SJIF Impact Factor 2022: 8.197| ISI I.F. Value:1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 7 | Issue: 4 | April 2022 - Peer Reviewed Journal

DIVERSIFICATION EXPANSION STRATEGIES: THEIR IMPACT ON PROFITABILITY IN RETAIL SECTOR IN ZIMBABWE

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ABSTRACT
The study analysed the impact of diversification expansion strategy on profitability in grocery retail sector. Glueck's (1976) expansion strategy was used as the theoretical framework in this study to explain diversification expansion strategies. The study used quantitative approach with a sample size of 30% that consists of 30 participants drawn from the three retail companies; OK, Spar and TM Pick 'n' Pay. Regression and correlation analysis was used to find the relationship between diversification expansion strategy and profitability. The study found out that diversification was leading to differences in profit volumes by 37%. The study concluded addressing of problems in the diversification expansion strategy to avoid affecting profitability in the retail sector in Zimbabwe.
KEYWORDS: *Diversification expansion strategy, geographical expansion, acquisitions and strategic alliances*

1.0 INTRODUCTION

There has been massive competition in the grocery retail sector in Zimbabwe after introduction of the multicurrency system in Zimbabwe. It now forms one of the critical sectors in providing employment and tax revenue for the country after the Zimdollar era. However some retailers would close unceremoniously without showing any difficulty signs. Major players in the sector are OK, TM Pick 'n' Pay and Spar. These retailers engaged in diversification expansion strategies so as to maximize profits. This study focuses on analyzing the impact of diversification expansion strategies on profitability in retail sector in Zimbabwe.

1.1 Background to the study

The grocery retail sector's future in Zimbabwe has shown light from 2009 due to improvements in disposable income of consumers after introduction of the multicurrency system (Zimbabwe National Chamber of Commerce, 2012).There were so many players in the grocery retail sector after introduction of multi-currency system. These players include Afro foods, Value Chain, Buscod, Food World, Tashas', Food Chain, DCK, TN Holdings, Town & Country, OK Zimbabwe, TM-Pick 'n' Pay, Spar, Choppies, Coolland and many other small medium enterprises (Newsday, 21 June 2012). Surprisingly when the economy was showing some light, many players that were expanding in the multicurrency period had to shut down. Examples of such players include Buscod, Tashas' and Redstar Holdings through its R. Chitrin & Spar divisions (Newsday, 21 June 2012). The main retail sector players with supermarkets across the country; OK Zimbabwe, TM-Pick n Pay and Spar embarked on diversification expansion strategies after multicurrency system for them to maximise profits (Katunga, 2014). Notable diversification expansion strategies used by these retailers were addition of shops. This was through adding shops in new geographical markets or segments, strategic alliances and acquisitions. However according to the Herald (11 June 2014), these retailers were still performing below the standard retail performance of 4%.

These retailers have been adding shops in new geographical areas and segments so as increase sales and profits (The Independent, 18 November 2010). Number of shops added is illustrated in table 1.1 below. OK added new shops in Hwange, Harare and many other places still to be developed (OK Annual Financial Report, 2011 -2014). TM also added shops significantly after Pick 'n' Pay alliance in 2012 (http://www.meiklesinvestor.com). Spar as a franchised ran organization, focus on financial figures will be on corporate stores which were under Innscor Africa but the corporate has been increasing number of Spar franchised retail outlets together with corporate stores as shown in table 1.1 after acquiring the rights of the Western Region from Scotia Holdings (www.spar.co.zw).

Expansion through acquisitions to increase segments was another strategy used by these retailers. OK Zimbabwe in 2011 acquired and added OK Mart to the already existing OK supermarkets to cater for all market segments

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(http://ww.okziminvestor.co.zw). TM Supermarkets also made some acquisitions to expand (TM-Pick 'n' Pay Annual Financial Report, 2014). According to Moxon (2012), trading area for TM – Pick 'n' Pay increased to 55 000 square meters. Innscor Spar posted a hyper loss of more than $9 million in 2014 but in that same year they had made an acquisition of Joina City and Borrowdale Brooke Spar from Mashonaland businessman Kaukonde (Innscor Spar Annual Financial Report, 2014). Furthermore Innscor Africa made acquisition of the Spar Western Region increasing sources of revenue from 53 to 72 outlets as shown in table 1.1 below.

Table 1.1: OK Zimbabwe, TM-Pick 'n' Pay and Spar Shop Addition and Performance Analysis

	Total Number of shops each year (difference from prior year showing number of shops added)			
	2011	2012	2013	2014
OK Zimbabwe	51	53	54	59
TM-Pick n Pay	49	50	51	53
Innscor Spar and Franchise	53	53	53	72
	Sales in US$			
OK Zimbabwe	257,426,323.00	412,563,027.00	479,635,937.00	483,660,043.00
TM-Pick n Pay	274,277,230.00	296,403,000.00	335,909,000.00	333,907,000.00
Innscor Spar	175,487,625.00	188,197,031.00	167,003,848.00	159,696,009.00
	Profits in US$			
OK Zimbabwe	4 285 700.00	10,306,497.00	12,382,278.00	9,685,412.00
TM-Pick n Pay	(467,483.00)	1,699,000.00	7,043,000.00	5,873,000.00
Innscor Spar	(2,442,421.00)	(1,698,367.00)	(547,486.00)	(9,561,505.00)
	Return on Assets (after tax and interest in %)			
OK Zimbabwe	6.23	10.79	10.65	8.3
TM-Pick n Pay	(1.05)	3.4	11.55	7.32
Innscor Spar	(5.88)	(4.2)	(1.18)	(21.35)

Source: OK, TM-Pick 'n' Pay and Innscor Spar Financial Reports, 2011 – 2014

The sector has been engaging in strategic alliances for recapitalization and creation of strong muscles to add shops mostly with South Africa and Sub-Saharan Africa (Chibaya, 2013). OK Zimbabwe converted $20 million loan into equity investment from Investec Asset Management in a strategic alliance agreement (OK Annual financial report, 2014) while TM lessened its debt through investment of $13million from Pick n Pay (TM Supermarkets financial report, 2012). According to Zireva, (2014), these strategic alliances decreased finance costs and also improved expansion hence improving business profitability. However after significant fall in finance costs from 2013 to 2014 thus when return on assets and profits fell as shown in table 1.1 above. These retailers were building their capital base but their return on assets were diminishing especially from 2013 to 2014 as indicated in table 1.1 earlier in this section. It is necessary to discuss return on assets ratio under profitability lines since this component emanates from profitability ratios.

Operating costs have been accelerating upwards (OK, TM and Spar Annual Financial reports, 2011 - 2014). According to Lake (2014), operating costs for OK Zimbabwe increased at a higher rate than sales growth. OK Zimbabwe's Net operating expenses moved in an upward trend from $19.9million, $27.6million, $33million and $32.3million in 2011, 2012, 2013 and 2014 respectively (OK Annual reports, 2011- 2014). Their performance in terms of sales and profits increased from 2011 to 2012 but experienced a decrease from 2013 to 2014 for all organizations as shown in table 1.2 below. According to Zireva (2014) there was a decrease in profit before and after tax & interest for OK Zimbabwe by 20.7% and 21.8% respectively for the year ending 2014. Although sales for 2014 were higher than the previous period, the profits were below than those of the previous period as illustrated in table 1.1 above. Newsday (9 June 2014) also notified the public about the decrease in profits for the sector. TM- Pick 'n' Pay profits decreased by 16.6% from 2013 to 2014 (TM-Pick 'n' Pay Annual Report, 2014). However Spar Corporate stores had been experiencing losses from 2011 to 2014 as reported in the annual reports and the loss worsened in 2014 by -164, 5% (www.spar.co.zw).

1.2 Statement of the Problem

Growth of grocery retail sector in Zimbabwe would lead to employment and tax for the country. However the retail sector has been facing profitability problems hence threats to sustainability. The sector is still performing below the 4% expected performance beside massive diversification expansion strategy. Therefore it is the purpose of the study to analyse the impact of diversification expansion strategies on profitability in retail sector in Zimbabwe.

1.3 Research Objective

To determine the impact of diversification expansion strategy on profitability in retail sector in Zimbabwe.

2.0 EXPANSION STRATEGY

The main ideas of expansion strategies came from the strategy guru Glueck (1976) when he came up with four strategies that determine organization boundary which are stabilization, expansion, retrenchment and a combination. Expansion strategy involves redefining business by adding its scope and efforts (Pasteur et al 2014, Strickland et al 2012). Expansion strategy is associated with success emanating from the business renewal. There are many alternatives in expansion strategy. It involves diversification. However Pasteur et al (2014) grouped expansion methods into intensification and diversification. For the sake of the study, diversification expansion strategies were discussed in detail.

2.1 Diversification Expansion strategy

Diversification expansion strategy refers to entering into new products or services, new market segments with new innovations, technology and skills (Pasteur et al, 2014; Pearce and Robinson, 2013). Diversification is grouped into related or unrelated diversification (Strickland et al, 2012). Related diversification is associated with sharing of resources that build competences by improving the brand name, skills, capacity of distribution or marketing resulting in economies of scale and scope to maximize profits. However it can have coordination and communication problems. Unrelated diversification is when each business unit has its own type or different business or products engaged in (Rothaermel, 2013). It is usually associated with high return on investment, redefining of business, risk reduction through a portfolio of products, tax benefits, easy access to liquid assets, and curb against takeovers. However the researcher holds the opinion that unrelated diversification is normally associated with high investments requirements which need good planning so as to get the required returns. A slight mistake can result in serious financial problems for the firm and can send the organization to its knees. Unrelated and related diversification is further broken into four ways which firms diversify and these are vertically integrated (consisting of backward and forward integration), horizontal, concentric and conglomerate diversification (Rothaermel, 2013; Dorsey & Boland, 2009, Strickland et al 2012, Ireland et al 2013, Pearce & Robinson 2013 and Pasteur et al, 2014)

2.2 Types of Diversification Expansion Strategies

Businesses can expand through many methods as indicated under Glueck's (1976) strategic options. These fall into intensification and diversification. For the purpose of this study the following diversification expansion strategies were discussed; adding shops in new geographic areas or segments, acquisitions and strategic alliances (Dorsey and Boland, 2009; Goetz et al, 2014; Johnson et al, 2011; Yesilyurt, 2012; Shi et al, 2012; Sherman et al, 2011; Dickson & Weaver, 2011; Zhao, 2014; Mowla, 2012; and Jabar et al, 2014). The main reason for these diversification expansion strategies is to increase market presence, fight competition and improve performance (Dilshad, 2013, Dorsey & Boland 2009; Twarowska & Karol, 2013; Geiersbach, 2010, Ovcina, 2010, Sping, 2011; Chen et al, 2009; Pitels & Argitis, 2009 and Rothaermel, 2013). These strategies like any other strategies highly relies on suited culture, flexible decision making, matched rewarding system, and fair distribution of resources (Strickland et al, 2012; Ireland et al, 2013). Some scholars justified this type of expansion into national and international diversification (Pitels and Argitis, 2009; Hoffman et al, 2014; Rothaermel, 2013). However for organisations to enjoy good performance results there is need to do massive research and promotions with good management of costs.

2.3 Relationship between Expansion Strategies and profitability

According to Johnson et al (2011), criteria for evaluating strategy comprise suitability, acceptability and feasibility. Suitability looks at the strategies if they will be addressing key opportunities as well as the organizational constraints being faced. For a strategy to be acceptable it should win risk, return and shareholder value analysis. Under return analysis main focus as discussed by these authors was on return on assets. Ireland et al (2013) echo the same sentiments but further elaborated that return on assets is usually best to be evaluated for bigger old expanding firms than new ventures. However Pearce and Robinson (2013) postulated profitability as the main goal of businesses and it is the main measure for shareholders' wealthy. Feasibility checks if the proposed strategy would work and be financed. These writers further stated that it is essential to bridge a ground of understanding for a strategy and financial returns so as to have success. The cost-benefit is also essential in evaluating strategies. Most scholars have established an inverted u-shape relationship between unrelated expansion and performance (Rothaermel, 2013). The writer is of the opinion that evaluation of strategies is mainly focused on the strategic process.

2.3.1 Relationship between Geographic Expansion and Profitability

Business that fails to find new markets for its products will not be able to increase profits and sales (Mugo et al, 2012; Pitelis and Argitis, 2009). These new markets are associated with uncertainty and costs that may lead to high risk. The main issues to be evaluated when geographically expanding in retail sector is to assess location efficiency, healthy and safety regulations, manpower costs, rentals, advertising and promotional costs and costs involving information systems. Braguinsky (2013) did not find much evidence to support the fact that increase into geographical areas will lead to profitability. Comparing profitability and geographic expansion

involves looking at both national and international expansion (Gaskin et al, 2013; Baldwin & Yan, 2012, Dorsey & Boland, 2009; Rothaermel, 2013). The researcher is of the opinion that the main activities at implementation should be evaluated. It constitute all expenses pertaining rentals, buildings, delivering transport costs to new sites, advertising and promotion, human resources and information systems.

2.3.2 Relationship between Acquisitions and Profitability

Most writers discussed acquisitions and profitability in general without looking at each type. Dilshad (2013) postulated two theories of acquisitions that determine profitability levels. These theories are neoclassical theories and behavioural theories. The neoclassical theories postulate managers as rational hence focus on maximizing shareholders' wealthy (Dilshad, 2013). The behavioural theory sees managers as irrational hence not taking shareholders' interest into consideration but instead maximize their returns. This is echoing the same sentiments with Johnson et al (2011) and Braguinsky et al (2013) where they termed behavioural theory as managers' hubris. Ireland et al (2013) clarified problems of acquisitions that will reduce realization of profits as integration problems, lack or inadequately evaluating the entity, over reliance on debt, lack of synergy, over diversifying, overly focused of management to the acquisitions more than performance, and business can become too large to manage. From his study of banks in Europe, Dilshad (2013) further discovered that abnormal returns of acquisitions to shareholders were short lived for acquirers. He further found a zero cumulative abnormal returns at the end. Acquisitions for banks in Nigeria were found to be more profitable (Abdul-Raman, 2012; Olaleken, 2012). The researcher is of the opinion that acquisitions financial efficiency depends mainly on management efficiency which might greatly affect performance of an organisation. Wang and Moini (2012) found in their study that success of acquisitions depends mainly on cost efficiencies than revenue growth. Braguinsky et al (2013) found in their study that after acquisitions, companies in the Cotton Spinning industry improved productivity and profitability.

Acquisitions make organizations that are able to utilize assets, make access of those assets and make use of them. Lasserie and Macmillan (2012) postulated that acquisitions result in value creation. Strickland et al (2012) echo the same sentiments with Lasserie and Macmillan's (2012) on value addition explanation but further added that costs in acquisitions are mainly reduced through eradication of duplicate facilities in dispersed geographical places, supplier and bargaining power will be increased, increase in product differentiation enhances brand awareness and company image. They further stated that acquisitions that normally fail are as a result of less cost savings than expected, taking longer to realize gains for the acquisition or may never materialize, conflicting corporate culture between acquirer and acquired, different management styles for the two organizations, and management decision making mistakes on activities planning. Yesilyurt (2012) asserted that there are two types of synergies that result from acquisitions which are financial and operating synergies. Financial synergies are when internal finance costs are reduced rather than production. This incur when a firm gets a tax shield as mentioned earlier by Lasserie and Macmillan (2012). The researcher is of the opinion that acquisition strategies might have a negative impact on profitability.

2.3.3 Relationship between Strategic Alliances and Profitability

Isoraite (2009) postulated the main objective for companies to enter into strategic alliance is to gain entrance to innovations hence reduce costs. If costs are reduced obviously profitability get boosted hence improvement in return on assets. There are three theories of strategic alliances; entrepreneurship and innovation theory, resources based view theory and social network theory (Zhao 2014). Under entrepreneurship and innovation theory organizations join forces to improve capabilities (Zeng et al, 2010; Franco and Hasse, 2013). Under the resource based view theory organizations combine both tangible (for example equipment and manpower) and intangible (for example knowledge and organizational learning) resources in order to have competitive advantage that leads to high performance (Bruton et al, 2010; Nieto and Santamaria, 2010). Firms will develop valuable and inimitable strategic resources that lead to sustainable profitability. Social network theory proposes that organizations create networks in terms of governance, structures and processes for value creation from the network (Zhao, 2014). Organisations can easily control environments and also access resources hence form competitive strength. It brings either firm with complementary or supplementary capabilities together. Sping (2011) found a curvilinear relationship between numbers of alliances entered by an organization with the company's performance. The turning point was found to be at least six (6) alliances. When an organization increases number of alliances to around six, thereafter above this number it starts to have inefficiencies decreasing performance forming a curvilinear relationship. The solution to this problem is to have a dedicated management for the alliance.

According to Lasserie and Macmillan (2012), for strategic alliances to maximize profits they should have knowledge of the strategic context of which involves looking at; the competitive drivers of the industry with the challenges that they face, establish the scope of the strategic alliance and the value that is obtained. There are three types of strategic alliances which are non- equity, equity and joint ventures (Rothaermel et al, 2013). These are intended for coalition, learning and the co-specialisation (Johnson et al, 2011; Lasserie and Macmillan, 2012). They all determine how profitable the business would be. All non-equity alliances have the disadvantage of having weak ties among the firms resulting in lack of trust and commitment (Ireland et al, 2013; Pearce and Robinson, 2013; Rothaermel,

2013). Equity alliances produces better commitment and trust compared to non-equity alliances. Furthermore equity alliance can result in better performance in terms of revenues and profits (Rothaermel 2013, Isoraite 2009). Joint ventures offer stronger commitment and trust that results in maximization of revenues and profits (Rothaermel, 2013; Mowla, 2012; Ovcina 2010). However they have the disadvantage of requiring large investment funds. They are associated with long negotiations. In case of the venture not properly working, it takes time to disjoint and the process is very costly. It leads to higher sunk costs than equity alliances. Knowledge sharing can lead to stealing partners' competencies. Conflict of culture is too high in these type of alliances. The writer is of the opinion that organizations can join forces and be under two or all types of alliances explained so as to achieve their objective hence maximize profits. However, organisations can end up being stuck in the middle if the alliance is not handled properly. There is debate and controversy among different scholars as discussed above. It is the purpose of the study to find out the level of impact that diversification strategy has on profitability in the retail sector in Zimbabwe for the period under study.

3.0 METHODOLOGY

The study used positivism research approach. Quantitative method was utilized to achieve explanatory design which was deductive in nature. Sample size of 30 participants constituting 30% of the target population was used. Self-administered questionnaire and structured interviews were the research instruments used. Regression and correlation analysis was used to test results.

4.0 FINDINGS

A total of 30 questionnaire were distributed and 28 were returned giving a response rate of 93.33%. Detailed presentation and analysis of findings is done below.

4.1 Relationship between geographic expansion and profitability

The research intended to find how new shops added in new geographical areas were performing in terms of their profits, operating costs and return on assets. It further looked at the problems that were being experienced in shops added in new geographical areas which had an impact on profitability performance of an organisation.

4.1.1 Profitability performance of new shops added in new areas

This research sought to find the performance of shops added in new geographical areas in relation to profits after tax and interest, operating costs and return on assets. The following table 4.1.1 illustrates responses obtained.

Table 4.1.1: Relationship between added shops in new areas and profitability

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)Increased profits after tax and interest	5 (18%)	8 (29%)	0 (0%)	5 (18%)	10 (36%)
b)Decreased Operating costs	20 (72%)	4 (14%)	0 (0%)	2 (7%)	2 (7%)
c) Increased return on assets	16 (57%)	8 (29%)	0 (0%)	2 (7%)	2 (7%)

Source: Research Survey 2015

The above table 4.1.1 shows that respondents had shared or divided opinions on the views about profits in added shops in new geographical areas. 47% of respondents were postulating that shops added in new geographical areas were not leading to increase in profits while 54% postulated that they led to increase in profits. This might be indicating Braguinsky's (2013) views who found not much evidence that support the fact that increase into geographical areas will lead to profitability. However most respondents showed that these shops were producing high operating costs (86% disagree while 14% agree for low operating costs) and reducing returns on assets (86% disagree for increased return on assets while 14% agree). This contradicts with Johnson et al (2011) and Dorsey and Boland (2009) who postulated that geographical expansion was highly associated with low operating costs and high return on assets due to high profitability through increased customer convenience, competitive advantage and economies of scale.

High operating costs in shops added in new geographical areas was supported in interviews. Operating costs that were significant in geographical expansion were shop rentals, advertising and promotional costs, building repairs and maintenance, human resources costs and information systems cost. This is in agreement with Goetz et al (2014) who postulated that geographic expansion is associated with high costs hence require attention. Divisions or branches were not well involved in the strategic planning. They are provided with sales targets and cost targets were not communicated and planned for. This was in agreement with Pearce and Robinson (2013) and Johnson et al (2011) who postulated that failure to plan and provide specific targets affect a strategy's performance.

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There were high costs despite the fact that these shops were conveniently located to customers and other stakeholders as discovered through interviews. From the interview it was revealed national geographic expansion was mainly used by these retailers while one organisation indicated that they had gone internationally. The one that was internationally diversified indicated that their new shops were not producing satisfying profits. This is in agreement with Rothaermel (2013) who postulated that firms that go internationally face high risk which reduces profits.

4.1.2 Problems in shops added in new geographical areas

The research sought to find problems that were being experienced in shops added in new geographical areas that had an impact to profitability performance. The following table 4.1.2 illustrates the results.

Table 4.1.2: Problems in shops added in new geographical areas

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)There was improvement in management efficiency	6 (22%)	14 (50%)	0 (0%)	6 (21%)	2 (%)
b) Values, beliefs and norms are good for the strategy	10 (36%)	9 (32%)	0 (0%)	3 (11%)	6 (21%)
c) Debt level is low	6 (21%)	6 (21%)	0 (0%)	10 (36%)	6 (21%)
d) There is decision making flexibility	12 (43%)	9 (32%)	0 (0%)	5 (18%)	2 (7%)
e)There is fair distribution of resources	10 (36%)	4 (14%)	0 (0%)	10 (36%)	4 (14%)
f) Rewarding system is matched with the strategy	12 (42%)	10 (36%)	0 (0%)	3 (11%)	3 (11%)

Source: Research Survey 2015

Table 4.1.2 above reveals that 72% disagreed that there was management efficiencies while 28% agreed. 68% disagreed that there is good culture in their organizations while 32% agreed for good culture for the strategy. This might be led by lack of skills and team work. 75% postulated for inflexible decision making while 25% argued that there was flexible decision making. 78% of the population disagree that their reward system were matched to the strategy while 22% agreed. Shops added in new shops had problems of management inefficiencies, culture conflicts, inflexible decision making and rewards not matched to the strategies. This is in agreement with Strickland et al (2012) who postulated that geographical expansion is highly associated with management inefficiencies and inflexible decision making. However above half of top managers agreed that their rewards were matched with the strategy. This might be a motivation to adding more shops taking views from Johnson et al (2011) and Braguinsky et al (2013) that managers can expand business to get incentives.

4.2 Relationship between Acquisitions and profitability

The research sought to find out the relationship between acquisitions and profitability. It was looking at the three variables which are profits after tax and interest, operating costs and return on assets. Furthermore problems and different interests for acquisitions were thoroughly searched for.

4.2.1 Profitability performance of acquisitions

The research sought to find how acquisitions were performing in terms of profits after tax and interest, operating costs and return on assets. Table 4.2.1 below illustrates the results obtained.

Table 4.2.1: Relationship between acquisitions and profitability

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)Increased profits after tax and interest	10 (36%)	4 (14%)	0 (0%)	0 (0)%	14 (50%)
b)Decreased Operating costs	11 (39%)	9 (32%)	0 (0%)	1 (4%)	7 (25%)
c) Increased return on assets	10 (36%)	9 (32%)	0 (0%)	3 (11%)	6 (21%)

Source: Research Questionnaire

Table 4.2.1 above shows that respondents had divided opinions on profits after tax and interest. 50% associated acquisitions with high profits while 50% did not associate acquisitions with increased profits. This is contradicting Abdul-Ramon and Ayorinde (2012) and Olaleken (2012) who found acquisitions more profitable and not to be doubted as shown by the distribution of respondents above. Respondents that disagreed for low operating costs in acquisitions were 71% while 29% agreed for low costs. Furthermore 68% disagreed for increased return on assets while 32% agreed. Respondents found acquisitions associated with higher costs and low return on assets. This contradicts with their views on profits after tax and interest. This might be the fact that economies of scale are not manifesting to full capacity in their organisations. This contradicts Lasserie and Macmillan (2012) who found acquisitions having cost reduction advantages due to pooling, sharing resources and assets resulting in profits maximization.

Interviews revealed operating costs that were significant in the retail sector and the last question in the questionnaire. These operating costs were advertising and promotional costs, building repairs and maintenance, human resources and information systems costs. Acquisitions were mainly for up market demanding a lot in terms of service quality. It was revealed that these organisations were regularly engaging contract employees that raised training and development costs. This reveals that these acquisitions were not properly evaluated as postulated by Strickland et al (2012) and Ireland et al (2013) that there should be proper evaluation for acquisitions to succeed. The evaluation stage under the strategic process was not properly or adequately done.

Horizontal acquisitions were mainly used in the sector. These retailers like Pick 'n' Pay might be under a diversified organisation but the author probed for acquisitions that were made by the division itself. The horizontal acquisitions were highly associated with advertising and promotions, human resources and information technology operating costs. This is contradicting Yesilyurt (2012) who found acquisitions with financial synergies that lead to costs reduction. Furthermore this contradicts with Strickland et al (2012) who found vertical acquisitions highly associated with high operating costs than horizontal acquisitions due to operational synergies that occur in horizontal acquisitions.

4.2.2 Problems in acquisitions

The research probed to find problems that were being experienced in acquisitions. Tables 4.2.2 below illustrate the results.

Table 4.2.2: Problems in acquisitions

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)There is management efficiency	20 (71%)	5 (18%)	0 (0%)	1 (4%)	2 (7%)
b) Values, beliefs and norms are good	17 (60%)	8 (29%)	0 (0%)	1 (4%)	2 (7%)
c) Debt level is low	3 (11%)	9 (32%)	0 (0%)	6 (21%)	10 (36%)
d) Evaluation of activities is well done	4 (14%)	10 (36%)	0 (0%)	6 (21%)	8 (29%)
e) There is decision making flexibility	10 (36%)	8 (28%)	0 (0%)	5 (18%)	5 (18%)
f)There is fair distribution of resources	9 (32%)	6 (21%)	0 (0%)	1 (4%)	12 (43%)
g) Organisation activities are well Integrated	4 (14%)	10 (36%)	0 (0%)	8 (29%)	6 (21%)
h) There is no duplication of positions and facilities	8 (29%)	9 (32%)	0 (0%)	6 (21%)	5 (18%)

Source: Research Survey 2015

Results depicted in the table above showed those that disagree with prevalence of management efficiencies, good culture, flexible decision making and no duplication of positions and facilities in acquisitions were as; 89%, 89%, 65% and 61% respectively. Those that agreed for management efficiencies, good culture, flexible decision making, and duplication of facilities were 11%, 11%, 35% and 39% respectively. From this data it shows that these acquisitions were highly experiencing management inefficiencies, culture problems, inflexible decision making, inadequate evaluation of activities, unfair distribution of resources, and duplication of positions and facilities that increased costs eroding profits for organizations. This is in agreement with Ireland et al (2013) who found that 60% acquisitions were producing disappointing results due to failure to evaluate the target adequately, failure to have synergy among the entities, over diversifying, managers paying too much attention on acquisitions and organisation becoming too large to manage. Furthermore this also agrees with Shi et al (2012) who

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asserted that duplication of positions and facilities in the organisation usually reduce realization of full benefits of economies of scale. However the researcher had the view that these acquisitions had large amounts of debt but results revealed that these acquisitions did not have large debts. This might be of help to their profits in agreement with Lasserie and Macmillan (2012).

These findings of lack of management efficiency is contradicting Strickland et al (2012) who found General Electric and Toyota's success on building management team that was deep and talented for efficiency. Furthermore Strickland et al (2012) found success of Royal Dutch Shell highly relying on well suited values, norms and beliefs. This provides a reason why most respondents were associating acquisitions high operating costs and divided opinions on profits.

4.2.3 Motives for Acquisitions

The research sought to find motives that push for engagement of acquisitions. These motives might affect profitability in a certain way. Table 4.3.3 below illustrates results obtained.

Table 4.2.3: Motives for acquisitions

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)I am entitled to incentives when an acquisition is implemented	10 (36%)	4 (14%)	0 (0%)	5 (18%)	9 (32%)
b)Personal reputation increases with introduction of acquisitions	10 (36%)	9 (32%)	0 (0%)	9 (32%)	0 (0%)
c) Acquisitions improves my personal career development	10 (36%)	9 (32%)	0 (0%)	1 (4%)	8 (28%)

Source: Research Questionnaire

Table 4.2.3 above shows that 50% were agreeing that they were getting incentives for acquisitions implementation while 50% disagree that they were getting incentives. Among those that agree 32% strongly agree and these were top managers while 18% were head of departments. Furthermore 68% were disagreeing that their reputations increased through acquisitions while 32% agreed. Moreso 68% disagreed that acquisitions improved their career development. Among those that agreed for increase in personal reputation and career development were mainly top managers. This might be the motive behind acquisitions and they can evaluate these acquisitions for their own benefit. This is echoing the same sentiments with Johnson et al (2011) and Branguinsky et al (2013) under the behavioural theory of acquisitions which says managers would engage in acquisitions to maximize their personal ambitions. This would nullify the neoclassical theory of maximizing shareholders' wealthy as postulated by Dilshad (2013).

4.3 Relationship between strategic alliances and profitability

The research intended to probe respondents about their views on the performance of strategic alliance. It further probed for the problems that are usually experienced in strategic alliances that have an impact on profitability.

4.3.1 Profitability performance of strategic alliances

The research sought to find how strategic alliances or partnership business was performing in terms of profits after tax and interest, operating costs and return on assets. Table 4.3.1 below illustrates the results.

Table 4.3.1: Relationship between Strategic Alliances and profitability

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)Increased profits after tax and interest	2 (7%)	12 (43%)	0 (0%)	2 (7%)	12 (43%)
b)Decreased Operating costs	15 (53%)	7 (25%)	0 (0%)	5 (18%)	1 (4%)
c) Increased return on assets	5 (18%)	13 (47%)	0 (0%)	4 (14%)	6 (21%)

Source: Research Survey 2015

There were 50% respondents that disagreed while 50% agreed for increased profits after tax and interest in strategic alliances. 78% respondents revealed that they disagreed while 22% agreed in decrease of operating costs in strategic alliances. Again 65% disagreed while 35% agreed with increased return on assets for strategic alliances or partnership business. This is

contradicting Uddin and Akhter (2011) who found strategic alliances more competitive to produce results. However this problem might be associated with the different types of strategic alliances that each organisation is engaged in as discovered by Rothaermel (2013). To justify high operational costs interviews carried revealed contract service fees, advertising and promotional costs, human resources costs and information systems costs. However the study established that standardizing costs were just fair and not as significant as was being thought by the researcher. This is contradicting Strickland et al (2012) who found strategic alliances associated with low costs.

The research further probed on the types of strategic alliances that these firms were engaged in through interviews. These retailers were mainly using outsourcing followed by equity alliances then a few franchising. Most retailers were found to be outsourcing cleaning, merchandising and guarding or security services in their organizations. This resulted in high outsourcing charges as revealed in the operational costs explained earlier. This is in agreement with views from Isoraite (2009) and Rothaermel (2013) that an organisation can outsource activities that are not core to its business so that it concentrates on its core competences. Non-equity alliances are mostly used in the sector. There are only three types of strategic alliances in use but respondents had mixed views on profits after tax and interest performance in strategic alliances. This is might be justifying Sping's (2011) ideas who found a curvilinear relationship between number of alliances entered and profits. The alliances entered in these organizations are still below those six strategic alliances discovered by Sping (2011) that lead to a curvilinear relationship but these retailers already have mixed views on performance of their alliances.

4.3.2 Problems in strategic alliances

The research sought to find problems that were manifesting in partnership or strategic alliances that affect performance of those entities. These problems lead to decrease in profitability. Table 4.3.2 below illustrates results obtained.

Table 4.3.2: Problems in strategic alliances

	Strongly Disagree 1	Disagree 2	Neither Agree or Disagree 3	Agree 4	Strongly Agree 5
a)There is management efficiency	3 (11%)	10 (36%)	0 (0%)	2 (7%)	13 (46%)
b) Values, beliefs and norms are good	8 (29%)	12 (43%)	0 (0%)	4 (14%)	4 (14%)
c) Debt level is low	6 (21%)	7 (25%)	0 (0%)	5 (18%)	10 (36%)
d) Evaluation of activities is well done	2 (7%)	10 (36%)	0 (0%)	10 (36%)	6 (21%)
e) There is decision making flexibility	20 (71%)	4 (14%)	1 (4%)	3 (11%)	0 (0%)
f)There is fair distribution of resources	9 (32%)	11 (39%)	0 (0%)	3 (11%)	5 (18%)
g) Organisation activities are well integration	6 (21%)	10 (36%)	0 (0%)	8 (29%)	4 (14%)
h) There is trust and commitment of parties	9 (32%)	15 (54%)	0 (0%)	0 (0%)	4 (14%)
i) There is dedication of all parties	8 (28%)	10 (36%)	0 (0%)	0 (0%)	4 (36%)

Source: Research Survey 2015

Table 4.3.2 above shows 72% disagreed while 28% agreed for good culture in strategic alliances. Furthermore 85% disagreed with flexible decision making while 11% agreed. Moreover fair distribution of resources had 71% disagreements, 29% agreements while trust and commitment had 86% disagreements and 14% agreements. This reveals that these strategic alliances' performances were highly affected by conflict of culture, inflexible decision making, unfair distribution of resources, lack of trust and commitment, and to some extend lack of dedication among partners with lack of integration of activities. This is in agreement with Ovcina (2010) who asserted that success of strategic alliances relies on efficiency and integration abilities. These retailers were mainly engaged with non-equity alliances. Non-equity alliances were found to have weak ties among the firms resulting in lack of trust and commitment (Rothaermel, 2013; Isoraite, 2009; Mowla, 2012). These results are in agreement with Ireland et al (2013) and Pearce and Robinson (2013) who found strategic alliances with some control problems that affect revenues and profits.

4.4 Testing of hypothesis for diversification expansion strategies

The research sought to test the hypothesis below:

HO: There is no relationship between diversification expansion strategies employed in retail sector and profitability in Zimbabwe
H1: There is a relationship between diversification expansion strategies and profitability in retail sector in Zimbabwe
Test of this hypothesis was done using regression and correlation analysis.

4.4.1 Addition of shops Regression and Correlation Analysis
This test was on addition of shops through assets value and profits after interest and tax. The principle behind this test being that as organizations engage in adding shops in new geographical areas, acquisitions and strategic alliances they will be increasing their assets. Assets formed the independent variable (X) representing addition of shops through new shops opened in new geographical areas, acquisitions and strategic alliances while profit volumes formed the dependent variable (Y) as shown in table 4.4.1 below.

Table 4.4.1: Independent and dependent variables for addition of shops analysis

Year	Assets Value (US$million)	Profits after tax and interest (US$million)
2011	155	(3)
2012	186	10
2013	224	19
2014	242	6
Total	**807**	**32**

Source: OK, TM-Pick 'n' Pay and Spar Annual Financial Reports (2011-2014)

4.4.1.1 Regression showing linear relationship between assets and profitability
Linear equation describing the relationships among variables:
$Y = a+bx$
Results of test produced $Y = -20.7 +0.14X$ linear relationship

4.4.1.2 Pearson's Correlation coefficient for increase in assets
Pearson's Correlation coefficient (rp) showing strength of the relationship between assets and profits:

$$rp = rp = \frac{(n\sum xy-\sum x\sum y)}{\sqrt{[(n\sum^2-(\sum x)^2)X(n\sum y^2-(\sum y)^2}}$$

rp = 0.606719903

Interpretation: Therefore using Pearson correlation this shows that there exists a strong positive linear relationship between assets added through expansion strategies and corresponding profits. This means that increase in assets lead to increase in profits.

4.4.1.3 Coefficient of determination for increase in assets and Interpretation
rp^2 = 0.606719903^2 X 100%
rp^2 = 36.81%
Interpretation: 37% of the differences in profit volumes were caused by number or amount of assets in retail sector. 63% of the differences in profit volumes were caused by some other factors.

Therefore: Reject null hypothesis that states that there is no relationship between diversification expansion strategies and profitability. Accept alternative hypothesis that states that there is a relationship between diversification expansion strategies and profitability. There is a strong positive linear relationship between adding shops or diversification expansion strategies and profitability of 0.606719903. Moreover addition of assets led to 37% differences in profit volumes while 63% of the differences in profit volumes were caused by some other external factors.
Further research was recommended to find the impact of intensification strategies on profitability that these retailers were using. Furthermore researches for the other strategies that are being used by different sectors can be also done.

5.0 CONCLUSION

The study concluded that there was a strong positive linear relationship between diversification expansion strategy and profitability of 0.606719903. This means increase in assets through diversification leads to increase in profits. The study further concluded that addition of shops was leading to differences in profits by 37%. However there were some other factors affecting profitability by 63% besides diversification expansion strategy. Retailers need to address problems and issues in their diversification expansion strategy so as to enjoy profitability from the strategy.

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