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## Diversification Strategies Business Managers Use to Improve Profitability

Kayode Itiola  
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# Walden University

College of Management and Technology

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Kayode Itiola

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Walden University  
2023

Abstract

Diversification Strategies Business Managers Use to Improve Profitability

by

Kayode Itiola

MS, Cleveland State University, 2018

BS, Cleveland State University, 2016

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

February 2023

## Abstract

A lack of diversification strategies can negatively impact business profitability. Business managers of small and medium-sized enterprises who implement appropriate diversification strategies can improve business profitability, ensuring the firm's sustainability. Grounded in the modern portfolio theory, the purpose of this qualitative single case study was to explore diversification strategies business managers use to improve profitability. The participants were five business managers who successfully used diversification strategies to enhance business profitability. Sources for data collection were semi-structured interviews, company archival documents, and field notes. Data were analyzed using thematic analysis. Four themes emerged: concentric diversification strategy, horizontal diversification strategy, customer needs and technology, and new and online markets. A key recommendation for business managers is to diversify services and products similar to the existing products and services. The implications for positive social change include the potential for business managers to create job opportunities, provide social amenities and welfare, and promote the economic development of rural communities.

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## Dedication

I dedicate this doctoral project to God Almighty, the pillar of my life and source of inspiration. God has been the source of wisdom and strength throughout this program. I dedicate this work to my parents, Otunba Isaac Itiola and the late Lydia Itiola, who raised me, loved me, and taught me to speak my first English words. I want to remember my loving wife, who has always encouraged and prayed for me. Her love, words of encouragement, and immense belief in me have continued to lift me. To my children, I am grateful for your warm wishes and encouragement. I sincerely appreciate your efforts and messages. To my extended family and friends, thank you for your prayers. I am thankful to be in your thoughts and prayers. My God bless and uplift you all.

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## Section 1: Foundation of the Study

Section 1 of this study contains information on the background of the problem, problem statement, purpose statement, the nature of the study, conceptual framework, and a detailed review of the literature. The conceptual framework, anchored on modern portfolio theory (MPT), formed the basis for investigating how managers of small and medium-sized enterprises (SMEs) make diversification decisions to maximize returns and lessen business risks. Section 1 also contains operational definitions, assumptions, limitations, delimitations, and the significance of the study. The findings obtained from this study could help business managers make informed decisions to diversify their products and services to improve performance. The literature review explored MPT, related and contrasting theories to MPT, product profitability in the context of SMEs, and diversification and firm value.

### **Background of the Problem**

SMEs contribute to economic growth, employment creation, and societal sustainability. Business diversification is one of the strategies SMEs use to expand their businesses and improve profitability (Benyahia, 2021). The failure to use practical business diversification strategies could affect the profitability of SMEs (Benito-Osorio et al., 2020). Businesses that do not apply proper diversification strategies often record financial losses (Brahmana et al., 2019). Business managers of SMEs may not predict how strategies could influence profits (Wang et al., 2020). For example, firms using a product diversification strategy may record higher profits than those using format diversification (Brzęczek, 2018). Business managers of SMEs in the United States must

understand using appropriate business diversification strategies to minimize financial losses. Given the unpredictability of SMEs in using diversification strategies effectively, business managers must explore tested business diversification strategies that would lead to improved financial profitability. Appropriate use of diversification strategies by SMEs could increase job creation, increase income, and decrease homelessness in developed economies such as the United States.

### **Problem Statement**

Most business managers face challenges in predicting the impact of diversification strategies on profitability (Wang et al., 2020). A 1% growth in geographical diversification could increase a firm's value by 16%, while a 1% rise in format diversification decreases profitability by 26% (Brzęczek, 2018; Shi et al., 2017). The general business problem was that some business managers rarely use optimal diversification strategies. The specific business problem was that some business managers do not use successful diversification strategies to improve profitability.

### **Purpose Statement**

This qualitative multiple case study aimed to explore diversification strategies business managers use to improve profitability. The target case population was five business managers of SMEs in the retail industry in Texas who have successfully developed and deployed diversification strategies to improve profitability. Implications for positive social change include producing a variety of products that meet the needs of local customers, enhancing the lifestyle of consumers, and creating employment through improved profitability using improved business practices.

### **Nature of the Study**

The main research methods are quantitative, qualitative, and mixed methods (Bergin, 2018). Researchers often use the qualitative method when exploring human experiences and the why, what, and how factors (Collins & Stockton, 2018). I selected the qualitative research method to explore diversification strategies business managers use to improve profitability. Researchers use the quantitative research method to examine the relationships among variables (Kurdi et al., 2019). The quantitative research method did not apply to this study because I did not explore the associations among variables. In a mixed method, researchers combine both qualitative and quantitative methods (Collins & Stockton, 2018). Mixed methods are appropriate when a researcher uses both qualitative and quantitative methods to enrich the general findings of a study (McBeath & Bager-Charleson, 2020). The mixed methods approach was not appropriate for this study because the purpose of this study was not to collect and analyze empirical data for testing hypotheses about variables' characteristics or relationships.

Some principal qualitative designs are case study, narrative, ethnographic, and phenomenological (Conway, 2020). I selected a multiple case study to explore diversification strategies business managers use to improve profitability. Researchers use multiple and single case study designs to obtain in-depth information about a phenomenon under study. Researchers could use a multiple case study design to compare and categorize themes and patterns across cases (Pihlajamaa et al., 2019). Narrative design is ideal when researchers wish to explore personal beliefs and accounts to construct historical narratives (Conway, 2020). A narrative design was not appropriate

for this study because it focuses on building personal stories of historical events based on personal narrations. Researchers use ethnographic designs to study how individuals behave in a cultural setting (Conway, 2020). Ethnographic design is appropriate when researchers want to investigate participants' behavior in a cultural context which was not the focus of this study. Phenomenological design is suitable when researchers study the personal meanings of participants' experiences of a phenomenon (Garvey & Jones, 2021). A phenomenological design was not applicable in this study because I did not explore the personal meanings of peoples' lived experiences.

### **Research Question**

What diversification strategies do business managers use to improve profitability?

### **Interview Questions**

1. What effective diversification strategies do you deploy to increase profits in your business?
2. What key challenges did you encounter in using diversification strategies to improve profits in your business?
3. How did you overcome the key challenges you faced in using the diversification strategies to improve profits in your business?
4. How did market diversification strategies allow you to increase projected returns?
5. How do you use product diversification strategies to focus on the desired return distribution?



6. What other information can you share with me about your organizational strategies for improving product diversification strategies to increase profits?

### **Conceptual Framework**

The conceptual framework for this study was the MPT introduced by Markowitz. According to Markowitz (1952), investors make diversification decisions to maximize returns and reduce risks while considering existing resources. Markowitz proposed the mean variance theory (MVT), which was the foundation of MPT. MPT has two main concepts: maximize returns and diversify portfolio (Markowitz, 1952). MPT assumes that business managers are risk-averse, selecting investments with minimal risk and higher returns (Markowitz, 1952). Therefore, the MVT is vital in explaining how investors make diversification decisions based on the trade-off between the variance of investment and projected returns (Markowitz, 1952). The optimal portfolio should exhibit negligible risks with projected returns (Markowitz, 1952).

Since the formulation of MVT, several studies have extended Markowitz's 1952 model, introducing new elements such as labor incomes and market incompleteness (Sharpe, 1963). Sharpe (1963) introduced a calculation approach to assess available capital and establish a portfolio with desired attributes. Later, Pogue (1970) added transaction cost and short selling concepts. Rom and Ferguson (1993) enhanced the model by allowing investors to focus on return distribution and variance of returns to establish the investment risk. All these studies contributed to the development of MPT. New studies continued to develop Markowitz's original thoughts, with Woodside-Oriakhi et al. (2013) introducing a portfolio optimization strategy. The concepts of MPT might

facilitate my understanding of the diversification strategies successful managers use to reduce risks and improve profitability.

### **Definition of Terms**

*Business diversification strategies:* Refers to approaches used by large, medium, and small enterprises to expand their reach and coverage (Benito-Osorio et al., 2020). A business can use the product and geographical diversification strategies. In geographical diversification, a business enters new markets. On the other hand, product diversification involves adding new products or components to existing product lines (Benito-Osorio et al., 2020).

*A business manager* refers to a supervisor who manages and oversees a company's daily operations and functions (Bimha et al., 2018). Small and medium enterprises depend on business managers to meet the set objectives. Business managers could also refer to a business agent who manages the business operations of a person, such as an athlete. In this context, a business manager is an individual managing the operations of an enterprise.

*Business sustainability:* Refers to the management of business operations to realize the economic value of a company while protecting the environment and impacting society positively (Shadabfar & Cheng, 2020). In other words, business sustainability enables companies to meet current economic needs and protect the needs of future generations.

*Product portfolio:* Refers to the collection of services and products offered by a business (Mehta & Yang, 2022). Product portfolios may differ based on market share and

growth rate. Companies tend to invest in products with high-profit margins. A company can use product diversification strategies to increase its product portfolio.

*Small and medium-sized enterprises (SMEs)*: An SME is a formally registered company with around 100 – 500 employees in developed economies (Adam & Alarifi, 2021). SMEs in developing nations could have less than 100 employees.

*Social change*: Refer to human relationships and interactions that improve or transform the lives of locals (Chiang & Yang, 2018). Social changes occur over time and bring long-term positive consequences for society.

*State-owned enterprises (SOEs)*: refers to an entity established by the government to take part in commercial activities on behalf of the government (Bachtiar, 2020). An SOE could be either partially or wholly owned by the state. SOEs are specifically profitable in China, Russia, and the United States.

### **Assumptions, Limitations, and Delimitations**

#### **Assumptions**

Assumptions are crucial facts to the study but extend beyond the control of researchers (Suarez-Sousa & Bradbury, 2022). One of the assumptions of this research is that participants provided a correct and honest representation of diversification strategies used to improve business profitability. Another assumption is that I selected participants with experience in product diversification who provided appropriate responses to the interview questions. Additionally, I assumed that a case study was appropriate for exploring different product diversification strategies SMEs use to enhance their

profitability. Notably, I assumed the selected sample was the ideal representation of SMEs in Texas.

### **Limitations**

The limitations refer to the characteristics of a design and methodology that are beyond a researcher's control and could interfere with the interpretation and application of findings (Yin, 2018). The first limitation of this study is that I selected only five participants; therefore, the findings might not be generalizable to all SMEs in Texas. The second limitation is that participants might not have recalled experiences correctly or might not have disclosed some information about business operations that could affect the accuracy of the findings. Thirdly, the background of the participants interviewed might not be representative of the population in Texas in terms of entrepreneurial orientation, type of business, and experience. The fourth limitation is that the participants of the study may have, for several reasons, including accountability, security, and trustworthiness, provided limited answers. I mitigated these limitations by triangulation to test and enhance validity.

### **Delimitations**

Delimitations refer to the parameters and factors that researchers use to define and establish boundaries of research (Kumar, 2019). In other words, delimitations help to establish the scope of a study. The first delimitation of this research is that all the participants are from Texas; therefore, the findings might not apply to SMEs in other states and countries. The study will not explore the influence of leadership and

management strategies. Rather, the study will explore how product diversification strategies help SMEs to make profits.

### **Significance of the Study**

The findings of this study could help business managers make better decisions when diversifying their products and services to enhance performance. There might be a potential to contribute towards positive social change by creating employment opportunities. The successful implementation of diversification strategies might improve organizations' performance and profitability. Implementing successful diversification strategies might provide new knowledge, impact businesses positively, and enhance their sustainability.

### **Contribution to Business Practice**

The findings of this study could help business managers make better decisions when diversifying their products and services to enhance performance. There might be a potential to contribute towards positive social change by creating employment opportunities. Evidence reveals that SME business managers are under pressure to calculate risks and benefits before making decisions on diversification (Shadabfar & Cheng, 2020). Companies diversifying their products to new markets or introducing new products may experience competition from established businesses. Business managers who use proper diversification strategies could improve profitability (Shadabfar & Cheng, 2020). Business managers could use the result of this study to prioritize cost-cutting strategies to maximize profits.

Business managers of SMEs could use the findings of this study to make informed decisions when seeking to diversify their products to improve organizational performance. Business managers who diversify could reduce risks and increase business productivity (Shadabfar & Cheng, 2020). Business managers could benefit from the findings by understanding the risks when diversifying specific products. Managers who evaluate risks and benefits could create value and improve profitability. Through collaboration, business managers could share strategic resources and reduce the costs of resources (Kellner & Utz, 2019). Furthermore, business managers could use the findings of this study to collaborate by sharing strategic resources and reducing the costs of resources. In the final analysis, business managers could use the result of this study to predict and improve the profitability of SMEs.

### **Implications for Social Change**

The findings of this study could contribute toward positive social change because improved business profitability of SMEs could contribute to job creation and positive societal growth. Business managers' success in product diversification could result in economic gains to create local employment in the retail sector. In particular, economic activities could contribute to meeting the needs of local customers. Successful business diversification could contribute to generating income for local communities. The communities could also benefit from the development of social capital. For example, businesses could invest in developing skills to improve the human and social capital of communities' citizens.

### **A Review of the Professional and Academic Literature**

This qualitative multiple case study aimed to explore strategies business managers use to improve profitability. Business managers of SMEs need help understanding how diversification strategies affect profits. This study focused on business managers of SMEs who have successfully applied product and market diversification strategies to improve financial performance. Business leaders in strategic management have shown an interest in studying the motivations behind corporate diversification and the general determinants of its failure and success (Giovanelli & Rotondo, 2022). For instance, Benito-Osorio et al. (2020) established the association between corporation diversification, geographic dispersion, and general corporate performance. Business leaders who determine the causality between diversification and financial performance would make informed decisions when diversifying their business lines to emerging markets. The literature review would allow business leaders to make strategic decisions when diversifying their businesses.

The literature review for this study included comprehensive professional and academic resources to answer the research question: What diversification strategies do business managers use to improve business profitability? This review offered detailed insights into scholarly studies on the impact of diversification strategies on business performance. The literature review involved studies from recent peer-reviewed or scholarly sources. The references included journal articles and books. I used the Walden Online Library to search for my peer-reviewed articles. The databases accessed included EBSCO host, Science Direct, Emerald Insight, SAGE Journals, and Taylor and Francis

Online. The search keywords and phrases include *business diversification strategies*, *business diversification approaches*, *the impact of diversification strategies on business performance*, and *diversification strategies in emerging and developed markets*. The literature search yielded 143 references, of which approximately 91% were peer-reviewed sources published within 5 years, 2018-2022 (see Table 1). I focused on peer-reviewed articles where the researchers examined the effects of the impact of diversification strategies on the performance of firms. I excluded peer-reviewed articles that were more than 5 years old.

**Table 1**

*Summary of Literature Review of Resources*

Reference type	<5 Years	>6 Years	Total
Peer-reviewed journals	146	0	146
Non-peer-reviewed journals	0	0	0
Books	17	0	17
Total	163	0	163

I commenced the literature review with a discussion on the conceptual framework (MPT) and related and contrasting theories to MPT. Other themes discussed in this literature review include product profitability, product pricing strategies, product diversification, firm value, financial performance, product pricing and competitive advantage, and implication of product diversification strategies.



## **Modern Portfolio Theory**

MPT was the framework for exploring product diversification strategies that business managers use to improve profitability. Markowitz (1952) introduced MPT to help investors make reasonable decisions, maximize their returns, and reduce risks. Shadabfar and Cheng (2020) explored how different researchers have developed and advanced Markowitz's original ideas. According to Shadabfar and Cheng (2020), Sharpe (1963) proposed a calculation method to assess investment and build a portfolio with desired attributes. However, introducing transaction costs helped business managers manage organizational investments and risk well (Li et al., 2021). Currently, business managers can use MPT to explore how risk distributions and investment risk could help to avert business risks (Kiptoo et al., 2021). Most MPT studies have focused on developing the constructs originally presented by Markowitz.

MPT is useful when business managers want to make investment decisions, including product diversification strategies. According to Li et al. (2021), decisions on optimal portfolio diversification depend on MPT. The original thought is that MPT guides business managers to make investment decisions depending on the relationship between projected returns and variance (Li et al., 2021). Additionally, business managers can use MPT to diversify their product portfolios that exhibit low risk based on the given returns (Kellner & Utz, 2019). According to Fahmy (2020), MPT can help business managers to react to financial events during short-term stock purchases. Therefore, business managers could use this theory to explore how financial or economic events and irrationality can impact investment decisions (Li et al., 2021). In general, MPT forms the

foundation for making rational investment decisions across time to manage business uncertainties (Fahmy, 2020).

MPT is useful when business managers want to measure business risks and returns. Before measuring returns and risks, business managers must define management objectives and have adequate resources (Utz, 2018). Portfolio managers need to establish the costs and benefits of assets before making a purchase. Portfolio managers should consider exploring the previous financial performance of products and services before forming expectations. In applying MPT to diversify products, business managers should consider three variables: risks, assets, and returns (Antretter et al., 2020). Kellner and Utz (2018) studied how business managers can use portfolio theory in selecting suppliers and established the need to assess their risks and benefits before selecting them. Antretter et al. argued that business managers should identify suppliers that compensate for or complement the risks and benefits. Business managers should assess and establish whether they can accept or reject the risks and benefits before selecting suppliers (Utz, 2018). Overall, MPT could help business managers ascertain whether products selected for diversification could improve business profitability.

Business managers can use MPT to make diversification decisions. Li et al. (2021) established that MPT has market incompleteness and labor incomes that could help business managers make diversification decisions. Business managers could use MPT to evaluate existing capital and establish a portfolio with the best attributes to diversify. In developing an optimal product portfolio, business managers should consider return distribution and variance of returns (Shadabfar & Cheng, 2020). Business

managers should make product diversification decisions carefully before assessing projected returns and risks. While researchers continue to develop Markowitz's original constructs, business managers should borrow his original thoughts to make effective diversification decisions.

The core principle of MPT is diversification. Business managers and investors are risk averse and prefer less risky investment options and products. According to Rodríguez et al. (2021), investors should only invest in high-risk business ventures if the expected returns are high. Therefore, diversification is the core principle of MPT because business managers invest in diverse portfolio to minimize risks. Diversification aims to reduce risks by enabling business managers to invest in products with different risks (Bakar & Rosbi, 2018). For example, business managers prevent or lessen idiosyncratic risk by investing in a portfolio that is not positively correlated (Rodríguez et al., 2021). Diversification helps to minimize risks by offsetting possible losses in some assets. All assets have different risks; therefore, diversification helps to reduce systematic risk (Bakar & Rosbi, 2018). Overall, business managers could diversify portfolios in different ways. For instance, a company can sell products from different manufacturers and access different markets. Diversification ensures that companies are not selling perfectly positively associated products.

### **Related and Contrasting Theories to MPT**

There are two primary approaches to portfolio management - traditional and modern portfolio management theories (Platanakis & Urquhart, 2018). The traditional approach comprises of three main theories: the random walk theory, the Dow Jones

theory, and the formula theory (Viswanatha Reddy, 2019). Modern approaches mainly comprise Markowitz's modern portfolio management, the capital asset pricing model, and Sharpe's theory of portfolio management (Schneider, 2021). The traditional approach primarily focuses on investors' capital and income appreciation and simultaneously centres on liquidity and income expectations (Platanakis & Urquhart, 2018). In contrast, the modern approach aims to improve the returns of investors based on the risk level. Modern portfolio theories do not just focus on capital and income growth but also the return and risk analysis.

### ***Random Walk Theory***

Business managers can use the random walk theory to make economic and statistical hypotheses. According to the economic argument, security markets are efficient, and no investor can earn superior returns (Palamalai et al., 2021). Alternatively, the statistical argument asserts that prices are constantly changing and independent of random variables (Palamalai et al., 2021). According to Abakah et al. (2018), those who support the random-walk theory argue that current market prices depend on previous market patterns. Therefore, proponents of the random walk theory assert that constant price changes cannot predict the future of market prices. Therefore, price changes based on history cannot predict price behavior.

The market price of a stock could represent the desired estimate of the intrinsic value based on the available data. Investors can determine this intrinsic value by analysing the future earnings of a company (Abakah et al., 2018). Additionally, as investors access new information, they may revise future expected earnings, consequently

affecting the overall intrinsic value of the stock. For this reason, the actual price of a stock depends on the availability of new information. However, Nadler and Guo (2020) established that price changes reflect variations in how markets estimate intrinsic value.

Investors can use the random-walk theory to examine how the market assimilates new data to predict that changes in intrinsic value are random. If these deviations are systematic to an extent, those who oppose this theory will argue that the recurring pattern of changes could be profitable (Abakah et al., 2018). The bottom line is that markets are efficient, and investors do not experience information lag (Abakah et al., 2018). The implication is that investors can access to knowledge about new changes and developments in the company and industry (Nadler & Guo, 2020). Hence, prices of products and stocks would instantly adjust to new information. Consequently, historical prices will not predict or dictate the future prices of stocks. Thus, prices are random, and business managers must take some level of risk to make profits.

Random walk theory is not ideal for this study because this research will not focus on stock prices. Random walk theory could be applied to predict future stock prices in the market based on past trends (Abakah et al., 2018). This study will examine diversification strategies used by business managers to enhance their profits and not the unpredictability of stocks in the market.

### ***Sharpe's Theory of Portfolio Management***

Sharpe's theory of portfolio management helps explore pricing capital assets and the developments in portfolio theory and portfolio management. Investors can use Sharpe's theory of portfolio management to assess the performance of mutual funds

(Theron & Van Vuuren, 2018). Upadhyaya and Chhetri (2019) clarified the term “reward-to-variability ratio” to describe how investors can measure mutual funds. Business managers compute performance measures using past data and justify performance based on predicated relationships. According to Theron and Van Vuuren, practical implementation applies ex post results, whereas theoretical discussions use ex ante values. The implication is that historical or past results considerably influence predictive ability.

Sharpe’s theory of portfolio management is helpful to investment and financial managers. The application of Sharpe’s theory ranges from performance measurement to the determination of prices in unregulated monopolies such as telephone and electric utilities (Jiang & Verardo, 2018). Upadhyaya and Chhetri (2019) illustrated the relationship between portfolio management and transaction costs. For example, Sharpe’s reward-to-variability ratio formed the basis for evaluating the performance of investors’ portfolios (Theron & Van Vuuren, 2018). Sharpe’s Single Index is the more accessible version of the more complicated Markowitz’s model. The single index model measures assess the returns and risks associated with securities. The foundation of Sharpe’s theory is that the returns from assets are, to some extent, linear to the market index. Every security on the stock exchange should consist of the market index.

Sharpe’s theory assumes that most securities exhibit positive covariance that is like changes in macroeconomics. Each company has its unique variance (Jiang & Verardo, 2018). Another important thing is that business managers should measure an organization’s variance with market forces and economic factors influencing the variance

(Upadhyaya & Chhetri, 2019). Changes, which occur as a response to macroeconomic factors, influence the covariance of stocks. Business managers can use stock beta and market variance to establish each stock's covariance (Theron & Van Vuuren, 2018). There is no relationship regarding residual returns after the business managers take away market returns. Overall, Sharpe's model is beneficial because it lessens calculations in extensive portfolios, which may consist of significant securities.

However, business managers can only use Sharpe's theory of portfolio management to measure expected returns and adjust their investment strategy. This theory is useful when measuring market volatility and assessing performance after adjusting risks (Upadhyaya & Chhetri, 2019). This theory, therefore, is not ideal because this study will explore diversification strategies business managers use to improve performance.

### ***Theory of Growth of a Firm***

Firms create value through growth and enlarging their market size. Penrose (1959) introduced the theory of firm growth, which continues to significantly impact strategic management (Tan et al., 2020). The theory of firm growth is essential in understanding five contributions to strategic management – firm concept, firm as resources and the role of managers, underutilized resources in a firm, managerial experiences in a firm, and growth of firms through international collaborations (Tan et al., 2020).

The concept of the firm is vital in understanding the growth of organizations and product management. Organizations are institutions which people establish to serve the interests of society. Managers, therefore, strive to create innovations and adapt to new

developments. Managers and entrepreneurs strive to create novel products and grow firms into new markets and geographical areas (Tan et al., 2020). It is crucial to examine a firm from the administrative perspective, which entails structures and procedures. The most critical factor during firm growth is that structures and procedures evolve. Firm growth theory also focuses on the relationship between growth and financial performance (Ledhem & Mekidiche, 2020). Profitability is an essential factor in firm growth. Firms control resources with a long-term of increasing growth and profitability. Therefore, by focusing on growth, firms could create a competitive advantage.

The success of firms depends on resources and the expertise of managers. The available resources help to drive a firm's uniqueness and competitive advantage. Managers play a crucial role in the effective utilization of resources. Additionally, managers offer managerial and entrepreneurial services to shape and sustain product creativity. Managers with experience play a vital role in identifying and utilizing growth opportunities (Tan et al., 2020). Managers with experience in firm-specific resources can influence how firms perceive the demands and opportunities to pursue. Managers should provide entrepreneurial services, which include the creation of innovative services and the implementation of ideas. In contrast, managerial services include implementing ideas and supervising operations.

Firm resources, including unused or underutilized, help drive growth, product innovation, and diversification. Effective utilization of resources helps in firm learning, expansion, innovation, and growth (Ledhem & Mekidiche, 2020). Additionally, utilizing specialized resources could lead to product diversification, which provides the foundation



for sustainable growth, competitive advantage, and firm profitability (Tan et al., 2020). A firm gains a competitive advantage by utilizing specialized resources. A close relationship between specialized resources and firm knowledge and capabilities sets companies apart from their competitors. The implication is that firms must utilize human and material resources in product development to create the much-needed uniqueness and competitive advantage.

Managerial experience is one of the challenges to the effective growth of firms. For effective growth of firms, managers should be different and seek to improve or optimize the growth of firms. Managers must be capable of addressing limits or constraints. In some instances, the growth of firms can exceed the existing experience in organizations. Therefore, for firms to be influential, managers should be knowledgeable and efficient in solving problems (Ledhem & Mekidiche, 2020). The growth and expansion of firms depend on the effective utilization of managerial experience. Besides effective utilization of resources, managers ought to use their experience to make decisions that foster firm growth (Tan et al., 2020). International expansion could also affect the strategy and expansion of firms. The perspective of the theory of firm growth is that there is no limitation concerning expansion and acquisition. Management capability is one of the challenges in global expansion.

However, the theory of the growth of a firm is not applicable to this study because it focuses on the demand and price of products. Additionally, this theory assists business managers in allocating resources, adjusting prices, and improving production methods to enhance profits (Ledhem & Mekidiche, 2020). This research will not focus on how

managers will utilize resources efficiently to maximize financial returns. Instead, this research seeks to examine how business managers can apply product diversification strategies to improve profits.

### ***Resource-Based View (RBV) Model***

RBV is vital in examining why firms outperform others during product diversification. Studying why firms build a competitive advantage and outperform others is one of the goals of strategic management. The RBV model, initially introduced by Barney (1991), continues to be one of the most crucial in investigating why firms outperform others (D'Oria et al., 2021). Organizational strategy plays a critical role during product diversification. The main goal of business firms is to establish and use effective strategies to obtain a competitive advantage (Tehseen et al., 2019). Based on the perspective of strategic management, firms can apply internal and external strategies to enhance their competitive advantage. External factors, such as environmental uncertainties and network competencies, can affect the competitive advantage of firms (Giovanelli & Rotondo, 2022). Internal organizational factors, which include resources and competencies, influence firms in obtaining improved performance (Tehseen et al., 2019). Therefore, internal and external factors could influence the success of product diversification.

Resources belonging to firms in an industry may differ; therefore, differences in resources could be a source of competitive advantage. According to Tehseen et al. (2019), the public should perceive firms as the total of their rare, valuable, non-substitutable, and non-imitable resources. These four components are the primary sources

of competitive advantage. A firm's strategy during diversification is to create, acquire, and utilize resources to outperform its competitors. RBV is an essential model for business managers who want to utilize rare resources to create a competitive advantage (Giovanelli & Rotondo, 2022). During diversification, business managers must establish factors that improve the performance of firms (Ganbold et al., 2020). According to Nandi et al. (2020), the business manager should find effective ways to utilize unique capabilities and resources to enhance competitive advantage.

The main objective of firm diversification is to increase performance and revenues from new products. Therefore, diversification could create value for firms. However, recent studies have established conflicting findings regarding the relationship between diversification and value creation. According to Setianto (2020), value creation depends on the growth opportunities firms experience during diversification. The significant component of diversification in terms of firm value is growth opportunities. Similarly, Ljubownikow and Ang (2020) established that firms must focus on the performance implications of diversification. Some authors have established that some firm diversification is beneficial, and over-diversification could result in poorer performance (Setianto, 2020). However, some authors have established that several confounding factors could influence the relationship between firm diversification and value (Ganbold et al., 2020). Ljubownikow and Ang (2020) demonstrated a correlation between firm characteristics and performance during diversification. Firm performance during diversification also depends on the institutional environment and personal situations.

Diversification could result in costs and benefits. Engaging in related and unrelated diversifications could attract different benefits. For instance, firms that engage in unrelated diversification could incur higher costs. Some authors have also established that unrelated diversification could result in higher bureaucracy and governance costs (Simone, 2022). Firms can also incur higher information management costs if there is no alignment between structure, strategy, and controls (Ljubownikow & Ang, 2020). Firms could use unrelated diversification as a low-cost option for organizational challenges. Alternatively, firms implementing related diversification could incur additional implementation costs, opportunity costs, and organizational rigidity costs. In general, related and unrelated diversifications have potential benefits and disadvantages and could impact firms negatively and positively (Simone, 2022).

Firms diversify to gain a competitive advantage. Firms compete for scarce resources in the marketplace to gain a competitive advantage. Evidence reveals a connection between the ability to access resources and competitive fitness (Ljubownikow & Ang, 2020). For instance, established firms enjoy a competitive advantage because of increased access to resources. The access and utilization of resources play a vital role in enhancing the competitive capability of firms. In other words, firms that deploy resources and use capabilities efficiently face lower competitive intensity than firms without resources (Islami et al., 2020). Hence, there is a direct link between diversification and competitive intensity.

Firms with a lower competitive intensity usually lack the ability to convert capabilities and resources into advantageous positions. According to Ljubownikow and

Ang (2020), related diversification enables companies to use capability- and resource-based benefits. Hence, firms facing increased competitive intensity may find related diversification less beneficial. In contrast, higher competitive intensity indicates that resources and capabilities are less effective. Therefore, firms with lower competitive intensity tend to engage in related diversification. Ljubownikow and Ang established that firms should refrain from engaging in unrelated diversification when competitive intensity is low. Unrelated diversification presents an alternative for firms to escape higher competition in the market (Islami et al., 2020). In different terms, firms struggling to generate income from existing businesses should not diversify into similar businesses.

Firms can transfer resources and skills to gain a competitive advantage during diversification. For instance, Islami et al. (2020) established that RBV enables researchers to examine how firms transfer resources and skills from one company to another. The vital concepts governing RBV theory include valuable, rare, imperfect imitability, and non-substitutability resources (Nandi et al., 2020). Therefore, firms with valuable, rare, non-imitate, and non-substitutable resources gain a competitive advantage. Based on the RBV approach, firms transfer resources to other companies during diversification. Transferring resources and skills allows firms to achieve higher financial performance (Bhatia & Thakur, 2018). However, Bhatia and Thakur found that most researchers have yet to establish concrete conclusions about the correlation between firm performance and diversification. Some studies have reported causal relationships, while others have reported inconsistent findings. For instance, Benito-Osorio et al. (2020) established that the RBV enables researchers to examine how firms transfer resources and

skills from one company to another. Benito-Osorio et al. found that firms have resources and the potential to apply them effectively to be profitable based on the RBV perspective. Based on this finding, corporations should perceive diversification as a strategy to transfer resources and skills from one firm area to another. Thus, the RBV is an approach that researchers widely use to establish whether there is a positive association between diversification and business performance.

Within-industry diversification might affect SMEs' business performance in developing markets. For instance, Pangboonyanon and Kalasin (2018) used institutional and resource-based perspectives to establish whether within-industry diversification could improve the financial performance of SMEs. Because of institutional gaps in developing economies, SMEs are more likely to gain more diversification benefits (Hiriyappa, 2018). For example, diversification strategies could help SMEs fill gaps in business ecosystems and the product market (MacKay et al., 2020). Firms diversifying to emerging markets will also enjoy low-cost labor, therefore, recording higher financial profitability. Therefore, low-cost diversification improves the benefits of within-industry diversification.

RBV theory could help business managers identify and utilize resources that are rare, non-imitable, and non-substitutable during diversification. However, this study is not about identifying strategic resources to enable firms develop their capabilities. RBV theory, therefore, is not applicable because it seeks to enhance the performance of firms over time (Benito-Osorio et al., 2020). This study, however, will explore how SMEs apply diversification strategies to improve performance.

### **Product Profitability in the Context of Small and Medium-Sized Retailers**

Successful SMEs continuously implement strategies to engage their customers in product development. For example, leading companies use open innovation to facilitate customer participation in product development activities and offer an environment to improve customized products (Chen et al., 2021). Several researchers have established that customers are essential to co-creating new services and products (Islami et al., 2020). However, evidence reveals that firms should involve customers in two primary areas: involvement in coproduction and information provision (Chen et al., 2021). Combining these two aspects allows business leaders to create a comprehensive picture of product performance.

Information provision is the degree to which businesses are willing to collect data from customers and could enable businesses to create coproduction activities to develop new products. For example, firms should collect information related to customer concerns, needs, and preferences (Chen et al., 2021). In addition, customers can also provide feedback to enhance product solutions and development options to meet their needs (MacKay et al., 2020). Information collection and use could allow firms to develop and sustain a competitive advantage. Knowledge transfer is at the core of both information provision and taking in coproduction activities (Islami et al., 2020). Firms, therefore, should establish internal product development teams responsible for collecting customer views and using them for developing new products. Previous studies have established that a firm's competitive advantage comes from available resources contributing to capabilities (MacKay et al., 2020). In different terms, businesses that

engage in information provision and coproduction activities could develop sufficient capabilities to improve product performance. Based on this reasoning, businesses that involve customers should experience improved product performance.

The evolution of new technologies and dynamic changes in the marketing trend could influence how firms acquire knowledge to shape product development.

Technological capabilities refer to the ability of firms to apply new tools to combine different resources with product offerings. Technological capabilities entail technology development, projecting technological changes, and manufacturing (Hiriyappa, 2018). Marketing capabilities refer to outside processes that assist firms in projecting market changes and trends in the marketplace to create superior product offerings (Cheng et al., 2021). Both technological and marketing capabilities involve a new product development process, and critical drivers include competition, customer involvement, and exploration of market opportunities and challenges. Chen et al. conceptualized that marketing and technological capabilities are the essential dimensions firms should consider during product development. In marketing, firms have two crucial resources: architectural and specialized. Architectural capabilities entail developing and implementing a marketing strategy, while specialized capabilities entail marketing-mix processes such as communication and product development (Cheng et al., 2021).

Effective development of business and marketing strategies plays a vital role in product development. According to Cheng et al. (2021), retailers are complex, and businesses keep evolving due to new technologies and changing marketing scenarios. Additionally, Chen et al. established that retailers could implement a comprehensive



framework for developing business strategies. Cheng et al. categorized the implementation of retailers' strategies into four broad levels: store, firm, market, and customer. Retailers could implement strategies related to store brands, alliances, and multichannel marketing. Retail managers could consider store strategies related to the marketing mix, location, and atmospherics. Business managers could benefit from implementing customer-related strategies to improve clients' experience, satisfaction, and loyalty (Hiriyappa, 2018). Retailers expanding to international markets could benefit from cultural assimilation and localizing their business strategies.

Retailers should prepare to handle challenges related to complex forces in the economy. Many businesses face challenges in predicting a change in consumer demand, the use of consumerization technologies, and economic constraints (Chen et al., 2021). Consequently, SMEs should improve their business models to meet consumer expectations efficiently and sustainably. Chiang and Yang (2018) focused on how the new business model of sharing economy could influence the success of modern retailers. Modern businesses should develop customer engagement approaches to manage different segments of customers. The bottom line is to investigate and understand how modern businesses could participate and succeed in the sharing economy.

Many retailers have recorded a decrease in customer loyalty due to the rise of e-commerce platforms. Online retail has several benefits, including lower prices, increased choices, and ease of switching brands. Many retailers continue to collect data to assess consumer-purchasing habits (Chiang & Yang, 2018). Yiu et al. (2020) established that business intelligence is vital in developing a competitive strategy. However, most

retailers are yet to use data-mining analytics to enhance market effectiveness (Chiang & Yang, 2018). The use of data analytics allows retailers to predict consumer-purchasing patterns and increase consumer loyalty. In a study, the researchers used big data analytics to assess more than 44,000 point-of-sale transaction records for thousands of customers (Chiang & Yang, 2018). The researchers established that consumers tend to build loyalty to brands that exhibit personality traits like those of customers. Business managers should examine how personality-based consumer perceptions could influence purchase decisions and consumer loyalty (Chiang & Yang, 2018). Business marketers in the retail industry continuously seek strategies to improve campaign effectiveness by targeting customers with specific offers (Yiu et al., 2020). Brand positioning is an essential strategy for building consumer loyalty and business profitability.

The actual value of business intelligence systems remains contested. Most companies should integrate business intelligence into their manufacturing and production operations (Hiriyappa, 2018). Yiu et al. (2020) established that advanced systems, including employee relationships, could benefit more from business intelligence systems. Feng and Fay (2020) used the resource-based view of companies to examine how firms could build a competitive advantage based on business intelligence systems. In some situations, firms are more likely to benefit from applying business intelligence systems.

Retailers make continuous decisions about whether to open new stores or close existing ones. While retailers could benefit from closing stores in terms of reducing costs, opening new stores could increase revenues (Feng & Fay, 2020). Retailers are dynamic, and business strategies in this industry are evolving with time (Cheng et al., 2021). In

particular, new technologies are changing how retailers interact with customers to create and sustain a competitive advantage. Cheng et al. provided broader prospects of strategies retail managers could adopt to increase profitability. Understanding the complexity of retail structures could allow business managers to adopt and configure strategies to real-world issues. Business managers could use technology and big data analytics in developed markets to improve profitability (Feng & Fay, 2020). Proper use of new technologies could significantly affect the relationship between stores and customers. Importantly, business managers could use insights from technology and big data analytics to predict customer-purchasing behaviors and provide offerings tailored to customer expectations.

### **SMEs and Product Diversification**

Diverse factors could influence the decision for SMEs to diversify. Nada and Panda (2018) established that internal firm factors could affect the profitability of companies. For example, endogenous factors could determine the profitability and efficiency of SMEs. Additionally, managers of SMEs could consider macroeconomic elements when evaluating the performance of products. Huynh (2021) demonstrated that several factors, including financial leverage, liquidity, fixed asset ratio, and non-financial aspects, such as firm location, size, and firm age, could influence when and how firms diversify. The resource-based view model is essential in understanding the capabilities firms could use to improve the performance of their products.

Several theories, such as the industrial-based view, the institutional-based view, and the resource-based view, provide vital insights into understanding the performance of

firms. The industrial-based view offers critical insights into explaining how external factors could affect a firm's operations. For instance, the environmental conditions of a company could shape business strategies and performance (Panda, 2018). The competition intensity, new entrants, power of suppliers, power of buyers, and the availability of similar products in the market could affect a firm's competitive advantage. The institutional-based view approach assists firms in pursuing reasonable interests and implementing strategic decisions based on institutional models. For example, Bachtiar (2020) posited that an institution plays a significant role in influencing the strategy and performance of companies. Therefore, a firm's strategic choices depend on company capabilities, industry conditions, and institutional framework. However, institutional-based and industrial-based views tend to focus on the characteristics of the external environment that shape the performance of firms. Alternatively, the resource-based view explains how internal factors influence the performance and profitability of companies. Explicitly, the resource-based view explains how resources, specific characteristics, and capabilities influence the strategies and performance of firms.

Diversification is the most effective approach to business expansion. However, SMEs may not prioritize diversification, although it could help them grow. Bachtiar (2020) used the growth stage model to examine when SMEs could diversify. Similarly, Chen et al. (2021) opined that SMEs' decision to diversify depends on the decision and intentions of owners. SME owners have a diversification plan from the start of a business. Therefore, owners could determine when SMEs could diversify.

The most challenging time for SMEs to diversify is when they are young and growing. Chen et al. (2021) established that several factors influence the diversification of SMEs. For example, institutional factors affect how SMEs diversify within the Chinese context (Bachtiar, 2020). The dominance of some larger businesses at the provincial level could affect the entry of SMEs. Bachtiar (2020) concluded that the dominance of state-owned enterprises (SOEs) tends to affect the strategic choices of SMEs. A high dominance of SOE could suggest that SMEs experience challenges related to regulation and cognitive and normative aspects. Conversely, a low level of SOE dominance tends to encourage SMEs to search for new market opportunities. Diversification strategies that SMEs use depend on dominance from larger businesses. For instance, diversification tends to diversify within their geographical scope (Chen et al., 2021). Overall, SMEs' diversification strategies could reveal whether the dominance of larger companies is high or low.

### **Product Diversification Strategies and the Reduction of Business Risks**

Firms diversify when they have valuable and rare resources. Companies diversify when they possess unique internal resources and adequate resource allocation strategies. Theoretically, diversification has value-enhancing and value-reducing consequences (Schommer et al., 2018). Based on philosophical foundations, product diversification could positively influence corporate profitability in terms of economies of scale and value projections. However, the counter school of thought explains that product diversification could result in a lost unique proposition, consequently leading to a considerable financial loss (Panda, 2018). Several factors could influence the financial performance of a firm

during diversification. According to Schommer et al., company size, asset structure, company age, profitability, managerial ownership, and risk ownership are some critical aspects that influence financial performance.

There is a strong correlation between financial leverage and product diversification because diversification enables firms to reduce risks, consequently allowing companies to manage higher debt levels. Additionally, diversification affects systematic risk significantly. For instance, diversification enables companies to leverage their risk profiles, thus affecting financial profitability. Joshipura and Joshipura (2020) posited that diversified risk party (DRP) strategies might improve financial performance. However, Mehta and Yang (2022) concluded that DRP tends to center on diversification concerned with unrelated sources of risks. Similarly, Schommer et al. (2018) reported that business firms or retailers provide different reasons when adopting risk-based strategies. An interesting factor to note is that risk-based approaches outperform traditional investment strategies (Panda, 2018). Remarkably, risk-based approaches have several setbacks. For instance, risk-based approaches lack adequate theoretical support. Additionally, risk-based strategies focus on portfolio concentration and issues related to turnover (Schommer et al., 2018). However, asset and business managers must implement different approaches to deal with the setbacks.

Retailers tend to employ country or location-specific diversification strategies to stay competitive. Studies indicate that store managers prefer to implement tried and tested diversification strategies. For example, a 2018 study by Dimitrova et al. evaluated the challenges multinational retailers encounter by replicating and enhancing country-

specific diversification strategies in new markets. Although country-specific diversification strategies may not be successful in new markets, Dimitrova et al. (2018) concluded that diversification in-store format portfolios could enhance market penetration. Diversification in retail is vital if a firm wants to compete effectively. The implication is that groceries and supermarkets should diversify their products and services to penetrate the market and stay competitive.

### **Product Diversification and Firm Value**

Diversification reduces unsystematic risks and thus, increases the value of firms. Thirathon and Meeprom (2020) demonstrated that diversified firms increased value more than single-segmented companies operating in similar industries. However, the impact and value of diversification could vary depending on developed and emerging markets. Bhatia and Thakur (2018) noted that the unique features of firms in emerging economies influence how firms benefit from diversification. Consequently, the advantages of diversification established through internal capital markets surpass related costs. Hence, the institutional-based approach to diversification is essential in understanding the value created by product diversification (Thirathon & Meeprom, 2020). The implication is that diverse institutional environments, as well as frameworks, have a significant impact on a firm's diversification strategies. Most emerging markets have weak institutional environments; thus, the advantages linked to diversification exceed the costs (Bhatia & Thakur, 2018). Diversified firms in developed markets could imitate the resources and functions of various market institutions. Firms in emerging markets could overcome institutional challenges at the diversifying firm level.

Industrial diversification enhances a firm's value and organizational performance. However, global diversification could discount or reduce a firm's financial value. Schommer et al. (2018) opined that diversified businesses in emerging markets increased their financial value compared to focused or single-segmented businesses in similar sectors. Therefore, the impact of diversification on a firm's financial value in domestic markets could offer crucial managerial implications. Firms that diversify their products could compete effectively with other firms because they meet their customers' needs. A 2018 study by Dimitrova et al. indicated that production diversification allows retailers to meet their clients' needs. Dimitrova et al. (2018) explored whether store format diversification could improve multinational corporations' financial value. Additionally, Bhatia and Thakur (2018) assessed whether cultural distance, internationalization speed, and political distance affect store format diversification strategy. Dimitrova et al. concluded that format diversification could negatively affect international retailers' financial value.

Factors such as political distance, cultural distance, and internationalization speed impact the diversification approach. Brzęczek (2018) examined the effect of format portfolios on retailers' financial value. Specifically, Brzęczek examined the association between format diversification and retailers' financial value in the international context. Kumar et al. (2020) opined that retailers use format diversification during internationalization. Brzęczek reported that format and geographical diversification might pose a challenge in measuring the value or performance of diversification. Overall,



geographical diversification improves the financial value of retailers, while format diversification might not positively influence a firm's financial performance.

### **Product Diversification and Financial Performance**

Product diversification can improve the performance of companies in several aspects. For example, firms could benefit from the synergies. Based on the internal capital market theory, diversified companies benefit from over undiversified firms because they can utilize resources effectively and efficiently (Bhatia & Thakur, 2018). Hence, the financial synergy which results from firm diversification leads to improved performance. According to the resource-based view theory, diversified companies can quickly transfer their main intangible and tangible capabilities, skills, knowledge, experiences, and managerial expertise to other company segments (Siraj et al., 2020). Consequently, other businesses could utilize similar capabilities without experiencing costs and record a higher financial performance.

Internalization of transactions could create efficiency that establishes synergies and cost benefits. Evidence reveals that diversified companies can utilize commonalities of relatedness as external relations, physical assets, marketing mix, and learning experiences, which creates economies of scale (Siraj et al., 2020). Additionally, diversification could enable firms to borrow considerable amounts of debt. According to Bhatia and Thakur (2018), debts are the cheapest sources of finance for firms. Therefore, diversified companies are profitable due to the high availability of cheap finance. Diversification also allows firms to operate in different markets and can quickly compensate for failures in other markets and succeed in other markets. Conversely,

diversification helps to mitigate risks and offers cushions to firms against setbacks and competitive environments (Joshiyura & Joshiyura, 2020). Therefore, diversification allows diversified firms to achieve average profits. Based on the resource-based perspective, diversified companies could efficiently utilize slack resources such as knowledge, excess knowledge, capacity, and infrastructure unlike undiversified firms, resulting in higher profits. Hence, diversification could enable firms to sustain their performance.

There are positive and negative relationships between diversification strategies and financial value. Diversification reduces risks to enhance financial performance (Yang, 2022). For example, Wang et al. (2021) opined that establishing commodity portfolios could limit commodity risks. Joshiyura and Joshiyura (2020) posited that firms must follow the mean-variance strategy introduced by Markowitz (1952). The mean-variance model could help firms to balance risks and returns during diversification. Mehta and Yang (2022) reported that diversification strategies help manage portfolios and the firm's risks.

There is a positive relationship between diversification strategies and a firm's financial value. According to Brzeczek (2018) and Dimitrova et al. (2018), store format diversification could address customer preferences issues. Consequently, a firm using store format diversification must account for various elements such as quality, experience, and structure. However, most studies on format diversification focus on multinational retailers. Hence, there is a research gap in studies involving format diversification in domestic retailers. Nevertheless, multinational retailers intending to use

format diversification must incorporate political and cultural distance (Brzęczek, 2018). Conversely, domestic retailers entering new markets should incorporate political aspects into their format and arrangement to meet customers' needs and preferences.

### **Product Pricing Strategies for Optimal Financial Performance**

A priority during product development is pricing. When developing and positioning products, companies must establish how pricing will change with time (Feurer et al., 2018). Establishing an effective pricing strategy is one of the most complex tasks during pricing. Most companies have created pricing teams to address the pricing challenge. However, a few studies have addressed how organizations establish pricing internally (Sheu & Choi, 2019). Information processing is one strategy organizations use to establish effective prices (Feurer et al., 2018). Information processing helps organizations establish consumers' behavior (Sheu & Choi, 2019). For instance, companies should establish factors that could influence consumers to make informed purchase decisions. Additionally, firms must establish optimal prices to attract old and new customers (Sheu & Choi, 2019). Pricing could help firms to build sustainable relationships with consumers. Therefore, firms should engage in intensive information processing to assess consumer trends. According to Feuerer et al., firms should be prepared to handle market uncertainties. Consequently, decision-makers within an organization should collect and process information and make informed decisions regarding pricing.

The effectiveness of product pricing depends on how a product achieves its intended goals. Previous researchers have shown that the most crucial criterion for

assessing the effectiveness of pricing strategies is financial performance (Feurer et al., 2018). For instance, a product must achieve its goals in terms of profit margin, return on assets, and return on investment (Feurer et al., 2018). Product innovativeness is a crucial contingency factor that could help firms to satisfy consumer and market needs. Research on green product innovation provides critical insights into understanding how innovation affects pricing strategies (Xie et al., 2019). Green product innovation aims to reduce adverse environmental impacts. Additionally, green product development could enable companies to establish new market opportunities. According to Xie et al., green products play a crucial role in strengthening the brand image and improving financial performance. Therefore, there is a connection between green products, pricing, and improved financial performance.

The internet has transformed how firms use pricing strategies. According to Li et al. (2019), firms use different online platforms to position their products based on varied purposes, entertainment, and consumption patterns. The two types of product pricing strategies are defensive and offensive. In defensive strategies, companies position their pricing to discourage new competitors. Examples of defensive strategies include defending, fortifying, continuous improvement, and signaling before other rivals join the market. In contrast, offensive strategies enable companies to obtain competitiveness or a considerable market share. Examples of offensive pricing strategies include penetration, price leadership, and experience curve, which are effective in competitive markets. According to Li et al., most companies prefer to use price leadership when there are companies that dominate the market. Firms should set effective pricing strategies based

on market demands. Consequently, new firms use offensive pricing strategies such as cost leadership to gain a considerable market share.

There is a relationship between product pricing and financial performance. Feurer et al. (2018) posited that financial performance is one factor determining the effectiveness of pricing strategies. For example, pricing strategies could affect the financial performance of multinational companies. Multinational retailers in foreign markets must adopt domestic pricing strategies or risk considerable financial losses (Mehta & Yang, 2022). Western and Eastern multinational corporations use different marketing and pricing approaches. There needs to be more understanding of the preferred pricing strategies that Western multinational retailers use in developed and developing nations. Pricing is one of the most critical strategies that firms could use to improve financial performance. Therefore, a firm's pricing strategies could have an immediate and direct impact on the retailer's revenues.

Multinationals tend to use lower pricing to increase market penetration. Carballo-Cueto (2018) examined the pricing strategies that multinational retailers use for at least fifteen years after entry and concluded that there is no evidence to demonstrate whether multinational retailers offer lower prices than domestic or local competitors. However, multinational corporations can reduce prices to deter domestic competition and quickly achieve a competitive advantage. The researcher obtained representative samples and collected prices from international pharmacies in Puerto Rico (Carballo-Cueto, 2018). Researchers have demonstrated that SMEs are positioned to capitalize on pricing competitiveness compared to multinational retailers (Chen et al.,

2019). Overall, there needs to be evidence to establish whether the prices of multinational corporations are lower than domestic or local stores.

Dynamic exporting is the pricing strategy that multinationals use to increase global competitiveness. Chen et al. (2019) employed “product-level longitudinal data” to establish the impact of dynamic export pricing. Research findings demonstrated that export-dynamic pricing could influence a firm’s competitiveness, either positively or negatively, depending on a firm’s actions and outcomes (Caraballo-Cueto, 2018).

Dynamic pricing occurs due to intense global competition and a change in customer demands. Chen et al. opined that dynamic pricing is applicable when firms align with marketing approaches. Dynamic pricing aims to realize sustained competition in new markets.

### **Product Pricing and Competitive Advantage**

There is a relationship between a firm’s competitive advantage and product innovation. According to Falahat et al. (2020), a firm can achieve pricing capability by setting prices based on market competition, cost considerations, and consumer expectations. For example, companies with better pricing strategies tend to gain a competitive advantage through the ability to meet the needs of customers (Hofer et al., 2019). Some studies on pricing capability suggest that flexible companies achieve the best value in terms of money deals. There is a connection between pricing capability and competitive advantage (Lorenzo et al., 2018). Therefore, lower-cost firms could achieve more competitive advantage than their rivals.

Competitive advantage involves the effective utilization of internal and external resources. In pricing, firms should solicit views from different employees and departments before implementing some pricing strategies, such as export pricing (Falahat et al., 2020). By coordinating different departments in a firm such as marketing, finance, and sales, business leaders could address possible conflicts and set prices likely to result in superior performance. Before exporting prices to new and turbulent markets, it is essential to consider the different factors involved in pricing decisions (Hofer et al., 2019). Additionally, managers who target export markets should consider adopting margins and price discounts. Managers should be aware of specific-market factors, changing trends, and emerging factors when exporting pricing strategies.

### **Implications of Product Diversification Strategies**

The findings from the literature review could provide helpful insight into the managerial implications of product diversification strategies. Dimitrova et al. (2018) reported that retailer customers want stores to sell quality products that meet their diverse preferences. Therefore, retailers must increase risk tolerance while diversifying their products to new geographical areas. However, multinational retailers that diversify by store format do not record an increase in financial value because they should meet or balance the competing needs of a diverse customer base (Brzęczek, 2018). Multinational stores could increase their financial performance by elevating their internationalization speed.

Geographical diversification could increase a firm's financial and market value significantly. Brzęczek (2018) reported that a 1% rise in geographical diversification

could enhance market value by 16%. However, a 1% increase in format diversification lowers a retailer's market value by 26% (Shi et al., 2017; Brzęczek, 2018). Research findings have shown that the positive impact of geographical diversification reduces with the increase in format diversification (Caraballo-Cueto, 2018). Hence, retailers should focus on a single diversification approach. Retailers should generally apply diversification strategies that could lead to higher financial performance. For example, some types of format diversification could be advantageous over others.

Firms should implement diversification strategies to improve their financial performance. Moreover, Dimitrova et al. (2018) posited that all retailers, domestic and international, seek expansion by implementing diversification strategies. According to Brzęczek (2018), format diversification is mainly similar to product diversity. For instance, retailers in the United States experience natural growth by diversifying their products and business lines. A business manager can select a conservative or aggressive diversification strategy. In a conservative approach, a firm focuses on lessening the risks by following its regular practices (Caraballo-Cueto, 2018). Thus, a retailer would replicate its products and services in new geographical areas. In contrast, an aggressive approach leads to new opportunities in the face of several risks.

Therefore, retailers should manage risks when implementing diversification strategies. Mehta and Yang (2022) established that retailers could apply diversification approaches to minimize financial crisis risks. In general, Mehta and Yang illustrated how business firms could take advantage of product portfolios and commodity futures to diversify. Dimitrova et al. (2018) opined that retailers should devise new ways to



maximize commodity diversification along with unconnected risks. Hence, based on the research findings by Yang (2022), business managers should minimize risks to enhance retailers' financial performance during diversification.

### **Transition and Summary**

Section 1 of this study contains information on the background of the problem, problem statement, purpose statement, the nature of the study, research and interview questions, conceptual framework, and operational definitions. The conceptual framework was the MPT. Section 1 also contains the operational definition of terms, assumptions, limitations, delimitations, and the significance of the study, and an extensive review of the professional and academic literature. In Section 2, I restated the purpose statement, discussed the role of the researcher, and explained the rationale for selecting the research methods and designs for this study. Other topics in section 2 included ethical research issues concerning participants, population and sampling, data collection instruments, data collection technique, organization, and analysis. I concluded Section 2 of this study with a narrative on reliability and validity. In Section 3, I discussed the findings and results of the study, its application to professional business practice, implications for social change, recommendations for action and further research, personal reflections on the study, and summary and study conclusion.

## Section 2: The Project

I explored the diversification strategies business managers use to improve profitability in this study. In Section 2 of this study, I restate the purpose of the study, explain the researcher's role, describe the participants, and discuss the research methods and designs, population and sampling, and issues related to ethical research. Furthermore, I present narratives on data collection instruments and techniques, data organization techniques, and data analysis and discuss the reliability and validity of the study.

### **Purpose Statement**

This qualitative multiple case study aimed to explore diversification strategies business managers use to improve profitability. The target case population was five business managers of SMEs in the retail industry in Texas who have successfully developed and deployed diversification strategies to improve profitability. Implications for positive social change include producing a variety of products that meet the needs of local customers, enhancing the lifestyle of consumers, and creating employment through improved profitability using improved business practices.

### **Role of the Researcher**

In qualitative research, the role of the researcher includes selecting participants, organizing, and analyzing data (Fusch et al., 2018). The researcher is primarily responsible for collecting all the data to be used in the study through interviews, observations, document reviews, and the researcher's reflections (Karagiozis, 2018; Merriam & Grenier, 2019). Yin (2018) identified seven roles of a qualitative researcher. The roles include (a) data collection, (b) data organization, (c) data analysis, (d) data

interpretation, (e) a review of the literature to gather relevant information, (f) identification and engagement of participants, and (g) data storage and security. In this study, I was the primary data collection instrument.

My role as a researcher was to collect and analyze data on the diversification strategies managers use to improve profitability. Other roles include conducting interviews with the participants, audio-recording the information participants provided, taking notes, transcribing, coding, and organizing data into themes. In this study, I gained access to the participants using the informed consent form, an interview protocol (see Appendix A), a letter of invitation (see Appendix B), and interview questions (see Appendix C). Other modes of gaining access to the participants include making telephone calls, using text messages, and Zoom conferences. I collected data through different sources to gain proper insight into the diversification strategies business managers use to improve profitability.

The role of the researcher includes adhering to the ethical research issues outlined in the Belmont Report. The Belmont Report, produced in 1978 by the National Commission for the Protection of Human Subjects, contains ethical principles and guidelines for protecting human subjects from abuse. The Belmont Report aims to ensure that researchers adhere to the following three principles (a) respect for participants, (b) beneficence, and (c) justice (Piantadosi & Meinert, 2022). The principles of the Belmont report stipulate that researchers must give participants the freedom to assess the risks and benefits of participating in a study and voluntarily accept through an informed consent process to participate (Brothers et al., 2019).

Qualitative researchers should understand how to protect participants' ethical and moral rights. Brothers et al. (2019) provide a guide for conducting research ethically involving humans. In line with Belmont's guidance, I communicated with the participants about the purpose of the research and the research procedure. I informed the participants about the risk and benefits of participating in the study. I also allowed the participants to ask questions on ethical issues. I attended the Collaboration Institutional Training Initiative (CITI) training course on protecting human research participants and obtained the requisite certification (see Appendix D). In conducting this study, I complied with the Walden University research protocols and the Institutional Review Board (IRB) regulations.

Researchers are responsible for mitigating bias and avoiding perceiving information and data provided by participants through a personal lens (Yeong et al., 2018). Some of the techniques qualitative researchers use to mitigate bias include (a) making sure they reach data saturation during the interview process, (b) using consent form and interview protocol to engage participants, (c) member checking data collected to ensure validity, and (d) ensuring interview questions are validated by experts and well-constructed to minimize bias (Yin, 2018). I used the informed consent form and interview protocol (see Appendix A) to gain participants' attention and obtain data and information. I also conducted member checking to validate data collected from participants. I ensured data saturation by continuing to interview participants until no new information or themes emerged. In this study, I mitigated using my lens, biases, and opinions during the data collection and analysis process.

## Participants

In a qualitative study, the researcher must select suitable and appropriate participants to ensure the credibility and acceptability of the research (Yin, 2018). The participants for this study comprised five business managers of SMEs in the retail industry in Texas who have successfully developed and deployed diversification strategies to improve profitability. Researchers should select participants with the required knowledge and experience regarding the research topic (Saunders & Townsend, 2018). To ensure the selection of participants aligns with the overarching research question, the researcher needs to establish criteria for participants' selection (Cash et al., 2022). Qualitative researchers use purposive sampling to select appropriate participants to obtain rich information (Vasileiou et al., 2018). Yin stated that qualitative researchers could purposefully select a minimum of three participants for a study. The criterion for selecting participants for this study was to identify business managers in Texas who have used diversification strategies to improve profitability and have sustained their businesses in the retail industry with more than 5 years of experience.

The researcher should explore several strategies to gain access to participants, including purposive sampling, informed consent forms, and interview protocol (Merriam & Grenier, 2019). I used a purposive sampling technique to gain access to study participants. I established contact by sending the informed consent form to participants. The informed consent form contained information on the purpose of the study and sought the participants' will to engage in the study. Furthermore, I gained access to the participants by providing them with the interview protocol (see Appendix A), which

explained clearly the data collection procedure, the nature of the study, and the interview questions.

Building a good relationship with study participants is central to receiving needed cooperation and information from the participants (Cassell et al., 2018). Establishing a working relationship with the participant is an approach a researcher could pursue to encourage openness and sharing of information about the research topic (Kraft et al., 2019). An essential practice in conducting research is obtaining approval from the official gatekeepers of an organization (Cash et al., 2022). After receiving approval from Walden IRB, I sent the informed consent form, interview protocol (see Appendix A), and letter of invitation (see Appendix B) through email to participants inviting them to participate in the research. In the introductory email, I explained the participants' rights to confidentiality and the voluntary nature of participation in the study. Using these strategies, I established a working relationship with participants, built some rapport, stratified or other, and fully described the participant selection and geographical location.

### **Research Method and Design**

Research methods and designs are fundamental components of the research process and are essential in attaining reliable and credible study outcomes (Abdalla et al., 2018). The three main research methods are qualitative, quantitative, and mixed methods (Cassell et al., 2018; Merriam & Grenier, 2019). A researcher can select any research method based on the purpose of the study and how the method aligns with the problem statement and research design (Yin, 2018). Researchers use the qualitative method to explore *why* and *how* people cope in natural world settings (Busetto et al., 2020). I used

the qualitative method to explore the diversification strategies business managers use to improve profitability. Researchers should ensure that the research designs they select align appropriately with the research method to effectively answer the overarching research question of the study (Yin, 2018). Some of the research designs qualitative researchers use include case study, phenomenological, ethnographic, and narrative (Denzin & Lincoln, 2018). In this study, I selected the case study design.

### **Method**

I used the qualitative method in this study to explore the diversification strategies business managers of SMEs in the retail industry use to improve profitability. A qualitative researcher could gain insight into the phenomenon under study in a natural setting using the qualitative method (Pienaar et al., 2019). Using the qualitative method, a researcher could recognize patterns, trends, and interactions within the phenomenon under study (Leong et al., 2019). Researchers use qualitative methods to explore the phenomenon within its context with various data sources because it is flexible and rigorous (Lock & Seele, 2018). Furthermore, researchers use the qualitative method to clarify complex interactions between persons and their settings (Walby & Luscombe, 2018). I used the qualitative method to gain insight into the diversification strategies business managers use in the retail industry, to recognize patterns and trends, and to clarify complex interactions.

The quantitative research method is numeric and suitable for examining the relationships among variables or groups of variables in an empirical manner (Mohajan, 2020). According to Appelbaum et al. (2018), researchers use the quantitative method to

examine or explain the relationships among variables using statistical, mathematical, or computational techniques. Quantitative researchers formulate research questions and hypotheses, which serve as the focus and anchor of the study (Barroga & Matanguihan, 2022). Yin (2018) stated that the quantitative research approach is based on statistical evidence through hypotheses testing of numerous variables. The quantitative method was not appropriate for this study because the study's intent was not to collect numeric data and examine the relationship between variables. Furthermore, I have no intention to test a hypothesis; instead, the purpose of the study was to explore the diversification strategies business managers use to improve profitability. Therefore, the qualitative method was most appropriate for this study.

The mixed methods approach is a combination of the qualitative and quantitative data collection and analysis process. Researchers use the mixed methods approach to gain insight into the phenomenon in a natural setting and examine the relationships among variables or groups of variables (McBeath & Bager-Charleson, 2020). The mixed methods approach was not suitable for this study because the purpose of the study was not to collect and analyze empirical data or examine relationships among variables. I used the qualitative method for this study because the intent was to explore the diversification strategies business managers of SMEs in the retail industry use to improve profitability.

### **Research Design**

Some qualitative designs include phenomenological, ethnographic, narrative, and case studies (Castleberry & Nolen, 2018; Eisenhower, 2019). I used the case study design for this study. The case study design was appropriate to explore the diversification



strategies business managers of SMEs in the retail industry use to improve profitability. Using the case study design, researchers could enhance the rigor and credibility of their research study (Sibbald et al., 2021). A researcher undertaking a qualitative case study collects in-depth data from multiple sources to enable data triangulation (Miovsky et al., 2019). A researcher conducts a qualitative case study when the aim is to (a) answer *how* and *why* questions, (b) manipulation of the participants' behavior is not possible, (c) the focus of the study is to address the phenomenon within its context, and (d) when no apparent boundaries exist between the event and the background (Eisenhower, 2019; Okoroikpa, 2019). Two types of case study designs include single and multiple case study designs (Yin, 2018). A researcher could use a single case design or a multiple case design to conduct research.

Researchers use a single case design to conduct studies under such conditions as a critical test of existing theory, unusual circumstances, revelatory situation, or longitudinal purpose (Reichow et al., 2018). A researcher uses multiple case study designs to replicate and confirm an emerging construct by identifying corresponding aspects of the phenomenon under study within and across settings (Soeker & Pape, 2019). A researcher uses a multiple case study design to achieve a more compelling and robust outcome (Stocker & Abib, 2019; Yin, 2018). In this study, I used the multiple case study design because the design was more appropriate for obtaining rich information from participants to understand better the phenomenon of business managers using diversification strategies to improve profitability in the retail industry.

Phenomenological design is appropriate when a researcher seeks to study the personal meanings of the lived experiences of individuals (Korcuska & Flynn, 2018; Conway, 2020). The phenomenological design was not appropriate for this study because I did not intend to explore the personal meanings of the lived experiences of individuals within a phenomenon. Researchers use ethnographic design to study a group of people's cultural values, beliefs, and behavioral patterns in a social setting to gain a deeper understanding of the study phenomena (Canale et al., 2022; Cash et al., 2022). The ethnographic design was not suitable for this study because I did not intend to study the culture, beliefs or behavior of individuals or groups. Narrative inquiry is a qualitative design that some researchers use to document experiences of lived and told stories of a person or a small number of individuals who are chronologically connected (Andrews, 2020). Narrative inquiry was not appropriate for this study because I did not document lived or told stories of a person or a small number of individuals. Researchers could select between two to six cases to conduct multiple studies (Yin, 2018). I selected participants from two retail businesses in Texas to conduct a multiple case study.

Qualitative researchers achieve data saturation in the data collection process by conducting interviews with participants until no new information emerges (Cash et al., 2022). Data saturation is a step at which researchers stop collecting further data because the information could yield enough depth of understanding to conclude the study (Hennink & Kaiser, 2022). I used the purposive sampling technique to select five participants who are very conversant with the diversification strategies business managers of SMEs in the retail industry use to improve profitability. Using semi-structural

interviews, I continued to collect and analyze data from participants until no new information and data were emerging.

### **Population and Sampling**

The population of a study reflects the entire set of events, individuals, or objects that display the characteristics of interest that the researcher intends to study (Mawhinney & Rinke, 2019). Researchers use different sampling techniques to select a sample size as a representative of the population study because it may not be possible to study the entire population (Brzęczek, 2018). Research samples could be individuals, groups, roles, cultural elements, activities, processes, events, time, or locations. Researchers should identify the study population and appropriate sample size, which are critical to conducting a valid and reliable study.

The target population and sampling techniques used in qualitative research should align with the study's phenomenon and research methodology (Schreier, 2018). Defining the target population of a study is an essential step in the sampling stage of research (Abdalla et al., 2018). The population of a study is a reflection of the entire set of events, individuals, or objects that display the characteristics of the participants that the researcher intends to study (Mawhinney & Rinke, 2019). The target population for this study consisted of SME owners in the retail industry in the State of Texas. Researchers should establish a boundary for determining the target population of a study by using selection criteria that align with the study's purpose when selecting the participants for the study (Berndt, 2020). In determining the study population, I considered the individuals' characteristics in relation to the problem statement and research question.

The sample size for a qualitative study should be large enough to obtain enough data to sufficiently describe the phenomenon of interest and address the research questions (Sim et al., 2018). However, a large sample size creates the condition for redundant data (Bergin, 2018). Yin (2018) stated that qualitative researchers could use a sample size of between five and 50 participants. The sample size of 5 participants for this study met the qualitative study requirement. Researchers should ensure that samples from the general population could mitigate sampling bias and align with the research methodology (Haddad et al., 2022). Sampling methods in qualitative research include purposive sampling, quota sampling, and snowball sampling (Ames et al., 2019). I conducted purposive sampling to select five business managers from two SMEs in the retail industry who have successfully used diversification strategies to improve profitability in their respective companies in the State of Texas. Quota sampling and snowball sampling were not suitable for this study.

Researchers consider a variety of factors in selecting a sampling technique, including (a) the research question, (b) knowledge of the study population, (c) population size, (d) familiarity with cases in the population, (e) the methodology of the study, (f) time and financial constraints (Berndt, 2020). The benefits of purposive sampling in qualitative research include obtaining appropriate and valuable information from the informants and using limited research resources effectively (Campbell et al., 2020). Purposive sampling enables a researcher to improve rigor and trustworthiness, including credibility, transferability, dependability, and confirmability (Bagheri, 2019). I used the

purposive sampling technique to select SME owners in the retail industry in the State of Texas who have successfully used diversification strategies to improve profitability.

Data collection is not numerical but open-ended, progressively unfolding, iteratively repetitive interview process, or a combination of observation and repeated interviews (Brzęczek, 2018). Qualitative researchers using multiple case study designs could purposively select cases who are informants with knowledge of the phenomenon under study. A qualitative researcher employing a multiple case study design uses multiple data collection sources to achieve data triangulation (Yin, 2018). I selected participants for this multiple case study using a purposive sampling technique. The criteria for selecting participants include (a) having successfully used diversification strategies to improve profitability, (b) having worked in the retail industry for 5 or more years, and (c) being a resident of the State of Texas.

Bergin (2018) stated that qualitative researchers must reach data saturation to justify using a particular sample size. Data saturation denotes a point in the research process when the researcher has collected enough data and requires no new information in data analysis, indicating the end of research data gathering (Vasileiou et al., 2018). Qualitative researchers achieve data saturation when extra data does not result in new themes, perspectives, and insight into the study phenomenon for further analysis and coding. In this study, I continued asking participants questions during the interview process until no new information emerged. Selecting an interview setting is vital in a qualitative study to assure the participants the needed privacy without interruptions (Doll, 2018). I requested that the participants choose a convenient venue, time, and date for the

interview. I used open-ended questions and a semistructured interview technique during the interview meetings with the participants.

### **Ethical Research**

Researchers must address ethical issues related to using human participants in a research study. According to Shaw et al. (2019), qualitative researchers need to pay attention to research ethics and professional codes of conduct when conducting studies with human subjects. Al Tajir (2018) stated that ethical issues are essential in qualitative research and cautioned that researchers should address ethical matters before engaging in any research process to avoid any possible ethical concerns during the research process. I completed the Human Research Participant training as a requirement by Walden University and obtained the CITI certification covering research ethics on human subjects. I sought approval from the IRB of Walden University before I embarked on the data collection process from the participants.

Qualitative researchers should adhere to the three fundamental principles recommended in the Belmont Report in dealing with the research participants (Piantadosi & Meinert, 2022). I observed strictly the three fundamental principles recommended in the Belmont Report, including respect for persons, beneficence, and justice in dealing with the research participants. Furthermore, I followed such ethical practices as the protection of the confidentiality of participants, the right to withdraw from the study at any time and using the interview protocol to avoid any misunderstanding during the data collection process. I sent to participants the Informed Consent Form. The informed consent form contains information about the research topic, research purpose, research

procedures, consent to participate, research risk and benefits, the voluntary nature of the research, and confidentiality protection procedures for participants. I accepted the participant's involvement in the study after receiving their signed informed consent form.

The participant can decide to withdraw from the study at any time by informing the researcher by phone or email without stating any reason. There was no penalty for withdrawing from the study. I informed the participants that there would be no payment or other incentives for participants in this study. Quadrelli (2018) opined that robust methodology and design should enable a qualitative researcher to demonstrate trustworthiness and credibility and avoid unnecessary ethical risks that could harm participants and discredit the research, such as inappropriate incentives. Researchers should offer benefits instead of risks to human subjects. The research environment should be conducive to ethical conduct, including voluntary informed consent, autonomous decision-making, and privacy protection (Gomes & Duarte, 2018). I used a secure password to store the data obtained from participants, will delete the data after five years of completion of this study, and I will shred all confidential documents. To ensure the confidentiality and protection of the names of the participants and the SMEs, I used codes such as P1, P2, and P3 to identify participants, and RS1, RS2, and RS3 for retail companies.

## **Data Collection**

### **Instruments**

Qualitative researchers use different techniques to collect data, including semistructured interviews, observation, document search, and review of archival

documents (Yin, 2018). The primary role of a researcher in qualitative research is to serve as the main instrument for data collection and analysis (Stenfors et al., 2020). I served as the main instrument for data collection and analysis in this study. The key instrument for data collection was the semistructured interview (see Appendix C), which contained six interview questions relating to the diversification strategies business managers in the retail industry use to improve profitability. Researchers use observations and archival documentary searches to collect rich data (Yin, 2018). I observed participants during the interviews and took notes. Documentary data are helpful in a qualitative case study to provide multiple sources of information for triangulation (Yin, 2018). I collected data from company policies, annual reports, and financial statements. Researchers should access archival data to validate responses provided by interviewees (Bingham & Byrne, 2021; Kelly & Rosenbloom, 2019). Overall, technology has enabled companies to documents records for easier access (Colavizza et al., 2022).

Using the telephone in qualitative data collection by researchers is an alternative to face-to-face research to conduct individual and focus group interviews (Namey et al., 2019). Telephone communication is flexible in time and location for data collection and could enable researchers and participants to conform to health and safety restrictions (Archibald et al., 2019). I used Zoom to collect data from participants and took notes during the interview sections. Note-taking during interviews enables data triangulation in qualitative research, and collecting information from multiple sources enables a researcher achieve data triangulation with the aim of corroborating the same finding (Yin, 2018).



The interview protocol is one of the widely used tools for collecting data. I used open-ended questions to encourage participants to provide details of their experiences (Tiong & Sim, 2020). Open-ended questions are ideal when researchers want to explore the experiences that require lengthy explanations (Torrentira, 2020). I obtained data from the participants by asking questions and creating a purposeful interaction. I observed certain aspects of participants, such as behavior and poise to establish knowledge in product diversification. Each participant answered similar questions (Jain & Brockova, 2022). This is to ensure that a researcher can aggregate the responses and increase reliability and validity.

### **Data Collection Technique**

I conducted telephone interviews in this study using the interview protocol (see Appendix A) with open-ended interview questions (see Appendix C). Qualitative researchers use data collection techniques such as surveys, interviews, direct or participant observation, site visits, video recording, review of the company or archival documents, and a sample of existing data or records to obtain study data (Anselmi et al., 2018). One of the techniques qualitative researchers use to conduct interviews from a distance instead of face-to-face in the era of the COVID-19 pandemic is telephone interviews (Lobe et al., 2020). A researcher could use Zoom videoconferencing platform for a one-on-one interview with the participants who have an internet connection on their computer or other suitable digital devices such as tablets and smartphones with working speakers, microphone, and camera (Yin, 2018; Lobe et al., 2020). I used telephone and social media techniques to collect data. During the interview process, I used digital

audiotaping of the participants' responses to ensure the accuracy and credibility of the data collected.

One main advantage of using the semistructured interview as a data collection technique is that researchers could develop questions surrounding predetermined themes to allow for flexibility in discussions and clarifications through follow-up questions during an interview with participants (Barrett & Twycross, 2018). According to Yin (2018), two significant side effects of using a semistructured interview technique for data collection exist. First, the possibility of the researcher's interjection of explicit or covert statements that may connote personal opinions and influence participants' responses. Second, the potential to introduce bias in a study either due to poor construction of questions or participants' basing their responses on personal interpretation. Researchers find the strategy very useful despite the potential disadvantages of using semistructured interviews as a data collection strategy. I did not conduct a pilot study for this study because pilot studies are more suitable for quantitative research (Barrett & Twycross, 2018) and not applicable to this study. Additionally, pilot studies are ideal when researchers are undertaking large-scale studies (Fraser et al., 2018). In most instances, researchers undertake pilot studies as a strategy to mitigate possible risks (Pearson et al., 2020). In effect, pilot studies could help address existing uncertainties involving design and research methods (Malmqvist et al., 2019). Therefore, the pilot study was not necessary because this was not a quantitative and large-scale study.

Validation of the interview questions is not mandatory but it is an important process. Evidence shows that interview questions should be based on the context of a

study (Sánchez-Guardiola Paredes et al., 2021). However, validation ensures that the interview questions will answer the research questions (DeJonckheere & Vaughn, 2019). My supervisor validated the interview questions. I discussed with my supervisors whether I had formulated leading questions and if my questions were understood by my participants. I revised my interview questions based on the feedback from my supervisor.

Qualitative researchers should ensure they attain data saturation by continuing the interview process with participants until no new data or information emerges (Cash et al., 2022). To enhance data saturation in this study, I continued collecting and analyzing data from the participants during the interview process until no new information and themes emerged. Data saturation is critical to enhancing the credibility, reliability, and validity of a study (DeJonckheere & Vaughn, 2019). I ensured data saturation in this study involving semistructured interviews with a small purposive sample of participants from the retail industry in Texas who have successfully improved profitability in their businesses using diversification strategies.

### **Data Organization Techniques**

Efficient organization and documentation of data is an essential component of the research process necessary for ease of retrieval, protection of data, and confidentiality of participants (Barrett & Twycross, 2018). Researchers utilize data organization strategies to enhance the reliability and credibility of a research study (Lindlof & Tylor, 2019). In this study, I adhered to the following data organization sequence: (a) collect data from each participant, (b) label data using the codes for each participant, (c) store data collected in folders on my computer, and (d) back up data in multiple hard drives.

Researchers use an organizational technique such as interview protocol to enable a consistent and orderly data collection process, analysis, and storage (Yin, 2018). I used the interview protocol (see Appendix A), which prescribed the procedures such as digital recording, field note taking, and data transcription and analysis using Nvivo 12 software to organize data. I recorded the interviews digitally, downloaded them onto a computer, transcribed them, and stored the data in an electronic device with a private password.

Researchers are responsible for protecting the identity of study participants and the companies they represent while ensuring the proper use and safekeeping of the collected data (Stenfors et al., 2020). I used alphanumeric codes (P1, P2, ...P5) to identify the participants and protect their identities. Data masking provides data security and hides the participants' identities, and data encryption and storage in password-protected devices ensure data security (Mustacoglu et al., 2020). Researchers should maintain records to keep track of the data they collect (Stenfors et al., 2020). I organized the data collected using a research log created in Microsoft Excel to capture the participants' responses in the rows and the interview questions in the columns of the Microsoft Excel file. For safekeeping, I stored all data collected in hard copies in a confidential file, locked in a fireproof safe, and accessible to me alone. After five years, I will delete all the audio records, digitized data, and electronic records and shred all the paper documents.

### **Data Analysis Technique**

In a qualitative study, a researcher is responsible for conducting practical data analysis to present valid and reliable findings and enhance trustworthiness (O'Kane et al.,

2019). Yin (2018) identified five categories of data analysis (a) data compilation, (b) data disassembly, (c) data reassembly, (d) data interpretation, and (e) data conclusion and reporting. Furthermore, Kiger and Varpio (2020) discussed the five types of theme-based data analysis that yield practical results in a qualitative research study, including (a) comparative analysis, (b) content analysis, (c) cross-case synthesis, (d) narrative synthesis, and (e) thematic analysis.

In this study, I followed Yin's (2018) five categories and Kiger and Varpio (2019)'s steps of data analysis. I used NVivo 12 Pro software and Microsoft Excel for data sorting and analysis. Firstly, I interviewed participants and transcribed data. After participants reviewed transcripts to verify accuracy, I undertook a thematic analysis. I extracted themes and documented the findings.

Data triangulation is a widely used method to enhance the rigor in qualitative studies. I applied at least three methods to verify results and findings. I used double check the interview transcripts, observed participants, and collaborated to minimize possible errors (Johnson et al., 2019). I used member checking method and return transcripts to participants to validate and assess the trustworthiness of documented experiences (Jentoft & Olsen, 2017). Triangulation of the transcribed interview, document review, and the notes taken during the interview ensured the credibility of the study findings.

In this study, I used thematic data analysis and NVivo-12 software for data analysis. The first step in thematic data analysis is familiarizing with data sets. In the initial step, researchers should engage with data honestly and be aware of pre-existing thoughts, beliefs, and theories. The second step is the generation of codes. During coding,

a researcher reflects and interacts with data (Horsley et al., 2019). This allows a researcher to simplify collected data and create themes. The third step involves recognizing dominant data patterns and themes. After recognizing themes, a researcher will refine and establish the coherence of dominant patterns (Xu & Zammit, 2020). A thematic analysis should consider key themes in the literature and integrate them with emerging themes in collected data. Key themes in the literature review include product diversification and financial performance (Siraj et al., 2020; Bhatia & Thakur, 2018; and Joshipura & Joshipura, 2020), product pricing strategies (Feurer et al., 2018 and Sheu & Choi, 2019). Key themes or patterns during data analysis include new and online market, customer needs and technology, horizontal diversification strategy, and concentric diversification strategy. The conceptual framework is the MPT, which focuses on how business managers make diversification decisions to improve returns and reduce risks. Therefore, the key themes in the literature review and data analysis are in line with the conceptual analysis.

### **Reliability and Validity**

In qualitative research, the researcher is responsible for ensuring the validity and reliability of the study findings (Wagemaker, 2020). Qualitative researchers should integrate qualitative validity checks into their research to strengthen the trustworthiness, credibility, accuracy, and truthfulness of research findings (Holter, 2022). Reliability ensures consistency, dependability, and replicability of research findings (Wa-Mbaleka & Rosario, 2022). The critical elements in establishing the reliability and validity of a qualitative case study are (a) dependability, (b) credibility, (c) confirmability, and (d)

transferability (Yin, 2018). Sonmez Cakir and Adiguzel (2020) posited that validity is about how a study achieves its objective. The reliability and validity of a qualitative study are enhanced by triangulation, member checking, document review, and data saturation (Stenfors et al., 2020).

### **Reliability**

Qualitative researchers should establish the dependability of their research study. Fahsold et al. (2022) stated that the reliability of a study depends on the researcher's ability to replicate the study's results and ensure consistency. I ensured the consistency of the study data by using the interview protocol (see Appendix A). Yin (2018) opined that researchers acknowledge that a study is reliable if the results are dependable, consistent, and replicable. I provided evidence of reliability by documenting each step of the research process. Dependability is the term qualitative researchers use to explain the process of ensuring reliability in a study.

### **Dependability**

The dependability of the findings from qualitative research enhances the study's rigor and reliability (Yin, 2018). Cash et al. (2022) explained that dependability involves participants' evaluation of results, interpretation, and recommendations supported by the participants' data. In qualitative research, some of the strategies for addressing the dependability of a study include (a) member checking, (b) audit trail of field notes, (c) reflexivity, and (d) methodological triangulation (Wagemaker, 2020). For this study, I used member checking and interview protocol to affirm the authenticity and dependability of the findings. Member checking involves the participant's verification of

the interview transcript and feedback from information generated from participants' responses during the interview (Forero et al., 2018). During the member checking process, the participants affirmed the accuracy and completeness of the transcribed responses and interview summary. Documentation of the case study procedure and methodological triangulation are other strategies that qualitative research can use to enhance the dependability of the findings in a study (Rashid et al., 2019). I documented all the case study procedures and used methodological triangulation, such as member checking to enhance the dependability of the study findings.

### **Validity**

In a qualitative study, researchers use different methods to ensure the validity of the study results (Yin, 2018). Validity refers to the accuracy and trustworthiness of the results of a research study (Greenhalgh et al., 2020). In qualitative studies, researchers relate internal validity with credibility (Cash et al., 2022). External validity is equivalent to transferability, and objectivity is equal to confirmability in qualitative research (Abdalla et al., 2018; Farquhar et al., 2020). To establish validity, qualitative researchers should ensure the credibility, confirmability, and transferability of the data collected (Yin, 2018).

### **Credibility**

The credibility of a study depends on the accuracy of the procedure the researcher used throughout the research process (Yin, 2018). To ensure credibility, a qualitative researcher should provide detailed and extensive descriptions of the interconnections of concepts and constructs about the consistency of research findings



(Bouncken et al., 2021). Qualitative researchers use the following methodological strategies to ensure credibility: (a) selecting a sample which represents adequate research phenomenon, (b) reflexivity, (c) achieving audit ability, and (d) applying conclusions of the study to different contexts (Dutta & Ranjan, 2019). A researcher could ensure the credibility of a research study by (a) using appropriate research methods in conducting the study, (b) applying peer scrutiny, (c) conducting member checking, and (d) triangulation (Iivari, 2018; Yin, 2018). In this study, I used member checking and triangulation to achieve credibility.

Member checking and triangulation are key strategies qualitative researchers use to establish the credibility of a study (Bouncken et al., 2021). Triangulation refers to the researcher using different sources to obtain data and to ensure that data are adequate to support the accuracy of findings (Yin, 2018). Qualitative researchers could ensure data triangulation by collecting data from different sources such as interviews, observation, and company documents. I used member checking and triangulation techniques to ensure the credibility of the findings and results of the study.

### **Confirmability**

Qualitative researchers use the process of confirmability to ensure that data accurately represent the response participants provided, devoid of the researcher's opinion and bias (Squires & Dorsen, 2018). An essential aspect of confirmability is the researcher's ability to show that the data represent the participants' experiences and perspectives and not the researcher's preferences (Hall & Harvey, 2018). Audit trails, member checking, and triangulation are valuable strategies for attaining confirmability in

a study (Yin, 2018). I achieved confirmability for this study through member checking and audit trail.

### **Transferability**

Transferability is the degree to which researchers' findings are applicable in other contexts and settings (Schloemer & Schröder-Bäck, 2018). The prominent strategy researchers use to determine transferability is a detailed verbatim description of the research process (Eldh et al., 2020). Researchers use triangulation and purposive sampling to enhance transferability (Yin, 2018). In this study, I presented a detailed verbatim description of the responses that participants provided in the narratives of the research findings to ensure transferability. I also used the purposive sampling method to collect data and the data triangulation strategy to establish transferability. I ensured an accurate description of the data collection process and compared my study findings with similar literature studies to validate the transferability of the results.

### **Data Saturation**

Data saturation relates to how many interviews are conducted until no new information emerges (Guest et al., 2020; Vasileiou et al., 2018). Bergin (2018) identified four models of saturation: theoretical saturation, inductive thematic saturation, a priori thematic saturation, and data saturation, which relates to the degree to which researchers express new data in previous data. In this study, I ensured data saturation by conducting open-ended interviews with five business managers of SMEs in the retail industry until no new information emerged.

### **Transition and Summary**

In section 2, I restated the purpose of the study, discussed my role as the study's researcher and participants, presented the research method and design, and described the population and sampling strategies. Section 2 also includes the data collection instruments and techniques, data organization and analysis techniques, ethical considerations in research, and the validity and reliability of research. In section 3, I provided a summary of the research findings and presented data from the study findings, which included data from interviews, analysis of the interviews, and archival company documents. I also discussed applying the findings to professional practice and the implications for social change. Finally, I made recommendations for action and further research, presented my reflections, and drew the summary and study conclusions.

### Section 3: Application to Professional Practice and Implications for Change

In Section 3, I provide an overview of the study and present the study findings on the diversification strategies some business managers use to improve profitability. Then, I use the data from the research participants' responses to link the study findings with the conceptual framework regarding MPT. Other topics discuss in this section include the applications to professional practice, implications for social change, recommendations for action and future research, reflections, and summary and study conclusions.

#### **Overview of Study**

In this qualitative multiple case study, I aimed to explore the diversification strategies some business managers use to improve profitability. The conceptual framework was MPT. The overarching question was: What diversification strategies do business managers use to improve profitability? Five business managers from two SMEs in the retail industry in Texas, United States, who have successfully developed and deployed diversification strategies to improve profitability participated in this study. The participants provided the primary data to answer the overarching research question, and secondary data sources included company policies, annual reports, field notes, financial statements, and archival documents.

To reach data saturation, I continued to collect data until no new additional information emerged from the interview process and document review. Based on the participants' responses to the interview questions, I identified four themes: (a) concentric diversification strategy, (b) horizontal diversification strategy, (c) customer needs and technology, and (d) new and online market. By relating MPT to the study findings, I

better understood the diversification strategies some business managers of SMEs in the retail industry use to improve profitability. The study findings illustrate that some business managers of SMEs in the retail industry use a blend of diversification strategies to improve profitability.

### **Presentation of the Findings**

The overarching research question was, what diversification strategies do business managers use to improve profitability? Business diversification is one of the strategies SMEs use to expand their businesses and improve profitability (Benyahia, 2021). The failure to use practical business diversification strategies could affect the profitability of SMEs (Benito-Osorio et al., 2020). Hence, businesses that fail to apply proper diversification strategies often record financial losses (Brahmana et al., 2019). I used the triangulation method to combine the data collected from semistructured interviews, observations, field notes, and company archival documents. The secondary data include company policies, annual reports, financial statements, standards operating procedures, and field notes. Upon completion of the interview with the fifth participant, no new information or themes emerged, indicating that I had reached data saturation. Using NVivo 12 software, I organized the study data and conducted the thematic analysis to identify emerging themes and trends for data analysis and interpretation.

Cheng et al. (2021) provided broader prospects of strategies retail managers could adopt to increase profitability. Nada and Panda (2018) established that internal firm factors could affect the profitability of companies. For instance, an institution plays a significant role in influencing the strategy and performance of companies (Bachtiar,

2020). Also, the environmental conditions of a company could shape business strategies and performance (Panda, 2018). According to Dimitrova et al. (2018), retailers should seek expansion by implementing diversification strategies. The four themes I identified in this study are (a) concentric diversification strategy, (b) horizontal diversification strategy, (c) customer needs and technology, and (d) new and online markets. In the following subsections, I present the four themes that emerged from reviewing the company's archival documents, filed notes, and the thematic analysis of the participants' responses to the interview questions.

### **Theme 1: Concentric Diversification Strategy**

Diversification reduces risks to enhance financial performance (Yang, 2022). Dimitrova et al. (2018) opined that retailers should devise new ways to maximize commodity diversification along with unconnected risks. Retailers are dynamic, and business strategies in this industry are evolving with time (Cheng et al., 2021). The first emerging theme was a concentric diversification strategy, which recognized the importance of related new product diversification. The theme of concentric diversification strategy emerged from Interview Questions 1, 3, and 5-6. Four participants affirmed using concentric diversification strategy as a diversification strategy to improve the profitability of their retail business.

Mehta and Yang (2022) reported that diversification strategies help manage portfolios and the firm's risks. In response to Interview Question 1, P1 noted, "I can confirm that we have engaged in horizontal and concentric diversification strategies. ... I think that concentric diversification is ideal for small and medium-sized enterprises." On

further inquiry, participant P1 explained, “For instance, we continuously add new products related to jewelry. Based on my experience, adding similar products and services to the existing business is cost-effective, less risky, and could result in improved customer satisfaction and loyalty.” Responding to Interview Question 1, participant P2 remarked, “We work in the fast-food industry, and concentric diversification was helpful during the COVID-19 lockdown.” Providing further narrative, participant P2 added, “One of the takeaways for SMEs in the fast-food industry is to diversify services and products similar to the existing products and services. Besides being cost-effective, we utilized existing infrastructure and competencies.” The participants acknowledged that a concentric diversification strategy is critical in improving profitability in the retail business.

In response to Interview Question 3, P3 attested, “We knew that most customers came to the store to purchase baby products. For this reason, we prioritized.” Responding to Interview Question 5, participant P1 said, “Based on my experience, adding related products and services to primary services or products allows SMEs to expand and grow.” According to participant P1, “We prefer concentric diversification because it is less costly. We often seek to broaden our distribution network without changing what we offer to our current customers.” On further inquiry, participant P1 assured, “Concentric diversification comes with several benefits. For instance, SMEs can tap into existing infrastructure, enhance business synergy, and increase market share. I believe we have increased our market share in jewelry by 5% by using concentric diversification.” In response to Interview Question 5, P3 explained, “Our strategy has been to introduce new

products and services that complement existing services and products.” According to P3, “Most SMEs do not have the resources to engage in risky diversification approaches. Concentric diversification ensures that SMEs utilize existing infrastructure, capabilities, and competencies to increase revenues. However, diversification is not always a guarantee of the desired return.”

Responding to Interview Question 6, participant P1 advised, “SMEs need to use concentric diversification to utilize current abilities and competencies,” noting that “... the most important thing to consider when using concentric diversification is that new services and products must have similar characteristics to existing services and products. This strategy can also attract new customers while retaining existing customers.” Participant P2 attested, “I have noted that concentric diversification is cost-effective and appropriate for fast-food companies.” Providing further narrative, participant P2 added, “For example, we introduce different types of ice creams and cold beverages during the summer. During winter, we can introduce hot drinks. There are also opportunities to introduce new foods related to the existing products.” In response to Interview Question 6, P5 affirmed, “We have been using concentric diversification by introducing related food products. Besides being less risky, concentric diversification allows companies to increase customer satisfaction.” The participants agreed that a concentric diversification strategy improved the profitability of their retail business.

The participants’ responses to the interview question aligned with Dimitrova et al.’s (2018), Mehta and Yang’s (2022), and Yang’s (2022) statements that retailer business managers use diversification strategies to improve profitability. The study



findings demonstrated that business managers of SMEs used concentric diversification strategy as a diversification strategy to improve profitability. As applied in this study, 80% of the participants attested to using a concentric diversification strategy as a diversification strategy to improve profitability.

### **Theme 2: Horizontal Diversification Strategy**

Dimitrova et al. (2018) posited that retailers seek expansion by implementing diversification strategies. Chen et al. (2021) established that retailers could implement a comprehensive framework for developing business strategies. Business managers should minimize risks to enhance retailers' financial performance during diversification (Yang, 2022). Another theme to emerge was the horizontal diversification strategy. The theme of horizontal diversification strategy emerged from Interview Questions 1, 3-4, and 6. Four participants attested to using horizontal diversification strategy as a diversification strategy to improve profitability.

Mehta and Yang (2022) established that retailers could apply diversification approaches to minimize financial crisis risks. Responding to Interview Question 1, participant P1 posited, "I can confirm that we have engaged in horizontal and concentric diversification strategies." According to P1, "For example, we provide new and unrelated services and products to our existing customers. We focus on jewelry products but have introduced hair products to our current customers." In response to Interview Question 1, participant P3 commented, "Initially, we sold baby products before diversifying and selling household items. We started by diversifying our products and designer dresses and jeans." Responding to Interview Question 3, participant P3 remarked, "However, we

noted that family and friends accompanied customers who purchased baby products. We introduced designer dresses and jeans for these customers.” Further, participant P3 opined, “We noticed that some customers are not interested in baby products, especially male customers who accompany father-to-be customers. Some would buy designer dresses and jeans and gifts.”

In response to Interview Question 4, participant P4 noted, “We diversified horizontally and introduced meals with a traditional touch. Initially, our main clients have been African-Americans, but we have seen positive trends from other races, particularly whites.” In agreement, participant P5 echoed, “I believe product diversification will attract more customers.” Responding to Interview Question 6, participant P4 opined, “I think that SMEs can thrive in New York if they offer unique services and products. SMEs should not compete with established brands, such as Tesla and Ford.” Continuing, participant P4 attested, “Our business strategy is to provide alternative products, such as African earrings and bracelets. Customers want unique products, and we have strived to import the best.”

The participants’ responses to the interview question aligned with Dimitrova et al.’s (2018), Mehta and Yang’s (2022), and Yang’s (2022) statements that business managers use diversification strategies to improve profitability in the retail business. The study findings demonstrated that business managers of SMEs used a horizontal diversification strategy as a diversification strategy to improve profitability. As applied in this study, 80% of the participants attested to using a horizontal diversification strategy as a diversification strategy to improve profitability.

### **Theme 3: Customer Needs and Technology**

Business managers could benefit from implementing customer-related strategies to improve the experience, satisfaction, and loyalty of clients (Hiriyappa, 2018). For example, leading companies use open innovation to facilitate customer participation in product development activities and offer an environment to improve customized products (Chen et al., 2021). Business managers should examine how personality-based consumer perceptions could influence purchase decisions and consumer loyalty (Chiang & Yang, 2018). Many businesses face challenges in predicting a change in consumer demand, using consumerization technologies, and economic constraints (Chen et al., 2021). The theme of customer needs and technology emerged from Interview Questions 2-3 and 5-6. Four participants recognized the importance of delighting customer needs and using technology to improve profitability.

Several researchers have established that customers are critical to co-creating new services and products (Islami et al., 2020). Firms should collect information related to customer concerns, needs, and preferences (Chen et al., 2021). According to Dimitrova et al. (2018), retailer customers want stores to sell quality products that meet their diverse preferences. In response to Interview Question 2, participant P2 attested, “We invested in upgrading our technology before diversification. With technology, there are numerous diversification opportunities for SMEs.” Responding to Interview Question 2, participant P4 said, “While encountering these challenges, we learn to embrace the opportunities brought by technology. For instance, we use social media for marketing our products. We also showcase our products during major events and trade shows.”

In response to Interview Question 3, participant P2 stated, “SMEs need to have systems and software that support growth and expansion. Initially, we started our operations with basic IT capability and outgrew it quickly with time.” On further inquiry, participant P2 explained, “Besides IT requirements, we also struggled to enhance the security of our systems as we diversified our services.” However, they are “... working to ensure customer data is secure.” Participant P2 posited, “I believe managers with limited knowledge of IT would struggle to select from a wide range of products and offerings and decide how much to spend on IT systems.” Responding to Interview Question 3, participant P3 asserted, “We overcame diversification challenges by understanding the needs of customers.” In response to Interview Question 3, participant P4 remarked, “We overcame the challenges by undertaking a market study and using technology to increase market penetration.” Participant P4 affirmed, “We studied consumer trends before opening our shops. Importantly, we invested in technology and social media.” They explained, “I have learned that social media can effectively market products and create consumer awareness. We use social media to advertise our products and informing customers about discounts. The main challenge has been growing considerable social media followers.”

However, evidence reveals that firms should involve customers in two primary areas: involvement in coproduction and information provision (Chen et al., 2021). Business marketers in the retail industry continuously seek strategies to improve campaign effectiveness by targeting customers with specific offers (Yiu et al., 2020). Responding to Interview Question 5, participant P2 remarked, “Our diversification

strategy responds to consumers' emerging needs. Our goal is to meet consumers' desires and needs and make them happy. But our focus is to respond to customers' needs to attract and retain customers.” In response to Interview Question 5, participant P3 commented, “For me, diversification is about monitoring consumers and responding to their needs. This means that there is the desired return when business owners respond to customers' needs.” Responding to Interview Question 5, participant P4 stated, “Revenues increase when there is a high number of returning customers.” In response to Interview Question 5, participant P5 attested, “Product diversification enables us to attract more customers and increase our market share. However, you need to understand what your customers want. For us, we have been successful in attracting and retaining customers.”

Technological capabilities entail technological development, projecting technological changes, and manufacturing (Hiriyappa, 2018). According to Cheng et al. (2021), retailers are complex, and businesses keep evolving due to new technologies. Business managers could use technology and big data analytics in developed markets to improve profitability (Feng & Fay, 2020). Responding to Interview Question 6, participant P2 remarked, “The most important aspect is to understand your consumers. For example, we serve most Latin American customers. We try to diversify food and beverages based on cultural preferences.” In response to Interview Question 6, P3 affirmed, “We are investing in big data analytics to understand consumers better and diversify products that would attract desired revenues.” The participants acknowledged that meeting customer needs and using technology are essential diversification strategies for improving retailer business profitability.

The participants' responses to the interview question aligned with the findings established by Cheng et al. (2021), Hiriappa (2018), and Yiu et al (2020) that business managers use meeting customers' needs and technology as a diversification strategy to improve profitability. The study findings demonstrated that business managers of SMEs used customers' needs and technology as a diversification strategy to improve profitability. As applied in this study, 80% of the participants attested to using customers' needs and technology as a diversification strategy to improve profitability in the retailer business.

#### **Theme 4: New and Online Market**

Many retailers continue to collect data to assess consumer-purchasing habits (Chiang & Yang, 2018). According to Li et al. (2019), firms use different online platforms to position their products based on varied purposes, entertainment, and consumption patterns. Yiu et al. (2020) established that business intelligence is vital in developing a competitive strategy. Most retailers are yet to use data-mining analytics to enhance market effectiveness (Chiang & Yang, 2018). The theme of new and online market emerged from Interview Questions 1 and 3-5. Three participants acknowledged using new and online markets as a diversification strategy for improving profitability in the retailer business.

Responding to Interview Question 1, participant P2 remarked, "Initially, we never provided online food ordering services. However, during the pandemic, we introduced online ordering." In response to Interview Question 1, participant P4 posited, "We diversify by covering more ground or opening in new locations. Our business approach is

that any market is the potential to increase revenue stream. The most logical approach to tap into new markets is to open locations.” Responding to a follow-up question, participant P4 explained, “We also operate online stores to reach customers outside the area of operation. Initially, we used to operate brick and mortar and realized we were losing potential customers. We are currently diversifying our online platforms to increase revenues.”

In response to Interview Question 3, participant P1 noted, “Successful diversification requires a company to have all the necessary strategic assets. For example, we focused on existing needs in the market and overlooked production costs. SMEs need to focus on low production costs during diversification.” Responding to Interview Question 4, participant P2 asserted, “We introduced online delivery services to meet new demand for online orders. However, we missed an opportunity to introduce a drive-thru service during the pandemic. Our online delivery services have been the main source of our revenues.” In response to Interview Question 4, participant P3 said, “Diversification allowed us to tap into new markets and increase our market share. I can advise SME managers to look for opportunities to diversify their products and services.” Responding to Interview Question 5, participant P4 emphasized, “Our business strategy is to increase market share in traditional ornaments, mainly from African countries. Recently, we introduced earrings and bracelets of African origin, and consumers' reception was overwhelming. Over the years, we have managed to attract and retain customers.”

The participants' responses to the interview question aligned with Chiang and Yang' (2018), Li et al.' (2019), and Yiu et al.'s (2020) statements that business managers

use new and online markets as a diversification strategy to improve profitability. The study findings demonstrated that business managers of SMEs used new and online markets as a diversification strategy for improving profitability. As applied in this study, 60% of the participants attested to using new and online markets as a diversification strategy to improve profitability in the retailer business.

### **Findings Related to MPT**

The two main concepts of MPT are maximizing returns and diversifying portfolios (Markowitz, 1952). Business managers can use MPT to explore how risk distributions and investment risk could help to avert business risks (Kiptoo et al., 2021). Business managers should diversify their portfolios and exhibit low risk based on the given returns (Kellner & Utz, 2019). The study findings indicate that business managers of SMEs could improve profitability by implementing diversification strategies based on MPT. As applied in this study, all participants affirmed using diversification strategies to improve profitability in the retailer business.

Li et al. (2021) demonstrated that MPT has market incompleteness and labor incomes that could help business managers make diversification decisions. Before measuring returns and risks, business managers could define management objectives and have adequate resources (Utz, 2018). As applied in this study, SME business managers should establish diversification strategies for improving profitability. All participants confirmed the MPT regarding using diversification strategies to improve profitability. As applied in this study, all participants' responses echoed Li et al.'s (2021) statements on



using diversification strategies based on the MPT to improve profitability in the retailer business.

In developing an optimal product portfolio, business managers should consider return distribution and variance of returns (Shadabfar & Cheng, 2020). In applying MPT to diversify products, business managers should consider three variables: risks, assets, and returns (Antretter et al., 2020). As applied in this study, business managers used various diversification strategies to improve profitability. All participants' responses echoed Antretter et al.'s (2020) assertions on the crucial role of business managers in improving profitability through diversification. All participants used a combination of diversification strategies involving concentric diversification strategy, horizontal diversification strategy, customer needs and technology, and new and online markets to improve their profitability. As applied in this study, all participants applied the MPT principles to improve their business profitability.

### **Applications to Professional Practice**

Business managers who diversify could reduce risks and increase business productivity (Shadabfar & Cheng, 2020). Through collaboration, business managers could share strategic resources and reduce the costs of resources (Kellner & Utz, 2019). All participants affirmed using a blend of diversification strategies to improve profitability. This study's findings could contribute to business practice by providing business managers with a better understanding and knowledge of diversification strategies needed for improved profitability. The findings from this study could contribute to the literature on SME performance and provide business managers with new

insight regarding diversification strategies to improve profitability. New and upcoming business managers may use the findings of this study to understand the diversification strategies for improving their business profitability.

Evidence reveals that SME business managers are under pressure to calculate risks and benefits before making decisions on diversification (Shadabfar & Cheng, 2020). The study results could help business managers understand the crucial role of diversification strategies in improving business profitability. The study findings might add value to the SME community by disseminating information, which could significantly contribute to information sharing and networking among business managers who are seeking diversification strategies to improve profitability. Some business managers with weak diversification strategies may apply this study's findings to improve their profitability. The study findings could significantly enhance business managers' performance on diversification strategies for improving business profitability.

Based on the study findings, the most significant contribution to professional practice may be identifying potential diversification strategies that business managers use to improve profitability. Business managers could use this study's results to understand the role of inappropriate diversification strategies in the high rate of business failure and the significance of suitable diversification strategies to improve profitability. The knowledge gained on diversification strategies may enable business managers to improve their profitability. All participants acknowledged that concentric diversification strategy, horizontal diversification strategy, customer needs and technology, and new and online

markets to improve their profitability were fundamental to improving their business profitability.

Companies diversifying their products to new markets or introducing new products may experience competition from established businesses. Business managers who use proper diversification strategies could improve profitability (Shadabfar & Cheng, 2020). The study findings may help entrepreneurs, business owners, and organizational leaders, including governmental and non-governmental agencies, to gain helpful information on diversification strategies for improving their business profitability. These study findings could provide business managers with knowledge on appropriate diversification strategies to improve profitability. The findings of this study could help business managers make better decisions when diversifying their products and services to enhance performance. Based on the study findings, the most significant contribution to professional practice might be providing a practical model for business managers to develop diversification strategies for improving profitability. The practical model could be the basis for implementing diversification strategies and improving business profitability.

### **Implications for Social Change**

A significant implication for positive social change of this study includes providing business managers with diversification strategies to improve profitability in retailer business. Business managers who use proper diversification strategies could improve profitability (Shadabfar & Cheng, 2020). By studying the research outcomes and implementing excellent diversification strategies, business managers might improve

profitability and sustain their retail business. Through collaboration, business managers could share strategic resources and reduce the costs of resources (Kellner & Utz, 2019). The existing business managers could use the information from this study to enhance customer needs and technology to improve profitability.

The study findings might significantly contribute to the economy of the local community. Adopting diversification strategies to improve profitability might assist business managers in increasing their retailer business performance, thereby boosting economic growth for local communities. With improved business performance, the retailer businesses would pay more corporate taxes, which the municipal government could use to provide social amenities to the local community. New aspiring retailer entrepreneurs could use the information from this study's findings to establish new businesses that could create job opportunities for local citizens, thereby promoting socioeconomic growth in the local community. As illustrated in this study, improving profitability through implementing diversification strategies might assist business managers to continue providing job opportunities to the local community.

By implementing diversification strategies, business managers could improve profitability and sustainability in the retail business. The growth in retailer business and profitability could contribute to social change by strengthening local economies, sustaining small businesses, and creating job opportunities, thereby improving the welfare and amenities of the local communities. The implication for positive social change for this study was improved business profitability, thereby supporting socioeconomic stability for benefiting citizens, families, and communities. By improving

business profitability, retailer businesses could accomplish their corporate social responsibilities to the local citizens through sponsorship of local events, awards of scholarships, and the building of social amenities such as healthcare, libraries, and schools. The public might learn from the diversification strategies business managers of SMEs use to improve profitability.

### **Recommendations for Action**

An effective diversification strategy is essential to improving profitability in the retail business. The failure to use practical business diversification strategies could affect the profitability of SMEs (Benito-Osorio et al., 2020). Business managers who use proper diversification strategies could improve profitability (Shadabfar & Cheng, 2020). Several researchers have established that customers are critical partners in co-creating of new services and products (Islami et al., 2020). Retailers are dynamic, and business strategies in this industry are evolving with time (Cheng et al., 2021). Schommer et al. (2018) posited that diversified businesses in emerging markets increased their financial value compared to focused or single-segmented businesses in similar sectors. To sustain the retail business, business managers should devise excellent diversification strategies to improve profitability. Business managers should implement a blend of diversification strategies to improve profitability.

To ensure business sustainability, business managers of SMEs should establish diversification strategies to improve profitability. Business diversification is one of the strategies SMEs use to expand their businesses and improve profitability (Benyahia, 2021). Firms that use product diversification may record higher profits than those using

format diversification (Brzęczek, 2018). Business managers who diversify could reduce risks and increase business productivity (Shadabfar & Cheng, 2020). Mehta and Yang (2022) reported that diversification strategies help manage portfolios and the firm's risks. I recommend that business managers adopt effective diversification strategies to improve productivity and profitability, thereby sustaining their businesses.

Delighting customers and using appropriate technology is a valuable tool that business managers use as a diversification strategy to improve profitability. Dimitrova et al. (2018) opined that retailers should devise new ways to maximize commodity diversification along with unconnected risks. Most business managers face challenges in predicting the impact of diversification strategies on profitability (Wang et al., 2020). Business managers could benefit from implementing customer-related strategies to improve the experience, satisfaction, and loyalty of clients (Hiriyappa, 2018). In developed markets, business managers could use technology and big data analytics to improve profitability (Feng & Fay, 2020). I recommend that business managers should implement a concentric diversification strategy, horizontal diversification strategy, customer needs and technology, and new and online markets as a blend of diversification strategies to improve profitability.

Some business managers should understand the diversification strategies for improving profitability. Businesses that fail to apply proper diversification strategies often record financial losses (Brahmana et al., 2019). According to Thirathon and Meeprom (2020), diversified firms increased value more than single-segmented companies operating in similar industries. The study findings indicate that business

managers use a combination of diversification strategies to improve profitability.

Business managers should have adequate education, experience, skills, and training to adopt appropriate diversification strategies to improve profitability. I will disseminate the findings of this study to the interested public through knowledge sharing in my place of employment, network, and social media; presentations at conferences, training, and seminars; and publications in business and academic journals.

### **Recommendations for Further Study**

The purpose of this qualitative multiple case study was to explore diversification strategies business managers use to improve profitability. The study findings, recommendations, and conclusions might close gaps in business practice regarding diversification strategies that business managers use to improve profitability. I have limited knowledge and competency in doctoral research. In qualitative research, the role of the researcher includes selecting participants and organizing and analyzing data (Fusch et al., 2018). A significant limitation of the study was my accurate interpretation and subjective evaluation of the participants' responses to the interview questions. Another limitation of this study was the accuracy of information from the participants and the availability of company archival data. I recommend that future studies involve research experts from multi-disciplinary fields in business performance and profitability to capture some details I might have missed in this doctoral study.

Researchers use the qualitative method to explore *why* and *how* people cope in natural world settings (Busetto et al., 2020) and could gain helpful insight into the phenomenon under study in a natural setting (Pienaar et al., 2019). A researcher uses a

multiple case study design to achieve a more compelling and robust outcome (Yin, 2018; Stocker & Abib, 2019). Researchers could use a multiple case study design to compare and categorize themes and patterns across cases (Pihlajamaa et al., 2019). A significant limitation of this study was the cross-sectional, exploratory qualitative multiple case study involving business managers of SMEs from two retailer firms in Texas, United States. Future researchers should explore longitudinal, quantitative, or mixed methods involving participants selected from varying levels of employees in diverse industrial sectors at different geographical locations.

The study provided rich information that future researchers could further explore regarding the diversification strategies business managers of SMEs use to improve profitability. Yin (2018) stated that qualitative researchers could use a sample size of between five and 50 participants. However, a large sample size creates the condition for redundant data (Bergin, 2018). This study was limited to a small sample size of five business managers of SMEs from the retail industry in Texas who have successfully developed and deployed diversification strategies to improve profitability. Using a larger or smaller sample size, researchers could obtain different themes which might significantly differ from this study's findings. I recommend that future researchers use a more significant sample size of participants from many organizations with diverse roles and responsibilities.

### **Reflections**

The purpose of this qualitative single case study was to explore the diversification strategies some business managers of SMEs use to improve profitability. I completed the



CITI web-based training in compliance with ethical research and Walden University IRR requirement. I secured IRR approval before engaging the participants, improving my understanding of the requirements for using human beings in research studies. Using emails and telephones to contact the participants, I improved my empathy, communication, inspiration, negotiation, innovation, and collaborative skills. Using the purposive sampling technique, I selected five business managers from two retail firms in Texas, United States. The purposive sampling technique enabled me to select five business managers of SMEs with relevant competency, ability, knowledge, experience, training, and skills to answer the overarching research question.

In conducting this study, I used the qualitative research method to explore the diversification strategies that business managers use to improve profitability. I conducted semistructured interviews and interacted with the participants, which improved my communication, emotional intelligence, self-confidence, problem-solving, networking, observation, inspiration, listening, and interpersonal skills. Because I interviewed the participants at their preferred location, time, and date, they expressed themselves freely, which enabled me to gain in-depth knowledge and understanding of the research problem. The organization and data analysis enabled me to understand the research problem, identify the themes and patterns, and establish the study findings. A reflection of my experiences in this study indicates that I gained a better understanding of the doctoral study research process, thereby improving my skills in conducting academic research work.

From the study findings, I gained an in-depth knowledge of the research problem from five business managers of SMEs in Texas, United States, regarding their use of diversification strategies to improve profitability. I learnt that business managers use a blend of diversification strategies involving concentric diversification, horizontal diversification, customer needs and technology, and new and online markets to improve their business profitability. My new knowledge and understanding of the research problem positively changed my preconceived beliefs, personal biases, ideas, values, and perceptions of the diversification strategies business managers use to improve their business profitability.

### **Summary and Study Conclusions**

Business Managers of SMEs need help using effective diversification strategies to improve their profitability. This qualitative multiple case study aimed to use MPT to explore the diversification strategies that business managers of SMEs use to improve profitability. I administered six open-ended questions through semistructured interviews with five owners of SMEs from two retailer firms in Texas, United States, to collect the primary data to answer the research question. The sources of secondary data include company archival documents and field notes. The four themes that emerged from the thematic analysis of data were: (a) concentric diversification strategy, (b) horizontal diversification strategy, (c) customer needs and technology, and (d) new and online market. The study findings indicated that business managers of SMEs used a blend of diversification strategies to improve their business profitability.

By implementing diversification strategies, business owners of SMEs could sustain their businesses, thereby generating economic growth for local communities. With enhanced business sustainability, business managers of SMEs would pay more corporate taxes, which local and state governments could use to provide social amenities to the local citizens. Also, ensuring their organizations' sustainability might help business managers of SMEs continue providing job opportunities to the residents. The public might learn from the study findings the diversification strategies business managers of SMEs use to improve their business profitability. The use of MPT as a lens for this study involving business owners of SMEs may fill a gap in the literature on SME profitability and diversification strategies. The study findings align with previous scholars' conclusions regarding the need to implement effective diversification strategies to improve the profitability of SMEs.

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## Appendix A: Interview Protocol

The purpose of this interview is to answer the research question on diversification strategies business managers of SMEs in the retail industry use to improve profitability.

The interview protocol will consist of the following steps:

1. I will begin the interview with a brief overview of the research, the purpose, and the time duration of the interview.
2. I will thank the participant for agreeing to participate in the interview.
3. I will present a printed-out copy of the informed consent form and review the contents of the form with the participant.
4. I will obtain the participant's signature on the consent form signifying an agreement to participate in the study
5. I will implement a serial coding system instead of using participants' names to identify the participants during the interview recording.
6. I will record the interview using an audio device. Audio recording will include a voice stamp of the date, time, and interview location.
7. I will explain that their participation is voluntary, and they can withdraw from the interview at any time without prior notice and through a verbal or email request.
8. During the interview process, I will watch for verbal cues, paraphrase interview questions as needed, and ask follow-up probing questions to get a more in-depth response.
9. I will allow all participants ample time to answer each interview question, including follow up or probing questions.

10. I will provide participants information about the member checking process that would occur following the completion of the interview, transcription, and data analysis and interpretation. Further, I will schedule a follow-up member checking interview.
11. I will wrap up the interview and thank the participant for their time and contribution to the study.

Kayode Itiola (Walden Research Student)

## Appendix B: Letter of Invitation to Participants

Date: XX/XX/2020

From: Kayode Itiola

Subject: Request to Participate in Doctoral Study Interview

To: Participant

Hi Participant name,

My name is Kayode Itiola and I am a doctoral student in the School of Management and Technology at Walden University. I am recruiting business managers in the retail industry of small and medium enterprises (SMEs) to participate in my doctoral study. By way of this letter, I would like to invite you to participate in a face-to-face or telephone interview to answer 6 open-ended questions.

### **Purpose of the Study:**

The purpose of this qualitative multiple case study is to explore the diversification strategies business managers of SMEs in the retail industry use to improve profitability. Implications for positive social change of this study include producing a variety of products that meet the needs of local customers, enhancing the lifestyle of consumers, and creating employment through improved profitability using improved business practices.

### **Why I Need You?**

I will need you to schedule a time I may conduct a face-to-face interview with you.

During the interview, I will need you to answer 6 questions approved by Walden

University Committee members. Your answers will be recorded and transcribed. Once

the interview is complete, I will transcribe your responses and provide you an opportunity to check the content for accuracy. Please contact or provide me with a point of contact so I can schedule some time to conduct a face-to-face interview with you.

Thank you for your consideration and participation in this study.

Kayode Itiola.



## Appendix C: Interview Questions

1. What effective diversification strategies do you deploy to increase profits in your business?
2. What key challenges did you encounter in using the diversification strategies to improve profits in your business?
3. How did you overcome the key challenges you faced in using the diversification strategies to improve profits in your business?
4. How did market diversification strategies allow you to increase projected returns?
5. How do you use product diversification strategies to focus on a desired return distribution?
6. What other information can you share with me about your organizational strategies for improving product diversification strategies to increase profits?

## Appendix D: CITI Certification



Completion Date 08-Jul-2022  
 Expiration Date N/A  
 Record ID 50038779

This is to certify that:

**Kayode Itiola**

Has completed the following CITI Program course:

Not valid for renewal of certification through CME.

**Student's**  
 (Curriculum Group)  
**Doctoral Student Researchers**  
 (Course Learner Group)  
**1 - Basic Course**  
 (Stage)

Under requirements set by:

**Walden University**

**CITI**  
 Collaborative Institutional Training Initiative

Verify at [www.citiprogram.org/verify/?w4c386ecc-cfd0-4c5b-8968-30b40fce00a-50038779](http://www.citiprogram.org/verify/?w4c386ecc-cfd0-4c5b-8968-30b40fce00a-50038779)