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# DIVERSIFICATION STRATEGIES AND SMEs PERFORMANCE: EVIDENCE FROM CONGLOMERATE AND VERTICAL INTEGRATION

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**ABSTRACT**

*The main objective of this paper is to examine the effect of conglomerate and vertical diversification strategies on SMEs performance in the Northeast Nigeria. The study adopted a survey research design and data were collected through the use of five-point Likert-scale questionnaires. The study population was 5449 registered businesses in Northeast Nigeria and the study used Yamane's (1967) sample size determination formula to arrive at sample size of 373. The study administered questionnaires to the managers of the SMEs and data obtained were analyzed using Structural Equation Modeling via Smart-PLS, version 4.1.1.4. Findings from the study revealed that both conglomerate diversification strategy and vertical diversification strategy have positive and significant impacts on SMEs performance in northeast Nigeria. The study therefore recommends among others that SMEs managers should conduct feasibility studies to identify opportunities and invest in areas such as unrelated businesses, forward integration (controlling distribution) and backward integration (securing suppliers) in order to spread risks associated with their businesses gain control over their value chain.*

**Keywords:** Diversification, Conglomerate Strategy, Vertical Diversification, Small and Medium Enterprises, Performance.

## 1. INTRODUCTION

Small and Medium Enterprises (SMEs) constitutes important economies component globally and it embodied dynamism and entrepreneurial spirit needed for economic diversification and growth (Enaifoghe, 2024). Definitions of SMEs vary globally; they are often distinguished from the larger firms by the total number of their employee and their annual revenues. In Africa, SMEs represent approximately 90% of businesses and it plays vital roles in employment generation, innovation, and contribute to economic growths (AfDB, 2025). Within West Africa, SMEs also significantly contributes to the regional development by promoting entrepreneurship and economic activities. In Nigeria, SMEs are usually defined in terms of employee numbers, asset value, and business turnover. The sector is basically classified into three: the micro, small, and medium enterprises (PwC, 2024), but this study focuses on SMEs.

In Nigeria, SMEs are instrumental in poverty reduction, economic diversification, and fostering entrepreneurship (Omowole, et al., 2024). SMEs contribute 48.5% to Nigeria's Gross Domestic Product (GDP) and employ over 84% of the country workforce (National Bureau of Statistics, 2023; PwC MSMEs survey report, 2020), this highlights the importance of SMEs in sectors such as services, agriculture, manufacturing, and trade. Despite these aforementioned importance, Nigerian SMEs are facing many challenges that hinders their optimal performance and growth. These challenges have prompted many SMEs to explore strategic options like diversification. Prominent among these challenges are limited access to finance, inadequate infrastructure, poor

electricity power supply, strict government regulatory, competitiveness, and technological constraints (Bala, 2022; Opara, 2023; Onuh, et al., 2024; Adesua-Lincoln, 2025).

These challenges limits expansion, innovation and competitiveness of SMEs in Nigeria. However, diversification strategies are strategic plans which organizations employs to expand their business scope into new products, markets, or industries, with the aims of enhancing their performance, mitigate risks, and leverage on growth opportunities (Ansoff, 1957; Razak, 2022; Attah et al., 2024). Most importantly, diversification strategies enable firms to broaden their operational base, which can potentially lead to improved business performance and competitiveness. The rationale behind diversification includes spreading business risks, leveraging on core competencies in new business lines, exploiting market opportunities, and improving organizational adaptability capacity (Kurbatska et al., 2024; Pandey, et al., 2025). Diversification strategies can manifest in various forms; however, this study focuses on conglomerate and vertical diversification, and each has distinct implications for business operations and performance.

Conglomerate diversification involves a firm expanding into businesses that are unrelated to its current operations or competencies (Ansoff, 1957; Ajao, & Kokumo-Oyakhire, 2021; Ezeana, et al., 2024). This strategy allows companies to enter new industries or markets distinct from their existing business portfolio. Key aspects of conglomerate diversification are risk spreading; by operating in multiple unrelated sectors, conglomerate diversification strategy has the potential to help improve growth in new markets and encourage possible synergies across diverse businesses (Nazarenko, et al., 2023). On the other hand, vertical diversification, or vertical integration is when firm expands it business along its value chain, either through backward integration (such as acquiring or controlling suppliers/raw material sources) or forward integration (such as acquiring or controlling distribution channels/closer to customers) (Bartolini, 2025; Yang, et al., 2025). Key considerations of vertical integration include enhanced control over supplies, production, and distribution processes, which has the potential to reduce transaction costs, improve supply chain efficiencies, and improve security of supply of major inputs.

The performance of SMEs in Nigeria is often influenced by numerous factors such as the strategic plans and choices made by firms (such as adopting conglomerate or vertical diversification), availability of resources (such as finance and skilled human capital), the external business environmental factors, market dynamics, and infrastructural conditions (Yahaya & Nadarajah, 2023; Ayodeji, et al., 2025). In Nigeria, SMEs constitute about 96% of businesses, contributing approximately 48% to the country's Gross Domestic Product (GDP) and employing over 84% of the workforce (SMEDAN, 2019). However, there is limited empirical data in Northeast Nigeria about the SME performance, their growth patterns, and the influence of strategic decisions like diversification on their performance. Although there are few studies on SMEs performance but most of those studies do not consider conglomerate and vertical diversification strategies to measure SMEs performance. Few that did were conducted outside the scope of this study with mixed findings.

Conglomerate diversification and vertical diversification are recognized strategies that can impact business performance (Ansoff, 1957; Kitoto, 2024; Ezeanolue, et al., 2025), but their effects on SMEs performance in Northeast Nigeria are unknown. Given the potential of SMEs to contribute to economic diversification, job creation, and poverty alleviation in Nigeria particularly Northeast Nigeria, understanding the impact of conglomerate and vertical diversification strategies on their performance is vital for taking informed decisions, by both businessmen and policymakers. The study's objectives were as follows: to examine the impact of conglomerate diversification strategy on the performance of SMEs in Northeast Nigeria, and to examine the impact of vertical diversification strategy on the performance of SMEs in Northeast Nigeria. Addressing these objectives is expected to contribute to filling the knowledge gap on how conglomerate and vertical diversification strategies influence SMEs performance in Northeast Nigeria, which will potentially guide both SMEs managers and policymakers in their strategic decision-making and policymaking processes.

## 2. LITERATURE REVIEW

### Concept of Organizational Performance

Organizational performance is a vital concept that involves an organization's ability to meet its stakeholders' needs while maintaining its market presence (Pannu, 2017; Restuputri, et al., 2024).

Performance indicators play vital role in enhancing organizational efficiency, as they provide a framework for measuring and evaluating progress towards goals (Nyokabi et al., 2023). These indicators help organizations to identify areas of strength and their weakness; it also helps them make informed decisions about resource allocation and strategic planning. Despite its significance, the concept of performance remains ambiguous, with varying definitions across the literature (Amos-Fibi et al., 2023). Bozic (2023) defines performance as the extent to which a business completes its targeted tasks in relation to the ultimate output. This definition highlights the importance of setting clear goals and objectives, and of measuring progress towards these goals.

Organizational performance is a complex concept that incorporates various disciplines, including marketing, management, accounting, economics, sociology, and psychology (Mahmudova & Kavaces, 2018). This complexity highlights the various organizational performance and the need for a comprehensive approach in measuring and evaluating them. A performance management system aims at improving individual contributions by aligning them with the organization's objectives and goals (Nyokabi et al., 2023). Organizational performance is the foundation of all industrial, financial, commercial, and institutional initiatives, it indicates an organization's ability to provide cost-effective services or goods while maintaining high quality (Al-Qubaisi & Ajmal, 2018). Measuring organizational performance enables firms to focus on areas for improvement and measure progress based on time, quality, and cost (Nyokabi et al., 2023). This helps organizations to identify growth opportunities and improvement, and to make informed decisions about strategic planning and resource allocation.

**Conglomerate Diversification Strategy**

In the words of Gyan et al. (2017), conglomerate diversification is a type of diversification in which a business introduces new products or services that have no relationship to its existing products or distribution channels. Firms may use this method to appeal to a completely new category of clients. The dispute about firms' diversification policies and their performance is quite traditional. Nonetheless, it remains a contentious debate. Most corporate finance studies found that diversification had a detrimental influence on firm performance. On the other hand, strategic management literature indicates that these product diversification methods have a favorable impact on the firm's value creation. In recent years, research in this area has reached an optimal level. Most researchers chose this area as their focus of interest (Makau, et al., 2018; Asaolu, & Gilbert, 2023). According to Chekwube (2024), firms that diversify into unrelated industries reap the most financial and other rewards when compared to firms that diversify in similar industries. It means that unrelated diversification is more advantageous to the firm. Although linked diversification provides a much clearer picture of diversification (Le, & Nguyen, 2024).

Kiricheko et al. (2020) proposed that in emerging economies, opportunities are greater. Unrelated diversification strategies will be appropriate in that economy. Because they are emerging markets. That market is quite uncompetitive. Another argument is that if the firm is huge, its money and labor are dispersed, making them valuable through diversification. Firms can deploy their scattered resources in a meaningful way and gain a large profit from this activity. According to Mucheru et al. (2024), unrelated diversification minimizes a firm's risk. Because when a firm enters a business that is outside its core business, it can maintain its earnings and correlate its cash flows. When a company diversifies into unrelated businesses, it must maintain rigorous independence among all of its components.

**Vertical Diversification Strategy**

Vertical integration, as described by Lafontaine and Slade (2017), as a company's strategy of gaining control over the production of its essential inputs, extending beyond the mere contractual integration within supply chains. Vertical integration can be defined as the consolidation of various business operations within a production process under the management of a single company (Legros & Newman, 2018). Vertical diversification, on the other hand, is a strategic approach which centered on the acquisition of firms that either supply the acquiring company inputs or serve as new customers for its products (Pearce & Robinson, 2020). Vertical diversification occurs when a company goes backward to a preceding stage in its production cycle, forward to a subsequent stage within the same cycle, or involved in some activities like production of raw materials or the distribution of the final product (Greenspan et al, 2018).

Forward vertical integration on the other hand, happens when a business improves its production cycle by taking control of all the stages in the supply chain to create its product (Angelidou, et al., 2022). The goals of both forward and backward integration can be similar and different. Forward integration takes control of steps ahead in the chain, while backward integration takes charge of the one step behind the chain.

**Empirical Review**

Kitoto's (2025) study examined the impact of unrelated diversification strategy on organizational performance among star-rated hotels in the Kenyan Coast. The mixed method, including descriptive survey and explanatory research design, found that conglomerate diversification significantly impacted hotel performance. The study recommends that hotels employing unrelated diversification strategies can increase or retain their financial position and market share, achieving economies of scale even during business turbulence.

However, the study's focus on the Kenya Coast may limit its generalizability. Similarly, Bose and Chakraborty (2025) studied the relationship between market structure, diversification, and firm performance in India. They found that unrelated diversification negatively impacts Tobin's Q, reducing performance. However, their study focused on the moderating role of market structure, which may limit generalizability to other studies. The study used Structural Equation Modeling via Smart-PLS. Kretschmer and Symeou's (2024) study examined the impact of conglomerate diversification on firm performance using patent data from 153 US-traded ICT firms. Findings suggest that benefits depend on firms leveraging absorptive capacity for new knowledge acquisition and exploitation in unrelated markets. Furthermore, Grigorij and Siah's (2020) study found that firms with higher competitive advantage practiced more unrelated diversification, and this suggesting they may use conglomerate diversification strategies to escape intense competition. This suggests conglomerate diversification may be more effective in highly competitive environments. The study under review was conceptual in nature, therefore its findings cannot be generalized. In view of the above, this study conducted similar study in Gombe State with a primary data source and sample size of 277 and hypothesized that:

Marangu et al. (2018) and Chekwube (2024) conducted surveys on the impact of vertical diversification strategies on the performance of mobile service providers in Nigeria. Marangu et al.'s study found that vertical diversification strategy significantly improved firm competitiveness, suggesting that sugar firms should adopt such strategies. Chekwube's study, on the other hand, used a cross-sectional survey with 320 employees from MTN Nigeria, Globacom Nigeria, Airtel Nigeria, and 9Mobile, and found positive relationship between vertical diversification strategy and performance. Both studies suggest that adopting such strategies can improve performance in the telecommunications industry. Findings from the studies cannot be generalize because the studies were conducted outside the scope of this study and they limited their scope to some specific industry (i.e. telecommunications industry). This study addressed these limitations by conducting similar study with relatively higher sample size of 277 in Gombe State northeast Nigeria using small and medium enterprise. This study also used structural equation modeling (SEM) via Smart-PLS software for data analysis instead of the correlation analysis via SPSS. In view of the above, this study hypothesized that:

**The Resource-Based Theory (RBT)**

The Resource-Based Theory (RBT) proposed by Wernerfelt in 1984 and was based on the idea that an organization's competitive advantage is derived from its internal resources rather than its outward posture (Wernerfelt, 1984). The Resource-Based View (RBV) concept explains how a firm gains a competitive advantage by creating distinctive, uncommon, and imitable resources that lead to firm growth (Barney, 1991). Growth in this context could mean diversification into related or unrelated business. The RBV suggests that organizations possess several untapped resources within them which potentially makes them superior over their competitors and enables them to increase their performance if the resources are perfectly combined (Haseeb et al., 2019).

The RBT explains that what differentiates organization performance is the outcome of resource heterogeneity and immobility across organizations (Wernerfelt, 1984). Therefore, organizations that can attract rare, valuable, non-substitute, not easily moved, imperfectly intangible resources and capabilities will achieve strategic advantage over rivals (Hossain et al., 2019). According to Okegbemiro and Adim (2023), organizations' resources are seen as anything which could be linked to its strength or weakness, it could either be tangible and

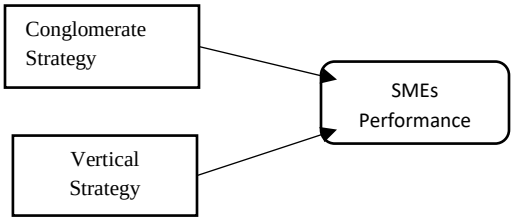
intangible assets tied semi-permanently to the organization. Therefore, if an organization annexes it resources and venture into conglomerate or vertical diversification strategies, such organization stand a chance to improve its performance both at short and long terms.

The Resource-Based Theory explains that firms achieve superior performance by effectively utilizing valuable, rare, inimitable and non-substitutable resources and capabilities. In relation to the findings that conglomerate diversification strategy and vertical diversification strategy have positive and significant impacts on SMEs' performance in Northeast Nigeria, the theory suggests that SMEs that diversify into different business areas or integrate activities along their value chain are better able to maximize their internal resources, managerial competencies, market knowledge and operational capabilities. Conglomerate diversification enables SMEs to spread risks, exploit new market opportunities and utilize excess resources across different sectors while vertical diversification enhances efficiency, cost control and supply chain coordination. Consequently, SMEs that strategically deploy and combine their unique resources through these diversification strategies are more likely to improve profitability, competitiveness, growth and overall organizational performance, thereby supporting the assumptions of the Resource-Based Theory.

**Conceptual Framework**

The objectives of this study were to investigates the impact of conglomerate and vertical diversification strategies on SMEs performance in Northeast Nigeria. SMEs performance served as the dependent variable, while conglomerate and vertical strategies served as the independent variables.

**Figure 1:** *Conceptual Model*




**Source:** Researcher's Compilation (2025).

## 3. METHODOLOGY

This study employed descriptive survey design and it was conducted in Northeast Nigeria using primary source of data. This study population consists of 5449 registered SMEs (SMEDAN, 2020) and a sample size of 373 respondents were obtained via Yamane (1967) sample size determination formula. The data collection instrument for the study was a structured Five-Points Likert Scale questionnaire adapted from Mutune and Simba (2018), and Abdi (2021). The Scale development was variable based and each construct was based on its variable measurements. Face validity and content validity were performed to confirmed the validity of the data collection instrument while its reliability was achieved using Cronbach's Alpha coefficient benchmarked at 0.70 and above via SPSS version 23. Data gathered from the study were Analyzed using Structural Equation Modeling. Below is the model of the study:

$Y = \beta0 + \beta1X1 + \beta2X2 + \varepsilon$

Where: Y = SMEs Performance;

$\beta0$ = Constant Term;

$\beta1$ and $\beta2$= Beta coefficients

X1= Conglomerate Diversification Strategy;

X2= Vertical Diversification Strategy;

$\varepsilon$ = Error term.

## 4. RESULTS AND DISCUSSION

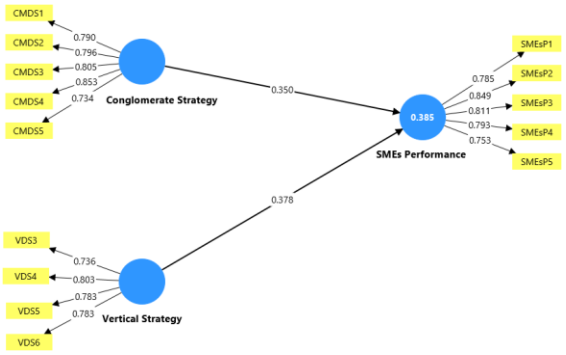
**Results**

Partial Least Squares Structural Equation Modeling (PLS-SEM) is a statistical technique employed for analyzing relationships between latent constructs (Hair et al., 2017). The PLS-SEM approach involves two stages: measurement model assessment, structural model evaluation. Using PLS-SEM via Smart-PLS version 4.1.1.4, this study analyzed the impact of conglomerate and vertical diversification strategies on Small and Medium Enterprise (SME) performance in Northeast Nigeria. At the measurement model (outer model) assessment stage, evaluations of reliability (Composite Reliability > 0.7, as suggested by Hair et al., 2017), convergent validity (Average Variance Extracted, AVE > 0.5; Hair et al., 2014), and discriminant validity were conducted.

Initially, composite reliability, AVE, and Cronbach's alpha of the three constructs (conglomerate, vertical and SMEs performance) were below thresholds (0.70, 0.50, 0.70; Hair et al., 2017), this prompt the deletion of indicators with low outer loadings (< 0.6; Hair et al., 2017). Specifically, items CMDS6, VDS1, VDS2, and SMEsP6 were deleted as shown in Figure 1. This

iterative process, as recommended by Hair et al. (2017), aimed to improve the model fit by eliminating items contributing poorly to study's construct validity. After the deletion of the said items, the refined measurement model shows satisfactory composite reliability values of 0.863, 0.789, and 0.861 for conglomerate, vertical, and SMEs performance respectively; average variance extracted (AVE) values of 0.635, 0.603 and 0.638 for conglomerate, vertical and SMEs Performance; and Cronbach's alpha values of 0.856, 0.782, and 0.858 for conglomerate, vertical and SMEs Performance, indicating adequate reliability (Hair et al., 2017). Convergent validity was supported by AVE values exceeding 0.50 for all constructs (Hair et al., 2014).

Figure 1**:** *Structural Model Showing the Factor Loadings and Paths Relationships between Constructs.*




Source**:** Field Survey (2025)

Furthermore, discriminant validity was established as indicated by Heterotrait-Monotrait (HTMT) ratios being below 0.90 (Henseler et al., 2015; Hair et al., 2017) as presented in Table 4, while the variance inflation factor (VIF) values for inner model constructs were below 5, suggesting absence of severe multicollinearity (Hair et al., 2017) as detailed in Table 1.

Table 1: *Heterotrait-Monotrait (HTMT) Ratio Criterion*

| Construct | Conglomerate Strategy | SMEs Performance | Vertical Strategy |
|---|---|---|---|
| Conglomerate Strategy | | | |
| SMEs Performance | 0.600 | | |
| Vertical Strategy | 0.552 | 0.640 | |

Source**:** Field Survey, (2025).

Having satisfied the measurement model criterions, the structural model evaluation was conducted, where path coefficients, explanatory power ($R^2$), and effect sizes ($f^2$) were assessed. The model's explanatory power was reflected in an $R^2$ value of 0.385 for SME performance (Table 3), indicating substantial variance explained (Hair et al., 2017). Effect sizes *($f^2$)* indicated medium impacts of conglomerate diversification *($f^2 = 0.159$)* and medium impacts of vertical diversification *($f^2 = 0.185$)* on SME performance (Hair et al., 2017) as presented by Table 2.

Table 2: *Effect Size*

| Construct | $f^2$ |
|---|---|
| Conglomerate Strategy – SMEs Performance | 0.159 |
| Vertical Strategy – SMEs Performance | 0.185 |

Source: Field Survey (2025).

In addition to this, results indicated significant paths from conglomerate diversification ($\beta = 0.350$; $t = 5.187$, $t > 1.96$; $p = 0.000$, $p < 0.05$) and vertical diversification ($\beta = 0.378$; $t = 5.003$, $t > 1.96$; $p = 0.000$, $p < 0.05$) to SME performance, supporting Hypotheses 1 and 2, as shown in Figure 2 (Bootstrapping Results Diagram) and summarized in Table 6. Predictive relevance was supported by positive $Q^2$ values (0.360, $Q^2 > 0$) obtained via PLS predict procedures, suggesting the model's ability to predict endogenous constructs (Hair et al., 2017). The conceptual relationships are illustrated in Figure 2. In view of the above, these findings collectively underscore the impact of both conglomerate and vertical diversification strategies in augmenting SMEs performance in Northeast Nigeria.

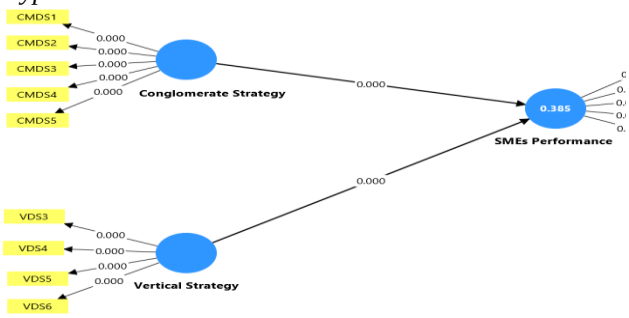
Table 3**:** *Path Coefficient (Hypotheses Test Results)*

| Hypotheses | Beta | S. mean (M) | (STDEV) | T Value | P values | Decision |
|---|---|---|---|---|---|---|
| $H_{A1}$: CMDS -> SMEs P | 0.350 | 0.355 | 0.068 | 5.187 | 0.000 | Accepted |
| $H_{A2}$: VDS -> SMEs P | 0.378 | 0.380 | 0.075 | 5.003 | 0.000 | Accepted |

**Source:** Field Survey (2025)

*** p< 0.01; **p< 0.05; *p <0.1

Figure 2: *Bootstrapping Results Diagram Showing Hypotheses Results.*




Source: Field Survey (2025)

**Discussions of Findings**

Conglomerate diversification strategy (CMDS) has significant effect on the performance of SMEs in Northeast Nigeria. The study's findings supported this hypothesis by revealing a positive and significant relationship (β = 0.350; t = 5.187, t >1.96; p =0.000, p <0.05). This result suggests that for SMEs in Northeast Nigeria, diversifying into completely unrelated business areas is associated with improved performance. The effect size of 0.159 (15.9%) suggest that conglomerate diversification has medium effect size on SMEs performance. The result is consistent with the work of Kretschmer and Symeou (2024), Grigoriji and Siah (2020), and Kitoto (2025), who also reported positive outcomes from conglomerate diversification. However, contradicts the research of Bose and Chakraborty (2025), which reported negative impact between conglomerate diversification strategy and organizational performance.

Vertical diversification strategy (VDS) has significant effect on the performance of SMEs in Northeast Nigeria. The study's results revealed a positive and significant effect (β = 0.378; t = 5.003, t>1.96; p =0.000, p <0.05), which led to the acceptance of the hypothesis. This was also confirmed by its medium effect size ($f^2$ = 0.185). The positive and significant finding aligns with a significant portion of the existing empirical literature. The result is consistent with the work of Marangu et al. (2018), Pozzi and Vassilopoulos (2019), Li and Tang (2020), and Chekwube (2024), whose studies also concluded that vertical integration strategy enhances firm performance.

## 5. CONCLUSION AND RECOMMENDATIONS

This study examines the effect of conglomerate and vertical diversification strategies on SMEs performance in Northeast Nigeria. The study findings show that both conglomerate diversification and vertical diversification strategy has positive and significant effect on SMEs performances in Northeast Nigeria. These findings confirmed the findings of some existing literature and highlight the necessity for SMEs stakeholders to consider expanding businesses to unrelated businesses and also consider forward and backward integration of the business operation.

i. SME owners/managers should conduct feasibility studies on business opportunities that unrelated with their existing business and if found viable they should invest in it. Because it will help them in spreading the risks associated with their business.

ii. SME owners/managers should strategically pursue vertical diversification to gain control over their value chain. Managers should conduct feasibility studies to identify opportunities for backward integration (securing suppliers) or forward integration (controlling distribution), as this was a proven method for enhancing business performance and stability.

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