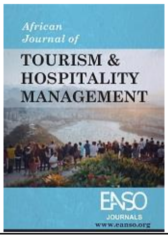
African Journal of Tourism and Hospitality Management, Volume 4, Issue 1, 2025
Article DOI: https://doi.org/10.37284/ajthm.4.1.2947



African Journal of Tourism and Hospitality Management
ajthm.eanso.org
Volume 4, Issue 1, 2025
Print ISSN: 2790-9603 | Online ISSN: 2790-9611
Title DOI: https://doi.org/10.37284/2790-9611

EAST AFRICAN NATURE & SCIENCE ORGANIZATION

Original Article

Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from Coastal Kenya

Dr. Jacob Owenga Kitoto, PhD[1*]

[1] Mount Kenya University, P. O. Box 342-0100 Thika, Kenya.
[*] Author for Correspondence ORCID ID: https://orcid.org/0009-0009-0818-1479; Email: kitotoj@yahoo.com

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

Date Published:

05 May 2025

Keywords:

Determinants, Diversification Strategies, Organizational Performance, Kenyan Coast.

ABSTRACT

The choice of diversification strategy is critical for the long-term sustainability of hotel firms. Hospitality and tourism industry especially the hotel sector should emphasize diversification strategies to motivate and develop resilience to counter the organizational and environmental forces especially at the backdrop of post-COVID- 19 business operation recovery that is characterized by low sales volume and profitability level. Several studies have explored the relationship between diversification and performance in the hotel sector. However, few studies have shown evidence of research of this nature. This therefore, creates a gap for this study. This study aimed to examine factors determining the choice of diversification strategies among star-rated hotels in the Kenyan coast. This study adopted an explanatory research design as it provides detailed data. The target population for this study was 36 hotels. A stratified random sampling technique was used to select the hotels. Purposive sampling was used to select Strategic managers. In-depth interviews were carried out to a certain factor determining the choice of diversification strategy among star-rated hotels. Data was collected through interview schedules. The study applied inductive analysis, identifying thematic areas from qualitative data collected from key informants through interviews. 29 interviews were successfully conducted representing an interview response rate of 80.6%. The result shows that growth, risk reduction, profitability and market attractiveness, organization culture and government policy were the main determinants of the choice of diversification strategy among star-rated hotels in the Kenyan coast. Additionally, factors such as management capabilities, brand identity, defensive diversification and offensive diversification were also noted. Due to the massive and unique economic and non-economic risk hotel business faces, diversification, strategy remains a critical in the hotel business today. Therefore, diversification decisions should align with a firm's strategic capabilities and market environment to achieve the organization's desired outcomes.

APA CITATION

Kitoto, J. O. (2025). Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from coastal Kenya. *African Journal of Tourism and Hospitality Management*, *4*(1), 135-149. https://doi.org/10.37284/ajthm.4.1.2947.

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

CHICAGO CITATION

Kitoto, Jacob Owenga. 2025. "Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from coastal Kenya". *African Journal of Tourism and Hospitality Management* 4 (1), 135-149. https://doi.org/10.37284/ajthm.4.1.2947.

HARVARD CITATION

Kitoto, J. O. (2025) "Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from coastal Kenya" *African Journal of Tourism and Hospitality Management*, 4(1), pp. 135-149. doi: 10.37284/ajthm.4.1.2947

IEEE CITATION

J. O. Kitoto "Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from coastal Kenya", *AJTHM*, vol. 4, no. 1, pp. 135-149, May. 2025.

MLA CITATION

Kitoto, Jacob Owenga. "Determinants of Diversification Strategies in Star-Rated Hotels: Evidence from coastal Kenya". *African Journal of Tourism and Hospitality Management*, Vol. 4, no. 1, May. 2025, pp. 135-149, doi:10.37284/ajthm.4.1.2947

INTRODUCTION

The hospitality industry contributes significantly to the global economy through various sectors such as hotels, restaurants, travel, and tourism. According to the World Travel & Tourism Council – WTTC (2020), the travel and tourism sector contributed $8.9 trillion to the global economy in 2019, accounting for 10.3% of global GDP. According to the International Labour Organization – ILO, (2020) noted that the hospitality industry is a major employer globally, providing millions of jobs across various sectors. In 2019, the industry accounted 313 million jobs representing 10.7% of global employment. Consequently, Kim *et al*., (2012) pointed out that hotel sector, together with other related tourism products have major contributions to the economy as compared to some income generating activities in developing countries. In Africa, the hospitality and tourism industry (HTI) recorded 5.6 percent growth rate in 2018 as compared to Asia which recorded 3.9 percent global growth rate (Chirisa *et al.*, 2020). This places Africa to be the second-fastest- growing tourism destination worldwide (Apakah, 2021). The performance of hotels in Kenya has recorded a steady rise between 2017, 2018 and 2019 with bed occupancy rates of 31.200, 32.500 and 33.800 respectively. The benefit from the hospitality and tourism industry is very critical in realizing the sustainable development goals (SDGs) which is anchored in the vision 2030 agenda (UNWTO, 2020).

Due to the Covid-19 pandemic, the performance dropped drastically in the year 2020 with only 17.800 hotel bed occupancy. The drop was necessitated by the travel ban and dusk-dawn curfew directed by the government to minimize further spread of Covid – 19 which in turn led to the drop in demand for accommodation and other hotel products (KNBS, 2022). The HS was one of the most affected sectors in the world in the year 2020 due to the Covid-19 pandemic following control measures that was put in place by both local and national governments to reduce the spread of the pandemic (Odwori *et al.,* 2022). For instance, both international and national travel ban, lockdowns and social distancing measures led to the decline in hotel bookings and occupancy rates. Hospitality-affiliated businesses also shut down resulting in reduced performance of the entire sector. However, there is enough evidence that the sector has been on a recovery path since 2021, as there an increasing number of hotels in operation, hotel bookings and bed occupancy during the year (Siringi, 2021).

Since the hospitality and tourism business environment has become more volatile, the managers are expected to make substantial changes by adopting the best diversification strategy in their operations to curb dynamic business environments such as the recent COVID-19, seasonality, political instability and other natural disaster. This will ensure constant industry product demand, employee retention and steady organization performance. Voronets (2020), defined diversification strategy as "expanding or entering in new markets which are different from the firm's existing product lines or markets".

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

The kind of diversification strategy used by a firm, has an influence on its performance (Schommer et al.,2019). Khanna & Palepu (2002) asserted that unlike in developed countries, corporate environmental factors such as gaps in developing country markets, business government relations, production, markets, labor market can be effectual for companies that have engaged in diversification strategy. Choosing an appropriate diversification strategy is very crucial. Struckell, *et al.*, (2022), observed that in the absence of diversification firms are prisoners of their industry. They further, revealed that diversification has been driven by various factors such growth, risk reduction, and Profitability among others.

Statement of the Problem

The hospitality and tourism industry is known for its dynamic and competitive nature. The industry businesses face various challenges, including changing consumer preferences, economic recession, technological advancements, international competition, natural disasters such as resent COVID -19 pandemic, political instability, and terrorism among others. As a result, the industry often opts for diversification strategies to maintain a competitive edge, reduce risks, and tap into new growth opportunities. Diversification, in this context, refers to a strategy where hotels expand their operations into new markets, products, or services that are distinct from their core business (Guyader & Piscicelli, 2019).

The choice of diversification strategy is crucial for the long-term sustainability of hotel firms. In particular, firms may choose between related diversification, where the new venture is similar to the existing business, and unrelated diversification, which involves expanding into entirely different sectors (Sumer & Bayraktar, 2012)

For the purposes of building a sustainable competitive advantage, growth of market share, spreading business risks, resource utilization efficiency, promote and promoting profitability and the overall financial performance, diversification strategy remains a critical corporate strategy in the business world today (Sahni & Juhari .2019)

The decision to diversify within the hotel industry is influenced by several factors, both internal and external. Internal factors may include the availability of financial resources, management capabilities, organizational culture, and operational expertise (Gebril & Espino 2020). Zheng, (2019), noted that external factors like market trends, economic conditions, regulatory changes, and global tourism patterns also play a significant role in shaping diversification choices. On the other hand, Sumer & Bayraktar (2012), argue that the choice of diversification strategy is crucial for the long-term sustainability of hotel firms. In particular, firms may choose between related diversification, where the new venture is similar to the existing business, and unrelated diversification, which involves expanding into entirely different sectors. Related diversification can help firms leverage their existing resources, such as brand reputation or customer loyalty, while unrelated diversification can help spread risks across different industries (Ansoff, 1957).

Several studies have explored the relationship between diversification and performance in the hotel sector. For instance, Miller & Friesen (1982) argue that diversification decisions should align with a firm's strategic capabilities and market environment to achieve the desired outcomes. Consequently, studies by Kim & Mauborgne (2014) highlight the importance of innovation and differentiation in influencing diversification strategies for hotels aiming to stand out in a competitive global market. Scholars such as Kehoe (2011) have noted that collaborative strategies allow hotels to enter new markets quickly and with fewer risks compared to organic growth or standalone diversification. Therefore, understanding the factors that determine the choice of diversification strategies in the hospitality industry is essential for managers and investors to make informed decisions about how to navigate and succeed in this increasingly complex and competitive sector.

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

LITERATURE REVIEW

Theoretical Review

For the deep understanding of the study, Resource based View theory and Dynamic capability theory was applied. Resource Based View (RBV) theory was proposed by Barney (1991). Resource-Based View Theory, as outlined by Barney (1991), is a set of theories that propose that firms can create sustainable competitive advantage through a firm's internal resources with distinct features. Such characters should be; valuable, rare, difficult to imitate, and non-substitutable. The main intention of RBV is to answer the question of how organizations gain a sustainable competitive advantage over other organizations in the same industry and improve their organizational performance. the resource view, supports diversification when the business has extra resources that might be put to better use elsewhere. Therefore, conglomerate diversification is vital to ensure that a firm diversifies its products portfolio into an unrelated area to widen the portfolio and the firm's market and enhance the firm profitability and sustainability (Putri & Pan, 2022). Dynamic capabilities refer to intentional changes in the products, production processes, size, or markets that a firm serve (Kachouie *et al.*, 2018)

An organization is dynamic when it is able to integrate, build, and reconfigure its internal and external enterprise-specific capabilities in response to changing circumstances. For example, organizational capacity involves the effective use of existing resources, while dynamic capacity refers to the effective exploration and implementation of new opportunities (Snell & Morris, 2014). The Ansoff Model (1987) evaluates opportunities for companies to increase their revenue accumulation through developing alternative combinations for new markets.

Empirical Literature

Factors Determining the choice of Diversification Strategy.

Diversification is a way to reduce risk by investing in a variety of assets or business ventures (Le, 2019). Diversification has been driven by three major goals: growth, risk reduction, and profitability (Cerrato *et al.*, 2023). According to Laaksonen & Peltoniemi (2018), diversification can also be influenced by factors such as dynamic capabilities, knowledge searching and institutional environment. However, Hoskisson & Busenitz (2017), observed that there is no widely accepted theoretical framework to comprehensively examine motivations related to diversification; though it is generally accepted that the motivation for diversity comes from the internal and external environment of the company. Researchers from different professions try to solve this problem only from their professional fields and come up with various views or theories. For example, some scholars emphasize the efficiency hypothesis based on the synergy effect; others emphasize the impact of market forces on diversification, while others defend the motivation of financial synergy behind diversification. Gomes & Livdan (2004) claim in their study that to obtain an optimal diversification strategy, it is necessary to define the risks and model the associated investment opportunities. The study further indicates that, the strategy that produces the least variance is preferred when given a fixed level of expected return. Optimal asset diversification is generally required to achieve this objective. Trade-off between reward and risk, as well as the level of risk taken is determined by an investor's risk tolerance (Van den Bergh, 2019).

From a financial perspective, diversification offers many benefits to organizations, including cost reduction, asset depreciation, and risk reduction (Colpan,2006). Gubbi & Elango (2016) strategic gains involve synergies or extensions, creations and improvements of long-term strategic assets. Ramanujam & Varadarajan (1989) suggested that these assumptions might ignore other more

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

compelling grounds. Another study looking at the economic consequences of diversification found that economic motivational consequences can be the result of multiple motivations, making it difficult to reveal which is the decisive motivation (Amanor-Boadu, 2013). Ahuja & Novelli (2017), argued that it is difficult to understand diversification impact on the value of the firm if initial motivation for diversification is not considered. Research by Jiang (2008) on listed Chinese companies shows appositive diversification impact on firm value. Consequently, a negative impact on the volatility of company performance was also noted.

Jiang (2008) conducted a study on listed Chinese companies and identified three determinants of diversification strategies. These include the industrial level, ownership structure and size. According to Jiang (2008), characteristics of the industry in which the company operates will majorly influence firm diversification strategies. The study further reveals that ownership structure is another determinant of firms' product diversification choices. According to Jiang (2008), different shareholders usually have a decisive influence on organizational behavior. Furthermore, the study noted that companies where the state government was the major shareholder (rather than the controlling or relative controlling shareholder) were the most diverse. The second highest is having control of the legal entity. However, companies in which the national government is in absolute control are the least diversified (Jiang, 2008). The third determinant of diversification is firm size. Jiang (2008) points out that diversity is one of the important characteristics inherent in large companies. Research conducted by Amey (1964); Gollop & Monahan (1991) in manufacturing industries similarly observed a positive correlation between firm size and diversification.

According Knecht, M. (2013), industry and/or market attractiveness is another factor affecting diversification. Whether due to general economic conditions or local issues, diversifying into a lagging industry or market can lead to significant losses or a sense of income and security.

Baptista, Karaöz & Leitão (2020) stated that the availability of resources such as labor and financial resources will determine the availability of the types of diversification an organization should adopt. He further asserted that companies bringing new products to market must first ensure that they are able to fully utilize distribution channels within the target market. Further, they must be able to meet the cost of diversification. Before embarking on any diversification process, the entry cost into the market should be considered. This is because diversification either through mergers, acquisition or expansion requires significant amounts of financial outlays.

Decisions on diversification options can be influenced by government regulatory policies, both locally and nationally (Contractor *et al.*, 2020). The government has the ultimate wisdom in the diversification strategy. Through regulations, laws and policies, the government can limit or de-limit a company against venturing into a certain sector (Cherif *et al.*, 2022). The institutional situation is a key element of diversification, and consolidating this element into the diversification literature can develop different conclusions for what is known as corporate diversification (Greif, 2006). Wang, Wan & Yiu (2019) adopted a perspective based on resources and institutions. They examined how Chinese conglomerates acquire resources and capabilities to thrive and their findings revealed that companies may behave differently from one another. For instance, group firms behave differently from non-group firms. Moreover, Belenzon & Berkovitz (2010) show that conglomerates are highly innovative as compared to non-conglomerate firms, particularly in businesses that are more dependent on external financing and in conglomerates with different sources of capital.

Betz (2016) stated that values, norms and standards (cultural diversity) are the most important factors in an organization, supporting attitudes, decision

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

making and behavior. Successful organizations attribute their success primarily to effective culture management. Arnold & Channuwong (2018) assert that companies can base their employees' values on the principles of dignity, sincerity, transparency and merit.

According to Frigon & Rigby (2022), organizations enter into diversification into sectors utilizing resources that are almost similar to what they possess. This is also echoed by Chatterjee & Wernerfelt (1991) who stated that a firm's physical resources comprising of plant and equipment, intangible resources comprising of the name of the brand and financial assets influence the extent of adoption of unrelated diversification.

Krause & Tse (2016) established that risk management capacity affects the diversification strategy adopted by a firm. Firms with sound techniques in risk management are able to adopt extreme strategies of diversification. In Picone & Dagnino (2016), it is evident that managers' skills such as risk management and business resources management skills significantly affect the diversification strategy that a firm adopts. Staffs who are highly skilled lead to increased diversification extent.

In an Indian context, Bhatia & Thakur (2016) stated that a company's leverage has an effect on its diversification strategy choice. This implies that the debt/equity ratio affects the direction of diversification change. Institutional factors comprising of labour markets in a country, capital and product markets have been found to have an effect on diversification strategy in a firm (Boschma & Capone, 2015). If the labour, capital and products markets are favourable then an industry can attract the required resources in terms of manpower and capital for diversification (Tashman, Spadafora & Wagner, 2023).

In addition, the size of a firm has been found to have a significant effect on the diversification strategy adopted. In larger firms, systems such as accounting systems are efficient. As a result, larger firms require fewer initial frameworks for diversification (Grossmann, 2007). Most of the larger firms have technology required already in existence and all that is needed is modification to suit the diversification strategy adopted (Benito-Osorio, Colino, & Zúñiga-Vicente, 2015). According to Azar (2017), firms whose market share is large are able to attract partners for different diversification forms, more specifically, related diversification.

METHODOLOGY

The study was carried out in Coastal Kenya. Approximately, Kenyan coastline is 600 km long extending from the Kenya-Tanzania border in the South to the Kenya-Somalia border in the North; between latitudes 1°40'S and 4°25´S and longitudes 41°34´E and 39°17´E. The landward geographical scope of Coastal Kenya is determined by the administrative boundaries of Coastal counties namely: Kwale, Mombasa, Kilifi, Tana River, Lamu and Taita-Taveta counties. It has a water surface area of approximately 230,000 km^2 (GoK, 2018).

Coastal Kenya is the hub of hospitality and tourism business. The Coastal region of Kenya receives 65% of tourists, as reported by KNBS (2019). This research was however, conducted in three counties namely; Mombasa, Kilifi and Kwale. The sector has been strong in recent years, with arrivals increasing from 814,000 in 1990 to over 2 million in 2007 and revenue increasing from US$864 million (Kshs 56.2 billion) to US$ 1 billion (Kshs 65.4 billion) between 2006 and 2007, representing an 11.6% growth rate. It is estimated that 60% of the revenues generated by the tourist sector in Kenya are due to coastal tourism (UNDP, 2017). Despite its revenue generation, the hotel in the region suffers mostly and their performance reduced drastically during turbulence such the recent COVID- 19 pandemic.

This study adopted an explanatory research design as it provides detailed and rich data. Explanatory research design also ensures an in-depth explanation of a phenomenon (Sieddlecki, 2020). The target population for this study was 36 star-rated hotels

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

which included two to five-star hotels (TRA, 2022). A total of 36 respondents were targeted, all comprised of strategic managers. Stratified random sampling technique was used to select the hotels while purposive sampling was adopted to select strategic managers since they were key informants to the study. Interview schedules were used to collect data based on factors determining the choice of diversification strategies among star-rated hotels in the Kenyan coast. Data was analyzed thematically where interview details and specifics of qualitative data collected was analyzed to generate vital patterns, themes and inter-relationships.

RESULTS AND DISCUSSION

A total of 36 strategic managers were targeted, however, only 29 interviews were successfully conducted representing (80.6%) of the response rate.

To examine factors determining the choice of diversification strategies among star- rated hotels in the Kenyan coast.

This objective was examining the factors that determine the choice of diversification strategies among star rated hotels in the Kenyan Coast. Respondents were presented with Liker scale statements where they were required to indicate their acceptance level on the factor as a determinant of diversification strategies. The results are tabulated in Table 1

Table 1: Factors Determining Choice of Diversification Strategies among Star Rated Hotels

	Strongly don't accept	Don't accept	Don't know	Accept	Strongly accept	Mean (std.dev)
Profitability is a factor to consider when choosing the choice of diversification strategy	1 (3.4%)	2 (6.2%)	1 (3.4%)	11 (37.9%)	14 (48.28%)	4.80 (1.90)
Attractiveness of the market may inform the decision of the organization on which diversification strategy to employ	1 (3.4%)	2 (6.2%)	2 (6.2%)	11 (37.9%)	13 (44.82%)	3.80 (1.36)
Resource availability such as finances and workforce will determine the type of diversification strategy adopted by this hotel	2 (3.4%)	4 (13.79%)	3 (10.34%)	10 (34.5%)	10 (34.5%)	2.18 (0.80)
Rate of risk reduction influence the decision of the organization on which diversification strategy to adopted.	2 (10.34%)	1 (3.4%)	3 (10.34%)	11 (37.9%)	12 (41.37%)	3.20 (1.10%)
Accessibility to distribution channels is an important factor to consider when choosing the type of diversification strategy in this hotel	6 (4.83%)	4 (13.79%)	2 (3.4%)	10 (34.5%)	7 (24.13%)	0.78 (0.18)
Organization environment is a core element in deciding which diversification strategy to apply in this hotel	2 (3.4%)	4 (13.79%)	6 (4.83%)	8 (27.6%)	9 (31.03%)	0.78 (0.18)
Organizational culture such as values, standards and norms are a key determinant of the type of diversification strategy this hotel adopts	2 (3.4%)	3 (10.34%)	4 (13.79%)	9 (31.03%)	11 (37.9%)	1.90 (0.89)

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

Government regulatory policies is an important determinant when it comes to selection of the type of diversification strategies	3 (10.34%)	4 (13.79%)	3 (10.34%)	10 (34.5%)	9 (31.03%)	2.66 (1.26)
N= 29						

Source: *Research Data (2023)*

In order to enhance the level of understanding of the factors determining the choice of diversification strategies among star-rated hotels, the study used a summation 'strongly don't accept' and 'strongly accept' as per Table 1. From the findings, it was clear that most of the respondents (89.65%) strongly accepted and accepted indicated that profitability plays a crucial role and may inform the organization on which diversification strategy to employ (mean = 4.80, std. dev = 1.90. Additionally, majority of the respondents (82.72%) strongly accepted and accepted noted that the attractiveness of the market is an essential determinant on which choice of diversification strategy a hotel should employ (mean = 3.80, std. dev = 1.36). It is also evident that the majority (79.27%) of the respondents strongly accepted and accepted, observed that risk reduction will determine the type of diversification strategy to be adopted by this hotel (mean = 3.20, std. dev = 1.10). Consequently, majority (69%) indicated that resource availability such as finances and workforce will determine the type of diversification strategy adopted by this hotel (mean = 2.18, std. dev = 0.80).The findings further indicated that (58.63%) of the respondents accepted and strongly accepted that accessibility to distribution channels and organization environment respectively are important factors to consider when choosing the type of diversification strategy in this hotel (mean = 0.78, std. dev = 0.18).

Consequently, the findings further revealed that (68.93%) of the respondents were in acceptance that organizational culture such as values, standards and norms is a key determinant of the type of diversification strategy this hotel adopts (mean = 1.90, std. dev = 0.89). Lastly, 65.53% of the respondents strongly accepted and accepted that government regulatory policies are important determinants when it comes to selection of the type of diversification strategies (mean = 2.66, std. dev = 1.02).

Majority of informants expressed that profitability is a major factor to consider when hotels are making decisions on which choice of diversification strategy to be adopted.

For instance, Key informant S 19 was of the opinion that:

> *Hotel's management considers the degree of profitability that comes with diversification strategy before adopting a particular strategy.*

Key informant S22 also supported profitability through the following statements:

> "*Diversification comes with cost implications. The management therefore has to consider whether the diversification strategy has a return on investment to meet the cost implications of diversification"*

For Key Informant S1, profitability plays a key role in determining the selection of diversification strategy by hotels. This was followed by the following claim:

> "*Before undertaking any form of diversification, the hotel considers its ability to generate revenue to sustain the business."*

For Key informant S24, said this statement;

> *"The cost of entry must not capitalize all the future profits. Therefore, profitability makes the basis of decision making on which diversification strategy to employ."*

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

Also notable from the findings is that risk reduction also plays a role in determining selection of diversification strategies by hotels. This is notable from several key informants. For example, Key Informant S4 is of the opinion that:

> *Any diversification strategy must have the ability to spread business risks*

Key Informant S8 is of the opinion that:

> "*We normally consider diversification strategy that leads to risk reduction."*

Consequently, Key informant 26 had this statement:

> *"Risk reduction is very vital on when choosing which diversification strategy to venture in. we consider the case of "pure" or "conglomerate" diversification, where separate businesses are brought under common ownership but the individual cash flows of the businesses remain unchanged."*

Additionally, from the findings, it was also noted that market attractiveness plays a major role in determining selection of diversification strategies by hotels. This is notable from several key informants. For example, Key Informant S4 is of the opinion that:

> "*Before selecting any diversification strategy, we must consider whether the suggested diversification will create demand and also meet customers' needs and preferences. This is determined through customer surveys"*

According to Key Informant S26:

> "*We normally consider who our target market and what they need. Their demand is what guides on which diversification strategy to adopt"*

While in support of market attractiveness, Key Informant S13 states the following:

> *"The demand of the product or service plays a role in selecting diversification strategy. When the demand is high, the market is considered viable and the diversification process is adopted"*

Key informant S5 also supported market attractiveness with this statement,

> *"We choose diversification strategy which is attractive and lead to high demand of the products and thus increased average spending power among the customers. This in turn increases hotel revenue"*

Key informant S27 supported attractiveness through this statement.

> *"Good diversification strategy must be one that can access more attractive investment opportunities than are available in its industry."*

From the interviews conducted, organizational policy and culture were also notable considerations when selecting diversification strategies to be adopted by hotels. According to Key Informant S12:

> "*It is a policy in this organization that all its products must be environmentally friendly. Diversification strategy selected must therefore adhere to this policy"*

Key Informant S4 adds that:

> "*This hotel has a policy on diversification that must be followed. Diversification adopted should be in the line of hotel management, hospitality and tourism"*

Respondent S12 while supporting the importance of organizational policy in selecting diversification strategies by the hotels noted that:

> "*The hotel's policy is on providing products that are customer- friendly. For instance, the food products should be bio-based. When collaborating with suppliers, they should follow this policy and supply bio-based supplies for use in our hotel"*

The interviews also noted that government policies are considered when selecting diversification

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

strategies by hotels. For instance, this is notable from Key Informant S39 who claimed that:

> "*The laws set by the government determine selection of diversification strategy. For example, there are laws on mergers and acquisitions that we consider when diversifying. Government policies on fair competition are also considered when choosing a diversification strategy*"

For Key Informant S14, government policy significantly determines selection of diversification strategies by hotels. This is demonstrated by the comment:

> "*There are consumer protection laws by the government that we consider when deciding on water sports activities to engage in. Some require trained professionals whom we have to hire before venturing into it. In cases where we have no capacity to hire the professionals, we partner with firms that specialize in such sporting activities*"

Environmental factors are also evident from the interviews to be determinants of the selection of diversification strategy. Environmental factors in this case refer to social, economic and political stability. For Key Informant S18:

> "*We also consider political stability of a given area and sector. Areas and sectors that are politically volatile are a no-go zone for our company*"

According to Key Informant S6:

> *"Environmental factors such as economic factors and political stability are considered when entering into other business ventures. For economic factors, issues such as interest rates and exchange rates play a significant role since diversification is capital intensive and the hotel is reliant on loans from local and international lenders"*

The respondents were also asked about other factors they felt the management of the respective hotels considers when selecting the type of diversification strategies to employ. Being an open-ended question, the study created different themes based on how responses were associated. The most common factors that were added to influence the selection of diversification strategies are shown in Table 2

Table 2: Additional Factors Affecting Choice of Diversification Strategies

Additional Factor	Frequency	% (F)
Management capabilities	7	7.87%
Revenue to be generated	9	10.11%
Impact on employees	3	3.37%
Brand identity	15	16.85%
Human resource personnel	15	16.85%
Potential benefits	5	5.62%
Conflict avoidance	2	2.25%
Customer service	7	7.87%
Defensive diversification	6	6.74%
Offensive diversification	5	5.62%

Source*: Research Data (2023)*

Brand identity (16.85%), human resource personnel availability (16.85%), profitability factor (10.11%), revenue to be generated (10.11%) were highly rated by the respondents as integral factors in determining diversification strategies. On the other hand, conflict avoidance (2.25%), impact on employees

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

(3.37%), potential benefits (5.62%) and offensive diversification (5.62%) were least rated as determinants of diversification strategies deployed by hotels.

Some key informants express that resource availability plays a significant role in determining the selection of diversification strategies.

For instance, Key Informant S13 was of the opinion that:

> "*The hotel's management considers resources available such as financial and human resources to steer the diversification process"*

Key Informant 16 also supported resource availability through the following statement:

> "*Diversification comes with initial cost implications. The management therefore has to consider whether resources are available to meet the cost implications of diversification"*

For Key Informant S5, resources play a key role in determining the selection of diversification strategy by hotels. This follows from the following claim:

> "*Before undertaking any form of diversification, the hotel considers its financial ability, staff availability and ability to meet legal fees and government charges"*

According to Key Informant S6, social, political and economic factors are considered when diversifying. This is guided by the response:

> *"Political, social and economic factors are considerations by this hotel when diversifying. The economy and politics must depict stability. Social factors consider the surrounding population, their religion and culture. Business activities should conform to a larger portion of their culture and religion since we consider then as our first customers"*

The interviews also demonstrated that financial factors such as profitability and sales/revenue growth are other considerations by hotels in selecting diversification strategies. According to Key Informant S28 who supported profitability and sales growth as considerations:

> *"The diversification strategy must drive up the sales for existing services and products. The profitability of the new venture is also considered"*

For Key Informant S8:

> "*The hotel considers whether the diversification business venture will bring in more customers and help improve the sales of the current products"*

Key Informant 1 was in support of revenue and profit targets set by the shareholders from the following comment:

> "*When choosing a venture for diversification, the management ensures that the venture will enable the hotel to meet sales and profit targets that the shareholders have set for us"*

Another notable consideration was the competitiveness of the hotel. For example, Key Informant S11 stated that:

> "*The firm considers whether the diversification strategy will enhance the hotel's competitive advantage over our competitors. When choosing a diversification strategy, the hotel must ensure that it is unique as compared to our main competitors"*

The findings support those of other scholars such as Bergh and Holbein (1997) who noted that diversification strategy chosen should be based on financial factors or perceived financial benefits to the organization such as cost reduction, profitability and revenue growth. This is further noted by Mintzberg *et al.*, (1996), Brewer (2001) and Sakarya *et al.*, (2007) who noted that industry or market attractiveness determine diversification strategy choice. Specifically, market attractiveness in terms of sales and profit quantities that can be obtained upon entry into a market and during the entire presence of the hotel in that market can propel a firm into venturing that route.

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

The findings on resource availability are also in alignment with Baptista *et al.,* (2020) who indicated that the availability of resources such as labour and financial resources determines the type of diversification adopted by an organization. Hotels bringing new products to the market must ensure that they are able to meet the diversification cost. Further, they must consider the market entry costs before embarking on any process of diversification. Some diversification strategies require significant initial capital and highly trained professionals which come with very high cost that the hotels should be able to meet.

From the findings of the study as per Table 1, (65.53%) indicated that diversification decisions are also informed by government regulatory policies. This finding is in line with Cherif *et al.,* (2022) who demonstrated that the government has the ultimate guidelines and wisdom on diversification. Through its regulations, laws and policies, the government can limit or de-limit hotels against venturing into a certain sector. Further, the study also found that organizational policy and culture have an effect on diversification strategy choice. This agreed with Betz (2016) who stated that company values, norms and standards are important factors in diversification. When an organization’s culture is supportive of a certain path, then diversification through such channels is successive.

The findings are in agreement with the findings by (Krishna,2008). According to the findings, profitability, risk reduction and growth are the main determinant for the choice of diversification strategy. Similarly, Akbulut & Matsusaka (2010), revealed that profitability, market attractiveness, industry capability, resource availability, organizational culture, organizational environment and government policy play an important role when it comes to the choice of diversification strategy to employ by an organization.

CONCLUSIONS AND RECOMMENDATION

Due to massive and unique economic and non-economic risks facing the hotel business, Diversification therefore, remains a critical corporate strategy in the business space today for purposes of building a sustainable competitive advantage, growth of market share, spreading business risks, resource utilization, efficiency, promote and promoting profitability and the overall financial performance. Therefore, for the hotel business to thrive and successfully survive business turbulence of any kind, managers need to carefully choose the diversification strategy that aligns with a firm's strategic capabilities and market environment to achieve the organization’s desired outcomes.

REFERENCES

Ahuja, G., & Novelli, E. (2017). Redirecting research efforts on the diversification–performance linkage: The search for synergy. *Academy of Management Annals*, *11*(1), 342-390.

Akbulut, M. E., & Matsusaka, J. G. (2010). 50+ years of diversification announcements. Financial review, 45(2), 231-262.

Amanor-Boadu, V. (2013). Diversification decisions in agriculture: the case of agritourism in Kansas. *International Food and Agribusiness Management Review*, *16*(1030-2016-82820), 57-74.

Amey, L. R. (1964). Diversified manufacturing business. *Journal of the Royal Statistical Society. Series A (General)*, *127*(2), 251-290.

Apakah, O. (2021). *Assessing the Effects of Covid-19 on Africa’s Economic Security, a Case Study of Kenya’s Hospitality and Tourism Sectors* (Doctoral dissertation, University of Nairobi).

Azar, J. (2017). Portfolio diversification, market power, and the theory of the firm. *Market Power, and the Theory of the Firm (August 23, 2017)*.

Baptista, R., Karaöz, M., & Leitão, J. C. (2020). Diversification by young, small firms: The role of pre-entry resources and entry

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

mistakes. *Small Business Economics*, *55*, 103-122.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, *17*(1), 99-120.

Belenzon, S., & Berkovitz, T. (2010). Innovation in business groups. *Management Science*, *56*(3), 519-535.

Benito-Osorio, D., Colino, A., & Zúñiga-Vicente, J. Á. (2015). The link between product diversification and performance among Spanish manufacturing firms: Analyzing the role of firm size. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration*, *32*(1), 58-72.

Betz, F. (2016). Diversification Strategy. In *Strategic Thinking* (pp. 177-210). Emerald Group Publishing Limited.

Bhatia, A., & Thakur, A. (2016). Diversification strategies in the changing environment: empirical evidence from Indian firms. *Transnational Corporations Review*, *8*(2), 112-123.

Boschma, R., & Capone, G. (2015). Institutions and diversification: Related versus unrelated diversification in a varieties of capitalism framework. *Research Policy*, *44*(10), 1902-1914.

Cerrato, D., La Rocca, M., & Alessandri, T. (2023). When does unrelated diversification increase performance? The effects of financial context and contingencies. *Management Decision*, *61*(13), 1-25.

Channuwong, S. (2018). The relationship between good governance principles and organizational justice: a case study of Bangkok Government Officials. *Asia-Pacific Social Science Review*, *18*(3), 43-56.

Chatterjee, S., & Wernerfelt, B. (1991). The link between resources and type of diversification: Theory and evidence. *Strategic management journal*, *12*(1), 33-48.

Cherif, R., Hasanov, F., Spatafora, M. N., Giri, R., Milkov, D., Quayyum, M. S. N., & Warner, M. A. M. (2022). *Industrial policy for growth and diversification: A conceptual framework*. International Monetary Fund.

Chirisa, I., Mutambisi, T., Chivenge, M., Mbasera, M., Sidambe, M., Muchenje, B., ... & Zengeni, D. (2020). Scope for virtual tourism in the times of COVID-19 in select African destinations. *Journal of Social sciences*, *64*(1-3), 1-13.

Colpan, A. M. (2006). Dynamic effects of product diversity, international scope and keiretsu membership on the performance of Japan's textile firms in the 1990s. *Asian Business & Management*, *5*, 419-445.

Contractor, F. J., Dangol, R., Nuruzzaman, N., & Raghunath, S. (2020). How do country regulations and business environment impact foreign direct investment (FDI) inflows? *International Business Review*, *29*(2), 101640.

Frigon, A., & Rigby, D. L. (2022). Where do capabilities reside? Analysis of related technological diversification in multi-locational firms. *Regional Studies*, *56*(12), 2045-2057.

Gollop, F. M., & Monahan, J. L. (1991). A generalized index of diversification: trends in US manufacturing. *The Review of Economics and statistics*, 318-330.

Gomes, J., & Livdan, D. (2004). Optimal diversification: Reconciling theory and evidence. *The Journal of Finance*, *59*(2), 507-535.

Greif, A. (2006). *Institutions and the path to the modern economy: Lessons from medieval trade*. Cambridge University Press.

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

Grossmann, V. (2007). Firm size and diversification: Multiproduct firms in asymmetric oligopoly. *International Journal of Industrial Organization*, *25*(1), 51-67.

Gubbi, S. R., & Elango, B. (2016). Resource deepening vs. resource extension: Impact on asset-seeking acquisition performance. *Management International Review*, *56*, 353-384.

Guyader, H., & Piscicelli, L. (2019). Business model diversification in the sharing economy: The case of GoMore. *Journal of cleaner production*, *215*, 1059-1069.

Hoskisson, R. E., & Busenitz, L. W. (2017). Market uncertainty and learning distance in corporate entrepreneurship entry mode choice. *Strategic entrepreneurship: Creating a new mindset*, 151-172.

ILO (2020). *Hospitality and Tourism Sector Labour Outlook*. International Labour Organization

Jiang, F. (2008). Determinants of diversification by listed firms in China. *Frontiers of Business Research in China*, *2*, 170-186.

KNBS. (2020). *2019 Kenya Population and Housing Census: Counting Our People for Sustainable Development and Devolution of Services*. Nairobi: KNBS.

Knecht, M. (2013). *Diversification, industry dynamism, and economic performance: The impact of dynamic-related diversification on the multi-business firm*. Springer Science & Business Media.

Krause, T. A., & Tse, Y. (2016). Risk management and firm value: recent theory and evidence. *International Journal of Accounting and information management*, *24*(1), 56-81.

Laaksonen, O., & Peltoniemi, M. (2018). The essence of dynamic capabilities and their measurement. *International Journal of Management Reviews*, *20*(2), 184-205.

Odwori, P. O., Murunga, F., Kendagor, R., & Njeri, J. K. (2022). Economic Impacts of Covid-19 in Kenya: An Assessment of Hospitality and Lodging Sectors in Tranzoia and Nandi Counties. *African Journal of Education, Science and Technology*, *7*(1), 326-343.

Picone, P. M., & Dagnino, G. B. (2016). Revamping research on unrelated diversification strategy: perspectives, opportunities and challenges for future inquiry. *Journal of Management & Governance*, *20*, 413-445.

Putri, N.K., & Pan, W. (2022). *The impact of global diversification as growth corporate strategy to performance: An investigation on*

Ramanujam, V., & Varadarajan, P. (1989). Research on corporate diversification: A synthesis. *Strategic management journal*, *10*(6), 523-551.

Sahni, J., & Juhari, A. S. (2019). Corporate diversification: A fundamental exploration of general business environments, industry environments and firm characteristics. *Academy of strategic management journal*, *18*(2), 1-13.

Schommer, M., Richter, A., & Karna, A. (2019). Does the diversification–firm performance relationship change over time? A meta-analytical review. *Journal of Management Studies*, *56*(1), 270-298.

Siedlecki, S. L. (2020). Understanding descriptive research designs and methods. *Clinical Nurse*

Siringi, E. M. (2021). Analysis of economic effect of COVID-19 pandemic on the kenyan economy. *The African Review*, *49*(1), 38-53.

Snell, S., & Morris, S. (2014). Building dynamic capabilities around organizational learning challenges. Journal of Organizational Effectiveness: People and Performance, 1(3), 214-239.*Specialist*, *34*(1), 8-12.

Article DOI: https://doi.org/10.37284/ajthm.4.1.2947

Struckell, E., Ojha, D., Patel, P. C., & Dhir, A. (2022). Strategic choice in times of stagnant growth and uncertainty: An institutional theory and organizational change perspective. *Technological Forecasting and Social Change*, *182*, 121839.

Sumer, K., & Bayraktar, C. A. (2012). Business strategies and gaps in Porter's typology. *Journal of Management Research*, *4*(3), 100-119.

Tashman, P., Spadafora, E., & Wagner, D. P. M. (2023). Formal institutions, type of diversification and the diversification–performance relationship: a meta-analysis. *Multinational Business Review*, *31*(1), 91-110.

UNWTO. (2020). *Supporting Jobs and Economies Through Travel & Tourism: A Call for Action to Mitigate the Socio-economic Impact of COVID-19 AND Accelerate Recovery*. Madrid, Spain: UNWTO.

Van den Bergh, A. (2019). *Analysing risk tolerance during the investor lifecycle* (Doctoral dissertation, North-West University (South Africa). Vanderbijlpark Campus).

Voronets, D. (2020). Efficiency evaluation of the diversification of the enterprise activity in the temporary accommodation and catering field. *Economics & Education*, *5*(2), 83-89.

Wang, X. A., Wan, W. P., & Yiu, D. W. (2019). Product diversification strategy, business group affiliation, and IPO underpricing: A study of Chinese firms. *Strategic Entrepreneurship Journal*, *13*(2), 179-198.

WTTC. (2020). Travel & Tourism Global Economic Impact and Trends 2020 World. London, UK: WTTC.

Zheng, C., & Tsai, H. (2019). The moderating effect of board size on the relationship between diversification and tourism firm performance. *Tourism Economics*, *25*(7), 1084-1104.

