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Effect of Diversification Strategies on Financial Performance of Selected Manufacturing Firms in Rwanda

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***Abstract**: This study examined the effect of market diversification on financial performance of selected manufacturing firms in Kigali, Rwanda. The research aimed to assess how market diversification influences the financial performance of selected manufacturing firms. A descriptive research design employing a quantitative approach was used to provide a comprehensive understanding of the relationship between market diversification and financial performance. The target population included 125 respondents from selected manufacturing firms, with a final sample of 115 respondents participating through questionnaires. Data were analyzed using SPSS, applying both descriptive and inferential statistics. The findings revealed a strong positive relationship between market diversification and financial performance, with a Pearson correlation coefficient of $r = 0.825$ ($p < 0.01$). Regression analysis further confirmed that market diversification is a significant predictor of financial performance, highlighting its role in expanding market coverage, increasing customer reach, strengthening export activities, and creating additional business opportunities. Based on these findings, the study recommends that manufacturing firms continue expanding into multiple markets, strengthen geographical market coverage, increase participation in export markets, serve different customer segments, and distribute their market activities across different regions. These insights provide practical guidance for manufacturing firms in Kigali, Rwanda, seeking to use market diversification as a strategic approach to improve financial performance and sustain business growth.*

***Keywords:** Strategic Alliances, Competitive Advantage, Telecommunication industry, Knowledge expertise and MTN Rwanda*

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1. Introduction

Globally, diversification strategies have become a critical tool for firms seeking to enhance competitiveness, reduce risk exposure, and improve financial performance in increasingly uncertain business environments. Diversification, through product development, market expansion, and vertical or horizontal integration, enables firms to spread risks and exploit new revenue streams. Recent global evidence indicates that over 60% of large manufacturing firms pursue diversification strategies, with diversified firms experiencing approximately 15–20% greater revenue stability than non-diversified counterparts (Organization for Economic Co-operation and Development (OECD), 2023; World Bank, 2024). This highlights the growing strategic relevance of diversification in sustaining firm performance across both developed and emerging economies.

At the regional level, Sub-Saharan Africa's manufacturing sector remains relatively underdeveloped, contributing about 10–12% to GDP compared to over 20% in emerging Asian economies (United Nations Industrial Development Organization [UNIDO], 2023). In East Africa, manufacturing contributes approximately 8-10% of GDP, reflecting limited industrial diversification and continued dependence on primary commodities (African

Development Bank (AfDB), 2024). Furthermore, fewer than 30% of manufacturing firms in the region have successfully diversified their product lines or markets, constraining their ability to achieve economies of scale and improve financial outcomes (AfDB, 2024). These structural limitations underscore the need for effective diversification strategies to enhance industrial competitiveness and resilience.

In Rwanda, industrialization has been prioritized as a key driver of economic transformation, with the industrial sector contributing approximately 21–22% of GDP as of 2024 (Rwanda Development Board [RDB], 2024). However, manufacturing value added remains relatively low at about 8.9% of GDP, indicating persistent challenges in productivity and diversification (World Bank, 2024). Kigali, as the country's primary industrial and commercial hub, hosts a large concentration of manufacturing firms operating under initiatives such as the "Made in Rwanda" policy. Despite these efforts, empirical evidence shows that over 40% of manufacturing firms rely on a single primary product line, exposing them to demand fluctuations and revenue instability (National Institute of Statistics of Rwanda (NISR), 2025). This limited diversification constrains firms' ability to optimize financial performance.

The specific challenge lies in the inconsistent impact of diversification strategies on firm financial performance. While some firms report improvements in profitability, return on assets, and revenue growth following diversification, others face increased operational costs, managerial inefficiencies, and reduced returns due to over-diversification. Recent evidence suggests that nearly 35% of diversified manufacturing firms in Rwanda do not achieve significant improvements in key financial indicators after adopting diversification strategies (NISR, 2025). This indicates that diversification does not automatically translate into improved financial performance and may depend on firm-specific and contextual factors. Moreover, there is a notable research gap in the Rwandan context. Existing empirical studies predominantly focus on SMEs' financial management practices and general enterprise performance rather than diversification strategies. For instance, Niyonsenga (2019) examined financial literacy campaigns and enterprise outcomes, while Nyamulinda (2020) analyzed financial literacy and SME development in Rwanda. Similarly, Xu et al. (2020) emphasized financial literacy and entrepreneurship as determinants of firm performance in developing economies. While these studies provide valuable insights into financial management and performance dynamics, they offer limited empirical evidence on how diversification strategies, such as product, market, and operational diversification, affect financial performance indicators, particularly within the manufacturing sector.

Therefore, this study seeks to examine the effect of diversification strategies on the financial performance of selected manufacturing companies in Kigali. By focusing on key dimensions of diversification and financial performance indicators such as profitability, return on assets, and revenue growth, the study aims to provide empirical evidence to bridge the identified gap. The findings contributed to informed managerial decision-making and support policy formulation aimed at strengthening industrial performance and economic transformation in Rwanda.

1.2 Statement of the Problem

Diversification strategies are widely acknowledged as critical for improving firm competitiveness and financial performance through expanded product offerings, wider market access, and multiple revenue streams. Globally, evidence shows that firms with diversified operations tend to exhibit stronger resilience and performance, with studies indicating that diversified firms experience lower earnings volatility and up to 10–20% higher survival rates during economic shocks (World Bank, 2024; OECD, 2023). In line with Rwanda's industrialization agenda, manufacturing firms in Kigali are expected to adopt effective product, market, and income diversification strategies to enhance financial performance.

However, the current reality in Kigali's manufacturing sector reveals a persistent and critical problem. Although the industrial sector contributes about 21-22% of Rwanda's GDP, manufacturing value added remains relatively low at approximately 8-9% of GDP, significantly below the 15-20% benchmark observed in emerging industrial economies (World Bank, 2024; UNIDO, 2023). Firm-level data further indicate that a large proportion of manufacturing firms remain poorly diversified: over 40% rely on a single core product, and fewer than one-third actively export or operate beyond local markets (National Institute of Statistics of Rwanda, 2025). Additionally, Rwanda's export base is still concentrated, with the top five export products accounting for over 60% of total export earnings, reflecting limited market and income diversification at both firm and national levels (World Bank, 2024). Even where firms attempt diversification, outcomes are not consistently positive; evidence suggests that about one-third of firms undertaking diversification do not realize improvements in financial performance due to increased costs and inefficiencies (NISR, 2025). This demonstrates a fundamental problem: diversification efforts are either insufficient, improperly executed, or not strategically aligned to enhance financial performance.

If this problem is not addressed, the consequences for manufacturing firms and the broader economy are substantial. Firms with limited diversification remain highly vulnerable to demand shocks and price volatility, particularly in small domestic markets such as Rwanda's. Empirical evidence indicates that firms with narrow product and revenue bases are up to 25% more likely to experience revenue instability and financial distress (UNIDO, 2023). In Rwanda, persistent low manufacturing productivity, estimated at less than half the global average, combined with limited diversification constrains profitability, reduces asset efficiency, and weakens competitiveness in regional markets such as the East African Community (World Bank, 2024). Failure to improve diversification strategies may therefore lead to declining firm performance, reduced industrial growth, and slower progress toward Rwanda's Vision 2050 industrialization targets. Consequently, there is an urgent need for empirical investigation into how product, market, and income diversification strategies can be effectively implemented to enhance financial performance indicators among manufacturing firms in Kigali and provide actionable solutions for both managers and policymakers.

This study sought to achieve the following research objective:

To examine the effect of market diversification on the financial performance of manufacturing firms

2. Literature Review

Market diversification refers to a firm's expansion into multiple markets, regions, or customer segments beyond its original market base. Recent literature defines market diversification as the strategic entry of firms into new geographical or customer markets to enhance revenue stability and reduce dependence on a single market (Mekdessi, 2025; Anggara, 2025; Xenakis et al., 2026). By serving different markets, manufacturing firms can increase their customer base and create additional opportunities for sales and business growth. Market diversification may therefore enable firms to reduce their dependence on a single market and improve their ability to respond to changes in customer demand.

Firms adopt market diversification strategies to increase sales opportunities, spread business risks, and strengthen their competitive position. Operating in different geographical locations or serving different customer segments allows firms to benefit from diverse demand conditions and reduce their exposure to localized economic shocks. Evidence from recent studies suggests that firms with broader market coverage may experience improved growth and resilience because weaknesses in one market can potentially be compensated for by stronger performance in other markets (Gozgor et al., 2024; Anggara, 2025; Xenakis et al., 2026). This strategy is particularly important for manufacturing firms because it can provide access to new customers and increase the utilization of production capacity.

Market diversification can also influence financial performance through increased revenues and improved asset utilization. When firms enter new markets, they may generate additional sales and distribute their products to a wider range of customers, which can contribute to improved profitability. Consequently, market diversification is expected to positively influence financial performance as measured by Return on Assets (ROA) and Return on Equity (ROE). However, excessive market expansion may increase marketing, distribution, administrative, and operational costs, which could reduce the expected financial benefits if the expansion is not effectively managed.

In this study, market diversification is expected to positively influence the financial performance of manufacturing firms by increasing revenue streams, improving the utilization of assets, and enhancing returns to shareholders. The relationship will be assessed by examining indicators such as the number of markets served, geographical coverage, export intensity, customer segment diversification, and market share distribution. These indicators provide an assessment of the extent to which manufacturing firms have expanded beyond their traditional markets. The study therefore considers market diversification as an important strategic factor that may contribute to variations in the financial performance of manufacturing firms.

2.1 Theoretical Framework

The Market-Based View (MBV) Theory provides the main theoretical foundation for explaining the relationship between market diversification and financial performance. The theory emphasizes that a firm's performance is influenced by the external market environment and the strategic position it establishes within the markets in which it competes (McGee, 2015). The MBV is closely associated with the industrial-organization perspective and Porter's competitive strategy framework, which emphasize the importance of industry structure, competitive forces, and market positioning in determining firm performance (Porter, 1980, 1985). From this perspective, firms can improve their performance by identifying attractive markets and developing strategies that enable them to compete effectively within those markets.

The MBV is particularly relevant to market diversification because expansion into different markets allows firms to respond to changing market conditions, reach new customers, and reduce excessive dependence on a single market. A manufacturing firm may diversify geographically by entering new regions or countries, or horizontally by targeting different customer segments. Such expansion can increase sales opportunities, strengthen the firm's competitive position, and reduce the effects of declining demand in one particular market. Porter (1980, 1985) argues that understanding competitive forces and establishing an appropriate market position are important for achieving superior performance. Therefore, manufacturing firms that effectively identify and exploit opportunities in different markets may generate additional revenues and improve their profitability. Empirical research also indicates that market conditions and firms' market-oriented capabilities are important factors associated with business performance.

The Market-Based View therefore provides a strong theoretical explanation for the expected relationship between market diversification and financial performance in this study. The theory suggests that firms can enhance performance by expanding their market coverage, responding to different customer needs, and positioning themselves effectively against competitors. In this study, market diversification will be assessed through number of markets served, geographical coverage, export intensity, customer segment diversification, and market share distribution, while financial performance will be measured using Return on Assets (ROA) and Return on Equity (ROE). The theory implies that effective market diversification can increase revenue generation and improve the utilization of firm assets, ultimately contributing to better financial performance. However, the benefits of diversification depend on the attractiveness of the new markets and the firm's ability to manage competitive pressures and expansion costs.

2.2 Empirical Review

At the global level, De Stefano et al. (2025) examined the relationship between market diversification and financial performance using panel data analysis. The study analyzed firms operating across multiple geographic markets to determine how diversification influences financial outcomes. The findings showed that firms expanding into multiple geographic markets achieved higher revenue growth and reduced market risk compared with firms concentrated in fewer markets. The study concluded that market diversification enhances financial performance through increased access to demand, wider customer bases, and reduced dependence on individual markets. The study recommended that firms should consider expanding into different geographic markets to increase revenue opportunities, spread market risks, and strengthen long-term financial performance.

At the regional level, Mwangi (2021) examined the effect of market diversification on financial performance using a correlational research design. The study investigated the relationship between firms' expansion into new regional markets and their financial outcomes. The findings showed that firms entering new regional markets experienced increased profitability and reduced dependency on local markets. The study concluded that market diversification enhances financial resilience by enabling firms to access new customers and reduce their reliance on a single market. The study recommended that firms should explore and enter emerging regional markets as a strategy for increasing profitability, reducing market concentration risks, and improving their financial sustainability.

At the regional level, Omondi and Muturi (2020) examined the relationship between market diversification and firm profitability using regression analysis. The study sought to establish whether expanding business operations into new markets contributes to improved financial performance. The results indicated a significant positive relationship between market diversification and firm profitability, showing that firms that expanded into new markets were more likely to achieve better financial outcomes. The study concluded that market diversification is an important strategy for improving firm profitability through increased sales opportunities and access to new customers. The study recommended that firms should diversify their markets by identifying new customer segments and geographical areas in order to increase revenues and strengthen their competitive position. At the national level in Rwanda, Ishimwe and Njenga (2024) examined market diversification and financial performance using quantitative regression techniques. The study assessed the effect of expanding business activities into new markets on firms' financial outcomes. The findings showed that firms expanding into new markets experienced increased revenues and improved profitability. The study concluded that market diversification significantly enhances firm performance by providing firms with additional sources of revenue and opportunities to reach new customers. The study recommended that Rwandan firms should adopt market diversification strategies by entering new domestic and international markets, while carefully assessing market demand and associated risks to maximize profitability and sustainable growth.

3. Methodology

The study adopted a descriptive and explanatory research design using a quantitative approach. The descriptive

design was used to describe the existing diversification strategies, namely product, market, and income diversification, as well as the level of financial performance among the selected manufacturing companies. The explanatory design was employed to examine the relationship between diversification strategies and financial performance and to assess the moderating effect of firm size. The use of both designs was considered appropriate because the descriptive approach provides an understanding of the current characteristics of the study variables, while the explanatory approach facilitates the examination of relationships and effects among variables (Saunders et al., 2019; Creswell & Creswell, 2018). The quantitative approach enabled the researcher to collect numerical data and subject it to statistical analysis, particularly descriptive statistics, correlation analysis, and multiple regression analysis.

The target population consisted of 125 employees from five selected manufacturing companies operating in Kigali, Rwanda. The companies were purposively selected based on their involvement in manufacturing activities and their engagement in diversification strategies relevant to the study. Respondents were drawn from key functional departments, including top management, finance and accounting, operations and production, marketing and sales, human resource and administration, and strategy, planning or business development. Specifically, the population comprised 10 top management staff, 30 finance and accounting staff, 32 operations and production staff, 25 marketing and sales staff, 16 human resource and administrative staff, and 12 strategy, planning or business development staff. The five manufacturing companies were selected from the sampling frame obtained from relevant sources, including the Rwanda Development Board (RDB), the Private Sector Federation (PSF), and firms operating in key industrial areas such as the Kigali Special Economic Zone and Gikondo Industrial Park. The study adopted census sampling for the employees, whereby all 125 eligible employees were included in the study. This approach was considered appropriate because the population was relatively small and manageable, and it minimized sampling error while ensuring that the views of all eligible respondents were represented.

The study used both primary and secondary data to obtain comprehensive information relevant to the research objectives. Primary data were collected directly from employees of the selected manufacturing companies using a structured questionnaire. The questionnaire contained closed-ended questions measured on a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). The instrument captured information relating to product diversification, market diversification, income diversification, firm size, and financial performance. Secondary data were obtained through documentary review of academic journals, books, company reports, policy documents, institutional reports, and official publications from organizations such as the Rwanda Development Board (RDB) and the National Institute of Statistics of Rwanda (NISR). The use of both primary and secondary data enabled the researcher to obtain first-hand information from respondents while also drawing on existing evidence to provide theoretical, empirical, and contextual support for the study.

The questionnaire was the main instrument used for collecting primary data, while documentary review was used to obtain secondary information. The structured questionnaire was preferred because it enabled the researcher to collect standardized quantitative information from a relatively large number of respondents within a manageable period. It also promoted consistency, objectivity, and ease of statistical analysis. The questionnaire items were developed in accordance with the study objectives and variables, with separate items measuring product diversification, market diversification, income diversification, firm size, and financial performance. Documentary review involved examining relevant academic publications, company records, policy documents, institutional reports, and official publications. The documentary review provided background information, supported the literature review, and facilitated comparison between existing empirical evidence and the findings of the present study. It also contributed to data triangulation and enhanced the overall credibility of the research.

The reliability and validity of the research instrument were assessed before the main data collection exercise. Reliability was evaluated using Cronbach's Alpha coefficient to determine the internal consistency of the questionnaire items. A pilot study was conducted using respondents who were not included in the final study. The results indicated that product diversification recorded a Cronbach's Alpha coefficient of 0.812, market diversification 0.786, income diversification 0.803, and financial performance 0.829, while the overall reliability coefficient was 0.808. Since all coefficients were above the recommended threshold of 0.70, the questionnaire was considered reliable (Saunders et al., 2019). Validity was established through content validity assessment, whereby the questionnaire was reviewed by the research supervisor and experts in research methodology to assess the relevance, clarity, and adequacy of the items. Out of 20 questionnaire items, 19 were considered relevant, resulting in a Content Validity Index (CVI) of 0.95. Since the obtained CVI exceeded the minimum acceptable threshold of 0.70, the instrument was considered to have excellent content validity and was therefore appropriate for the main study (Kothari, 2014).

After data collection, the completed questionnaires were systematically processed before statistical analysis. The processing procedures included editing, coding, data entry, data cleaning, transformation, classification, and tabulation. During editing, questionnaires were examined for completeness, consistency, and accuracy, and questionnaires with substantial missing information were excluded from the analysis. The responses were then coded numerically, with Strongly Disagree assigned a value of 1, Disagree 2, Neutral 3, Agree 4, and Strongly Agree 5. The coded data were entered into SPSS for statistical analysis, with Microsoft Excel also used where necessary for data organization. Data cleaning involved checking for missing values, outliers, inconsistencies, and abnormal response patterns. Composite scores for product diversification, market diversification, income diversification, firm size, and financial performance were generated by calculating the mean scores of their respective questionnaire items. The processed data were subsequently classified according to respondent characteristics and study variables and tabulated using frequencies, percentages, means, and standard deviations.

Data analysis was conducted using both descriptive and inferential statistical techniques in accordance with the study objectives and hypotheses. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' demographic characteristics and describe the level of product diversification, market diversification, income diversification, firm size, and financial performance. Pearson Product Moment Correlation analysis was used to establish the strength and direction of the relationship between the independent variables and financial performance. The correlation coefficient ranges from -1 to +1, with positive values indicating positive relationships and negative values indicating negative relationships. Multiple Linear Regression analysis was then used to determine the effect of product diversification, market diversification, and income diversification on financial performance while controlling for the other variables in the model. The regression analysis produced the Model Summary, ANOVA, and regression coefficients. R Square and Adjusted R Square were used to determine the proportion of variation in financial performance explained by the independent variables, while ANOVA was used to assess the overall significance of the regression model. Regression coefficients were used to determine the direction, magnitude, and statistical significance of the effects of individual diversification strategies. A significance level of 0.05 was adopted, such that variables with p-values below 0.05 were considered statistically significant.

Ethical principles were observed throughout the study to protect respondents and ensure the credibility and integrity of the research process. Participation was voluntary, and respondents were informed about the purpose and objectives of the study before providing informed consent. Respondents were informed of their right to withdraw from the study at any stage without negative consequences. Confidentiality and anonymity were maintained by avoiding the recording of personal identifying information and by ensuring that individual respondents and organizations could not be identified in the final report. The collected information was treated as confidential, used solely for academic purposes, and securely stored to prevent unauthorized access. The researcher also maintained honesty, objectivity, and transparency during data collection, processing, analysis, interpretation, and reporting, without fabrication, falsification, or manipulation of results. All sources used in the study were appropriately acknowledged through citation and referencing to avoid plagiarism. Finally, permission to conduct the study was obtained from the relevant university authorities and management of the selected manufacturing companies before data collection commenced.

4. Results and Discussion

4.1 Findings

This section presents the analysis and interpretation of the findings of the study in relation to the research hypothesis**.**

4.1.1 Response Rate

The study targeted 125 respondents drawn from five selected manufacturing firms in Kigali. The target population comprised 10 top management staff, who participated through key informant interviews, and 115 employees from other functional departments, who were issued with structured questionnaires. All the 115 questionnaires were successfully completed and returned, representing a 100% questionnaire response rate. The achievement of a full response rate was attributed to the researcher's close follow-up with respondents and the support received from the management of the selected manufacturing firms. Consequently, all the returned questionnaires were considered complete and suitable for data analysis, while the interview responses from the top management staff were used to complement the quantitative findings.

4.1.2 Descriptive Statistics on Market Diversification

The objective of this study was to examine the effect of market diversification on the financial performance of selected manufacturing firms in Kigali. To achieve this objective, respondents were requested to indicate their level of agreement with statements relating to market

diversification. The statements assessed whether the firms operate in multiple markets, have broad geographical coverage, generate export sales, serve different customer segments, and distribute their market share across different regions. The findings are presented in Table 1. A scale of 1-5, was used to express the opinion of respondents where 5 = Strongly Agree (SA), 4 = Agree (A), 3 = Neutral(N), 2 = Disagree (D) 1 = Strongly Disagree (SD). The following table gives details:

Table 1. Level of agreement of Market Diversification on financial performance

Views of respondents	N	Mean	Std.
Our firm operates in multiple markets.	115	4.29	0.694
Our firm has wide geographical coverage.	115	4.22	0.731
A significant portion of sales comes from exports.	115	3.88	0.856
We serve different customer segments.	115	4.25	0.702
Our market share is distributed across regions.	115	4.18	0.774
Grand Mean	115	**4.16**	**0.751**

Source: Field Data, 2025-**Key**: M=Mean; SD=Standard Deviation

The findings presented in Table 1 reveal that the selected manufacturing firms have considerably adopted market diversification strategies. The statement "Our firm operates in multiple markets" recorded the highest mean score of 4.29 with a standard deviation of 0.694, indicating that most respondents strongly agreed that their firms have expanded their business operations into different markets. Likewise, respondents strongly agreed that their firms serve different customer segments as reflected by a mean score of 4.25 and a standard deviation of 0.702. Furthermore, the statement "Our firm has wide geographical coverage" attained a mean score of 4.22 with a standard deviation of 0.731, suggesting that many firms have extended their operations beyond their traditional locations. These findings demonstrate that the selected manufacturing firms have deliberately expanded their customer base and geographical presence to increase business opportunities and strengthen their market position.

The findings further show that respondents agreed that their firms' market share is distributed across different regions, with a mean score of 4.18 and a standard deviation of 0.774, indicating that sales are generated from different geographical markets rather than being concentrated in one area. On the other hand, the statement "A significant portion of sales comes from exports" recorded the lowest mean score of 3.88 with a standard deviation of 0.856. Although respondents agreed with this statement, the comparatively lower mean suggests that export activities are less developed than domestic market expansion among the selected manufacturing firms. The relatively higher standard deviation also indicates slight differences in respondents' opinions, which may be attributed to variations in export engagement across the firms included in the study.

Overall, the findings indicate that market diversification was highly practiced by the selected manufacturing firms, as evidenced by the grand mean of 4.16 and grand standard deviation of 0.751. Based on the mean interpretation scale adopted in this study, the grand mean indicates that respondents agreed that their firms have diversified their markets through geographical expansion, customer segmentation, and operations in multiple markets. The relatively low grand standard deviation further demonstrates consistency in respondents' opinions regarding the implementation of market diversification strategies. These findings imply that market diversification has become an important strategic approach for manufacturing firms seeking to enhance competitiveness, increase market opportunities, reduce dependence on a single market, and improve financial performance.

The findings of this study are relevant since of Mwangi (2021), who established that market diversification significantly enhances firm profitability by enabling organizations to enter new regional markets and reduce dependence on local markets. Similarly, the findings support Omondi and Muturi (2020), who reported a significant positive relationship between market diversification and financial performance, arguing that firms operating in multiple markets enjoy greater revenue generation and improved competitiveness. Within the Rwandan context, the findings are in agreement with Ishimwe and Njenga (2024), who found that firms expanding into new markets experienced increased revenues and profitability. The findings also corroborate those of Habimana et al. (2021) and Uwizeyimana and Nkundabanyanga (2022), who concluded that market diversification reduces business risk, improves market resilience, and contributes positively to organizational growth and financial performance.

The findings are supported by the Market-Based View (MBV) Theory, which emphasizes that a firm's performance is influenced by the external market environment in which it operates and its ability to position itself effectively within that environment. From the MBV perspective, firms can improve their competitive position

and financial performance by identifying attractive markets, responding to customer needs, and developing strategies that enable them to exploit opportunities across different market environments. The findings suggest that the selected manufacturing firms actively pursue market diversification by operating in multiple markets, serving different customer segments, and expanding their geographical coverage. This supports the MBV argument that firms can strengthen their performance by adapting their strategies to changing market conditions, responding to diverse customer needs, and exploiting opportunities in different market segments. The findings also suggest that there remains potential for firms to strengthen their presence in international markets and further expand their market reach.

4.1.4 Correlation Analysis

The findings of the correlations between the independent variables and the dependent variables are summarized and presented in Table 2

Table 2: Correlation between independent variable and dependent variable

		Market diversification	Financial performance
Market diversification	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	115	
Financial performance	Pearson Correlation	.825**	1
	Sig. (2-tailed)	.000	
	N	115	115

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

Source: SPSS Output, Primary Data (2026)

The correlation analysis presented in Table 2 reveals a strong positive relationship between market diversification and financial performance among the selected manufacturing firms in Kigali. The Pearson correlation coefficient of 0.825 indicates a strong positive association between the two variables, suggesting that higher levels of market diversification are associated with improved financial performance. The significance level (Sig. 2-tailed = 0.000) indicates that the observed relationship is statistically significant at the 0.01 level. This implies that market diversification is significantly associated with financial performance among the selected manufacturing firms. Therefore, the findings suggest that expanding into multiple markets, serving different customer segments, and increasing geographical market coverage may be associated with improved financial outcomes. With a sample size of 115 respondents, the results provide empirical evidence of a strong association between market diversification and financial performance, although the correlation does not by itself establish a causal relationship.

4.1.5 Regression Analysis

A multiple regression analysis was conducted to identify the key predictors and assess their contributions to the criterion variable. The analysis aimed to determine how well a single dependent variable could be predicted from a set of independent variables, providing insights into the strength and nature of these relationships. All assumptions of multiple regression, including linearity, normality, and multicollinearity, were checked and satisfied to ensure the validity of the results. The model summary presented in Table 3 illustrates the overall fit of the regression model, indicating the proportion of variance in the dependent variable explained by the combined effect of the independent variables.

Table 3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.825[a]	.681	.678	.41030

a. Predictors: (Constant), Market Diversification

Table 3 presents the model summary of this study. The model summary indicates a strong relationship between market diversification and financial performance, with R = .825. The R Square value of .681 indicates that market diversification explains 68.1% of the variation in financial performance, while the remaining 31.9% is explained by other factors not included in the model. The adjusted R Square of .678 confirms that the explanatory power of the

model remains high after adjustment for the sample size and number of predictors.

Table 4. Summary of ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.842	1	33.842	200.90	.000[a]
	Residual	19.037	113	0.169		
	Total	52.879	114			

a. Dependent Variable: Financial performance

a. Predictors: (Constant), Market diversification

The ANOVA results in Table 4 assess the overall significance of the regression model predicting financial performance using market diversification as the predictor. The regression sum of squares of 33.842 and mean square of 33.842 indicate the amount of variation in financial performance explained by market diversification. The residual sum of squares of 19.037 and mean square of 0.169 represent the variation in financial performance that is not explained by the model. The computed F-value of 200.90, with a significance level of 0.000, shows that the regression model is statistically significant. This indicates that market diversification significantly predicts financial performance among the selected manufacturing firms in Kigali. The finding demonstrates that changes in market diversification are associated with meaningful changes in the financial performance of the firms.

Table 5. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.584	0.162	—	3.605	.000
	Market diversification	0.821	0.058	.825	14.155	.000

a. Dependent Variable: Financial performance

Source: SPSS Output, Field Data, 2026

The regression coefficients in Table 5 show the relationship between market diversification and financial performance. The constant (intercept) value of 0.584 indicates the estimated level of financial performance when market diversification is zero. The coefficient for market diversification is 0.821, with a standard error of 0.058 and a standardized Beta coefficient of 0.825. The positive coefficient indicates that a one-unit increase in market diversification is associated with an estimated 0.821-unit increase in financial performance, holding the constant term unchanged. The t-value of 14.155 and significance level of 0.000 indicate that the relationship is statistically significant. Overall, the results demonstrate that market diversification has a strong and positive effect on financial performance among the selected manufacturing firms in Kigali, suggesting that expansion into multiple markets, geographical areas, and customer segments can contribute to improved financial outcomes.

4.2 Discussion of Findings

The objective of the study was to examine the effect of market diversification on the financial performance of selected manufacturing firms in Kigali. The descriptive findings indicate that the firms have adopted market diversification practices, particularly through operating in multiple markets, serving different customer segments, expanding geographical coverage, and distributing their market share across different regions. However, the relatively lower emphasis on export sales suggests that international market expansion remains an area with further potential. This finding is consistent with Mwangi (2021), who found that diversification into different markets can help firms reduce dependence on local markets and strengthen profitability. Similarly, Omondi and Muturi (2020) reported that firms expanding into new markets benefit from broader customer bases and increased sales opportunities. In the Rwandan context, Ishimwe and Njenga (2024) also found that expansion into new markets was associated with increased revenues and profitability.

The correlation findings further demonstrate that market diversification is positively associated with financial performance. This finding supports the argument that firms with broader market coverage can access different sources of demand and reduce their dependence on a single market. It is also consistent with Habimana et al. (2021) and Uwizeyimana and Nkundabanyanga (2022), who

associated market diversification with reduced business risk, improved market resilience, organizational growth, and financial performance. The finding therefore suggests that manufacturing firms can strengthen their financial outcomes by expanding their customer segments and geographical markets.

The regression findings provide further support for the positive relationship between market diversification and financial performance. The analysis demonstrates that market diversification is an important predictor of financial performance, suggesting that firms that effectively expand their market coverage are more likely to achieve improved financial outcomes. This finding is in agreement with previous evidence showing that diversification can provide firms with additional revenue opportunities and greater resilience. For example, research on diversification and firm performance has similarly found that broader diversification can contribute to improved financial outcomes, although the benefits depend on how effectively firms manage the expansion and associated costs.

The findings are also supported by the Market-Based View (MBV) Theory, which emphasizes that firm performance is influenced by the external market environment and the strategic position that a firm establishes within its markets. From this perspective, entering new markets, responding to different customer needs, and developing an effective competitive position can enable firms to exploit market opportunities and improve performance. The present findings therefore support the theoretical view that manufacturing firms can enhance their financial performance by strategically expanding their market coverage and adapting to different market conditions. Overall, the discussion demonstrates that market diversification is an important strategic approach for manufacturing firms seeking to broaden revenue opportunities, reduce market dependence, strengthen competitiveness, and improve financial performance

5. Conclusion and Recommendations

5.1 Conclusion

The study concludes that market diversification plays an important role in improving the financial performance of selected manufacturing firms in Kigali. The findings demonstrate that firms that expand into multiple markets, serve different customer segments, increase geographical coverage, and distribute their market activities across different regions are better positioned to create additional business opportunities and strengthen their financial outcomes. The study further concludes that market diversification is positively associated with financial performance and represents an important strategic approach for reducing dependence on a single market, expanding customer reach, and improving revenue opportunities. This conclusion is consistent with the Market-Based View Theory, which emphasizes the importance of understanding market conditions, identifying attractive market opportunities, responding to customer needs, and establishing effective competitive positions to achieve improved firm performance. Therefore, manufacturing firms in Kigali should view market diversification as a strategic component of their efforts to strengthen financial performance and long-term competitiveness.

5.2 Recommendations

Based on the findings of this study, the following recommendations are proposed for selected manufacturing firms in Kigali:

1. Manufacturing firms should continue expanding into multiple markets. The findings indicate that operating in multiple markets is an important aspect of market diversification. Therefore, manufacturing firms should seek opportunities to expand their products and services into additional markets in order to increase their customer base and create more opportunities for improved financial performance.
2. Manufacturing firms should strengthen their geographical market coverage. Since the findings show that firms have wide geographical coverage, firms should continue expanding their operations across different geographical areas. Reaching customers in different regions can help firms reduce dependence on one market and create broader opportunities for sales and revenue generation.
3. Management should use market diversification as a strategic approach to improving financial performance. The findings demonstrate a strong positive relationship between market diversification and financial performance, indicating that firms with greater market diversification tend to achieve better financial outcomes. Therefore, management should integrate market expansion, geographical coverage, export activities, customer segmentation, and regional market distribution into their strategic planning.

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