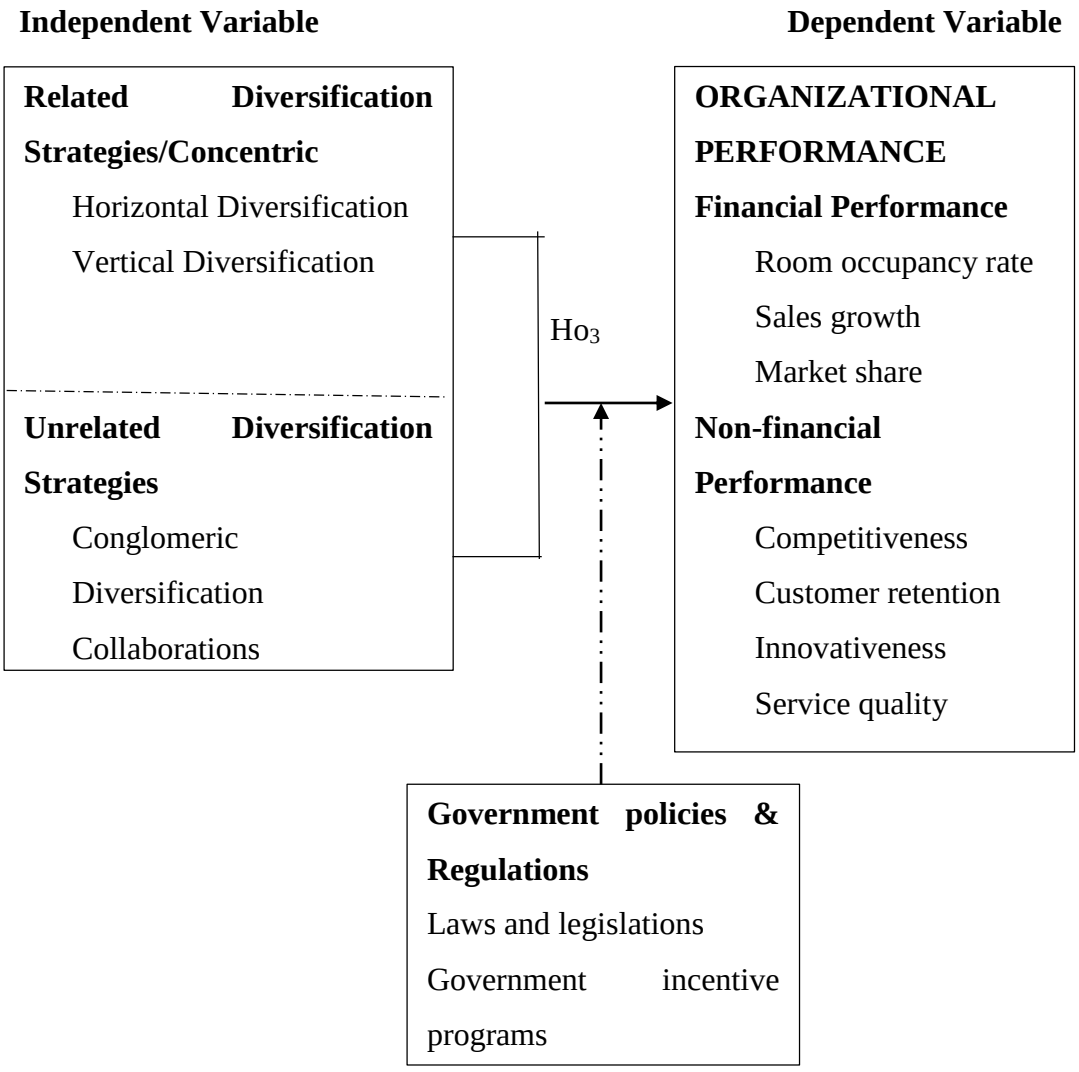


Figure 2.1: Conceptual Framework

Hotel business environment is becoming increasingly competitive, uncertain and complex. These changes are moving faster, therefore organizations that anticipate business continuation must speedily adapt to the changing and dynamic business environment. The increasing in both local and international competition has drastically

drained organizational performance across the hospitality industry. According to Hulla and Ramsauer (2020), today's business environment is uncertain, dynamic and volatile. Organizational performance is usually measured in both financial and non-financial terms (Wadongo *et al.*, 2010).

From the conceptual framework above, it can be noted that the responses to organizational performance impacts are generally focused on two main areas: financial performance (occupancy rate, customer average spending power, and return on investment, sales growth and profitability). Non-financial performance: competitiveness, operational efficiency, service quality, employees' performance and innovativeness. Atkinson & Brander-Brown (2001) considered performance as the only indicator for measuring the organizational achievement. This means to address the changing and volatile business environment and enhance industry competitiveness, diversification strategies must be employed for instance, related diversification which involve introduction of a new product that is related to the existing product or service. Consequently, unrelated diversification strategy where an organization introduces new line of product or service that is not related to the existing product or service. This will attract different markets in different seasons especially during low periods and increasing market penetration.

In summary, the conceptual framework as shown in Figure 1 shows the relationship between independent variables and dependent variable. Diversification strategies as independent variables and performance as dependent variable. Diversification strategies are divided into related and unrelated diversification strategies. Under related diversification strategy, horizontal and vertical forms of diversification will be investigated and their relationship measured in both financial and non-financial using KPIs. Similarly, unrelated diversification which include collaborations/acquisition and conglomerate will be investigated and the relationship to performance be measured in both financial and non-financial using KPI. Consequently, according to the conceptual framework, the impact of diversification on performance is influenced by government policies and regulations. Additionally, the framework identifies the essential factors for evaluating organizational performance.

2.6 Chapter Summary

In summary, Diversification encompasses three key elements: serving as a driving force for attaining a competitive edge and fostering synergy in market activities; serving as a strategic instrument for achieving relevance and organic growth; and serving as a crucial factor in an organization's ability to thrive during economic downturns. Diversification literature underpins the importance of organizations to familiarize themselves with dynamic and turbulent business environment. However, there is no unique and authentic definition of organizational performance and has continually been related to its symptoms.

The success of an organization during difficult times depends on its ability to diversify. Numerous research studies have been conducted on diversification strategies and their impact on organizational performance. However, the results have been conflicting, with some researchers only focusing on the financial aspects of diversification. In contrast, this current study examines both financial and non-financial performance in relation to diversification.

Additionally, most of the scholars have conducted their studies in the manufacturing industries, however very little studies have been carried out in hospitality industry. Consequently, most studies have been based in developed economies as opposed to the current study, which is based in a developing economy. A study by Wang and Xu (2009) found a positive relationship between product diversification and return on equity in Chinese attraction management firms, but an insignificant relationship in Chinese hotel firms. Consequently, Yang *et al*., (2017) while conducting a study from urban hotels in Beijing showed that product diversification is positively related to hotel performance.

According to a study conducted by Ugwuanyi and Ugwu (2012), it was found that diversified banks have the potential to combine their own funds and assets in order to generate financial synergy and promote growth. However, the specific location and degree of growth were not disclosed in this study. Additionally, the research was limited to a small sample size of only 18 banks in the banking industry, which may not provide reliable findings. In contrast, a study by Gul (2011) explored the impact

of integrated strategies on performance, utilizing a larger sample of 147 manufacturing organizations in Denmark. Diversification was measured using Entropy and Herfindahl Indexes.

The research indicated that the manufacturing sector displays the highest average performance metric, with integrated companies showing better performance compared to unrelated diversified organizations. However, it is worth noting that this study was specifically focused on the manufacturing industry and its results may not be applicable to the hospitality industry. Additionally, the study was conducted in a developed economy, and its conclusions may not necessarily apply to a developing economy. Manyuru *et al*., (2017) conducted a study on 38 companies listed in NSE, Kenya. The study findings revealed that managers need to be courteous before implementing diversification as the cost may outweigh the benefits. These findings were general and may not be used to conclude the effect of diversification and performance. The study was carried out in national securities exchange firm therefore may not reflect the findings in hospitality industry.

Hashai (2015) carried out a study on diversification and performance in manufacturing firms and found that the marginal costs such as integration and coordination costs, tend to grow dramatically while firms implement diversification. Similarly, Schommer *et al*., (2019) study revealed that increased diversification not only creates costly complexity, but also increases internal information asymmetries as the increase in the scope of businesses and bounded rationality constraining management's capability to deal with massive information from different business units.

Despite the overarching essence of hotel leveraging findings into diversification strategies most studies in Kenya are only limited to the effects of these strategies in the manufacturing sector. An example of this is the study conducted by Asman (2013) which focused on the relationship between diversification strategy and organizational performance within a commercial state-owned corporation in Kenya. The study revealed a positive relationship between diversification strategy and firm performance though relationship varies with the type of diversification. The study however did not indicate the parameter used to measure the performance.

Maragia and Kemboi (2021) studied diversification strategy and organizational performance of manufacturing industry in Uasi Gishu County, Kenya. The findings of this study pointed out that horizontal diversification positively affect firm performance though not significant. The study however, used horizontal diversification only. The study recommended further studies of the same in other geographical areas in order to validate the findings. The study also recommends range of diversification strategies to be used.

Oyefesobi *et al,* (2019) carried out a study on diversification strategy and organization market share in Nigeria manufacturing industry. The findings revealed a positive relationship between firm performance and market share. The study however, only applied financial as a measure of performance. A research conducted by Zheng and Tsai (2019) focused on the impact of diversification strategy on the performance of hotels in Hong Kong. The results showed a direct correlation between the two factors. However, these findings may not accurately reflect the situation in Kenya. Despite this, previous studies have presented conflicting results, with some showing a negative relationship between variables while others found no significant relationship.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology which was employed in this study under various sub-headings; research philosophy, the research design, study area, target population, sample size and sample techniques, research instruments, pretesting for research instruments, methods for data collection, data analysis techniques and ethical consideration.

3.2 Research Philosophy

Research philosophy can be described as the basis of the research, which involves the choice of research strategy, formulation of the problem, data collection, processing and analysis (Kirongo and Odoyo,2020). Laszlo (2021), defined research philosophy as the development of research assumption, its knowledge, and nature. The assumption is perceived as a preliminary statement of reasoning, but it is based on the philosophizing person's knowledge and insights that are born as a product of intellectual activity. According to Hitchcock and Hughes (1987), research stems from assumptions. This means that different researchers may have different assumptions about the nature of truth and knowledge and its acquisition. Morgan (1990) noted that every stage of research work, a number of assumptions will be made. These include assumptions about human knowledge (epistemological assumptions), about the realities encountered in your research (ontological assumptions) and the extent and ways your own values influence your research process (axiological assumptions). These assumptions inevitably shape how one understands his/her research questions, the methods he/she used and how the findings are interpreted.

This study therefore adopted pragmatism approach. Pragmatists believe knowledge emerges from a range of specific outcomes, which is not necessarily shaped by antecedence. Pragmatist approach acknowledges the usefulness of qualitative and quantitative methods, relating the decision to use either or mix them in response to research questions (Creswell & Cresswell, 2017; Tashakkori & Teddlie, 2021). Such a collective approach to data collection allows selecting the most appropriate methods

to build knowledge based on the research questions (Morgan, 2007). Additionally, adopting a pragmatist approach will enable the researcher to capitalize on numerical and narrative data (Tashakkori & Teddlie, 2021).

3.3 Research Design

Creswell *et al.,* (2011) defined research design as the 'procedures for collecting, analyzing, interpreting and reporting data in research studies'. They further explain research design as the overall plan for connecting the conceptual research problems with the pertinent (and achievable) empirical research. Asenahabi (2019) stated that research design sets the procedure on the required data, the methods to be applied to collect and analyze this data, and the way these are going to answer the research questions. This study employed descriptive cross-sectional survey design as it establishes the correlations between variables without allowing the researcher to control or manipulate any of them. Descriptive research design leads to an in-depth explanation of a phenomenon (Sieddlecki, 2020).

Consequently, Kothari (2012) stated that descriptive survey offers in-depth understanding of phenomenon under investigation. Kothari (2012) further opined that questionnaires in descriptive research enhance collecting of data from a large population within short time and with minimal cost. The researcher considered this design as appropriate because of the purpose of the study, scope, researcher involvement and nature of data that was collected and the type of analysis performed (Williams, 2007). This study adopted descriptive cross-section survey as it enabled data to be collected through quantitative and qualitative approach. Further, descriptive survey offered the opportunity to collect data across different hotels and test their relationship. Mixed method research design was employed to achieve the objective of the study.

3.4 Study Area

This study was carried out in Coastal Kenya. Approximately, Kenyan coastline is 600 km long extending from the Kenya-Tanzania border in the South to the Kenya-Somalia border in the North; between latitudes 1°40'S and 4°25′S and longitudes 41°34′E and 39°17′E. The landward geographical scope of Coastal Kenya is

determined by the administrative boundaries of Coastal counties namely: Kwale, Mombasa, Kilifi, Tana River, Lamu and Taita-Taveta counties. It has a water surface area of approximately 230,000 km^2 (GoK, 2018).

Coastal Kenya is endowed with a variety of natural resources and biologically rich ecosystems and landscapes of both national and international importance. These ecosystems include: rangelands, woodlands, terrestrial forests, mangroves, mudflats, coral reefs, beaches, sand dunes, rivers, lakes, wetlands, cultural and natural heritage sites. Coastal Kenya is the hub of hospitality and tourism business. The Coastal region of Kenya receives 65% of tourists, as reported by KNBS (2019). This research was however, conducted in three counties namely; Mombasa, Kilifi and Kwale. The sector has been strong in recent years, with arrivals increasing from 814,000 in 1990 to over 2 million in 2007 and revenue increasing from US$864 million (Kshs 56.2 billion) to US$ 1 billion (Kshs 65.4 billion) between 2006 and 2007, representing an 11.6% growth rate. It is estimated that 60% of the revenues generated by the tourist sector in Kenya are due to coastal tourism (UNDP, 2017). Despite its revenue generation, the hotel in the region suffer mostly and their performance reduced drastically during turbulence such Covid 19 pendemic.

3.5 Target Population

A population can be defined as a group of individuals or elements from which the sample was drawn (Blumberg, Cooper & Schindler, 2014). The target population for this study was 383 managers drowned from 42 selected star-rated hotels in the Kenyan coast (TRA, 2022). According to TRA (2014), the number of employees in the hotel is determined by the size of the hotel and the quality of services offered. Therefore;

2-star hotel has between 125 employees
3-star hotel has between 175 employees
4star hotel has between 225 employees
5-star hotel has between 275 employees

This study collected data from both middle level (heads of departments) and operational managers (supervisors) working in various selected star rated hotels. The study focused on various departments within these hotels: food and beverage,

housekeeping, front office, functions and banqueting, finance, human resources, and sales and marketing.

Table 3.1: Population Description

Hotel Category	Population	Population per Hotel Category	Total Population per Hotel Category
2-star	14	125	1750
3-star	14	175	2450
4-star	13	225	2925
5-star	6	275	1650
TOTAL	**47**		**8775**

3.6 Sample Size and Sampling Techniques

3.6.1 Sampling Techniques

A sample is a set of the population chosen to represent the wider majority of population in a research (Blumberg, Cooper & Schindler, 2014). The researcher used stratified random sampling technique while selecting the hotels. The star rating represented the strata. Simple random sampling was employed to select (middle level managers) and operational managers (lower level managers) through stratification. While purposive sampling technique was adopted to select strategic managers (hotel general managers).

3.6.2 Sample Size

In order to determine the appropriate sample size for the study, the Yamane (1967) formula was adopted, as shown in equation 3.1

This formula is defined as $n = \frac{N}{1+Ne^2}$ ……. equation 3.1

Where

N= is the target population

n is the desired sample size and

e is the level of precision (5% for this study).

Thus, $n = \frac{8775}{1+8775(0.05)^2} \cong 383$

Based on this formula, the sample size was determined to be approximately 383 respondents, selected from the middle and lower levels of management in star-rated hotels located in the Kenyan Coast. To ensure proportional representation, the respondents were allocated based on the population of each star rating category of the hotels. Additionally, the study also included 36 general managers of the selected hotels as key informants. These were purposively selected for interview due to the specific information they held.

Table 3.2: Description of the Sample Size

Hotel Category	**Population (Hotels)**	**Sample Size (Hotels)**	**Sample Size (Managers)**	**POULATION**	**Sample Size per Hotel(Managers)**
2-star	14	8	$\frac{1750}{8775} \times 383 = 76$	Tactical managers(middle level management)	5
				Lower level (operational managers)	5
				TOTAL	10
3-star	14	11	$\frac{2450}{8775} \times 383 = 107$	Tactical managers (Middle level management)	5
				Lower level management (operational managers)	5
				TOTAL	**10**
4-star	13	11	$\frac{2925}{8775} \times 383 = 128$	Tactical managers (Middle level managers)	6

				Lower level management (operational managers)	6
				TOTAL	**12**
5-star	6	5	$\frac{1650}{8775} \times 383 = 72$	Tactical managers (Middle level managers)	6
				Lower level management (operational managers)	6
				TOTAL	**12**
TOTAL	**47**	**36**	**383**		

3.7 Research Instruments

Both quantitative and qualitative approach was used to achieve the study objectives. Quantitative data was gathered from tactical and operational managers through the use of semi-structured questionnaires, while qualitative data was obtained from strategic managers (specifically hotel general managers) through an interview schedule.

3.7.1 Questionnaire

Questionnaires were used for collecting data from tactical managers (middle level managers) and lower level managers (operational managers). The questionnaires were self-administered. The questionnaires comprised of 6 sections; sections A, B, C, D, E and F. Section A comprised of items related to the general information of the respondents. Section B comprised of items related to related diversification strategies and organizational performance; Section C comprised of items on unrelated diversification strategies and organizational performance; Section D contained items on factors determining selection of different diversification strategies by hotels;

Section E contained items on government policies and regulation on diversification and performance; Section F contained items on performance of hotels.

The questionnaires were semi-structured. Both open and closed ended questions were used to collect data from tactical managers (middle level managers) and operational managers (lower level managers) to establish the effect of related diversification strategies on organizational performance among star rated hotels in coastal Kenya; to analyses the extent to which non-related diversification strategy influences organizational performance among star rated hotels in Kenya coast.

The instrument was also used to gather information from participants in order to evaluate how government policies and regulations as a moderating variable influence the relationship between diversification strategies and performance of coastal Kenya's star rated hotels. Participants were further asked to rate their level of agreement with specific statements on a 5-point Likert scale, with 1 representing 'Strongly agree' and 5 representing 'Strongly disagree. According to (Kothari, 2004), research using questionnaires is popular because questionnaires are relatively easy to administer and efficiently gather relatively large amounts of data at a low cost.

3.7.2 Interview Schedule

Structured interview schedule was used to collect data from the strategic managers (the hotel general managers) as they were the key informant in this study. The interviews were conducted on a face to face mode by the researcher. The interviews were recorded with an audiotape after seeking the consent from the general managers. Field notes were also taken during the study. The instrument was appropriate to this category due to the nature of their job. The semi-structured interview and open ended questions were used to gather more information on effect of related diversification strategies on organizational performance; analyses the extent to which non-related diversification strategy influences organizational performance; moderating impact of government policies and regulations on the relationship between diversification strategies and organization performance among star rated hotel in coastal Kenya. The method also to ensured greater number of usable returns compared to other methods

(Opdenakker, 2006). The interview schedule comprised of twelve items (guide questions) related to the study's objectives.

3.8 Pretesting of Research Instruments

The purpose of pretesting was to evaluate the relevancy of the instruments. The researcher piloted the data collection instruments (questionnaire and interview schedule) prior to the actual study to ensure that instruments are reliable and valid. A pilot study was conducted in four hotels representing each star rating (2-5 star hotels) within the study are where an equal representation of the study area was realized. Questionnaires were pretested on tactical managers (middle level managers) and operational managers (supervisors). However, the sampled hotels were excluded from the actual data collection. According to Johanson and Brooks (2010), the sample size for the pilot study should be 10% of the actual study's sample size.

3.8.1 Validity Testing

Validity is the degree to which results obtained from the analysis of the data obtained in the study represents the variables of the study. Johnson (1997) observes that, validity is the extent to which information collected by the researcher truly reflect the phenomenon being studied. According to (Kothari, 2004), content validity, criterion-related validity and face validity are necessary. However, the data applied face validity which examines the appearance of research questionnaire in terms visibility, consistency of styles and formatting and clarity of the language used. The instruments were tested using test-retest method to validate the appropriateness of the study before it was subjected the respondents. This was done through opinions and pretesting of the measurement scale (Cronbach, 2011). The researcher also sought for the opinion of the general managers to ascertain the content validity of the instrument.

3.8.2 Reliability Testing

Reliability is the measure of the degree to which a research instrument yields results after repeated trials (Kimberlin & Winterstein, 2008). Golafshani (2003) defines reliability as the extent to which results are consistent over time, and can be reproduced under a similar methodology. According to Saunders, Lewis and Thornhill (2007), reliability refers to the extent to which data collection techniques or analysis

procedures will yield consistent findings. Shuttleworth (2015), also note that the Cronbach's Alpha test in general reliabilities of less than 0.6 range are considered to be poor, those in the 0.7 range are considered acceptable and those above the 0.8 range good (Easterby-Smith *et al*., 2012).

Variables derived from test instruments are acknowledged to be reliable only when they measure yield the same results on other occasions; when similar observations be reached by other observers and if there is transparency in how sense is made from the raw data. Reliability of all the responses from the respondents was tested using Cronbach's Alpha coefficient. The pretest was used to check the mechanical structure of a research instrument especially the questionnaire and the interview schedule, the response categories needed to be tested and whether some questions may be misleading or ambiguous. Measurement of instrument's validity was carried out using the Cronbach's alpha test.

3.8.3 Reliability Statistics

Reliability of all the responses from the respondents was tested using Cronbachs's Alpha coefficient. The Cronbach's Alpha reliability results are as illustrated in Table 3.3.

Table 3.3: Cronbach Alpha Reliability Results

Category of Items	Cronbach's Alpha coefficient scores	Number of Items	Remarks (above 0.7=(Acceptable)
Related diversification strategies	0.922	24	Acceptable
Unrelated diversification strategies	0.892	21	Acceptable
Factors determining selection of diversification strategy	0.783	6	Acceptable
Government policies and regulations on diversification strategies	0.844	13	Acceptable

Performance of star rated hotels	0.793	6	Acceptable

The Cronbach Alpha coefficient for each category of items was 0.922 for related diversification strategies category, 0.892 for unrelated diversification strategies category, 0.783 for factors determining selection of diversification strategy, 0.844 for government policies and regulations on diversification strategies and 0.793 for items on performance of star rated hotels. All the Cronbach Alpha coefficients exceeded 0.7. The questionnaire was therefore deemed acceptable and good as per the guidelines by Smith *et al*., (2012). A review of the item-total statistics revealed that all the Cronbach alpha coefficients reduced on deletion of any one item in each category. Therefore, deletion of any of the questionnaire items did not improve reliability. Rather, it reduced the reliability of the questionnaire. Therefore, no questionnaire item was deleted from the questionnaire.

3.9 Data Collection Procedure

The researcher obtained an introduction letter from Murang'a University of Technology, School of Postgraduate Studies. There after a research permit from National Commission for science and Technology and Innovation (NACOSTI) to conduct the study was sought. The researcher further had a pre-visit to the sampled hotels with the research assistants to seek permission where the reason for the research was explained. The researcher also sought respondents' consent before engaging them in the data collection exercise. On the other hand, face to face interviews with the hotel's general managers were conducted by the researcher based on the managers' convenience but within the study's timeframe. To secure appointments, bookings were done by email followed by telephone calls to confirm appointments; this was followed by personal visits by the researcher to administer the questionnaire to the respondents. Where respondents were not ready to take questions, they were requested to have the questionnaires emailed to them. The researcher would then collect all the information that was sent through e-mail.

3.10 Data Analysis

3.10.1 Quantitative Data Analysis

Quantitative data was obtained. Data treatment and diagnostic tests such as normality, linearity, no multicollinearity and homoscedasticity were performed to ascertain the eligibility of data for statistical analysis (Kothari, 2004). Data collected using questionnaires was cleaned, coded and then entered into Statistical Package for Social Scientists (SPSS), Version 26.0, for quantitative analysis. Quantitative analysis involved descriptive statistics and inferential statistics. Descriptive statistics included mean, standard deviation, frequencies and percentages. Inferential statistics was used to test the relationship between independent and dependent variables. Inferential statistics was also used in drawing and measuring the reliability of conclusions about the respondents.

Determining the relationship between two or more variables statistically is referred to as regression (Kothari, 2004). Ordinal data were converted to intervals using composite scores before testing and interpreting the relationship between the independent and dependent variables. Multiple regression was used to determine the prediction strength of the statistical model. The R-value in regression analysis indicates a simple correlation, while R2 (square) denotes the value of aggregate change in the adoption of diversification strategies after conducting the tests. The multiple linear regression results were tabulated in a model summary. F statistics were further used to test the statistical significance of the regression model (goodness of fit). To check how the regression model with diversification strategies could predict organizational performance, an Analysis of Variance (ANOVA) test was performed. A significance test was conducted at a 5% level (Kothari, 2004). The significance of beta values from the coefficients of X variables was used to interpret the final study's results. The coefficients table was further generated to assess how well the dependent variable could be predicted from the independent variable.

Objective one was analyzed using descriptive statistics and multiple linear regression. Objective two was analyzed using descriptive statistics and multiple linear regression. Objective three was analyzed through descriptive statistics, thematic and content

analysis while objective four was analyzed using descriptive statistics and moderated multiple regression. The analysis and presentation of data were done using tables, graphs, charts and pie charts.

3.10.2 Qualitative Analysis

The study applied inductive analysis, identifying thematic areas from qualitative data collected from key informants through interviews. Thematic analysis refers to inductive methods of analyzing qualitative data (ontology), which focused on identifying, organizing, and interpreting thematic areas in narrative data. Kothari (2012) defines themes as recurring and unique attributes of respondents' accounts related to research objectives. Codes were used to identify respondents from whom the quotes or texts were obtained as follows; General Managers from two-star-rated hotels (S1), General Managers from three-star-rated hotels (S2), General Managers from four-star rated hotels (S3), and General Managers from five star rated hotels (S4).

3.10.3 Diagnostic Tests

Tests were conducted to ensure linearity, normality, the absence of multicollinearity, and homoscedasticity. Linearity is based on the assumption that there exists a linear correlation between the independent variables and the dependent variable (Uyanık & Güler, 2013).

The ANOVA linearity test, tests the null hypothesis 'there is no deviation from linearity. Therefore, linearity assumption holds on acceptance of null hypothesis, that is when the p-value ≥ 0.05.

The residual of regression must be normally distributed for valid inferences to be made from the regression model. Residuals indicate the error terms, the different between the actual and estimated values (Schmidt & Finan, 2018). The researcher used a normal probability plot (p-p plot) to establish whether the plot lie along/ close to the perceived diagonal.

Variance inflation factor (VIF) was used to test for no multicollinearity. No multicollinearity is said to be achieved when independent variable is highly correlated with dependent variable (Schmidt & Finan, 2018). To avoid problems associated with

no multicollinearity, variance inflation factor (VIF) value should be 10. However, VIF values below 5 are considered the best. Homoscedasticity is considered fulfilled when the scatterplots are evenly distributed across the zero (0) mark. The test was done to ensure the fitness of data.

According to Kothari (2004), determining the relationship between two or more variable is known as regression. For this study, the specific objective 1, 2 and 4 was analyzed using inferential statistics such as multiple linear regression and moderated regression analysis to determine the relationship between independents and dependents variables for testing the hypothesis and predictions. A significant test was done at 5% confident level and conducted a prior diagnostic test. The R value in regression analysis denotes a simple correlation while R^2 indicates the value of aggregate change of adoption of related diversification strategies which can be explained by vertical and horizontal diversification strategies. In summary, regression analysis was used to determine variation of the study variables and test the hypothesis as indicated below:

$H_{01:}$ There is no correlation between the implementation of related diversification strategies and the performance of star rated hotels in the Kenyan Coast

The first regression analysis performed was simple regression model, which composed of regression of dependent variables (organizational performance) on independent variables (related diversification strategies) thus forming the following equation;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ .....equation 3.2

Where:

Y= Organizational performance (Dependent variable)

X_1= Related Diversification strategies (independent variable)

β_0= Constant (Model intercept)

β_1= Coefficient constants for related diversification strategies

ε= error term

The coefficient β_1 explains the change injected in the hotel performance which is as a result of a unit change in related diversification strategy. ε is the error term, which account for variability in Y unexplainable by the linear effect of predictor variable.

To determine the impact of related diversification strategies and organization performance, multiple linear regression analysis was done and the results were tabulated in a model summary. The process consisted of identifying the correlation between the independent and dependent variables. Consequently, Statistical analysis was performed using N statistics to determine the significance of the regression model. An Analysis of Variance (ANOVA) table was generated to test how regression with related diversification strategies could predict performance where a significant test was done at 5% confidence level. A table of coefficients was created to analyze the potential for independent variables to accurately predict dependent variables.

$H_{02:}$ There exist no statistically significant relationship between unrelated diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

The second regression analysis which is simple regression model was done. It involved of regression of dependent variables (organizational performance) on independent variables (unrelated diversification strategies) hence taking the following equation form:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$ .....equation 3.3

Where:

Y= Organizational performance (Dependent variable)

X_1= Unrelated Diversification strategies (independent variable)

β_0= Constant (Model intercept)

β_1= Coefficient constants for unrelated diversification strategies

ε= error term

The coefficient β_1 explains the induced change in the hotel performance brought about by a unit change in unrelated diversification strategy. ε is the error term, which account for variability in Y unexplainable by the linear effect of predictor variable.

To examine the effect of unrelated diversification strategies and organization performance, multiple linear regression analysis was done and the results were tabulated in a model summary. The process consisted of establishing the correlation between the independent and dependent variables. The p-value for the independent

variable was utilized to examine the importance of β1. Therefore, the hypothesis was tested using the p-value.

H_{03}: The correlation between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast is not significantly influenced by government policies and regulations.

The statistical significance of moderating variables was tested using a moderated multiple regression, where interaction terms were introduced into the model summary. The significance of the interaction term was determined using R2, and specifically examined whether government policies and regulations moderate the relationship between independent and dependent variables. The regression model with the moderator was compared to one without the moderator to determine any additional variation in organizational performance. The resulting significance of the moderator variable was attributed to the overall variation in organizational performance.

The determination of the moderating impact of government policies and regulations on the correlation between diversification strategies and organizational performance among star rated hotels was conducted through a multiple regression analysis as follows:

$Y= \beta_0 +\beta_1 X_1+\beta_1 X_1 *Z +e$ .....equation 3.4

Where:

Y= Organizational performance (Dependent variable)

X_1= Diversification strategies (independent variable)

Z= Government Policies and regulations (moderator)

The summary of data analysis techniques is shown in table 3.4

Table 3.4: Summary of Data Analysis

Research objectives	Research design	Research instrument	Data analysis techniques
1. To establish the effect of related diversification strategy on organizational performance	Descriptive survey	Questionnaires	• Descriptive statistics • Multiple linear regression • Thematic analysis
2. To examine the influence of unrelated diversification strategy on organizational performance	Descriptive survey	Questionnaire	• Descriptive statistics • Multiple linear regression • Thematic analysis
3. To identify factors determining the selection of diversification strategies	Descriptive survey	Questionnaire & Interview schedule	• Frequencies and descriptive statistics • Content analysis • Thematic analysis
4. To determine the moderating effect of government policies and regulation on the relation between diversification strategies and organizational performance.	Descriptive survey	Questionnaire	• Descriptive statistics • Moderated-multiple regression • Thematic analysis

3.11 Ethical Considerations

A research should be conducted based on set principles that guide the research methodologies and practices (Kelly, 2019). There are four ethical principles for conducting data collection. The principles according to Bell, Bryman and Harley (2022) dictate that research should not harm participants; participants should give their consent before they are involved, and privacy of the participants should be respected. Researcher's honesty is important. Walford (2005) insisted on the need for the research to be conducted in a manner that will not impose danger or risk to future research. To ensure research ethics are adhered to, the researcher therefore employed various ethical considerations throughout the research period.

The researcher obtained authorization letter from Murang'a University of Technology Postgraduate School after the approval of the document. The researcher further sought data collection permit from NACOSTI. The researcher and the research assistants proceeded to seek permission from the managers of the hotels under the study which they sought informed consent from the respondents prior to the distribution of the questionnaires and conducting of the interviews.

Respondents were informed of the purpose of the study, and the importance of their participation in this study before they consented to participate after which the researcher obtained their consent to participate in the study as shown in the cover latter. Only participants who gave their consent participated in filling of the questionnaire. The respondents were however notified that they are under no obligation as their participation is voluntary and they have the right to terminate their participation at time.

The researcher informed the participants the need of not indicating their names in the questionnaire. This was to ensure confidentiality is adhered in order to avoid victimization. Similarly, managers were requested in advance for their permission to record the interview since it could be difficult and time consuming to put down every statement in writing. This was to ensure that analyzed data conforms to the manager's information. This consequently eliminated any kind of interview biasness that would arise as a result of information distortion. The texts or quotes obtained from interviews

were coded instead of using real names for the purposes of confidentiality. All the participants received equal and fair treatment with high level of dignity and respect as no discrimination of whatever form were be allowed. Consequently, no respondents were forced to participate in the study.

3.12 Chapter Summary

This chapter discussed various philosophies used to determine the research design that was employed in this research study. It also outlines the techniques and procedures the researcher employed to obtain data for the study. It explains the details of research methodology and describes data collection process. It also gives description on the techniques used to select respondents, deployment of different data collection instruments and data analysis techniques applied per objective. The chapter also outlined mechanisms used to ensure ethical issues were adhered to ensure the protection from any risk that may arise from this study as well as ensuring objective data collection is maintained throughout the process.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1 Introduction

This chapter is an outline of the findings of the study. The findings were arranged as per the reliability statistics results, demographic profile of the respondents, related diversification strategies and effect on performance, unrelated diversification and effect on performance, factors affecting selection of diversification strategy and the moderating role of government policies on the effect of diversification strategies on performance of star rated hotels in the Kenyan Coast. The chapter also outlines the regression model results of the study. In each section of the results, a discussion is provided based on literature reviewed.

4.2 Response Rate

383 questionnaires were distributed during data collection. Of these distributed questionnaires, 6 participants declined participation and withdrew voluntarily from the study. Therefore, 377 questionnaires were returned. Out of the returned questionnaires, 23 were not fully completed and were therefore not considered for the final analysis. Therefore, 354 questionnaires were considered duly filled for final data analysis. For the interviews, 36 interviews were targeted. However, only 29 interviews were successfully conducted representing an interview response rate of (80.6%). This represented (92.7%) and (80.6%) of the response rate for the questionnaires and interviews respectively. This is considered sufficient for making conclusions (Mugenda and Mugenda, 2003).

4.3 General Information of the Respondents (Demographic Data)

4.3.1 Gender of the Respondents

The results on the distribution of the respondents by gender in the pie chart in Figure 4.1 indicated that (60.7%) of the respondents were male while (39.3%) of the respondents were female. From these findings, male respondents are more than female respondents. However, both genders are well represented implying that the findings reported herein reflect the opinions of both genders.

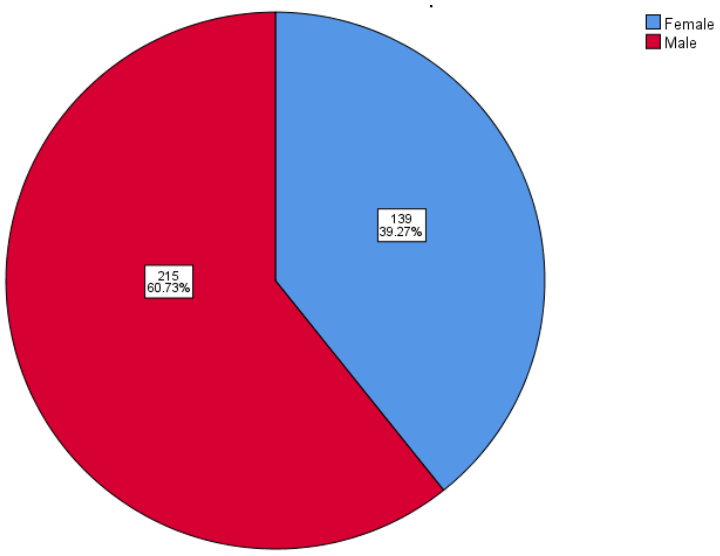


Figure 4.1: Distribution of Respondents by Gender

4.3.2 Age of the Respondents

Figure 4.2 illustrates the distribution of the respondents' age, indicating that the majority (39.6%) fell within the 31-40 age range. Additionally, (35.0%) were aged 41-50, (13.6%) were aged 18-30, (10.7%) were aged 51-60, and a least (1.1%) were over 60 years old.

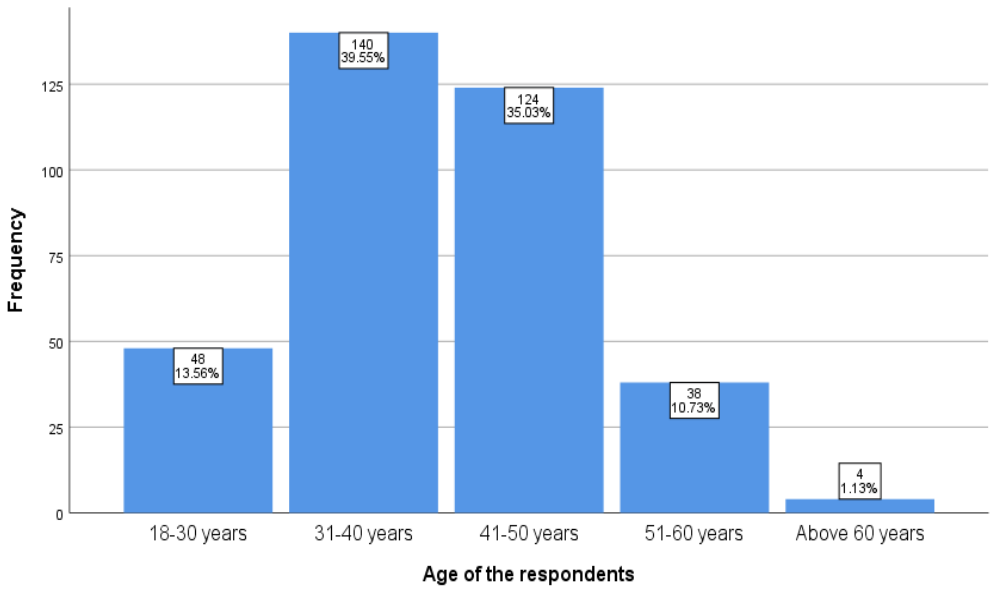


Figure 4.2: Distribution of Respondents by Age

4.3.3 Marital Status of the Respondents

The marital status results in Figure 4.3 shows that majority (68.6%) of the respondents were married while only (31.4%) were single.

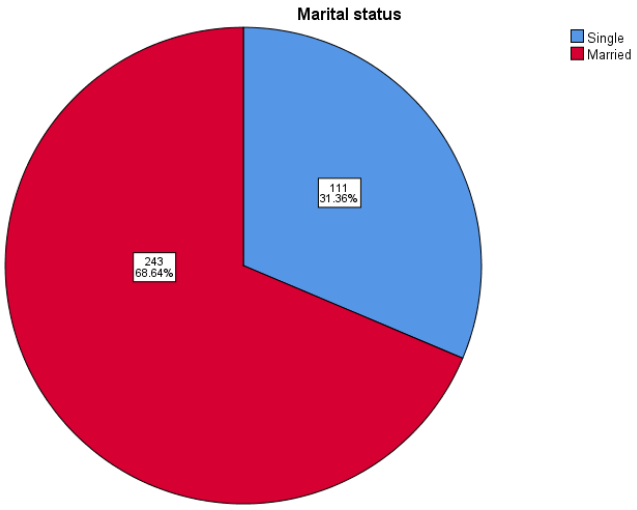


Figure 4.3: Distribution of Respondents by Marital Status

4.3.4 Highest Level of Education of the Respondents

Based on the results on the respondents' highest level of education, Table 4.1 show that majority of the respondents possessed bachelor degree (44.4%) followed by those with college education (44.1%), secondary education (8.8%) and the least postgraduate education (2.8%). This suggest that a large portion of the respondents holding managerial positions in star rated hotels have bachelor degree certificate.

Table 4.1: Distribution of Respondents by Highest Education Level

Education Level	Frequency	Percent
Secondary	31	8.8
College (certificate/diploma)	156	44.1
Bachelors	157	44.4
Postgraduate	10	2.8
Total	**354**	**100.0**

4.3.5 Current Position in the Hotel

Respondents were asked to indicate the position that they held in the hotel during the time of the study. It is evident from Table 4.2 the majority of the participants (58.2%) held positions in lower level management, specifically as operational managers, while the remaining (41.8%) were in middle management roles, referred to as tactical managers.

Table 4.2: Respondents' Distribution by Current Position in the Hotel

Position	Frequency	Percent
Tactical manager (middle level management)	148	41.8
Operational management (lower level)	206 148	58.2
Total	**354**	**100.0**

4.3.6 Terms of Employment of the Respondents

The data in Table 4.3 indicates that most of the participants (60.7%) held permanent employment, with 26.8% being employed on a contract basis and 12.4% working in casual positions. This suggests that as per this study, majority of star rated hotel engage their managers through permanent employment while only very few are employed on casual basis.

Table 4.3: Distribution of Respondents by Terms of Employment

Terms of Employment	Frequency	Percent
Permanent	215	60.7
Casual	44	12.4
Contract	95	26.8
Total	**354**	**100.0**

4.3.7 Duration Worked in the Hotel

Respondents were also asked to specify the length of time they had been employed at their current hotel. The data in Table 4.4 shows that (35.0%) of the respondents had been employed for 1-5 years, (28.8%) for 6-10 years, (16.4%) for 11-15 years, (14.4%) for over 15 years, and (5.4%) for less than 1 year. These findings demonstrate that a

majority of the respondents (approximately 60%) had been employed for more than 5 years and were therefore familiar with the hotel's operations.

Table 4.4: Respondents' Distribution by Duration Worked in the Hotel

Duration	Frequency	Percent
Less than 1 year	19	5.4
1-5 years	124	35.0
6-10 years	102	28.8
11-15 years	58	16.4
Above 15 years	51	14.4
Total	**354**	**100.0**

4.3.8 Star Rating

Respondents also self-rated their hotels as shown in Table 4.5. According to the respondents, (29.1%) of the hotels are 4-star rated, (26.3%) of the hotels are 3-star rated, (24.9%) are 5-star rated and (19.8%) are 2-star rated. According to this study, the result implies that there could be high labour turnover among managers in star rated hotels since majority have only worked between 1-5 years. Alternatively, it is an indication that majority of managers had good experience as only few had less than five years in employment in a particular hotel. This result implies that 4 star hotels were the majority while 2 star were the least in Coastal Kenya during the time of this study.

Table 4.5: rating of the Hotels as Per Respondents

Rating	Frequency	Percent
2 star rated	70	19.8
3 star rated	93	26.3
4 star rated	103	29.1
5 star rated	88	24.9
Total	**354**	**100.0**

4.3.9 Performance of Star Rated Hotels in the Kenyan Coast

The performance of star rated hotels in the Kenyan Coast was assessed. Respondents self-rated the performance of the hotels on different parameters comprising of revenue/sales growth, room occupancy rate, competitiveness (market share, operating cost), operational efficiency (customer retention, resource utilization), innovativeness (number of new product and services innovated per year) and service quality (customer satisfaction). The findings on the performance of star rated hotels in the Kenyan Coast are as shown in Table 4.6.

Table 4.6: Level of Performance of Star rated Hotels in the Kenyan Coast

		Frequency	Percent (%)
Revenue/sales growth	Decreasing	65	18.4
	Constant	60	16.9
	Increasing	229	64.7
Room occupancy rate	Decreasing	55	15.5
	Constant	82	23.2
	Increasing	217	61.3
Competitiveness(market share, operating cost)	Decreasing	75	21.2
	Constant	73	20.6
	Increasing	206	58.2
Operational efficiency(customer retention, resource utilization)	On the decline	37	10.5
	Constant	99	28.0
	Improving	218	61.6
	No innovation at all	83	23.4

Innovativeness (number of new product and services innovated per year)	On the rise	271	76.6
Service quality (customer satisfaction)	Declining	18	5.1
	Constant	45	12.7
	Improving	291	82.2

For the purposes of understanding hotel level of performance, various indicators were used as per Table 4.6. From the findings, there is a clear evidence that majority of the responses with (64.7%) indicated that revenue/sales growth is increasing, (18.4%) indicated decreasing sales while the least with (16.9%) indicated constant sales. In terms of room occupancy rate, the findings show a majority with (61.3%) indicating an increasing rate, (23.2%) a constant rate with only (15.5%) indicating a decreasing rate.

Regarding the competitiveness, the highest with (58.2%) of the respondents revealing competitiveness of the star rated hotels at the Kenyan Coast is increasing while (21.2%) indicate that it is decreasing as (20.6%) of the respondents indicate constant. In terms of operational efficiency, majority of the respondents with (61.6%), indicating that the operational efficiency of the hotels is improving, (28.0%) indicated while the least with (10.5%) indicated a decline.

Based on innovativeness, a greater number of respondents with (76.6%) saying innovativeness of the hotels is on the rise; (23.4%) rated no innovation at all. Service quality had the highest rating with (82.2%) of the respondents indicated that service quality of the hotel is improving, while (12.7%) indicated constant as the least with (5.1%) indicated service quality as declining.

The overall performance of the star rated hotels was determined through aggregating the performance indicators using the mean. Recoding was then done on the aggregated variable to determine the overall performance of the star rated hotels in the Kenyan Coast. The results are as shown in Table 4.7.

Table 4.7: Overall Performance of Star rated Hotels in the Kenyan Coast

		Frequency	Percent (%)
Performance of star rated hotels in the Kenyan Coast	Decreasing/On the decline	10	2.8
	Constant	110	31.1
	Increasing/Improving	234	66.1

In order to enhance the understanding of overall performance of star rated hotels in the Kenyan coast, the study considered a summation of 'decreasing/on the decline', 'constant' and 'increasing/improving' as per Table 4.7. From the findings, it is clear that the majority of the respondents with (66.1%) were of the opinion that overall performance of the hotels has been increasing, (31.1%) indicated that, the overall performance of the star rated hotels at the Kenyan Coast has been constant. Moreover, (31.1%) are of the opinion that performance has been constant while only (2.8%) indicated that performance has been on the decline. This implies diversification strategy can only be considered suitable if there is an increase in performance in a hotel.

4.4 Related Diversification Strategies and Organizational Performance among star rated hotel in the Kenyan coast.

The objective one of the research was to assess the influence of related diversification strategies on the performance of organizations. Participants were presented with a variety of related diversification strategies and asked to indicate the degree to which their hotels had implemented them. The findings on the extent of application of different horizontal diversification strategies are as shown in Table 4.8.

Table 4.8: Extent of Adoption of Related Diversification Strategies in Star Rated Hotels

	To no extent at all	To little extent	To some extent	To a large extent	To a very large extent	Mean (std. dev)
Horizontal Diversification Strategies						
New product development	0 (0.0%)	16 (4.5%)	45 (12.7%)	113 (31.9%)	180 (50.8%)	4.29 (0.86)
New service development	12 (3.4%)	22 (6.2%)	32 (9.0%)	117 (33.1%)	171 (48.3%)	4.17 (1.05)
Corporate expansion	25 (7.1%)	39 (11.0%)	73 (20.6%)	127 (35.9%)	90 (25.4%)	3.62 (1.18)
Integration	50 (14.1%)	61 (17.2%)	81 (22.9%)	82 (23.2%)	80 (22.6%)	3.23 (1.35)
Vertical Diversification Strategies						
Acquisition	53 (15.0%)	81 (22.9%)	50 (14.1%)	89 (25.1%)	81 (22.9%)	3.18 (1.40)
Merger	45 (12.7%)	79 (22.3%)	62 (17.5%)	108 (30.5%)	60 (16.9%	3.17 (1.30)
Forward integration	23 (6.5%)	90 (25.4%)	69 (19.5%)	93 (26.3%)	79 (22.3%)	3.32 (1.25)
Backward integration	36 (10.2%)	119 (33.6%)	79 (22.3%)	78 (22.0%)	42 (11.9%)	2.92 (1.20)
N=354						

For the purpose to enhance understanding in regard to rating, the extent of adoption has been considered as summation of 'no extent' and 'very large extent' as shown in Table 4.8. In terms of horizontal diversification strategies, from the findings, it is clear that new product development has been adopted to a very large extent with the majority rating of (50.8%) while (4.5%) of the respondents indicated to a little extent (mean = 4.29, std. dev = 0.86). Never the less, (48.3%) of the respondents indicated new service development has been adopted to a very great extent while on the other hand (3.4%) of the respondents indicated to no extent (Mean = 4.17, std. dev = 1.05)

respectively. From the findings, it is also evident that majority (35.9%) respondents indicated that corporate expansion has been adopted to a large extent while on the other hand (7.1%) of the respondents to no extent at all (Mean = 3.62, std. dev =1.18). Out of all the participants, (45.8%) reported that they have fully or mostly implemented integration, while (14.1%) reported that they have not implemented it at all (Mean = 3.23, std. dev = 1.35).

The findings on adoption of horizontal diversification strategies have also been echoed by the key informants. For instance, Key Informants S3, S5, S9, S10, S12, S13, S15, S23, S24, S26, S27 and S29 support new product and service development. Key Informant S9 stated that:

"The hotel engages in horizontal diversification through new product and service development. Specifically, this hotel has been engaging in theme nights such as Swahili nights and specialized coffee shop selling pastries and cakes"

In support of horizontal diversification strategies, Key Informant S5 stated that:
"This hotel has been engaging in new product development through introduction of new menus such as children menus and diabetic menus. The hotel has lately introduced menus from different cuisines such as Indian, Mexican and African among others"

For Key Informant S7, horizontal diversification has been adopted through new products development based on this response:

"The hotel has introduced new dishes such as vegetarian dishes. In addition, the hotel has been producing local cocktails that have given this hotel popularity. Another product that has brought the hotel a lot of customers is the introduction of beach dinner and beach bar"

Horizontal diversification has also been supported by key informants S9 and S31 who support new service development. Key Informant S9 stated that:

"The hotel has been offering room services based on different categories such as special needs, children room services and even room services for the aged"

For key informant S24, new service development is supported through the following statement:

"We have diversified our services and we are offering events menus such as wedding menus, baby showers' menus, birthday menus and thanks giving menus"

For key informant S9, horizontal diversification has been adopted in terms of sports services. This is supported by the following statement by key informant S9:

"We have introduced water sports and health fitness facilities as additional services for our clients. In fact, these extra services do not come at an extra fee"

Responses by Key Informants, S10, S13, S26 and S29 are in favor of horizontal diversification through new service development in room services. For instance, Key Informant S26 opined that:

"We offer various types of rooms that cater for various clients, for instance, both high level and low level clients in terms of income"

New product development is also indicated by Key Informants S12, S15, S25 and S28. For instance, Key Informant S15 opined new product development during off-peak seasons by stating the following:

"We major in developing new products especially during low season where we introduce price-adjusted menus to our clients"

According to Key Informant S8, corporate expansion has been adopted as a form of horizontal diversification strategy. This is based on the following statement:

"The hotel has been opening other food outlets to help generate extra income to the company. We have also been active in outside catering through our new firm specializing in outside catering"

In terms of vertical diversification strategies, majority with (48.0%) of the respondents indicated that acquisition has been adopted to a large and very large extent while the least with (14.1%) indicated to some extent (Mean =3.18, std. dev = 1.40). Based on merger, (30.5%) of the respondents indicated that mergers have been adopted to a

large extent as only (12.7%) of the respondents indicated to no extent at all (Mean = 3.17, std. dev = 1.30). In regard to adoption of forward integration, (48.6%) of the respondents indicated to a large and very large extent and (6.5%) indicating to no extent (Mean = 3.32, std. dev =1.25). Based on backward integration, a total of (33.9%) of the respondents indicated that backward integration has been applied to a large and very large extent (10.2%) indicated to no extent at all (mean = 2.92, std. dev = 1.20).

The responses from the key informants also support adoption of vertical diversification strategies by star rated hotels in the Kenyan Coast. For instance, Key Informants S1, S22, S25 support acquisition as a vertical diversification strategy. For instance, Key Informant S1 stated that:

"The hotel has acquired a baking company and is therefore producing its own bakery products such as loaves, cakes and bread rolls"

For key Informant S22

"This hotel has acquired a juice processing plant and is now making its own juices for serving its clients"

Key informant S25,

"The hotel has acquired a laundry company which is now being used to supplement the cleaning of quest lines at a small fee"

Key Informants S14, S17, S22 and S29 are in support of merging as a vertical diversification strategy. This is reflected from the following statement by Key Informant S14:

"This hotel has merged with an established tour company so as to strengthen the supply chain for its clients from Europe and Asia. The tour company also strictly serves the hotel's products such as meals and drinks when in transit"

For key Informant S22, merging is noted from the following response:

"The hotel has merged with a local hotel that has established food outlets in the country. Our clients can therefore get our products all over the country now. This includes booking room reservations anywhere in the country through the outlet"

The level of adoption of related diversification strategies was assessed. The average for each type of related diversification strategy was calculated and reclassified into five categories: to no extent at all, to a little extent, to some extent, to a large extent and to a very large extent. This was repeated for all the related diversification strategies to determine the overall adoption of related diversification strategies. The results are tabulated in Table 4.9.

Table 4.9: Overall Extent of Adoption of Related Diversification Strategies

	To no extent	**To little extent**	**To some extent**	**To a large extent**	**To a very large extent**	**Mean (std. dev)**
Overall extent of adoption of horizontal diversification strategies	1 (0.3%)	19 (5.4%)	97 (27.4%)	119 (33.6%)	118 (33.3%)	3.94 (std. dev=0.92)
Overall extent of adoption of vertical diversification strategies	8 (2.3%)	107 (30.2%)	78 (22.0%)	101 (28.5%)	60 (16.9%)	3.28 (std. dev=1.13)
Overall extent of adoption of related diversification strategies	2 (0.6%)	37 (10.5%)	134 (37.9%)	108 (30.5%)	73 (20.6%)	3.60 (std. dev=0.95)
N=354						

Based on the data presented in Table 4.9, it can be concluded that a significant proportion of respondents (33.6%) believed that horizontal diversification strategies were extensively employed and a similar percentage (33.3%) stated that they were adopted to a large extent. A small fraction (0.3%) reported no adoption at all. The mean score for overall adoption of horizontal diversification strategies was 3.94 (std. dev = 0.92) indicating that they were generally utilized to a considerable degree.

The statistics on overall adoption of vertical diversification strategies reveal that a majority (30.2%) of respondents believed they were adopted to a moderate extent, with (2.3%) reporting no adoption at all. The mean score for the overall extent of adoption of vertical diversification strategies was 3.28 (std. dev =1.13). Furthermore, the findings show that a significant portion (37.9%) of respondents believed that

related diversification strategies were adopted to some extent, while a negligible percentage (0.6%) reported no adoption at all. The mean score for the overall adoption of related diversification strategies was 3.60 (std. dev= 0.95), demonstrating a high level of adoption on the of related diversification strategy among star rated hotel in the coastal Kenya.

Respondents were presented with items that were Likert scaled and required to indicate the degree to which related diversification strategies affected performance of star rated hotels in the Kenyan Coast. The results are documented in Table 4.10.

Table 4.10: Likert Scale Responses on the Effect of Related Diversification Strategies on Performance

Test Item	Strongly disagree	Disagree	Don't know	Agree	Strongly agree	Mean (std. dev)
Introduction of new product that are related to the existing product and appealing to customers lead to increase in daily room occupancy rate	32 (9.0%)	47 (13.3%)	52 (14.7%)	107 (30.2%)	116 (32.8%)	3.64 (1.30)
Introduction of new services related to the existing product affect total revenue achieved per financial year	36 (10.2%)	52 (14.7%)	70 (19.8%)	106 (29.9%)	90 (25.4%)	3.46 (1.29)
Introduction of new services related to the existing one leads to increase in customers spending power thus increase sales growth	34 (9.6%)	44 (12.4%)	57 (16.1%)	91 (25.7%)	128 (36.2%)	3.66 (1.33)
Introduction of new product or service affect employee performance	29 (8.2%)	44 (12.4%)	91 (25.7%)	106 (29.9%)	84 (23.7%)	3.49 (1.21)

Introduction of new product or service increase customer retention	33 (9.3%)	34 (9.6%)	76 (21.5%)	113 (31.9%)	98 (27.7%)	3.59 (1.25)
Introduction of new product or service increase competitiveness/market share of the hotel	37 (10.5%)	40 (11.3%)	63 (17.8%)	102 (28.8%)	112 (31.6%)	3.60 (1.32)
Introduction of new product or service increase level of innovativeness	36 (10.2%)	56 (15.8%)	46 (13.0%)	89 (25.1%)	127 (35.9%)	3.61 (1.37)
Introduction of new product or service increase service quality	22 (6.2%)	52 (14.7%)	92 (26.0%)	105 (29.7%)	83 (23.4%)	3.49 (1.17)
Forward or backward integration affects room occupancy rate	23 (6.5%)	51 (14.4%)	75 (21.2%)	124 (35.0%)	81 (22.9%)	3.53 (1.18)
Forward or backward integration has effect on total revenue achieved per financial year	25 (7.1%)	35 (9.9%)	84 (23.7%)	126 (35.6%)	84 (23.7%)	3.59 (1.16)
Forward or backward integration has effect on customer spending power thus affecting sales growth	17 (4.8%)	41 (11.6%)	98 (27.7%)	124 (35.0%)	74 (20.9%)	3.56 (1.09)
Forward or backward integration has effect on hotel competitiveness/market share	41 (11.6%)	39 (11.0%)	69 (19.5%)	135 (38.1%)	70 (19.8%)	3.44 (1.25)
Forward or back integration may affect customer retention	20 (5.6%)	54 (15.3%)	80 (22.6%)	123 (34.7%)	77 (21.8%)	3.52 (1.15)
Forward or backward integration has effect on service quality	33 (9.3%)	52 (14.7%)	72 (20.3%)	116 (32.8%)	81 (22.9%)	3.45 (1.25)

Forward or backward integration has effect on innovativeness	32 (9.0%)	49 (13.8%)	53 (15.0%)	140 (39.5%)	80 (22.6%)	3.53 (1.23)
Forward or backward integration may affect employee performance	10 (2.8%)	70 (19.8%)	89 (25.1%)	107 (30.2%)	78 (22.0%)	3.49 (1.12)
N=354						

The responses on the Likert scale items in Table 4.10 demonstrate that (63.0%) of the respondents strongly agreed and agreed that introduction of new products that are related to the existing products and appealing to customers lead to increase in daily room occupancy rate while (9.0%) strongly disagreed (mean = 3.64, std. dev = 1.30). Consequently, from the finding, it is also clear that (55.3%) of the respondents agreed and strongly agreed that introduction of new services related to the existing product affect total revenue achieved per financial year as (10.2%) strongly disagreed (mean = 3.46, std. dev = 1.29).

Additionally, it is clear from the findings is that (36.2%) and (25.7%) of the respondents strongly agreed and agreed respectively that introduction of new services related to the existing one leads to increase in customers spending power thus increase sales growth while (9.6%) strongly disagreed with the statement (mean = 3.66, std. dev = 1.33). Demonstrated by the results is that 53.6% of the respondents being in agreement and strongly agreeing that introduction of new product or service affect employee performance. However, (8.2%) strongly disagreed (mean = 3.49, std. dev = 1.21).

Further, the findings show that (59.6%) were in agreement that introduction of new product or service increase customer retention while (9.3%) strongly disagreed (mean = 3.59, std. dev = 1.25). The statement “Introduction of new product or service increase competitiveness/market share of the hotel” had a total of (60.4%) of the respondents being in agreement as only (17.8%) did not know (mean = 3.60, std. dev = 1.32). Also evident from the results is that (61.0%) of the respondents were in agreement that introduction of new product or service increase level of innovativeness; 13.0% did not know (mean = 3.61, std. dev = 1.37). Moreover, (53.1%) of the

respondents agreed and strongly agreed that introduction of new product/service increases service quality; (6.2%) strongly disagreed (mean = 3.49, std. dev = 1.17). From the findings, it is also noted that majority of the respondents with (57.9%) were in agreement that forward or backward integration affects room occupancy rate whereas (20.9%) were in disagreement (mean = 3.59, std. dev = 1.16). The statement "Forward or backward integration has effect on total revenue achieved per financial year" had a total of (59.3%) of the participants being in agreement with (17.0%) of the respondents were in disagreement (mean = 3.56, std. dev = 1.09). Further, the statement "Forward or backward integration has effect on customer spending power thus affecting sales growth" had the highest respondents (55.9%) in agreement; (16.4%) of the respondent were in disagreement (mean = 3.44, std. dev = 1.25). A cumulative of (57.9%) of the respondents were in agreement that forward or backward integration has effect on hotel competitiveness/market share whereas (19.5%) did not know (mean = 3.52, std. dev = 1.15).

From the findings, it is further illustrated that (56.5%) of the respondents agreed and strongly agreed that forward or back integration may affect customer retention while (20.9%) were in disagreement (mean = 3.45, std. dev = 1.25). The findings also show that a total of (55.7%) of the respondents were in agreement that forward or backward integration has effect on service quality as only (20.3%) did not know (mean = 3.45, std. dev = 1.25). From the responses, the statement "Forward or backward integration has effect on innovativeness" had a total of (62.1%) of the respondents being in agreement with (15.0%) indicating do not know (mean = 3.53, std. dev = 1.23). Lastly, (52.2%) of the respondents were in agreement that forward or backward integration may affect employee performance while (2.8%) strongly disagreed (mean = 3.49, std. dev = 1.12).

The effect of related diversification strategies on different aspects of performance of star rated hotels in the Kenyan Coast was also notable from the interview responses. For instance, Key Informant 1 noted the following on the effect of horizontal diversification strategies on financial performance:

"Due to horizontal diversification, we have seen growth in patronage, room occupancies and revenue growth"

For Key Informant S5, horizontal diversification has an effect on sales and room occupancy rate as per the following response:
"New menus attract a variety of customers which in turn increases sales/revenue collected per day. It also contributes to high room occupancy resulting to increase in room revenues"

Customer spending power is also affected due to horizontal diversification strategies. This is reflected from responses by Key Informants S12, S15 and S21. For instance, Key Informant S12 indicated that:

"As a result of adjusted prices, guest's spending power increases which increases the hotel's daily sales of foods and beverages"

Key Informant S15 noted the following:
"As a result of catering for special needs clients, daily room occupancy has been on the rise which has increased accommodation revenue"
Key Informant S21 stated the following:
"Adoption of vegetarian menus has attracted many guests including walk which in turn contributed to high sales for food and beverage"

For Key Informant S4 and S7, horizontal diversification affects non-financial performance such as customer loyalty and competitiveness. Key Informant S4 was of the opinion that:

"Horizontal diversification improves customer loyalty as customers always associate themselves with the hotel due to the new services"
Key Informant S4 further added that:
"With horizontal diversification majority, of clients tend to increase their length of stay in the hotel."

Key Informant S7 added that:
"Horizontal diversification gives the hotel a competitive edge since beach dinners and specialized menus attract new customers to the hotel"

According to Key Informant S30, horizontal diversification enhances innovativeness and competitiveness. This is evident from the statement:

"Horizontal diversification reduces operational cost which increases the hotel's competitiveness. Innovation is also enhanced which enhances service quality by the hotel"

For Key Informants S10, S13, S18 and S20 horizontal diversification strategies have an effect on market share. This is reflected on the following statement by Key Informant S13:

"Our market share has been on an increase since all types of clients are catered for in terms of products, services and prices"

According to Key Informant S20:

"As a result of special menus for vegetarians, diabetic clients and children, our market share has increased. These customers are also escorted by other clients which forms an additional market for our hotel"

On the effect of vertical diversification strategies on performance of star rated hotels in the Kenyan Coast, interviews also support the questionnaire findings. Notable is Key Informant S14 who stated that:

"Through vertical diversification, outsourcing from suppliers is minimized which reduces operational costs. This has an effect of the overall profitability of the hotel"

Key Informant S3 noted the following on the influence of vertical diversification on non-financial performance:

"Employees have become more innovative by interacting with a variety of products. They combine the products to meet customers' needs"

Key Informant S3 added that:

"Quality of the product is perceived by our clients to be improved since through vertical diversification production is closely monitored"

These findings concur with a study by Eukeria and Favourate (2014) who conducted a study in Zimbabwe and established that horizontal diversification ensured value

creation in the food and beverage sector. Further, the study found that horizontal diversification strategies enhanced performance of companies since it enabled them leverage on their unique resources in new products' creation which enabled them have a competitive edge, increased profitability and market share in terms of customers' numbers. The findings also align with Safitri *et al.,* (2023) who conducted a study in a select Indonesian hotel and found that horizontal diversification strategy through specialized rooms services would help improve most the competitiveness of the hotel. By reorganizing the hotel's rooms based on interests and capacities of the customers, different classes of customers are captured which ensures the hotel is competitive.

The findings that vertical integration has an effect on performance of star rated hotels concur with Hamilton and Mqasqas (1997) who pointed that vertical integration offers a channel for profitability in separate firms through exchange of resources which occurs through market mechanisms. Via vertical integration, firms are able to avoid transaction costs which increase their profitability. Further, Bulturbayevich (2019) noted that vertical integration also enhances efficiency in the production process, delivery and reduced transportation time. By acquiring or merging with other firms in the supply chain firms are able to manage supply and distribution channels thus optimize on resource availability and distribution. The production and distribution chains are strengthened; costs and wastes are reduced at all levels. Consolidation through mergers and acquisitions eliminate middlemen which allow the hotels to retain both upstream and downstream profits (Grant & Startz, 2022).

Significance of the Relationship between Related Diversification Strategies and Performance of Star Rated Hotels in the Kenyan Coast

A multiple linear regression analysis was conducted to establish the relationship between related diversification strategies and organizational performance. Before fitting the regression model, diagnostic tests were conducted to assess whether the assumptions of the model were met. According to Aguinis (2004), linearity assumes that independent variable has a linear relationship with independent variable. Therefore, linearity assumption was tested using ANOVA deviation from linearity which tests the null hypothesis that "There is no deviation from linearity between the dependent and independent variable". The null hypothesis is rejected, and thus linearity assumption met, when the p-value exceeds 0.05. The p-values for ANOVA

deviation from linearity (indicated in bold in Table 4.11) are all greater than 0.05. Linearity assumption is therefore met for the relationship between performance and horizontal and vertical diversification strategies.

Table 4.11: Linearity Assumption Test for performance and Horizontal and Vertical Diversification Strategies

			Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Performance Horizontal diversification strategies	*Between Groups	(Combined)	11.708	15	.781	2.63	.001
		Linearity	4.910	1	4.910	16.532	.000
		Deviation from Linearity	**6.797**	**14**	**.486**	**1.634**	**.068**
	Within Groups		100.386	338	.297		
	Total		112.094	353			
Performance Vertical diversification strategies	*Between Groups	(Combined)	4.455	15	.297	1.394	.148
		Linearity	.022	1	.022	.101	.751
		Deviation from Linearity	**4.433**	**14**	**.317**	**1.486**	**.114**
	Within Groups		72.021	338	.213		
	Total		76.476	353			

In order for valid references to be made from regression model the residuals of regression should be normally distributed (Aguinis, 2004). Residuals means the error terms, the different between the predicted and actual values. Normality assumption was therefore tested using a normal probability plot (P-P plot) of residuals which requires normality to hold if the residuals are normally distributed. Normality assumption is fulfilled if the plots seem to lie along/close to the perceived diagonal. Based on the normal P-P plot in Figure 4.4, the plots seem to lie close to the perceived diagonal line; This implies that residuals were normally distributed therefore normality assumption is therefore fulfilled.

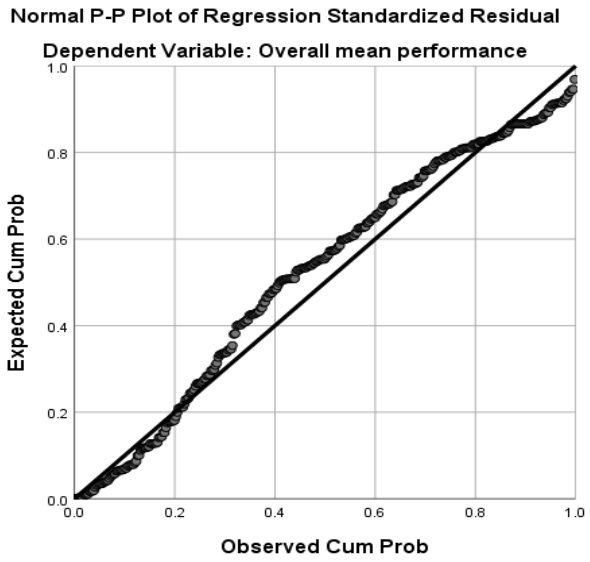


Figure 4.4: Normal P-P Plot for Normality Assumption for Regression between Performance and Vertical and Horizontal Diversification Strategies.

No multicollinearity assumption was tested using variance inflation factors (VIF). For no multicollinearity to hold, VIF values should be below 10. However, VIF values falling below 5 are the best. According to the results in Table 4.12, all the VIF values fall below 5; no multicollinearity assumption is fulfilled.

Table 4.12: Multicollinearity Test for Regression between Performance and Vertical and Horizontal Diversification Strategies

		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	Horizontal diversification strategies	.570	1.754
	Vertical diversification strategies	.570	1.754

Homoscedasticity assumption was tested using a scatterplot for standardized residuals and predicted values. The scatterplot should not display any pattern and the plots should be evenly distributed around the zero (0) mark. The scatterplot in Figure 4.5 shows that the plots are evenly distributed and do not depict any pattern; homoscedasticity assumption is fulfilled.

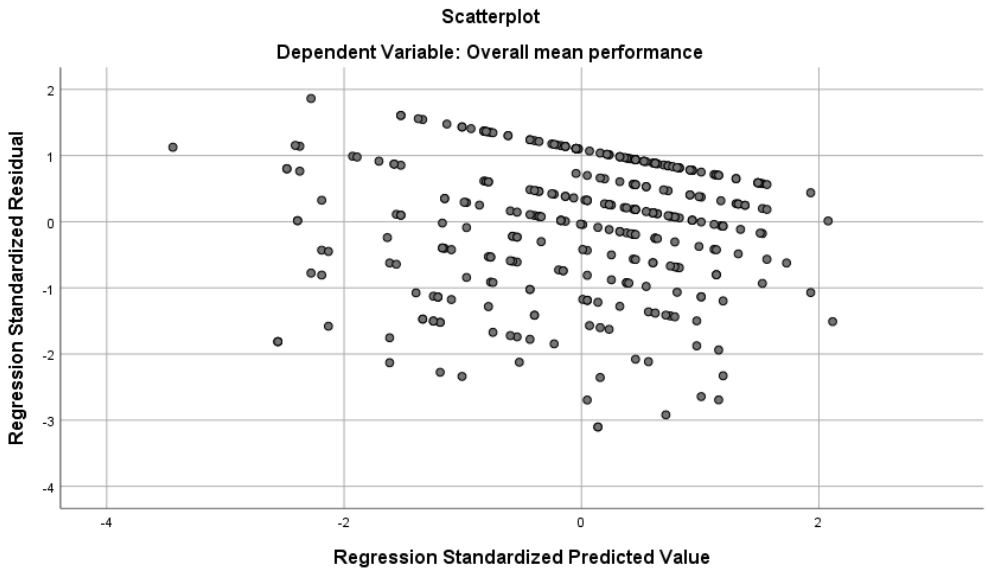


Figure 4.5: Scatterplot for Homoscedasticity Assumption for Regression between Performance and Vertical and Horizontal Diversification Strategies

Given that all the requirements for multiple linear regression were met, a regression model was applied. The summary results in Table 4.13 reveal that the R-Square value is 0.598, indicating that 59.8% of the performance can be interpreted by vertical and horizontal diversification strategies.

Table 4.13: Model Summary for the Regression between related Diversification Strategies and Performance of Star rated Hotels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773[a]	.598	.583	.44200

a. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies

The ANOVA analysis in Table 4.14 reveals a p-value of less than 0.05, suggesting that the regression model, which examines the correlation between horizontal and vertical diversification strategies and the performance of star rated hotels, is highly significant and can be used to predict performance.

Table 4.14: ANOVA Results for the Regression between Related Diversification Strategies and Performance of Star Rated Hotels

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.903	2	3.951	20.225	.000[b]
	Residual	68.573	351	.195		
	Total	76.476	353			

a. Dependent Variable: Performance

b. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies

According to the results displayed in Table 4.15, the regression coefficients reveal that all p-values are below 0.05. As a result, the null hypothesis which states that there is no significant correlation between related diversification strategies and performance among star rated hotels in the Kenyan Coast, has been rejected. This indicates that both horizontal and vertical diversification strategies are statistically significant predictors of performance for star rated hotels in the Kenyan Coast. Additionally, all regression coefficients are positive, suggesting a positive impact of horizontal and vertical diversification strategies on the performance of star rated hotels in the Kenyan Coast. Thus, the regression model for predicting performance based on horizontal and vertical diversification strategies can be expressed as follows:

Performance = 1.977 + 0.232 Horizontal Diversification Strategies + 0.110 Vertical Diversification Strategies.

Table 4.15: Regression Coefficients for Regression Model between Related Diversification Strategies and Performance of Star rated Hotels

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.977	.108		18.272	.000
	Horizontal diversification strategies	.232	.037	.425	6.351	.000
	Vertical diversification strategies	.110	.028	.262	3.914	.000

a. Dependent Variable: Performance

According to the findings of the regression coefficients in Table 4.15, all the coefficients demonstrate significance, as evidenced by their p-values being less than 0.05. This indicates that the performance of star rated hotels in the Kenyan Coast is significantly and positively impacted by the implementation of both horizontal and vertical diversification strategies.

The result is line with Eukeria and Favourate's (2014) research in Zimbabwe's food and beverage industry, the findings indicate that horizontal diversification has a beneficial impact on performance. This is due to its ability to enhance value creation, as evidenced by companies in the sector. By utilizing their distinctive resources, these companies successfully introduced new products, giving them a competitive advantage and leading to increased profitability and market share. The result also concurred with the findings of Safitri *et al.*'s (2023) study in a specific hotel in Indonesia, where they found that horizontal diversification had a positive effect on the hotel's performance by improving its competitiveness.

The performance of star rated hotels in the Kenyan Coast was positively impacted by vertical integration, as found by several studies. These findings are in line with the observations of Guan and Rehme (2012) who stated that companies that opt for vertical integration are able to strengthen their supply chains, reduce production costs,

capture profits from both upstream and downstream activities, and gain access to new distribution channels. Dimou (2004) also asserts that international hotels that choose vertical integration often form hotel chains with large, vertically integrated structures, allowing them to maximize revenues and utilize their assets efficiently. Additionally, Hamilton and Mqasqas (1997) highlight the benefits of vertical integration, such as the provision of profitable alternatives and the avoidance of transaction costs.

4.5 Unrelated Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast.

The second objective evaluated unrelated diversification strategies on organizational performance among star rated hotels in the Kenyan Coast. Respondents indicated the extent to which different unrelated diversification strategies were adopted in star rated hotels in the Kenyan Coast. The results for these responses are as shown in Table 4.16:

Table 4.16: Extent of Adoption of Unrelated Diversification Strategies

	To no extent at all	To a little extent	To some extent	To a large extent	To a very large extent	Mean (std. dev)
Conglomerate Diversification Strategies						
Engaging in new line of products	19 (5.4%)	32 (9.0%)	58 (16.4%)	105 (29.7%)	140 (39.5%)	3.89 (1.18)
Engaging in new line of services	24 (6.8%)	28 (7.9%)	67 (18.9%)	119 (33.6%)	116 (32.8%)	3.78 (1.18)
Offering different products	20 (5.6%)	44 (12.4%)	76 (21.5%)	90 (25.4%)	124 (35.0%)	3.72 (1.22)
Offering different services	25 (7.1%)	38 (10.7%)	77 (21.8%)	94 (26.6%)	120 (33.9%)	3.69 (1.24)
Collaborations Diversification Strategies						
Collaborating with other companies	30 (8.5%)	33 (9.3%)	89 (25.1%)	127 (35.9%)	75 (21.2%)	3.52 (1.17)
N=354						

In order to enhance the understanding of the level of adoption of unrelated diversification strategies among star rated hotels in the Kenyan coast, the study considered a summation 'to no extent at all' and 'to very large extent' as shown in Table 4.16. From the findings, it is clear that (39.5%) and (29.7%) of the respondents indicated that there is engagement in new line of products to a very large extent and to a large extent; 5.4% to no extent at all (mean = 3.89, std. dev = 1.18). The findings also show that (33.6%) and (32.8%) of the respondents indicated that there is engagement in new line of services to a large extent and to a very large extent; (6.8%) indicated to no extent at all (mean = 3.78, std. dev = 1.18). Based on offering different product, 35.0% and 25.4% of the respondents indicated, offering of different products is to a very large extent and to a large extent; (5.6%) indicated to no extent at all (mean = 3.72, std. dev = 1.22). further, (33.9%) and (26.6%) of the respondents opined that offering different services is to a very large extent and to a large extent; (7.1%) indicated to no extent at all (mean = 3.69, std. dev = 1.24). Lastly, adoption of collaborations with other companies was to a large extent as disclosed by (57.1%) of the respondents; (8.5%) indicated to no extent at all (mean = 3.52, std. dev = 1.17).

Responses from the key informants also confirm the presence of unrelated diversification strategies. Majority of the key informants agree on existence of sporting facilities such as gym services, beach sports and indoor games arena among other sporting activities that are paid for by the clients. For instance, Key Informant S27 while supporting sporting activities stated the following:

"The hotel organizes beach sports such as beach volleyball and yacht racing. Sea skiing is also gaining popularity among our clients"

According to Key Informant S2:

"*We have opened an indoor arena for indoor games such as table tennis. In addition to that, we have been organizing beach sports which our clients have fully embraced"*

Key Informant S6 supports sporting activities in terms of health and fitness activities through the following statement:

"The hotel has introduced health and fitness activities such as gymnastics, weight lifting and swimming pool services both for our clients and day visitors"

Key Informant S17 supports sporting activities as shown by the following statement:

"*The hotel has been organizing various water sports such as swimming, sport fishing and other fun games related to water"*

Unrelated diversification strategies were also evident from the key informants in form of gift shops, beauty and boutique business. For instance, Key Informant S3 stated the following:
"*We have opened a gift shop and a boutique specializing on traditional African wear and artifacts"*

Key Informant S11 added the following:
"*We have a gift shop and curio shop dealing with aesthetic products and objects with historic and symbolic meaning in the world"*

Key respondents S13, S19 and S23 demonstrated existence of unrelated diversification in form of beauty products, gift shops, and boutique and curio shops. The following statement by Key Informant S13 demonstrates these forms of unrelated diversification strategies:

"The hotel has engaged hair dressing and cosmetic companies who have attracted more clients for us. We have also opened a gift shop and a pro-shop that are doing well"

Unrelated diversification strategies in form of tour and travel agencies were also evident from the interviews, specifically, Key Informants S9, S17, S24 and S25. According to Key Informant S24:

"The hotel has recently opened a tour and travel agency to serve tourists from as far as the USA, China, Australia and Japan"

According to Key Informant S25, the tour and travel company is advanced as per the following statement:

"*We have opened a tour and travel company which has even been organizing outdoor activities such as mountain climbing and hiking activities"*

Through transformation of variables, the overall extent of adoption of unrelated diversification strategies was determined. This was achieved through the use of the mean and recoding of newly created variables. The findings on the overall extent of adoption of unrelated diversification strategies are as shown in Table 4.17:

Table 4.17: Overall Extent of Adoption of Unrelated Diversification Strategies

Test Item	To no extent at all	To a little extent	To some extent	To a large extent	To a very large extent	Mean (std. dev)
Overall extent of adoption of conglomerate diversification strategies	4 (1.1%)	43 (12.1%)	75 (21.2%)	101 (28.5%)	131 (37.0%)	3.7698 (1.01247)
Overall extent of adoption of collaboration strategies	30 (8.5%)	33 (9.3%)	89 (25.1%)	127 (35.9%)	75 (21.2%)	3.5198 (1.17138)
Overall extent of adoption of unrelated diversification strategies	7 (2.0%)	44 (12.4%)	92 (26.0%)	122 (34.5%)	89 (25.1%)	3.7198 (0.96294)
N=354						

From the transformations in Table 4.17, it can be deduced that (37.0%) and (28.5%) of the respondents were of the opinion that conglomerate diversification strategies have been adopted to a very large extent and to a large extent respectively. The mean 3.77 (std. dev = 1.01) further ascertains that the overall adoption of conglomerate diversification strategies is to a large extent. The transformation also shows that (35.9%) of the respondents were of the opinion that collaboration strategies have been adopted to a large extent; (8.5%) indicated to no extent at all. The findings on the overall adoption of unrelated diversification strategies indicate that (34.5%) of the

respondents were of the opinion that unrelated diversification strategies have been adopted to a large extent with only (2.0%) indicating to no extent at all.

Respondents were further presented with Likert scale items on the influence of unrelated diversification strategies and asked to indicate their level of agreement/disagreement. The findings are as tabulated in Table 4.18.

Table 4.18: The Influence of Unrelated Diversification Strategies on Performance of Star Rated Hotels

Statement	Strongly disagrees	Disagree	Don't know	Agree	Strongly agree	Mean (std. dev)
Introduction of new line of product and service that are not related to the existing product increase daily room occupancy rate.	40 (11.3%)	50 (14.1%)	58 (16.4%)	108 (30.5%)	98 (27.7%)	3.49 (1.33)
Introduction of different product increase guest spending power thus increase sales growth	35 (9.9%)	52 (14.7%)	65 (18.4%)	111 (31.4%)	91 (25.7%)	3.48 (1.29)
Introduction of new line of product and service increases the total revenue achieved per financial year	40 (11.3%)	29 (8.2%)	58 (16.4%)	103 (29.1%)	124 (35.0%)	3.68 (1.33)
Engaging in different product line enhances employees' performance	52 (14.7%)	37 (10.5%)	59 (16.7%)	105 (29.7%)	101 (28.5%)	3.47 (1.38)
Introduction of new line of product and services increase operational efficiency hence improve customer retention	27 (7.6%)	36 (10.2%)	52 (14.7%)	120 (33.9%)	119 (33.6%)	3.76 (1.23)

Introduction of new line of product and service increase the rate of innovativeness per year	59 (16.7%)	43 (12.1%)	55 (15.5%)	98 (27.7%)	99 (28.0%)	3.38 (1.43)
Adopting new line of product and service increase service quality	52 (14.7%)	50 (14.1%)	55 (15.5%)	105 (29.7%)	92 (26.0%)	3.38 (1.39)
Adoption of new line of product and services improve hotel competitiveness	42 (11.9%)	36 (10.2%)	39 (11.0%)	71 (20.1%)	166 (46.9%)	3.80 (1.42)
Collaborations with other hotels or other institutions outside the hotel industry increase occupancy rate.	34 (9.6%)	38 (10.7%)	68 (19.2%)	137 (38.7%)	77 (21.8%)	3.52 (1.22)
Collaborations with other hotels or other institutions outside the hotel industry increase sales growth	29 (8.2%)	24 (6.8%)	66 (18.6%)	134 (37.9%)	101 (28.5%)	3.72 (1.19)
Collaborations with other hotels or other institutions outside the hotel industry increasing the total revenue achieved per year	34 (9.6%)	36 (10.2%)	85 (24.0%)	119 (33.6%)	80 (22.6%)	3.49 (1.22)
Collaborations with other hotels or other institutions outside the hotel industry improve competitiveness	34 (9.6%)	50 (14.1%)	56 (15.8%)	119 (33.6%)	95 (26.8%)	3.54 (1.18)
Collaborations with other hotels or other institutions outside the hotel industry increase employees' performance.	30 (8.5%)	55 (15.5%)	74 (20.9%)	139 (39.3%)	56 (15.8%)	3.38 (1.17)

Collaborations with other hotels or other institutions outside the hotel industry improve operational efficiency thus increase customer retention	31 (8.8%)	41 (11.6%)	63 (17.8%)	153 (43.2%)	66 (18.6%)	3.51 (1.18)
Collaborations with other hotels or other institutions outside the hotel industry increase innovativeness rate.	38 (10.7%)	39 (11.0%)	57 (16.1%)	131 (37.0%)	89 (25.1%)	3.55 (1.27)
Collaborations with other hotels or other institutions outside the hotel industry increase service quality	31 (8.8%)	60 (16.9%)	56 (15.8%)	118 (33.3%)	89 (25.1%)	3.49 (1.27)
N=354						

In order to improve the understanding on the rating of influence of unrelated diversification strategies among star rated hotels in the Kenyan coast, the study used a summation of 'strongly agree' and strongly disagree as shown in Table 4.18. From the findings, it is clear that majority (56.2%) of the respondents being in agreement that introduction of new line of product and service that are not related to the existing product increase daily room occupancy rate (mean = 3.49, std. dev = 1.33). The findings also illustrate that (57.1%) of the respondents being in agreement that introduction of different product increase guest spending power thus increase sales growth (mean = 3.48, std. dev = 1.29). The statement "introduction of new line of product and service increases the total revenue achieved per financial year" has been rated highly with (64.1%) of the respondents were in agreement (mean = 3.68, std. dev = 1.33).

It is also worth noting from the findings in Table 4.18 that (58.2%) of the respondents were in agreement that engaging in different product line enhances employees' performance (mean = 3.47, std. dev = 1.38). Additionally, it is evident from the results

is that (67.5%) of the respondents agreed and strongly agreed that introduction of new line of product and services increase operational efficiency hence improve customer retention (mean = 3.76, std. dev = 1.23).

Cumulatively, (55.7%) of the respondents agreed that introduction of new line of product and service increase the rate of innovativeness per year (mean = 3.38, std. dev = 1.43). Consequently, a total of (55.7%) of the respondents were in agreement that adopting new line of product and service increase service quality (mean = 3.38, std. dev = 1.39). Moreover, (67.0%) of the respondents were in agreement that adoption of new line of product and services improve hotel competitiveness (mean = 3.80, std. dev = 1.42).

Further, the finding shows that (60.5%) of the participants were in agreement that collaborations with other hotels or other institutions outside the hotel industry increase occupancy rate (mean = 3.52, std. dev = 1.22). from the findings, it was also established that (66.4%) of the respondents were in agreement that collaborations with other hotels or other institutions outside the hotel industry increase sales growth (mean = 3.72, std. dev = 1.19). In total, (56.2%) of the total participants were in agreement that collaborations with other hotels or other institutions outside the hotel industry increasing the total revenue achieved per year (mean = 3.49, std. dev = 1.22). The statement "Collaborations with other hotels or other institutions outside the hotel industry improve competitiveness" majority with (60.4%) of the respondents being in agreement (mean = 3.54, std. dev = 1.18). According to the results, (60.2%) of the respondents were in agreement that collaborations with other hotels or other institutions outside the hotel industry increase employees' performance (mean = 3.38, std. dev = 1.17). A combined total of (61.8%) of the respondents were in agreement that collaborations with other hotels or other institutions outside the hotel industry improve operational efficiency thus increase customer retention (mean = 3.51, std. dev = 1.18). Evident from the results is that (62.1%) of the respondents were in agreement that collaborations with other hotels or other institutions outside the hotel industry increase innovativeness rate (mean = 3.55, std. dev = 1.27). Lastly, (58.4%) of the respondents were in agreement that collaborations with other hotels or other institutions outside the hotel industry increase service quality (mean = 3.49, std. dev = 1.27).

It is also evident from the interviews that unrelated diversification strategies have an effect on both financial and non-financial performance of star rated hotels in the Kenyan Coast. For instance, Key Informant 7 was of the opinion:

"*Organizing sports activities has increased the revenue for the hotel. In addition to providing extra revenue, clients seeking these sporting facilities buy our other products such as food and beverages from the hotel. Room occupancy rate has also been on the rise"*

According to Key Informant 13:
"*The gift shop has been doing well and has been generating more revenue for the hotel"*

While supporting effect of sporting activities on revenue, Key Informant S19 demonstrated that:

"*During the beach sports, there is an increase in bed nights which results to an increase in sales"*

Key Informant S29 supports increase in revenue due to unrelated diversification by stating that:

"We engage sports clubs dealing in water and beach sports who pay us rent for the facilities advanced. During the sports days, more customers come in as fans which increases sales of our products"

Unrelated diversification also had an effect on non-financial performance. Key Informant S6 opined the following:

"Introduction of health and fitness activities in addition to water sports enhances customer experience. Customer loyalty is improved. During such activities, our staffs become innovative so as to tap those participating in the sports activities"
Key Informant 6 adds the following:

"*The health and fitness facilities have also enhanced the competitiveness of this hotel"* Unrelated diversification also enhances customer loyalty and competitiveness of the hotels. This is based on the following statement by key informant S26 who noted the following:

"*Through sporting facilities, there are repeat guest visits due to enhanced customers' experience. The hotel also has a competitive edge over its close competitors in the neighbourhood"*

These findings concur with Lichtenthaler (2005) who stated that unrelated diversification involves the company engaging in business activities outside its core mandate, which can lead to superior performance. Further, Sun and Govind (2017) noted that unrelated diversification strategies enhance firm strength through dynamic capacity and enhancing a firm's competitive advantage. Profitability of a firm is also increased through increased revenue from the new line of products and improved internal capital efficiency (Harjito *et al.*, 2021).

In a study conducted in India by Mishra and Akbar (2007), unrelated diversification has no impact on financial performance of a company. This contradicts the findings of this study. However, Mishra and Akbar (2007) found that unrelated diversification strategies are beneficial on the non-financial aspects such as competitiveness of the firm; customer loyalty is also enhanced. According to Rishi *et al.*, (2014), firms engaging in unrelated diversification are likely to collect more revenue and increase their tangible assets as compared to those that do not.

Significance of the Relationship between Unrelated Diversification Strategies and Performance among Star Rated hotels in the Kenyan coast.

Multiple linear regression was utilized to fit a regression model for the relationship between conglomerate and collaboration diversification strategies with performance of star rated hotels in the Kenyan Coast. Diagnostic tests were conducted to ensure that assumptions of multiple linear regression were fulfilled. The p-value for ANOVA linearity test are all greater than 0.05 (see Table 4.19). The null hypothesis, "There is deviation from linearity" is rejected for the linearity assumption between performance

and conglomerate and performance and collaboration diversification strategies. The linearity assumption is therefore fulfilled as shown in Table 4.19.

Table 4.19: ANOVA Linearity Test for the Regression between Performance and Conglomerate and Collaboration Diversification Strategies

			Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Performance Conglomerate	*Between Groups	(Combined)	12.629	15	.842	2.116	.009
		Linearity	4.431	1	4.431	11.133	.001
		Deviation from Linearity	**8.197**	**14**	**.586**	**1.472**	**.119**
	Within Groups		63.847	338	.398		
	Total		76.476	353			
Performance Collaboration	*Between Groups	(Combined)	3.247	4	.812	3.869	.004
		Linearity	1.595	1	1.595	7.601	.006
		Deviation from Linearity	**1.652**	**3**	**.551**	**2.624**	**.054**
	Within Groups		73.229	349	.210		
	Total		76.476	353			

Normality assumption was tested using a normal P-P plot in Figure 4.6. The plots seem to lie along/close to the assumed diagonal line. Normality assumption is therefore fulfilled.

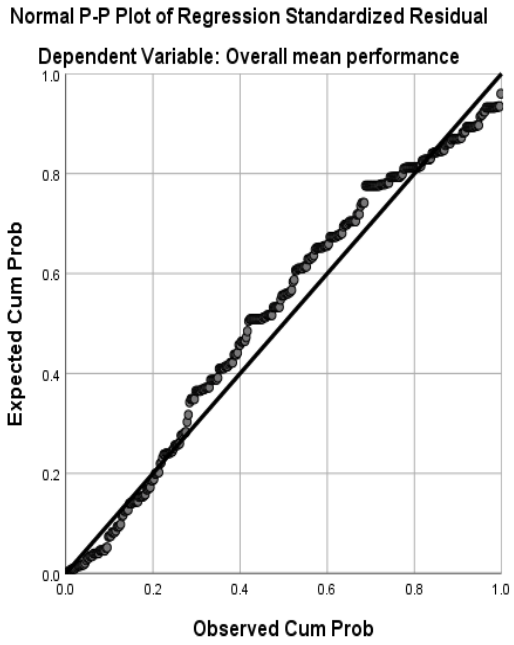


Figure 4.6: Normal P-P Plot for Normality Assumption Test for the Regression between Performance and Conglomerate and Collaboration Diversification Strategies

No multicollinearity assumption was tested using VIF values. All the VIF values fell below 5 (see Table 4.20). Therefore, no multicollinearity assumption was fulfilled.

Table 4.20: VIF Values for No Multicollinearity Assumption for Regression between Performance and Conglomerate and Collaboration Diversification Strategies

		Collinearity Statistics	
Model		**Tolerance**	**VIF**
1	(Constant)		
	Conglomerate	.675	1.481
	Collaboration	.675	1.481

The homoscedasticity assumption is fulfilled since the scatterplot in Figure 4.7 demonstrates no pattern while the plots are distributed evenly across the zero (0) mark.

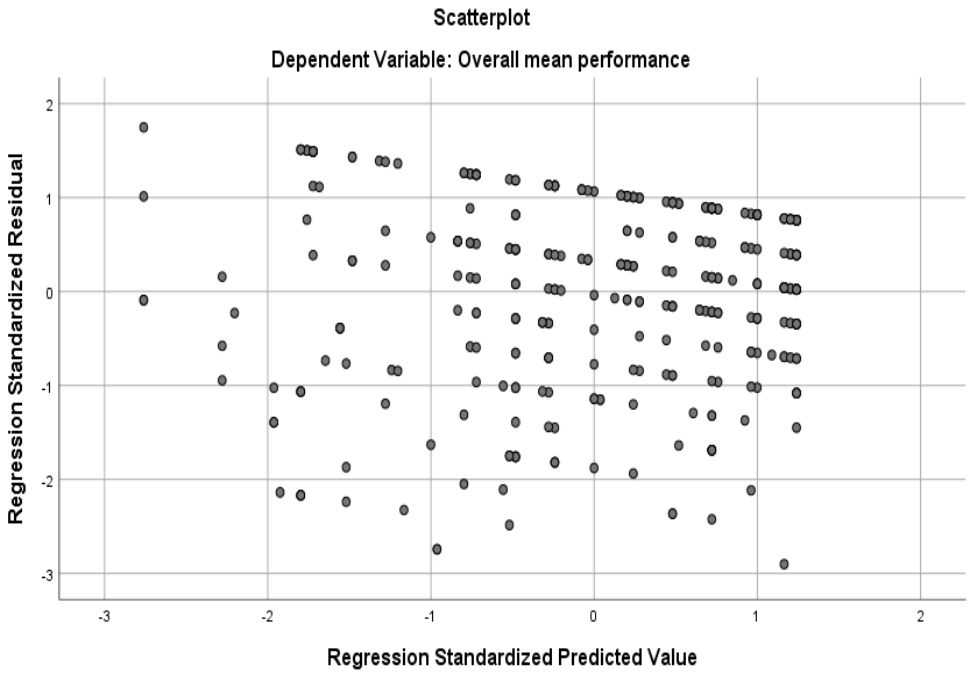


Figure 4.7: Scatterplot for Homoscedasticity Assumption for Regression between Performance and Conglomerate and Collaboration Diversification Strategies

Since all the assumptions were fulfilled, the regression model for the relationship between performance with conglomerate and collaboration diversification strategies was fitted. The model summary results in Table 4.21 show that R-Square=0.558; this means that 55.8% of performance is explained by conglomerate and collaboration diversification strategies. Additionally, R-square and adjusted R-square were almost of the same value implying that the model is properly defined. Consequently, 44.2% of the variation in performance is still unexplained thus adding other independent variables could improve the fit of the model.

Table 4.21: Model Summary for the Regression between Unrelated Diversification Strategies and Performance of Star Rated Hotels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.558	.553	.45303

a. Predictors: (Constant), collaboration, conglomerate

The ANOVA results in Table 4.22 demonstrate that p-value < 0.00001; therefore, the regression model for predicting performance from conglomerate and collaboration diversification strategies is significant.

Table 4.22: ANOVA Results for the Regression between Unrelated Diversification Strategies and Performance of Star Rated Hotels

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.437	2	2.219	10.810	.000[b]
	Residual	72.039	351	.205		
	Total	76.476	353			

a. Dependent Variable: performance

b. Predictors: (Constant), collaboration, conglomerate

The regression coefficients result in Table 4.23 show that conglomerate diversification strategies (p-value < 0.00001) and collaboration diversification strategies (p-value = 0.031) are significant predictors of performance of star rated hotels in the Kenyan Coast. The null hypothesis stating, "There is no significant relationship between unrelated diversification strategies and performance among star rated hotels in the Kenyan Coast" was therefore rejected. The regression coefficients are positive indicating that collaboration and conglomerate diversification strategies have a positive effect on performance of star rated hotels in the Kenyan Coast. The regression model for this relationship is presented as:

Performance = 2.096 + 0.108 Conglomerate Diversification Strategies + 0.124 Collaboration Diversification Strategies

Table 4.23: Regression Coefficients for the Regression Model between Unrelated Diversification Strategies and Performance of Star rated Hotels

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	2.096	.096		21.720	.000
	Conglomerate	.108	.029	.235	3.721	.000
	Collaboration	.124	.025	.131	2.170	.031

a. Dependent Variable: Overall mean performance

The findings are in agreement with Shuhidan *et al.,* (2016) who demonstrated through regression analysis that unrelated diversification positively affects the financial performance of a firm. However, Zheng and Tsai (2019) contradict these findings and demonstrate a negative relationship between unrelated diversification and firm performance. Deng *et al.,* (2012) also contradict the findings of the study by revealing a negative relationship between unrelated diversification and financial performance. According to Lee (2017), unrelated diversification has a negative relationship with performance since the additional costs incurred during diversification exceed its benefits. However, Neffke *et al*., (2018) noted that unrelated diversification might be advantageous especially when a firm has attained optimum levels in its current activities and is facing erosion. The new markets may guarantee new and additional earnings for the firm.

4.6 Factors Determining Selection of Diversification Strategies among Star Rated Hotels in the Kenyan Coast.

The third objective evaluated the factors that determine selection of diversification strategies among star rated hotels in the Kenyan Coast. Respondents were presented with Liker scale statements where they were required to indicate their acceptance level on the factor as a determinant of diversification strategies. The results are tabulated in Table 4.24.

Table 4.24: Factors Affecting Diversification Strategies among Star Rated Hotels

Test Item	Strongly don't accept	Don't accept	Don't know	Accept	Strongly accept	Mean (std. dev)
Attractiveness of the market may inform the decision of the organization on which diversification strategy to employ	29 (8.2%)	35 (9.9%)	41 (11.6%)	121 (34.2%)	128 (36.2%)	3.80 (1.26)
Resource availability such as finances and workforce will determine the type of diversification strategy adopted by this hotel	8 (2.3%)	17 (4.8%)	46 (13.0%)	115 (32.5%)	168 (47.5%)	4.18 (0.98)
Accessibility to distribution channels is an important factor to consider when choosing the type of diversification strategy in this hotel	34 (9.6%)	29 (8.2%)	40 (11.3%)	128 (36.2%)	123 (34.7%)	3.78 (1.27)
Organization environment is a core element in deciding which diversification strategy to apply in this hotel	25 (7.1%)	31 (8.8%)	54 (15.3%)	107 (30.2%)	137 (38.7%)	3.85 (1.23)
Organizational culture such as values, standards and norms is a key determinant of the type of diversification strategy this hotel adopts	29 (8.2%)	39 (11.0%)	40 (11.3%)	94 (26.6%)	152 (42.9%)	3.85 (1.30)
Government regulatory policies is an important determinant when it comes to selection of the type of diversification strategies	40 (11.3%)	61 (17.2%)	32 (9.0%)	68 (19.2%)	153 (43.2%)	3.66 (1.46)
N=354						

In order to enhance the level of understanding of the factors determining diversification strategies among star rated hotels, the study used a summation 'strongly don't accept' and 'strongly accept' as per Table 4.24. From the findings, it

was clear that most of the respondents (70.4%) strongly accepted and accepted indicated that attractiveness of the market may inform the decision of the organization on which diversification strategy to employ (mean = 3.80, std. dev = 1.26). It is also evident that (80.0%) of the respondents who strongly accepted and accepted, resource availability such as finances and workforce will determine the type of diversification strategy adopted by this hotel (mean = 4.18, std. dev = 0.98).The findings further indicated that (70.9%) of the respondents accepted and strongly accepted that accessibility to distribution channels is an important factor to consider when choosing the type of diversification strategy in this hotel (mean = 3.78, std. dev = 1.27).

Based on the environment, (68.9%) of the respondents who strongly accepted and accepted that organization environment is a core element in deciding which diversification strategy to apply in this hotel (mean = 3.85, std. dev = 1.23). Consequently, the findings further revealed that (69.5%) of the respondents were in acceptance that organizational culture such as values, standards and norms is a key determinant of the type of diversification strategy this hotel adopts (mean = 3.85, std. dev = 1.30). Lastly, 62.4% of the respondents strongly accepted and accepted that government regulatory policies are important determinant when it comes to selection of the type of diversification strategies (mean = 3.66, std. dev = 1.46).

The respondents were also required to indicate other factors they felt the management of the respective hotels considers when selecting type of diversification strategies to employ. Being an open-ended question, the study created different themes based on how responses were associated. Among the most common factors that were added to influence selection of diversification strategies are shown in Table 4.25:

Table 4.25: Additional Factors Affecting Diversification Strategies among Star Rated Hotels

	Frequency	Percent (%)
Additional Factor		
Profitability factor	9	10.11
Risk level	6	6.74
Management **capabilities**	7	7.87
Revenue to be generated	9	10.11
Impact on employees	3	3.37
Brand identity	15	16.85
Human resource personnel	15	16.85
Potential benefits	5	5.62
Conflict avoidance	2	2.25
Customer service	7	7.87
Defensive diversification	6	6.74
Offensive diversification	5	5.62

Brand identity (16.85%), human resource personnel availability (16.85%), profitability factor (10.11%), revenue to be generated (10.11%) were highly rated by the respondents as integral factors in determining diversification strategies. On the other hand, conflict avoidance (2.25%), impact on employees (3.37%), potential benefits (5.62%) and offensive diversification (5.62%) were least rated as determinants of diversification strategies deployed by hotels.

Majority of the key informants express that resources availability play a significant role in determining the selection of diversification strategies.

For instance, Key Informant S13 was of the opinion that:
"*The hotel's management considers resources available such as financial and human resources to steer the diversification process"*
Key Informant 16 also supported resource availability through the following statement:

"*Diversification comes with initial cost implications. The management therefore has to consider whether resources are available to meet the cost implications of diversification"*

Resource factor is also noted by Key Informant S9 who claims that:
"*Some of the diversification strategies require approval and certifications from government agencies such as Competition Authority of Kenya. Other strategies such as mergers and acquisitions require legal fees and the company acquiring the other must pay the acquisition fee. This charges and fees have to be available for diversification to be successful"*

For Key Informant S5, resources play a key role in determining the selection of diversification strategy by hotels. This follows from the following claim:
"*Before undertaking any form of diversification, the hotel considers its financial ability, staff availability and ability to meet legal fees and government charges"*

Also notable from the findings is that market demand also plays a role in determining selection of diversification strategies by hotels. This is notable from several key informants. For example, Key Informant S4 is of the opinion that:

"*Before selecting any diversification strategy we must consider the demands by customers, their needs and preferences. This is determined through customer surveys"*
According to Key Informant S26:

"*We normally consider who our target market and what they need. Their demand is what guides on which diversification strategy to adopt"*

While in support of market demand, Key Informant S13 states the following:
"The demand of the product or service plays a role in selecting diversification strategy. When the demand is high, the market is considered viable and the diversification process is adopted"

Environmental factors are also evident from the interviews to be determinants of the selection of diversification strategy. Environmental factors in this case refer to social, economic and political stability. For Key Informant S18:

"*We also consider political stability of a given area and sector. Areas and sectors that are politically volatile are a no go zone for our company"*
According to Key Informant S6:

"Environmental factors such as economic factors and political stability are considered when entering into other business ventures. For economic factors, issues such as interest rates and exchange rates play a significant role since diversification is capital intensive and the hotel is reliant on loans from local and international lenders"
According to Key Informant S6, social, political and economic factors are considered when diversifying. This is guided by the response:

"Political, social and economic factors are considerations by this hotel when diversifying. The economy and politics must depict stability. Social factors consider the surrounding population, their religion and culture. Business activities should conform to a larger portion of their culture and religion since we consider then as our first customers"

From the interviews conducted, organizational policy and culture were also notable considerations when selecting diversification strategies to be adopted by hotels. According to Key Informant S12:

"*It is a policy in this organization that all its products must be environmental friendly. Diversification strategy selected must therefore adhere to this policy"*
Key Informant S4 adds that:

"*This hotel has a policy on diversification that must be followed. Diversification adopted should be in the line of hotel management, hospitality and tourism"*
Respondent S12 while supporting the importance of organizational policy in selecting diversification strategies by the hotels noted that:

"*The hotel's policy is on providing products that are customer friendly. For instance, the food products should be bio-based. When collaborating with suppliers, they should follow this policy and supply bio-based supplies for use in our hotel"*

The interviews also noted that government policies are considered when selecting diversification strategies by hotels. For instance, this is notable from Key Informant S39 who claimed that:

"*The laws set by the government determine selection of diversification strategy. For example, there are laws on mergers and acquisitions that we consider when diversifying. Government policies on fair competition are also considered when choosing a diversification strategy"*

For Key Informant S14, government policy significantly determines selection of diversification strategies by hotels. This is demonstrated by the comment:
"*There are consumer protection laws by the government that we consider when deciding on water sports activities to engage into. Some require trained professionals whom we have to hire before venturing into it. In cases where we have no capacity to hire the professionals, we partner with firms that specialize in such sporting activities"*
The interviews also demonstrated that financial factors such as profitability and sales/revenue growth are other considerations by hotels in selecting diversification strategies. According to Key Informant S28 who supported profitability and sales growth as considerations:

"The diversification strategy must drive up the sales for existing services and products. The profitability of the new venture is also considered"
For Key Informant S8:
"*The hotel considers whether the diversification business venture will bring in more customers and help improve the sales of the current products"*
Key Informant 1 was in support of revenue and profit targets set by the shareholders from the following comment:

"*When choosing a venture for diversification, the management ensures that the venture will enable the hotel meet sales and profit targets that the shareholders have set for us"*
Another notable consideration was competitiveness of the hotel. For example, Key Informant S11 stated that: "*The firm considers whether the diversification strategy*

will enhance the hotel's competitive advantage over our competitors. When choosing a diversification strategy, the hotel must ensure that it is unique as compared to our main competitors"

The following opinion by Key Informant S7 also confirms that competitiveness is also a consideration:
"The choice of water sports activities, fitness and health center was made after considerations that our competitors do not offer such products which are in high demand. The fact that they would ensure we are competitive made us diversify into them"

The findings support those of other scholars such as Bergh and Holbein (1997) who noted that diversification strategy chosen should be based on financial factors or perceived financial benefits to the organization such as cost reduction, profitability and revenue growth. This is further noted by Mintzberg *et al.*, (1996), Brewer (2001) and Sakarya *et al.,* (2007) who noted that industry or market attractiveness determine diversification strategy choice. Specifically, market attractiveness in terms of sales and profit quantities that can be obtained upon entry into a market and during the entire presence of the hotel in that market can propel a firm into venturing that route.
The findings on resources availability are also in alignment with Baptista *et al.,* (2020) who indicated that availability of resources such as labour and financial resources determine the type of diversification adopted by an organization. Hotels bringing new products to the market must ensure that they are able to meet the diversification cost. Further, they must consider the market entry costs before embarking on any process of diversification. Some diversification strategies require significant initial capital and highly trained professionals which come with very high cost that the hotels should be able to meet.

From the findings of the study as per Table 4.25, (43.2%) indicated that diversification decisions are also informed by government regulatory policies. This is also the findings in Cherif *et al.,* (2022) who demonstrated that the government has the ultimate guidelines and wisdom on diversification. Through its regulations, laws and policies, the government can limit or de-limit hotels against venturing into a certain sector. Further, the study also found that organizational policy and culture have an

effect on diversification strategy choice. This agreed with Betz (2016) who stated that company values, norms and standards are important factors in diversification. When an organization's culture is supportive of a certain path, then diversification through such channels is successive.

4.7 The Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast.

The fourth objective evaluated the moderating effect of government policies and regulations on the relationship between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast. These findings were presented in the following sections;

4.7.1 Extent to which Government policies and Regulations effect the choice of Diversification strategy.

Respondents were presented with different government policies and required to give their opinion on the extent to which they affect the choice of diversification strategy in the hotel sector. The results are as tabulated in Table 4.26:

Table 4.26: Extent to which Specific Government Policies and Regulations affect Choice of Diversification Strategy

	To no extent at all	To a little extent	To some extent	To a great extent	To a very great extent	Mean (std. dev)
Customer protection laws and regulations	27 (7.6%)	42 (11.9%)	42 (11.9%)	141 (39.8%)	102 (28.8%)	3.70 (1.21)
Tax incentives, laws and policies	20 (5.6%)	39 (11.0%)	49 (13.8%)	113 (31.9%)	133 (37.6%)	3.85 (1.20)
Labour laws and regulations	33 (9.3%)	42 (11.9%)	68 (19.2%)	109 (30.8%)	102 (28.8%)	3.58 (1.27)
Laws on mergers and acquisitions	33 (9.3%)	49 (13.8%)	79 (22.3%)	122 (34.5%)	71 (20.1%)	3.42 (1.22)
Government subsidies	35 (9.9%)	38 (10.7%)	74 (20.9%)	82 (23.2%)	125 (35.3%)	3.63 (1.32)
Competition laws and regulations	41 (11.6%)	54 (15.3%)	66 (18.6%)	112 (31.6%)	81 (22.9%)	3.39 (1.30)
Monetary and credit policies	48 (13.6%)	42 (11.9%)	85 (24.0%)	111 (31.4%)	68 (19.2%)	3.31 (1.29)
N=354						

According to the result in Table 4.26, (68.6%) of the respondents indicated that customer protection laws and regulations affect the choice of diversification strategy to a great and very great extent (mean = 3.70, std. dev = 1.21). Additionally, (37.6%) and (31.9%) of the respondents indicated tax incentives, laws and policies affect choice of diversification strategy to a very great extent and great extent respectively (mean = 3.85, std. dev = 1.20). The findings further illustrated that (30.8%) and (28.8%) of the respondents opined that labour laws and regulations affect choice of diversification strategy to a great extent and very great extent (mean = 3.58, std. dev = 1.27). A total of (54.6%) of the respondents indicated that laws on mergers and

acquisitions affected choice of diversification strategy to a great and very great extent (mean = 3.42, std. dev = 1.22).

Cumulatively, (58.5%) of the respondents were of the opinion that government subsidies affect choice of diversification strategy to a great and very great extent (mean = 3.63, std. dev = 1.32). The findings also show that (31.6%) and (22.9%) of the participants were of the opinion that competition laws and regulations affect choice of diversification strategy to a great and very great extent (mean = 3.39, std. dev = 1.30). In total, (50.6%) of the respondents indicated that monetary and credit policies affect choice of diversification strategy to a great and very great extent (mean = 3.31, std. dev = 1.29).

The interviews revealed that various government policies and regulations have a significant impact on diversification. These include taxation policies, government laws and regulations on labour, customer protection, licensing and permits, subsidies, environmental laws, and the health and safety of both customers and workers, as noted by the majority of the interviewees. For example, Key Informant 14 noted this on taxation:

"During mergers/acquisitions, the government charges some tax that has an effect on the overall cost of the merger or acquisition. If this cost surpasses the budget of the hotel, this hinders us from the entire process"

According to Key Informant 2:

"Some of the sectors have multiple taxes which is a hindrance to us investing there"

According to Key Informant 5, taxation on some products has been high which has made it costly for the hotel to fully exploit the sector. This is notable from the following comment:

"*There have been very high taxes on imported gym equipment, Spa facilities and water sports equipment. This has always made it difficult and expensive for the hotel to invest fully in those sectors"*

Another notable government policy from the interviews was licensing/permits. For instance, Key Informant 1 was of the following opinion:

"*The hotel sector demands licenses and permits for different sections such as liquor licenses, bar licenses, health permits and county council permits among others. Diversifying also requires extra permits and licensing which are at times difficult to acquire"*

For Key Informant S16, licensing and permits have been hindrances for diversification:
"*Diversification requires engaging other government agencies apart from those regulating the hotel sector. The agencies have their own set of regulations and demand special permits and licenses for authorization of operations. This comes at an extra cost for the company"*

Government policies noted from the interviews also included health and safety laws for the customers and workers. For example, the following response by Key Informant S21 emphasizes on this point:
"*Diversification on water sports requires that we fulfill some safety regulations such as having life savers and divers in place. This has hindered us from fully exploiting a variety of beach sports available. We limit our diversification in water sports to those activities with less strict safety regulations"*

Further, Key Informant S21 adds the following on safety and health of employees and customers:
"*Diversifying into sectors such as bakery and juice production requires special inspection to ensure the products are safe for consumption and the production process ensures the safety of the employees. In our bakery, we are supposed to adhere to Kenya Bureau of Standards regulations before the products are passed over to the consumers"*

Other government policies affecting diversification as noted from the interviews included environmental laws. According to Key Informant S10:
"*Diversifying into tours, travel and camping requires that environmental conservation during the camps. Some camp sites are deep into game reserves and we are required to observe issues such as noise pollution and damaging the natural forests for the wildlife"*

Government subsidies were also notable from the interviews. For instance, Key Informant S5 stated that:

"*Government through the ministry of tourism has been aiming at diversifying products and services in the tourism sector. There are subsidies for the hotels when they engage into tourism related sectors such wildlife conservation"*

Key Informant S24 added that:

"*Government has been subsidizing on items related to the tourism sector such as camping tents and equipment which encourages us to venture into that area"*

Also notable from the interviews were government policies on competition laws, which demands for fair competition practices. Key Informant S28 while emphasizing on how competition laws have played a major part in diversification stated the following:

"When entering into mergers and acquisitions, it is a requirement that the acquisition/merger should ensure that there is fair ground for other players to carry on with their trade. For example, mergers involving a hotel and a tour company should ensure other hotels not engaged in the merger are not unfairly deprived of their customers through unfair pricing practices"

Through Likert scale responses, respondents indicated their opinion on the extent government policies and regulations affect diversification strategies and organizational performance. The results are tabulated in Table 4.27.

Table 4.27: The Effect of Government Policies and Regulations on Choice of Diversification Strategy

	Strongly don't believe	Don't believe	Neutral	Believe	Strongly believe	Mean (std. dev)
Legal framework hinder development of a product/service which in turn influences performance of the hotel	35 (9.9%)	56 (15.8%)	44 (12.4%)	99 (28.0%)	120 (33.9%)	3.60 (1.35)
Tax incentives, laws and policies have an effect on the development of new product line which in turn influence the overall performance of the hotel	46 (13.0%)	47 (13.3%)	77 (21.8%)	70 (19.8%)	114 (32.2%)	3.45 (1.39)
Labour laws and regulations can affect the hotel in undertaking mergers and acquisitions thus affecting performance	36 (10.2%)	63 (17.8%)	62 (17.5%)	94 (26.6%)	99 (28.0%)	3.44 (1.33)
Customer protection laws and regulations affect development of new products/services thus hindering performance of the hotel	32 (9.0%)	56 (15.8%)	67 (18.9%)	134 (37.9%)	65 (18.4%)	3.41 (1.21)
Competition laws and regulations have an effect on mergers and acquisitions in addition to new product/service development thus hindering the overall hotel performance	34 (9.6%)	67 (18.9%)	67 (18.9%)	124 (35.0%)	62 (17.5%)	3.32 (1.24)

Monetary and credit policies influence hotel's access to financial resources for diversification which in turn influences the overall hotel performance N=354	28 (7.9%)	58 (16.4%)	79 (22.3%)	116 (32.8%)	73 (20.6%)	3.42 (1.21)

Table 4.27 show the results of respondents' opinion on the extent to which specific government policies and regulations affect the choice of diversification strategy to be adopted. From the findings, majority (61.9%) of the respondents indicated to a great extent and to a very great extent legal framework hinders development of a product/service which in turn influences performance of the hotel (mean = 3.60, std. dev = 1.35). The findings also show that (52.0%) of the respondents opined to great extent and to very great extent tax incentives, laws and policies have an effect on the development of new product line which in turn influences the overall performance of the hotel (mean = 3.45, std. dev = 1.39). In total, (54.6%) of the respondents believed that to great and to very great extent labour laws and regulations can affect the hotel in undertaking mergers and acquisitions thus affecting performance (mean = 3.44, std. dev = 1.33).

The statement "Customer protection laws and regulations affect development of new products/services thus hindering performance of the hotel" had a total of (56.3%) who were in believed to great extent (mean = 3.41, std. dev = 1.21). Further, the statement "Competition laws and regulations have an effect on mergers and acquisitions in addition to new product/service development thus hindering the overall hotel performance" had 52.5% who believed (mean = 3.32, std. dev = 1.24). Also notable was that (53.4%) of the respondents indicated to great extent and to very great extent credit policies influence hotel's access to financial resources for diversification which in turn influences the overall hotel performance (mean = 3.42, std. dev = 1.21).

It is evident from the findings that government plays a major role in ensuring that all operations of a business are conducted within the confines of law. Through government policies such as consumer protection policies and tax policies, investment

is incentivized. Government policies also affect investment decisions and hiring practices thus influencing diversification strategies. According to Rasool *et al.,* (2021), the costs of conducting business are significantly influenced by government policies such as taxation, laws, regulations, subsidies, and infrastructure development, which in turn can impact the opportunities and competitiveness of the market. These factors can also play a crucial role in determining the appropriate diversification strategy. The study by Rasool *et al.,* (2021) also highlights the impact of government policies and regulations on the overall direction of an industry, both at a national and international level, and how it can affect the relationship between different sectors.
The findings of the study are in line with Omar et al., (2009), who emphasized on the importance of favorable legal and regulatory frameworks in creating investment opportunities. Similarly, Amran and Mwasiaji (2019) suggest that favorable laws can promote diversification opportunities. Luiz and Mariotti (2011) also point out that government policies and regulations can either nurture or hinder business growth. However, as noted by Chen and Subprasom (2007), excessive legal and regulatory frameworks can impede diversification, especially if they are not efficiently streamlined. Notably, excessive laws, as highlighted by Fonseca et al., (2007), can be a major source of stress for entrepreneurs looking to expand their businesses.

The findings on competition laws agree with Amran and Mwasiaji (2019) who noted that there should be laws to protect micro and small enterprises from exploitation by large companies. If the existing laws and legal framework supports too much liberalization of the large enterprises at the expense of SMEs, then it proves difficult for SME companies to undertake diversification. Further, the findings on subsidies and tax laws and policies agree with (Argyropoulou, 2022) tax holidays and exemptions, special tax structures and subsidized infrastructure and equipment can attract investors in a given sector. Well-targeted tax incentives and subsidies can reduce the cost of capital and the cost of doing business thus encouraging investment (Cherif *et al.,* 2022).

4.7.2 Regression Model for the Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Performance of Star Rated Hotels in the Kenyan Coast.

The moderating variable was added into the regression model to evaluate if the prediction ability of the regression model improved on addition of the moderating variable. The model summary results in Table 4.28 showed that R-Square value improves (from 0.598 to 0.617) when the moderating variable (Government policies and regulations) was added to the regression model. This means that government policies and regulations improve the relationship between related diversification strategies and performance of star rated hotels in the Kenyan Coast.

Table 4.28: Model Summary Results for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773[a]	.598	.583	.44200
2	.785[b]	.617	.598	.41314

a. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies

b. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies, Government Policies and Regulations

According to the ANOVA results presented in Table 4.28, the significance of the regression model is evident in both situations (with and without the moderating variable), as all p-values are below 0.05.

Table 4.29: ANOVA Results with and Without a Moderating Variable on the Effect of Related Diversification Strategies on Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.903	2	3.951	20.225	.000[b]
	Residual	68.573	351	.195		
	Total	76.476	353			
2	Regression	16.737	3	5.579	32.685	.000[c]
	Residual	59.739	350	.171		
	Total	76.476	353			

a. Dependent Variable: Performance

b. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies

c. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies, Government Policies and Regulations

The results in Table 4.29, the regression coefficients indicate that all the p-value are lower than 0.05. This suggests that government policies and regulations play a crucial role in moderating the impact of horizontal and vertical diversification strategies on the performance of star rated hotels in the Kenyan Coast.

The null hypothesis stating, "Government policies and regulations do not have a statistically significant moderating effect on the relationship between horizontal and vertical diversification strategies with performance of star rated hotels in the Kenyan *Coast"* was therefore rejected. The new regression model that includes the moderating variable is presented as:

Performance= 1.578 + 0.153 Horizontal Diversification Strategies + 0.127 Vertical Diversification Strategies + 0.213 Government Policies and Regulations

Table 4.30: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance of Star Rated Hotels

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.977	.108		18.272	.000
	Horizontal diversification strategies	.232	.037	.425	6.351	.000
	Vertical diversification strategies	.110	.028	.262	3.914	.000
2	(Constant)	1.578	.115		13.683	.000
	Horizontal diversification strategies	.153	.036	.280	4.251	.000
	Vertical diversification strategies	.127	.026	.302	4.813	.000
	Government Policies and Regulations	.213	.030	.382	7.194	.000

a. Dependent Variable: Performance

Model 1: Government policies and regulations is excluded

4.7.3 Moderating Effect of Government Policies and Regulations on the Relationship between Unrelated Diversification Strategies and Performance

The data as per Table 4.31 of the model summary demonstrates that the R-Square value increases from 0.558 to 0.670 when the moderating variable is included, indicating that the moderating variable enhances the correlation between unrelated diversification strategies and performance.

Table 4.31: Model Summary Results on the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification Strategies on Performance of Star rated Hotels

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.558	.553	.45303
2	.820[b]	.670	.613	.42582

a. Predictors: (Constant), collaboration, conglomerate

b. Predictors: (Constant), collaboration, conglomerate, Government Policies and Regulations

According to the ANOVA findings presented in Table 4.32, both regression models, including and excluding the moderating variable, exhibit significance in predicting the performance of star rated hotels along the Kenyan Coast. This is evident from the p-values, which are all lower than 0.05.

Table 4.32: ANOVA Results with and Without a Moderating Variable for the relationship between Unrelated Diversification and Performance of Star Rated Hotels

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.437	2	2.219	10.810	.000[b]
	Residual	72.039	351	.205		
	Total	76.476	353			
2	Regression	13.012	3	4.337	23.920	.000[c]
	Residual	63.464	350	.181		
	Total	76.476	353			

a. Dependent Variable: Performance

b. Predictors: (Constant), collaboration, conglomerate

c. Predictors: (Constant), collaboration, conglomerate, Government Policies and Regulations

The regression coefficients result in Table 4.33 shows that all the regression coefficients are significant; all the p-values are less than 0.05. The null hypothesis stating, "Government policies and regulations do not significantly moderate the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast" was therefore rejected. Therefore, government policies and regulations significantly moderate the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast. The new regression model that includes the moderating variable is presented as:

Performance= 1.657 + 0.097 Conglomerate diversification strategies + 0.102 Collaboration diversification strategies + 0.209 Government policies and regulations

Table 4.33: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification on Performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	2.096	.096		21.720	.000
	Conglomerate	.108	.029	.235	3.721	.000
	Collaboration	.124	.025	.131	2.170	.031
2	(Constant)	1.657	.111		14.947	.000
	Conglomerate	.097	.028	.124	2.011	.045
	Collaboration	.102	.024	.120	2.155	.032
	Government Policies and Regulations	.209	.030	.376	6.877	.000

a. Dependent Variable: Performance

Note: Government policies and regulations excluded in Model 2

According to Meijer (2015), the results align with the belief that performance is not solely determined by diversification. The markets, which are influenced by government policies and laws, have a significant impact on performance. Abor and Quartey (2010) have shown that government policies and regulations can create a favorable environment for businesses, leading to either growth or failure within an

industry. As stated by Chen and Subprasom (2007), certain government policies can either restrict or encourage creativity, innovation, efficiency, and productivity within business enterprises. Additionally, Greenwald and Stiglitz (2006) point out that governments have the power to impose tariffs and non-tariff barriers, such as import quotas, local content requirements, and export subsidies, which can affect the relationship between diversification and performance. In some cases, the government may implement policies that support the development of a specific sector, making it more attractive for investors to enter.

4.8 Chapter Summary

This chapter mainly focused on presentation, analysis and interpretation of the findings based on the objectives of research study. The chapter established the response rate of the respondents, demographic information for both middle level and operational managers were also evaluated. The descriptive results and statistics of the findings of the variables were interpreted. Lastly hypotheses were tested and all the null hypotheses were rejected leading to the development of a statistical model with tested predictor variables for use by star rated hotels in the adoption of diversification strategies.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study Findings

The summary of the findings emanated from the data obtained and analyzed in line with the objective and hypothesis of the research study. The study was guided by four specific objectives, three hypotheses and one research question. The study specific objectives were as follows;

1. To analyze the effect of related diversification strategies on organizational performance among star rated hotels in the Kenyan Coast.
2. To evaluate the influence of unrelated diversification strategies on organizational performance among star rated hotels in the Kenyan Coast.
3. To examine factors determining selection of diversification strategies among star rated hotels in the Kenyan Coast.
4. To determine the moderating effect of government policies and regulations on the relationship between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

The study hypothesis was;

H_{01}: There is no significant influence between related diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

H_{02}: There is no significant influence between unrelated diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

H_{03}: Government policies & regulations do not have any moderating impact on the relationship between diversification strategies and organizational performance among star rated hotels in Kenyan Coast.

5.1.1 Related Diversification Strategies among Star-Rated Hotels

This objective sought to evaluate the impact of related diversification strategies on organizational performance among the star-rated hotel in the Kenyan coast. From the Likert scale responses from middle level and operational managers, the findings

indicate that, horizontal diversification strategy has been highly adopted with the introduction of new product development, new service development, corporate expansion and integration being adopted to a large extent according to majority (50%) respondents while (48%) of middle level and operational managers noted that vertical diversification strategies is to adopted to some extent with acquisition, mergers, forward integration and backward integration.

On overall, it can be deduced that related diversification strategy which is comprised of horizontal and vertical diversification strategies is significant and had been adopted to a large extent among star rated hotels. The result from regression summary model shows that related diversification strategies influence performance with (59.8%). Meaning (59.8%) of the performance is explained by horizontal and vertical diversification strategies. ANOVA test shows that (p-value<0.05). This is an indication that the regression model showing the relationship between horizontal and vertical diversification strategies with performance of star rated hotels is significant and can therefore be adopted in predicting performance. This therefore means that horizontal and vertical diversification strategies have a positive influence on performance of star rated hotels in the Kenyan Coast.

In summary the findings of hypothesis testing were performed using ANOVA test and regression coefficient. The result revealed that the p-value < 0.05; this is an indication that the regression model showing the relationship between horizontal and vertical diversification strategies with performance of star rated hotels is significant and can therefore be adopted in predicting performance. Similarly, the regression coefficients result show that all the p-values are less than 0.001 thus rejecting the null hypothesis that *"There is no significant influence between related diversification strategies and organizational performance among star rated hotels in the Kenyan Coast"*.

5.1.2 Unrelated Diversification Strategies among Star Rated Hotels in the Kenyan Coast

This objective sought to establish the influence of unrelated diversification strategies on organizational performance among the star-rated hotel in the Kenyan coast. The first item was regarding the introduction of new line of product or service. Based on

the Likert scale response; (73.1%) of the middle level and operational managers indicated that there is engagement of new line of product or service to a very large extent.

The second item was about offering different product/service. In reference the response

From the Likert scale only (52%) of the managers indicated that different products or service are offered to a large extent. This shows that performance of hotel is likely to increase when accompany engaged in totally different line of product or service as compared to compared to offering different product or service that are the same as existing product or service.

The third item was based on collaborations with other companies. Based on the result, (35.9%) of the managers reported that collaboration with other companies is adopted to a large extent.

The majority of the managers were in agreement that unrelated diversification strategy is important since they had noted that the existence of sporting facilities such as gym services, beach sports and indoor games arena are among sporting activities that are paid for by the clients.

From the linear regression, the result shows that unrelated diversification with is composed of collaboration and conglomerate diversification strategies is significant with (55.8%). This means that 58% of the performance is explained by collaborations and conglomerate diversification strategies. The results further demonstrate that (p-value<0.05). Therefore, there is a significant relationship. Regression coefficient indicate that conglomerate diversification strategies (p-value<0.05) and collaboration diversification strategies (p-value=0.031) are significant predictors of performance of star rated hotels in the Kenyan Coast. It can therefore it can be concluded that unrelated diversification strategies have a positive influence on performance of star rated hotels in the Kenyan Coast.

Regression model for predicting performance from conglomerate and collaboration diversification strategies is significant. Summary finding of hypothesis testing was done using ANOVA test and regression coefficient. The result indicates that that p-

value < 0.0001; therefore, the regression model for predicting performance from conglomerate and collaboration diversification strategies is significant, showing a relationship between unrelated diversification strategies and performance. Similarly, regression coefficients result shows that conglomerate diversification strategies (p-value < 0.0001) and collaboration diversification strategies (p-value = 0.031). All are ≤ 0.05 and are therefore significant predictors of performance of star rated hotels in the Kenyan Coast. Thus the null hypothesis *"There is no significant influence between unrelated diversification strategies and performance among star rated hotels in the Kenyan Coast" are all rejected.*

5.1.3 Factors that determine the Selection of Diversification Strategies

This objective sought to establish factors that determine selection of diversification strategies among star rated hotels in the Kenyan coast. The following items were rated as follows;

Attractiveness of the market; the result from the Likert scale shows that majority of the middle level and operational managers (70.4%) strongly accepted that attractiveness of the market may inform the decision of the organization on which diversification strategy to adopt.

The second item was based on resource availability such as finances and workforce. In regards to the response from the Likert scale, (80%) of the respondents strongly accepted that resource availability such as finances and workforce will determine the type of diversification strategy adopted by the hotel.

The third item was organizational culture and government regulatory policies. As per the result, the items significantly determined the choice of diversification strategy adopted by star rated hotels in the Kenyan Coast with (42.9%) and (62.4%) respectively. Other notable factors that affected the choice of diversification strategies included brand identity, human resource personnel, profitability and revenue to be generated. Generally, it was noted that other than the key factors that determine diversification strategies, there are other factors that should not be ignored during decision making as they may influence performance.

5.1.4 Moderating effect of government policies and regulations on the relationship between diversification strategies and organizational performance

This objective sought to establish the moderating effect of government policies and regulations between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast. From most of the respondents, customer protection laws, tax incentives and taxation laws and policies, labour laws and regulations, laws on mergers and acquisitions, government subsidies, competition laws and policies, monetary and credit policies affected adoption of diversification strategies to a great extent.

The Likert scale findings showed that majority of the respondents believed that legal framework hinders product/service development which in turn influence performance of hotels. Slightly more than half of the respondents believed that tax incentives, laws and policies have an effect on new product development thus influencing overall hotel performance. This is similar to more than half of the respondents who believed labour laws and regulations can affect mergers and acquisitions which in turn affect performance. Slightly less than three fifths of the respondents believed that customer protection laws and regulations have an effect on new product/service development thus affecting performance of the hotel. Most of the respondents believed that competition laws and regulations affect mergers and acquisitions in addition to new product or service development thus hindering overall hotel performance.

Approximately half of the respondents believed that monetary and credit policies influence hotels' access to financial resources for diversification, which in turn influences the overall hotel performance. The results of the regression model, which examined the moderating influence of government policies and regulations on the relationship between related diversification strategies and performance of star rated hotels, revealed that the addition of the moderating variable (government policies and regulations) led to an improvement in the R-Square value. This suggests that government policies and regulations contribute positively to the relationship between related diversification strategies and the performance of star rated hotels in the Kenyan Coast.

Additionally, when testing the moderating effect of government policies and regulations on the relationship between unrelated diversification strategies and performance, the R-Square value also increased, further indicating that government policies and regulations play a beneficial role in the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast.
In summary, ANOVA test and regression coefficient was used to test the hypothesis. The ANOVA result indicated that regression model in both cases (with and without the moderating variable) is significant since all the p-values are less than 0. 0001. Consequently, regression coefficients revealed that all the regression coefficients are significant and all the p-values are less than 0.05. Therefore, the null hypothesis *"Government policies and regulations do not have significant moderating effect on the relationship between diversification strategies and performance among star rated hotels in the Kenyan Coast" were all rejected.*

5.2 Conclusion of the Study

Based on the results of the research, the following inferences can be made:
The hotel industry along the Kenyan coast continues to be a profitable venture for investors, entrepreneurs, and even the government. Implementing a diversification strategy is crucial in ensuring the survival of hotels, as it leads to higher revenue performance.

The implementation of a diversification strategy has the potential to give hotel operators a substantial edge over their competitors, particularly when operating within a favorable business environment, as it creates a synergistic effect.

Brand identity, human resource personnel, profitability and revenue to be generated are very key factors that need to put into consideration when selecting the best diversification strategy as they have influence on performance

The performance of star rated hotels is significantly impacted by related diversification strategies, including both horizontal and vertical approaches. Specifically, both financial and non-financial performance are affected by these strategies, which fall under the category of related diversification.

The performance of star rated hotels is significantly influenced by unrelated diversification strategies, with both conglomerate and collaboration strategies having a notable influence on both financial and non-financial aspects.

Government policies and regulations have a significant moderating influence between diversification strategies and performance of star rated hotels. Government policies improve the relationship between diversification strategies and performance of star rated hotels.

5.3 Recommendations for Policy, Practice and Further Research.

This section of this study outlines implications for policy, practice and further research in regard to diversification strategies and organization performance among the star-rated hotel in the Kenyan Coast. Based on the findings, the following recommendations were therefore made by this research study;

i. The regulatory bodies such Tourism regulatory authority (TRA), Kenya Association for hotel keepers and caterer (KAHC) and capital market operators must implement policies that encourage hotels to diversify their operations in order to reduce negative impacts on both financial and non-financial aspects, ultimately leading to greater organizational stability.
ii. To take advantage of diversification and reduce risk, it is important for hotel companies to assess their strengths and weaknesses. This will allow them to capitalize on opportunities and build stability rather than solely focusing on one product. By doing so, they can improve their ability to predict the future and make sound financial choices, ultimately leading to increased profitability.
iii. It is crucial for hotel operators to take into consideration other factors such as brand identity, human resource personnel, profitability and revenue to be generated when implementing a particular diversification strategy as they have influence on performance.
iv. In order to promote diversification within the hotel industry, the government can introduce subsidies and tax break particularly during times of economic instability. This will help minimize losses and boost profitability.

5.4 Recommendations for Further Research

i) Due to limited time and financial constraint, the study was restricted to the Kenyan coast. The result may have been influenced by various situational factors thus, the result may not reflect the situation of the star rated hotels in other parts of Kenya. There is need to establish the view of star rated hotels from other parts of the country to find out their perception on related and non-related as strategic tool to hotel performance, the challenges facing adoption of related or non-related as a strategy to organization performance among star rated hotels.

ii) The study only examined the moderating effect of government policies and regulations on the relationship between diversification strategies and hotel performance. It would be important to investigate moderating effect on other factors such as seasonality, investor motivation and hotel affiliation among others.

iii) Consequently, the study recommends further research on diversification strategies and their impact on organization performance among unclassified hotels and other hospitality properties.

iv) In conclusion, it is recommended that a comparative analysis be carried out to assess the benefits and risks associated with the use of related and non-related as a strategic tool among classified hotels in Kenya

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APPENDICES

Appendix 1: Questionnaire for Tactical Managers (Middle level managers) and Operational Managers

Section A: General Information (Indicate/Mark the appropriate answer)

i. Indicate your gender

Female [ ]

Male [ ]

ii. Indicate your age bracket

18-30 years [ ]

31-40 years [ ]

41-50 years [ ]

51-60 years [ ]

Above 60 years [ ]

iii. What is your marital status?

Single [ ]

Married [ ]

iv. Indicate your current highest level of education?

Secondary [ ]

College (certificate/diploma) [ ]

Bachelors [ ]

Postgraduate [ ]

v. What is your current position in this hotel?

Tactical manger (middle level management) [ ]

Operational management (lower level) [ ]

vi. What are your terms of employment?

Permanent [ ]

Casual [ ]

Contract [ ]

vii. How long have you worked in this hotel?

Less than 1 year [ ]

1-5 years [ ]

6-10 years [ ]

11-15 years [ ]

Above 15 years [ ]

viii. Which star rating is your hotel?

2 star rated [ ]

3 star rated [ ]

4 star rated [ ]

5 star rated [ ]

Section B: The impact of Related Diversification Strategies on Organizational Performance

ix. Please **tick** the extent to which related diversification strategies are adopted in your hotel

KEY: 5-to a very large extent, 4-To a large extent, 3-To some extent, 2-To a little extent, 1-To no extent at all

Related diversification strategy	5	4	3	2	1
Horizontal diversification strategies					
New product development					
New service development					
Corporate expansion					
Integration					
Vertical diversification strategy					
Acquisition					
Merger					
Forward integration					
Backward integration					

x. The below statements seek your opinion on the extent to which related diversification strategy affect organizational performance. Kindly tick only ONE appropriate number which best represents your level of agreement/disagreement with the statements on a scale ranging from 1-5 *(5= strongly agree 4= agree, 3=don't know, 2= disagree, & 1=strongly disagree).*

Related Diversification strategy	5	4	3	2	1
Introduction of new product that are related to the existing product and appealing to customers lead to increase in daily room occupancy rate					
Introduction of new services related to the existing one leads to increase in customers spending power thus increase sales growth					
Introduction of new product or service affect employee performance					
Introduction of new product or service increase customer retention					
Introduction of new product or service increase competitiveness					
Introduction of new product or service increase level of innovativeness					
Forward or backward integration affects room occupancy rate					
Forward or backward integration has effect on customer spending power thus affecting sales growth					
Forward or backward integration has effect on hotel competitiveness/market share					
Forward or back integration may affect customer retention					
Forward or backward integration has effect on service quality					

Forward or backward integration has effect on innovativeness	
Forward or backward integration may affect employee performance	

Section C: The Impact of Unrelated Diversification Strategies on Organizational Performance

xi. Please tick the extent to which the following unrelated diversification strategies are employed by your hotel.

KEY: 5-to a very large extent, 4-To a large extent, 3-To some extent, 2-To a little extent, 1-To no extent at all

Unrelated diversification strategy	5	4	3	2	1
Conglomerate					
Engaging in new line of products					
Engaging in new line of services					
Offering different products					
Offering different services					
Collaborations					
Collaborating with other companies					

xii. The below statements seek your opinion on the effect of unrelated diversification strategy on organizational performance. Kindly tick only ONE appropriate number which best represents your agreement with the statements on a scale ranging from 1-5 *(5= strongly agree, 4=agree, 3=don't know, 2= disagree, & 1=strongly disagrees)*

Statement	**5**	**4**	**3**	**2**	**1**
Introduction of new line of product and service that are not related to the existing product increase daily room occupancy rate.					
Introduction of different product increase guest spending power thus increase sales growth					
Introduction of new line of product and services increases sales growth					
Engaging in different product line enhances employees' performance					
Introduction of new line of product and services increase operational efficiency hence improve customer retention					

Introduction of new line of product and service increase the rate of innovativeness per year	
Adopting new line of product and service increase service quality	
Adoption of new line of product and services improve hotel competitiveness	
Collaborations with other hotels or other institutions outside the hotel industry increase occupancy rate.	
Collaborations with other hotels or other institutions outside the hotel industry increase sales growth	
Collaborations with other hotels or other institutions outside the hotel industry improve competitiveness	
Collaborations with other hotels or other institutions outside the hotel industry increase employees' performance.	
Collaborations with other hotels or other institutions outside the hotel industry improve operational efficiency thus increase customer retention	
Collaborations with other hotels or other institutions outside the hotel industry increase innovativeness rate.	
Collaborations with other hotels or other institutions outside the hotel industry increase service quality	

Section D. Factors Determining the Selection of Diversification Strategies by Hotels

xiii. The below statements seek your opinion on the factors determining the selection diversification strategy by an organizational. Kindly tick just ONE appropriate number which best represents your agreement with the statements on a scale starting from 1-5. *(5= strongly accept, 4=accept, 3=don't know, 2= don't accept, & 1=strongly don't accept)*

	Factors that determine an organization's choice of a diversification strategy	5	4	3	2	1
	Attractiveness of the market may inform the decision of the organization on which diversification strategy to employ					
	Resource availability such as finances and workforce will determine the type of diversification strategy adopted by this hotel					
	Accessibility to distribution channels is an important factor to consider when choosing the type of diversification strategy in this hotel					
	Organization environment is a core element in deciding which diversification strategy to apply in this hotel					
	Organizational culture such as values, standards and norms is a key determinant of the type of diversification strategy this hotel adopts					
	Government regulatory policies is an important determinant when it comes to selection of the type of diversification strategies					

xiv. Please add any other factors that you feel the management of this hotel considers when selecting type of diversification strategies to employ

……

……

……

Section E: Government Policies and Regulations on Diversification Strategies and Organizational Performance

xv. Based on your opinion, to what extent do the following government policies and regulations affect the choice of diversification strategy in the hotel sector.

KEY: 5-To a very great extent, 4-To a great extent, 3-To some extent, 2-To a little extent, 1-To no extent at all

Government policies	5	4	3	2	1
Customer protection laws and regulations					
Tax incentives, laws and policies					
Labour laws and regulations					
Laws on mergers and acquisitions					
Government subsidies					
Competition laws and regulations					
Monetary and credit policies					

xvi. Below is a list of statements assessing your opinion on the impact of government policies and regulations on diversification strategies and organizational performance? Please mark only **ONE** appropriate number that best represents your agreement with the 5-1 scale statement *(5= strongly believe, 4=believe, 3=neutral, 2= don't believe, & 1=strongly don't believe).*

Government policies and Diversification strategies	5	4	3	2	1
Legal framework hinder development of a product/service which in turn influences performance of the hotel					
Tax incentives, laws and policies have an effect on the development of new product line which in turn influence the overall performance of the hotel					
Labour laws and regulations can affect the hotel in undertaking mergers and acquisitions thus affecting performance					
Customer protection laws and regulations affect development of new products/services thus hindering performance of the hotel					
Competition laws and regulations have an effect on mergers and acquisitions in addition to new product/service development thus hindering the overall hotel performance					
Monetary and credit policies influence hotel's access to financial resources for diversification which in turn influences the overall hotel performance					

SECTION F: Performance of Hotels

xvii. According to your own opinion, how would you rate the performance of the hotel based on the following performance indicators for the past five years:

i) ***Revenue/sales growth***

Increasing [ ]

Decreasing [ ]

Constant [ ]

ii) ***Room occupancy rate***

Increasing [ ]

Decreasing [ ]

Constant [ ]

iii) ***Competitiveness (market share, operating cost)***

Increasing [ ]

Decreasing [ ]

Constant [ ]

iv) ***Operational efficiency (customer retention, resource utilization)***

Improving [ ]

On the decline [ ]

Constant [ ]

v) Innovativeness (number of new product and services innovated per year)

On the rise [ ]

No innovation at all [ ]

vi) Service quality (customer satisfaction

Improving [ ]

Declining [ ]

Constant [ ]

Appendix 2: Interview Schedule Guide for Strategic Managers (Hotel Directors, General Managers)

i. What are some of the horizontal diversification strategies employed in this hotel that you are aware of?

……

……

……

ii. In your opinion, do you think the above strategies have financial effect on hotel performance such as; room occupancy rate, revenue achieved, and sales growth?

……

If yes, briefly explain

……

……

……

iii. Do you think the above horizontal diversification strategies affect non-financial performance of the hotel such as competitiveness, operational efficiency, service quality, employees' performance and innovativeness

……

If yes, briefly explain

……

……

……

iv. What are some of the vertical diversification strategies practiced in this establishment?

……

……

……

v. How do you think the above vertical diversification strategies affect financial performance of the hotel?

……

……

……

vi. In your opinion, how do the above vertical diversification strategies affect non-financial performance of this hotel?

……

……

……

vii. Could you please identify some of the unrelated diversification strategies practiced in this hotel?

……

……

……

viii. How do the unrelated diversification strategies in vii above affect financial performance of the hotel?

……

……

……

ix. How do the unrelated diversification strategies in vii above affect non-financial performance of the hotel?

……

……

……

x. What factors do you think the management of this hotel considers when selecting diversification strategy to be employed?

……

……

……

xi. In your opinion, what are some of the government policies and regulations that affect diversification strategies adopted by this hotel?

……

……

……

xii. In your opinion, how do you think government policies and regulations affect diversification strategies to be used in hotel operations?

……

……

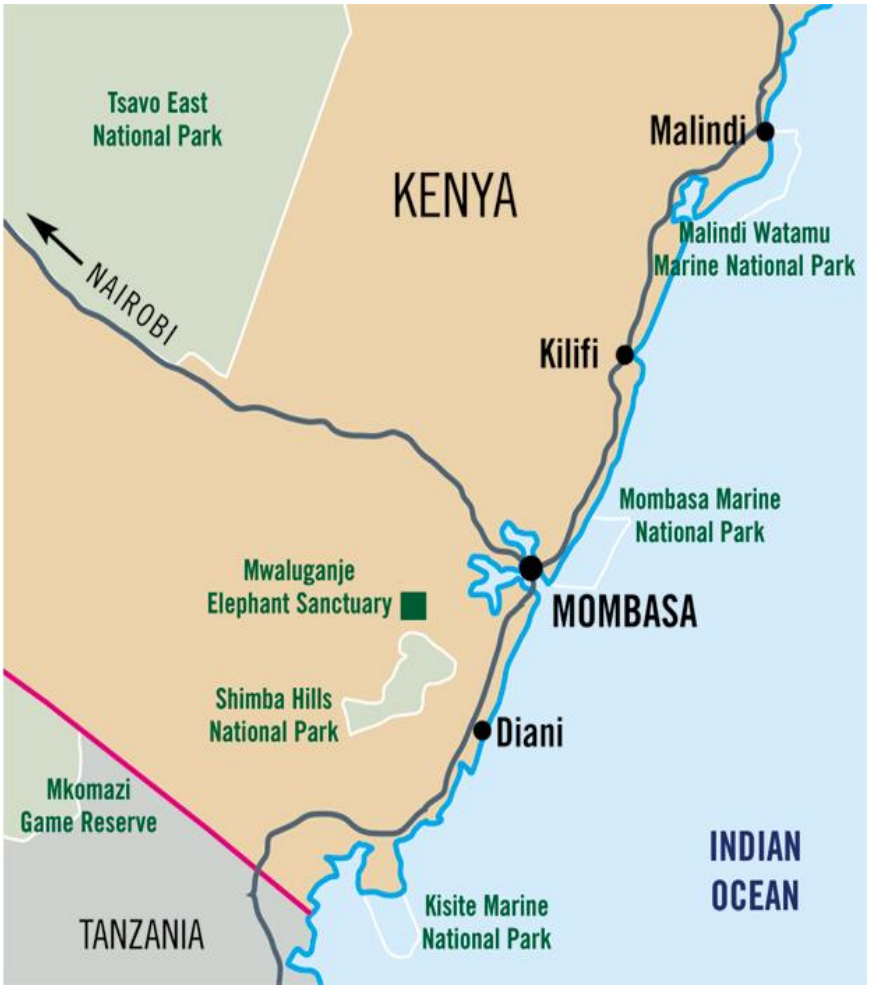
……

END OF THE INTERVIEW

This research study includes collecting and processing of data. The information obtained will be very essential as will assist in addressing the research questions raised particularly by contributing to the practical and theoretical knowledge of the field of investigation. Confidentiality of all the information obtained and sources is assured. The information will be kept secret and strictly confidential in accordance with the procedures recommended by the University.

Thank you for taking your time.

Appendix 3: Map of Coastal Region



Source: Google Map (2022)

Appendix 4: Letter of Transmittal

My name is Jacob Owenga Kitoto, a PhD Student at the Faculty of Hospitality and Tourism Management, Murang'a University of Technology. I am currently undertaking research studies to partially fulfill the requirements for a PhD in Hospitality and Tourism Management. The study aims to explore the impact of diversification strategies on the organizational performance of star hotels in the Kenyan Coast. Your participation and your honest answers will be essential in both collection and data processing.

Thank You.

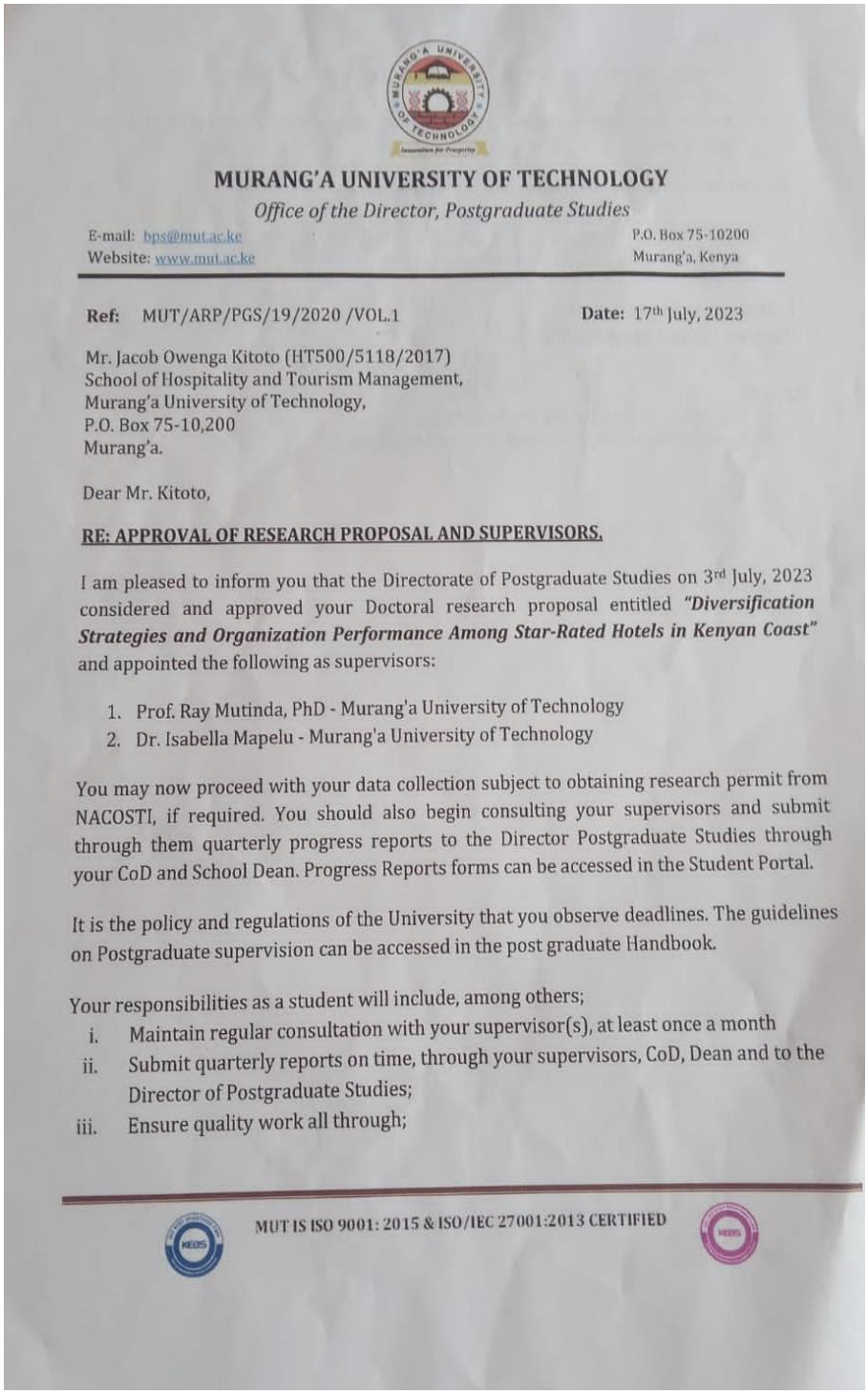
Appendix 5: Rating of Hotels in the Kenyan Coast

COAST					
CAPACITY				**RATING**	
1.	PrideInn Paradise	Mombasa	240	480	*****
2.	Leopard Beach Resort and Spa	Kwale	198	396	*****
3.	Hemingways Watamu	Kwale	166	200	*****
4.	Diani Reef Beach Resort & Spa	Kwale	143	286	*****
5.	Swahili Beach Resort	Kwale	125	250	*****
6.	Medina Palms Suites and Villas	Kilifi	40	70	*****
7.	Baobab Beach Resort & Spa	Kwale	343	686	****
8.	Sarova White Sands Beach Resort and Spa	Mombasa	335	435	****
9.	Leisure Lodge Beach & Golf Resort	Kwale	253	506	****
10.	Voyager Beach Resort	Mombasa	236	472	****
11.	Severin Sea Lodge	Mombasa	188	376	****
12.	Diani sea resort	Kwale	170	340	****
13.	Serena Beach Resort and Spa	Mombasa	164	328	****
14.	Turtle Bay Beach Club	Kilifi	145	290	****
15.	Lantana Galu Beach	Kwale	47	240	****
16.	Silver Palm Spa & Resort	Kilifi	40	80	****
17.	Diamond Dream of Africa	Kilifi	35	70	****
18.	Marina English Point	Mombasa	26	28	****
19.	Msambweni Beach House and Private Villa	Kwale	5	24	****
20.	Leopard Point Luxury Beach Resort	Kilifi	15	30	****
21.	Sandies Tropical Village	Kilifi	109	218	***
22.	Bahari Beach Hotel	Mombasa	105	212	***
23.	Indian Ocean Beach Resort	Kwale	101	180	***
24.	Kenya Bay Beach Hotel	Mombasa	99	198	***
25.	Royal Court Hotel	Mombasa	89	188	***
26.	Mnarani Club	Kilifi	80	160	***
27.	Crystal Bay Beach Resort	Kilifi	76	176	***
28.	Ashnil Aruba Lodge	Taita	52	108	***

29.	Isinya Resorts Limited	Mombasa	43	86	***
30.	PrideInn Mombasa	Mombasa	40	96	***
31.	Azul Margarita Beach Resort	Mombasa	35	98	***
32.	Sentrim Tsavo East Camp	Taita	25	50	***
33.	JacyJoka Apartments	Mombasa	12	16	***
34.	Bollywood Bites	Mombasa	0	0	***
35.	North Coast Beach Hotel	Kilifi	124	199	***
36.	Papillon Lagoon Reef Hotel	Kwale	150	300	**
37.	Neptune Paradise	Kwale	92	184	**
38.	Plaza Beach Hotel	Mombasa	88	176	**
39.	Seven Islands Resort	Kilifi	84	226	**
40.	Jambo Travellers Hotel	Kilifi	75	99	**
41.	Castle Royal Hotel	Mombasa	68	99	**
42.	Midview Hotel	Mombasa	68	136	**
43.	Neptune Palm Beach Resort & Spa	Kwale	60	120	**
44.	Morning Star Apartments	Kwale	50	65	**
45.	Gasaro Hotel Limited	Mombasa	39	58	**
46.	Kilili Baharini	Kilifi	35	70	**
47.	Voyager Safari Camp	Taita	25	50	**
48.	Flamingo Villas	Kilifi	20	36	**

Source: TRA (2022)

Appendix 6: Postgraduate Research Approval Letter



MURANG'A UNIVERSITY OF TECHNOLOGY

Office of the Director, Postgraduate Studies

E-mail: bps@mut.ac.ke
Website: www.mut.ac.ke

P.O. Box 75-10200
Murang'a, Kenya

Ref: MUT/ARP/PGS/19/2020 /VOL.1

Date: 17th July, 2023

Mr. Jacob Owenga Kitoto (HT500/5118/2017)
School of Hospitality and Tourism Management,
Murang'a University of Technology,
P.O. Box 75-10,200
Murang'a.

Dear Mr. Kitoto,

RE: APPROVAL OF RESEARCH PROPOSAL AND SUPERVISORS.

I am pleased to inform you that the Directorate of Postgraduate Studies on 3rd July, 2023 considered and approved your Doctoral research proposal entitled ***"Diversification Strategies and Organization Performance Among Star-Rated Hotels in Kenyan Coast"*** and appointed the following as supervisors:

1. Prof. Ray Mutinda, PhD - Murang'a University of Technology
2. Dr. Isabella Mapelu - Murang'a University of Technology

You may now proceed with your data collection subject to obtaining research permit from NACOSTI, if required. You should also begin consulting your supervisors and submit through them quarterly progress reports to the Director Postgraduate Studies through your CoD and School Dean. Progress Reports forms can be accessed in the Student Portal.

It is the policy and regulations of the University that you observe deadlines. The guidelines on Postgraduate supervision can be accessed in the post graduate Handbook.

Your responsibilities as a student will include, among others;

i. Maintain regular consultation with your supervisor(s), at least once a month
ii. Submit quarterly reports on time, through your supervisors, CoD, Dean and to the Director of Postgraduate Studies;
iii. Ensure quality work all through;

MUT IS ISO 9001: 2015 & ISO/IEC 27001:2013 CERTIFIED

ii. Submit quarterly reports on time, through your supervisors, CoD, Dean and to the Director of Postgraduate Studies;
iii. Ensure quality work all through;
iv. Present your research findings at 2-3 seminars/confereences prior to thesis examination.
v. Publish two articles from your research findings in a refereed journal prior to thesis examination.

For any further clarification please contact the undersigned.

Yours Sincerely,

Prof. Geoffrey Muchiri, PhD
Director, Postgraduate Studies
GM/PIM

DIRECTORATE OF POSTGRADUATE STUDIES
MURANG'A UNIVERSITY OF TECHNOLOGY
14 APR 2023
P. O. Box 75 - 10200, MURANG'A
Tel: 0771463515, Email: info@mut.ac.ke

Copy to:
1. Registrar – Academics and Students Affairs
2. Dean, School of Business and Economics

Appendix 7: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **297718**

Date of Issue: **11/September/2023**

RESEARCH LICENSE



This is to Certify that Mr.. Jacob Owenga Kitoto of Murang'a University of Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Mombasa on the topic: DIVERSIFICATION STRATEGIES AND ORGANIZATIONAL PERFORMANCE AMONG STAR RATED HOTELS IN KENYAN COAST. for the period ending : 11/September/2024.

License No: **NACOSTI/P/23/28470**

297718

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

Appendix 8: Publications

The following journal articles were published from the thesis.

Owenga, J., Mutinda, R., & Mapelu, I. (2023). Impact of Related Diversification Strategies on Organizational Performance among Star Rated Hotels in the Kenyan Coast. *Journal of Hospitality and Tourism*, *3*(3), 75-92.

Owenga, J., Mutinda, R., & Mapelu, I. (2024). Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast. *International Journal of Research and Innovation in Social Science*, *8*(1), 866-880.