International Journal of Innovations & Research Analysis (IJIRA)
ISSN : 2583-0295, Impact Factor: 5.449, Volume 02, No. 03(I), July- September, 2022, pp 110-114

DIVERSIFICATION: THE GAME CHANGING STRATEGY OF A BUSINESS

Dr. Prabhu Dayal Saini*

ABSTRACT

Think about making various diverse portfolio, remember the old saying "do not keep all your eggs in a basket". Diversity is not just about the investing's number in your portfolio it is also about the connection between those investing. Diversity becomes a fascinating strategy when a company gets out of profitability development chances in its main trade. In the challenge making strategies in a diverse company, many industry atmosphere include and coming up with a set of business strategies, in which it operates. In today's dynamic and turbulent business atmosphere, diversity has become catalysts to gaining competitive advantages and to make the system in operation. This is because manufacturing companies work in highly competitive atmosphere, particularly, those who produce same and similar accessories between those firms. Studies showed that the diversified institutions perform better than undiversified organizations in the case of ROA and ROI, while related diversified organizations were found positive. Multinational diversification strategies include diversity of business and diversity of national markets. Despite the complexity of preparing and managing so many strategies, these strategies have quite appeal and more competitive capacity. This study focuses on the methods, which diversification strategies are applied for different area like IT, FMCG etc. it is related to the original concept of diversity strategy to succeed by companies. This study examines the effect of diversification strategy on the performance of an organization in the manufacturing sector. The study concluded that diversity is a strategy tool to gaining strategic relevance and intuitive performance.

Keywords: *Diversification, Dynamic, Organisation, Strategies, Operations, Competitive, Performance.*

Introduction

Discuss to any financial expert or investor, and rule of thumb is to defend your property: diversification. It is the 1 part of the two part posts where I talk about the diversity's importance. We see the diversification's importance in investment, in the post. There are different complication mathematical models to define the risks in investment, which are out of the scope of the blog and article. For a simple approach of risk assessment from the perspective of diversity, consider the following charts while comparing the portfolio risk grade and the number of stock. For a company diversity is a form of development market strategy. It attempts to increase profitability via new products and greater sales volume derived from new markets. A diversity strategy is different from other three strategies like mergers and acquisition, internal start-up, joint ventures. They are usually adopted with similar technical, financial and trading resources used for the original product line, while usually a company needs new skills, new technologies and new facilities for diversity strategy. Hence, to be diverse, there is most risky in other strategies to pursue. Whenever a single term companies have to face dwindling market opportunities and stagnant sales in their core business, it is a sign of diversification and a management quote about diversity is given below by Andrew Campbell, "the fit between a parent and his business is a double-edge sword, a good fit can make value and one can destroy it."

Key Consideration in Making the Diversification

Whenever a single professional companies have to face dwindling market chances and decrease in sales of their core business, this is the sign of diversification. There are other major factors,

* Assistant Professor, Department of Commerce, Aryabhatta College, University of Delhi, Delhi, India.

- When it is powerful and famous brand name that can be transferred to another business products.
- When diversifying a closely related trade opens up new way to reduce expense.
- When can it be extended in those industries whose technologies and products are supplemented its current business? According to the company's own unique situation, the decision of the company's diversification effort is given the best exemplified. Once the decision to pursue diversification, the firm will have to choose whether the related business is to diversify the unrelated business, businesses are called related when their value chains are competitively valuable cross business value chain matching. The business called unrelated when activities of their related price chains are so different that there are no competitively valuable cross business relationships. Most companies support related diversity strategies because due the performance of the increase of cross business synergy. Hence, some companies chose to make a shareholder value with unrelated diversity strategies.

Type of Diversification

For my invest when I consider diversification, in three various stage, I consider: diversification on the basis of assets class, diversification by the field of economy or geographic diversification another old saying that investors should remember: "never keep all the eggs in a basket".

For investors assets class diversification is vital because the risk increases significantly on an asset class like stock, bonds, real estate or commodities. The past market share crashes show us how the investor's fate has been received and lost.

- **Sector Allocation:** investors should try to reduce risk by investing in all areas of the economy. I have 20 personal stock and 5 funds, which provides me very good diversification. Hence, I still don't consider its portfolio completely because some area of the economy has lack of some and is the project running on correcting the balance. Once I get it in that state in which I want it, I'll cycle by my holdings and invest additional capital in relatively low-value funds/stock.
- **Geographical Diversification:** The type of diversification often overlooked by investors is the geographical diversification. by investors one type of diversification that is often overlooked is geographic diversification. Many investors believe in the "invest in what you know" mantra. I think it is double edge sword. Yes, it is great investment in those companies that you know very well if you are intimate with trade model and know how company really run and make profits and if the company has great possibility for the future. Hence, it is important that you not only rely on your local business but invest in world level, as we have all the equipment at our fingertips to make business accessible and affordable. In this way no local disturbances like recession, natural calamity, War will not affect your investment and the risk will be reduced.

Cases for Diversifying into Related Business

To submit opportunities for the following:

- To get lower costs by combining the related activities of different businesses into a same operation.
- Transferring precious expertness, techniques, marketing capacity, managerial knowledge etc.
- Exploiting the usual use of a famous brand name.
- To make precious resource power and capacity.

Diversification within the same Business Activities

Thus, there is a strategic appeal from many angles in related diversification. This permit a firm to get the competitive advantages of skill transfer, common brand name, low cost and strong competitive capacities in a comprehensive business stage. It also provided sharp focus for the management of diversification and useful degree of strategic integration in different business activities of the company. The following criteria can be used to sell existing business.

- Can the business benefit corporate goals for profitability and return on investment.
- What business will need adequate flow of capital to change old plants and tools, fund expansion etc.
- Whether the business is in an industry with important potential development.
- Is the business large enough to contribute significantly to the bottom line of the parent firm

Diversification Performance: Critical Review

The relationship among a firm's degree of diversification and its subsequent performance has been extensively researched over the past two decades, particularly in the literature in strategy, finance, psychology and marketing for groups. Although the conclusions are definitely not unanimous, most studies have conclusions that component of non-groups are less profitable. Hence, compared to non-groups, the group appears to reduce risk, although there have been such studies that show the results contrary. The previous research is silent about the performance of better classification (i.e. horizontal, vertical, or focused diversification). Rumelt (1974) examined the relationship among diversification strategy, organizational structure and financial performance level, and found diversification strategies as favorable to the development, profitability, risks and market evaluation. After the studies attempted to search the infrastructure, compensation, R &D intensity, promotion intensity, management of diversification management procedure, regulatory atmosphere, monitoring intensity, firm's age and size, and the effect of phase, industrial development on display they found that unrelated diversification depends on financial and managerial/control competencies to the extent, which are not particularly important on major success factors and any given market. Studies have remarkable lack of which is focused on the examination of issue related to the methods of diversification. Construction of the coalition facing the concern of opportunities and is a strong component of learning as indicating on the contrary, the acquisition depends on the financial returns due to the paid premium and thus benefits, development and operational integration in the form of performance indicators.

Unrelated Business Activities

Samples of companies that have pursued a strategy of unrelated diversification are illustrated below.

Table 2: Company in Unrelated Diversification

Wipro	Tata Groups	Reliance
Electrical appliances Information technology Computer accessories Toilet soap (santoor) GE medical system Baby care products	Home appliances Financial services Watches Telecom services Information technology Tea products	Telecom services Power Petro – chemical products Mobile phones Construction Textiles Mutual funds, Money

The above table has shown that the properties of unrelated diversification strategies for the above companies are following:

- Better skill of top management people.
- Business exposure scattered in a group of different industries.
- The financial resources of the company can be employed for maximum profit the investment in the industries provides the best advantage of the possibilities.
- Building shareholder value.
- Increasing profitability by taking advantage of common organization competencies.

Discussion & Findings

Research of Michael Porter shows that the average related company is only more scanner than the average unrelated company he found that many companies had disinterested many more diverse acquisitions than they hold. He and his team concluded that corporate diversification strategies adopted by most companies can end the price instead of making it. Unrelated diversification business opportunities are;

- Reducing unrelated costs
- Focusing on main areas
- Exploring external markets

Key Barriers in Diversification

For Unrelated Diversification

- Lack of Skills
- Planning Controls
- Capacity to develop a Business Care
- Regulatory Controls
- Specialist Business Advisors

For Related Diversification

- Access to Finance
- Efficient Personnel
- Regulatory Controls
- Planning Controls
- Validity of Marketing Research

Results

Diversification Strategies	Characteristics	Growth	Profit	Risk
Related Diversification	Operates in a few related industries	Low	High	Low
Unrelated Diversification	Operates in many unrelated industries	High	Low	Medium

Inference

- When companies focus primarily on profit, they may prioritize unrelated or combined diversification strategies.
- When companies concentrated primarily on development, they may prioritize a related diversification or mixed diversification strategy.
- When the growth of company and profit are low, suggest thy may go for disinvestment of trade operations.

Discussion and Areas of Future Work

Though, this is the first feedback of the literature, which has considered the trigger and decision effective for the level of type, mode and diversification level in the same framework for the demand for the demonstration, but we have enough evidence from the integration of previous studies. Concludes that diversification decision have to be studied together. Conventional dependence on different studies of diversification may be misleadingly progressively. Future research requires attention to environmental level triggers (like demographic changes, resource dependencies, regulations and network feeds), firm level triggers (like additional resource, firm strategy and position and synergy) and diversification decision affected (eg). As the casual arbitrator of diversification performance relationships as the industry's effect, organizational procedures and systems, entry time, industry characteristics and details asymmetry support; all of these are understood in exiting literature. Researchers also need to check the classification of diversification, stages and mode of classification in their studies. Apart from this, cross seven study is not successful in determining the actual relation among diversification and performance, for this reason that a cross centered study states many diversified industrial units in industry groups at a certain time and it will be likely that the industry's specific effects of diversification, which are quite powerful, have been lost in the analytical process. A more meaningful reason can be focused on diversification and economy performance connections if the product wise revenue of professional firm should be appropriately separated.

Conclusion

I was seen that the diversified companies perform better than undiversified companies in the case of profitability, market value and shareholder value, there were also such experience when these organizations were experiencing decreasing performance because ROI, ROE and liquidity were found to be unstable and unpredictable for any particular specified. Duration apart from this, organizations that follow related strategies perform better than unrelated and hybrid organizations. However, the companies that followed by hybrid strategy and unrelated strategy generates high return in ROE &ROI. The conclusion concluded that the profit of diversification is more than cost, thus there is a positive influence on the performance of the diversification. Based on these findings, it is suggested that the companies wants to achieve the economies of the scale and the product is in order to redeem its financial position in the state of the recession or decline in the life cycle, to meet the demands of consumers, we should diversify their product lines, as well as increased performance, because diversified companies were found to perform better than undivided institutions. Apart from this, institutions should recognize their rare and unique capacities to get frozen of the scale and to get cleverness from competitors. In the end R &D centers should be developed to get the most cost effective channeling of resources, as the recognizing of chances in business atmosphere, as well as to choose other strategic option most influenced. Distinguishing in a company or unrelated business activities in a company for a business leader is very attractive. But it will be understood that this is very complicated task. Therefore, such a step should be done very carefully and to diversify business activities, diversification strategy matrix has been given up to the business leader to help the strategy.

References

1. Amit R, Livnat J. 1989. Efficient corporate diversification: Methods and implications. Management Science 35: 879–898.
2. Arthur .A. Thompson, A. J. Strickland, John. E. Gamble on Crafting and Execution Strategy, vol.14, Tata McGraw-Hill Publication.
3. Bowen, H. P., & Wiersema, M. F. (2005). Foreign-based com- petition and corporate diversification strategy. Strategic Man- agement Journal, 26(12), 1153–1171.
4. Charles W.L.Hill and Gareth R. Jones on Strategic Management, Volume- 06, Biztantra Publication.
5. Chakrabarti A, Singh K, Mahmood I. 2007. Diversification and performance: Evidence from East Asian firms. Strategic Man- agement Journal 28: 101–120.
6. Datta DK, Rajagopalan N, Rasheed A. 1991. Diversification and performance: Critical review and future directions. Journal of Management Studies 28: 529–558.
7. Gulati R. 1999. Network location and learning: The influence of network resources and firm capabilities on alliance forma- tion. Strategic Management Journal 20(5): 397–420.
8. George Stone House, David Campbell, Jim Hamill, Tony Purdie on Global and Transnational Business, 2nd Edition, Wiley Publication.
9. Khanna T, Palepu K. 2000. The future of business groups in emerging markets: Long-run evidence from Chile. Academy of Management Journal 43: 268–285.
10. Nayyar PR, Kazanjian RK. 1993. Organizing to attain potential benefits from information asymmetries and economies of scope in related diversified firms. Academy of Management Review 18: 735–759.
11. Sukul Lomash abd P K Mishra on “Business Policy and Strategic Management” 3rd Edition, Vikas Publication.
12. Vachani S. 1991. Distinguishing between related and unrelated international geographic diversification. Journal of Interna- tional Business Studies 22: 307–322.
13. Williams JR, Paez BL, Sanders L. 1988. Conglomerate revisited. Strategic Management Journal 9: 403–414.

□❍□