Chapter 1

Diversification Strategy-Organizational Performance Relationship: A Theoretical Study to Compare Developed and Developing Countries

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Abstract

Researchers have long debated whether diversification strategy enhance firm performance or whether it instead reduce performance results. Diversification strategy involves spreading firm resources and investments across a variety of sectors or markets to reduce risk and increase firm performance. The relationship between diversification and performance has been a subject of significant academic debate, offering different conclusions on how diversification impacts financial performance. Diversification strategy is a critical decision for firms aiming to grow, reduce risk, and enhance competitive advantage. The purpose of this study is to explore the relationship between diversification strategies and firm performance in Turkey as an emerging country.

INTRODUCTION

The survival, growth and development of businesses are accepted as the basic tools for businesses to achieve their profit goals today (Şimşek, 2001, p.44; Özgen et al., 2001, p.25; Mucuk, 2000, p.30). Businesses should have the desire to develop and grow more in order to improve their status in the sectors they operate and to make more profits by using their existing assets and capabilities (Ülgen and Mirze, 2004, p.200). Growth, in its most general sense, refers to an increase in volume or a quantitative increase (Eren, 2000, p.77). According to another perspective, growth means sales or expansion in the market that can create added value (Wright and Kroll, 1998, p.92).

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https://doi.org/10.58830/ozgur.pub1125.c4568

It is generally accepted that firms start their operations as enterprises focused on a single business area serving primarily the local or regional market, and that their strategic emphasis is on growing the business they are in (increasing sales, increasing market share, creating a loyal customer portfolio, expanding resources and product lines to increase the competitive capacity of profits, etc.) (Thompson and Strickland, 1999, p.85). After this stage, it is normally observed that the firm grows geographically (from local to regional, from regions to internationalization) (Rugman and Hodgetts, 2000, p.54; Thompson and Strickland, 1999, p.85) and vertically at some point in these stages (Thompson and Strickland, 1999, p.86). If it is not possible for the firm to grow profitably in its current business area or if above-average profitability is expected in a different market, differentiation is needed. In this case, the firm may enter a related business area or an unrelated business area, or even choose to achieve both related and unrelated growth (Thompson and Strickland, 1999, p.86). The choice here may vary depending on which of the fundamental paradoxes in the firms' corporate strategies is preferred. At this point, managers must decide whether to manage their companies as an institution that collects profitable business areas in its portfolio, draws its strength from financial synergy and spreads risks, or whether to focus on its core competencies and determine its growth direction (De Witt and Meyer, 1999, p.94).

This study aims to present a theoretical approach to the diversification strategy-organizational performance relationship. For this purpose, first of all, what diversification strategy is will be explained, then the theoretical framework for the diversification strategy-organizational performance relationship will be emphasized. For this purpose, first of all, a literature review will be conducted on the diversification strategy-organizational performance relationship, then the possible advantages of diversification strategy will be explained under the title of diversification strategy, capabilities, resources and organizational performance. In the next title, the concept of synergy will be examined in terms of the diversification strategy-organizational performance relationship. Following this, the disadvantages of diversification strategy and the diversification strategy-organizational performance relationship in developing countries will be explained and the questions that form the basis of the problem will be stated.

1. DIVERSIFICATION STRATEGY

The studies of Chandler (1962) and Ansoff (1965) on the reasons for diversification, "the nature of diversified firms" stand out as the first studies in the field. Wrigley contributed to these with his study in 1970 (Prahalad and Bettis, 1986, p.486).

The aim of the diversification strategy, which is expressed as "diversification" in English, is for the company to focus on new business areas or new businesses that can generate income. In order to say that a company implements a diversification strategy; in addition to its current businesses, the company must be interested in new business areas in which it operates and/or different business areas and have decisions and applications on this subject. It can be said that the diversification strategy is the basic growth strategy because it causes a numerical increase in the company's activities (Ülgen and Mirze, 2004, p.224). It should be stated that the diversification strategy is a corporate strategy because it needs to be implemented in companies operating in more than one business area and is based on the combination of strategies at the business level (Bakoğlu, 2010, p.43).

Diversification as a strategy can be defined as "entering new business areas within the framework of markets, products or capabilities that are different from the current field of activity of the company" (Jhonson and Scholes, 2002, p.373; Rumelt, 1982, p.362). According to another definition, diversification strategy is "a top management growth strategy implemented in companies that want to enter a new business area and obtain above-average returns by taking advantage of the opportunities there" (Ülgen and Mirze, 2004, p.224).

As is known, there are two basic types of diversification or growth: related and unrelated. In related diversification, the company moves towards areas where it can use its own basic resources and capacities, and thus aims to increase economies of scale (by balancing and sharing core competencies) and market power (by higher marketing power and vertical integration) (Dess et al., 2004, p.178). When companies choose to diversify unrelatedly, they enter a different market or production than the current product market. Here, synergy is provided by the vertical relationship between the company's central office and the affiliated business units; basically, ways of creating value are tried to be found by using portfolio analysis techniques, restructuring the company and establishing partnership relationships (Dess et al., 2004, p.178).

1.1. Related Diversification

It can be defined as expanding into new areas that are different from the current product and market, but within the sector where the current product and market are located (Jhonson and Scholes, 1999, p.323). It is possible to divide the related diversification strategy into two types: Horizontal Related Diversification and Vertical Related Diversification. Accordingly;

Horizontal Related Diversification: It is the name given to diversification outside the operational area in which it operates but related to the core competence of the company (Wright et al., 1998, p.95). The newly entered production area can be a complementary product of the existing company, a by-product of the existing product or another related product that will contribute to the competition (Jhonson and Scholes, 1999, p.322). The basis of the horizontal related diversification strategy is synergy and advantages related to core competence. As synergistic advantage, horizontal scope economy, horizontal scope creativity and a possible combination of both emerge. While horizontal scope economy refers to the advantage obtained from the use of purchasing, research and development, marketing and other functional activities at the company level, horizontal scope creativity is the advantage obtained from the use of transferable or shared capabilities at the company level (Wright et al., 1998, p.95).

Vertically Related Diversification: In cases where the production process is carried out in more than one step, it can be defined as the company performing one of these steps with its own means. Vertical merger can be forward or backward. If there is a merger towards raw materials within the value chain, it will be a backward vertical diversification, and if there is a merger towards the final consumer, it will be a forward vertical diversification (Wright et al., 1998, p.99). In cases where the company's existing suppliers or buyers do not meet the expectations of the final customer from the product, the customer's expectations from the product produced do not change very frequently, and the vertical merger is compatible with the strategic position of the company, it will be advantageous for the company to prefer vertical merger in competition (Miller and Dess, 1996, pp.249-250).

1.2. Unrelated Diversification

In unrelated diversification, which resembles the structure of holdings in Turkey, there is no connection between the newly entered business area and the existing business. Although the new business is independent from the other in terms of technology, production and market, there may be a potential connection between the businesses (Craig and Grant, 1993, p.109). While the expectation in related horizontal diversification is a strategic management and coordination relationship in order to create synergy, the primary expectation for unrelated diversification is financial investment (Wright et al., 1998, p.97). By making unrelated diversification, businesses will have advantages such as growing in other areas and reducing the risk of the existing company, being economical in common services such as public relations, legal services, financial issues, internal balance sheet, although unrelated, reducing transaction costs, and benefiting from the management skills of the existing company (Craig and Grant, 1993, pp.110-113).

2. DIVERSIFICATION STRATEGY, RESOURCES, CAPABILITIES AND ORGANIZATIONAL PERFORMANCE RELATIONSHIP OF BUSINESSES

In this title, the relationship between related and unrelated diversification performance will be discussed separately.

2.1. Unrelated Diversification, Resources, Capabilities and Organizational Performance Relationship of Businesses

As stated above, in unrelated diversification, there is no business relationship between the strategic business units of the company in terms of technology or market. So why do companies prefer unrelated growth in such cases? Can the company create any value by making unrelated diversification? (Craig and Grant, 1993, p.110). There are 5 basic factors that can be the answer to these and similar questions. These are;

Risk Reduction: Businesses in the decline phase of the product life cycle or where the life of the product is threatened by environmental uncertainty can diversify their risks arising from the current sector by making unrelated diversification. By expanding their activities in different sectors where environmental uncertainty is less and profitability is higher, the company will be able to make its life longer, thus making its cash flow more reliable (Sirmon and others, 2007, p.186).

Reducing Transaction Cost: According to the transaction cost approach, decision makers may have limited rationality regarding the decision they want to make. For example, managers may make decisions about the company in their own interests. Decisions may be affected by environmental uncertainty and complexity; there may be a lack of information; bargaining may be done for small amounts, and managers may have difficulty in accessing information that may be important to them. For these reasons, there may be a transaction cost for decision makers (Jones and Hill, 1988, p.160). If it is considered that each strategic business unit of companies that have made unrelated diversification is an independent profit center and if the fact that the top management monitors each strategic business unit is taken into account, the top management will be able to access the desired information about each independent unit and the company as a whole in a way that will minimize the transaction cost (Craig and Grant, 1993, p.111). One of these information is related to capital control. Internal capital control will cause less transaction cost in unrelated diversification than in related diversification.For example, when the manager needs financial resources from the company or one of the strategic business units, he/she can obtain this financial resource from any of the strategic business units that have all the information within the company without any transaction costs (Hill, 1988, p.68).

Another area where transaction costs can be reduced is in employee transfers. Whether related or unrelated diversification, the company can transfer the personnel it needs - especially managers and technical experts - between strategic business units. When a strategic business unit that has entered a new business area or wants to develop an existing one chooses to provide the personnel it may need from external sources, since the process of hiring new personnel can be costly, it can instead reduce costs by obtaining them from its own internal resources (Grant, 2008, p.403).

Reduction in Service Costs: Some activities such as legal services, public relations, security of company funds, internal auditing, and investment decisions can be performed centrally for all strategic business units at the company level. Even if there is no operational connection, there may be an advantage in an unrelated diversification strategy in terms of cost savings in such activities (Craig and Grant, 1993, p.111).

Access to Management Capabilities: This view, which is based on the view that those who do management work have a talent that is difficult to access and requires scientific support (Craig and Grant, 1993, p.112), supports the idea that successful managers of unrelated diversified companies will also be successful in new investments (Markides, 1995, p.103). When viewed from this perspective, a manager who has the knowledge and skills to manage a single company well will also have the skills to manage more than one company at the same time. This will be an advantage for the diversified company and contribute to its profitability (Miller and Dess, 1996, p.243).

Exploiting inefficiencies in the model's valuation of companies: From time to time, the environment may present opportunities to companies. In some cases, these opportunities can be determined by rational measures, while in other cases they may be based on intuition. A manager who thinks he has sufficient environmental knowledge can find opportunities to make very high profits by investing in a new field that he thinks is profitable as a result of his intuition (Craig and Grant, 1993, p.113).

Unrelated diversification can teach company managers how to create value in different areas. For example, an unrelated, grown company manager who has sufficient environmental knowledge can buy another business that he sees as profitable, restructure it and resell this company (Hill and Irelant, 2007, p.182). In this context, an opportunity that unrelated diversification will bring may be the opportunity to invest in different sectors that may be more profitable. For example, a company operating in the tourism sector will be able to make energy investments that he thinks will be profitable.

2.2. Relationship Between Related Diversification, Resources, Capabilities and Organizational Performance of Businesses

According to Craig and Grant, related diversification competitive advantage, sharing of physical and non-physical resources, and spreading some management skills to strategic business units will be possible (Craig and Grant, 1993, p.115).

2.2.1. Sharing Physical Resources

In related diversification, physical resource-based performance effect occurs in two ways. First, the potential relationship between strategic business units can be defined and the benefit of the resource that can be used can be expanded and brought to a situation where strategic business units can use it together. Second, especially in the production process, joint use of complementary products that already exist can be provided. In both cases, the joint use of physical resources can help strategic business units achieve cost savings (Farjoun, 1998, p.615). Physical resources that can be an advantage for a business that has made related diversification refer to resources that can be used in more than one area, such as production areas and equipment that can be used together and have flexibility. In order for these resources to be used jointly, the industries in which they operate must be similar or related (Chatterjee and Wernerfelt, 1991, p.35).

When viewed from a resource-based perspective, the concept of organizational slack emerges as one of the advantages of the related diversification strategy. Organizational slack is defined as organizational resources that exist in businesses but cannot be used, and can be made useful when used. There may be many types of organizational slack, similar to financial slack. The portfolio manager of a business that has implemented a diversification strategy can manage the financial resources that one of the strategic business units needs and the surplus of the other in a balanced manner. Otherwise, organizations will not be able to make this resource useful (Harrison and John, 1994, p.187). Another example of organizational slack is the usable space that may be in the distribution channel. Procter and Gamble uses a common distribution channel for toilet paper and diapers (Porter, 1988, p.56).

2.2.2. Sharing Intangible Resources and Transfer of Talent

In this title, where it is claimed that even a simple transfer between units will benefit the strategic business units of companies that have made related diversification, the sharing of non-physical resources and the transfer of capabilities will be examined. As non-physical resources, they will be examined under the concepts of brand, reputation, technology, marketing ability and operational.

Brand: The known brand value of the company contributes positively to the performance of strategic business units in related products. Because the customer has prior knowledge about the product produced by the current strategic business unit (Cohen, 2005, p.22).

Reputation: Independent of the brand, reputation refers to the awareness of issues such as quality, taste etc. If a company with such a reputation expands in the related field, it will be able to have a competitive advantage with the contribution of this feature (Craig and Grant, 1993, p.116).

Technology: It refers to the company's growth in different areas by evaluating its existing technological capability and contributing to its competitive advantage. Businesses that are aware of their technological superiority can analyze where and how to use this superiority and then turn to new investment areas (Chiu et al., 2008, p.877). This method, especially applied by Japanese technology companies, can be given as an example by giant companies such as Canon, Matsushita, Fujitsu, Toshiba, and Sony. Canon is notable among these companies. Because Canon has achieved great growth by using its technological capability in the last twenty years (Watanabe et al., 2005, p.12).

Marketing Capability: Businesses can also transfer their marketing capabilities along with the transfer of their brand name. Diversified businesses related to areas such as marketing research capability, distribution channel management, and new product entry into the market can gain competitive advantage. For example, Philip Morris' diversification from tobacco products into beer, soft drinks (Seven Up), and processed foods (Kraft and General Foods) was based on strong brand management, international marketing, and market segmentation (Craig and Grant, 1993, p.117).

Operational Capability: It refers to the transfer of the production capability of one of the strategic business units to another strategic business unit diversified in the related field. In other words, the capability of one of the strategic business units with similar production processes can be used in other business units (Helfat and Eisenheart, 2004, p.1227). For example, it is stated that there are serious increases in performance due to the transfer of operational capabilities (camera, copier, printer) between units in Canon (Watanabe et al., 2005, p.15).

2.2.3. Sharing General Management Skills

In case of sharing or transferring resources and capabilities between strategic business units of related diversified companies, some technical or market connections between the companies are needed. These transferred capabilities are not only functional capabilities, but also these transfers are related to general management capabilities. Top management can suggest some general management capabilities to strategic business units. In order to make this suggestion, it is not necessary for there to be any customer or technical connection between strategic business units, in other words, related diversification. General management capabilities indicate that company and strategic business unit managers may have some similar management capabilities due to sharing (Craig and Grant, 1993, pp.117-118).

2.3. Diversification Strategy, Synergy and Organizational Performance Relationship

Synergy will provide a positive leverage effect to the company in diversified companies. This means that rather than each business unit making a definite contribution with the synergy effect, the entire company will gain an advantage in competition. From here, it is necessary to understand in which areas synergy has an effect (Knoll, 2008, p.18). The resource-based view states that in order for synergy to have a competitive advantage, the company resource must be valuable, rare and difficult to imitate (Grant, 2008, p.402). Barney states that the resource must provide an effect that eliminates threats from the environment and evaluates opportunities (Barney, 2001, pp.103-104). Knoll examined the contribution of synergy to performance in diversified companies by classifying synergy in four different ways (Knoll, 2008, pp.24-106).

2.3.1. Market Synergy

In this type of synergy, related products are formed as a result of the opportunity to be sold in the same store, to use the same distribution channel or the same warehouse (Smith, 1985, p.70). Joint advertising of strategic business units, other promotional and sales-increasing activities together reduce costs at the company and strategic business unit level, and as a result, multifaceted profit opportunities are obtained (Dilsiz, 2007, p.27). For example, magazines can be sold at a dealership where newspapers are sold. In this case, no additional rent and electricity fees will be paid for magazine sales, and an advantage will be gained from some of the costs by selling them together with newspapers.

When several companies realize a significant portion of the sales of an industry, it is possible to conclude that the company has penetrated the market. It is the type of synergy obtained when the newly launched activity has the same market as the old activity (Kargın, 2007, p.62). While this situation means an unspoken agreement between the companies, it also means that they will include profits and monopolistic rent. In reality, market sharing can only be created as a result of a long-term strategy with organizational effect (Gotz and Sanz, 2002, p.65). Market synergy, which is claimed to provide advantages to diversified companies with this synergy dimension compared to those operating in a single field and contribute to organizational performance, is divided into 4 subtypes by Knoll, each of which is explained as follows (Knoll, 2008, pp.35-37):

Predatory Pricing: Predatory pricing means that the company keeps its prices low for a short time in order to gain an advantage in competition (Wazzan and Frech 2009, p.653). Although the company that implements predatory pricing experiences losses in the short term, it thinks that it can gain an advantage in competition in the long term by affecting the product price in the market (Jackson, 2009, p.97). Compared to companies operating in a single field, companies operating in more than one field, that is, diversified, can gain a greater competitive advantage over their competitors by reducing prices (Knoll, 2008, p.36).

Free Product Giving (Bundling): Bundling, which means giving another product together with the main product, eliminates the need for the customer to do new research for the second product and thus reduces transaction costs (Basu and Vitharana, 2009, p.792). Businesses that diversify their products in terms of creating market synergy can gain a significant competitive advantage by giving the other product along with the main product (Knoll, 2008, p.36). Supermarkets offering discounts on fuel can increase sales, credit card companies offering discounts on some purchases can increase spending (Thannassoulus, 2007, p.437) or, as in our country, giving small gifts at gas stations for purchases over a certain limit, giving cleaners together with detergent can be given as examples of bundling.

Reciprocal buying and selling: It is a type of synergy that occurs when each of the group companies is a supplier or customer of the other (Knoll, 2008, p.36). It is the situation where one of the strategic business units of a company operating in more than one field is the buyer of the other.

Mutual Forbearance: While a holding company competes with others, two of them may face each other in many markets. The multitude of their relationships may become a disadvantage for them in competition. In this case, the holding units can reduce this disadvantage in competition by making agreements among themselves (Grant, 2005, p.456). It is an implicit agreement made by diversified companies among themselves in order to gain a competitive advantage by keeping prices low (Knoll, 2008, p.37). For example, both companies can support the other by not operating in the same market with the same product (Grant, 2005, p.456).

2.3.2. Financial Synergy

In general, the financial dimension of the contribution created by synergy constitutes the content of financial synergy. Financial synergy refers to the synergy obtained by reducing costs in the business (Kargın, 2007, p.54). Financial synergy can generally be expressed as the formation of financial scale economies as a result of mergers or diversification of businesses, the increase in company profits, the stability of cash flows compared to their previous states, the decrease in risks and the more compatible investment opportunities with internal funds. With financial synergy, the business is expected to have a lower capital cost (Öndeş, 2007, p.304). Financial synergy emerges with benefits such as increased liquidity, increased earnings per share and tax advantages (Ada et al., 2006, p.30). The effect of financial synergy on organizational performance for diversified businesses has been divided into three subtypes by Knoll, each of which is explained as follows (Knoll, 2008, pp. 39-43).

Reducing Corporate Risk: Reducing corporate risk is possible in two ways (Knoll, 2008, p.39). First, the cash flow risk of diversified companies is negatively correlated with those that have not. Since a company operating in more than one field can use the resources of another company in case of a cash flow problem, it will experience cash flow problems less than companies operating in a single field (Got and Sanz, 2002, p.37). Second, it can be done through managerial actions. Managerial actions can be possible by reducing the risk of bankruptcy of the company (coinsurance effect) and increasing the willingness of stakeholders to invest or do business with diversified companies (Knoll, 2008, p.39). It can be thought that any problem that may occur in the subsidiaries of diversified companies and the transfer of resources from one company to another company can reduce the bankruptcy risk of the company. In addition, since the size image of these companies will increase the trust in them, it can be expected to increase the willingness of capital owners to invest.

Internal Capital Market and Financial Scale Economy: Another factor that increases financial synergy is the advantage of internal financial resources. According to Hill, it is less costly for businesses to obtain the necessary financial resources with their own means than to obtain them from outside (Hill, 1988, p.68). Williamson supports this view with the transaction cost approach perspective. According to him, resources obtained with their own means will cause less transaction costs than external sources (Williamson, 2009, p.9). The adequacy of internal financial resources is an important factor for the growth of businesses. In cases of growth or financial resource needs, businesses that have diversified can solve this problem with less cost with the effect of financial synergy. Because, business managers will have sufficient information stock regarding the company's financial resources and will be able to compare with external sources (Liebeskind, 2000, p.65). In another dimension, internal financial resources can provide access to resources that may be necessary for projects that may be more important in some periods, at the right place and time. This opportunity can sometimes provide very important advantages for businesses in competition (Knoll, 2008, p. 43).

According to Scott, there are two ways to gain tax advantage in diversified companies. First; if tax laws allow/allow, services between companies can be shown as expenses by the company providing the service and these can be deducted from tax (Scott, 1977, p.1). For Turkey, when deducted, for example, holding companies can show activities such as research and development, marketing and distribution, and preparation of investment projects among their own subsidiaries as expenses (Akça, 2010, p.214) and gain tax advantage. Another tax advantage is; if interest payments reduce tax, diversified companies can reduce tax payments by increasing borrowing among themselves (Stapelton, 1982, p.2).

2.3.3. Operational Synergy:

In related diversification, the leverage effect of operational synergy has been discussed by many authors (Dundas and Richardson, 1980, pp.183-

185; Markides and Williamson, 1994, pp.154-156; Jones and Hill, 1988, pp.161-163). Grant defined operational synergy as the performance advantage gained by diversified companies by using or producing a resource among themselves rather than obtaining it from outside (Grant, 2005, p.456), while Knoll divided this synergy into two groups as productivity and growth synergy (Knoll, 2008, p. 26).

Productivity Synergy: This type of synergy is expressed as the type of synergy that occurs as a result of the joint use of factories, machinery, facilities and equipment for different goods, the joint use and joint supply of raw material stocks, and the transfer of R&D expenses from one product to another (Pınar, 2005, p.19). Productivity synergy is the productivity advantage that related diversified businesses obtain from their own operational activities (Knoll, 2008, p.26). Panzar and Willig explain productivity synergy on the basis of economies of scope.According to him, scope economy or efficiency synergy; when a production area or input is used for the production of more than one product, the cost of each product produced will be lower than when used for only one product (Chang and Choi, 1988, p.148; Panzar, Willig, 1981, p.268). The intention in scope economy is not the decrease in unit cost due to the overproduction of the product produced, as in scale economy, but the use of the production line of the product produced in the production of different products (Grant, 2005, p.456).

In order to talk about the cost advantage arising from scope economy in businesses producing more than one product, it is not necessary to use only the product line jointly in more than one production.This is the visible side of the advantage and will also cause a cost advantage in invisible factors such as transaction costs and reduction of market errors. However, in order to have a cost advantage, there must be a relationship in the processes of the products produced. It is not possible to talk about this cost advantage in unrelated diversifications (Panzar, Willig, 1981, p.268). According to Knoll, economies of scale may cause costs to decrease, but since this cost decrease can also occur in businesses operating in a single field, it will not be accepted as an efficiency synergy for businesses that have diversified (Knoll, 2008, p. 27). In addition, the advantage obtained is not only cost-focused, but should be considered as an input of the production line from sources such as the development of the firm's business culture and managerial skills (Chang and Choi, 1988, p.147).

Growth synergy: It is a type of synergy that is gained by combining common overheads, personnel that can be employed in common works, purchasing and training powers for many products (Eren, 2000, p.201).

Knoll defines growth synergy as "profitable growth advantages resulting from the ability to transfer complementary operational resources among diversified businesses" (Knoll, 2008, p.28). There must be a resource relationship between each unit of a diversified business that aims to grow (Tanrıverdi and Venkatraman, 2005, p.100).

2.3.4. Management Synergy

The results of the transfer of managerial skills between units in solving strategic, organizational and operational problems. It is the ability of the company to easily adapt to new jobs from its past experiences and accumulations in organizational and control problems (Eren, 2000, p.201; Pınar, 2005, p.19). If the newly initiated activity is similar to its previous activity, the synergy effect will be greater since the company will have the opportunity to benefit from the planning function of the new activity. Because, the existing personnel will be able to act rationally in the decision-making phase with their previous experiences and accumulations and will be able to solve the problems in a shorter time (Eren, 2000, p.201). Knoll defined management synergy as "the leverage effect in favor of the diversified company obtained from the company's management abilities" in terms of diversified companies (Knoll, 2008, p.48).

When the literature is examined, there is no common view on the content of management synergy in terms of diversified businesses. Hill and Jones touched on organizational capability while explaining the benefits of diversification strategy and stated that the effect of upper-level management in the context of functional expertise and skills is very important in the transfer of organizational capabilities. Hill and Jones grouped organizational capabilities into 3 groups and expressed them as follows (Hill and Johes, 2007, p.346).

Entrepreneurial Capabilities: Risk-taking capabilities, directing resources to creative ideas, balancing excessive risk that may cause failure.

Capabilities in Organizational Design: Organizational design capabilities, organization of structure, culture and control systems in a way that coordinates and motivates employees, structure being an explorer and effective user of capabilities and ensuring that the harmony of strategy, structure and environment is maintained.

Superior Strategic Capabilities: The fact that each business unit of abstract, conceptual management capabilities has an effect that increases the total profitability of the company.

Management synergy focuses on the vertical relationship between the company and the business unit. This management relationship includes a strategic rather than operational dimension. For example, General Electric has a strong technological and operational capability at the business level. However, General Electric's basic capability is not operational and technological, but motivation and development, external strategic and financial management, strengthened central control as opposed to decentralized decision making, and general management covering the international level. This provides it with gains in terms of management synergy (Grant, 2008, p.403).

2.4. Risks and Disadvantages of Diversification Strategy

Diversification strategy has disadvantages and risks as well as the advantages mentioned above. As a result of Porter's study on 33 large US corporate diversified companies operating between 1950-1986, it was observed that while a significant portion of these companies were expected to create added value, diversification had negative effects on the contrary (Porter, 1988, p.35).

2.4.1. Bureaucratic Costs

Bureaucratic costs are one of the reasons why corporate diversification strategies fail. Bureaucratic costs can be examined under two main headings. These will be the number of companies in the portfolio and coordination costs between companies (Hill and Jones, 1998, p.300).

Number of Businesses: An increase in the number of businesses in a company's portfolio may cause the top manager's control over the company as a whole to decrease and performance losses. The main reason for this loss of control is the concept of bounded rationality. As it is known, bounded rationality refers to the decision makers' inability to have all the information that will affect their rational decision-making on the issue they want to decide on. An increase in the number of businesses in the portfolio will reduce the top manager's ability to have enough information to make rational decisions about all units of the company (Hoskisson et al., 1991, p.301). A top manager who does not have enough information will not be able to distribute the resources he has as needed. For example, while allocating extra resources to one of the strategic business units, he will not be able to provide the resources needed to the other strategic business unit (Hill and Jones, 1998, p.301).

Coordination between Businesses: Another bureaucratic cost element is the coordination problem between businesses. We stated under the heading of resources that the concepts of resource sharing, transfer and economy of scope can be an advantage for businesses. The transfer and sharing of resources between strategic business units requires an effective coordination system. The increase in the number of businesses in the company portfolio makes it difficult to determine, transfer and share the resources required by the units. Because these processes will be full of bureaucratic procedures. Perhaps the most problematic point in this process is that while the aim is to determine resources and use economy of scope, the exact opposite situation can occur, in other words, it can cause all strategic business units to benefit from the mentioned resources at the least (Hill and Jones, 1998, p.301).

Another cost element of bureaucratic procedures is routine activities and procedures. In growing organizations, the multitude of routine activities and procedures are cost elements, and the difficulty of their change process can cause performance losses in businesses. For example, changes in processes, strategies, products, structures within the company and changes towards innovation and creativity may require fundamental changes in the operational activities of strategic business units, which will bring about a separate coordination problem (Hoskisson et al., 1991, p.298). With the effect of these fundamental changes, these problems will deepen and may cause them to become inextricable (Hill and Jones, 1998, p.302).

2.4.2. Agency Problem

One of the predictions of agency theory is that managers will act selfishly if they are not closely monitored. In this case, the company's board of directors or stakeholders will want to control managers for their own interests, but the managers who receive the agency will oppose this control. The increase in the number of strategic business units with the corporate diversification strategy will make it difficult for the units to be controlled by the top management and stakeholders. The reasons for this problem, which is based on the agency problem, can be briefly summarized as follows. First, managers and stakeholders will want to increase their own interests separately. In fact, the problem will start at this point. For example, the manager who is responsible to the stakeholders may sometimes show the company as more profitable than it is, may prefer short-term benefits instead of strategic benefits, or may behave immorally in order to prioritize their individual interests. For such reasons, the company ownership structure is an important problem. Research shows that the ownership structure is effective on the diversification strategy, and that diversified companies with agency problems experience performance problems (Lane et al., 1998, p.557; Denis et al., 1999, p.1072).

2.4.3. Stock Return Risk

When the studies are examined, it is determined that related diversification provides significant performance advantages and that the risk of related investments is lower and the return is higher than unrelated diversification (Chiu, 2007, p.2). However, the fact that the risk of related diversification strategy is low and the return is high does not guarantee that this situation will always occur, and studies show that related diversification can also cause undesirable results (Bettis and Mahajan, 1985, pp.787-788). Every diversification strategy, whether related or unrelated, will have a risk-return problem, albeit at different rates. The difference in risk-return ratios will vary according to the sector, the size of the company, the number of businesses within the company, and the degree of related diversification of the company (Chang and Thomas, 1989, p.152).

One of the reasons for the possible risks of diversification strategy is that some companies base their diversification strategies on wrong reasons. If managers who decide on a diversification strategy base their analysis on incorrect foundations, such as ignoring the product life cycle, the diversification strategy may fail (Hill and Jones, 1998, p.303).

3. DIVERSIFICATION STRATEGIES AND ORGANIZATIONAL PERFORMANCE RELATIONSHIP IN DEVELOPING COUNTRIES

According to the findings of recent studies conducted in developed countries such as America, Germany, England and Japan, diversification strategies do not increase firm value, on the contrary, it is understood that their costs are higher than their benefits. On the other hand, in developing markets, apart from the possible benefits and costs that may arise from diversification, other criteria may also affect performance (Lins and Servaes, 2002, p.6). According to Khanna and Palepu, unlike developed countries, institutional environmental factors such as gaps in developing country markets, business-government relations, production markets, and labor markets can be effective for businesses that have implemented a diversification strategy (Khanna and Palepu, 1997, p.43). The possible effects of these and other environmental factors on the diversification strategy and organizational performance relationship in developing countries can be expressed as follows.

Political and Economic Systems: The political and economic systems and regulatory decisions of each country will affect the labor system, market structure, and capital markets of that country. For example, since workers in China cannot form independent labor unions and cannot organize, their wage levels may be affected. The South African government supports the transfer of resources from their own country in a way that has not been the case in its history (Khanna et al., 2005, p.66).

Market Impairments: The concept of market imperfections is discussed in terms of obtaining 3 basic information that buyers and sellers have problems with. These are; First, the communication infrastructure in developing countries is not sufficiently reliable, fast and developed. Second, manufacturers have problems in conveying information about the product they produce to the customer. Finally, the mechanisms for customers to check the accuracy of the information about the product delivered to them are not sufficient (Khanna and Palepu, 1997, p.42). The lack of perfect competition conditions in underdeveloped countries may direct businesses to unrelated diversification instead of related diversification. Instead of benefiting from the advantage of related diversification, sectors that have been left empty due to the underdevelopment of the market will create advantageous conditions for unrelated diversification.

Government-Business Relations: There are various differences in the implementation of government policies in developing countries and developed countries that may affect the relationship between government policies, diversification strategy and organizational performance. As in our country during privatization periods, the laws of developing countries may sometimes prevent, encourage or force businesses from entering new areas. It may cause businesses that want to invest in any area to reconsider their investment decisions. On the other hand, in developing countries, relations with the government may be important in order to overcome and facilitate some bureaucratic problems (Khanna and Palepu, 1997, p.45).

Financial Markets: In developing countries, such as our country, inadequate financial controls and unrealistic financial statements will affect the diversification-performance relationship. In addition, since intermediary elements such as financial analysts, investment funds, investment banks, and venture capitals that are effective in the markets are inadequate in developing countries, firms are forced to prefer investments under their control. In this case, since there are suitable conditions, whether related or unrelated, diversification option comes to the agenda (Khanna and Palepu, 2000, p.868; Khanna and Palepu, 2000, p. 26). Such factors, which arise from the underdevelopment of financial markets, are seen as deterrent factors for creating effective venture capital conditions in developing countries and new entries into the market (Mishra and Akbar, 2007, p.24).

Labor Market: Another factor that may affect the diversification strategy-organizational performance relationship in developing countries is the labor market. The difficulty of finding well-educated and experienced employees, which is needed by businesses, is a factor that makes diversification difficult in developing countries. On the other hand, high unemployment rates (while not making it easier to find qualified employees) may cause the cost of unqualified employees to decrease. The absence or inadequacy of laws regarding the labor market may affect factors such as job security, employee wages, and unemployment insurance. While it becomes difficult for a growing business to find the employees it needs due to the factors mentioned, employee continuity may be problematic due to incomplete or ineffective legal regulations and practices (Khanna and Palepu, 1997, p.45).

CONCLUSION AND RECOMMENDATIONS

This study aimed to investigate the relationship between "diversification strategy and organizational performance". The results obtained were compared with international studies and the following evaluations were reached. When the results were compared with international studies, it was understood that there were various problems.

When the distribution of firms according to diversification measures is evaluated by country, it is understood that there are serious differences in terms of diversification levels between Turkey and the USA and England. It is observed that there are high rates of diversified businesses in England and America, while there are high rates of concentrated businesses in Turkey. The reason for this distribution can be shown as a shift from concentrated and core business-based businesses to diversified businesses in the early stages of industrialization in the USA and England. It can be said that the conditions experienced by developed countries in the 1950s were similar to the periods when this research was conducted in our country and that similar trends will be experienced in our country by observing the relationship between diversification and profitability. In addition, the fact that the rate of listing on the ISE is not high in Turkey, the incentives provided for the development of sectors, the fact that business or certain sectors are not sufficiently developed in Turkey or the economic and political preferences of the government regarding the distribution of public resources for business activities in Turkey can be shown.Problems related to comparing firm behaviors shaped by different preferences and macroeconomic variables in different periods also make the interpretation of the results of this study problematic (Yiğit, 2010, p.109).

On the other hand, Chakrabarti et al. found that the relationship between diversification strategy and organizational performance varies by country, covering six Asian countries. According to this study; while it was determined that there was a positive relationship between diversification and performance in India, a negative relationship in Korea and Japan, and that this relationship was statistically significant in three countries, it was found that institutional environmental factors such as national income and sectoral ROA affected this relationship in Malaysia and Thailand, which are developing countries. It was understood that the existence of the relationship was not statistically supported in Singapore (Chakrabarti et al., 2007, p.111).Another study supporting the findings of Chakrabarti et al. regarding the lack of significant results in developing countries is the Tobin's q-based study conducted in Taiwan. According to this study, there is no statistically significant difference between the diversification strategy and each of the organizational performance measures (Shyu and Chen, 2009, p.65). It is thought that factors such as some privatization policies in Turkey, working conditions, crisis conditions due to the period in which the research was conducted, the lack of full competition conditions in all sectors in Turkey, and the fact that some sectors are at the end of the product life cycle in developing countries but at the entry point in Turkey may affect the diversification-performance relationship.

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