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ABSTRACT

Over the years there has been an increase in the number of foreign fast food restaurants in Nairobi with an aim of bringing foreign food quality standards in Kenya just like in other country. Foreign fast food restaurants in Nairobi are stationed around a model of convenience to the growing market of customers and the business has been booming with competition among the restaurants. Foreign fast food restaurants have been coming up with different diversification strategies in order to stand out in the highly dynamic environment, to increase product diversity and profitability. The study investigated the influence of product diversification strategies on performance of foreign fast food restaurants in Nairobi City County. Performance of foreign fast food restaurants was measured through in-depth assessment on financial and non-financial indicators which was guided by the resource based view theory. The study adopted descriptive research design and targeted approximately 30 foreign fast food restaurants operating within Nairobi City County and 3 respondents from each restaurant filled the questionnaire. The research data was collected from the respondents by use of questionnaires which had both open ended and closed ended questions. The questionnaires were distributed through ''drop and pick later'' procedure. Moreover, the collected data was cleaned and coded then analyzed using inferential and descriptive statistics. The study established that product diversification had a positive significant impact on performance of foreign fast food restaurants in Nairobi City County. Some of the product diversification measured institute revolved along new product innovations and alignment of current product distribution channels. Most of the restaurant had several retail outlets within Nairobi, most of foreign fast food restaurants in Nairobi had embraced various strategies to keep competition low by dominating in the market. The study concluded that product diversification have a significant effect on performance of foreign fast food restaurants. Foreign fast food restaurants in Nairobi should embrace product diversification strategies; however these strategies must be anchored on research & development and strong market analysis. Fast food restaurants must continually intensify measures that unearth the potentiality that comes along with full utilization of this measure.

Key Words: *Product Diversification, Geographical Diversification, Vertical Integration, Horizontal Integration and Performance of Foreign Fast Food Restaurants*

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INTRODUCTION

Due to the dynamic nature of business environment, firms have to come up with different strategic plans in order to increase their operations, gain competitive advantage over their rivals and increase market share using the concept of strategic management (Pearce & Robinson, 2002).In the recent years firms have adopted diversification strategies in order to remain relevant in their respective industries. Adoption of these strategies has led to significant improvement in firm performance hence remaining competitive over their rivals, though firms strive for better performance; most of them are still struggling to remain competitive. Murimiri (2009) suggested that performance is the level at which a particular investment is profitable. Greenly (1986) also contributed that firm performance as the ability of a firm to satisfy its central goal. Performance is often used as a measurement of how well an organization is meeting its set goals and also how well its customers are being satisfied.

However in the traditional setup performance was measured by analyzing the profits made at the end of each financial year and by using financial ratios (Wadongo, Odhuno, Kambona & Othuono, 2010). Performance has been viewed as a generic concept; however it differs on how it is measured across different industrial sectors. Furthermore, measuring firms performance provides a firms progress and it also shows both its strengths and weaknesses. The management therefore has to utilize this information to provide solutions on how to improve the firm’s performance and eventually effecting change (Amaratunga & Baldry, 2002). Due to globalization and Kenya being amongst the most preferred tourist destination in Africa. The hospitality industry faces competition from within the industry and also from different foreign brands emerging from different developed countries.

Hospitality industries in Kenya specifically foreign fast food restaurants have adopted diversification strategies so as to remain relevant in the market and improve their performance hence attracting and retaining customers. Chirani and Effarsdoost (2013) observed that diversification entails involvement in different kinds of commercial activities and the key model of interactions among various business establishments. Thus, a business that sets its foot on diversification has to tread carefully so as to avoid getting into commercial activities that distort the main business model.

Diversification involves cultivating relationships with either the existing market or product (Johnson & Whittington, 2008). Sayra and Martin (2003) added that diversification is the level of relatedness amongst product subdivisions. Although many authors have given various opinions of a diversification strategy, most scholars choose to use that of Rumelt (1974) which describes diversification as approach or technique of adding related services or products lines to current core business. This can happen through acquiring their contestants or through internal innovation of complete new services or products.

There are different types of diversification strategies including; product diversification strategy, according to Dhandapani and upadhayula (2015) it consists of adding a new product to the existing firm product either being marketed or manufactured. Second diversification can be both national as well as across the border hence the rise of geographical strategy (Denis, Dennis & Yost, 2002). Geographical strategy means expanding firms operations beyond its local boarders to another region. It can either be local (within a state or external i.e. outside countries boarders (Ibrahim & Kabr, 2009; Kotabe & Capar 2003; Catell Windapo & Oyewobi, 2013).

The business dictionary states performance as the accomplishment of a given task against preset known standards of accuracy, completeness, cost and speed. Murimiri (2009) maintains that performance is the magnitude at which certain investment is lucrative. Several other scholars also contributed towards the definition of performance; Siminica (2008) stated that performance is measured in terms of effectiveness and efficiency of a firm. Colase (2009) suggested that performance covers different notions including growth, profitability, return, productivity, efficiency and competitiveness. Over the years scholars have improved on the definition of performance hence Bartoli and Blatrix (2015) stating that performance is achieved through piloting, evaluation, efficiency, effectiveness and quality. Furthermore a firm performance relates to more than just financial performance as it was perceived traditionally as the main measurement of performance; however it is how well a company achieves its set goals and objectives. Norton and Kaplan (2001) introduced a balance score card as high accurate measure of firm's profitability; it provides a framework to shaping strategic goals in line with the firm's strategic vision and mission. Key indicators in BSC include financial dimension, customer focus aspect, internal business aspect and organization learning, growth and development perspective.

Hospitality industry in Kenya particularly fast food restaurants has played a vital role in the country's economy. This can be seen through provision of employment either informal or formal hence boosting the economy. Fast food restaurants are also known as quick service restaurants (QSR), whereby they provide minimal table service (Kwate, 2008). Due to the fast growth of hospitality industry in Kenya, fast food restaurants have ventured into different growth strategies in order to remain relevant and improve firm performance. Over the years the overall performance of various foreign fast food cafes in Nairobi has thrived due to increase in the number of Kenyans that prefer fast foods than meals prepared at home hence growth in terms of profit and sales. Most fast food restaurants have adopted diversification as a growth strategy because it facilitates geographical expansion

Fast food restaurants in Nairobi have also waded into diversification in an effort of tapping into the existing opportunities and making profits presented by such opportunities. Thus, in diversification, the fast food restaurants are expanding their business scope without necessarily adding on the products that distort their main line of business. However, the restaurants in attracting diverse consumers have turned to some of the local foodstuffs that are served along the foreign established menus hence adding customers to their fold (Waweru, 2016). In addition, the adoption of the local foodstuffs in the foreign fast food restaurants has aided in identifying the business with the local customers, resulting in personalized relationship that has increased the list of foreign fast food consumers across the country enjoying some of the preferred delicacies. Besides, the foreign fast food brands have taken measures of adapting to the diverse tastes of the consumers besides creating a strong relationship with the suppliers and increased improvements customer service to win the local markets.

Different trends in performance have contributed to the thriving business of foreign fast food restaurants not only in Kenya but in the world at large. Employee well-being in many organizations has been put into consideration since they are part of the firm's stakeholders. A happy lot of employees tend to give their all to the organization which contributes towards attaining these goals and objectives. Employee well-being package might contain reasonable salary, their opinions about the organization are considered since they interact with the customers on a daily basis, health care package and finally employee motivation from now and then could go a long way. An open relationship between the employees and managers can lead to efficient flow of information between them (Deloitte, 2018).

Conclusively, the entry of the foreign fast food restaurants in the Kenyan market has scaled up competition leading to increased innovation and creativity among the various competitors, some of the joints in Nairobi include; Kentucky Fried Chicken (KFC), Steers and Debonair pizza Bakers inn, Creamery inn, Pizza inn and Galittos, Snack Attack Kenya, Domino's pizza etc.

Statement of the Problem

According to the national restaurant association service industry forecast, 48.7 % of income in Kenya is spent on meals prepared away from home. The percentage has increased over the years due to increase in income and the need for a quick bite (Linda, 2013). In addition, Nairobi city council has licensed over 1500 eating places in Nairobi County and 80% of them are fast food restaurants scattered across the county (Mugo, 2014). The current era of globalization is characterized with strong marker competition across firms in the industry hence reduced profits (Sakwa, Ng'ang'a, & Namusonge, 2016). Due to the stiff competition between foreign brands and local restaurants, different firms have implemented various strategies so as to compete effectively in the dynamic market environment. In addition customer's tests and preferences keep changing hence the need for foreign fast food restaurants in Nairobi to adopt diversification as a growth strategy.

In Kenya Mutuma (2017) studied the influence of expansion strategic objectives on financial performance of banking sector Kenya? The researcher concluded that penetration strategic measures affect the economic performance of financial sector in Kenya to very high extent. Although the study was in a different sector the findings will apply to the performance of foreign fast food restaurants in Kenya. The current research work will lean more on diversification strategies and restaurants performance i.e. financial and non-financial performance. Mwangi (2012) focused on employment of diversification strategies at the Standard media Group (K) limited. The inquiry established that the group adopted diversification strategic measures in order to maximize profit and contest efficiently in the media industry which can apply to the hospitality industry in Kenya. This research will establish some of the strategies that restaurants can adopt so as to compete effectively in business. Scholars have studied the relationship between diversification strategies and firm performance but so far they have not agreed on the relationship between diversification and firm performance (Marinelli, 2011). Therefore the relationship between diversification strategies and firm performance is still inconclusive (Beccera, & Santalo 2008: Sebele & Mashiri 2014). These researchers among others have not harmoniously ruled out on whether diversification strategies have a negative or positive impact on firm's performance, hence the relationship between diversification strategic plans and firms performance still remains unclear.

Of recent Nairobi and other the major towns have realized an increase in the number of foreign fast food restaurants venturing into the Kenyan market. Some of the restaurants close down and others reduce the number of branches they own across the country due to low profits or low returns. It is against this background that the current research investigated the link between diversification strategies and performance of foreign fast food restaurants in Nairobi City County.

Research Objective

This study sought investigate the influence of product diversification on performance of foreign fast food restaurants in Nairobi City County, Kenya.

LITERATURE REVIEW

Theoretical Review

Resource Based View Theory

The necessity that resources to an organization competitive growth was recognized by (Penrose, 1959), this was before the emergence of resource based view. It was concluded that an organization growth depends on how it deploys its productive resources. According to (Barney, 1991) the theory explains how an organization uses its unique resources to implement strategies hence gaining advantage over its competitors.

Resource based view is a theory emphasizes that the resources of a firm are essential determinant of performance and competitive lead (Rothaermel, 2012). This theory has been used in the past to fill gaps in the resource foundation of a firm and it's a theoretical approach that considers diversification as a strategy that can utilize organization existing resources (Theuven, 2004). Scholars have used resource based view (RBV) of a firm to explain further on the effect of diversification strategic measures on company profitability (Sukpinach & Rugman, 2007; Benito- Osorio et al., 2012). Depending on the kind of resources a firm has either in excess or underutilized, the firm may venture into either related or unrelated diversification in order to utilize the existing firm resource. Resource based view theory states that for an organization to gain a competitive least over its market rivals it should be able to acquire and control a valuable, rare, inimitable and non-substitutable resource (Barney, 1991).

The importance of a resource to an organization competitive growth was recognized by Penrose (1959) this was before the emergence of Resource based view. She concluded that an organizations growth depends on how it deploys its productive resources. According to Barney (1991) the theory explains how an organization uses its unique resources to implement strategies hence gaining advantage over its competitors. RBV of a firm achieves competitive advantage through deploying valuable and unique resources. A resource is considered unique if it's rare, inimitable, non-substitutable and increases the value of the firm; hence it's considered a source of competitive advantage.

In the context of the study, understanding how product diversification strategies will affect the performance of the firms requires the management to carefully study the available resources before adopting a diversification strategy. The unique resources possessed by each restaurant will help in the implementation of the strategies which will lead to better performance. Evaluating how the available resources will be utilized in identifying the conditions under which the firm will consider to be critical before deciding the diversification strategy to adopt that will enhance a firm's performance. Based on logical presumptions postulated by RBV theory, this theory will play an important role in scrutinizing the role played by firm's resources in quest to gain competitive advantage and performance.

Empirical Literature Review

Product diversification occurs when a company develops new products catering to the same market. It refers to significant new product developments and not minor changes in an existing product of the firm (Johnson, & Whittington, 2009). There are many possible ways of approaching this product development as a growth strategy, for example, exporting the product to a new country or new product dimensions or packaging, for example new distribution channels and different pricing policies to attract different customers or create new market segments

Recent research observations by Livnat and Amit (2018) focusing on European food restaurants showed that product diversification measures increased presented to customer a wide variety of products and thus strengthening client retention rates. According to Stiroh (2010), product diversification strategies also raise firm's financial inflows and reduced volatility rate with financial inflows. Moon (2009) proposed that Product development often moves the company into markets and toward new potential customers.

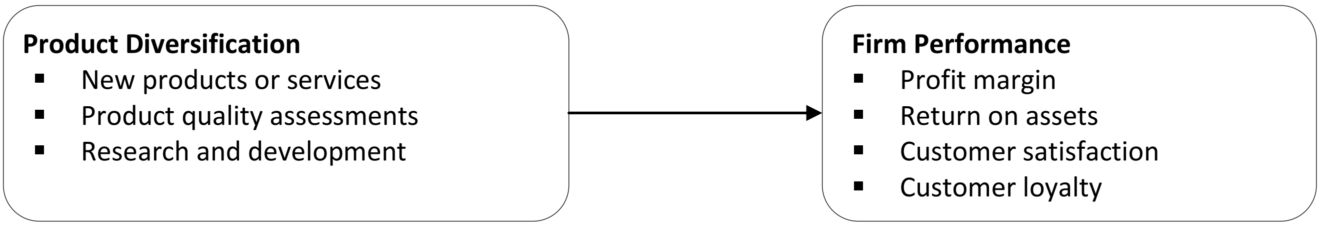
Given the fact that fast food cafeterias, hotels and restaurants in Nairobi are operating in a competitive environment, it would be important for firms to adapt product development strategies to enhance performance. A study examining the role played by growth strategic measures on the competitiveness of local distillers in Kenya (Rono & Maronge, 2015) found that the local distillers were sourcing and using product development strategies as a basis of improving effectiveness and efficiency, and hence performance. The current assessment seeks to discover the role played by product diversification adoption on performance of foreign fast food restaurants that are currently operating in Nairobi City County.

Whenever a business entity opts to invest in new potential geographical markets, in pursuing a strategy in regards with product development, the management may attempt to retail brand new products to current clients (Porter, 2011). More efforts are centrally focused on the innovation and development of fresh product and services to replace present ones. New commodities are then sold to existing clienteles (Miller, 2014)

Continuous product development strategy remains important element of the marketing to every business organization however many business companies do not seem to realize it (Aosa, 2012). Effective product development rests on a product's design's ability to create a positive product experience (Clarke & Fujimoto, 2011)

Research investigations on the outcome of product diversification adoption on financial performance has of late gone past an investigation of product diversity level and shifted to the company level, to a concise primary level of an investigation, such as within-a specific industry that is a sum set of a bigger industry (Greenwood, 2004). The quest to better comprehend the value-creation occasioned by strategic methods of product diversification prompted this assessment.

A similar investigation on the product line diversification strategies that narrow their focus on multinational organizational clarify that most of these big corporations opt to operate at the corporate level. Most of their efforts are centered on positive impact brought about by product diversification without considering the likely variations brought about by the approach in local firms host-country markets. Even though foreign corporations enjoy a competitive lead though integration of worldwide value chain, national institutions remain the key controllers of subsidiaries in foreign markets (Zaheer, & Kostova 2018).



Independent Variable **Dependent Variable**

Figure 1: Conceptual framework

METHODOLOGY

The study adopted a descriptive research design. Descriptive research design was suitable for the study since it favour's gathering of data in large amounts, which was useful in gathering data across fast food restaurants in Nairobi CBD, hence enabling the researcher to save on time taken gathering the information. The design is important since the researcher reports the events unaltered. It sought to determine the impact of product diversification strategic measures on the performance of fast food restaurants in Nairobi CBD, Kenya. The target population of the current research comprised the international fast food restaurants currently operating in Nairobi CBD. This investigation was carried out in Nairobi CBD. According to Kenya restaurant online ordering firm eatout.co.ke, the total number of international fast food restaurants in Nairobi CBD was 31 restaurants. The restaurants were chosen because they were strategically located in the main streets of Nairobi and they had more than one outlet offering the same kind of services. The research attempted to establish the relationship that linked product

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diversification strategies and the performance of international fast food restaurants in Nairobi CBD, Kenya. For the purpose of this research, out of 31 restaurants in Nairobi CBD, all the 31 restaurants were studied and 3 respondents from each restaurant filled the questionnaire hence giving us a wide range of information to analyze. Data that was used in this study was collected from international fast food restaurants in Nairobi CBD by utilization of self-administered questionnaires with both close ended questions and open ended questions.

Data analysis commenced immediately the questionnaires were received from the respondents. However the questionnaires received from the respondents was sorted according to completeness and only those filled completely by the respondents were considered for analysis by the researcher. Data was prepared for analysis by coding or editing in order to transform the data in a form that could be analyzed. Data coding helped in changing qualitative data into quantitative form with the help of statistical package for social science (SPSS) for easier analysis (Kent, 2001). The coded data was studied using both inferential and descriptive statistical techniques. According to Martin and Acuna (2002), SPSS is able to handle large amount of data and it's quite efficient. Multiple regressions to predict the relationship between the study variables, Tables and pie charts were used to analyze the information. The regression equation; $Y=\beta_0+\beta_1X_1 + \varepsilon$

FINDINGS AND DISCUSSION

Product diversification

Participants were asked to indicate their level of agreement with the following statements assessing on effect of product diversification on the performance of foreign fast food restaurants.

Table 1: Effects of product diversification on the firm's performance

Statements	Mean	Std dev
The restaurant is determined in coming up with new products that are not in the market	3.96	0.74
The restaurant continues to explore on advanced channels of product distribution.	4.24	0.65
Packaging of firm products are modified from time to time to differentiate them from others.	4.12	0.71
The management and innovations team undertake assessments to ensure product quality.	3.92	0.76
The restaurant undertakes research and development to improve on product quality	3.93	0.72
Service and retail points are designed to distinguish the firm's products from competitors.	3.96	0.74
Aggregated Mean	**4.02**	**0.72**

Source: Survey data, (2021)

Majority of respondents agreed that their restaurant kept on exploring on new, advanced channels of product distribution (M= 4.24 SD =0.65), in simple words most of the foreign fast food restaurants in Nairobi City County maintained a sharp focus on having a reliable consisted supply of their food products. Implementation of reliable supply chain framework by majority of players in fast food sector in Nairobi, directly support the empirical evidence by Livnat and Amit (2018) that this enhances service reliability thus leading to consumers trust.

Also, the results showed that packaging of food products by restaurants operating within in Nairobi City County are modified from time to time to differentiate them from others (M=4.12 SD=0.71). This finding supported the argument by Stiroh (2010) that product differentiation must encompass measures that distinguish what a firm offers from what other competitors sell.

Further the study revealed that most of the foreign fast food restaurants in Nairobi remained determined in coming up with new products that are not in the market and that the mode of service at retail points are designed in an explicit was that distinguishes the firm from the competitors. (M= 3.96 SD=0.74). In other words most of the restaurants encouraged innovation in process execution. This determination by fast food restaurants concurred with study observations made by Rono & Maronge, 2015 showed that organizations can easily identify itself uniquely in the market through provision of completely new products or service methodology in the market.

Descriptive results showed that the restaurant undertook research and development to improve on product quality (M = 3.93 SD =0.72), in simple words the necessity to improve or develop products or services by players in fast food sector in Nairobi was anchored on research and development (R&D) function. Proponents of R&D asserts that Greenwood, (2014) research and development in product development can help in development of superior products than those on other competitors, it is also paramount in ensuring that companies does not incur in un essential production losses. The management and innovations team ensured product quality through assessments (M = 3.92 SD =0.76). This commitment by players in food industry on product quality symbolically, echo's the assertion by Porter, (2011) that client satisfaction (measured through metrics such as product quality, price, availability etc) is paramount in ensuring firm's growth, competitiveness and market survival.

The aggregated mean score for sub metrics assessing on product diversification and its impact on the performance of foreign fast food restaurants recorded at M=4.02 with a low mean of deviation 0.72 Which translates to agree according to measurement scale. This therefore confirms the empirical findings by Livnat and Amit (2018) found a positive relationship linking performance of European fast food industry and product diversification strategies.

Descriptive reports also unveiled that product diversification helped to minimize risk of loss (divergence in investment portfolio). In other words this was made possible through reduction of the potential capital losses that could emanate from over concentration of capital one type of investment.

Performance

Respondents were asked to indicate their level of agreement with the following statements related to performance of foreign fast food restaurants.

Table 2: Performance

Statements	Mean	Std Dev
The restaurant customer base has increased	4.26	0.62
The Restaurant has significantly experienced reduction in operational cost.	4.04	0.79
The restaurant market share has increased	4.05	0.69
Customer satisfaction has increased	4.03	0.71
Customer loyalty has increased	4.22	0.69
The firm is getting more referrals from satisfied Customers	3.91	0.77
The restaurant has been receiving more positive compliments from the client base.	3.97	0.88
Aggregated Mean	**4.07**	**0.74**

Source: Survey data, (2021)

Assessment on effect of diversification revealed that diversification has led to customer base (M = 4.26 SD =0.62) in simple words most of the foreign fast food restaurants operating within Nairobi had recoded a tremendous increase in client base, at the same time results show that most of the firms recorded increase levels in customer loyalty (M = 4.22 SD =0.69) and that an increase in market share (M=4.05 SD=0.69) these findings were in line with the study findings by Foss and Christensen (2001) who argued that adoption of diversification strategy is directly related to positive spill-overs.

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Results also showed that most of the foreign fast food restaurants had experienced significantly experienced reduction in operational cost costs (M = 4.04 SD =0.79), they also recorded positive trend in customer satisfaction (M =4.03 SD =0.71), considerable number have been receiving more positive compliments from the client base. (M = 3.97 SD =0.88) and that most of the restaurants were getting more referrals from satisfied customer (M =3.91 SD =0.77). The aggregated mean score for sub metrics assessing on performance of foreign fast food restaurants recorded at M=4.07 with a low mean of deviation = 0.74. This translates to agree according to measurement scale. Similar observations were made by Rivkin and Khanna (2001) recognized that diversification strategy is advantageous in emerging enterprise.

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary is presented in the table below.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.417	.384	.52937

Source: Survey data, (2021)

The coefficient of determination (R-Square) shows the overall variations caused by product diversification, on performance of foreign fast food restaurants. Table 3 showed that the R-square for the model was 0.417. This implies that, product diversification, account for 41.7% of the variation in on performance of foreign fast food restaurants operating within Nairobi City County.

The next part of the regression analysis involved computing the ANOVA.

Table 4: ANOVA[a]

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	3.557	1	3.557	12.692	.002[b]
	Residual	20.72	74	0.28		
	Total	24.277	75			

Source: Survey data, (2021)

From the ANOVA statics, the study established the regression model had a significance level of 0.002% which was an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (12.692> 4.49) an indication that product diversification, has a significant effect on performance of foreign fast food restaurants operating within Nairobi City County. The significance value was less than 0.05 indicating that the model was significant.

In addition, the study used the coefficient table to determine the study model, The findings are presented in the table below.

Table 5: Coefficients[a]

		Unstandardized Coefficients		**Standardized Coefficients**		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.288	.637		2.022	.047
	Product Diversification Variable	.285	.165	.165	1.731	.088

Source: Survey data, (2021)

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As per the SPSS generated output as presented in table above, the equation ($Y = \beta_0 + \beta_1 A_1 + \boldsymbol{\varepsilon}$) becomes:

Y= 1.288+ 0.285

The findings implied that a unit change in product diversification while holding other factors constant would positively change performance of foreign fast food restaurants operating within Nairobi City County by change by a factor of 0.285 according to Rono & Maronge, (2015) organizations can easily identify itself uniquely in the market through provision of completely new products or services.

CONCLUSION AND RECOMMENDATIONS

Based on the study findings, this study concluded that product diversification had a positive significant impact on performance of foreign fast food restaurants in Nairobi City County. Some of the product diversification measured institute revolved along new product innovations, alignment of current product distribution channels, continuous development of superior products than those of competitors and continuous research and development that guided every strategic move.

Given that product diversification strategies were found to enhance the restaurants performance, this study therefore recommends that foreign fast food restaurants in Nairobi should embrace product diversification strategies. However these strategies must be anchored on research and development and strong market analysis.

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