Discussion on Diversification and Firm Profitability

By

Abdulsalam Jibril,PhD

Dept; of Business Administration,

Adamawa State University,Mubi.

And

Tijani Yunusa

Dept; of Business Administration,

Adamawa State University,Mubi.

IJSER

ABSTRACT

The desire for our firm to improve their profitability lead to adoption of different measure of performance to enable them occupied the large share of the market. This research work focuses discussion on diversification and profitability. The purpose of the study was to examine diversification and performance on profitability. The study is to examine diversification in relationship with performance on profitability in an organization and also access the fundamental theories of diversification, models of diversification and firm performance. The methodology of the study is anchored on secondary material. Finding shows that multinational diversification was more successful in generating increased in return on capital than product diversification and also diversification was positively related to changes in profitability. It is recommended that despite the fact that the finding show little profit for limited diversification small firm are encourage diversifying in related product than unrelated product.

Key words: Diversification, profitability, firm performance.

Introduction

Business organization in product and services today are under dynamics background that are not always certain due to its intricacy in terms of competitions, risk and hostile government policies which are not always uncontrolled. The environmental changes are always slow and unpredictable. Development arise from these volatile environment and owners of enterprises will be force to change for survival in day to day aggressive market environment, An example in case is the Second Banking Directive of 1989 which allowed European banks to pursue functional diversification across activities such as commercial banking, investment banking, insurance and other financial services (Baele, 2006). However, most organization does not take changing strategy seriously that why we are having high death rate among our Nigeria enterprises. This trend can be revised if our firms take diversification strategy for profitability as a watch word

Diversification occur when a business developed a new product or expand into a new market, often businesses diversified to manage risk by minimize potential harm during economic recession. The basic idea is to expand into a business related and unrelated activity that doesn't negatively react to the same economic downturn as your current business activity. When a business is taking a hail in the market your other business can take to upset the loses and keep the company viable, that business can used diversification as performance strategies. (Shawn,2013) A diversification firm can be considered as one having operation in more than a single industry. Some scholars believe that these operations must be in synergy for diversification to be meaningful.

According to Ofori and Chan (2000) diversification as one of the business growth path such as concentric diversification –expanding in markets or products that are related to its current business. This tends to create a synergy due the complementary products and markets. Additionally, expansions are relatively easy because the skill and knowledge to run the business is similar to the knowledge the current firm possesses. Another form of diversification strategy is conglomerate- expanding in different markets or product which is not related to the present business. Conglomerate manage risk and may not have the skills to manage the enterprises, they may hire a new management and still have administrative problem with running different type of business such competition with other business for resources. Vertical integration –purchasing or starting businesses that supply its original business with raw materials, equipment, parts, and

IJSER

services as growth strategy. Firm can diversify by horizontal strategy- expanding into a new business at the same stage of production as its primary business.

These strategic forms of diversification lead to performance in profitability. Profitability is a must for any organization through which it generate surplus for it continuity of operation which means that an organization have profit as one of their objectives. Sukull & Mishra.(2003)

Organization need to focus on it dynamic environment in other to survive effectively. This could be agreed upon that practices of management are unfortunately not quite that simple. Economic environment is changing rapidly and this change is characterized by such phenomena as the globalization changing customer and investor demand ever increasing product –market competition. Therefore the echelon of management is saddle with the decisive aspect of match organization competence with the opportunities and risks create by environmental changes in ways that will be both effective and efficient. The basic characteristic of the match on organization achieves with its environment is caused by it strategy (Charles & Dan, 2002).

The word diversification has become a buzzing word in the management process. According to Elango and Ma, (2003) Diversification has become so important aspect of world business activity and practice. Academic interest in the topic of diversification is a clear evident by top level of attention it has received over the last few decades. The relationship between diversification and profitability has been the subject of abundant research in several fields.

However, many researchers concurred on the fact that there is no agreement on the precise nature of the relationship between diversification and performances. Hitt 1990; Markides and Williamson, 1994: Palich, Cardinal & Miller 2000). Some have shown that diversification study improves profitability over time (Chang & Thomas,1989; Lubatkin & Rogers,1989) where researchers have demonstrated that diversification decreases performance (Michel &Shaked,1984) still other studies have shown that the diversification performance link depends on business cycles (hill,1985). Santalo and Becerra (2004) explain conceptually and provide empirical relationship (positive, negative or even quadratic) exist between diversification and performance.

Amihud and Lev 1981, Bhide, (1993) opined that diversification can lead to problem of moral hazard, the chance that people will alter behavior after entering into a contract-as in conflict of

IJSER

interest by providing insurance for manager who have invested in diversifying away a certain amount of firm specific risk and many look upon diversification as a compensation.

Diversification is expensive (Jones and Hill 1988, porter 1985) and place considerable stress on top management (McDouglas & Round 1984). As in any economic activity there are cost and benefits associated with diversification and ultimately, a firm‘s performance must depend on manager to achieve a balance between costs and benefit in each concrete case. Balancing costs and benefits can only explain the performance of individual firms but it cannot address the theoretical question about the veracity of diversification as a valid corporate strategy. Because of high risks many companies attempting to diversify have led to failure Rosa(1998) in highly cyclinical industry Datta(1991). In spite of considerable studies, the findings of different studies have thus remained contradictory, and the impact of diversity on profitability performance is yet pin down. Few studies have been done locally over the years

The major objective which focuses discussion on diversification and profitability is designed to examine diversification in relationship with performance on profitability in an organization and also access the fundamental theories of diversification, models of diversification and firm performance

The paper is divided into nine sections beginning with introduction, section two is the concept of diversification strategy, section three discusses motives of diversification strategies, section four explained type of diversification strategies, and section five is diversification strategies, section six look at profit index, section seven discuses the relationship between diversification and profitability, section eight section explained theoretical framework of diversification and profitability, section nine section discussed empirical evolution of diversification and profitability.

The Concept of Diversification Strategy

Strategy is defined as the match an organization makes between its internal resources and skills (sometime collectively called competences) and the opportunities and risk created by its external environment to achieve its objectives.

According to Grant (1991), define strategy as the overall game plan for deploying resources to establish a viable industry –market position. To see this link more clearly, we should look at the

evolution of the concept in more detail. Datta. (1991) define diversification, as the breadth firm diversify itself into the business, product or a different market.

Pearce and Robinson (2000) define diversification as a firm distinct departure from existing operations through acquisition or internal establishment of separate business that are able to provide synergy with the original firm by counter-balancing strengths and weakness of the two businesses.

While Ramnujam & varadaran (1990) Defined diversification as the entry of the company into new lines of business activities through internal business development and acquisitions. One pioneer was Rumelt (1982), developed four major and nine minor categories of diversification. Major category is single business and unrelated business. Minor category consist of single business, dominant vertical, dominant constrained, linked dominant, dominant unrelated, linked dominant-unrelated, related, and unrelated business. These categories provide a variety of the essential diversification for company, both for related or unrelated.

There are many reasons why companies implement diversification as a strategy. Most companies implement diversification to enhance overall corporate strategic competitiveness. If this is achieved, firm total value will increase (Hitt et al, 1997). These reasons were categorized into three motives: first, the motive increasing economic value that include the scope, financial strength and market economy. The second motive, value-neutral consisting of tax incentives, anti-trust regulation, future cash flow, reduction of corporate risk. Last motives are devaluation, managerial job risk diversification and improved managerial competencies.

IJSER

Motives for Diversification

There are many possible motives behind diversification strategies (Jung, 2003) and due to the nature of this research problems, the study tends to discuss the motives related to competitiveness and profitability performance.

1. **Synergistic motive:** synergy exists when individual firms operated as a single entity organization. Synergy occurs when the sum of all businesses together equals more than the sum separately (Hitt, Ireland & Hoskisson, 2001). Amit & Levinant (1988) argue that diversification into related business may augment the market power of the diversified company which in turn may help the company enhance its longer strategic position. Additionally, synergy may be created if operations of the individual units complement

one another, so there are benefits from offering consumers a complete line of products. The size and reputation of such a firm might deter entry to the industry.

2. **The market power motive:** Diversified firm conglomerate power which makes it enters another, and hence gives this new venture an advantage. Mutual forbearance, companies can meet on another market to compete less severely. Reciprocal buying, large and diverse firms can also buy reciprocally in other markets to seal competition from smaller competitors.

   Palich (2000) who content that firm with market power can easily control market prices by offering discounts, cross subsidies and practicing reciprocal purchasing and selling as tools to prevent potential competitors entering the industry. This way firms are able to overcome competition thereby earning profits above the average market profits. Therefore market power theory prescribes diversification as a tool for enhancing the financial performance or profitability of a firm.

   Linstrom(2005) highlight the anticompetitive actions often associated with motives for diversification. The diversified companies are able to exploit, extend, or defend their power by strategies and tactics. In conclusion, the market power motive is not thought of as to increase efficiency, companies diversify to gain market power, and there by earn profits.

IJSER

3. **Financial motives:** This motive is based on the fundamental premise of portfolio theory that" one should not put all one's eggs in one basket'. It may also he argued that a firm should diversify and not depend on a single operation. As shown in finance theory, whenever the cash flows of the individual units are not perfectly correlated, the total risk, as measured by variability of consolidated cash flows is reduced by diversification (Amint & Livnat, 1988).

4. **The agency motive:** there are a number of motives behind diversification from an agency perspective that will not benefit the principal. The reason for this is the separation between the owner and manager, where the manager does not own equity. This is in agreement with Sambhary (2000) motive for diversification that it may reflect top management aspirations and goals. Four main reasons for managers to diversify the company are:

I. Empire building, the managers diversify in order to create their own empire to enable them thrive on their diversity(Hill,1985) in his own view, Gribbin (1976) says a firm will not have conglomerate power if it does not hold significant positions in a number of markets.

II. Montgomery (1994) managerial entrenchment, manager will diversify into markets or products in a way that increase the demand for their skill and abilities. This he explains three possible sources for the market power view. 1. Cross-subsidization, a firm may use its excess profit from one business to reduction risk .and Vishny,(1989)managers try to reduce their employment risk by diversifying into different market and product and thereby make the organization less dependent on a single market or product. The basis of portfolio theory that state that a firm should not put all her eggs in one basket (Amint & Livnant 1988).

III. Free cash flow theory, instead of paying stake owners the managers spend the excess cash flow on acquisitions (Jensen, 1986). The reason for this is that in the beginning of the firms life cycle there are lot of profitability opportunities for reinvestments, however, when the firm becomes matures these opportunities become more scarce and hence the cash flow from earlier innovations are being used for opportunistic diversification(Mueler,1972).

5. **The Resource Motive:** conventional wisdom suggest that the bigger the company the more resources it control, hence it should perform above average in an industry. This wisdom is the resource- based motive which states that bundled resources and capabilities that are aggregated over time also underpin a company's competitive advantage (Barney, 1991). When a firm has underused resources that can be profitably employed, it also has an incentive to expand. Furthermore, diversification is driven by the need to use theses excess resources (caves, 1980). In order to grow the firm needs to specialized and the profit or resources from the successful growth will be underused and eventually used to growth by diversification.

Types of Diversification Strategies

According to sukul and Mishra,(2003), they are two basic types of diversification, these are, Concentric and conglomerate diversification.

1. **Concentric Diversification:** An organization is on concentric diversification when it adds related products or markets to its existing operations with the aim of achieving strategic fit. (Markides and Williamson,1994). The essence of this effort is to achieve profitability through synergy, again, creating or acquiring companies that are in similar business of manufacturing designing, marketing, distributing etc. related to the product and service is called concentric diversification. This strategy complements strength of company and this leads to growth of organization. concentric diversification may take place because the strategy managers of the two companies know that they have common technologies customers, distribution channels, and any other commonality that exist such that major expenditures are involved in changing the organizational relationships, structures and layouts etc. if a period of one years as considered for accounting . Then a company may also go for concentric diversification to meet the market requirements
2. **Conglomerate Diversification:** conglomerate diversification occurs when an organization is generally entering a promising business outside of the scope of the existing business unit (Kachru,2005). It requires strong analysis of fit between the unrelated industries. It is often a good option for companies whose assets are financially distressed, or those with bright growth prospects, but is short on investment.

   Again this kind of diversification is said to occur when a company creates another organization or acquires another company which is altogether business of manufacturing, designing, marketing and distribution. Etc. this strategic alternative has a high attractiveness where return on investment is aimed to be higher. Various companies are compared on the basis of their contribution to the overall profit and creation of surplus hinds

Planning for Diversification

Before management diversify, it has many options like sailing with the wind i.e., move in prevailing direction, search for new directions of growth, use combination of the above or do simply nothing. However, systematic diversification is progressive and step – by- step way of doing business, it is necessary to avoid unpleasant outcomes due to failures or lower performance than targeted. The damages due to unplanned diversification can be in large proportions and managers may think that probably no diversification was better.

IJSER

Classification of diversification strategies according to Wrigley and Rumelt (1982)

WRIGLE	RUMELT
	Single business specialization ratio (SR) >95%
Dominant business 95%>SR>70%	Dominant vertical: Vertical-related sale >70%
	Dominant constrained: other business based on core skill
	Dominant – linked: business linked to one another
	Dominant- unrelated: other business unrelated
Related business SR<70%, related ratio (RR)>70%	Related-constrained:70% of businesses based on core skill
	Related-mixed: 50-70% of business based on a core skill
	Related- linked: majority of businesses linked centered around a single core skill
	unrelated business firms': SR<70%,RR<70%

Source: Remulet and Wrigley,(1982)

Diversifications Strategies

There are three general types of diversifications strategies discussed in the literature:

a. Growth into new non- competing product/market which is related to the firm's technological and marketing skills base often termed related or concentric diversification.

b. Growth into a new product that will appeal to current customers often called horizontal diversification; and

c. Growth into a new product/market which is unrelated to the firm's present technological or marketing skills based commonly called conglomerate diversification. Each of these diversification strategies has its own set of issues, benefits, and drawbacks\

IJSER

Profitability Index

According to Sontaki, (2011), profitability index is a variation of net present value. The discounted cash flows are compared with the original investment. In this case, the cash inflows discounted are more than investment or more than one, it is a promising investment, failing it is not worthwhile to entertain.

A firm that is unable to survive will be incapable of satisfying the aims of any of its stakeholders. Nevertheless, the goal of survival like the goals of growth and profitability often is taken for granted to such an extent that it is neglected as principle criterions in strategic decision making.

When this happens, the firms may focus on short term objectives at the expenses of the long run aim. Pearce and Robinson, (2006).

Profitability is the mainstay of business organization, no matter how profit is measured or defined, profit over the long term is the clearest indication of a firm's ability to satisfy the principle claims and desires of employees and stakeholders. Return on capital employed(ROCE) uses profit before interest and before tax and compares it with the assets or capital employed used in the business to amount of money that a company has available for paying dividends (once interest and tax are deducted) and for reinvestment (Thomspon,2004). But it is also important to examine how well the money invested in the business is being used. This particular ratio ignores how the business is actually funded, making it a measure of how well the business is performing as a trading concern, competitor orientated objectives such as market share target are promoted by academic and commonly used by firms,

Many managers have a natural initiation to want to beat their competitor, judging from Lanzilloti (1958), competitor – oriented objectives, typically expressed in terms of market share was commonly utilized by large firm well before 1950s, oxenfeldt (1958), lamented the use of the market shares objectives and discussed the logical and practical laws of pursuing such objectives.

IJSER

Economist and managers frowned at competitor- oriented objectives,(Mueller,1992) they consider the proper objectives of business to be profit, not market share, business school academics, however support market share objective, nothing that higher market share are correlated with higher profitability. Influential support came from Buzzel and Suitan,(1975) and Porter,(1980) market share is positively correlated to profit. A mental analysis of the relationship between marker share and profitability by symanske et' al (1993) identified 48 students that reposed 276 elasticity from econometric model, however, it does not follow logically that seeking higher market share will improve profits rather than correlation between market share and profitability is more.

In furtherance, Richard et'al (2006) note that the rate of returns on investment (ROI) is also known as rate of profit, return can be referring to the monetary amount of gain or loss. Return on

investment (ROI) is usually given as percentage rather than decimal indicate how long an investment an annual or annualized rate. Groppelli,(2000) notes, return value, nevertheless, ROI does not indicate how long an investment is had. ROI is most often started as an annual or annualized rate or return, unless otherwise noted.

Groppelli,(2000) notes, return on investment is used to compare return on investment where the money gained or cost or the money invested is not easily compared using monetary values. Since rate of return are percentages, negative rates cannot be average with positive rates for purpose of calculating monetary return. However, it is common practice in finance to estimate monetary returns by average periodic rates of return, this estimation are most useful when the average periodic returns all positive, and negative or have low variance.

Relationship between Diversification and Profitability

Two problems bedevil empirical work in this field. The first is that firm profitability is an outcome of so many factors that identifying the influence of diversification alone is very difficult. The second is that a relationship between diversification and profitability may be consistent with a number of possible hypotheses. We postulate four principle ways in which diversification and profitability are related.

1. **Investment opportunity:** By diversifying a firm faces a wider investment opportunity set allowing it to take advantage of more profitable investment projects than if it is restricted to a single industry. This factor is likely to be particularly important to firms diversifying out of low profit, low growth industries.
2. **Competitive advantage:** The profitability of diversification depends crucially upon the firm establishing competitive advantages in its new area of business. This is a function of (a) the exploitation of economies of scope through the use of joint resources and (b) the transfer of core skills from existing to new area of enterprise.

   The implications are that:

   i. Related diversification based upon exploiting common costs and transferable skills is superior to unrelated diversification;
   ii. Multinational diversification which typically involves greater market relatedness than product diversification is more profitable than product diversification.

IJSER

3. Supply –led diversification. Profitable firms diversify more than unprofitable firms as they seek to invest retained earnings, i.e. profitability drives diversification rather than vice versa.
4. Managerial limits to complexity. Diversity increases managerial costs and lowers managerial communication and coordination, limited managerial capacity may impose either a static limit to the degree to which a firm can diversify before diminishing returns set in (Jammine 1984), or it may imply a limit to the rate of growth of diversity which a firm can successfully manage (Penrose 1959)

Theoretical Framework of the Discussion

1. The linear model

Beginning with Gort (1962), industrial organization economics spawned decades of research based on the premise that diversification and performance are linearly and positively related. This position rest upon several assumptions, including those derived from market power theory and internal market efficiency arguments, among others (Grant, 1998)

IJSER

Integrating the argument outlined above, a linear and positive linkage is suggested and presentations of theory continue to mention these arguments as part of diversification performance puzzle. But does the evidence support this position?. In recent review of the relevant research , Denis , Denis and Sarin (1997) concluded that empirical evidence suggests the cost of high level of diversification outweigh the benefit, that focused firm out perform their diversification counter –parts. However, it should be noted theses finding are not universal across or within studies (Servaes have lead to researchers using alternative models, particularly those that are curvilinear in orientation.

2. Curvilinear Model

In contrast to the argument presented above, a number of researchers above have developed theory positing a curvilinear diversification-performance relationship. This theory recognizes that increasing diversification may not be associated with concomitant increases in performance, at least not through the entire relevant continuum. Two alternatives have surfaced in the literature; the inverted-U Model. Each of these posits

that some diversification(I.e. moderate level or related diversification) is better than none; however they differ in their predictions of the performance trend as firm move toward even greater(usually unrelated) diversification. These curvilinear models are presented below. These firms bear greater risk since they have not" diversified away" that risk by combining financial less than perfectly correlated streams from multiple businesses. This has negative implication for the debt capacity, cost of capital, and market performance of single business entities (Shleifer & Vishny, 1991).

3. The intermediate Model

Few people have questioned the superiority of related over limited diversification. However, the relative performance contribution of related versus unrelated diversification is often debated. It may be that related and unrelated diversification is somewhat equal in their contribution to performance. The primary issue in this controversy arises from concerns that related firms may not be able to exploit fully the relatedness designed into the portfolio business. It was argued that related diversifiers will outperform their unrelated counterparts only to the degree that they are able to exploit relatedness to create and accumulate new strategic assets.

IJSER

4. The inverted –U Model

Limited diversification presents a strategy of restricted business where the firm focuses on a single industry, thus limiting opportunities to leverage resources and capabilities across divisions. The argument outlined above (i.e. linear model) indicates that limited diversifiers as a group are unlikely to generate above profits. Lubatkin & Chatterjee(1994) observe that single business firm do not have the opportunity to exploit between unit synergies or the portfolio effect that are available only to moderately and highly diversified firms. That is, focused enterprises do not have multiple businesses, so they do not enjoy scope economics. Also more quickly and cheaply than competitors"(Markides and Williamson,1994). Simply amortizing existing assets through economies of scope will yield short-term benefits at best. In general, the intermediate Model can be tied to the notion that diversification yields positive but diminishing returns beyond some point of optimization. Markides(1992) provides a helpful review of the arguments supporting this view. He pointed out that has a firm increases in

diversification, its moves further and further away from its core business, and the benefit of diversification at decline

Empirical Evaluation of Diversification and Profitability

Current skepticism over the supposed benefits from diversification may be traced back to Rumelts's (1974) study of the relationship between diversification strategy and economic performance and the demise of many US and British conglomerates during the mid-1970s. Disillusion with the ability of diversification to exploit synergy and spread risks is most clearly expressed in peters and waterman's dictum of ' sticking to the knitting ' which is based upon the observation that

> '*Organizations that do branch out but stick very close to their knitting outperform the others. The most successful are those diversified around a single skill…. The least successful, as a general rule, are those companies which diversify into a wide variety of fields. Acquisitions especially among this group tend to wither on the vine" (peters and waterman, 1982)*

IJSER

The study on relationship between diversification strategy, firm performance and risk by Reza, R. Reza T. & Banafsheh F. (2015) they used return on equity. The result shows that there is no significant relationship between diversification strategy, firm performance and risk. In another study, evaluating the impact of product diversification on financial performance of selected Nigerian construction firms. By Nasir A. Ibrahim K., Yahaya M. & Aliyu M. (2011). The results indicate that the relationship between diversification and performance for the selected Nigeria construction firms is nonlinear. That is, diversification begins to yield unsatisfying results as its extent increases from moderate high, suggesting a curvilinear relationship between the extent of diversification and performance in which diversification starts to yield dissatisfying results beyond a certain optimum level.

However, the evidence produced by over a decade of empirical studies is far too inconsistent and inconclusive to support so strong a conclusion, several recent studies question the superiority of "constrained" over wider-ranging diversification, particularly when industry effects are taken into account. Christensen and Montgomery (1981) found that the differences in performance between diversification strategies were due, in part at least, to the tendency for the high

performing "related-constrained" firms to operate in industries characterized by high levels of growth, profitability and concentration, while the poor performing unrelated diversifiers tended to operate in industries with low level of growth, profitability and concentration.

Bettis and Hall (1982) attributed the difference in the performance of Rumelt's related and unrelated diversification strategies to a single industry group (pharmaceuticals) heavily represented in the related business strategy.

Methodology

These paper used descriptive design, secondary material were used to discuss the literature review on diversification and profitability of a firm.

Discussion

Most recent research into the diversification on corporate performance has been directed towards extending and refining Rumelt's(1974) pioneering study. However, adding additional explanatory variables (industry growth rates, market structure, and risk) has done little to further understanding of how diversification affects performance. Key problems have been, first, the strategic category approach does not readily and, second, direction remains uncertain.

Our study based on literature and empirical observation we found that wirgler/ Rmelt classifications of diversifications strategies to be of limited value in understanding the relationship between diversification and cooperate performance. While relatedness may be a key factor influencing the profitability of diversification- its identification and measurement pose acute empirical problems. Misgiving over the limited conception of relatedness implicit in the wrgley/Rumelt approaches were borne out by small and unstable performance differences between the strategy types.

From the literature were our finding is anchored it evidence that diversification leads to increased profitability through expanding firms frontiers of opportunity. In the case of product diversification firms earned lower margin on their secondary than on primary activities. Moreover, diversification was grater among firms earning high profits than those earning low profits. On the other hand, positive return to multinational expansion may reflect the more profitable opportunities available in other countries.

IJSER

Also it evidence that our strategic category analysis showed related diversifiers increased profitability more than any other category, however, performance differences between related and unrelated diversifiers were insignificant. The superiority of multinational to product diversification may be evidence of the benefits of related diversification in building competitive advantage-multinational expansion tends to replicate domestic activities.

It is also evidence from the literature that profitability leads to diversification rather than vice versa-consistent with strategy related to diversification and profitability. The propensity for management to use current profits to fuel expansion rather than reward shareholders may reflect manager's belief that successful performance in one market is transferable to other markets. With product diversification this appears not be the case.

Findings arising from analysis of qualitative data may be summarized as follows:

1. Profitability differences between strategy categories were small and were not sustained over time. Some trends in performance were detectable –notably the declining relative profitability of the single business firms and the rising relative profitability of the related-constrained diversifiers. The lack of significant performance differences between the strategic categories may partly reflect limitation in our concepts of 'related' and 'unrelated' diversification. In addition to technological and market linkages, we should be looking at all types of transferable 'core factors" (Rumelt 1982).
3. Diversification was positively related to profitability, although changes in diversity were not so consistently related to changes in profitability. It was apparent that a two relationship existed with profitability tending to drive diversification.
4. Multinational diversification was more successful in generating increased return on capital than product diversification, probably reflecting the greater ease with which competitive advantage based upon core skills are exploited in similar industries in other countries than in different industries in the same country.

IJSER

IJSER

REFERENCES

Amihud, Y., Lev, B. (1981), "Risk Reduction as a Managerial Motive for Conglomerate Mergers", *in Bell Journal of Economics (12), 605-617.*

Amit, R., Lennat, J. (1988), "Diversification Strategies, Business Cycles and Economic Performance", *in : Strategic Management Journal (9),99-110.*

Berney,J. (2002). Gaining and sustaining Competitive Advantage. Second Edition, Prentice Hall.

Bettis R. A & Mahajah, V. (1985). Risk/ Return Performance of Diversified Firms. *Management Science, 31 (7),785-799.* 2]

Baele L., De Jonghe O., and Vennet R.V., (2007), Doesthe Stock Market ValueBankDiversification?, Journal ofBanking and Finance, Vol. 31, Pp. 1999-2023

Caves, (1980). Diversification and seller concentration: *Evidence from Change review of Economics and statistics, 63, pp.289-293.*

Chang, Y. and Thomas, H. (1989). the impact of diversification strategy on Risk Reform Performance, *Strategic Management Journal, Vol. 10, No.3,pp.271-284.*

Chang, Y. and Thomas, H. (1989). The Impact of diversification strategy on Risk Reform Performance. *Strategic Management Journal, vol. 10, No. 3, pp. 271-284.*

Denis, D., Denis, D. K. and Sarin, A. (1977). Agency Problems, Equity Ownership and Corporate Diversification, *Journal of Finance, Vol. 52, No. 1, pp. 135-160.*

Denis, D. J., Denis, D. K. and Sarin, A. (1997). Agency Problems, Equity Ownership, and Corporate Diversification. *Journal of finance, Vol.52.I,pp.135-160.*

Elango, B. and Ma, Y. (2003). *An investigation into the diversification- performance Relationship Among property-liability insurers*, Normal: Illinois State University.

Gribin, G. (1976). The Coglomerate Merger, *Applied Economics, Vol. 8, pp. 19.*

Hill, C. (1985). Diversified Growth and Corruption: The Experience of Twelve Large UK ficus, *Applied Economics. Vol. 17, pp. 827-847.*

Hill, M. R., Ireland and Hoskissan, F. (2001). *Strategic Management Competitiveness and Globalization.* Cinginnati, South-Western College Publishing.

Lindstrom, T. (2005). *Pesome-based views of Diversification;* Main Concepts and Comparison with other views www.tutu.hut.fi/studies/course_and_schedules/ Isib/Tu-91. Retrieved on 04/07/2006.

Lubatkin, M. and Chatterjee, S. (1994). Extending Modern Portfolio: Does it apply?. *Academy of Management Journal, No. 37, pp. 109-136.*

Lubatkin, M. and Rogers, R. C. (1989). The Impact of Diversification Strategy on Risk Reform Performance, *Strategic Management Journal, No. 10, pp 271-284.*

Micheal, A. and shaked, I. (1984). *Does Business Development Affect Performance and Financial Management, Vol. 13, No. 4, pp. 18-25.*

McDougall, F.M. and D.K. Round, “A Comparison of Diversifying and Nondiversifying Australian Industrial Firms,”
Academy of Management Journal 27, 1984, pp. 384-398.

Montgomery, C. v A. (1994). *Corporate Diversification; Journal of Economy Perspectives*, 8, 163-178.

Palich, L. L., Cardinal and Miller, C. (2000). Curviliearity in Diversification-Performance Linkage: An Examination of over three decades of Research, *Strategic Management Journal 21, pp. 155-174.*

Rumelt,R.P.(1982).Diversification strategy and profitability. *Strategic management journal.3,353-369.*

Sambhaiya, Z. B. (2000). Assessing the Construct Validity of Strategic and SIC-Based measures of Corporate Diversification. *British Journal of Management, vol. 11, pp. 163-173.*

Santolo, J. and Beccerra, M. (2004). *The Effect of Diversification on Performance Revisited: Diversification Discount*, Premium or Both? Institute de Empresa Working Paper, Madrid.

Servers, H. (1996). The Value of Diversification During the Conglomerate Merger Wave. *Journal of Finance, 51, pp. 1201-1225.*

Sheifer, A. and Wishny, R. W. (1991). Takeover in the 60’s and the 80’s Evidence and Implications Strategies, *Management Journal, Summer Special Issues, pp. 51-59.*

IJSER