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Effects of Diversification Strategies on Firm's Financial Performance: A Case Study of Zambia Postal Services Corporation

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ABSTRACT
The research was devoted to discussing the effects of diversification on a firm's financial performance a case study of Zambia Postal Services Corporation. The study was guided by 4 objectives; to identify the diversification strategies used by the Zambia postal services cooperation; to determine the effect of diversification strategies on the financial performance of the Zambia postal services cooperation, to assess the effect of the types of diversification on the financial performance of the Zambia postal services cooperation and to explore the extent to which diversification affects the financial performance of the Zambia postal services cooperation. The study used Qualitative Research Design in which 20 senior and middle Management employees of Zampost were purposively selected for interviews. The study findings established that Zambia Postal Services Corporation used concentric and horizontal diversification strategies. Diversification strategies can have either a positive or negative effect on the financial performance of the cooperation. To a greater extent, diversification affects the financial performance of the Zambia Postal Services either positively or negatively. Some of the recommendations arising from the study are that organizations willing to achieve economies of scope and redeem their financial position in the face of downturn or decline in product life cycle should diversify their product to better meet customers' demands, profitability, expansion as well as increase performance since diversified organizations are discovered to perform better than undiversified ones; organizations should identify their rare and inimitable capabilities to achieve economies of scale and outsmart competitors and that research and Development centers should be developed for proper channeling of resources, identification of opportunities as they arise in the business environment and selection of the best strategic options.

Keywords: *diversification strategies, financial performance, postal services, zambia*

I. INTRODUCTION

Su and Tsang (2015) argue that the effect of a diversification strategy on the performance of firms has over the decades attracted the attention of scholars in the field of management and social sciences. Consequently, in many companies, managers always tend to diversify their portfolios to get benefits from the current market in the shape of higher returns and minimum risk for the companies. Nonetheless, the justifications for diversification as well as results vary, with some findings found to be inconclusive (Asrarhaghighiet al., 2013).

The Zambia Postal Services Corporation (ZamPost) is Zambia's national postal operator. The Corporation was created under an Act of Parliament in 1994 following the split of the Posts and Telecoms Corporation (PTC) into the national Telecoms and (national) Postal Operator respectively. As the Country's Designated Operator (DO) by law, Zampost is mandated to provide Universal Postal Services on behalf of the Government as an obligation by the Government to ensure the provision of postal services to all citizens in Zambia.

In recognizing the pivotal role played by the Postal Sector, Government through the Ministry of Transport and Communication enacted and launched a Postal Policy for the period 2021-2031 envisaged to transform and diversify the sector's operations. The Postal sector has been undergoing a radical transformation over the last 30 years. The notable global decline in postal service profitability and business viability was not exceptional to the Zambian scenario. In reaction to the downward business viability trend, largely occasioned by the pressing surge of technology, ZAMPOST embarked on a diversification drive meant to leverage and resuscitate the fortunes of the firm. In driving its diversification agenda, ZAMPOST strategically outlined product diversification areas where business competitiveness, viability, sustainability, and comparativeness were guaranteed from a management point of view. However, despite diversifying and recording profits in 2016 to 2017, 18th March 2018, ZAMPOST was grappling with huge liabilities and arrears in workers' salaries which resulted into country-wide strikes by workers in pressing for their emoluments, thereby gravely affecting service provision (Editor, 2019).

Haabazoka (2021) observes that Zambia postal service cooperation have had an extension over its resources and have seen a cost increase associated with diversification. This entails that for the cooperation to operate successfully under diversification, the business may need added infrastructure, employee training and other necessities, matters that will eat into the business revenue. Although Zambian firms which include the Zambia Postal Services constitute a key strategic group for the present and future of the Zambian economy as well as for the international projection of Zambia as a country , the relationship between their diversification strategy and their performance constitutes an under researched area.

II. LITERATURE REVIEW

Empirical studies suggest that diversified firms perform worse than the specialized ones (Lang and Stulz, 1994; Berger and Ofek, 1995; Rajan et al., 2000). Nevertheless, the impact of diversification varies across firms. The discounts (worst performance) tend to happen in industries where most of the competitors are specialized and the premium (better performance) arises when there are only a few specialized competitors in the sector (Santalo and Becerra, 2008). Contrarily to that and in accordance with the lack of consensus among the authors, there is also evidence for the fact that diversified firms unveil better levels of performance than the undiversified ones (Christensen and Montgomery, 1981; Graham et al., 2002).

2.1 Diversification Strategies

Diversification strategies are used to expand the firm's operations by adding markets, products, services, or stages of production to the existing business. Kotler (2006) identifies three types of diversification strategies namely, concentric, horizontal, and conglomerate. "Horizontal Diversification strategy" occurs when a company seeks new products that could appeal to its current customers even though the new products are technologically unrelated. "Conglomerate Diversification Strategy" takes place when a company seeks new businesses that have no relationship with their present business or market operations (Thompson & Strickland, 2010).

Collins and Montgomery (2005) divided diversification into two types related and unrelated diversification. The two are analyzed in-depth, considering their merits and demerits whereas Emms and Kale (2006) describe the various ways and strategies adopted by diversifying companies as modes of diversification. Collins and Montgomery (2008) believe that related diversification involves building shareholder value by capturing cross -business strategic fits. The combining of resources creates new competitive strengths and capabilities (BCG, 2006). Related diversification may involve the use of a common sales force to call on customers, advertising related products together, the use of same brand names, and joint delivery.

2.2 Merits and Demerits of Diversification as a Strategy

Corporate managers bring both a cost to the combined organizations as well as the opportunity to manage the combined resources of the different businesses (Wan, 2011). According to Collins & Montgomery (2005), a more meaningful approach is to analyze the costs (risks) and benefits (rewards) under the strategies of related and unrelated diversification. Hoechle et al. (2009) argue that the major advantage of related diversification is that it leads to operational synergies, which in turn develop into long-term competitive advantage. Johnson et al. (2006) argue that most of the advantages of related diversification stem from the fact that it allows the company to enjoy economies of scope. Despite the above advantages related diversification can still fail to reap the originally predicted returns and benefits due to several shortcomings and demerits. Gary (2005) alludes to the fact that related diversification analysis at times underestimates the softer issues like change management, and may tend to overestimate synergistic gains.

The Boston Consulting Group (BCG) (2006), has noted that business risk is scattered over a set of diverse industries and one can spread risk by spreading businesses with totally different technologies, competitive forces, market features, and customer bases. This is in line with the Markowitz portfolio theory in finance which suggests that diversification reduces a firm's exposure to cyclical and seasonal uncertainties and risks.

2.3 The Diversification- Performance Relationship

The effect of corporate diversification on firm performance has been widely studied by many authors (Espinosa et al., 2018; Gu at al., 2018). While this topic is rich in studies many researchers concurred on the lack of consensus on the precise nature of the relationship between diversification and firm performance. Some studies have shown that diversification improves profitability over time citing a positive relationship (Wan, 2011), whereas others have demonstrated negative relationship and that diversification decreases performance (Ozbas & Scharsfstein, 2010). Still others have shown that diversification and performance linkage depends on business cycle. Santalo and Becerra (2004) explain conceptually and provide empirical evidence that no relationship exists (positive, negative or even quadratic) between diversification and firm performance.

III. RESEARCH METHODOLOGY

The study utilized a qualitative approach to conduct this research. It used a descriptive design for the study because it attempts to describe and explain the effects of diversification. The study sample was 20 middle and senior management employees of Zambia Postal Services Corporation who were conveniently and purposively selected and the sample size was calculated using Yamen's (1967) formula.

3.1 Research Design

The research was conducted at Ndola and Lusaka post office. The study took an intrinsic case study approach, with the goal of learning more about a specific case (Zambia Postal Services Corporation) in order to gain a better understanding of the phenomenon rather than making broad generalizations (Stake, 2005).

3.2 Data Collection Methods

Data collection was done through in-depth Interviews conducted with key respondents that is, the senior and Middle Management employees. Semi-structured interviews were conducted. Participants shared their insights related to the Effects of diversification on the Corporation's performance.

3.3 Data Analysis

Interview transcripts were examined using qualitative content analysis. This process entailed identifying patterns, themes, and key insights revealed by the data). Thematic analysis was used to uncover common themes, patterns, and insights. The process involved familiarization, initial coding, theme generation, review and refinement, and theme definition and naming.

3.4 Ethical Considerations

The researcher maintained the ethical standards followed in research for example; the confidentiality of the respondents by using general statements in the research findings such as; according to the respondents or one of the respondents said that. In seeking the informed consent of the respondents, the researcher presented his introductory letter indicating his personal details and the purpose of the study.

IV. RESULTS

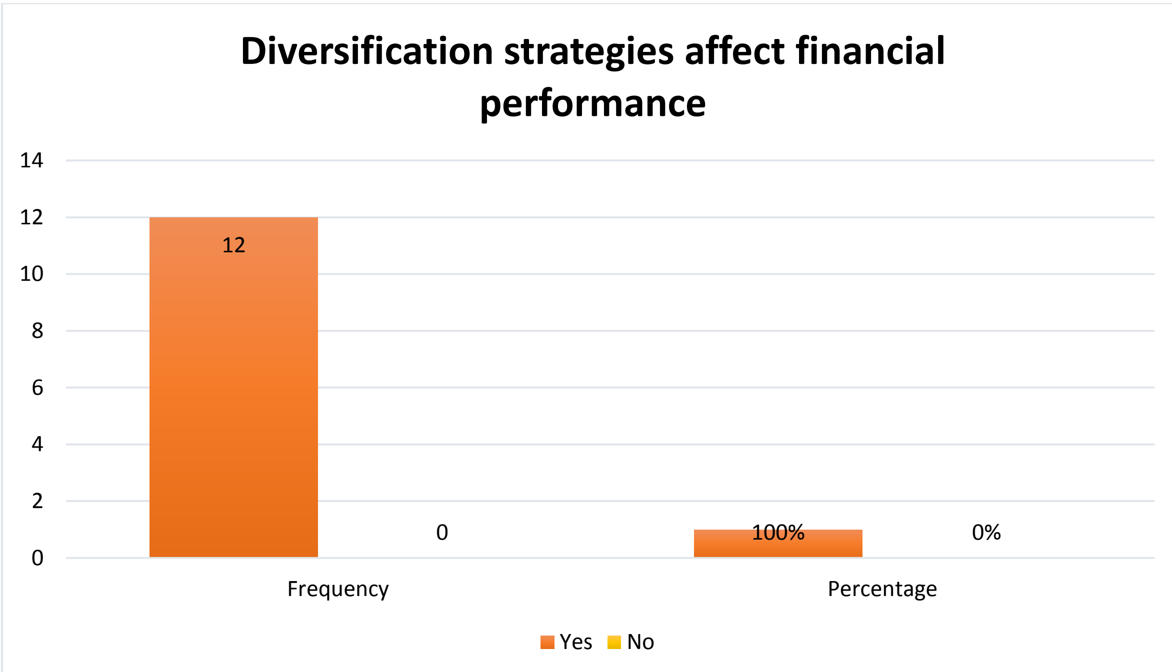
4.1 Diversification Strategies Used by Zambia Postal Services Cooperation (Zampost)

Table 1: Diversification strategies

Theme	Frequency	Percentage
Concentric Diversification	5	42
Horizontal Diversification	5	42
Vertical Diversification	1	8
Conglomerate Diversification	1	8

The table above depicts the diversification strategies used by Zampost. The study reviewed that Zampost mostly uses concentric and horizontal diversification. It has also used to a lesser extent vertical and conglomerate diversification strategies. According to Hashai (2015), one of the most effective ways for a business to grow and expand is to implement concentric diversification, which focuses on adding products and services that are related to the primary product or service that an organization offers.

4.2 Diversification Strategies Affect the Financial Performance of the Zambia Postal Services Cooperation



According to the figure above, the study has revealed that all the respondents agreed that the diversification strategies used by ZAMPOST affect financial performance. It can therefore be concluded that, diversification strategy affects the performance of a company. A study by Mwania (2020) which looked at the effects of diversification strategies on the financial performance of deposit- taking credit and savings cooperatives in Nairobi, Kenya revealed that diversification is positively related to a firm's financial performance.

4.3 Effect of Diversification Strategies on the Financial Performance of the Zambia Postal Services Cooperation

The table below shows the effectiveness of the diversification strategies. This is because the study sought to find out the effect of the diversification strategies on the financial performance of the Zambia postal services cooperation

Table 2: Effect of diversification strategies

Theme	**Frequency**	**Percentage**
Leads to neglect of the core business	1	8
Leads to financial inefficiencies	2	16
Provides a tremendous boost to brand image and company profitability	4	33
Improves sales and revenue generation	5	43
Total	**12**	**100**

V. DISCUSSIONS OF RESULTS

According to the study findings, Concentric Diversification, Horizontal Diversification, Vertical Diversification, and Conglomerate Diversification are among the diversification strategies used by Zambia postal services cooperation. The study revealed that concentric and horizontal diversification strategies are the ones that the Zambia Postal Services cooperation is using the most. The findings of this study are in tandem with the findings by Hashai (2015) which revealed that one of the most

effective ways a business can grow and expand is by implementing concentric diversification, which focuses on adding products and services that are related to the main product or service that you offer.
The study findings revealed that diversification strategies can have either a positive or negative effect on the financial performance of the cooperation. This is because the study established that, diversification strategies improve sales, and revenue generation, and can also provide a tremendous boost to brand image and company profitability. On the other hand, the study noted that, diversification strategies can lead to financial inefficiencies and neglect of the core business of the company. Similar to the findings of this study, a study by Su and Tsang (2013) found that the effects of these diversification strategies on a company's financial performance can vary depending on the specific circumstances and how well the strategy is executed.

VI. CONCLUSIONS AND RECOMMENDATIONS

The research study set out to assess the effects of diversification on a firm's financial performance, with a specific focus on Zambia Postal Services Corporation. The study's findings, rooted in document analysis and structured interview responses, offer an ample view of the effects of diversification on performance. According to the study findings, concentric and horizontal diversification strategies are the ones that the Zambia Postal Services cooperation is using most.

Diversification strategies can have either positive or negative effects on the financial performance of the cooperation. To a greater extent diversification affects the financial performance of the Zambia postal services either positively or negatively. This is because, positively, diversification allows ZAMPOST to reduce risks, and have the potential for higher returns and increased stability. On the contrary, diversification has negatively affected ZAMPOST by lowering the potential returns, increased complexity in running the company, and has also leading to over-diversification consequently affecting company operations. The findings of the study established that related diversification had a more positive effect on the financial performance of Zambia postal services cooperation when compared to unrelated diversification. This is because, by ZAMPOST expanding into related businesses, the company has been benefiting from synergies, economies of scale, and shared knowledge, leading to increased efficiency and profitability.

The research recommends that Organizations rather than look at the benefits of diversification should endeavor to identify the most suitable diversification strategy that best soothes their operations and business philosophy in order to improve performance. Research and Development centers should be developed for proper channeling of resources, identification of opportunities as they arise in the business environment, and selection of the best strategic options. Diversified organizations in Zambia should re-examine their existing strategies (related, unrelated, and hybrid) to ascertain if they actualize their set goals and objectives. Also, a diversification strategy should properly spell out its essence in either targeting a segment of the market or meeting customer demands for varieties.

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