



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**OPPRUNTUNITIES AND CHALLENGES OF SERVICE DIVERSIFICATION
OF ETHIOPIAN POSTAL SERVICE ENTERPRISE**

BY
SOLOMON ALEM ABEBAW

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Addis Ababa Ethiopia

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**ST. MARY'S UNIVERSITY
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SOLOMON ALEM ABEBAW

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature & Date

Advisor

Signature & Date

External Examiner

Signature & Date

Internal Examiner

Signature & Date

Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Tirunneh Legesse (Asst. Prof). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted to any other higher learning institutions for earning any degree.

Name

Signature

St. Mary's University, Addis Ababa

JUNE 2016

Endorsement

This thesis has been submitted to ST Marry University School of Graduates Studies for examination with my approval as university advisor.

Name of Advisor

Signature

Date

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Abstract

This research was conducted to assess challenge and opportunities of service diversification of Ethiopian Postal Service Enterprise. The sample size of the study were 78 process owners, supervisors and experts selected out of the head office located in Addis Ababa: Ethiopia by using purposive sampling technique. Quantitative and qualitative research approach was adopted for the study and survey conducted with professionals using a self-administered questionnaire and in-depth interview. In addition, the study used structured review of documents and records of this Post Office. The findings of the study show that the motive for maximizing portfolio profit, reducing risks and first mover advantage against competitors are the motives for service diversification in EPSE. High intergovernmental cost and Over investment/diversification along with difficulty of portfolio management are discovered as a challenge in the study. In addition, the study outcome suggests unfair competition among the postal incumbents added to electronic substitution social mail as a threat. Finally, the study identifies areas of business lines (commission works) for further diversification. The study recommended that EPSE have to work with the government to put appropriate terms and restrictions for its monopoly right in some business areas and should in place a vibrant organization structure that would cover all business units to the effective management of the Enterprise.

Key Words: diversification strategy; driving Factors, challenge, threat, and opportunities

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A company's strategy is the focus and scope of the organization in order to achieve their long-term goals. Every company's goal should be to satisfy their stakeholders, it is also stakeholders that determine the expectations and values of a company, and this helps a company to know what to aim for. The chosen strategy for a company has to fit with their long-term vision for the organization. This means that the board of a company will face many situations where they have to take the right strategic decisions in order to gain advantages towards their competitors (Johnson et al. 2008).

Such Firms that are successful seek to transfer their winning business expertise to the new activities. For this firm diversification means looking at new industries or new markets as exciting opportunities for growth and profit. Diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. A diversification strategy stands apart from the other three strategies such as merger and acquisition, internal start – up, Joint – Venture. It is meant to be the riskiest of other strategies to pursue (Patric, 2012).

Firm's diversification is about survival, often including avoiding take over. It is about risk taking and venturing in to unknown to seek greater competitive advantage and/or higher profit. Whenever a single business companies faced with diminishing market opportunities and stagnating sales in its principal business, it is the indication for diversification, (Patric, 2012:226). It requires new skills, new techniques, and new facilities. As a result, it almost invariably leads to physical and organizational changes in the structure of the business that represent a distinct break with past business experience.

Since the beginning of the 1980s, a key driver of change in the postal sector has been the introduction of new means of communication, which have entered into direct competition with

the traditional postal communication business. The rise in the transmission of documents via fax in the late 1980s and the introduction of e-mail services in the 1990s challenged the postal sector on two accounts: not only was the communication transmitted almost immediately, but also the cost of sending the information was low and would continue to decrease.

However, innovation in the field of information and communication technologies also offered important opportunities for the postal sector. It became possible to organize the collection and distribution of postal items more effectively. The postal sector further embraced the new technologies by offering new products and services, sometimes through public-private partnerships. (Ankrah, 2015:125).

Thus, this study intended to see the overall service diversification of Ethiopian postal service as per the motivation for to diversify and challenges in line with the opportunities.

1.2 Background of the Organization

Ethiopia Postal Service Enterprise (EPSE) was established on March 9, 1894 to give formal postal service throughout the Country. Until 1966 the service was operating under the ministry of post, telegraph and telephone in which a carried out by combining post and telecommunication service together. Since 2009, it becomes an Enterprise under proclamation, number 165/2009 and performing as Governmental enterprise following the declaration number 25/1984. It is structured under Ministry of Communication and Information Technology and report to the Board of Directors, (Ethiopian Postal Service Enterprise website, 2015). While examining (“Zena Post,”2015:19), Currently EPSE has operates in 19 zonal postal offices and has 859 permanent offices across the Country. It has 1146 permanent and 786 temporary workers.

The head office located in Addis Ababa, Ethiopia there are around 576 employees. At Present, it has the following organizational structure: -

- Headed by a General Manager and have the following staff under its office: Audit, Legal, Quality & Security Teams, and Ethics and Reform staffs.
- Seven Core Processes: Letter, Parcel, Financial Business, EMS and Marketing & Development, and Transport work process and Sim card and voucher cards

- Five support processes are organized under support executive officer /Finance, Supplies & Property administration, Human Resources Management, Planning, Monitoring & Evaluation, Communication & Documentation and Information-Technology

Currently Ethiopian postal service renders services like letter post service, parcel post service, Financial service, Express mail service, Philatelic service, Agency service, Sim and voucher cards whole seal and retail, Transport services (post Bus), Postbox Service, Advertisement services through post boxes (direct advertisement), Postal museum, Logistic Service, Door to Door acceptance and delivery Service.

1.3 Statement of the Problem

While mail remains an important part of the business, most postal organizations are transforming their businesses into hybrid organizations with a diversified portfolio of products and services – parcels, logistics, banking, insurance, ecommerce and digital activities. Successful posts are diversifying into new business, (Joanne, 2014). Postal operators in industrialized countries have seen mail volumes decline and electronic communication and payment alternatives (referred to as electronic substitution of mail) take the place of traditional mail.

Although it's been a long time since its establishment, and become the member of Universal Postal Union(UPU) during 1909, EPSE services doesn't much its self with the global trend and doesn't show tremendous growth rather it was exemplified by its backwardness, inaccessibility to its customer and also lose trust by its customer. In addition to that the income of the company show decline results from accessibility of information technology communication, competition by private carriers with in Ethiopian and also international arena. Thus to compact such challenges, EPSE conducted Business Process Engineering (BPR) study in 2006/07 and enter in to action on 2007/8.having that the Enterprise develop a five-year strategic plan (2010/11-2014/15) which lasted on June 2015.one strategic issue of this five-year strategic plan was entering in to new business line which we called it Diversification.

There is dearth of literature on diversification of firms in Ethiopia. Thus, the main objective of this study is to fill the research gap and, hence, contribute to the literature on diversification by investigating the challenge and opportunities of service diversification of Ethiopian Postal

Service Enterprise. Thus it's sought to important to address the knowledge gap in the area and to answer how service diversification is designed and implemented in Ethiopian postal service, and also needed to investigate the challenges that faces the organization in its diversification process, with this it's also required to identify and explore further diversification opportunities to the organization. In line with this, post and pre scenario diversification analysis need to conduct to suspect the overall performance the EPSE in terms of financial return, traffic, organizational size and service type. As a result, the study tries to adders the already aforementioned areas.

1.4 Research Questions

The research attempts to answer the following questions:

- What motivates EPSE to go for service diversification?
- What are the challenges of service diversification?
- What are the opportunities of service diversification?
- What are the threats of the future postal service?
- How is the performance of EPSE before and after the implementation of recent Service diversification?

1.5. Objective of the Study

1.5.1. General Objective

The general objective of the study is to assess the practice of service diversification in Ethiopian Postal service Enterprise.

1.5.2. Specific Objectives

The study attempts to achieve the following specific objectives

- To identify the motives of the organization to diversify its service
- To assess challenges of service diversification
- To assess the opportunities of diversification.
- To identify the likely threats of the future postal service
- To examine the pre and the post scenario on performance of EPSE diversification practice.

1.6 Definition of terms

Post/Mail: is a system for physically transporting documents and other small packages, as well as a term for the postcards, letters, and parcels themselves (Ray Earl, 1995).

Diversification: is a means by which a firm expands from its core business into other product markets (Aaker 1980).

Portfolio Management: is The centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing and controlling projects, programs, and other related work to achieve specific strategic business objectives" (Project Management Institute, 2008a, p. 441)

1.7 Significance of the Study

The result of this study helps to formulate and/or revise service diversification strategy of the organization and may scratch new ways or areas of conducting services in a way that could enhance efficiency and its customer needs. In return, it has positive impact on customer loyalty and boosted competitive advantage of the company and enhances profitability.

Because of this, it helps the organization management staff to redirect their attention to the challenges and opportunities in implementing service diversification approach in their program. Beyond that, the finding of the research interested readers, other company's manager to better understand the notion of service diversification sand its impact in the competitive market.

The study also helps other Governmental and nongovernmental agencies to revise and redesign their marketing strategy considering service diversification approach relevance in solving the problem lied by the current competitive market. It also has some benefits using informative output of the result and recommendations given in the research conducted. Most importantly, the research can be used as an input for further study in the topic area.

1.8 Scope of the Study

Since the study is about the Ethiopian Postal System, the Head Office which is situated in Addis Ababa used as the main case study. This is justified by the fact that; all the other branches do the same postal operations as the Head Office and it do have a regulatory role over them. Therefore, the sample frame was restricted to the Head office employees of EPSE.

1.9 Limitation of the Study

According to Anol (2012), a survey type research has limitations like, non-response bias, sampling bias, social desirability bias, recall bias, and common method bias. The research approach of this study is survey type; therefore, the research has a limitation of survey research.

This study is geographically limited to head office at Addis Ababa. The outcome of the study is solely dependent on the individual responses of the respondents that participate in the study. Moreover, as the sample is small and selected using non-probability sampling technique, the results may not be generalized beyond the specific population from which the sample is drawn, considering the many branches of EPSE that has all over the country.

1.10 Organization of the Study

This research paper organized in to five chapters. Chapter one incorporate the introduction part of the study, company overview, statement of the problem, research questions and objective of the study. Chapter two is to review the related literature review and discussed different literatures. Chapter three cover the research approach and techniques which directly employed to gather the information and data necessary to the research questions. Chapter four did briefly discuss the finding and analysis of the data, summary of the findings. Finally, Chapter five cover conclusion and recommendation part respectively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical concepts

First, the theoretical foundations of diversification and its history in Postal sector are outlined. We then analyze motives and the motivation for choosing this strategy and, thirdly, the competitive advantage, which should result from diversification. Fourthly, risks and costs of diversification are presented, before we examine, the opportunities of diversification.

2.1.1 Trends and Strategic Drives in the Postal Industry

There is a broad consensus that the postal sector worldwide has entered a period of fundamental change. “The environment of the postal industry continues to be dominated by globalization, liberalization, competition, technological change, outsourcing and other change drivers” (UPU, 2002: 25). From a competitive point of view, the key drivers, which have influenced and keep influencing the industry, are regulatory and institutional developments, quickly changing shape of the industry and its markets and new technologies. “Unleashed by the pincer movement of technical innovations and market liberalization the 1990s have seen dramatic reorganization efforts at many large postal operators worldwide. These efforts mainly aiming at a diversification and internationalization of the business were strongly spurred by a stagnation in the demand of the incumbent domestic mail and parcel segment, as well as by an increasing competition” (Dörrenbächer, 2004: 1). The postal industry over the past 20 years has experienced substantial changes that caused it to restructure itself. Thus, the three strategic drivers that continue to transform the postal industry today are listed as follows.

2.1.2 Regulatory and Institutional Developments

Political changes were (and continue to be) the major environmental pressure point in the last decades. While globalization and market forces do play a critical role in the evolving postal sector, institutional policies of liberalization have been the most significant driver of change.

More precisely, the European Union has been at the forefront of liberalization and subsequent regulation of the postal sector and its influence extends far beyond Europe. The allowed market competition should result in lower costs of resources used to deliver services, lower market prices, higher quality of services and thus an increase in overall value created (Strikwerda and Rijnders, 2004).

As the privatization proceeds, the boundaries between public and private operators will become blurred as both serve the same markets with comparable products and the same managerial principals govern both. This will produce highly competitive strategic groups where the distinctive feature is not the national versus private ownership but the range of services and the geographical reach, (King, 2001).

2.1.3 Industry and Market Developments

Postal services today position themselves at the crossroads of three different markets: Communication market (e.g. letters), advertising market (e.g. direct mail) and transportation/logistics market (e.g. parcels). All of them are important for the economic development and welfare and are generally open to competition. This fact forces incumbents to battle at different fronts at the same time (Matthias Finger, et al 2005).

Consumer Behavior must be seen in the broader context of both globalization and the new information and communication technologies. As can be seen from the annexed data, 80% to 85% of total volumes in industrialized countries are generated by business customers who are increasingly globalizing (Matthias Finger, et al 2005). At least the express market, and to a lesser extent the parcels market is increasingly international, while the mail market still remains mainly national. Overall, customers want faster, more reliable postal services, more choice of product (including more sophisticated products, such as tracking) and competitive prices that meet their individual requirements.

Parallel to this the globalization of the express and the parcel markets, new entrants have emerged – e.g., FedEx, DHL, TNT, UPS and others more – some of which have been absorbed again by some of the historical operators. However, one must also mention here numerous

entrants on the national, sub-national and even local parcels and express markets, who operate in particular geographical areas or with particular clients, (Matthias Finger, et al 2005).

2.1.4 New Technologies

ICT will transform and shape the future of postal industry. According to Universal Postal Union (UPU) mails have reduced significantly over the last few years. The trend does not show any signs of growth but continues to show a downhill trend. According to (IPC, 2002) the mail volume in 1990s has slowed down compared to growth rates of the 1980s. The consumers (Nader, 2004) can attribute this slow growth of mails to the growing use of email and the internet.

However, new technologies are an important source of innovation and a major growth driver enabling postal operator to develop high-performing services and products in response to a constantly changing environment. One must name especially the information and communication technologies (ICT) which act simultaneously on a product and on a process/production level, (IPC, 2004)

Rather than simply transporting letters and parcels from A to B, the ICTs do indeed offer significant new possibilities to add value to such transport, and, by doing so, to help the historical postal operators become much smarter, as well as more customer focused. Postal operators to compensate the negative effects of e-substitution by offering multiple web services such as e-banking, mail-accounts, and virtual document services (Matthias Finger, et al 2005) also use innovations in technology.

Overall, the ICTs increase the availability of information to customers and thus reduce the information stronghold that the enterprise holds over the business. As a result, the customers are being empowered and can somewhat take control over the products and services. Consequently, this will increase transparency in the markets and enable the customers to make qualified decisions. One can expect significant competition and innovation from this evolution, and only companies with the technical and organizational ability to be transparent to their customers will gain.

2.1.5 Incumbents Response

These manifold trends and strategic drivers in regulation, market development and technology led to a variety of changes in the competitive behavior. The Universal Postal Union identified the following main strategies (UPU, 2002: 33): Efficiency improvement / Rises in productivity, Modernization of retail outlets / improving image / Opening new opportunities, Quality of services, Diversification, Globalization, Acquisitions and Alliances. For the purpose of the study, the researcher focuses on diversification strategy. For obvious reasons it is not attractive to reinvest free cash flows from the declining mail business in the existing activities as it would not provide a sound basis for a long-term strategy. The moves (mainly of the larger) incumbents therefore aim at reducing the dependence on the declining mail market by expanding into higher-growth, higher-profitability, but more competitive business areas. Most of the responses to the strategic drivers and changes in the competitive behavior of the incumbents can therefore be subsumed under the mantle of diversification. It is therefore fair to conclude that diversification is a commonly found answer to the strategic drivers that challenge the postal industry.

2.1.6 Diversification Strategy

There have been a number of researchers proposing definitions and measures of product diversification. Ansoff (1958: 393), defined diversification as “a particular kind of change in the product-market make up of a company”.

Diversification strategy is corporate growth strategy in which the company is expanding its activities and entering into new business activities, to disseminate rank areas in which they can successfully invest for the purpose of profit and growth, generate consistent and stable growth due to participate in more activities, the potential for faster growth with less risk and the greater number of middle management positions in the company. The ability of a diversification strategy to create sustained competitive advantages depends on value of that strategy and on its rarity and limitability (William et al, 1988).

Whenever a single business companies faced with diminishing market opportunities and stagnating sales in its principal business, it is the signal for diversification. The other key factors that drive a company to go for diversifications are, when it has a powerful and well-known brand

name that can be transferred to the product of other business. When diversifying into closely related business opens new avenue for reducing costs. When it can expand into industries whose technologies and products complement its present business? (Kannan, 2012:66).

Diversification strategy has two major types: Related diversification and unrelated diversification. Related diversification represents a strategy when firm operates in multiple industries, or businesses, which have some linkages with the firm's existing business. Businesses are said to be related when their value chains possess competitively valuable cross – business value chain matchups, (Kannan, 2012:66). Most companies favor related diversification strategies because of the performance enhancing potential of cross – business synergies. According to him, access to finance, skill personal, planning control, regulatory controls are considered as key barriers for related diversification.

One the other hand, Business are said to be unrelated when the activities comprising their respective value chains are so dissimilar that no competitively valuable cross – business relationship are present, (Kannan,2012:66). It is possible for firms to pursue numerous different businesses or industries with no linkages between them. The reasons for unrelated diversification strategy are varied: support to some divisions with cash flow of other firm divisions in the periods of development or temporary difficulties, the use of a division's profits to cover costs of other division; encourage growth, taking advantage of development opportunities; distribution of risk by serving several completely different and separate markets; improving profitability and flexibility; achieving better access to capital markets and better stability and earnings growth; increase in firms' stock prices,(Johnson, Scholes and Whittington, 2005:1)

Studies have shown that the use of related diversification is superior to unrelated diversification in world. If the company can develop and exploit the potential synergy from resources, managerial skills and core competencies of its diversified activities, then it will probably create a sustainable competitive advantage. In achieving the desired synergy, the capability of strategic governance of various businesses and development of sustainable competitive advantage is crucial, regardless of the level of business relatedness (Coulter, 2002).

2.1.7 Motives for Diversification

Grant identified three basic motives for a firm to choose a diversification strategy, namely growth, risk reduction, and profitability (Grant, 2002). If they cannot be attained with the existing product-market strategy, diversification is the consequent strategic option.

The quest for growth marks the escape from a stagnant or declining industry and is an important motive for managers of companies in declining industries, as they are reluctant to accept contraction and try to stop this process by buying companies operating in stable or growth industries. Unfortunately, managers' salary and prestige are often linked to the size and not to the profitability of the firm and therefore growth only benefits the managers (Denis, Sarin, 1999; Goranova et al., 2007). Academia criticizes such growth as it is usually pursued at the expense of profitability, consequently destroying shareholder value. In the long term, however, profitability cannot be neglected; otherwise, the firm will not survive or may become a target for acquisition. Risk reduction is the second motive for diversification, By diversifying, a firm is no longer dependent upon a single industry's volatility, but can spread the risk over different industries. The cash flows variance will then be lower than the average variance of the individual businesses (Don, 1995:1291).

The third motive is the simple quest for profitability, reflecting the very basic aim of every firm, namely to make money. This motive often serves as justification for unrelated diversifications because operational synergies do not have to be achieved. However, such strategies feature more the characteristics of a financial investment, than an attempt to increase the firm's competitiveness. Again, managers in declining industries will seek more industries that are promising where they expect surmountable market entry barriers and where they can invest free cash flow generated in the primary industry (Don, 1995:1291).

2.1.8 Competitive Advantage of Diversification

Porter (1987) argues that competitive advantage comes from the value that organizations create for their customers that exceed the cost of producing it. Organizations create value by performing a series of activities that he identified as a value chain. Value chain of a business

consists of a collection of activities undertaken in the course of designing, producing, and marketing, delivering, and supporting its product or service. In addition to the firm's own value creating activities, it operates in a value system of vertical activities including those of upstream supplies and downstream channels members. To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors do. Superior value is created through lower costs or superior benefits to the consumer.

Porter (in Ensign, 1998) suggests that consequently, the competitive advantages, which can arise from diversification, Cross-business synergies are a central driver behind diversifications. Sources for synergy will motivate a firm to diversify into a specific industry instead of pursuing another strategy. Therefore, it can be stated that competitive advantage arises from synergies and that synergies arise from the sharing of resources. Consequently, we can state that competitive advantage arises from synergies and that synergies arise from the sharing of resources. This essential connection brings us to the importance of related diversification and the resource-based view (RBV). The RBV suggests that a firm is the sum of its resources such as assets and skills and that diversification is nothing other than the sharing or transfer of these resources.

Economies of scope characterize cost savings resulting from scope (rather than scale) and were mentioned previously as a major benefit of diversification. The rationale behind this as referred to by most authors is economies of scope in assets that are subject to transaction costs. There are economies of scope when it is cheaper to combine two or more product lines in one firm rather than to produce them separately, Channon (in Praveen, 1993:28).

2.1.9 Challenges of Diversification

However, there are several reasons when the implementation of diversification strategy can be problematic. Diversification strategies, by their very nature are complex moves and therefore difficult to manage. There are significant risks and costs associated with diversification that can exceed the benefits and competitive advantages of diversification. First, the time and cost involved in top management at the corporate level who seeks to assure that the benefits of connectivity are created through the sharing or transferring between business units. Second, it is

difficult to share resources with other business units, or more difficult to adjust managers to corporate policies, especially when they are motivated and rewarded for independent performance of their business units (Johnson, Scholes and Whittington, 2005).

The following direct risks and costs are generally attributed to diversification (Hitt, Hoskisson and Kim, 1997): not only does this type of strategy require extensive coordination measures, but it also generates high management and internal governance costs because several organizational units are affected. The range of resources and scope of governance can then exceed managerial capabilities. Furthermore, this increase in requirements is non-linear and due to a potential snowballing effect difficult to forecast. The benefits gained from economies of scope may be dwarfed by the administrative costs involved in their exploitation.

Berger (1995) detected the risk of overinvestment and value-decreasing investments when diversified firms invest in and cross-subsidies projects with a negative net present value (NPV). A diversified firm probably invests large amounts of money to acquire or build up a strategic position only because, for example, it seems to be beneficial for the existing product line. These costs (e.g. for the acquisition), however, are too high so that the new business will hardly be able to ever generate a positive return on investment (ROI).

2.1.10 Opportunities of Diversification in Postal Sector

The European Union sees the postal industry with its traditional products mail and parcels at a strategic crossroad of three deferent industries: communication market, advertising and Transportation/logistic Market. It is important to mention here that postal operators are already active in these three industries, although they may not pursue a distinctive diversification strategy. However, just by providing their traditional postal services, they compete with firms in very deferent markets that often require a totally deferent set of competencies.

Therefore, the author shows a subjective overview of the current areas of product diversification among European postal incumbents. NERA (2004: 144f.) provides a similar list covering “non-postal services”, but which only focuses on the use of the retail network for the provision of such services which includes mail preparation, printing solution, direct marketing, CEP, logistic service, financial service, insurance and the likes.

2.2. Review of Empirical Studies

Several studies on strategic management have examined the relationship between diversification strategy and performance (Schoar, 2002; Shen et al., 2011; Berger and Eli, 1995; Burgers et al., 2009). The resource-based view was reviewed by Chen and Yu (2011) posit that firms diversify their products to exploit economies of scope in various resources including tangible and intangible resources.

Their findings further showed that exploitation of established capabilities via diversification aided firms to pursue increased economic returns. On the contrary, diversification has been found to be a possible cause of increase in cost of production. This is possible through disproportionate growth in administrative costs and rigidity in operations. The former as observed by Markides (1992) may be because of creation of additional levels of corporate management to coordinate new operating units, while the latter may be due to poor efficiencies arising from poor adaptability to environmental change strains on top management as the corporate center seeks to manage an increasing number of diverse businesses.

A firm's motivations to diversify was listed by Rijamampianina et al. (2003) to include; profitability enhancement, sales growth, stock value improvement, market efficiency and stability of income flow; implying that low performance could affect diversification decisions, as well as the level of diversification. Firms with enough managerial and financial capacity could easily diversify into other industries since diversification is perceived as an investment behavior. Hence, performance is a possible determinant of diversification decision. Several studies (e.g. Olusoga, 1993; Kim and Gu, 2003) have attempted to highlight the influence of firm diversification strategies on performance. In spite of this, research evidence is inconclusive as to whether or not a diversification strategy influences improved performance and stability for firms.

Kotler (2003) believed that business diversification is not guaranteed to improve profit, but an important strategic management concept for achieving long-term performance while reducing risk. In order to benefit from such diversification strategy, many manufacturing companies have diversified to benefit from diversified consumers group.

Amit and Livnat (1988) further opined that the financial motive for diversification is based on the fundamentals of the portfolio theory that implies that whenever cash flows of individual business units are not perfectly correlated, the total risk of an overall operation can be reduced by diversification. In the opinion of Rumelt (1974), the main motive for diversification might be related to factors of current environmental conditions of the firm (e.g. competition in the market) and reduction in sales. According to Shergill, (1991) there is no one measure that is generally acceptable in measuring the extent of firm diversification. Although Rumelt's (1974) categorical measures of firm diversification have been often criticized because of the subjectivity involved in its measurement, categorical many researchers generally accept measures because they distinguish between different types of related and unrelated businesses (Shergill, 1991; Singh and Gu, 1994).

Hoskisson and Hitt (1990) argued that the relationship between diversification and firm performance is complex; contingent on intervening factors, such as the type of diversification and the industry structure. Thus, according to Kang et al. (2011), the results of examinations of the effect of product diversification on firm performance may be different from one context to another. That is, costs and benefits from product diversification can be dependent on such factors as the type of diversification and the industry structure. Regarding the type of diversification, Tanriverdi and Lee (2008) emphasized that product diversification relates to intra-industry diversification, defined as a firm's presence in multiple product lines within a single industry. Costs and benefits of intra-industry diversification can be explained with the framework of internal capabilities and demand interactions (Siggelkow, 2003). Summarizing the type of diversification, Kang et al. (2011) opined that intra-industry product diversification engenders a trade-off between potential risks of going beyond the reasonable capacity to effectively offer diverse products and the possible demand externalities generated by offering a broad range of products. That is, as the degree of product diversification within a certain industry increases, a higher probability exists for disturbing managerial skills and alignment of activities that are well suited to the core business of a firm.

Consequently, the firm becomes incapable of successfully operating diverse businesses and marketing various products. As observed by Siggelkow (2003) intra-industry product diversification may positively affect firm performance with additional demands created by

providing assortments that maintain more options and reduce customers' shopping costs. Li and Greenwood (2004) found that intra-industry product diversification can uniquely drive two benefits; i.e. premiums from mutual forbearance brought by multimarket competition and efficiencies from market structure. According to them, mutual forbearance, defined as tacit collusion to mitigate intensity of competitive behaviors at multiple points of competition, is more likely to exist in the intra-industry diversification context than in the inter-industry context. That is, when firms compete within a constrained market with a higher probability of multiple contacts, severe rivalry may be alleviated due to a greater tendency to mutually forbear offensive activities.

However, the effects of those benefits suggested by Li and Greenwood (2004) vary from one firm to the other and thus should be interpreted cautiously according to the specific study's context. For example, Jayachandran et al. (1999) proposed that mutual forbearance is dependent on the degree of familiarity between firms and their abilities to hinder each other. Also, Golden and Ma (2003) observed that organizational structure that enables intra-firm cooperation and incentive systems which induce cooperation, are critical when implementing a mutual forbearance strategy. A high degree of familiarity due to the homogeneity of businesses and unique organizational characteristics, such as a high turnover rate may exist among firms (Kang et al. 2011)

2.3. Implications for Research on Diversification in the Postal Industry

The chapter on the concept of diversification has provided theoretical foundations and identified Competitive advantages gained through diversification. It further highlighted risks and costs attributed to diversification. Finally, it has provided empirical evidences on diversification strategy, motives and also effects on firm performance.

When analyzing diversification in the postal industry, it will be important to carefully differentiate between the motivation (the rationale), the areas of diversification, and the competitive advantages arising from these strategies. It will be interesting to see whether the dynamics in the Ethiopian Postal Service Enterprise created the same challenge, opportunities and motives for choosing a diversification.

CHAPTER THREE

RESERCH DESIGHN AND METHDOLOGY

3.1 Research Design and approaches

In this study, the researcher used both Quantitative and Qualitative research approach. In Qualitative research approach, it is a heavy responsibility on the researcher that he can think critically towards different situations and statements. The researcher should also be able see and avoid biases and more likely to be deeper in knowledge (Ghauri and Grönhaug, 2005). Quantitative is predominantly used as a synonym for any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or figures) that generates or uses numerical data.

The researcher chooses Descriptive research design for the study, since it tries to describe and explain phenomenon of service diversification practice. According to Burns and Grove (2003:201), descriptive research “is designed to provide a picture of a situation as it naturally happens”. It used to justify current practice and make judgment and to develop theories.

3.2 sampling and sampling techniques

During the year, 2015 Ethiopian Postal Service Enterprise (EPSE) has 1146 permanent and 786 temporary workers; Out of these 576 peoples are found at the Head Office in Addis Ababa. Structurally, there are one General Manager and 18 business owners. Out of this, seven (7) business processes are considered as Core business areas and the rest eleven (11) businesses are supportive ones. The target populations of the study are employees (managers, coordinators and experts) of the organizations who are serving in EPSE for at least three month or more and permanent workers.

Purposive sampling aimed to select elements from the total population. It allows the researcher a chance to incorporate a reliable and professional authority in Ethiopian postal service that can fully answer questions rose, which needs high profile personnel. Since it is a study on strategic issues it excludes, daily laborers and some staff members (secretaries, minions and the like) who

do have less contribution for the study. For this study, all process owners (team leaders) from the support business areas are selected for the study that is Eleven (11) and also out of the total number of permanent workers (151) in seven core business areas, sixty-seven (67) employees were selected as a sample size including process owners, which makes up more than 40% of the relevant population. Thus, depends upon considerations involving personal judgment on the extent of the respondents contributes to the study, disproportionate sampling technique employed to determine the number of subjects from each core business areas. Accordingly, 78 respondents were selected for the study including 67 from the Core business areas and (11) from Supportive business areas. The allocation of the survey for Seven unites including the supportive one has listed in table below.

Table 3.1. Summary of Sample Size

<u>N_o</u>	Core Areas	<u>N_o</u> of Population	Selected for The Survey
1.	Letter Process	44	21
2.	Parcel Process	25	8
3.	E.M.S Process	27	9
4.	Financial Business Process	28	9
5.	Marketing and Business Development Process	10	5
6.	Transport Work Process	38	11
7.	Sim Card and Voucher Card Process	7	4
8.	Support Process	11	11
	Total		78

3.3 Source of Data and Method of Data Collection

3.3.1 Type of Data Collected

The researcher adopted both secondary data together with primary sources. The research did explore secondary data from the organization in form of annual reports and other documents (brochures, magazines, published and unpublished documents). Later on the researcher were also

employed other secondary data that can collect from the internet. The secondary data were helped in defining the research problem and the research questions of the study. Primary data is collected using interviews and semi-structured questionnaire, which contained a mixture of closed and open ended questions.

3.3.2 Methods of Data Collection

This study collected data using questionnaire (open ended and close ended), interviews and content analysis in the research project as methods for data collection. This is because the authors needed to gain a lot of information about the subject. The content analysis is made to analyze data from different sources, such as the company's annual reports and internal documents. The interviews held with respondents at the chosen company and recorded in order to receive the correct information that may be missed by the questioner. A mix between semi-structured interviews and unstructured interviews were conducted.

3.3.2 Procedure of Data Collection

The study is based on both primary and secondary data sources. It begins by secondary data analysis through the detailed review of related literature and survey questioners was used as the main data gathering instrument for this study. Questionnaires were prepared and distributed to the sample that was selected from employee of EPSE. After the data is collected, it is necessary to use statistical technique to analyze the data. The survey data was processed by using by SPSS to be analyzed and presented.

3.4 Data Analysis Method

The data that are gained from the questionnaires were analyzed and interpreted using statistical package for social science (SPSS) version 20. As a result, descriptive has been conducted by employing different methods. From the descriptive statistics percentage, mean has been used to assess level of agreement on the survey query. also statistics tables and percentages, have been computed to analyze the general trends of the data from 2006 to 2015 for the variables that were included in the study.

3.5. Ethical Consideration

The study is ethically clear from St. Mary University School of graduate `studies department of business administration. The researcher uses the data from employees which are collected through questionnaire; permission is obtained from the participants. To maintain the confidentiality of the information provided by the respondents, the respondents are instructed not to write their names on the questionnaire, assured of that the responses are used only for academic purpose, and kept confidential. Finally, respondents are included in the study based on their free will.

CHAPTER FOUR

ANALYSIS, DISCUSSION AND PRESENTATION

This chapter deals about the data analysis, discussion and presentation of the study.

4.1 Reliability Test

A reliability test is used to assess consistency in measurement items (cerri, 2012). Cronbach's alpha is used to measure the internal consistency of the measurement items. From data analysis, the Cronbach's alpha for this study is 0.840 that is excellent according to the standard set by George and Mallery (2003) and it is over the accepted limit of ≥ 0.70 . For all individual dimensions, the Cronbach's alpha is greater than 0.70, which is shown below that, signifies greater internal consistency between the items and measures the intended dimension of the variables. As well as it indicates the acceptability of the scale for further analysis.

Table 4.1 Result of reliability study

	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Motivating factor	.810	.812	12
Challenges	.830	.831	6
Threats	.772	.773	4
Opportunities	.879	.889	8
Total result of all independent variables		.840	30

Source: SPSS output from survey data, 2016.

4.2 Analysis of the Response Rate of Respondents

The questionnaire was distributed to process owners and professionals (including supervisor, experts) for which were selected purposively from the head office that are located in Addis Ababa, Ethiopia.

The questionnaire was physically distributed to 78 employees (whose positions are related as mentioned earlier). Out of 78 questionnaires 70 were completed and collected due to this, the response rate was 91 percent.

Table 4.2 Response Rate

Distributed	78
Completed and returned questionnaires	70
Response rate	91 %

Source: SPSS output from survey data, 2016.

4.3 Analysis of Respondents' Profile

This research was enclosed the main demographic characteristics such as educational levels and years of experience of employees of EPSE. The purpose of this profile was to obtain a visualization of the EPSE employees responding to the questionnaire. The findings were indicated below.

Table 4.3 Educational level, Years of Experience and Category of the Respondents

Items	Option	Frequency	Percent	Cumulative percent
Education Level	Diploma	13	18.6	18.6
	Degree	52	74.3	92.9
	Masters and above	5	7.1	100.0
	TOTAL	70	100.0	
Year of Experience	1-5	38	54.3	54.3
	5-10	14	20.0	74.3
	More than 10	18	25.7	100.0
	TOTAL	70	100.0	
Category of respondents	Supportive business process	10	14	14
	Core business areas	60	86	100
	TOTAL	70	100.0	

Looking at the educational background of survey respondents it is revealed that 74.3 percent were First degree holder whereas 18.6 percent were diploma holders and the remaining 7.1 percent were having master's degree and above. This figure implies that more than 81.4 percent of the respondents hold first degree and above that made the response might be reliable enough. When we see the work experience from the responses, 38 percent of survey respondents indicated that they had 1-5 years of experience that is the highest. The second larger number of respondents, 18 percent, had working experience of more than 10 years. The remaining 14 percent respondents had experience of 5-10 years. This outcome might depict that respondents had enough experience, which would sufficiently contribute, to the data quality of the survey.

4.4 Survey Results of the Questioners

4.4.1 Motives for Diversification approach

The study tried to assess the factors that considered as driving force for the occurrences of diversification. These study-required respondents to show their agreement or disagreement to determinant factors for service diversification.

Some of the determinant factors that are widely considered for most of the diversification from the previous experience are selected and listed down. Specific determinants of diversification naturally vary across postal incumbents due to the uniqueness of each postal operator which can be explained by post office might have strength or weakness on particular aspect. This particular issue may or may not be the case in other postal operators. The sum of the last two columns implies degree of agreement in a particular factor that was believed by respondents to have association with the occurrences of diversification approach. Thus respondents were asked to identify the drivers of diversification of services from the under mentioned factors in Ethiopian Postal Service Enterprise. The agreements and disagreements of the respondents in this regard are summarized and presented as follows (Table 4.5).

From the questions given to surveyed professionals, various responses have been collected. All participants in the surveyed postal office shared some of the responses that might cause for occurrences of diversification approach. The fact that a particular factor was pinpointed by all

surveyed professionals which indicates how prevalent that cause could be in the Ethiopian postal industry. Thus, those factors that are believed to driving forces are systematically categorized for the purpose of analysis in four realms.

4.4.1.1 Financial motives

Financial aspects of motivating factors, the most prevalent factors indicated for occurrence of diversification were traced by a thorough look into responses of the subjective question provided indicate that some of the factors like, maximizing portfolio return, reducing risk, Economies of scale, Attractive financial gain, are commonly shared view by more than 50 percent of most respondents. From all the surveyed staff ascribing to the company to look for diversification approach except two factor facing profit erosion in maturing markets and low cost of entry which are rated below fifty percent. Besides, detail analysis of the data shows those respondents from staffs in the industry have so much in common.

Table 4.4 Financial Perspective

Motives for diversification	SDA	DA	N	A	SA	Mean	St.D
1. The company is facing profit erosion in maturing markets	11.4	32.9	10.0	42.9	2.9	2.928 6	1.158 73
2. low cost of entry in to different service-markets	7.1	25.7	21.4	40.0	5.7	3.114 3	1.084 05
3. Attractive financial gain from the industries EPSE is diversified in to	7.1	21.4	21.4	42.9	7.1	3.214 3	1.088 71
4. In order for the company to reduce risk	8.6	12.9	8.6	58.6	11.4	3.514 3	1.126 01
5. Diversification has the effect of maximizing portfolio returns	4.3	14.3	10.0	47.1	24.3	3.728 6	1.115 39
6. Economies of scale results from using same fixed Cost for more output	5.7	14.3	25.7	41.4	12.9	3.485 7	1.003 51

Source: SPSS output from survey data, 2016

The above table indicates that maximizing portfolio returns was rated 71.4 percent, which made it highest among other factors to diversification. The next most rated 70 percent went to reducing risk; Economies of scale, and Attractive financial gain, low cost of entry and facing profit erosion in maturing markets were rated respectively in a decreasing order.

As indicated in Table 4.4 indicate that the item “The company is facing profit erosion” (question #1) had the least mean rating of 2.92 (1.15873). Though it had the least mean rating, the value of 2.9286 substantially exceeded the theoretical mean of 2.50. The highest mean rating of 3.72 ($SD = 1.11539$) related to the item “Diversification has the effect of maximizing portfolio returns” (Question #5). Thus, the results of the study showed that participants responded positively to the financial perspective motive of diversification were well received.

4.4.1.2 Competitor’s perspective

Factors that are attributed to the competitors’ point of view, motivational forces to diversification practice has analyzed based on response of the subjective question. Among the listed factors, the response indicated that Entry of Foreign Incumbent postal operators along with taking the chance of first mover advantage in different services are the most prevalent factors, which attributed 62.9 percent followed by gaining market power relatively to competitors and cross selling advantage followed in descending order respectively.

The mean rating for each of the four competitive perspective items as rated by the respondents and the resultant mean rating for all the items were computed. As indicated in Table 4.5, the item “Increase the chances of competitive advantages for future first mover advantages” (question #7) had the highest mean rating of 3.57 ($SD = 1.11617$). The lowest mean rating of 3.22 ($SD = 1.19384$) related to the item “Cross selling advantage” (question #10). The results of the study showed that respondents are highly agreed with all factors.

Table 4.5 Competitor's Perspective

Motives for diversification	SDA	DA	N	A	SA	Mean	St.D
7. Increase the chances of competitive advantages for future first mover advantages	4.3	17.1	15.7	44.3	18.6	3.5571	1.11 167
8. Entry of foreign incumbent postal operators (eg. DHL,FedEx)	11.4	10.0	15.7	42.9	20.0	3.5000	1.24 819
9. To gain market power relatively to competitors, often through multimarket competition.	5.7	14.3	25.7	41.4	12.9	3.4143	1.06 992
10. Cross selling advantage, to introduce older products in the new market or introduce the new products in older and more mature market	8.6	22.9	18.6	37.1	12.9	3.2286	1.19 384

Source: SPSS output from survey data, 2016

The Last two factors that, Decline volume of letter mails; and new regulatory laws and rules are the list prominent factors and the level of shared agreement is rated below 50 percent. The rated level of agreement is listed below in table 4.6. The results that appear in Table 4.6 indicate that the two items had least mean ratings as compared to other factors they do have shown low level of agreement.

Table 4.6 Volume of Letter and Regulations

Motives for diversification	SDA	DA	N	A	SA	Mean	St.D
11. Decline volume of letter mail service	24.3	28.6	10.0	31.4	5.7	2.6571	1.30646
12. New regulatory laws and rules	7.1	30.0	20.0	32.9	10.0	3.0857	1.15147

Source: SPSS output from survey data, 2016

This in fact had helped capture respondents' views in their own terms as to what drive diversification in their own context. As per the above factors for the diversification strategy in

EPSE, the motives for financial issues are ranked first followed by competitor’s point of view. When we see the overall motivating factors, the item “Diversification has the effect of maximizing portfolio returns” (Question #5) had shown high level of agreement, followed by “first mover advantages” which mean value is 3.55(SD=1.11167).). The lowest mean rating of 2.65 (SD = 1.15147) related to the item “Decline volume of letter mail service” (question #11).

4.4.2 Challenges of diversification practice

The factors that are considered as a challenge for diversification practice are grouped in team and presented as follows.

Table 4.7 Challenges in Diversification Practice

Challenges	SDA	DA	N	A	SA	Mean	St.D
13.High cost of management and intergovernmental costs	5.7	11.4	11.4	48.6	22.9	3.7143	1.11827
14. Risk of over investment	2.9	8.6	18.6	47.1	22.9	3.7857	.99116
15. Number of businesses in a company's portfolio make decisions difficult	4.3	21.4	17.1	35.7	21.4	3.4857	1.17637
16. Resistance to change in technology among staffs	7.1	12.9	11.4	50.0	18.6	3.6000	1.14715
17. Lack of trust by customer	2.9	31.4	15.7	41.4	8.6	3.2143	1.07532
18. Inability to identify the unique profit contribution of a business unit that shares resources with another unit	7.1	17.1	18.6	40.0	17.1	3.4286	1.17426

Source: SPSS output from survey data, 2016

All the prevalent factors indicated for challenges of diversification are commonly shared and agreed by all respondents that are above 50 percent. Thus from the above result respondents strongly agree that diversifying services has High cost of management and intergovernmental

costs which is the prominent factor ascribing 71.5 percent from all. On the other hand, when there is diversifying business unites, respondents agree, there is high risk of over investment that ranked second ascribing 70 percent. From the respondents 68.6 percent believed that Resistance to change in technology among staffs can be a challenge for diversification practice followed by inability of identifying unique profit and overload of too much information respectively. However, 50 percent of the respondents agree Lack of trust by customer is also a challenge in diversification practice is a least agreed among all.

The mean rating for each of the six challenges items as rated by the respondents and the resultant mean rating for all the items were computed. These were then compared with the theoretical mean rating (assuming normal distribution of responses) of 2.50 to determine whether respondents were satisfied with specifying challenges. The results that appear in Table 4.7 indicate that all the items had mean ratings that far exceeded the theoretical mean. As indicated in Table 4.7, the item “Risk of over investment” (Question #14) had the highest mean rating of 3.7857 ($SD = .99116$). The lowest mean rating of 3.2143 ($SD = 1.07532$) related to the item “Lack of trust by customer” (Question #17). The results of the study showed that respondents are highly satisfied with most challenges of diversification.

4.4.3 Threats of Diversification practice

The acceleration of electronic substitution of traditional mail put the highest threats for the postal industry that scored 87.1 percent from the stated threats. Respondents, 70 percent believed that Competition by new incumbent postal industries could also be threats for the future postal industry followed by Broadband presentation per household, which accounts, 68.6 percent. Not only this but also the predicted decline volume of transactional mail is also believed to be cause for threat by respondents.

Table 4.8, presents the respondents’ answer for the question that was meant to identify the main threats of the future postal service

Table 4.8 Threats for the Postal Service

Threats	SDA	DA	N	A	SA	Mean	St.D
19. The acceleration of electronic substitution of traditional mail	5.7	10.0	7.1	40.0	37.1	3.7571	1.29027
20. All segments in the transactional mail are predicted to fall in volume	4.3	24.3	7.1	41.4	22.9	3.5429	1.21209
21. Broad band presentation per household	4.3	15.7	11.4	50.0	18.6	3.6571	1.07522
22. Competition by new incumbent postal industries	5.7	12.9	11.4	40.0	30.0	3.7429	1.17567

Source: SPSS output from survey data, 2016

Furthermore, Table 4.8, the first and the second highest indicated by the scored highest Mean 3.75 and 3.74, the acceleration of electronic substitution and intergovernmental costs, and Competition by new incumbent postal industries are the main threats for the future Postal industries, respectively. In addition, All segments in the transactional mail are predicted to fall in volume scored Mean=3.54 which makes these least rated.

4.4.4 Opportunities for further diversification

In connection with those factors related to opportunities, find out whether they lead to considering for further diversification. In this study all the possible factors considered as an opportunity such 92.9 percent of the respondents agree that Increase customer access by providing services in rural countries followed by 90 percent respondents that agree E-commerce are the leading response rate by respondents and also 88.6 percent of respondents comply with Agent banking services still have an ample opportunity for the industry. Growing demand for transportation, Standard Mail, Periodicals, Developments in demand for parcel and express services and lastly additional partnership with retailers follow consecutively.

These were then compared with the theoretical mean rating (assuming normal distribution of responses) of 2.50 to determine whether respondents were agreed with the specified opportunities. The results that appear in Table 4.9 indicate that all the items had mean ratings that far exceeded the theoretical mean. As a result, E-commerce, Increase customer access in

rural areas, and Agent banking service are replied as the main opportunities areas, as indicated by Mean rank of 1st, 2nd and 3rd, as per the registered high score mean 4.27, 4.25, and 4.21, respectively. The registered Mean score of 4.21 and 4.08 for Growing demand for transportation and Developments in demand for parcel and express services were the 4th and 5th rank factors, respectively..

Table 4.9., presents the respondents' answer for the question that was meant to identify the main opportunities of the future diversification.

Table 4.9 Opportunities for further diversification

Opportunities	SDA	DA	N	A	SA	Mean	ST.D
23. Agent banking service		2.9	8.6	52.9	35.7	4.2143	.72016
24. E-commerce, the trading or facilitation of trading in product or services using computer networks		2.9	7.1	50.0	40.0	4.2714	.72074
25. Increase customer access by providing services in rural countries		1.4	5.7	58.6	34.3	4.2571	.92983
26. Growing demand for transportation		4.3	7.1	51.4	37.1	4.2143	.75934
27. Developments in demand for parcel and express services	2.9	5.7	8.6	45.7	37.1	4.0857	.97420
28. Standard Mail, which is mainly advertising mail such as catalogues, coupons, and solicitations		10.0	5.7	52.9	31.4	4.0571	.88278
29. Expand customer access while reducing cost through additional partnership with retailers		10.0	10.0	41.4	38.6	4.0286	1.00681
30. Periodicals, which include mailed newspapers and magazines	1.4	7.1	7.1	45.7	38.6	4.1143	.92537

Source: SPSS output from survey data, 2016

4.5 In-depth Interview

In-depth interview was conducted with process owners so as to obtain profound understanding about the service diversification strategy in EPSE on the bases of the research questions. The interviewees had vast experience especially with planning and executing in addition to their several years of experience in the service. To this effect, planning, Monitoring & Evaluation, and communication and documentation process owners were participated.

The section that follows present factors believed to cause of diversification approach by the interviewees. Besides, the determinants thought to be driving forces for the occurrences of service diversification are being identified. In addition, challenges that ascribe in draw backs in the implementation along with threats and opportunities for further diversification are presented accordingly. Furthermore, one can understand from the response that respondents are more or less believed in a similar manner on the aspect and trends of the diversification approach in the postal service industry.

Therefore, this response gathered using an interview based on the selected factors of the study are summarized and presented under the following subtitles.

4.5.1 Factors Assumed to Motive for Service Diversification

Several factors which contribute to diversification of services in the EPSE so far were discussed by the respondents are traced out. Those indicated factors from the outcome of the interview that were believed to arise are classified under internal and the external factors and each factor are organized and presented as follows.

Internal Determinants

These are factors relating to internal inefficiencies and capabilities due to systems, governance, mandate and other conditions related with the service activities. In this regard, most agreed points of the interview participants raised issues are summarized as follows:

Respondents believed internal determinants are ghosted with this pushing factor and are explained under this premise:

- Even though the mandate for postal service was established in 1966, which give vast opportunities for the postal industry, there are some business areas that Enterprise does not take a move and enter to yet.
- There is also common believes on growing demand for some service areas to the likes of door to door service, parcel service, merchandize and also document mail services along with the economic development of the country.
- The market policy of the country also able the organization to operate freely in any market that have potential opportunities while computing with operators since it is free market economy, here we can take commission works with many organization as dominant example.
- Although EPSE operate as a corporate administrated by its own income it does have social responsibility to expand its accessibility in some regional areas it operates even if it loses. Such to compensate that it enters to the business, which do have an objective of maximizing profit.

External Determinants

The external determinants are explained as those factors that were beyond the capacity of the enterprise and forced the organization to diversify its service. These factors are also expressed as an intervention of big incumbent postal operators, modernization of information communication technologies and beliefs of the society. Some of the common contemplating factors raised by the respondents are listed down as follows:

- There are profound that the introduction new communication tools have an adverse impact in reducing social mail in recent years.
- The other important factor is the relay on the coming of big incumbent foreign postal operators in the industry who do have a huge capital and capacity.

4.5.2. Challenges

Supplementary information's in connection with challenges in the implementation process of service diversification also gathered from the interviewee. In this regard, the following basic issues were raised and presented discretely as they inculcate to understand these challenges in a strategic manner.

Some of the common challenges raised by the respondents are listed down as follows:

- One of the biggest challenge shared by all respondents were lack of legal framework for the postal office to operate in some businesses areas. As an example even though the mandate granted postal bank, it lacks legal framework to be authorized by the national bank of Ethiopia. It also restricted the EPSE to be an agent bank on fast money transfer services with foreign banks.
- Another challenge is lack of financial capacity to cope up expenditure for accessibility of its service to underserved ones and to that off diversifying in to other business that needed huge capital.
- Also, lack of skilled human power and financial capacity starting from operating the businesses to the management of it.
- A tendency of risk aversion behavior on the management side to enter other potential business unites and resistances by staff to deal with technologies are other challenges.
- The lack of complete organizational structure which in compasses the newly created diversified businesses. IT let them to be administered as a project in turn makes the portfolio administration difficult. Agent banking, sim card, voucher, and door-to-door businesses are among them.

4.5.3 Factors in Relation to Threats for the future Postal Service

Other than, the new communication tools that substitute the social letter volume, the decreasing financial return could leave to danger for its existence of the Postal office. In this regard, the following basic issues were raised and presented discretely as they inculcate to understand these threats in a strategic manner.

Some of the common threats raised by the respondents listed down as follows:

- Besides, according to the respondents' lack of legal framework that control and protect the monopoly right of the EPSE, big incumbent postal operators may force EPSE to go out of the market. Since it, do have a social responsibility to expand its accessibility. The competitors always prefer to operate where there is a potential market.
- In addition, there is a problem on government side in enforcing the laws; there are some illegal incumbents that undertake the service of postal office who are engaged in transferring letters and documents.

4.5.4 Opportunities for Further Diversifications

According to respondents, the economic development of the country as long with the countries penetration towards globalization opens a future door to the postal industry. Such there are some areas in postal mandate that EPSE does not diversify yet. These business areas discussed below as following:

- Despite the fact that banking service and its accessibility expanded through time in Ethiopia, still the businesses are not that much enough in accordance with the number and geographical coverage of the country. As a result, the business is still having an opportunity for the EPSE to consider postal bank.
- The mandate for commission works is not limited. It gave a tremendous fertile ground to work with governmental, nongovernmental and private organization.
- The postal service in some regional areas of the country still not addressable. By expanding its accessibility, the organization can utilize the market.
- Also other than agent banking, EPSE also can expand its work with other agent commission banking with other commission workers.

4.6 Document Analysis

In order to assess the pre and post scenario on the impact of service diversification practice in EPSE, the relevant data on the financial return, organizational size and number of employees were applied. In this regard data (from the year 2006 to 2015) were collected which were registered before the year 2014/15.

The data indicate that a total return of all the business unites covered by this study. It also shows the size, traffic and employees of the post office, was growing for the years under consideration. The total traffic has been included simply to show the erratic trend of how the core business units are demonstrating in the postal industry.

4.6.1 Letter Traffic Volume

The letter mail, t is the oldest business unit and the foundation base for the establishment of the Enterprise. The letter traffic volume in 10 years comprising both the pre and post scenario has shown below.

Table 4.10 Letter Traffic

	Fiscal year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Letter traffic	19,497,800	18,227,200	14,209,200	16,184,000	17,601,000	15,008,300	16,011,000	15,555,499	17,327,679	15,395,760

Source: postal 2015 statistical magazine

The letter traffic, as it shown in table the volume has not shown a big change before and after diversification. It shown ups and down from one year to another.

4.6.2 Parcel Traffic Volume

Table 4.11 Parcel Traffic

	Fiscal year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Parcel traffic	45300	46700	61600	69410	79000	94200	93273	107156	134955	146106

Source: postal 2015 statistical magazine

As it shown above, the demand for parcel service has shown growth in volume from year to year. The parcel traffic growth by 155% in 2015 from it was in 2011. thus it implies that the parcel service has grown opportunity for future postal office.

4.6.3 EMS Traffic Volume

EMS service volume, in table below, the traffic has growth in 352% in 2015 from it was in 2010. this shows the demand for fast transfer of letter (documents) and small parcel has grown time to time.

Table 4.12 EMS Traffic

	Fiscal year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EMS	103300	94600	101100	129400	209700	267100	301088	349595	444026	739743

Source: postal 2015 statistical magazine

4.6.4 Financial Traffic Volume

Regarding financial transfer, which in comprises small business like local remittance and foreign remittance, is one of the business unites that EPSE diversifying to after 2010. Since then as table shown below, it experiences in consistency from year to year in its traffic volume. In comparison financial, transfer decline by -53% in 2015 from where it was in 2012.

Table 4.13 Financial Transfer Traffic

	Fiscal year				
	2011	2012	2013	2014	2015
Financial transfer	51,649	71,701	41,846	51,100	38,600

Source: postal 2015 statistical magazine

4.6.5 Financial Business Commission Traffic Volume

When we see the table below, the financial business commission is also among those businesses that EPSE diversified to in recent years; it includes business like pension payment, traffic punishment payment, pocket money fee for university student and so on. Even though the growth rate of the traffic differ business to business, as a business process, financial business commission ups and down one year to another year.

Table 4.14 Financial Business Commission Traffic

	Fiscal year				
	2011	2012	2013	2014	2015
Financial business commission	2,551,557	2,786,578	2,497,979	3,110,589	2,505,663

Source: postal 2015 statistical magazine

4.6.6 Post Shop Traffic Volume

The post shop business is a business that does have a growing demand from time to time. This business unit also includes small business under it to the likes of sim card sale, voucher card sale and mobile phone sale. The post shop traffic increases by 143% in 2015 from it was in 2014.

Table 4.15 Post Shop Traffic

	Fiscal year				
	2011	2012	2013	2014	2015
Post shop	17,670,535	52,455,075	108,957,034	191,137,060	274,425,865

4.6.7 Transport Traffic Volume**Figure 4.16 Transport Traffic**

	Fiscal year				
	2011	2012	2013	2014	2015
Transport	1,978,758	165,922	282,233	524,782	569,405

Source: postal 2015 statistical magazine

Transport traffic also one of the business area, which EPSE enter in to in recent time. As it shown in the above figure the volume of passengers traffic was shown a great down fall immediately in 2012 where it was from in 2011 by -8%. However, from then the volume of the passengers has shown growth in each year.

4.6.8 Diversification and Financial Transaction**Table 4.17 Diversification and Financial Transaction**

Financial transaction	Fiscal year							
	2008	2009	2010	2011	2012	2013	2014	2015
Income	54,662,500	80,115,350	90,837,055	130,936,024	159,422,505	198,733,536	274,402,985	346,189,245
Expense	47,308,020	61,255,130	75,148,455	102,838,385	129,205,629	153,740,943	211,911,142	274,118,437
Profit	7,354,485	18,860,219	15,765,884	9,210,363	30,216,877	44,992,593	62,491,842	72,070,808

Source: postal 2015 statistical magazine

Regarding the financial transaction, the income of the Enterprise has grown from time to time, it increases by 633% in 2015 from where it was in 2008, has shown below in table 4.15. From, the above figure one can understand that the profit of the company has shown growth since it started diversification strategy. Previously before the year 2011, the profit of the company has declined from time to time. Thus, the profit of the Enterprise has grown by 782% in 2015 where it was in 2011.

4.6.9 Organizational size and Number of Employees

Here also the changes in number of employees and organization size results from diversification for the last ten years presented as follows. As it shown below the size of the organization has shown a continues growth form the time diversification has started in EPSE.

Table 4.18 Growth in Number of Employees and size

	Fiscal years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No of employees	1014	1017	902	1016	1077	1132	1150	1847	1892	2259
Growth in org. size	837	930	1067	1068	1042	1058	1065	1095	1139	1630

Source: postal 2015 statistical magazine

4.7 Summary of Survey Results

The study conducted survey post office employees (using self-administered questionnaires) and structured survey of documents and unstructured interview. The survey had a response rate of ninety percent. Most of respondents were directly engaged in service delivery and planning related activities from which more than eighty percent of respondents had educational background of first degree and above. Twenty-five percent of the respondents had over ten years of experience in postal works.

In reaction to a question as to what service diversification in view of survey participants, the result indicated that, maximizing portfolio return, reducing risk, future first mover advantages,

Entry of foreign incumbent postal operators , Economies of scale, To gain market power relatively to competitors, Attractive financial gain, Cross selling advantage were the most frequently mentioned factors followed by Decline volume of letter mail service, facing profit erosion in maturing markets, low cost of entry and New regulatory laws and rules among others.

In a query where the respondents were requested to react on factors indicating challenges in diversification practice; High cost of management and intergovernmental costs, high risk of over investment, Resistance to change in technology among staffs, inability of identifying unique profit, overload of too much information and were rated the next top four factors challenged the diversification practice. On the other hand, Lack of trust by customer were rated the least factors.

According to the study factors related to opportunities response indicated, that respondents agree Increase customer access by providing services in rural countries is related to further diversification. They also agreed with the fact that E-commerce, Agent banking services, growing demand for transportation, Standard Mail, Periodicals do have a potential for further diversification. On the other hand, Developments in demand for parcel and express services and lastly additional partnership with retailers follow consecutively.

In general, the respondents view using the above survey methods in relation to occurrence of diversification approach that could be supported by literature review with respect to the research problem and question has been summarized and discussed in detail in the subsequent chapter.

4.8 Discussion of the Research Findings

In chapter, one the major objective of this study has been stated as an investigation of service Diversification Practice of EPSE. Further, the following specific objectives were formulated to contribute in attaining the general objective of the research:

- To identify the driven factors for the organization to diversify its service and entering to new business lines.
- To assess challenges of diversification
- To identify the possible threats for the future postal service
- To assess opportunities of diversification.

- To examine the pre and the post scenario on performance of EPSE diversification practice

In this study factors that have impact on a company that forces to diversify its services with the focus of postal industry and also challenges in its practice, threats and opportunities that attributing to determine the future postal industry along with effects on traffic volume, financial return and also on the size of the organization were been analyzed and findings in light of the literature are discussed.

4.8.1 Motives of Diversification

In respect of this, the subjective question in the survey and in-depth interviews recognized driving factors such as, reducing risk, maximizing portfolio return, future first mover advantages, Entry of foreign incumbent postal operators, Economies of scale, gain market power relatively to competitors, Attractive financial gain, and Cross selling advantage. Hence, the study further tried to investigate these factors by combining in a team under driving forces below.

Company service diversification very necessary for to reduce risks as it would help the portfolio to be protected from substantial losses in one part of the market, ensure a sound financial system and thereby prevent systemic crises. This survey also validated the stated study as 70 percent of the respondents indicated agreement (Table 4.5). Maximizing portfolio returns was also one of the top factors rated to contribute to the occurrences of diversification as we can see from the survey result and supported by in depth interview findings.

On the other hand, respondents had also a positive view to the statement that catching future first mover advantage on new business lines than competitors would have increase the financial return of the company from it diversify. This may imply that, it is better to put in place strategies in utilizing opportunities from the mandate given to EPSE.

4.5.2 Challenges of Diversification

The study outcome on six of the questions posed to find out the relations between the likely challenges, diversification practice in the survey indicated average agreement, and it is confirmed by the interview response (Table 4.8). High cost of management and intergovernmental costs that is highly associated with challenges to the formal operating the

business, as depicted by opening branches implies that postal service is until now to develop in Ethiopia. As it shown in document analysis, the difference in expenditure versus income of the company on financial statement (Figure 4.8) is not that much big this is due to social responsibility of EPSE to expand its accessibility to underserved ones. This also supported by earlier studies that the time and cost involved in top management at the corporate level who seeks to assure that the benefits of connectivity are created through the sharing or transferring between affect several organizational units (Hitt, Hoskisson and Kim, 1997)

In the survey study, it is indicated that 70 percent of the respondents agree that Risk of over investment would cause a challenge for managing diversifying firms (Table 4.8). This exemplifies in interviews that over investment of the companies let EPSE to capitalize those business by projects this is due to lack of complete organizational structure which in compasses the newly created diversified businesses, in turn make the portfolio administration difficult. Due to this, both skilled work force and financial Capacity limitation of company results in big challenge that would lead to poor performance.

4.8.3 Threats for the future Postal Service

According to Universal Postal Union (UPU), mails have reduced significantly over the last few years. The trend does not show any signs of growth but continues to show a downhill trend, this is due to the growing use of email and the internet by the consumers. The survey (Table 4.9), did confirm the earlier studies in other countries that is the acceleration of electronic substitution of traditional mail especially social mails.

On the other hand, there is also evidence in the literature that shows achieving a competitive advantage could get when the firm performs one or more value creating activities in a way that creates more overall value than do competitors do, (porter, 1987). The survey (Table 4.9), did confirm the earlier studies that 70 percent of the respondents agree big postal operators put higher thereat to the future EPSE. Also in interviews, respondents agree that competitors always prefer to operate where there is a potential market but EPSE must operate in markets even though they are not profitable since it do have social responsibility.

4.8.4 Opportunities for the Further Diversification

During survey all respondents agree with the view that all stated opportunities stated in query. Thus, survey indicated that 92.9 percent of the respondents that is the highest of all agree with facts that with having in place customer access by providing services in rural countries do have an upcoming opportunity for the postal future. Even though this rose as a challenge for diversification practice earlier, respondents urging during interview that the economic development and countries penetration towards globalization accelerate the demand for postal service in rural areas. Also in survey, interview, document analysis, one can observe that the postal industry does have bright future in areas of banking services, transportation, and commission works along with utilizing its mandate.

4.8.5 Pre and Post Scenario Performance of EPSE

During document analysis, it has shown that the Enterprise performance with regarding to traffic volume, organizational size, employees number and financial transaction has changed from the time it implemented diversification strategy. Other than letter volume in which its traffic seems constant for years the study has covered, other business that the Enterprise has been operating before and after diversification like EMS and Parcel services has shown, a continues growth. This strength the idea raised during Interviews, of growing demand for merchandize, fast document mail and door to door Services. On the other hand, business areas where the Enterprise has entered to after Diversification strategy like Post Shop, Transportation, financial transfer and commission works has shown a growth from time to time, though in sometimes they face vicissitudes especially the last two business areas.

Regarding organizational size and number of employees, the data has shown the Enterprises have widened its access to underserved areas and rural areas. Accordingly, the size of employees has grown from year to year. Finally, Diversification strategy has boosted the financial return of the Enterprise from where it was going down before it has implemented. In document analysis, one can witness that the profit of the organization has decline by -48.83% in 2011 from where it was in 2009. However, since diversification of its service and has entered to new business lines EPSE profit has grown by 782% in 2015 from where it was in 2011

CAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter is deals about the, conclusions and recommendations of the study.

5.1 Conclusion

The broad objective of this research was to investigate motives of service diversification, threats and opportunities in postal industry; and to see the pre and post scenario effects of diversification approach. Based on the broad objective a number of specific research questions were developed and quantitative research approach was employed. More specifically, the study used survey of employees of postal office, structured survey of documents of postal reports and unstructured interview of senior officials. The results showed that, based on the respondents' view it was evident that most likely driving forces, challenges, threats opportunities that affect EPSE are presented in the paragraphs that follow.

The study indicated that maximizing portfolio returns of the Enterprise motivated by compensating and cover the expenses of expanding services to underserved ones results from social responsibility of EPSE considered as a prominent factor for goes to service diversification. This motivated by reducing of risks of losing in one part of the business and mitigating those of intergovernmental and managerial costs. Having this, the growing demand for some services also forces the Enterprise to consider new business areas. The other thing study indicated that the motive of being the first to enter and make advantage over competitors in line with the mandate it has given to it, had been the cause for diversification strategy in EPSE.

In addition, the study found out that due to the social responsibility of EPSE, it lefts for high intergovernmental cost and expenditure to expand its service in turn it negatively affects its return. This challenges the formal operating of the business while computing with big private postal incumbents which always likely to operate in lucrative profitable areas. The other thing that the study depicts is overinvestment/diversification of business make it difficult the portfolio

management. This can be illustrated that lack of comprised organization structure that in compasses all services lefts some business areas to operate under Projects. In addition, the study has pointed out during interview, the legal issues with that of National Bank of Ethiopia regarding Postal bank has put a challenge to play its bank right that has given to its mandate.

The study also indicated threats that mostly linked with challenges in current diversification whose can growth to the level of a bigger threat. Thus, due to the preference of Competitors to operate on profitable areas along with social responsibility of the EPSE, there can underline unfair competition among the postal incumbents and in turn affect the financial return of the Enterprise. The Other Bigger Threats for the future postal service that the study found out that electronic substitution social mail with modern means of communication could affect the letter volume of the Enterprise.

Even though it is a challenge for now, the study found out expanding service and access to customers to the underserved ones and to rural areas along with economic development and countries penetration towards globalization have a bright future of the postal industry. In addition, some business areas, like Commission works (agent working, periodicals...) which is not limited by law, could help the Enterprise to shape its service in line with the market demand and have a better access to work with both Governmental and Non-Governmental offices as an agent.

Moreover, in document analysis, the study figures out that except the Letter service in which the volume is somehow constant, the postal industry does have bright future in business areas where the company enters to the market before and after 2011 to the likes of EMS, Parcel, Post Shop, transportation, and commission works. The Study depicted that business areas that the Enterprise has diversified its service in 2011 has transfer its declining profit trend to growth one.

Finally, as we can see from the above discussion most of the survey results supported the earlier studies. On the other hand, the subjective questions in the survey and in-depth interview conducted discovered additional findings that also might provide insights for further intervention on the subject matter in the future.

5.2 Recommendations

In order for maintaining financial stability and overall healthy postal business performance in EPSE it is vital to identify determinants of driving forces for entering to new business lines and also the threats and opportunities for forecasting the future. Therefore, based on close examination and analysis of the research findings, the following recommendations are suggested to:

- EPSE managements have to continuously analysis their environment and have to be proactive with changing nature of the business. The free market policy of the country along with the capacity of foreign big incumbent postal operators, EPSE has to work aggressively in adopting modern technologies and has to diversify in accordance with the market demand by developing institutional capacity.
- EPSE should work with government to put appropriate terms and restrictions for some business areas in order to prevent EPSE from big private competitive postal incumbents. This would help EPSE to grant monopoly right in some business areas and to play its social responsibility.
- EPSE should put in place a vibrant organization structure that would cover all business unites under to the effective management of the Enterprise. This would help to tackle portfolio management challenges and easy of management.

Finally, the focal point of this study was assessment on challenge and opportunities of service diversification practice of EPSE therefore; it is recommended that similar a study shall be conducted on term bases due to the changing nature of the industry.

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APPENDICES

Appendix I

St. Mary's University
School of Graduate Studies
Faculty of Business

Research Questionnaire

Part I. Respondent's Background Information

1. Educational Background

Diploma 1st Degree Masters & Above

2. Working Experience (in years)

1-5 5-10 More than 10

3. Category of Respondent

Support executive officer /Finance, Supplies & Property administration

Human Resources Management, Planning, Monitoring & Evaluation,

Communication & Documentation Information-Technology

Letter Process Marketing and Business Development process

Parcel process Transport work process

E.M.S process Sim Card and Voucher Card Process

Financial Business Process Audit

Legal Quality & Security Teams, and

Ethics Reform staffs

Respondent's level of agreement on the issue below: this part is kindly requiring you to express your view on the issue being asked appropriately by ticking (√) on the spaces that specify your choice from the option that ranges from **5**-strongly agree to **1**-strongly disagree.

Note

1. Strongly disagree 3. Neutral 5. Strongly Agree
 2. Disagree 4. Agree

Part II. Strategic formulation and implementation Related Questions

A. Which of the following determinants you considered as a driving force for the organization to go for Diversification strategy in Ethiopian Postal service?

	Determinants	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Decline volume of letter mail service					
2.	The company is facing profit erosion in maturing markets					
3.	lower cost of entry into different service-markets other than letter mail					
4.	Attractive financial gain from the industries EPSE is diversified in to					
5.	In order for the company to reduce risks in which the portfolio will be protected from substantial losses in one part of the market.					
6.	increase the chances of competitive advantage for future first-mover-advantages in multiple service-markets					
7.	Diversification has the effect of maximizing portfolio returns.					
	Entry of foreign incumbent postal service(e.g. DHL, FedEx)					

8.	New regulatory laws and rules, a trend towards corporatization					
9.	To gain market power relative to competitors, often through multimarket competition					
10.	Economies of scale results from using same fixed Cost for more output.					
11.	Cross-selling advantage, to introduce older products in the new market or introduce the					
12.	new products in older and more mature market.					

If there are any other, specify

.....

B. Questions related to the Challenges in diversification practice.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
13.	High cost of management and intergovernmental costs that diversify into realms that require added infrastructure,					
14.	employee training and travel costs					
	Risk of over investment					
15.	Number of businesses in a company's portfolio make decisions difficult that can be caused by the presence of too much information					
16.	Resistance to change in technology among staffs					

17.	Lack of trust by customer					
	Inability to identify the unique profit contribution of a business unit that shares resources with another unit					
18.						

If there are any other challenges please, specify

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C. Questions related to the threats to the postal industries

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
19.	The acceleration of electronic substitution of traditional mail					
20.	All segments in the transactional mail are predicted to fall in volume					
	Broad band penetration per household					
21.	Competition by new incumbent postal industries					
22.						

If there are any other threats please, specify

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D. Opportunities for further diversification

		Strongly Agree	Agree	Neutral	disagree	Strongly Disagree
23.	Agent banking service					
24.	E-commerce, the trading or facilitation of trading in products or services using computer networks					
25.	increase customer access by providing services in rural countries					
26.	Growing demand for transportation					
27.	Developments in demand for parcel and express services					
28.	Standard Mail, which is mainly advertising mail such as catalogs, coupons, and solicitations					
29.	Expand customer access while reducing cost through additional partnerships with retailers.					
30.	Periodicals, which include mailed newspapers and magazines					

If there are any other opportunities please, specify

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.....*Thank you for filling out the questionnaire*

