Utilization of Diversification Strategies in Curbing Post Tax Reform Challenges in Ebonyi State Nigeria

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ABSTRACT

The study examined the utilization of diversification strategies in curbing post tax reform challenges in Ebonyi State Nigeria. It specifically examined the extent to which the use of related and unrelated diversification strategies curbs post tax reform challenges. The study adopted a descriptive survey research design. The population of the study comprised the 697 local and state political officer holders in Ebonyi State. The sample size comprised 254 political office holders in Ebonyi State. The sample size was determined with Taro Yamane formula of sample size determination. Convenience sampling technique was used to take the sample size. The instrument used for data collection was a structured questionnaire. Data was collected through a research assistant in the respondents' state. 254 copies of questionnaires were administered, and 221 copies were properly completed and retrieved. Data collected was analysed with mean. Analysis of the data collected revealed that related and unrelated diversification strategies are instrumental in curbing post tax reform challenges in Ebonyi State. It was concluded that the application of diversification strategies is a panacea to arresting the plight of revenue loss in a tax regime that favours derivation with the highest percentage of value added tax distribution. Therefore, it was recommended that: government should initiate industrial cluster development by providing resources and infrastructure to support businesses in specific industries to encourage related diversification; and Government should establish investment promotion agencies to attract foreign investment and encourage domestic investment in diverse industries to promote unrelated diversification.

Keywords: Diversification Strategies, Post Tax Reform, Related Diversification, and Unrelated Diversification.

INTRODUCTION

In the words of Miquel de Cervantes, it is the part of a wise man to keep himself today for tomorrow and not venture all his eggs in one basket. It is a metaphor that suggests individual, or a nation should not rely solely on one plan, investment, or opportunity, as a single failure could lead to significant losses. Diversification is a corporate strategy where a company enters new business areas, products, services, or markets that are different from its current operations.

According to Zhou and Ji (2015), Gort, an American scholar, first proposed the concept of diversification where it was described as the increase of market heterogeneity of enterprise products. He emphasized that the so-called market heterogeneity is different from the nuance of the same product. Diversification, in a general sense, means spreading investments or activities across different areas to reduce risk and potentially increase overall returns. In the context of business and economics, it involves expanding into new markets, products, or industries, while in finance, it means allocating investments across various asset classes.

Diversification is grouped based on relatedness (related and unrelated diversifications), based on direction (vertical and horizontal diversifications), based on corporate scope (concentric and conglomerate

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diversifications), based on geographic scope (domestic and international diversifications), and based on product-market scope (product and market diversification). Kannan and Saravanan (2025) maintained that once the decision is made to pursue diversification, the firm must choose whether to diversify into related business or unrelated business. Businesses are said to be related when their value chains possess competitively valuable cross – business value chain matchups. Business is said to be unrelated when the activities comprising their respective value chains are so dissimilar that no competitively valuable cross – business relationship are present. Most companies favour related diversification strategies because of the performance enhancing potential of cross –business synergies. However, some companies opted to try to build shareholder value with unrelated diversification strategies.

Related diversification occurs when a firm moves into a new industry that has important similarities with the firm's existing industry or industries. It involves a company expanding into a new industry or market that shares similarities or commonalities with its existing businesses, leveraging existing strengths and resources. These similarities can include shared technology, skills, distribution channels, customer bases, production processes, or other linkages. Ibrahim et al (2024) see related diversification as entering new markets or product lines that have synergies or strategic fit with a company's existing core business. These synergies may arise from shared technologies, distribution channels, customer base, or other commonalities. Similarly, Gabunia (2023) sees related diversification as a strategy used by companies and investors to expand their business operations. It involves entering new markets or industries that are closely related to the core competencies of the existing business or investment.

Unrelated diversification is a corporate strategy in which a company expands its operations into areas that are not linked to its current businesses or industries. This approach is also known as conglomerate diversification. The primary motivation behind unrelated diversification is often to maximize returns by spreading risks across different industries rather than seeking synergies through related business activities. According to Ibrahim et al (2024), an unrelated diversification which is also known as conglomerate diversification is a diversification in which a business expands its business to add new services or product lines that are different from the current ones it is offering with an aim of penetrating the market and increase their financial revenues. To venture into unrelated diversification, the most common business logic is always that diversification is suitable when a business shows potential for high revenues. The primary aim of diversification irrespective of the strategies (related or unrelated), is to increase revenues of organizations and government through profit making and corporate taxation respectively.

Taxation is one of the major sources of revenue to a nation. It is a mandatory financial charge or levy imposed on an individual or legal entity by a governmental organization to support government spending and public expenditures collectively or to regulate and reduce negative externalities. Oyedokun (2020) sees taxation as a compulsory levy imposed by the government on the income of individuals and cooperation to generate revenue for running the activities of the government. It is a process where the government collects monetary contributions from individuals, businesses, and entities for the overall benefit of the nation. It is a fundamental aspect that plays a crucial role in the economic development of any nation. It covers the economic activity, property, income, and consumption of an individual to give an efficient and neutral tax base.

One of the key taxes which its' reform creates fear in the hearts of the states' leadership in Nigeria is the Value Added Tax. The term value-added tax refers to a consumption tax on goods and services levied at each stage of the supply chain. As such, a value added tax begins from the initial production of goods and services to the point of sale. Folorusho (2023) sees value added tax as a tax on consumption that is imposed on the value added to goods and services at each stage of production and distribution. It is an indirect tax, meaning that it is ultimately borne by the final consumer. Value added tax is collected by registered businesses, who act as intermediaries in the supply chain and remit the tax to the tax authority. Value added tax plays a crucial role in generating government revenue and promoting economic development in Nigeria. The revenue generated from value added tax is utilized to fund infrastructure projects, social programs, and public services. By broadening the tax base and reducing reliance on oil revenue, value added tax contributes to a more sustainable fiscal framework.

Researchers in the field of social and management sciences have empirically proved the positive effects of economic diversification on economic development of a nation. For instance, Ugoani (2018) maintained that economic diversification is significant for sustainable growth, and it has been tremendously significant for resilience. Okuwa and Campbell (2018) reported that diversification of the economy had a propensity to increase all-inclusive growth, enhance economic stability and at the same time reduce inequalities and unemployment. Aguguom (2020) posited that economic diversification has a direct relationship with economic growth and economic sustainability. According to Egbulonu and Duru (2018), Nigeria has shown remarkable economic growth and commendable socio-economic progress in the last two decades, however, economic diversification would have laid a more concrete and formidable foundation for faster accelerated economic growth which contradicts studies claiming that are not well diversified experience a decline in growth, accompanied by weak sectors and institutions. This is consistent with the views expressed by Nkuda (2021) who stressed that the economies of nations tend to be weakened when there is a lack and insufficient diversification, susceptibility to uncertainties or any global crisis like a pandemic.

In line with global best practices, the federal government of Nigeria presented tax reform bill to the upper and lower chambers of national assembly. The presentation of the bill generated heated debates at the floor of the two chambers. The segment of the tax reform that took the lion share of the debate was the Value Added Tax (VAT). The aspect that seeks to fundamentally alter the value added tax regime which proposed revisitation of the value added tax derivation formula to allocate revenue based on the location of goods and services consumption rather than the current focus on the situs of business operations or corporate headquarters. This portion of the bill did not go down well with most of the members of the upper and lower chambers of the national assembly, as 14 (fourteen) states anticipated negative impact of the implementation on their statutory allocation if passed. Consequently, the bill was strongly opposed and partially altered, which brought about the latest value added tax allocation formula for states (50% by equality, 20% by population, and 30% based on consumption) and Local governments (30% by equality and 70% by population). Though this portion of the bill is not fully altered in the present amendment; there is expectation that it will be revisited in near future. It is against this background the study seeks to examine the utilization of diversification strategies in curbing post tax reform challenges in Ebonyi State Nigeria.

Statement of the Problem

Change is the law of life. It is not just a possibility, but a natural principle that governs all things. Thus, change in administration and distribution of tax revenue is inevitable in the survival of a nation. To ensure equitable administration and distribution of tax revenue in Nigeria, President Bola Tinubu seeks the approval of Federal Executive Council and forwarded

four tax reform bills to the National Assembly for consideration in October 2024. The Federal Government explained that the bills aim to revamp the nation's tax system. The proposed bills were the Nigeria Tax Bill 2024, the Nigeria Tax Administration Bill, the Nigeria Revenue Service (Establishment) Bill, and the Joint Revenue Board (Establishment) Bill. One of the key areas contained in the proposed reform was the Value Added Tax (VAT) sharing formula which put states' share of the total value added tax revenue at 55 percent (55%). The state portion of the revenue was proposed to be distributed to states at 60% by derivation, 20% by population and 20% by equity. Many states mostly in the northern region were not comfortable with this proposal as they anticipated loss of revenue if passed and implemented. According to the report of Foundation for Investigative Journalism (2025), if the Presidency's Tax Reform Bill becomes law, 14 states which include Sokoto, Zamfara, Jigawa, Yobe, Borno, Gombe, Adamawa, Taraba, Ebonyi, Rivers, Lagos and Nasarawa would suffer revenue loss. The proposal was strongly opposed by members of the Nigerian Governors' Forum. In contrast, the Nigerian Governors' Forum suggested an alternative formula, which also keeps the state share of value added tax at 55%. But their proposed formula allocates 50% equally among all states, 30% based on derivation and 20% based on population. Consequently, the suggested proposal of the Nigerian Governors' Forum was accepted, passed by the national assembly and signed into law by the President. There is no doubt that the present value added tax sharing formula would be revisited in future since economic reform is a continuous process. One of the states that will be negatively affected in the South-Eastern part of Nigeria if the tax sharing formula is revisited, is Ebonyi State. Hence, the need to examine the utilization of diversification strategies in curbing post tax reform challenges in Ebonyi State.

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Objective of the Study

The main objective of the study is to examine the utilization of diversification strategies in curbing post tax reform challenges in Ebonyi State Nigeria. Specifically, the study aimed at:

1. Examining the extent to which the utilization of related diversification strategy curbs post tax reform challenges in Ebonyi State.
2. Ascertain the extent to which the utilization of unrelated diversification strategy curbs post tax reform challenges in Ebonyi State.

Research Questions

The study was guided by the following questions.

1. To what extent does the utilization of related diversification strategy curbs post tax reform challenges in Ebonyi State?
2. To what extent does the utilization of unrelated diversification strategy curbs post value tax reform challenges in Ebonyi State?

Justification of the Study

The findings of the study would be of benefit to the government, investors and citizens. The findings would be of significance to the government as it would encourage the government to formulate policies that will promote diversification. This in no doubt would boost the economic activities through investment and job creation in the state.

The findings of the study would be of significance to investors as the business-friendly policies to be formulated by the government because of the study, would motivate them to invest in different kinds of business and make higher profit.

The findings would be of benefit to the entire citizen of the state and the country in general as the economic activities that would be increased by the investors would make them have access to variety of goods and services and make majority of citizens to be gainfully employed.

Scope of the Study

The scope of the study comprised content, geographical and unit scope. The content scope was limited to the specific objectives of the study which is the extent to which related and unrelated diversification strategies curb post tax reform challenges. The geographical scope of the study was limited to Ebonyi State. The unit scope was limited to the all the political office holders in the state.

METHODOLOGY

Design of the Study

The study employed a descriptive survey research design. According to Singh (2023), descriptive research is an exploratory research method that helps a researcher describe a population, circumstance, or phenomenon. The design is suitable for the study as the study explored the facts pertaining the utilization of diversification strategies in curbing post tax reform challenges in Ebonyi State Nigeria.

Population of the Study

The population of the study comprised the 697 (six hundred and ninety-seven) political officer holder across the three arms of government at both local and state levels of government in Ebonyi State.

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Sample and Sampling Technique

The sample size comprised 254 (two hundred and fifty-four) political office holders in Ebonyi State. The sample size was determined with Taro Yamane formula of sample size determination. Convenience sampling technique was used to take the sample size.

Instrument for Data Collecteion

The instrument used for data collection was a structured questionnaire designed by the researchers. The instrument comprised two sections (A and B). Section A contained the personal data of the respondents. Section B contained 8 (eight) items with response options of four Likert rating scale of VHE (Very High Extent), HE (High Extent), LE (Low Extent), and VLE (Very Low Extent).

Validity and Reliability of the Instrument

The instrument was validated by two experts in the field of Measurement and Evaluation of Alvan Ikoku Federal University of Education Owerri, Imo State. Their comments and corrections were considered in the final draft of the instrument to ensure its face, construct, and content validity. The reliability of the instrument was determined with test re-test method of reliability. It was performed by administering 20 (twenty) copies of the instrument to 20 (twenty) respondents. Two weeks later, same instrument was re-administered to same respondents. Thereafter, the results of the two tests were compared using Pearson's product moment correlation coefficient formulae. A coefficient of 0.92 was obtained which made the instrument to be highly reliable.

Method of Data Collection

Data was collected through a research assistant in the respondents' state. The respondents were properly guided by the research assistant on how to complete the questionnaire administered. 254 copies of questionnaires were administered, and 221 copies were properly completed while 33 copies were wrongly completed. Thus the 221 copies properly completed were used for analysis.

Method of Data Analysis

Data collected was analysed with mean. Decision was made by comparing the calculated mean scores with criteria mean score which was obtained by dividing the sum of the rating scale by the number of scales {4+3+2+1/4 = 2.50}. All the Calculated mean scores in the analysis were greater than the criteria mean score of 2.50, and they were accepted.

RESULTS

Research question one

To what extent does the utilization of related diversification strategy curbs post tax reform challenges in Ebonyi State?

In response to the above research question, items 1 to 4 of the questionnaire administered to the respondents were subjected to mean analysis. The summary of the analysis is presented in table 1 below.

Table 1: Mean Analysis of the Extent Related Diversification Strategy Curbs Post Tax Reform Challenges in Ebonyi State

S/N	Item	VHE 04	HE 03	LE 02	VLE 01	Total 10	Mean 2.50	Decision
1	Related diversification can lead to increased economic activity resulting	101 404	112 336	08 16	00 00	221 756	3.42	Accepted

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	in higher tax revenues.							
2	Related diversification can increase personal income tax through creation of new jobs.	111 444	109 327	00 00	01 01	221 772	3.49	Accepted
3	Related diversification can lead to business growth, resulting in increased corporate tax revenues.	93 372	109 327	11 22	08 08	221 729	3.30	Accepted
4	Related diversification can expand the tax base, thus, providing governments with a broader base to collect tax.	114 456	90 270	09 18	08 08	221 752	3.40	Accepted
	Total Mean	**105** **420**	**105** **315**	**07** **14**	**04** **04**	**221** **753**	**3.41**	**Accepted**

Source: Field work, 2025

Table 1 above revealed a calculated total mean of 3.41 which is greater than the criteria mean of 2.50. Since the calculated total mean is greater than the criteria mean (3.41 > 2.50), it is concluded that, to a very high extent, the utilization of related diversification strategy is very instrumental in solving the post tax reform challenges in Ebonyi State.

Research question two

To what extent does the utilization of unrelated diversification strategy curbs post value tax reform challenges in Ebonyi State?

In response to the above research question, items 5 to 8 of the questionnaire administered to the respondents were subjected to analysis. The summary of the analysis is presented in table 2 below.

Table 2: Mean Analysis of the Extent Unrelated Diversification Strategy Curbs Post Tax Reform Challenges in Ebonyi State

S/N	**Item**	**VHE** **04**	**HE** **03**	**LE** **02**	**VLE** **01**	**Total** **10**	**Mean** **2.50**	**Decision**
5	Unrelated diversification can attract new industries and businesses guaranteeing new tax revenue streams.	114 456	106 318	01 02	00 00	221 776	3.51	Accepted
6	By creating new jobs in diverse industries, unrelated diversification can increase personal income tax revenues.	103 412	115 345	02 04	01 01	221 762	3.45	Accepted
7	Unrelated diversification can lead to increased economic activity, resulting in higher tax revenues.	100 400	98 294	14 28	09 09	221 731	3.31	Accepted
8	Unrelated diversification can expand and diversify the tax base reducing dependency on a single industry.	118 472	89 267	11 22	03 03	221 764	3.46	Accepted
	Total Mean	**109** **436**	**102** **306**	**07** **14**	**03** **03**	**221** **759**	**3.43**	**Accepted**

Source: Field work, 2025

Table 2 above revealed a calculated total mean of 3.43 which is greater than the criteria mean of 2.50. Since the calculated total mean is greater than the criteria mean (3.43 > 2.50), it is concluded that, to a very high extent, the utilization of unrelated diversification strategy is very instrumental in solving the post tax reform challenges in Ebonyi State.

CONCLUSION

The best preparation for tomorrow is doing your best today. The strongest surviving means in an economy that is characterised with uncertainty is planning and readiness in achieving success and avoiding negative outcomes. Thus, the study critically examines the utilization of diversification strategy in curbing post tax reform challenges in Ebonyi State. It was specifically viewed from the perspectives of related and unrelated diversification strategies. Analysis of the data collected revealed that both related and unrelated diversification strategies to a very high extent play significant roles in mitigating post tax reform challenges. It is therefore concluded that the application of diversification strategies is a panacea to arresting the plight of revenue loss in the case of a reform that favours derivation with the highest percentage of value added tax distribution to states in Nigeria.

RECOMMENDATIONS

Based on the findings of the study, the following was recommended.

1. Government should initiate industrial cluster development by providing resources and infrastructure to support businesses in specific industries to encourage related diversification.
2. Government should establish investment promotion agencies to attract foreign investment and encourage domestic investment in diverse industries to promote unrelated diversification.

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