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Iqbal, Athar and Hameed, Irfan and Qadeer, Majid

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**Impact of Diversification on Firms' Performance****Athar Iqbal**

*Assistant Professor, Iqra University, Pakistan.*

Email: [athar@iqra.edu.pk](mailto:athar@iqra.edu.pk)

Cell# 0300-217-9808

**Irfan Hameed**

*PhD Scholar & Lecturer, Iqra University, Pakistan.*

E-mail: [irfan\\_h144@yahoo.com](mailto:irfan_h144@yahoo.com)

Cell # 0333-5503036

**Majid Qadeer**

*MBA, Iqra University, Pakistan.*

E-mail: [majidqadeer1980@gmail.com](mailto:majidqadeer1980@gmail.com)

Cell # 0322-211-8114

**Abstract**

The data was collected through secondary research and Stock Exchanges sites were the source of information to collect the data of the companies. Total 40 companies were selected on the basis of Specialization Ratio (SR). Companies whose information were available and remained in the same category for the entire 5 years (2005-2009) were included in sample. The results of this study showed that there is no positive relationship between diversification and firms' performance. All firms are performing equally whether they are highly diversified firms, moderately diversified firms or less diversified firms with respect to their return and risk dimensions.

**KEY WORDS:** FIRMS' DIVERSIFICATION; PERFORMANCE; RISK; RETURN DIMENSIONS.

**1. Introduction****Overview**

In finance managers always tend to diversify their portfolio in order to get benefits from the current market in shape of higher return and minimum risk. This is the main objective in finance to get maximum profit with lower level of risk. All financial theories are based on this scenario. Management diversify the business into other core related product or un-related product market. Diversification is a strategy that management uses to get more opportunities from the current market. Some studies relate the diversification with economic conditions, different life cycle stages, diversifying into related product market and some in un-related product market. But their main objective was to diversify the risk of the business and to get high return in shape of profit.

Some researchers intended to find the relationship between diversifying into core-related business and un-related business with respect to performance. Michel, and Shaked (1984) in their classic work proposed that diversifying into core related business provides higher return than diversifying into non-core related business market. The decision regarding diversifying the business into related or unrelated business is based on some considerations. Management decides whether to diversify into related or unrelated business. If the management is familiar with the market and technology of the related business then it could provide significant results. It can also reduce the total risk of the firm. On the other hand diversifying into unrelated business is likely to provide less incremental value and it has effect on weighted average systematic risk. Shyu, and Chen (2009) investigated the extent of firms' diversification and their performance with respect to different life stages. They investigated that firms that were in their growth stage showed significant results but the firms that were in maturity stage did not produced such results. They also pointed out that firms in mature stage and engaged in related business had outstanding incremental value. They concluded that a life cycle stage of corporate had a substantial effect on the relationship between diversifying into related and unrelated business and performance.

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Lloyd, and Jahera (1994) investigated that there was no significant relationship between firm diversification strategy and long-run performance as measured by Tobin's q. They measured diversification with the help of related ratio presented by Rumelt (1974), which was based on firm's sales from different segments. Firms with that had related ratio less than 70% of their sales were categorized as unrelated diversification and with higher than 70% related ratio were categorized as single or related diversification. There were no significant results found by testing the alternative model. Pandya, and Rao (1998) revealed that diversification had a positive impact on performance. They concluded that highly diversified firms showed better performance than moderately and less diversified firms. Strategic decision regarding diversification also had impact on performance. Markide, and Williamson (1994) revealed that firms could get more significant advantage from the related business diversification than the un-related business market.

Firms are basically trying to get excess return in the given risk conditions. Sankar (1994) showed that all firms performed equally in long run regardless of their diversification strategies. This was the fact that firms were trying to gain excess return in given risk. They summed up that there were enough evidences that whether to apply to single or group of firms, they were not affected by diversification strategies imposed by the firms on the basis of capital based measure of long run performance. Hughes, and Oughton (1993) found that diversification and multi market contact had a significant impact on firms' profitability, while in another study Lu, and Beamish (2004) examined that geographical diversification had no linear relationship with the performance. It was revealed that at high and low levels of internalization, there was a negative relationship between geographical diversification and firms' performance while there was positive and linear relationship with moderate level of internalization greater geographical diversification generate higher performance. Main focus of the studies was to find out relationship with diversification and performance with different perspective.

A commendable study of firms' diversification and its effect on performance was conducted by Rumelt (1974). He categorized firms into different classes as highly diversified, moderately diversified and less diversified/single product firm. These classes were based on Specialization Ratio (SR), which was calculated by annual sales from largest business segment with total sales of the firm. Specialization Ratio is one of the measures, used to measure diversification presented by Rumelt (1974; 1982). This study is based on the fact that whether diversifying the business has having any impact on performance of any firm in both risk and return dimensions. With the help of 40 listed companies on Karachi Stock Exchange this study attempted to identify whether there was any relationship between firms' diversification and performance.

The performance of the firm is based on many factors. Like there are some internal factors as well as external factors. Economic condition of the country is an external factor and is unpredictable. Internal factors like strategic decision by management and right decision at the right time is also determinants of the performance. This study evaluates performance with respect to diversification classes. The classes were categorized on the basis of Specialization Ratio (SR) as proposed by Rumelt (1974). Specialization Ratio was calculated taking sales from largest segment and then dividing it with total sales. On the basis of Specialization Ratio (SR) the firms were categorized into three classes:

- a. Highly Diversified
- b. Moderately Diversified
- c. Less Diversified or Single Product Firms

## Problem Statement

This study investigates diversification and its impact on performance. The main objective of the study is to find that whether on average, highly diversified firms show better performance as compared to moderately diversified firms and undiversified or single product firms on the basis of risk and return.

## Hypotheses

After reviewing literature with different perspective it shows that there is a relationship between diversification and performance. It was also found that highly diversified firms show better

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performance than less diversified and single product firms. The study proposes the under mentioned null hypothesis:

**H<sub>0</sub>:** There is no relationship between firms' diversification and performance with respect to both risk and return dimensions.

**H<sub>1</sub>:** There is a Positive relationship between firms' diversification and performance with respect to both risk and return dimensions.

## Outline of the Study

The study comprises five chapters. First chapter briefly discusses what the diversification is, overview of the study, problem statement with the main objective of the study and proposed hypothesis. Second chapter is based on literature review and briefly discussed the relationship between diversification and performance found by many researchers. Third chapter is about methods of data collection, sampling techniques used to get the data, sampling size of the firms which will be in our analysis, and development of the model, identification of dependent and independent variables and statistical test used by this study to calculate these variables. Fourth chapter briefly discusses the result of the study obtained from the statistical test. Fifth chapter comprises of concluding remarks and findings of the study.

## 2. Literature Review

The diversification and its impact on firm's performance is still muddle up. Many researchers attempted to define the impact of diversification on profitability with views. The impact of diversification on firms' performance depends on many factors. Many studies attempted to define the impact of diversification on firms' performance with different perspectives. Some studies were based on strategies that firms had adopted to diversify the firm's business. Some concluded that diversifying into related business has a positive relationship with performance while diversifying into unrelated business has a negative impact on performance and decrease the shareholders' value. Management decision about extent to diversifying is another factor that needs to be considered while evaluating the firms' performance due to diversification. There is some risk involve with diversification. Diversifying the business locally and internationally is also having impact on performance.

Pandya, and Rao (1998), Michel, and Shaked (1984), Lloyd, and Jahera (1994) were in the view that diversifying into related business generated higher profit than diversifying into unrelated business and on an average highly diversify firms showed better results than less diversified and single product firms. The decision regarding diversifying the business in based on some factors. Management decides whether to diversify into related or unrelated business. If the management is familiar with the market and technology of the related business then it will provide significant results. It will also reduce the total risk of the firm. On the other hand diversifying into unrelated business is likely to provide less incremental value and it has effect on weighted average systematic risk. Rumelt (1982) identified that strategic decision regarding diversifying into core skills or into unrelated business is having important consideration while measuring performance. While Wernerfelt, and Montgomery (1988) viewed that closely diversified firms performed better than broadly diversified firms. They concluded that there is positive result and higher performance when we focus positively. The differences in performance may be resulted from when we transfer efficiencies to broader markets which is changeable. Some researcher found that there was negative relationship between diversification and firms' performance. In another study Shyu, and Chen (2009) investigated the extent of firms' diversification and their performance with respect to different life stages. They investigated that firms that were in their growth stage showed significant results but the firms that were in maturity stage did not produce such results. They also pointed out that firms in mature stage and engaged in related business had outstanding performance. They concluded that a life cycle stage of corporate had a substantial effect on the relationship between diversifying into related and unrelated business and performance. They also concluded that ownership of the firm had a momentous and optimistic relationship with performance, regardless of the fact that firm is at growth stage or in maturity stage.

In combined efforts Lloyd, and Jahera (1994) investigated that there was no significant relationship between firm diversification strategy and long-run performance as measured by Tobin's q. They also revealed that firm's diversification strategies may be of two types i.e. related and unrelated diversification. They measured diversification with the help of related ratio as presented by Rumelt (1974) which is based on firm's sales from different segments. There were no significant results found by testing the alternative model. Another study by Sankar (1994) revealed that all firms performed equally in long run regardless of their diversification strategies. This is the fact that firms are trying to gain excess return in given risk. They proved that there were sufficient evidences that whether we apply to single or group of firms they were not affected by diversification strategies imposed by the firms on the basis of capital based measure of long run performance. In combined study Hughes, and Oughton (1993) found that diversification and contacts with multi market had a better significant impact on firms' profitability, while in another study Lu, and Beamish (2004) examined that geographical diversification had a no linear relationship with performance while multi market contacts having relationship with the performance. It was revealed that at high and low levels of internalization, there was a negative relationship between geographical diversification and firms' performance while there was positive and linear relationship with moderate level of internalization greater geographical diversification generated higher performance.

Michel, and Shaked (1984), Lloyd, and Jahera (1994) looked into different ways regardless of the fact that firm diversify with type and industry. The researchers also looked into the different ways in which the firm's diversify their business such as related and unrelated diversification while Wernerfelt, and Montgomery (1988) focused on narrowly diversified firms' v/s broadly diversified firms. They measured diversification with the help of related ratio as presented by Rumelt (1974). There was no evidence, found by testing the alternative model. They found that related business generated higher profit than diversifying into unrelated business and closely diversified firms perform better than broadly diversified firms. They also concluded that related business had higher Return on Assets (ROA) and Return on Equity (ROE) as compared to single or unrelated diversification. The differences in performance may be resulted from when we transfer efficiencies to broadly changeable markets. Some researcher found that there is negative relationship between diversification and firms' performance. One study by Shyu, and Chen (2009) focused on extent to diversify and related them with performance with respect to different life cycle stages while Lloyd, and Jahera (1994) identified that there is no relationship with long term and performance. Doukas, and Lang (2003), Hughes, and Oughton (1993) found that geographical diversification and multi-markets contacts diversification had no linear relationship with performance while multi-markets contacts have great impact on performance.

One the basis of performance the researchers have different findings. Pandya, and Rao (1998) found that highly diversified on the basis of performance showed better results than less diversified firms and single product firms. While Michel, and Shaked (1984) found that related diversification generated higher profit rather than diversifying into unrelated business. In another study Wernerfelt, and Montgomery (1988) concluded that narrowly diversified firms return is higher than the broadly diversified firms. Shyu, and Chen (2009) found that firms that are in their growth stage showed significant results but the firms that are in maturity stage did not produce such results. They also pointed out that firms in mature stage and engaged in related business have outstanding performance. They concluded that a life cycle stage of corporate had greater effect on the relationship between diversifying into related and unrelated business and performance. They also concluded that ownership of the firm played a vital role and had a positive relationship with performance, regardless of the fact that firm was at growth stage or in maturity stage. Hughes, and Oughton (1993) identified that diversification and contacts with different markets had a significant impact on firms' profitability. While Rumelt (1982) found that profitability of the firm depends on the strategies whether to diversify into core related business or unrelated business. He found that higher performance was shown by the firms which were diversified into core skill and resources while those firms that were diversified into unrelated business exhibited lowest performance.

Doukas, and Lang (2003) revealed that when the firms were engaged in core-related foreign direct investments in geographical diversification they provide better performance and increase the shareholder value while others are found to be related with both short term and long term losses. They also found that foreign direct investment into unrelated business is linked with loss in shareholders' value while foreign direct investment into related business provides increase in value of shareholders. Outside core business international diversification is less harmful for multi-segment than single-

segment firms. They indicated that both focused in specialized business and diversified firms gain from core-related rather than non-core-related foreign direct investment, the performance is higher for diversified firms. Rhoades (1974) found that diversifying into unrelated activities may result in ineffective management, production and distribution that could overshadow the performance by positive diversification resulting from barriers to entry linked with diversification and may be from efficiently conducting upright integration and management. He concluded that when we treat diversification as an industry structural variable when we measure diversification intently (outside 4-digit industry) it had a positive relationship with margin and if we measure it broadly (outside 25/2-3 digit industry) the result is opposite. In another study Wan (1998) found that there is no impact of international diversification on firms' profitability or performance.

There is some risk associated with firms' diversification. Pandya, and Rao (1998) found that highly diversified firms showed better performance but they are unable to diversify the risk associated with return. The result showed that highly diversified are with higher return but their variation is also higher. In contrast the less diversified and single product firm are lower in performance but their risk or variation is also lower. Michel, and Shaked (1984) investigated that management decision is very important to reduce the firms' risk. The decision regarding diversifying the business into related or unrelated business is based on some considerations. Management decides whether to diversify into related or unrelated business. If the management is well aware and familiar with the market and technology used by the markets of the related business then it would provide significant results and better performance. It could also reduce the total risk of the firm. On the other hand diversifying into unrelated business is likely to provide less beneficial and increase the possibilities of systematic risk.

Rhoades (1974) found that diversifying into unrelated activities might result in ineffective management, production and distribution that could overshadow the performance by positive diversification resulting from barriers to entry linked with diversification, and may be from efficiently conducting upright integration and management. He concluded that when treating diversification as an industry structural variable (outside 4-digit industry) it had a positive relationship with margin and if measured it broadly (outside 25/2-3 digit industry) the result was opposite. Wan (1998) investigated that International diversification of the business was more costly and having no impact on profitability. He concluded that domestic firms were familiar with the local market environment and bear less cost in the local markets while diversifying internationally was hard to capture all the opportunities in the international market. He also found that the firms that were operating internationally could increase their sales volume i.e. their sales growth but could not increase their profit as it involved higher cost than doing business in the local market.

Markides (1995) found that firms were refocusing on their core related business to improve their profitability. He also identified that firms were reducing their diversification from un-related business to core related business. He reported that at least 20% firms were refocusing on their core related product market business to get improvement in the profitability.

Markides, and Williamson (1994) revealed that that 'strategic' relatedness is having superior value to market relatedness and that related firms performed higher than the unrelated ones only in markets where accumulated assets were important. They found that firms could gain significant advantage from related diversification that were working in businesses' portfolios with similar characteristics of brand building, marketing and channel management and process skills in customization and management of skilled teams. Rhoades (1973) suggested that to identify the effect of diversification on firms' performance an industry approach could provide a better alternative results to the established firm approach.

### **3. Research Methods**

This chapter included Method of data collection, sampling technique, sampling size, modal development and statistical test used by this study.

#### **Method of Data Collection**

Data for this study was collected from annual reports of the companies which were listed on Stock exchanges.

#### **Sampling Technique**

Those companies which were listed on Karachi, Lahore and Islamabad Stock Exchanges for the last 5 years and had financial data available on site were included in the sampling.

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## Sample Size

The sampling units were those manufacturing concern firms listed on stock exchanges and whose total revenues were segmented accordingly to their products line for last 5 years. The suggested sample size was at most 10 firms from each highly diversified, moderately diversified and single product firms.

## Instrument of Data Collection

It was a Secondary research and data was collected by using Internet. No instrument was used for collection of data.

## Model Development

With the help of Specialization Ratio (SR) this study categorized firms into three classes. The firms were classified into three classes by using Specialization Ratio (SR) which was calculated by annual sales from largest business segment with total sales of the firm. Rumelt (1974; 1982) used Specialization Ratio to measure diversification. To classify the firms into different classes this study used the following scheme:

Table 3.1

**Specialization Ratio Value Scheme**

	<b>SR Values in Rumelt's Scheme</b>	<b>SR Values in Anil M. Pandya, and Narendar V. Rao Scheme</b>	<b>SR Values Scheme in this Study</b>
Undiversified, Single Product Firms	SR > 0.95	SR > 0.95	SR > 0.95
Moderately Diversified Firms	0.95 < SR ≤ 0.7	0.95 < SR > 0.5	0.95 < SR ≤ 0.7
Highly Diversified Firms	SR < 0.7	SR < 0.5	SR < 0.7

SR values in this study remained the same as in Rumelt's Scheme. The firms were classified into three groups:

1. Firms were categorized as undiversified or single product firms whose SR was greater than 95%.
2. Firms with SR values greater than equal to 70% but less than 95% were categorized as moderately diversified firms.
3. Firms with SR values less than 70% were included in the category of highly diversified firms.

To classify firms with the help of SR value scheme it was necessary that those firms remained in the same category throughout the analysis. This study used five years data (2005-2009) and it was considered that all firms remained in the same category for whole five years. Sales data were obtained of those firms who are listed on Stock Exchanges and whom financial data are also available for five years. Firms whose financial data were not present or not falling in any of the above three categories of diversification were not included in the analysis. Total 40 firms were found whom data were available and fall in the above mentioned categories, out of 10 were categorized as highly diversified, 11 moderately diversified and 19 firms were classified as undiversified or single product firms.

Performance was measured with the help of Return on Assets (ROA) and Return on Equity (ROE) along with market return. These accounting measures are best known to judge the performance of any firm. Return on Asset (ROA) measures how well company is utilizing its assets to generate sale. It is also known as efficiency ratio of the company. Return on Equity (ROE) measures available income to shareholders.

Return on Assets (ROA) was calculated as Net Income of the company divided by Total Assets (Net Income/Total Assets). Average return on assets was also calculated for all three diversification categories for five years with standard deviation (SD) and coefficient of variation (CV).

Return on Equity (ROE) was calculated as Net Income of the company divided by Total Shareholders' Equity (Net Income/Shareholders' equity). Average Return on Equity was also calculated for all three diversification categories for whole time period with standard deviation (SD) and coefficient of variation (CV).

Market return was calculated current year's stock price less previous year's stock price, adding dividend paid, and dividing the value with current year's stock price ( $r = \frac{DIV_1 + P_1 - P_0}{P_0}$ ). Average

market return was also calculated for five years of all three classes, along with Standard Deviation (SD).

Performance was treated as a dependent variable which was measured by Return on Assets (ROA), Return on Equity (ROE) and Market Return. These three variables were kept as dependent variables in the analysis. Classification was treated as an Independent variable which was calculated by Specialization Ratio (SR).

### Statistical Test

To test the null hypothesis of the study, One Way Analysis of Variance (ANOVA) was required. This test required some assumptions these are as under:

- Test for equality of means
- Test for Homogeneity of Variances
- Test for normality of the data

First assumption was to test the equality of means, and Null hypothesis for equality of means is mentioned below (it should be rejected):

H0: All means are equal ( $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \dots = \mu_k$ ).

If the P value is less than significant value (.05) then it rejects null hypothesis, and if P value is greater than significant value (.05) then it shows that assumption for equality of means is violated.

Second assumption was Homogeneity of Variances and null hypothesis was that all population variances were equal. If the P value is less than significant value (.05) then it shows that population variances are not equal then LSD approximation test is used and if the null hypothesis is accepted then Tamhan's approximation test is used to compare results.

Third and last assumption was normality of the data. This assumption can be tested with the help of Histogram, PP Plot, Skewness and kurtosis.

## 4. Results

### Findings and interpretation of the results

In this research ANOVA statistical technique was used to test the relationship between the dependent and independent variables. With the help of this test, this study tried to find out whether there was any relationship exists between the dependent variable and independent variables. Firms with SR value less than 70% are kept as highly diversified, SR value less than 95% but greater than 70% are categorized as moderately diversified firms and greater than 95% are categorized as less diversified or single product firms.

Table 4.1 Descriptives

		N	Mean	Std. Deviation	Coefficient of Variation
ROA	Highly Diversified	50	6.3976	9.37404	1.4652
	Moderately Diversified	55	12.5913	21.89813	1.7392
	Less Diversified	95	7.9366	8.28704	1.0441
	Total	200	8.8319	13.78322	1.5602
ROE	Highly Diversified	50	15.5706	36.51523	2.3451
	Moderately Diversified	55	20.6555	14.65754	0.7096
	Less Diversified	95	15.8751	16.30861	1.0273
	Total	200	17.1136	22.73866	1.3287
RETURN	Highly Diversified	50	58.0505	132.71203	2.2861
	Moderately Diversified	55	49.1380	60.92668	1.2399
	Less Diversified	95	45.3294	85.59026	1.8882
	Total	200	49.5570	93.97403	1.8963



Table 2 showed descriptive statistics in which it showed that ROA of Highly Diversified firm is lower than moderately and less diversified firms. Increase in average return also resulting increase in Standard Deviation but coefficient of variation of less diversified firms was less than the highly diversified firms. Less diversified showed higher return than highly diversified firms but their variation was lower. The standard deviation statistics confirmed that as average returns increased, variation in performance was also increasing. Moderately diversified firm with average return of 12.59, which was higher than highly and less diversified firms and also having higher standard deviation of 21.89, and coefficient of variation was also higher.

Average ROE of highly diversified and less diversified firms was lower than the moderately diversified firm. Moderately diversified firm average return on equity was 20.65 but here standard deviation was also lower than highly and less diversified firms. Moderately diversified firms performance was better than the highly and less diversified firms both in terms of return and variation as their variation was 0.7096, which was very lower than highly and less diversified firms. Average return of highly diversified was higher than the moderately and less diversified firms. Here highly diversified firms' performed better in terms of return but their variation was too higher than the moderately and less diversified firms. Less diversified firms average return was lower than highly and moderately diversified firms but their variation was higher than the moderately diversified firms.

Table 4.2 **Test of Homogeneity of Variances**

	Levene Statistic	df1	df2	Sig.
ROA	.641	2	197	.528
ROE	5.477	2	197	.005
RETURN	3.681	2	197	.027

Table 3 showed the test of homogeneity of variances. The Levene statistic rejected the null hypothesis that the group variances were equal for return on equity (ROE) and market return but accepted the null hypothesis that the group variance were equal for return on assets (ROA).

Table 4.3 **ANOVA**

		Sum of Squares	Df	Mean Square	F	Sig.
ROA	Between Groups	1149.742	2	574.871	3.090	.048
	Within Groups	36655.738	197	186.070		
	Total	37805.480	199			
ROE	Between Groups	954.733	2	477.366	.923	.399
	Within Groups	101937.549	197	517.449		
	Total	102892.281	199			
RETURN	Between Groups	5314.544	2	2657.272	.299	.742
	Within Groups	1752077.921	197	8893.797		
	Total	1757392.464	199			

Table 4 showed that the significance value in the ANOVA table for ROA is 0.048, which is less than 0.05. It rejected null hypothesis that average performance is equal across all classes.

In terms of ROE and Return its significance value is .399 and .742 which is greater than .050. It accepted null hypothesis that average performance in terms of ROE and Return is equal across all classes.

Table 4.4 **Multiple Comparisons**

Dependent Variable	(I) CLASSES	(J) CLASSES	Mean Difference (I-J)	Std. Error	Sig.

ROA	LSD	Highly Diversified	Moderately Diversified	-6.19367*	2.66542	.021
			Less Diversified	-1.53903	2.38328	.519
		Moderately Diversified	Highly Diversified	6.19367*	2.66542	.021
			Less Diversified	4.65464*	2.31122	.045
		Less Diversified	Highly Diversified	1.53903	2.38328	.519
			Moderately Diversified	-4.65464*	2.31122	.045
	Tamhane	Highly Diversified	Moderately Diversified	-6.19367	3.23669	.168
			Less Diversified	-1.53903	1.57491	.701
		Moderately Diversified	Highly Diversified	6.19367	3.23669	.168
			Less Diversified	4.65464	3.07272	.352
		Less Diversified	Highly Diversified	1.53903	1.57491	.701
			Moderately Diversified	-4.65464	3.07272	.352
ROE	LSD	Highly Diversified	Moderately Diversified	-5.08485	4.44490	.254
			Less Diversified	-.30445	3.97440	.939
		Moderately Diversified	Highly Diversified	5.08485	4.44490	.254
			Less Diversified	4.78040	3.85422	.216
		Less Diversified	Highly Diversified	.30445	3.97440	.939
			Moderately Diversified	-4.78040	3.85422	.216
	Tamhane	Highly Diversified	Moderately Diversified	-5.08485	5.52933	.739
			Less Diversified	-.30445	5.42835	1.000
		Moderately Diversified	Highly Diversified	5.08485	5.52933	.739
			Less Diversified	4.78040	2.58958	.189
		Less Diversified	Highly Diversified	.30445	5.42835	1.000
			Moderately Diversified	-4.78040	2.58958	.189
RETURN	LSD	Highly Diversified	Moderately Diversified	8.91256	18.42773	.629
			Less Diversified	12.72111	16.47710	.441
		Moderately Diversified	Highly Diversified	-8.91256	18.42773	.629
			Less Diversified	3.80855	15.97887	.812
		Less Diversified	Highly Diversified	-12.72111	16.47710	.441
			Moderately Diversified	-3.80855	15.97887	.812
	Tamhane	Highly Diversified	Moderately Diversified	8.91256	20.48760	.962
			Less Diversified	12.72111	20.72106	.903
		Moderately Diversified	Highly Diversified	-8.91256	20.48760	.962
			Less Diversified	3.80855	12.02516	.985
		Less Diversified	Highly Diversified	-12.72111	20.72106	.903
			Moderately Diversified	-3.80855	12.02516	.985

Table 5 showed the multiple comparisons between classes. As the test rejected the null hypothesis for equality of group variances for return on equity (ROE) and market return but accepted the null hypothesis that the group variances are equal for return on assets (ROA), so result of ROA was compared from LSD, and from Tamhane for ROE, and Market Return. Multiple comparisons showed that highly diversified and less diversified firms on the basis of ROA are performing somehow equally as compared to moderately diversified firms. So it was conclude that, on average performance of all three classes were not same in terms of ROA.

In contrast to ROA, Return on equity and market return did not show any significant results. It means that all three classes did not show much difference in performance according to their classes.

Table 4.5 Hypotheses Assessment Summary

Hypothesis	Value of Significance	Accepted/ Rejected
There is Positive relationship between firms' diversification and performance with respect to both risk and return dimensions.		
ROA	.048	Accepted
ROE	.399	Rejected
Market Return	.742	Rejected

## 5. CONCLUSION, DISCUSSIONS, IMPLICATIONS, LIMITATION AND FUTURE RESEARCH

### Conclusion

This study examined the relationship between firms' diversification and its impact on performance from the period of 2005 to 2009 on the annual basis. The ANOVA result did not support any differences in performance with respect to classes. The result showed that all three classes were performing somehow equally in term of return and risk dimensions. There was no much difference in performance with respect to classes. As far as result concerned it was not supported the study with Pandya, and Rao (1998) the result was varying because of different circumstances and high fluctuation in the Karachi Stock Exchange during the period 2007 to 2009. The variations in stock prices were very high due to economical and political instability in the country, as well as world economic recession also influenced the local market.

### Discussions

Management uses diversification strategy in order to get benefits from the current market in shape of higher return and always try to minimize risk. This is the main objective in finance to get maximum profit with lower level of risk. Management diversify the business into other core related product or un-related product market. Diversification is a strategy that management uses to get more opportunities from the current market. Some study related diversification with economic conditions, different life cycle stages, diversifying into related product market and some in un-related product market. But their main objective was to diversify the risk of the business and to get higher return in shape of profit. The result showed that there was no much difference in performance with respect to classes. This could be due to different circumstance and economic condition of the country.

### Implications

This research was conducted on listed companies of Karachi Stock Exchange and limited to Pakistan only. The data taken from 40 manufacturing firms which were took through various sectors of the KSE Index for the year 2005 to 2009. It is suggested that such type of study should be carried out in other countries as well. It gives basic idea to investor and management as well to see whether to diversify the firm's business or to focus on single business, whether to diversify core related product market or unrelated product market category.

### Limitation and Future Research

This study helped several companies to analyze the firm strategy to diversify their business in other areas of the market. However the result of the test was not significant as the sample size was not enough for the study and other circumstances. As far as the sample size is concerned, some companies

were not providing their strategic business unit's reporting. The companies now started providing segment results which would be helpful in future to increase the sample size, and stock market is also performing consistently which is a positive sign to improve the results in near future.

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