Journal of
Hospitality and Tourism
(JHT)

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Journal of Hospitality and Tourism
ISSN 2789-7052 (Online)
Vol.3, Issue 3, pp 75 - 92, 2023
www.ajpojournals.org

Impact of Related Diversification Strategies on Organizational Performance among Star Rated Hotels in the Kenyan Coast

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Article History
Submitted 07.12.2023 Revised Version Received 19.12.2023 Accepted 20.12.2023

Abstract

Purpose: For any organization to succeed in the present competitive and ever-changing business environment, understanding the risks, opportunities, and strength posed by the external environment is inevitable. Organizations must exploit opportunities and avoid risks by applying relevant strategies and developing various strategic approaches that will improve their competitive edge and overall performance. One of the possible ways to improve business efficiency and performance is through diversification. The purpose of this study was to assess the applicability of a diversification strategy as a game plan to motivate and develop resilience against organizational and environmental forces in business operations to improve organizational performance in star rated hotels in the Coastal Kenya. The specific objectives was; to determine the impact of related diversification strategies on organizational performance among star rated hotels in coastal Kenya Coastal.

Materials and Methods: Notably, 36 star rated hotels were selected while 419 respondents were involved which comprised; strategic managers, tactical and operational managers. This represented a response rate of 92.4% and 80.6% for the questionnaires and interviews respectively. Stratified sampling was used to select the hotels while purposive sampling was used to select the managers. Questionnaires and interview schedules were used during data collection. Data analyze was both analyzed using both descriptive and inferential analysis. The mean for overall adoption of horizontal diversification strategies was 3.94 (std. dev=0.92) while vertical diversification strategies was 3.28 (std. dev=1.13) which was significant. The mean on overall adoption of related diversification strategies was 3.60 (std. dev=0.95), demonstrating that related diversification strategies have on overall been adopted to a large extent.

Findings: The model summary results indicates that R-Square=0.598; this implies that 59.8% of performance is explained by vertical and horizontal diversification strategies. This implies that, both horizontal and vertical diversification strategies were significantly adopted in the operation and management of hotel business in the coast region of Kenya. The null hypothesis stating, *"There is no significant relationship between vertical diversification strategies and performance of star rated hotels along the Kenyan Coast"* was rejected. This means that horizontal and vertical diversification strategies are significant predictors of performance of star rated hotels in the Kenyan Coast. From the regression model, horizontal and vertical diversification were found to have a positive effect that was statistically significant on performance of star rated hotels in the Kenyan Coast.

Implications to Theory, Practice and Policy: Policy makers should initiate policies that motivate organizations such as hotels to practice diversification to minimize negative impact on both financial and non-financial performance aspects.

Keywords: *Related Diversification Strategies, Vertical Diversification, Horizontal Diversification, Organizational Performance*

1.0 INTRODUCTION

Globally, the hotel sector is considered paramount in tourism destination development since it is charged with the provision of food, accommodation and other amenities (Booyens, 2022). In Kenya, hospitality and tourism industry is ranked second after the agriculture contributing 10.4% of the country's GDP (Government of Kenya - GoK, 2022). However, the upward trajectory has been hampered over time by the socio-economic turbulences and other unprecedented issues affecting the hotel performance has been negatively affected. This was due to low demand of accommodation and other hotel products, which were witnessed due to travel ban, dusk to dawn curfew ordered by the government in effort to control further Covid-19 spread (GoK, 2022).

For any organization succeed in the current competitive and changing business environment, it is necessary to be aware of the turbulences, opportunities and threats presented by the external environment, so that the organization can capitalize on the opportunities and avoid threats through the proper application of responses by developing diverse strategies to improve performance, survival and competitiveness (Triaa, Gzara & Verjus, 2016). One of the possible ways to improve a company's efficiency and performance is spreading firm's financial investments through diversification. According to Mendoza-Abarca and Gras (2019), diversification is an entry of a company into new activities through a process of internal expansion or acquisition.

Randeree and Youha, (2009) reiterated that a firm's success is determined by its ability to effectively implement strategies to achieve its objectives. According to (Richard, Devinney, Yip & Johnson, 2015), organizational performance covers three areas of business results: financial performance which include; profits, return on assets, return on investment; product market performance which include; sales, and market share; shareholders' return which include total shareholder return, economic value added. Santos and Brito (2012) argued that organizational performance could be comprehensively measured through profitability, social performance, environmental performance, customer and employee satisfaction, and business growth.

Today, the hospitality industry operates in an increasingly dynamic and challenging environment, coupled with seasonality and the recent Covid-19 pandemic, which has disrupted almost all businesses, especially the tourism industry to which hotels belong. Therefore, organizations must be able to take action swiftly by scanning business future and responding to any obstacles or opportunity that may arise (Kalnins, 2016). Rizea (2015) advocated that firms must formulate diversification strategies to achieve efficient performance and market competitiveness.

Heckman, Steger and Dowling (2016) further stated that organizations must learn to adapt in order to remain highly competitive over time in a volatile business environment. Misigo (2018) stated that the choice of a firm's diversification strategy is based on a careful assessment of its mix of resources and capabilities and must reflect market influence. 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.

In Kenya, factors such as additional tourist attractions and leisure activities have contributed to the exponential growth of the hospitality industry (Bama, Nyathela-Sunday & Makuzva, 2022). While this growth is encouraging for the industry, the existing hotels and related businesses are threatened. This concern has prompted managers and hoteliers to seek effective ways to maintain business performance through diversification (Matarazzo, Penco, Profumo, & Quaglia, 2021). The slowdown in the Kenyan economy, the push for privatization and the impact of globalization has made the industry vulnerable with many competitors and unattractive profit, making it very difficult for the industry to survive. 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).

Notably, significant investments in the hotel business have added value to the level of service delivery on the Kenyan coast hinged on diversification (Wanjala, 2020). Despite the excellent facilities, customers may avoid hotels if diverse products and services are not offered. Several studies focusing on other sectors 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. Very little research of this nature has been conducted in the hospitality industry in Kenya. It is in this context that the researcher has seen the need to explore the impact of diversification strategies on organizational performance among star rated hotel in the Kenyan coast.

Statement of the Problem

Though Kenya seeks to become a top ten long-haul destinations at the global due to its unique experiences, diverse and high-end services on offer to the visitors, the hotel sector is still facing business obstacles that destabilize their performance, thus increasing the difficulty of business continuity (GoK, 2017). The performance of the sector is susceptible to global uncertainties because of challenges in the recent year due to the negative impact of events such as terrorism attack in 2019 and the recent Covid-19 pandemic. Today, hospitality and tourism businesses operate in a constant, dynamic and challenging environment (Marco-Lajara, Ruiz-Fernández, Seva-Larrosa, & Sánchez-García, 2022). As a sub sector of service industry, it 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, Maher, Shah, Sheeraz, Iqbal, & Raza, 2022). Performance enhancement is crucial for hotels in developing countries that view the global marketplace as a mean to provide growth, competitiveness and survival opportunities.

Hospitality and tourism industry especially the hotel sector should emphasize on diversification strategies in order to motivate and develop resilience to counter the organizational and environmental forces (Arsenieva, Putyatina, Barsova, & Golov, 2019). This is against the backdrop of post Covid 19 business operation recovery, which is characterized by low sales volume and profitability level necessitated by low customer demand and changes in customer expenditure as well as competition in the hotel market, which is a serious problem (Arsenieva *et al*., 2019). Improving the competitive advantage is key for business improvement, and solving this problem will help in strengthening the business position of the hotel industry, as well as attracting new guests and generate additional benefits (Teo, 2002).

In order to survive the post Covid-19 economic crisis, hotel industry operators need to employ a proper diversification strategic plan. A diversification strategy provides organizations with various benefits from a monetary perspective, including cost reduction, asset depreciation and risk reduction. Diversification increases the range of investment opportunities for firms because it allows the firm to take advantage of more profitable opportunities were previously inactive (Hasby, Buyung, & Hasbudin, 2017). Inability to diversify by the hotel industry has greatly

Journal of Hospitality and Tourism
ISSN 2789-7052 (Online)
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affected their financial sustainability (Oyefesobi, Akintunde, & Aminu, 2017). Diversification implementation will address the risks associated with increasingly dynamic and changing business environment; increase the level of hotel business sustainability (Oyefesobi *et al*., 2017). The diversification of operations would further enable the hotel industry to increase market share thus improving financial performance.

On the other hand, despite numerous studies on the impact of diversification strategies on organizational performance, these studies have however, revealed conflicting results. While some expressed positivity, other results showed no relationship between the variables (Asman, 2013; Zheng & Tsai, 2019; Maragia & Kemboi, 2021). Therefore, this study sought to bridge the knowledge gap between the application of related diversification strategies and organizational performance among star-rated hotels in the Kenyan coast.

Specific Objectives

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

Research Hypothesis/questions

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

2.0 LITERATURE REVIEW

Theoretical Background

Ansoff Matrix Theory

The Ansoff Model (1987) presents a strategic approach that can assist a firm to identify their future strategic growth direction. Ansoff Model itemizes four basic ways in which a firm can develop its portfolio of products and markets. Ansoff Model outlines a matrix that focuses on the firm's present areas where competences and generic strategies can be depicted. These include; market penetration, market development, and product development and diversification strategies. Diversification occurs when a business introduce a new product or enters into a new market. Organizations can only manage risk by minimizing potential harm to the business during economic turbulence through diversification approach.

The theory states that diversification is the best approach to use in order to minimize potential harm to the business during economic turbulence. Ansoff proposed three stages of diversification in three levels that include; related markets where customers and markets are new, none-related markets; customers and markets are different. Consequently, Ansoff theory relates to this study as it gives direction on how organizations can manage risks and improve their performance. The study investigated the influence of diversification strategy on organizational performance among star rated hotels in the Coast region of Kenya.

Related Diversification Strategies and Organizational Performance

Arthur and Thompson (2004) emphasize that related or concentric diversification strategies involve building businesses around firms whose value chains have a strategic fit with competitive value. He 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 game plan that engages operating a secondary activity that benefits out of access to a company's core competencies.

Gyan, Brahmana and Bakri (2017) noted that related or concentric diversification is a strategic form by which firms develop different brand products with the objective of exploiting the full potential of current technology and marketing system. Al-Shakhsheer, Al-Ababneh, Habiballah, & Hsieh (2022) examined related diversification on hotels' competitiveness and generation of revenue in Jordan. Specifically, the study evaluated the effect of new product development and price diversification on competitiveness and sales generation of hotels in Jordan using a questionnaire and a sample size of 128 star rated hotels. The results demonstrated existence of related diversification strategies comprising of price differentiation and new product development in Jordanian star rated hotels. Adoption of these related diversification strategies led to improved competitiveness and generation of revenue when the two related diversification strategies were jointly applied. The study found tha6t when individual hotels adopt related diversification strategies they accommodate a wide base of customers whose needs and income levels are different. Sales in different aspects such as room occupancy, beverage and meals sales are up scaled thus increasing revenue generation.

Goryushkina, Voinova, Voronkova, Sitnov, Shichiyakh, Gordeyeva, (2019) evaluated the role of diversification in improving the competitiveness of the hotel industry in Russia. The focus was on related diversification strategies such as expansion of the range of products offered and corporate expansion through creation of new chains of hotels. Based on the study, related diversification was found to enhance hotels acquire a share in hotel services' market thus enhancing competitiveness and survival of the hotels. Further, the study found related diversification to have an effect on the profitability of the hotels, which ensured that the hotels survived in the future.

Wairimu (2015) collected data among registered hotels in Kitui Town, Kenya to investigate the relationship between diversified services and hotel growth. The results showed that hotels are likely to have growth when they offer new products that attract new customers. This finding echoes the findings of Oyedijo (2012), whose findings revealed diversification is associated with firm performance as it leads penetration in new markets or market segments.

Horizontal Diversification

Klein and Lien (2009) argued that horizontal diversification occurs through acquisition or new product development that may be of interest to the company's current customer base. They further noted that companies rely on commercial and technical relationships with existing product lines. According to Moutinho (2000), horizontal diversification describes the process of engaging new products while targeting existing customer groups as potential customers. It may also involve targeting complementary or competing markets (Evans, Stonehouse & Campbell, 2012). In a Zimbabwean study, Eukeria and Favourate (2014) examined the effect of horizontal diversification on performance of companies in the country's food and beverage segment. The study adopted a linear model, intermediate and inverted U model. Through these models, it was established that horizontal diversification enhanced value creation and justified existence of the companies selected in the food and beverage industry. Further, performance of the companies was enhanced by enabling the companies leverage on their unique resources in creating new products, which helped them have a competitive edge, increased profitability and market share in terms of customer numbers (Restuputri, Septira, & Masudin, 2023).

Vertical Diversification

According to Espino (2022), vertical integration is a business strategy that involves growth through the simplification of operations. This occurs when a company acquires a producer, vendor, supplier, distributor or other related company within the same industry. Companies that choose to vertically integrate do so to strengthen their supply chains, reduce production costs, capture upstream or downstream profits, or access new distribution channels. The hotel industry continues to grow at an impressive rate and becomes more competitive as international hotel groups enter more and more destinations. This process has led to massive consolidation among major 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. Despite the impressive growth rate, the slow development is affecting the hospitality industry (Wezel, Herren, Kerr, Barrios, Gonçalves, & Sinclair, 2020).

Hamilton and Mqasqas (1997) point out that vertical integration offers a 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. They integrate as much as distribute and are therefore characterized by complete flexibility to make relevant decisions related to production, distribution and investment. From a general management point of view, horizontal and vertical integration can be considered as important decisions on the profitability of a given company. This can be attributed to achieving greater economies of scale, product differentiation and innovation (Wezel *et al*., 2020). According to Espino (2022), other than the increase of profit of newly acquired companies through direct sales of their products to consumers, vertical integration also ensures the efficiency of the production process, delivery and transportation time reduction.

According to Gore (2021), vertical integration occurs when two firms engage in similar product, however, with different levels of the production process. This is termed as an expansion approach used to control the entire industry. Kano (2022) identified 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 (Kano, 2022). He further observed that to strengthen the production and distribution chain and to reduce the cost and waste of products at all levels is the main aim of consolidating firms. Consolidation will eliminate middlemen by allowing companies to retain both upstream and downstream profits (Grant & Startz, 2022).

Diversification strategies provide organizations with different benefits from a monetary point, including lowering of cost, asset depreciation, and lowering of risk. Strategic benefits involve growing, establishing, and upgrading the company's permanent strategic assets. In the travel industry, the benefits of partnerships may range from cost sharing, risk mitigation and brand enhancement. In addition, long term business sustainability as well as geographic growth. 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. This is important for a business to face with its competitors (Sheel, 2017). Akewushola (2015) asserts that diversification strategies enable organizations to spread their excess resources for economic benefit.

Schommer, Richter, Karna, (2019) call for increasing diversification to generate costly complexity and increase information asymmetry; as diversification increases, the marginal cost of diversification gradually exceeds its marginal benefit, and the performance relationship of diversified firms can be inverted in a U-shape (Pierce & Aguinis, 2013). Many studies have been carried out on diversification strategies and organizational performance with some of the findings having contradictory results, many researchers are only associating diversification with financial performance as opposed to the current study which examine both financial and non-financial performance. From the perspective of these empirical studies, firm performance and diversification appears to differ in nonlinear relationships. This study therefore evaluates the relationship between diversification and organizational performance in coastal Kenya hotels.

3.0 METHODOLOGY

Research design

The study adopted a descriptive cross-sectional survey design since it involves an in-depth explanation of a situation (Siedlecki, 2020). Pragmatism philosophical approach was adopted which denotes that knowledge emerges from a range of specific outcomes, which is not necessarily shaped by antecedence (Cherryholmes, 1992; Kaushik & Walsh, 2019). This study was carried out in the coast region of Kenya, which is endowed with a variety of natural resources and biologically rich ecosystems and landscapes of both national and international importance pertinent in supporting hospitality industry. According to KNBS (2019) 65 percent of tourists' in Kenya visit Coastal region. The study was based on three counties namely; Mombasa, Kilifi and Kwale.

The researcher employed stratified random sampling technique in selecting the hotels. Strategic level managers, tactical managers and junior level managers were purposively chosen. Semi-structured questionnaires were used to collect data from tactical and operational managers. Structured interview schedule was used to collect data from the strategic managers since they were the key informant in this study. Both descriptive (means and frequencies) and inferential analysis (multiple linear regression) were used to analyze data. Specifically, the study collected data from employees in selected star rated hotels working in the following departments; food and beverage, housekeeping, front office, banqueting, finance, human resources and sales and marketing. The total population per hotel category from 2 to 5 star is 8775 (TRA, 2022).

Sample Size and Sampling Techniques

The sample size for the study was computed using Yamane (1967) formula defined as:

$$n = \frac{N}{1+Ne^2}$$

Where N is the target population, n is the desired sample size and e is the level of precision (5% for this study). Thus, $n = \frac{8775}{1+8775(0.05)^2} \cong 383$ respondents selected from middle level and lower level of management in star rated hotels along the Kenyan Coast. The respondents were allocated proportionately based on the population of each star rating category of the hotels. The study also interviewed 36 general managers as key informants for the study as shown in Table 1.

Table 1: Description of the Sample Size

Hotel Category	Population (Hotels)	Sample Size (Hotels)	Sample Size (Managers)	POPULATION	Sample Size per Hotel (Managers)
2-star	14	8	$\frac{1750}{8775} \times 383 = 76$	Tactical managers (middle level)	5
				Lower managers (operational level)	5
				TOTAL	10
3-star	14	11	$\frac{2450}{8775} \times 383 = 107$	Tactical managers (Middle level)	5
				Lower managers (operational level)	5
				TOTAL	**10**
4-star	13	11	$\frac{2925}{8775} \times 383 = 128$	Tactical managers (Middle level)	6
				Lower managers (operational level)	6
				TOTAL	**12**
5-star	6	5	$\frac{1650}{8775} \times 383 = 72$	Tactical managers (Middle level)	6
				Lower managers (operational level)	6
				TOTAL	**12**
TOTAL	**47**	**36**	**383**		
GRAND TOTAL		**36 (General managers)**	**419**		

Source: Researcher (2022)

4.0 FINDINGS

Response Rate

During data collection, 383 questionnaires were distributed while 36 general managers interviewed. The response rate was 92.4% and 80.6% for the questionnaires and interviews respectively, which according to Mugenda and Mugenda (2012) is more than adequate for drawing conclusions.

General Information of the Respondents

The results on the distribution of the respondents by gender indicated that 60.7% (215) of the respondents were male while 39.3% (139) were female. This means both genders were well represented validating the findings. On the other hand, the marital status results indicated that 68.6% (243) of the respondents were married while 31.4% (111) were single. Consequently, results on the distribution of the respondents by age in Figure 1 show that 39.6% (140) of the respondents were aged 31-40 years, 35.0% (124) were aged 41-50 years, 13.6% (48) were aged 18-30 years, 10.7% (38) were aged 51-60 years and 1.1% (4) were aged above 60 years.

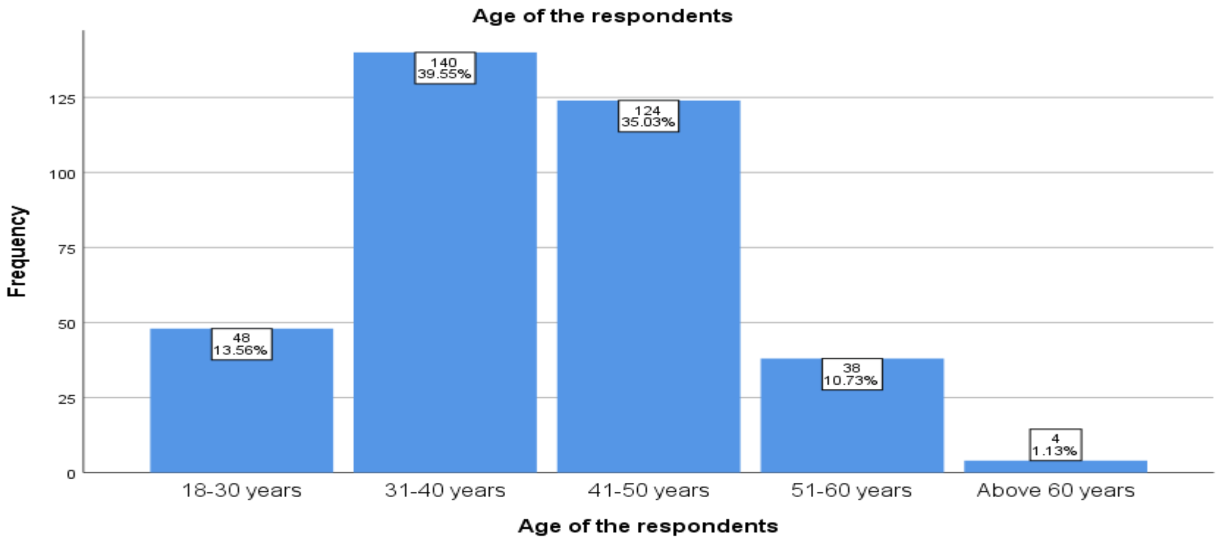

Figure 1: Distribution of Respondents by Age

Source: Research Data (2023)

In terms of education level among the respondents' it was clear that 44.4% (157) had a bachelor's degree, 44.1% (156) had college (certificate/diploma) education, 8.8% (31) had secondary education while 2.8% (10) had postgraduate education level. This implies that formal training and skills absorption in the hotel industry is well embraced by hotel management as panacea of improved service delivery.

In regard to position held in the hotel by the management team it was evident that 58.2% (206) of the respondents were in lower level management (operational managers) while 41.8% (148) were in tactical management level (middle level managers). This implies that all cadres of management are well captured in the hotel industry thus playing a pivotal role in the formulation and implementation of diverse strategies and policies for enhanced performance.

In regard to terms of employment the results shows that majority of the respondents, 60.7% (215) were permanently employed; 26.8% (95) were employed on contract terms while 12.4% (44) were on casual employment terms. This implies that majority of respondents are permanent and pensionable and this may lead to improved productivity and a sense of ownership concerning implementation of strategic decisions agreed.

Respondents also indicated the duration they had worked in the current hotel. The results indicated that 35.0% (124) of the respondents had worked between 1-5 years, 28.8% (102) had worked between 6-10 years, 16.4% (58) had worked for 11-15 years, 14.4% (51) had worked for above 15 years and 5.4% (19) had worked for less than 1 year. It is evident from the results that majority of the respondents (approximately 60%) had worked for more than 5 years in their current hotel and were therefore conversant with the operations of the hotel.

In terms of star rating and distribution of respondents; 29.1% (103) were in 4-star hotels, 26.3% (93) in 3-star, 24.9% (88) in 5-star while 19.8% (70) were in 2-star rated hotels. This was a clear indication that respondents were evenly distributed among the star rated hotels.

The impact of Related Diversification Strategies on Organizational Performance

The study's objective evaluated the impact of related diversification strategies on organizational performance. Respondents were presented with some related diversification strategies and required to indicate the extent to which the strategies were adopted in their hotels. The overall extent with which related diversification strategies were adopted was determined. The mean for each category of related diversification strategies was obtained and then recoded into the categories: *to no extent at all, to a little extent, to some extent, to a large extent and to a very large extent.* The results are tabulated in Table 2:

Table 2: Overall Extent of Adoption of related Diversification Strategies

Specific item(s)	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)

Source: Research Data (2023)

According to the findings in Table 11, it can be deduced that 33.6% (119) and 33.3% (118) of the respondents opined that horizontal diversification strategies had been adopted to a large extent and to a very large extent; 27.4% (97) opined that horizontal diversification strategies had been adopted to some extent, 5.4% (19) opined to a little extent while 0.3% (1) to no extent. The mean for overall adoption of horizontal diversification strategies was 3.94 (std. dev=0.92) which ascertains that on overall, horizontal diversification strategies have been adopted to a large extent. Diverse horizontal diversification strategies based on new product or service led to increase in; daily room occupancy rate, total revenue, customers spending power, customer retention, competitiveness or market share of the hotel, level of innovativeness, and eventually increase in service quality.

Further, the statistics on overall adoption of vertical diversification strategies deduce that 30.2% (107) of the respondents were of the opinion that vertical diversification strategies have been adopted to a little extent. Further, 28.5% (101) opined they have been adopted to a large extent, 22.0% (78) to some extent, 16.9% (60) to a very large extent while 2.3% (8) to no extent.

The mean for overall extent of adoption of vertical diversification strategies was 3.28 (std. dev=1.13) ascertain that overall extent of adoption of vertical diversification strategies was to some extent. Diverse vertical diversification strategies based on forward or back integration has an effect on; daily room occupancy rate, total revenue, customers spending power, customer retention, competitiveness or market share of the hotel, level of innovativeness, service quality and eventually employee performance.

From the results, it is evident that 37.9% (134) of the respondents opined that related diversification strategies had been adopted to some extent on overall, 30.5% (108) to a large extent, 20.6% (73) to a very large extent, 10.5% (37) to a little extent and 0.6% (2) to no extent. The mean on overall adoption of related diversification strategies was 3.60 (std. dev=0.95), demonstrating that related diversification strategies have on overall been adopted to a large extent.

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 Informants noted the following;

For Key Informant 13 horizontal diversification strategies have an effect on market share. Key Informant 13 reflects this on the following statement:

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

Key Informant 3 noted the following on the influence of vertical diversification on performance:

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

Regression model results

Through multiple linear regression, the relationship between horizontal and vertical diversification strategies with performance of the star rated hotels was assessed. Prior to fitting the multiple linear regression model for the relationship between the influence of related diversification strategies and performance of star rated hotels in the Kenyan Coast, diagnostic tests were performed to evaluate whether the assumptions of multiple linear regression model were fulfilled.

Since all the assumptions of multiple linear regression were fulfilled, a regression model was fitted as shown in Table 3. The model summary results in Table 3 indicate that R-Square=0.598; this implies that 59.8% of performance is explained by vertical and horizontal diversification strategies. Consequently, 40.2% of the variation in performance is still unexplained thus adding other independent variables could improve the fit of the model.

Table 3: 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				

Source: Research Data (2023)

The ANOVA results in Table 4 show that the p-value<0.00001; 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.

Table 4: 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						

Source: Research Data (2023)

The regression coefficients results shown in Table 4 show that all the p-values are less than 0.00001. The null hypotheses *"There is no significant relationship between vertical diversification strategies and performance of star rated hotels along the Kenyan Coast"* was *rejected*. This means that horizontal and vertical diversification strategies are significant predictors of performance of star rated hotels in the Kenyan Coast. Further, the regression coefficients are all positive; this indicates that horizontal and vertical diversification strategies have a positive effect on performance of star rated hotels in the Kenyan Coast. The regression model for predicting performance from horizontal and vertical diversification strategies can therefore be written as:

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

Table 5: Regression Coefficients for Regression Model between Related Diversification Strategies and Performance of Star Rated Hotels

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
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						

Source: Research Data (2023)

These results agree with Eukeria and Favourate (2014) who conducted a study in Zimbabwe in food and beverage segment. Horizontal diversification in the food and beverage sector of Zimbabwe was found to have a positive effect on performance since it enhanced value creation. Companies also leveraged on their unique resources in creation of new products which enabled them have a competitive edge, increased profitability and market share. The results are further supported by Restuputri, *et al.,* (2023) who conducted a study in a select hotel in Indonesia and found that horizontal diversification positively affected performance of the hotel by improving its competitiveness.

Vertical integration had a positive effect on performance of star rated hotels in the Kenyan Coast. These findings concur with Tarver (2022) who noted that companies that make the choice of vertical integration strengthen their supply chains, reduce costs of production, capture upstream and downstream profits and access new distribution channels. According to Jonathan (2017), international hotels that choose vertical integration form hotel chains, with large structures that are vertically integrated which enable them to maximize revenues and capitalize assets. Through vertical integration, Hamilton and Mqasqas (1997) note that profitable alternatives are offered due to avoidance of associated transaction costs.

5.0 SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Major Findings of the Study

From the findings horizontal diversification strategies; new product development, new service development, corporate expansion and integration were adopted to a large extent. In terms of adoption of vertical diversification strategies; acquisition, mergers, forward integration and backward integration were adopted to some extent. On overall, both horizontal and vertical diversification strategies were adopted to significantly in the operation and management of hotel business in the coast region of Kenya. From the regression model, horizontal and vertical diversification were found to have a positive effect that was statistically significant on performance of star rated hotels in the Kenyan Coast.

Conclusion of the Study

From the findings of the study, the following conclusions can be drawn:

i) Hotel business in the Kenyan coast remains lucrative for both investors, business people and even to the government.

ii) Diversification strategy is an essential tool as it guarantee hotel survival through increased revenue collection, increase room occupancy, and increased market share.

iii) That diversification strategy can offer the hotel operators with significant competitive advantage thus providing synergistic impact.

iv) That hotel performance is achieved in terms of operation efficiency and effectiveness, profitability, innovation and service quality.

v) Both horizontal and vertical diversification strategies under the category of related diversification strategies separately have a significant effect on financial and non-financial performance of star rated hotels.

Recommendations for policy practice and further research.

Policy makers such as tourism regulatory authority, association for the hotelkeepers and capital market operators should initiate policies that motivate organizations such as hotels to practice diversification to minimize negative performance to both financial and non-financial aspects.

Hotel organization should examine their strength and weaknesses to enable them leverage for opportunities presented by diversification to build stability and spread risk other than concentrating to single product. This will enhance their predictability about the future and hence boost their financial strength making profitable investment decisions. Hotel operators should ensure they are strategic by engaging in business segment diversification strategies.

Further Research

i. It is imperative to expand the study in order to establish the views of star rated hotels from other parts of the country by finding out their perception on related and non-related as strategic tool to hotel performance.

ii. To carry out a comparative study on diversification strategies based on pre and post Covid 19 pandemic measures and its impact to sustainability among star rated and unclassified hotels in Kenya.

iii. Lastly, this study recommends a comparative study be conducted on benefits and risk level of related and non-related as a strategic tool classified hotels.

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