

## Impact of Diversification Strategies on Multinational Firms' Performance in Zambia's Food Sector

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This study investigates the impact of diversification strategies on the performance of multinational firms within Zambia's food sector. Drawing from four types of diversification strategies—vertical, horizontal, concentric, and conglomerate—the study employs a descriptive survey approach and multiple regression analysis. Results demonstrate that horizontal and concentric diversification strategies significantly enhance firm performance, explaining 45.6% of its variation. The study concludes that carefully aligned diversification can provide competitive advantage and improve financial performance, especially in developing markets with volatile operating environments.

**Keywords:** Diversification Strategy, Firm Performance, Zambia, Horizontal Diversification, Food and Beverage Sector, ROI

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## 1. Introduction

Zambia's food sector has become increasingly dynamic, with local and international firms facing high volatility due to global commodity prices, climate variability, and currency fluctuations. In such an environment, strategic diversification has emerged as a response to mitigate risk, enhance firm value, and sustain profitability. This study focuses on multinational food firms in Zambia and evaluates how four strategic approaches—vertical, horizontal, concentric, and conglomerate diversification—affect organizational performance, particularly financial outcomes.

## 2. Literature Review and Conceptual Framework

### 2.1 Overview of Diversification Strategy

Diversification refers to the strategic expansion of a firm's operations into new markets or product lines. According to Pearce and Robinson (2010), firms may engage in:

- **Horizontal Diversification:** Introducing new products to existing customer bases.
- **Concentric Diversification:** Adding new, related products leveraging similar technology or markets.
- **Vertical Diversification:** Integrating supply chain functions either backward (suppliers) or forward (distribution).
- **Conglomerate Diversification:** Entering completely unrelated industries.

### 2.2 Diversification and Firm Performance

Previous studies indicate that related diversification (horizontal and concentric) tends to yield stronger performance benefits, particularly in emerging markets (Eukeria & Favourate, 2014). Theories such as the Resource-Based View (RBV) and Portfolio Theory support the notion that firms can manage risk and increase profitability through strategic diversification.

### 2.3 Conceptual Framework

This study considers diversification strategies as the independent variables and firm performance—measured by financial growth, profitability, and return on investment (ROI)—as the dependent variable.

## 3. Research Methodology

### 3.1 Research Design and Sample

The study employed a descriptive research design. The target population consisted of senior finance managers and executives from four multinational food and beverage firms operating in Zambia. These firms were selected based on market size, presence, and product diversity.

### 3.2 Data Collection and Analysis

Primary data were collected through structured questionnaires. Descriptive statistics and regression analyses were conducted using SPSS. A standard multiple regression model was used to assess the impact of each diversification strategy on firm performance.

## 4. Results and Discussion

### 4.1 Descriptive Analysis

Respondents confirmed that all four firms engage in varying levels of diversification, with a strong leaning toward horizontal and concentric strategies. Vertical and conglomerate diversification were present but less emphasized.

### 4.2 Regression Results

- **Horizontal Diversification** showed the **strongest positive correlation** with firm performance ( $\beta = 0.537$ ,  $p < 0.01$ ).
- **Concentric Diversification** also had a significant positive effect ( $\beta = 0.402$ ,  $p < 0.05$ ).
- **Vertical and Conglomerate Diversification** were statistically insignificant.

The regression model had an  $R^2$  value of **0.456**, indicating that diversification strategies explained 45.6% of the variance in firm performance.

### 4.3 Interpretation

These results support the hypothesis that **related diversification** enhances performance more effectively than unrelated or supply-chain-based diversification. Horizontal diversification allows firms to capitalize on existing distribution channels and customer loyalty. Concentric diversification benefits from shared technology and knowledge transfer.

## 5. Conclusions and Recommendations

### 5.1 Conclusions

The study concludes that diversification, especially when related to a firm's existing capabilities, positively influences financial performance in Zambia's food sector. Horizontal and concentric strategies provide tangible returns, while vertical and conglomerate strategies may only be beneficial under specific conditions.

### 5.2 Recommendations

- **Strategic Focus:** Firms should prioritize horizontal and concentric diversification aligned with core competencies.
- **Policy Support:** Government should provide incentives and capacity-building for firms pursuing local market expansion.
- **Risk Management:** Companies should evaluate the risk-return profile of each diversification type before implementation.

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