

DIVERSIFICATION STRATEGY AND PERFORMANCE OF DOMESTIC AIRLINES IN SOUTH-SOUTH NIGERIA

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Abstract

The Nigerian aviation industry faces intense competition and operational challenges, necessitating effective strategies for sustainable performance. This study examined the relationship between diversification strategy and performance, measured through market performance (profitability, market share), operational performance (service efficiency, reliability), and adaptive performance (flexibility, innovation), of domestic airlines in South-South Nigeria. Anchored in Resource-Based Theory, Dynamic Capabilities Theory, and Institutional Theory, the study adopted a quantitative research philosophy with a cross-sectional survey design. The population comprised 50 managers from 10 domestic airlines, with a census sampling technique applied due to the small size. Data was collected via a 5-point Likert scale questionnaire, validated through expert review and confirmed for reliability (Cronbach's alpha: 0.958–0.978). Inferential statistics (Spearman's correlation) was used for analysis. Findings revealed very strong positive correlations between diversification and performance: market performance ($r = 0.966$, $p < 0.01$), operational performance ($r = 0.956$, $p < 0.01$), and adaptive performance ($r = 0.946$, $p < 0.01$). The study concludes that diversification significantly enhances airline performance but requires strategic implementation to avoid inefficiencies. Recommendations include conducting market research, phased diversification, workforce training, technology adoption, balanced portfolio management, and regular performance assessments to optimize outcomes.

Keywords: Diversification strategy, performance, market performance, operational performance, adaptive performance

INTRODUCTION

The aviation industry in Nigeria faces significant challenges, including intense competition, fluctuating fuel prices, and changing consumer demands, which necessitate effective strategies to ensure optimal performance. Domestic airlines must navigate these complexities while meeting stakeholders' expectations for profitability, market share growth, and operational efficiency. Diversification strategy has emerged as a critical approach for airlines to mitigate risks and enhance performance by expanding into new markets, services, or products. However, existing studies on diversification and airline performance in Nigeria's South-South region remain limited, with most research focusing on manufacturing or financial sectors. This gap is particularly concerning given the unique operational challenges and economic dynamics of Nigeria's aviation industry, which differ markedly from other sectors and regions previously studied.

Prior research on diversification strategy present mixed findings, with some studies demonstrating positive performance outcomes while others show inconclusive or negative effects. While scholars like Iwona and Bielawska (2020) and Chia et al. (2022) found that diversification improved performance in manufacturing firms, the applicability of these findings to Nigeria's domestic airline industry remains uncertain. The South-South region, with its distinct economic and infrastructural constraints, requires tailored diversification approaches that account for local market conditions, regulatory frameworks, and consumer behavior. This study bridges these gaps by specifically examining how diversification strategy influences the performance of domestic airlines in South-South Nigeria. By focusing on this underserved sector and region, the research provides empirical insights that can guide airline managers in formulating strategies that align with local realities, ultimately contributing to improved competitiveness and sustainability in Nigeria's aviation market.

Therefore, the specific objectives of the study were to:

- i examine the relationship between diversification strategy and market performance of Domestic Airlines in South-South Nigeria.
- ii examine the relationship between diversification strategy and operational performance of Domestic Airlines in South-South Nigeria.
- iii examine the relationship between diversification strategy and Adaptive performance of Domestic Airlines in South-South Nigeria.

Conceptual Framework

The Conceptual Framework shows the study variables and their connection. Integration Strategy is the predictor variable, while performance is the criterion variable, measured with market, operational and adaptive performance as presented in figure 1.

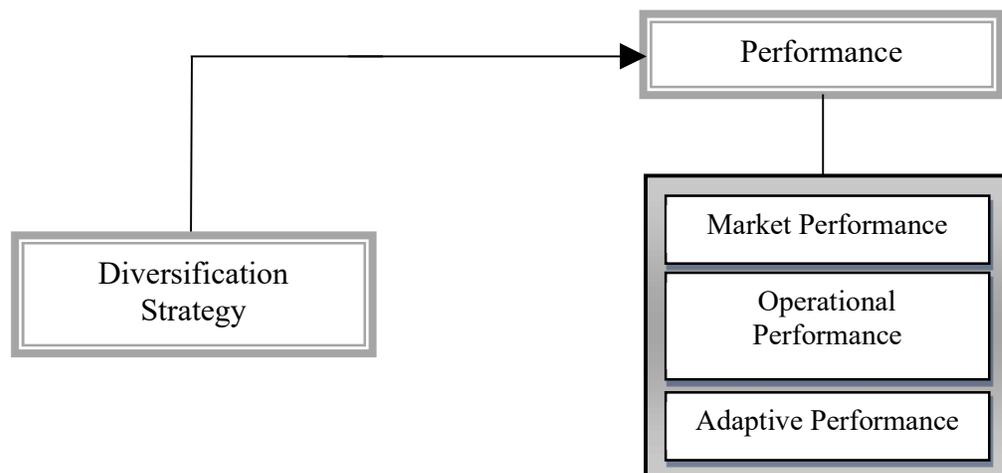


Figure 1: Conceptual framework of Diversification Strategy and Performance

Source: Desk Research, 2024: Diversification Strategies (Nyansimora & Deya, 2022); the measures of performance (Bagshaw & Moses, 2019).

Research Questions

- i What is the relationship between diversification strategy and market performance of Domestic Airlines in South-South Nigeria?
- ii What is the relationship between diversification strategy and operational performance of Domestic Airlines in South-South Nigeria?.
- iii What is the relationship between diversification strategy and adaptive performance of Domestic Airlines in South-South Nigeria?.

Hypotheses

H₀₁: There is no significant relationship between diversification strategy and market performance of Domestic Airlines in South-South Nigeria.

H₀₂ There is no significant relationship between diversification strategy and operational performance of Domestic Airlines in South-South Nigeria.

H₀₃: There is no significant relationship between diversification strategy and adaptive performance of Domestic Airlines in South-South Nigeria.

LITERATURE

Theoretical Review

This study was anchored on the following theories: Resource-based theory, Dynamic Capabilities (DCs) Theory and Institutional theory

Resource-Based Theory (RBT)

The Resource-Based Theory, developed by Barney (1991), posits that a firm's competitive advantage stems from its unique, rare, and difficult-to-imitate internal resources rather than external market positioning. These resources—physical, financial, human, and intangible—must be valuable, rare, inimitable, and non-substitutable (VRIN criteria) to sustain competitive advantage. The theory emphasizes that firms should leverage their internal strengths to exploit environmental opportunities, leading to superior performance. While RBT explains competitive advantage in stable environments, its limitation lies in addressing rapid market changes. Studies by Samsudin & Ismail (2019) and Manyuru et al. (2017) highlight how firms can reconfigure existing resources innovatively to maintain relevance. The theory supports diversification strategies, as firms can deploy unique resources across new markets or products to enhance profitability and market share, aligning with findings from Reza et al. (2015) and Barney & Clark (2007).

Dynamic Capabilities (DCs) Theory

Proposed by Teece, Pisano, and Shuen (1997), Dynamic Capabilities Theory focuses on a firm's ability to adapt, renew, and reconfigure resources in response to volatile markets. Unlike static RBT, DCs emphasize agility, innovation, and strategic leadership to sustain competitive advantage. Key components include sensing opportunities, seizing them through rapid decision-making, and transforming resources to capitalize on changes. Research by Eisenhardt & Martin (2000) and Helfat & Peteraf (2015) underscores the role of leadership and knowledge integration in fostering adaptability. Teece (2014) distinguishes operational efficiency from dynamic capabilities, advocating a balance between exploiting existing resources and exploring new

opportunities. This theory is critical for diversification, as it explains how airlines can innovate routes or services to navigate competitive and regulatory shifts, ensuring long-term resilience.

Institutional Theory

Institutional Theory, introduced by Meyer & Rowan (1977), examines how external pressures—regulatory, normative, and cultural—shape organizational strategies and structures. Firms conform to institutional "myths" to gain legitimacy, even if these practices lack immediate economic benefits (Delmas & Toffel, 2013). The theory highlights coercive pressures (e.g., government regulations) and mimetic behaviors (e.g., industry benchmarks) that drive homogeneity in strategies. Later extensions, like DiMaggio's (1988) institutional entrepreneurship, argue that firms can actively reshape institutions through strategic resource deployment. For domestic airlines, institutional theory explains compliance with aviation regulations or adoption of sustainability practices to meet societal expectations. However, critics note that blind conformity may hinder innovation, necessitating a balance between legitimacy and strategic flexibility (Oliver, 1991; Dacin et al., 2002). This framework aligns with diversification, as airlines must navigate institutional constraints while exploring new markets or services.

Conceptual Review

Diversification Strategy

Diversification is a strategic approach where firms expand into new markets or develop new products to enhance profitability and competitive advantage. It enables companies to leverage existing resources, achieve economies of scope, and mitigate risks associated with market volatility (Zhou & Ji, 2015; Absanto & Nnko, 2013). Diversification can be related (concentric) or unrelated (conglomerate), with the former building on existing capabilities and the latter venturing into entirely new sectors (Johnson et al., 2018). While some studies highlight its benefits—such as increased market share and resilience (Purkayastha et al., 2012)—others caution against over-diversification, which may lead to inefficiencies (Ugwuanyi & Ugwu, 2013). The strategy is particularly vital in dynamic industries like aviation, where firms must adapt to regulatory, economic, and technological shifts.

Performance

Performance is a multi-dimensional construct reflecting an organization's ability to achieve strategic goals efficiently and effectively (Mwita, 2010). It encompasses financial outcomes (profitability, ROI), operational efficiency, customer satisfaction, and innovation (Richard, 2009; Santos & Brito, 2012). Metrics like KPIs and balanced scorecards are used to evaluate performance, which is influenced by leadership, resource allocation, and external market conditions (Tangen, 2005). For airlines, performance is critical to survival, requiring a balance between cost management, service quality, and adaptive strategies to navigate competitive and regulatory pressures (Awino, 2011). The measures of performance in this study includes market performance, operative performance and adaptive performance,

Market Performance

Market performance measures a firm's competitiveness through indicators like market share, sales growth, and profitability (O'Regan, 2002). High market share signifies dominance in an

industry, while sales growth reflects demand for products/services (Ezirim, 2008). Profitability, the ultimate goal, ensures long-term sustainability and investor confidence (Niresh & Velnampy, 2014). For airlines, market performance hinges on route expansion, pricing strategies, and customer retention, with diversification often employed to capture new segments and stabilize revenue streams (Hansen & Mowen, 2012).

Operational Performance

Operational performance focuses on efficiency in production and service delivery, emphasizing quality, timeliness, and cost-effectiveness (Assen, 2011). Key aspects include service reliability, responsiveness, and process optimization (Gronroos, 2000). In aviation, operational excellence—such as on-time flights and baggage handling—directly impacts customer satisfaction and brand loyalty (Parasuraman et al., 1994). Continuous improvement in operations, driven by technology and employee training, is essential to maintaining competitive advantage (Ogunkoya, 2019).

Adaptive Performance

Adaptive performance refers to an organization's capacity to adjust strategies and processes in response to external changes (Baard, 2014). It involves flexibility, innovation, and resilience to disruptions like economic shifts or technological advancements (Pulakos et al., 2000). For airlines, adaptive performance includes route adjustments, fleet modernization, and crisis management (Teece et al., 1997). Firms with strong adaptive capabilities outperform competitors by anticipating trends and reconfiguring resources swiftly (Hrebiniak & Joyce, 2008).

Empirical Review

The empirical review highlights diverse studies examining the relationship between corporate strategies and organizational performance across various sectors and regions. Nyansimora and Deya (2022) found that strategic alliances had the strongest impact on the performance of Kenyan Commercial State Corporations, followed by product development and integration, while diversification showed the least effect. Similarly, Wanjiru et al. (2019) demonstrated that corporate strategies—market development, product development, and diversification—significantly enhanced the performance of manufacturing firms in Nairobi. Guandaru (2019) emphasized cost-cutting and customer-oriented strategies in aviation, while Wamiti (2021) revealed that retrenchment measures negatively impacted the performance of Kenyan commercial banks. These studies collectively underscore the contextual variability in how different strategies influence performance, depending on industry and organizational structure.

Further research by Umana (2019) and Muhammad (2018) highlighted the role of business model innovation in improving productivity, decision-making, and competitive advantage, particularly for SMEs. Ukenna et al. (2019) reinforced this by linking strategic entrepreneurship to enhanced social value creation and customer satisfaction in Nigeria's agricultural sector. Odengo (2016) added another dimension, showing that succession planning practices, such as internal and external hiring, were critical for sustaining performance at Kenya Power Limited. Together, these studies illustrate that while corporate strategies—whether diversification, innovation, or retrenchment—can drive performance, their effectiveness depends on sector-specific dynamics, implementation quality, and alignment with organizational goals. The findings suggest a need for tailored strategies, particularly in dynamic industries like aviation, where adaptive approaches yield competitive advantages.

METHODOLOGY

This study adopted a quantitative research approach, targeting 50 managers from 10 domestic airline operators in South-South Nigeria as the accessible population. A census sampling technique was employed due to the small population size, with data collected through structured questionnaires using a 5-point Likert scale. The questionnaire was divided into sections capturing demographic information diversification and performance measures (market, operational, adaptive). Instrument validity was ensured through expert review (content validity), while reliability was confirmed via Cronbach's alpha coefficients, all exceeding the 0.7 threshold (ranging from 0.958 to 0.978). Data analysis adopted inferential statistics (Spearman's correlation test) using SPSS version 26, with a 95% confidence level ($p < 0.05$) to examine relationships between variables.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Bivariate Analysis

The study employed Spearman's Rank Order Correlation to analyze relationships between integration and performance, testing 3 hypotheses at a 95% confidence interval with significance determined at $p < 0.05$. Correlation strength was interpreted using Cohen's (1988) framework, where positive/negative R-values ($\pm 0.80-0.99 =$ very strong; $\pm 0.00-0.19 =$ very weak) indicated both direction and magnitude of variable associations.

Table: Correlations Analysis on Diversification strategy and the measures of Performance Correlations

		Diversificat ion Strategy	Market Performanc e	Operational Performanc e	Adaptive Performanc e
Spearman's rho	Diversificat ion Strategy	1.000	.966**	.956**	.946**
	Correlation Coefficient				
	Sig. (2-tailed)	.	.000	.000	.000
	N	47	47	47	47
Market Performanc e	Diversificat ion Strategy	.966**	1.000	.973**	.974**
	Correlation Coefficient				
	Sig. (2-tailed)	.000	.	.000	.000
	N	47	47	47	47
Operational Performanc e	Diversificat ion Strategy	.956**	.973**	1.000	.973**
	Correlation Coefficient				
	Sig. (2-tailed)	.000	.000	.	.000
	N	47	47	47	47
Adaptive Performanc e	Diversificat ion Strategy	.946**	.974**	.973**	1.000
	Correlation Coefficient				
	Sig. (2-tailed)	.000	.000	.000	.
	N	47	47	47	47

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Version 26.0 Result, 2025

The study found statistically significant, very strong positive relationships between diversification strategy and all three performance measures in South-South Nigeria's domestic airlines, with correlation coefficients of 0.966 for market performance, 0.956 for operational performance, and 0.946 for adaptive performance (all significant at $p < 0.01$). All null hypotheses were rejected ($p = 0.000$), confirming that diversification strategy significantly enhances market performance through increased market share and profitability, improves operational performance by boosting service quality and efficiency, and strengthens adaptive performance by increasing organizational flexibility and responsiveness to changes. These findings demonstrate that strategic diversification serves as a comprehensive performance driver across multiple business dimensions in Nigeria's domestic aviation sector.

Discussion of Findings

The study demonstrates that diversification strategy has a significant positive impact on the performance of domestic airlines in South-South Nigeria, with strong correlations found across market performance (0.966), operational performance (0.956), and adaptive performance (0.946), all statistically significant at $p < 0.01$. These findings align with previous research across various sectors, including banking (Edeh et al., 2019), cement manufacturing (Mucheru et al., 2024), and food and beverage (Okegbemiro & Adim, 2023), which similarly found diversification strategies enhanced organizational resilience, competitive advantage, and profitability. However, the study notes contrasting findings from Gabriel et al. (2021) showing negative effects of operational and geographical diversification in Nigerian conglomerates, suggesting the need for careful implementation based on organizational context. While the research strongly supports diversification as a performance driver, it acknowledges limitations in not examining complementary strategies like focus or product differentiation, and recommends balancing diversification with corporate philosophy to avoid potential diseconomies of scale (Matejova, 2014). The results contribute to resource-based view theory by demonstrating how strategic resource allocation through diversification can create competitive advantages in dynamic environments, though optimal implementation requires consideration of firm-specific factors like structure, culture, and operational scale.

CONCLUSION AND RECOMMENDATIONS

The study concludes that diversification strategy significantly enhances the performance of domestic airlines in South-South Nigeria, with very strong positive correlations found across market, operational, and adaptive performance (ranging from 0.946 to 0.966, $p < 0.01$). This confirms that strategic diversification drives competitive advantage, operational efficiency, and organizational adaptability. However, the effectiveness of diversification depends on proper implementation, as mismanagement can lead to diseconomies of scale. To optimize outcomes, companies should: (1) conduct thorough market research before diversification to align with organizational capabilities; (2) adopt a phased diversification approach to mitigate risks; (3) invest in workforce training to enhance adaptive performance; (4) leverage technology to improve operational efficiency during expansion; (5) maintain a balanced portfolio to avoid overextension; and (6) regularly assess performance metrics to refine diversification strategies. These measures will help firms maximize benefits while minimizing potential drawbacks, ensuring sustainable growth in dynamic markets.

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