

**DIVERSIFICATION STRATEGY AND PERFORMANCE OF RADIO  
AFRICA LIMITED IN KENYA**

**BY  
KHAMATI AMANDA DEMBEKO**

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## DECLARATION

This Research project is my original work and has not been presented for examination in any other institution.

Signature.....

Date.....

AMANDA DEMBEKO KHAMATI

D61/60115/2011

The Research project has been submitted for examination with my approval as University Supervisor.

Signature.....

Date.....

DR. ZACHARY B. AWINO, PHD.,

Senior Lecturer, Department of Business and Administration

School of Business

University of Nairobi

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## **DEDICATION**

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## ABSTRACT

This study focused on the adoption of Diversification as a strategy at Radio Africa Limited in Kenya and its effect on the organization's performance. Turbulence in the business environment has led to companies looking for various ways to retain their competitive edge, and sustain their businesses. In the fight for survival and relevance, some organizations have resorted to diversification strategy, corporate strategy adopted by firms that wish to grow, increase their revenues and increase their market share. This study took a critical look at the relationship between diversification strategy and performance of Radio Africa Limited in Kenya, while examining the type of diversification, measures of organizational performance, and theories relating to the subject. A case study was carried out within the organization, and data collected by interviewing the senior managers involved in research, strategy formulation and implementation as well as finance. All these executives had worked at the organization for over five years and these qualities made them suitable sources of information for the study. The performance was looked at in terms of growth in market share and revenues to the organization. Data was analysed using data analysis, and results summarized and presented in the project. Some limitations to the study were experienced in the data collection, as the organization is privately owned, and its financial reports are not in the public domain. In addition, the authorities in research for the industry have premium prices on their reports, making them largely inaccessible for scrutiny and analysis. The study concluded that there is a positive relationship between diversification strategy and performance of radio Africa Limited in Kenya. It was also clear from the research, that though the performance improved as a result of the strategy, the overall growth in revenues was decreasing at a decreasing rate. Therefore, a recommendation for further research is to establish the reasons for this decline. The findings of this study are consistent with researchers that have found a positive relationship between diversification and performance. The implications include the need for government to create an enabling environment for the growth of media outlets, and to govern the media houses' practices for the good of the country. Another implication is on the need for organizations to diversify to promote growth in revenues, market share, sustain competitive advantage and to remain relevant.

# TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>ACKNOWLEDGEMENTS</b> .....	iii
<b>DEDICATION</b> .....	iv
<b>ABSTRACT</b> .....	v
<b>LIST OF TABLES</b> .....	viii
<b>LIST OF FIGURES</b> .....	ix

## CHAPTER ONE: INTRODUCTION

1.1 Background of the Study.....	1
1.1.1 Diversification Strategy.....	3
1.1.2 Organizational Performance.....	4
1.1.3 The Media Industry in Kenya.....	5
1.1.4 Radio Africa Limited.....	6
1.2 Research Problem.....	7
1.3 Research Objective.....	10
1.4 Value of the Study.....	10

## CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.....	11
2.2 Theoretical Foundation.....	11
2.3 Types of Diversification Strategy.....	14
2.4 Diversification Strategy and Organizational Performance.....	16
2.5 Empirical Evidence on Diversification Strategy and organizational Performance.....	17

## CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction.....	19
3.2 Research Design.....	19
3.3 Data Collection.....	20
3.4 Data Analysis.....	20

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

4.1 Introduction.....	21
4.2 Respondents.....	21
4.3 Radio Africa Limited profile.....	22
4.4 Diversification Strategy at Radio Africa Limited.....	23
4.5 Influence of Diversification Strategy on performance of Radio Africa Limited...25	
4.6 Discussion.....	29

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Introduction.....	33
5.2 Summary.....	33
5.3 Conclusion.....	35
5.4 Limitations of the Study.....	35
5.5 Recommendations.....	36
5.6 Areas for Further Research.....	36
5.7 Implications on Policy, Theory and Practice.....	37

## **REFERENCES.....38**

## **APPENDICES**

Appendix I: Interview Guide.....	42
Appendix II: Introductory Letter .....	44
Appendix III: List of Media Outlets in Kenya.....	45

## LIST OF TABLES

<b>Table 4.1:</b> Growth of Radio Africa Limited Revenues.....	28
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## LIST OF FIGURES

<b>Fig 4.1:</b> Increase in Internet Consumption.....	26
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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment (Johnson et al, 2008). Strategy comes from a Greek word, *strategos*, which means the art of an army general in deploying forces to defeat an enemy (Yabs 2010). The same tactics can be used for success in business. Diversification is a strategy used by firms that intend to grow revenues and expand their market share. It is a strategy employed by a company that seeks to increase profitability. This strategy takes the organization away from its current markets, product or competencies.(Johnson and Scholes, 2008). Firms using diversification strategies enter entirely new industries through mergers and acquisitions. Some firms may prefer to diversify internally by expanding the existing business, without involving any new organizations.

Firms diversify for many reasons. Some firms may have excess capacity, which if utilized can allow the firm to benefit from economies of scale. Firms may possess some expertise and other resources that can be employed in new business, and this contributes to reduction in operating costs. Some firms diversify because there are opportunities for profitable business outside of their core business. This may include business related to the firm's current business, or may be totally unrelated.

The role of management is to analyze the organization, in terms of its strengths, weaknesses, opportunities and threats. Strategic management should be concerned with building and sustaining competitive advantage (Porter 1985). The performance of an organization, therefore, depends largely on formulating and implementing a strategy that will enable it to meet its desired goals.

Theories that have been put forward in relation to diversification include The Resource based view/theory (RBV) and the Dynamic Capabilities Theory (DCT). The Resource Based View or theory of organizational performance views each organization as a collection of unique resources and capabilities. The company's resources are inputs into the production, for example, capital, and equipment, skills of employees, talent and patents. Its capability refers to the capacity for these resources to perform certain tasks and activities. A company's objective is to increase its economic value added, over and above the cost of capital in the business.

According to Teece (2009) in the theory of dynamic capabilities, the major concern for organizations is corporate agility, that is, the capacity to sense and shape opportunities and threats, to seize opportunities and to maintain competitiveness through enhancing, combining, protecting and reconfiguring the business enterprise's assets.

The media industry landscape in Kenya has changed tremendously in recent years. Consequently, the management of media houses has had to shift to a more strategic way of management from a casual style management in the face of stiff competition for consumers. There are several privately owned radio stations TV stations and newspapers. Some are owned and managed by government. Because of the diverse

needs and the segmentation in the market, media houses have had to create platforms that cater to these needs. Audiences are mainly segmented according to demographics and geographical location Radio Africa Limited, the main focus in this study, began with one station, Kiss 100. Fourteen years later, through related diversification by acquisition and internal startups, Radio Africa Limited has grown in market share, and expanded its revenue base, adding great incremental value to the shareholders. The company has taken advantage of its available resources to grow into the force it is today.

### **1.1.1Diversification Strategy**

A diversified company is a collection of individual businesses under one umbrella company. According to Thompson, Strickland and Gamble, 2007, three tests must be passed in order for diversification to be considered a success. This success means to add shareholder value. These tests require that the industry to be entered is attractive enough to constantly yield good returns on investment. Secondly, the cost of entry must not be too high to erode the potential for profitability and third, the new business must offer potential for the whole business to perform better Diversification involves directions of development which take the organization away from its present markets and its present products at the same time (Johnson and Scholes, 2008).

The main strategic concern for a leader revolves around how to defend and strengthen its leadership position, perhaps becoming the dominant leader as opposed to just a leader. Porter (1985) suggests that a firm can gain a competitive advantage if has skills and resources that can transfer into new lines of business and markets. Diversification strategy is a risky strategy though it has been embraced by leading

media houses in Kenya. The primary aim is for the diversification to provide long term value for shareholders. According to Grant (1998), the critical issue in diversification is for managers to avoid the errors of the past mistakes through better strategic analysis of diversification decisions.

### **1.1.2 Organizational Performance**

Organizational performance is an analysis of a company's performance as compared to set goals and objectives (Business Dictionary 2014). It is the extent to which an organization achieves a set of pre-defined targets unique to its mission, including both objectives and subjective indicators Albrecht (2011). Organizational performance encompasses three specific areas of firm outcomes, that is, financial performance (profits, return on assets, return on investment, and so forth), product market performance (sales, market share, and so forth), and shareholder return (total shareholder return, economic value added, and so forth) (Richard et al, 2011).

According to Albrecht (2011), drivers of organizational performance include Strategic focus, leadership, knowledge management, and others, which are all key considerations in diversification of business. Three organizational performance dimensions that are dominant in this study are profitability, liquidity and growth. Profitability may be measured in terms of increased surplus revenues, and growth may be measured in terms of increased market share, as well as an increased revenue base.

### **1.1.3 Media Industry in Kenya**

Kenya enjoys a vibrant and liberalized media industry. According to a paper by Mbeke (2008) in post-independence Kenya, government preferred media that contributed to nation building and development. Government was generally intolerant toward the press. State owned Television and radio monopolized the market. Following the launch of the first privately owned television station in the country, Kenya Television Network (KTN) in 1990 (ktnkenya.tv), Kenyans have continued to enjoy numerous media alternatives as a source of news, information, entertainment and commercial activity. The market is very highly segmented, as the consumers of media vary, geographically, demographically and otherwise. The major players in the industry have implemented diversification strategy to cater to the various needs of the consumers, and ultimately, to remain relevant and profitable.

The platforms in Kenyan media are broadcast, including TV and radio; print media, which includes newspapers, magazines, newsletters, journals, and the internet (worldwide web) which is gaining popularity at astronomical rates. The internet has grown tremendously in Kenya fuelling an increase in Smartphone sales. (Kimutai, 2011). A big component of the internet based media is social media and other digital media platforms. Kenyans can access information of all kind through various media. Since the liberalization of the airwaves and easing of licensing by the government in the 1990s, many radio stations, newspapers, magazines, TV stations among others have come up. According to Oganga (2009) there were ninety commercial and non-commercial radio stations in Kenya by September 2009.

The Kenya Communications Amendment Bill was assented to by the government in January 2009. The bill was introduced to streamline and introduce regulatory provisions in electronic transactions as well as broadcasting which were considered weak. Some aspects in the bill were vehemently broadcasted by the media fraternity and other sectors such as non- governmental organizations. Segmentation in the industry has led to cross media ownership, in which one company runs radio, television, newspaper and digital divisions, and further differentiates these based on demographics. The main players in the media industry in Kenya have all diversified and entered into diverse markets. These include Kenya Broadcasting Corporation, Nation Media Group, Royal Media Services, Mediamax Networks Limited, and, Radio Africa Limited. Media houses generate their revenues from selling advertising products. They entertain their audiences/consumers to attract them into a platform where advertisers in government and in the private sector can disseminate information, for a fee. The ideal measure of performance in the media house is market share and revenues.

#### **1.1.4Radio Africa Limited**

Radio Africa Limited is a fast growing media house in Kenya. It began in July 2000 by opening its first radio station, Kiss 100 Fm Through an effective product differentiation, Kiss 100 managed to achieve the top position in the market. Five years later Radio Africa launched Classic 105. This was an internal start up, and Radio Africa leveraged their experience and learning curve from the success of Kiss 100. The company also took advantage of their capacity, and reaped from the goodwill of their clients from the predecessor. Being the flagship station, revenues from Kiss 100 were used to sustain the new station until it was able to stand on its own feet.

Over the years, the firm has diversified to reach new geographical and demographic markets, and has other radio stations, East Fm, X Fm, and Radio Jambo. In the Television sector, they have Kiss TV and has further diversified its business into print media, by launching The Nairobi Star newspaper, the first full colour newspaper in the country. The company is now a participant in digital media. Despite numerous setbacks and challenges in the diversification process, Radio Africa has managed to continuously grow its sources of revenue, and manage decline or stagnation by reinventing its products. This study's focus is to demonstrate the relationship between diversification strategy and the performance of an organization.

## **1.2 Research Problem**

An organization exists primarily to create value for its shareholders. This value can be measured most appropriately by the return on the shareholders' investment. Strategic management is a tool that is used by top managers to make decisions on the direction a company takes, the business in which it will be involved, and the long term goals all aimed towards success of the organization. According to Hill and Jones (2001) strategic managers need to choose the organizational structure that will allow them to operate a number of businesses efficiently. A company must control the interrelations among divisions. Performance in the organization can be measured in terms of return on shareholders' investment, revenues, and increased market share.

Radio Africa Limited is an example of a media house that has concentrated on its core competencies, and diversified to reach new markets, based on the demand for certain types of entertainment, information needs and preferences for communication. This diversification has helped the achieve goals of growth, new revenue generation and increased profitability over the years. Due to the relatedness in diversification strategy, they have been able to reap from economies of scope, their knowledge base, experience and loyalty. Top management engages in strategy formulation for the company which involves planning and making decisions that will develop the company's strategic goals. The plans include assessing the environment, analyzing core competencies and creating goals and plans and bearing in mind the challenges that it will encounter in implementing the strategy pursued.

Several studies have been carried out on diversification strategy in media and other industries, and comparisons made among them. A review of the literature shows there isn't a universally accepted position on the relationship between diversification strategy and organizational performance. The successes realized as well as the failures, or even stagnation of growth have been highlighted. The main concern was whether or not diversification grows revenues, market share, etc. According to a report in the Media Briefing In 2013, Jackson (2013) Studies carried out on five media houses in the UK revealed that, moving to digital media can play a role in achieving higher profits, currently leading digital businesses had almost no online publishing revenue five years earlier, and that diversifying revenue streams can increase revenue streams and profitability.

The media companies in the studies were *DMG Media*, including The Daily Mail, Mail on Sunday and Metro who have diversified from print advertising to digital, *Johnston Press*, who experienced a sharp decline in revenues from classifieds, *UBM* and *ITV* changing their revenue mix, which has reaped rewards, and, Future Publishing whose rapid shift from print to digital offset declines in print ads.

Locally, a study has been carried out by Kiweu (2012) on income diversification in the banking sector and earnings volatility, in which he has discussed the benefits to revenues in the banking sector. He argues that though there may be few benefits from income diversification; the diversification offsets some risk, and is thus beneficial to the firms. Another study carried out by Mika (2013) on Britam, a diversified regional financial services group has found that the company's diversification efforts have impacted positively on the group's earnings. Luseno (2011) has done a study on implementation of diversification strategy and its challenges, and somewhat points out the benefits accruing to Media companies.

Some studies, citing examples in various industries, have concluded that there is a negative relationship between diversification and performance, and some have concluded that there is a positive relationship; yet, many organizations seem to continue. This study will answer the question, How does diversification strategy impact an organization's performance?

### **1.3 Research Objective**

The objective of this study is to explore the relationship between diversification strategy at Radio Africa Limited in Kenya and the performance of the organization.

### **1.4 Value of the study**

Survival for any media house depends on formulation and implementation of strategies that will give the organization an edge over its competitors. This study will show the value of proper strategic planning to media owners in their businesses.

The study informs policy makers in government on their distribution of frequencies and licensing to media owners. The media directly impacts the economy through creation of employment opportunities as well as a source of national income. The media touches matters of national interest including the social and political spheres of the country, and policy makers should put these into consideration.

This Study will be of value to academia by comparing the dynamic capabilities theory and the resource based theory to practice, and contribute to the current research and literature on the subject. The study will serve as a contribution to management practice to help firms formulate meaningful and profitable strategies for their organizations

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This literature review explores the work of scholars and authors on the topic of diversification, and its impact on an organizational performance. It includes theories and arguments that have been put forth by researchers and authors on diversification strategy, a look at types of diversification strategies, the relationship between diversification strategy and organizational performance, and finally, some empirical evidence from previous research.

#### **2.2 Theoretical Foundation**

Diversification strategy refers to diverting the business focus from the existing traditional areas to new promising areas. (Hiriyappa, 2009). This implies a shift from the familiar products and markets to new territories in order to pursue growth. Many firms accomplish this through mergers and acquisitions, while others expand into new industries without the involvement of other firms. Diversification allows firms to take advantage of economies of scope by eliminating redundancies across different activities, and lowering fixed costs of production. It also allows a growing firm to explore attractive new productive opportunities (Gomes & Livdan 2003). Every company is best at certain products; diversification requires substantially different knowledge, thinking, skills and process (Cravens et al, 1996).

Companies diversify for various reasons. These include, surplus capabilities or capability gaps, changes in the business environment, presence of attractive markets related to the business, escaping stagnant or unattractive markets, reducing/spreading risk, and in order to achieve managerial goals (Corporate Strategy and Diversification, 2011). Costs can be reduced by cross business sharing or transfer of resources and capabilities. According to Thompson, Strickland and Gamble (2007), companies that diversify into business with competitively important value chain match ups gain more competitive advantage potential than those whose value chain are unrelated.

Porter(1985)says that a proposed diversification move should pass three tests or it should be rejected. The first test is the industry attractiveness test. Unless the industry has strong profit potential, then entering it may be too risky. The second test is the cost of entry. Top management need to be sure that they will recoup then expenses accrued in entering into the new industry. Thirdly, the “better off” test should be passed. This means that one or both of the new businesses benefit from the diversification. The strategy should make the sum total of both businesses greater than if they had not diversified.

Diversification efforts may be either internal or external. Internal diversification occurs when a firm enters a different, but usually related, line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification may achieve the same result; however, the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification.

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. (Mergers are usually "friendly.") Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased. Within the study of diversification strategy, there are two major theories, namely, Dynamic capabilities theory and Resource based View. The dynamic capabilities theory is concerned about the ability of a firm to reconfigure internal and external competencies into new competencies, in response to the turbulent environment (Teece, 2009). In essence this theory advocates for a company's competitive advantage in the short run, resulting in long term competitive advantage.

The Resource based view seems to lean towards a firm sustaining long run competitive advantage, by focusing on exploiting its unique resources. Corporations have capabilities that can be transferred from one business to another. These include labour, skills, knowledge, intellectual property and more. They form the basis for competitive advantage. In a diversified firm, these resources can be used to achieve synergy between the various business units and hence give the organization an edge.

## **2.3 Types of Diversification Strategies**

Diversification takes two major forms. According to Cole (1997), diversification strategy can be subdivided into related diversification and unrelated diversification. Related businesses have competitively valuable value chain and resource match ups, while unrelated businesses do not have similar chains or resource requirements. Relatedness in business concerns the degree of similarity or fit between the businesses within the corporation.

Diversifying into related business is also referred to as concentric diversification. This occurs when a firm adds related products or markets. The goal of related diversification is to achieve strategic fit, which allows an organization to achieve synergy (Thompson, Strickland and Gamble 2007). Synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. These authors state that such companies build around businesses whose value chains possess competitively valuable strategic fits. This means that one or more activities in the businesses are sufficiently similar.

Synergy may be achieved by combining firms with complementary marketing, financial, operating, or management efforts. The strategic fits must transfer competitively valuable chain activities of separate businesses into a single operation to achieve lower costs. Strategic fit can be converted into competitive advantage by transferring specialized and generalized skills or knowledge, combining related value

chain activities to achieve lower costs, leveraging brand names and other differentiation resources, and using cross business collaboration and Knowledge sharing. A strategy of related diversification is used to build up linkages in the value system, which is an important source of competitive advantage (Capon 2008). Related diversification can be backwards, forwards, or horizontal, and can be achieved via organic growth, franchising or acquisition (Capon 2008). Backward integration occurs when the company establishes or acquires its own inputs Kotler (1999) explains that this means moving further back into the firm's value chain. This way a company is responsible for producing its own raw materials and other inputs. Forward integration occurs when a company establishes or acquires its own distribution channels such as transport, repairs, service etc. Horizontal integration occurs when a company starts to expand its existing range of goods and services in order to take on its competitors.

Unrelated diversification occurs when an organization moves to new products and services that have no technical or commercial relation with current products, and markets, distribution channels, etc. Unrelated strategy discounts the merits of pursuing cross-business strategic fits and instead focuses squarely on entering and operating business in industries that allow the company as a whole to grow its revenues and earnings (Thompson et al, 1999). Companies that pursue a strategy of unrelated diversification generally exhibit a willingness to diversify into any industry where senior managers see opportunity to realize consistently good financial results. This way the firm anticipates a high return on investment.

The unrelated business must then meet requirements for profitability and return on investment, it should be an industry with attractive profit and growth potential, and should be big enough to contribute significantly to the parent firm's bottom line. The strategy of unrelated diversification emphasizes on satisfying the attractiveness and cost of entry tests and each business's prospects for good performance.

## **2.4 Diversification Strategy and Organizational Performance**

The effect of diversification on firm performance has received an enormous amount of attention, probably more than any other empirical relation in the field of strategy. Rumelt (1974) is among authors who have found that effect is contingent on the degree and type of relatedness across a firm's businesses. In essence, related diversification is good for firm profits while unrelated or conglomerate diversification is not. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executives that "bigger is better." Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow (Thompson, Strickland and Gamble, 2007). Rewards for managers are usually greater when a firm is pursuing a growth strategy. Managers are often paid a commission based on sales. The higher the sales level, the larger the compensation received.

The top executives of an organization must choose a strategy that will build shareholder value. Through diversification, a firm should aim to create strategic fit or synergy which occurs when the whole is greater than the sum of its parts. (Thompson et al, 2008). Thompson et al (2007) argue that companies that strive to grow their revenues and earnings at a double digit rates year after year (or at rates exceeding the overall market averages so that they are growing faster than the rivals and gaining market share) diversify their businesses. They argue that the strategy must improve the firm's performance through profits and financial strength, as well as competitive edge and market share.

According to Thompson et al (2007) initiating actions to boost the combined performance of the businesses the firm has entered is a key determinant of performance within a diversified firm. The challenge is to use the corporate parents to help the business subsidiaries by providing financial resources, supplying missing skills or technological knowhow or managerial expertise to better perform the key value chain activities thus providing new avenues for cost reduction.

## **2.5 Empirical evidence on diversification strategy and organizational performance**

Several studies have been done on the diversification strategy and performance in organizations. These studies have covered various industries. Greene (1993) carried out a case study of Wal-Mart Stores Inc, where he found that the growth of the stores was partly as a result of its diversification.

The Wal-Mart story is an example of a positive relationship between diversification and organizational performance. The store which initially started as a small 16 store operation had began to die gradually, as they faced competition from supermarkets and discounters. According to the study, as of January 31, 1993, Wal-Mart had approximately 434,000 employees and over 1,720 discount stores.

Karanja (2013) has done a study on diversification and performance, focusing on KenolKobil Limited in Kenya. In this study, the oil company's diversification strategy was shown to have influenced the firm's performance through increase in sales volumes, net profits and shareholder equity. The same study, however, concluded that the strategy did not have a positive effect on return on owners' equity. Asman (2013) has carried out a research project on diversification strategy and performance of Kenyan commercial state owned corporations. His study was conducted as a survey of fourteen Kenyan state owned corporations. The study established a positive relationship between diversification strategy and performance of state owned commercial corporations.

In the mentioned studies, one focused on a multinational firm whose business spans across many countries, and which has adopted related and unrelated diversification. The other was focused on State Owned Corporations, which are government institutions and whose operations differ from privately owned corporations. This study sets out to establish if the same trends in the government sector and in multinational firms would be duplicated in privately owned corporations that have adopted a related diversification strategy.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the process used to collect information and data for the purpose of this study. It covers the research design, collection, measurement and analysis of data.

#### **3.2 Research Design**

This is a case study as it is centered within one organization. A case study is appropriate as it enables a detailed examination of a single organization being observed. A case study strategy is of particular interest if one wishes to gain a rich understanding of the context of the research and the process being enacted (Saunders and Lewis 2007). According to Kothari (2004), a case study involves a careful and complete observation of social units and emphasizes depth.

Research design refers to the way a study is planned and conducted (Ngau and Kumssa, 2004). It is the blueprint of the research to be undertaken. Research design has also been described research design as a set of decisions that make up the master plan, specifying the methods and procedures for collecting and analyzing the needed information.

### **3.3 Data Collection**

Data collection is simply the process of gathering information to gain insights. In this study, data is primary data, collected by use of an interview guide administered to senior managers in the organization under observation. These senior managers are the Chief Financial Officer, the General Manager, The Group Direct Sales Manager and heads of the individual business units.

### **3.4 Data Analysis**

In this study, data collected has been analyzed through content analysis. Content analysis is the analysis of text, and includes both qualitative and quantitative approaches. Qualitative analysis categorizes phrases, describes the logical structure of expressions and ascertains associations in order to interpret the results of the findings (Kaberia,2013).

The data has been classified into various themes to facilitate analysis, and the results have been used to make inferences about the answers received from the interview, as well any information retrieved from other sources.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter analyses the data findings, together with the interpretation of information collected. It begins with a look at the respondents and their suitability for the purpose of the research. Their responses were analyzed according to the objective of the study, which was to establish a relationship between diversification strategy and the performance of the organization.

#### **4.2 Respondents**

The seven respondents were top level managers, and senior executives within the organization. These include; the Group General Manager who has worked at the organization for 14 years since its inception; The Financial Director, The Chief Accountant; The National Business Development Manager; Former Head of Research and Business development Manager- New Projects; Two Sales and Marketing Managers heading two of the business units. All the respondents have worked at the organization for a minimum of 8 years. They hold key positions at the organization as far as strategy and organizational performance is concerned, making them suitable respondents for the interview.

The findings have been categorized into three major parts, namely, the company's profile and an overview from its inception to its current position, the strategy it has adopted, including reasons why they have chosen the said strategy, and thirdly, the resulting performance. Other results that were dominant in the interview process will also be mentioned.

### **4.3 Radio Africa Limited Profile**

Radio Africa Limited is a media house that began operating Kiss 100, their first radio station in Kenya in the year 2000. This was after having been in the radio business in Uganda for a number of years. According to the Group General Manager, from the onset, the company's vision was to be the number one radio station in the region. The airwaves had just begun to open up, and there was a lot of competition from other media houses that had been in the business longer and had more experience. Some stations, for example, Kenya Broadcasting Corporation (KBC) the national broadcaster was very dominant, and was the mainstay, before the FM stations got licenses to operate.

Like all media houses, the source of revenue is from advertising. In order to get more revenues, the radio station had to attract a big number of listeners to justify advertisers' spend on this platform. While other radio stations and the media in general were conservative, Kiss 100 took a risqué approach. They introduced vibrant programming including promotions where listeners would win big sum of cash. Initially, this approach seemed to scare corporate and other advertisers away, but within one year, with the growth of listenership and all the excitement around the Kiss 100 brand, the station grew and eventually became Kenya's number one station.

The needs of consumers in the media market were very diverse, and Kiss 100 was serving a very young population. The top management decided to create a new platform that would serve a more mature audience. With this, Classic 105 was born five years later. In the same way, through lessons learned from the earlier years, Radio Africa then expanded into new markets, by introducing additional radio stations to cater to various other segments. These stations are East Fm, which the company acquired, Radio Jambo and X Fm which were started from within the company. Radio Africa Limited also started a newspaper, The Nairobi Star, and two TV stations, Kiss TV and Classic TV. Currently, 14 years down the line, Radio Africa Limited has six radio stations, one newspaper, one television channel, and a digital (web based) platform. The company's vision is to be East Africa's leading provider of entertainment, marketing and media solutions.

#### **4.4 Diversification Strategy at Radio Africa Limited**

Radio Africa Limited has continued to grow over the years, from one radio station, serving a specific segment, to six radio stations, each targeting diverse segments that vary in terms of geographical areas, demographics and language. In addition the company has diversified into the print media market, television, and now digital media. Each of these is treated as a separate strategic business unit (SBU) within the organization. Through research carried by the organization's research team, Radio Africa has been able to determine consumer needs and trends. In addition, through SWOT and PESTEL analysis, the organization is continuously prepared for environmental changes and is able to remain relevant in turbulent times.

The Strategy that Radio Africa Limited has adopted is related diversification. The reason for this, according to the former head of sales (now National Business Development Manager) is in order for the company to grow its market share and revenues by serving untapped markets and operating business in markets with a promising profit potential. All the business units, that is, the radio stations, television, newspaper and the digital platform exist to provide entertainment, information and marketing solutions. All the radio stations, for example, share common core resources, which include a news department, production department, programming department, broadcast department and equipment, accounts department and logistics. News items may be shared among radio, television, print and digital, depending on the target audiences.

Apart from the printing press, all the units are located within the same premises in all regions where the organization operates. Costs within the organization are shared and allocated strategically among the individual business units in the process of diversification. The business units have also benefited from the learning curve, such that, experience from running any one of the businesses is used in starting up the new ones. Despite the consumers' diversity and the difference in the markets being served, the organization has been able to utilize the common core operations and processes to its advantage.

Radio Africa Limited has experienced organic growth since its inception. Every new business has been started from within. The Group Financial Director explains that revenues from the thriving business units have been used to create new brands and sustain them until they are able to generate their own revenues. The only exception so

far has been East Fm, a radio station targeting the Asian community in Kenya. According to the general Manager and the Group Financial Controller, the reason that the organization has chosen this mode of entry is the cost implications. Having attempted to buy out certain businesses in the past, the option of organic growth has proved more cost effective to the organization.

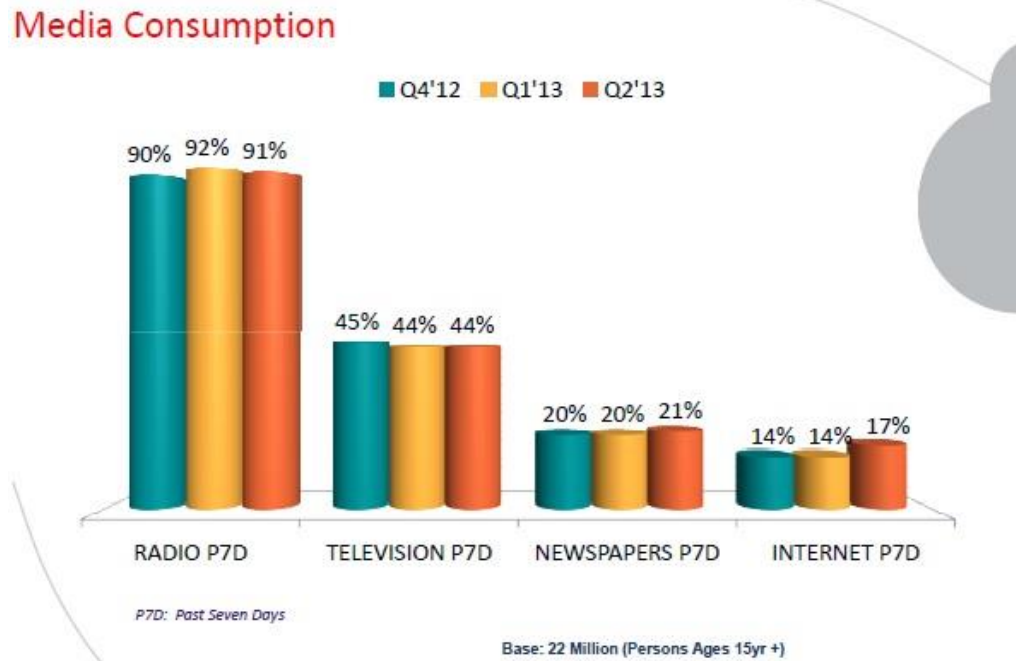
Radio Africa has been able to benefit from economies of scale. The company's premises that has been home to the organization since it began has been able to accommodate all the radio stations, television, digital, and more recently the newspaper operations. Through growth in market share and nationwide audiences, the organization has managed to expand into new geographical area, for example, the coast region whose offices were launched in 2010, East Fm Kisumu which was launched in 2013, and very recently, Radio Jambo Turkana.

#### **4.5 Influence of Diversification Strategy on performance of Radio Africa Limited**

The main measures of performance at Radio Africa Limited are growth in Market Share, and growth in revenues. In the media business's revenue model, market share is a major determinant of the revenues. Diversification strategy has had an influence on radio Africa's performance in two ways. First is the growth in market share.

When the company started off in 2000 with a single, little known radio station, their audiences were negligible. As the company opened new stations to reach more target groups, their market share gradually began to grow. Research shows that majority of Kenyans listen to radio, and Radio Africa has taken advantage of that by diversifying its radio products across various segments. Growth in online media prompted the

acquisition of Trinc Digital, now Radio Africa Digital, the new digital division at Radio Africa Group. The graphs below show the media consumption trends, and a justification for Radio Africa Limited to venture into online business.



**Fig4.1:** Increase in Internet Consumption .

**Source:** Kenya Advertising Research Foundation Report (2013)

Radio Africa Limited has found new markets in other geographical areas, for example in Northern Kenya, Kisumu and Mombasa shows that their market has grown from their initial traditional market in Nairobi. Radio Jambo is the biggest platform in the group in terms of reach. The station transmits in Swahili and has eighteen transmitters, enabling the station to reach the remotest regions within the country, yet initially, the company was broadcasting only in the urban areas of big towns. Kiss TV began broadcasting in Nairobi only, but has grown into a nationwide station. East Fm started in Nairobi, and has now expanded into Mombasa and Kisumu.

The Star Newspaper began as *The Nairobi Star* with distribution only in Nairobi. Currently, the newspaper is now in close direct competition with the leading dailies. Expanding into the digital market has also contributed to the growth of the organization's market share. The digital platform includes websites for the various radio stations, the television station and the newspaper, which allow people to tune into the stations programs online. This means that areas that were previously inaccessible because of geographical barriers can now get the radio service on their computers or smartphones.

Newspaper articles are also readily available online. Social media, a rapidly growing phenomenon in the country has also not been left out, as each of the radio and television personalities, the stations and the newspaper have profiles on Twitter, Facebook and other social media networks. This has translated into additional sources of revenue for the media house, away from the traditional sources. Advertisers can place ads on the online platforms as there are a good number of distinctly online audiences.

Growth in revenues is an important measure of performance at Radio Africa Limited.

The growth in revenue is dependent on market share.

Table 4.1: Growth of Radio Africa limited Revenues

<b>Radio Africa Limited Revenues</b>	
<b>Year</b>	<b>Revenue (Billions)</b>
2009	0.819
2010	1.198
2011	1.21
2012	1.45
2013	1.45

**Source:** Kenya Advertising Research Foundation (2013)

From the information gathered from the interviews conducted, it is evident that the new businesses in the organization have resulted in growth of revenues. The growth in revenues does not happen immediately. Revenues from the stronger brands are used to sustain a new upcoming brand, and the group may post some losses in the initial stages after a new brand is launched. As the brands gain popularity among audiences and gain a share of the market, the advertising revenues begin coming in, and eventually, the brands are left to sustain themselves. Evidence from the organization's profit and loss accounts show that the company's profits have also increased over the years as a result of the diversification.

## **4.6 Discussion**

Radio Africa Limited started fourteen years ago with one little known radio station. This station was launched in the early 2000's at a time when the media laws were becoming a bit more accommodating of private media owners. Through research, SWOT and PESTLE analysis, together with the ownership's vision to be the number one in the industry, the top management formulated a diversification strategy that would see the ever increasing demand for media, entertainment and marketing services met under one roof.

The organization decided to leverage their experience and revenues from their first station, Kiss 100 to launch Classic 105. This is consistent with Palepu (1985) who found that businesses may benefit from diversification through leveraging competencies. This station targeted a new audience, which was a market that was previously unreachable by Kiss 100. The organization managed to create synergy between these two stations, both being in the same industry and business.

According to Porter (1998), incumbents in business have brand identification and customer loyalties. This is a force that creates a barrier to entry. Radio Africa limited made a decision to enter into the Asian entertainment market, but there already existed a major player in this market, East Fm. Getting into direct competition with East Fm would not have worked, and because of the attractiveness of this market, Radio Africa Limited acquired the radio station. This station was among the very first FM stations to be opened in the country and had built loyalty among the Asian community. East Fm is one of the two businesses that Radio Africa Limited has ever acquired. The acquisition was the most cost effective way to enter into the Asian market.

Radio Jambo was launched in 2009. For the first time, Radio Africa Limited decided to venture into the mass market, and provide media and entertainment services to this new segment. The station started broadcasting in conversational Swahili, and appealed to sports enthusiasts, as well as people with opinions on current affairs. Lengthy discussions on sports and current affairs on radio had not been given much attention by other media houses. This was a largely untapped market. This station was launched in a big way, and to date, still has the biggest number of transmitters across the country. While the first three stations were primarily urban and transmitting in the major towns of the country, Radio Jambo was launched as a grassroots station with transmitters across the country, making their programs accessible to even the remotest regions in the country. Pisanic (2014) argues that entering untapped markets can be very profitable. The Radio Jambo story has been consistent with this argument as the station has further increased Radio Africa Limited's revenues and profits.

The Television business, through Kiss TV has helped Radio Africa reach a separate market from their radio audiences. This platform targets a very youthful age group, mainly the teenagers and college/ university students. This has helped to increase revenues from advertisers with products and services targeting this group. With growing online presence, Radio Africa has been able to remain relevant to certain target groups that are more biased towards the internet.

According to a UK entertainment and media research carried out by Price Waterhouse Coopers (2013), audiences are spending more and more time on digital platforms, often at the expense of traditional media and advertisers need to follow them. This is a

rapidly growing platform, and with the increase of Smartphone options in the Kenyan mobile phone market, more and more people will have access to the internet on their mobile phones. Revenues from online business are likely to increase. The Star Newspaper was created as an easy to read, full colour newspaper. This has enabled it to differentiate itself from the more established newspapers, such as The Standard Newspaper and The Daily Nation. The market for daily publications has many competitors, and Radio Africa Limited has managed to get a part of that market.

From This Study, it is evident that Radio Africa Limited has adopted a diversification strategy with the aim of growth in revenues and improved performance. The organization has managed to benefit from economies and economies of scope, by leveraging their experience and resources, resulting in primarily organic growth of the organization.

It is also important to note that the diversification strategy undertaken at Radio Africa Limited is related diversification. All the business conducted within the organization serves to provide media, information, entertainment and marketing services, using various platforms to reach different target groups. Their diversification has been built on the foundation of existing capabilities. Their core competencies have been applied across all the business categories successfully and their choice of new markets have proved to be profitable. The resource based view as put forward by Rumelt (1984) has been adopted at Radio Africa Group whereby the firm has applied the tangible resources at its disposal to gain competitive advantage. The organization has also gradually acquired new capabilities by getting new technologies that improve their service quality.

Organic growth is a key feature at Radio Africa Limited. Each new business, with the exception of East Fm and Radio Africa Digital, has been started from within the organization. This way, the organization has been able to use net revenues to invest into new business. According to Jackson (2007), the best route to growth varies depending on the market and nature of the business. According to him, strong organic growth is backed up by intelligent strategic acquisition, and Radio Africa Limited has proved as much.

The organization has properly assessed its strengths and weaknesses in order to take advantages of opportunities and guard against threats in the environment. The top management at Radio Africa is visionary and they have succeeded in their business strategy. They have managed to formulate good strategies, and to see them through successful implementation.

The study depicts a positive relationship between diversification and performance within the organization. It shows that an organization can diversify in order to survive environmental turbulence, including changes in consumer behavior, consumer preferences, and technological advancements. It is consistent with theories of creating synergies to benefit from economies of scale, and sharing of activities and leveraging competencies within an organization.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter is a summary of the findings in this research project whose main objective was to examine the relationship between diversification strategy and performance of Radio Africa Limited in Kenya. It also covers the researcher's conclusion, limitations of the study, and its implications on policy, theory and practice.

#### **5.2 Summary**

The main objective of this study was to explore the relationship between diversification strategy and performance of Radio Africa Limited in Kenya. The study established that Radio Africa Limited has adopted diversification strategy for growth in the organization. The main reasons for this strategy was to take advantage of the existing capacity and available resources within the organization, in order to increase the organization's market share in the media industry, and also to increase revenues. Through this strategy, Radio Africa Limited has managed to take advantage of emerging markets within the media industry, including advances in technological advancements through online and digital markets, increasing demand in remote areas, and changing economic environment, for example the emerging growth in Northern Kenya after discovery of oil deposits.

This has enabled the organization to widen its revenue base by introducing products for new markets. Increased competitive advantage has come as a result of the organization creating differentiated products for niche segments within the industry, for example, X Fm that specifically targets the expatriate community, east Fm that targets the Kenyan Asians, Radio Jambo that is skewed towards sports enthusiasts, and Kiss TV that targets the youth. This strategy has enabled the organization to dominate specific segments and to have a better bargaining power with advertisers.

By adopting related diversification strategy, the organization has been able to cut costs, share resources among all its core business activities and benefit from economies of scope. The organization has also been able to maintain a lean management team, enabling them to do away with unnecessary bureaucracy, hence promoting effective and efficient decision making for strategy implementation.

This study has established a positive relationship between Diversification Strategy and performance of Radio Africa Limited. While it is evident that the strategy undertaken by radio Africa Limited has resulted in an increase in growth of market share and revenues, it is important to note that the growth over the years has been increasing at a decreasing rate. This is a phenomenon that is not peculiar to Radio Africa Limited, but has been witnessed across the industry.

### **5.3 Conclusion**

According to this study, there is a positive relationship between diversification strategy and performance at Radio Africa Limited. The organization has adopted a related diversification strategy within the media industry, and through this, they are able to reach diverse markets and meet their need for communication, information, marketing and entertainment. It has also established that there are gains to be made from relatedness in diversification, when an organization can create synergies within their businesses and applying its core capabilities and competencies across all its product categories.

The diversification strategy has resulted in a growth in the market share and in the revenues to the organization. The financial reports, and the information received from the interview with the financial director show that the strategy has had a positive effect on the company's profit and loss accounts. According to him, the strategy has resulted in an increase in revenues and profits. The former head of research has stated that the organization's market share has grown tremendously. From the results of internal and independent research, the company's audiences across all media have grown.

### **5.4 Limitations of the Study**

In carrying out this project, some limitations were experienced. Radio Africa Limited is a privately owned firm. Because of this, their company reports are not publicly available. The confidential information contained in the financial reports could also not be availed to the researcher. The research findings were therefore heavily dependent on the answers from the interviewees.

The Kenya Advertising Research Foundation, through Ipsos Synnovate is the authority in media research in the country. Data available from them was too costly to acquire for the purpose of this study, and hence inaccessible

## **5.5 Recommendations**

This study recommends that an organization seeking to grow and improve its performance should consider adopting a diversification strategy. Organizations that operate in industries with highly segmented markets can benefit by differentiating their products to cater for more than just one target market. Organizations should leverage their experience, competencies and capacity to enter into these new markets. The study also recommends that organizations which are already diversifying should find related business which they can enter into so that they can benefit from synergies created

## **5.6 Areas for Further Research**

Whereas this study established a positive relationship between diversification and performance of Radio Africa Limited in Kenya, the growth in revenue in the organization and the industry as a whole was found to be increasing at a decreasing rate. Further research can be done to determine the causes of this decrease, and ways to counter this it. Additional studies can be done to determine if this positive relationship between the strategy and performance is consistent with other media houses in the region.

## **5.7 Implications on Policy Theory and Practice**

The media industry in Kenya has become vibrant, and contributes to the economic and social spheres of the country. Liberalization of the radio frequencies and television channels, as well as other media platforms has encouraged this growth and development. As a result, through the media, Kenyans have a wide variety of sources of and entertainment, and can remain sufficiently informed on numerous issues affecting them.

These should be governed by rules to prevent the negative use of the platforms, as was witnessed in the 2008 General Election campaigns, and also in Rwanda during the genocide. Government policies therefore have a huge bearing on the sustainability of a positive trend.

The business environment is generally competitive, and changes occur at a very high rate. These changes may render certain businesses and business practices irrelevant. Organizations are turning to diversification to counter obsolescence, remain relevant to the majority and to maintain, if not expand their current competitive positions.

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## **Appendix I: Interview Guide**

### **SECTION A: RESPONDENTS PROFILE**

1. Name
2. Designation
3. Number of years worked at the Radio Africa Limited

### **SECTION B: COMPANY PROFILE**

4. Number of years Radio Africa Limited has been in existence
5. What business is Radio Africa Limited involved in?

### **SECTION C: STRATEGY CHOICE**

6. Has Radio Africa limited adopted a diversification strategy?
7. How many products does the organization deal with?
8. What form of diversification strategy has the firm adopted?
9. What modes of entry into new markets have been used by the organization?
10. Has Radio Africa Limited diversified into new geographical areas other than its original market?
11. What factors are considered in determining modes of entry into new markets?
12. Who is responsible for crafting diversification strategy at Radio Africa limited?

### **SECTION D: ORGANIZATIONAL PERFORMANCE**

13. What performance measures have been used to gauge the performance of the diversified business?

14. Has Radio Africa Limited ever divested from a business or market?
15. If yes, what are the reasons for divesting?
16. Does the organization deal with unrelated products?
17. If yes, are they profitable?
18. Have the new products significantly increased revenues?
19. Are they profitable?
20. Have the new products increased the organization's market share
21. Have the new products yielded improved returns on investment?

## **Appendix II: Introductory Letter**

Amanda Dembeko Khamati

School of Business,

University of Nairobi

10<sup>th</sup> September 2014

Dear Respondent,

### **RE: PARTICIPATION IN MBA ACADEMIC RESEARCH**

I am a postgraduate student at the University of Nairobi, School of Business, pursuing a master's degree in Business Administration. As part of the requirement for completion of my degree, I am undertaking a research project on Diversification Strategy and Performance of Radio Africa Limited in Kenya.

This letter is to request your participation in this research by answering the questions in this questionnaire as completely as possible, as your participation will contribute greatly to the success of this project.

Please note that the research is purely for academic purposes and neither your confidentiality, nor that of the company shall be compromised in the entire process. A copy of the research project will be made available to you on request. Your co-operation will be highly appreciated.

**Yours Faithfully,**

Amanda Khamati

Student

## **Appendix III: List of Media Outlets in Kenya**

### **Media Houses**

- (I) Radio Africa Limited**
- (II) Royal Media Services Limited**
- (III) Nation Media Group**
- (IV) Standard Group Limited**
- (V) Kenya Broadcasting Corporation**
- (VI) Mediamax Limited**
- (VII) Others**

#### **(I) Radio Africa Limited**

- 1. Kiss Fm – 100.3
- 2. Classic Fm – 105.2
- 3. East Fm –
- 4. Radio Jambo 97.5
- 5. X Fm – 105.5
- 6. Radio Jambo Turkana
- 7. Kiss TV
- 8. The Star Newspaper
- 9. Trinc Digital

#### **(II) Royal Media Services Limited**

- 10. Radio Citizen – 106.7
- 11. Bahari Fm
- 12. Changei Fm
- 13. Egesa Fm
- 14. Hot 96

15. Inooro Fm
16. Mulembe Fm
17. Musyi Fm
18. Muuga Fm
19. Radio Maa
20. Ramogi Fm
21. Wimwaro Fm
22. Vuuka Fm
23. Sulwe Fm
24. Citizen TV

### **(III) Nation Media Group**

25. Nation Fm
26. Q Fm
27. Q TV
28. Nation Tv (NTV)
29. The Daily Nation
30. The Business Daily
31. Taifa Leo
32. Mwanaspoti
33. N-soko.com

### **(IV) Standard Group Limited**

34. Radio Maisha
35. Kenya Television Network (KTN)
36. The Standard Newspaper
37. The County weekly
38. Standard Digital

### **(V) Kenya Broadcasting Corporation**

- 39. Radio Taifa
- 40. KBC English Service
- 41. Venus Fm
- 42. Pwani Fm
- 43. Coro Fm
- 44. Mwago Fm
- 45. Mwatu Fm
- 46. Kitwek Fm
- 47. Mayienga Fm
- 48. Nosim Fm
- 49. Ingo Fm
- 50. Minto fm
- 51. Eastern Service
- 52. Central Service
- 53. Kiambu Service
- 54. KBC Channel 1
- 55. Heritage Tv – Digital Platform

### **(VI) Mediamax Network**

- 56. Kameme fm
- 57. Milele Fm
- 58. Meru Fm
- 59. Mayian Fm
- 60. Kenya Live
- 61. K24 Tv People daily – Newspaper

### **(V11) Others**

- 62. Capital Fm
- 63. Ghetto Radio
- 64. Radio Star

65. Sound Asia
66. Homeboyz Radio
67. Baraka Fm
68. Radio Rahma
69. Sauti ya Mwananchi
70. Hope Fm
71. Sahara fm
72. Radio China
73. Turkana Fm
74. Radio Free Africa (RFAO
75. Rehema Fm
76. Sifa Fm
77. Light and Life
78. Radio France International
79. Radio Pamoja
80. Lake Victoria Fm
81. Kangema Fm
82. Radio Mangelete
83. Kaya Fm
84. Fish Fm
85. Mwanendy Fm
86. Amani Fm
87. Radio Umoja
88. Kass Fm
89. Kisima Fm
90. Sayare Radio
91. Bibilia Husema
92. One Fm
93. Koch fm
94. Syokimau Fm
95. Injili Fm
96. Triple A
97. Sema Radio

- 98. Deutsche- Welle Radip
- 99. MMUST Fm
- 100. East Africa Fm
- 101. Jesus is Lord
- 102. Mambo Fm
- 103. Mata Fm
- 104. RTD Tanzania
- 105. Rock MamboIqra Fm
- 106. Maendeleo Fm
- 107. Touch Fm
- 108. Step Fm
- 109. Radio Simba
- 110. Voice of America (VOA)Best Fm
- 111. Cloud Fm
- 112. Sheki Fm
- 113. Anguo Fm
- 114. Radio Waumini
- 115. Frontier Fm
- 116. Uptown Fm
- 117. Radio Ethiopia
- 118. Radio Salaam
- 119. Lokichogio Fm
- 120. Neema Fm
- 121. Radio Djibouti
- 122. Family Radio
- 123. Risala Fm
- 124. Bahasha fm
- 125. Pilipili Fm
- 126. Kaya Fm
- 127. BBC...
- 128. Family Tv
- 129. Sayare Tv
- 130. Multichoice – Satelite pay Television (over 40channels accessible)

131. Kass Tv
132. Lake Victoria Tv
133. GOR Tv
134. Heritage Tv
135. Unjiru Tv
136. 3 Stones Tv
137. GBS Tv
138. Edu Channel
139. East Africa Tv
140. Bunge Tv
141. Aviation Tv

**Source:**

Communications Authority of Kenya

[www.ca.go.ke](http://www.ca.go.ke)

[www.internews.org](http://www.internews.org)

Royal Media Services Limited

[www.royalmedia.co.ke](http://www.royalmedia.co.ke)

Nation Media Group

[www.nationmedia.com](http://www.nationmedia.com)

Standard Group Limited

[www.standardmedia.co.ke](http://www.standardmedia.co.ke)

Kenya Broadcasting Corporation

[www.kbc.co.ke](http://www.kbc.co.ke)

Mediamax Networks Limited

[www.mediamaxnetwork.co.ke](http://www.mediamaxnetwork.co.ke)