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Relationship Between Diversification Strategy Applications And Organizational Performance According To Herfindahl Index Criteria

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Abstract

In Turkish literature it has been observed that there is only a single study by using Rumelt's diversification index in order to explain the diversification strategy-organizational performance relationship. Herfindahl index of diversification differed in many respects from Rumelt's index of diversification. Rumelt's index handles diversification in four groups as concentrated, main business based, related and unrelated. However Herfindahl Index grades the diversification as related, unrelated and for the total diversification in itself separately. By using diversification - organizational performance relationship on the basis of Herfindahl Index, the data of the balance sheets of the enterprises listed to the İstanbul Stock Exchange were received from the addresses www.kap.gov.tr and www.imkb.gov.tr. ROA and ROS values used as performance criteria have been obtained from balance sheet and income statements. The result that Herfindahl based diversification strategy applications and organizational performance relationship differ in the developed countries, but similar results in the developing countries were obtained at the end of the study.

Keywords: Diversification strategy, organizational performance, diversification strategy in the emerging market, Herfindahl Index

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1. Introduction

Considering the studies related with the diversification strategy – organizational performance relationship; although only one study which is a PhD thesis called “Diversification Strategy Organizational Performance Relationship: A Research In İstanbul Stock Exchange” by using Rumelt's diversification index (Yiğit, 2011) can be reached, there are lots of studies in this field in the international literature. One of the first studies in this field has been made by Rumelt as “Diversification Strategy and Profitability” (Rumelt 1982). Bettis contributed to this field with his study, called “Performance Difference in Related and Unrelated Diversification” Bettis, 1981). Porter contributed to the diversification strategy and performance relationship with his study called “From Corporate Strategy to Competition Advantage” (Porter, 1988). Rumelt (1974,1982), Montgomery (1982), Christensen and Montgomery (1981), Markides(1995,1995), in the developing countries Chakrabarti and others (2007), Chang (2007), Khanyanna and Palepu (1997, 2000, 2000, 2005), Lins and Servaes (2002), Shyu and Chen (2009) and many other researchers have studies about diversification strategy and organizational performance relationship.

Palich and others did a content analysis of a study in 2000 and a total of 82 studies made before (Palich and others,2000). According to this study , where the relationship between diversification strategy and organizational performance in the literature was examined, the relationship is an inverted U shape. Thus; there is a nonlinear relationship between diversification and organizational performance. As the diversification degree increases to some

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average level, the performance will also increase, however after an average level the company performance will decrease. The factors affecting the diversification – performance relationship positively are shown as; market share, common use of similar product and process technology, production facilities, management capabilities and similar work programs (Nayyar, 1992; Palich and others, 2000; Markides, 1994, 1995).

According to the findings of recent studies in the developed countries like America, Germany, England and Japan diversification strategies do not increase the value of the firm after the average level, in contrast the cost is higher than the benefits. Against this other factors may affect the performance except the potential benefits and costs arising from diversification in the emerging markets. (Lins and Servaes, 2002). According to Khanna and Palepu, different from the developed countries, corporate environment factors such as gaps in the developing country markets, business government relations, production markets and labour markets may be an advantage for the enterprises using diversification strategies (Khanna and Palepu, 1997).

There are a number of studies in the developed countries, in order to explain the relationship between the diversification strategy and organizational performance. Looking at the studies done in these countries, many different measures have been used to measure the diversification. For example in some of the studies (Rumelt, 1982; Markides, 1994, 1995; Pandya and Rao, 1998; Bettis, 1981; Chatterjee and Blocher, 1992; Markides and Williamson, 1994; Markides, 1995; Busija and Zeithaml, 1997; Mejia, 1992) related – unrelated separation has been done by using SIC (Standart Industrial Classification) code within the framework of Rumelt's classification. While using Entropy Index (Chakrabartive and others, 2007; Campillo and Gago, 2007; Ramaswamy and Li, 2001; Palepu, 1985; Chiu, 2007) and Herfindahl Index (Chang, 2007; Nguyen and Devinney, 1990), in many studies (Nayyar, 1992; Wong, 2003; George, 2007) more than one diversification measure have been used together.

In order to understand the the relationship between diversification strategy and organizational performance in Turkey beter, the issue will be needed to address to the different dimensions. This study will be for explaining diversification measure – organizational performance relationship in companies traded in ISE between 2005 – 2010, using Herfindahl Index To do this, the meaning of the diversification strategy, advantages and disadvantages of each diversification strategies, and how this relationship changes in the developing countries will be discussed respectively and the study will be completed with a research in ISE.

2. Diversification Strategy and Its Economic Benefits

Each of the probable economic benefits of diversification will be examined under the name of this title.

2.1. Unrelated Diversification, Resources, Skills Of A Company And Organizational Performance Relationship

As mentioned above in unrelated diversification, there is not any relationship between the company's strategic business units in terms of technological or market relations. So why do companies prefer an unrelated growth? Can a company create any value by unrelated diversification? (Craig and Grant, 1993). There are five basic factors that can be regarded as answers to such questions:

Risk Reduction: Companies whose products are threatened by the environmental uncertainty or in decline phase of their life curve can prefer to engage in an unrelated diversification to overcome the risk arising from current industries. Expanding its product line and activities to different sectors where the environmental uncertainty is reduced and, profitability is higher, a company may confirm its survival thus will make its cash flow more reliable (Hitt and Ireland, 2007).

Decrease in Transaction Costs: Considering each strategic business units of unrelated diversified businesses as profit centers, and the fact that top executives monitor each strategic unit, the top executives will have the opportunity to access all the available information regarding each independent business unit and the whole of the company at the lowest transaction cost (Craig and Grant, 1993). One of such information is related to the control of the capital. The transaction cost in internal capital control will be less in unrelated diversification than in related diversification. Such as, in need of financial resource by the company or any strategic business unit, executives will be able to transfer it

selecting from any of strategic business units of whose information is set to be available to them without any transaction cost (Hill, 1988).

Decrease in Costs of Service: Some activities such as legal services, public relations, the company's case security, internal audit, investment decisions can be performed centrally at company level for all strategic business units. Although there may not be a relation in operational sense, on behalf of the unrelated diversification strategy such activities can be cost-saving benefits (Craig and Grant, 1993).

Accessing management skills: Based on the claim, which needs a scientific support, that the executives have skills hard to achieve (Craig and Grant, 1993) promotes the idea that the successful executives of companies engaged in unrelated diversification will be successful in new investments (Markides, 1995). In this perspective an executive that has the skill and knowledge to manage a single company may also have the ability to manage multiple businesses at the same time. This will be an advantage for the diversified business and will contribute to profitability (Miller and Dess, 1996).

Foreseeing Potential Environmental Opportunities (Exploiting inefficiencies in the market's valuation of companies): From time to time opportunities may arise for companies. These opportunities in some cases, are detected with rationale while in some cases may be based on intuition. An executive that feels he has enough knowledge may capture the opportunity of high profitability by investing in a new field by intuition (Craig and Grant, 1993). Unrelated diversification can teach corporate executives how to create economic values in different product lines and markets. For instance, an executive of an unrelated diversified company who has sufficient environmental information can buy out another business which he considers as being profitable then re-structures and re-sells it so as to attain the expected profit (Hill and Ireland, 2007).

2.2. Related Diversification, Resources, Skills Of A Company And Organizational Performance Relationship

According to Craig and Grant, a competitive advantage of related diversification will be possible only with sharing of non-physical and physical resources, proliferation of some management skills into the strategic business units (Craig and Grant, 1993).

2.2.1. Sharing Physical Resources

In related diversification there are two ways in which effect of performance based on physical resources is felt. First, the potential relationship between strategic business units can be identified and the utility of the resource can be enhanced so as to be utilized collectively by all the strategic units. Second, especially during the production process, already existing products which are complementary to each other can be commonly used. In both cases, the collective use of physical resources can help to provide cost savings for strategic business units (Farjoun, 1998). In related diversified companies, advantageous physical resources refer to the resources such as the production area and technical equipment that have the flexibility to be used in common. For the common use of these resources the industries needs to be related or similar to each other (Chatterjee and Wernerfelt, 1991).

2.2.2. Sharing Intangible Resources and Transfer of Skills

In this section it is claimed that even a simple transfer between the units of a related diversified company would benefit all of its strategic business units; and here the sharing of nonphysical resources and transfer of skills will be examined.

Brand and Reputation: Since the customers are already familiar with the products manufactured by the existing strategic business unit (Cohen, 2005), the company's well-known brand value contributes positively to the performance of strategic business units. Reputation, independent of brand, refers to people's awareness of the firm's quality, etc. The expansion of a company with a reputation in the related field will contribute to company's competitive advantage (Craig and Grant, 1993).

Technology: It refers to the evaluation of the company's existing technological capabilities so as to contribute to its growth and competitive advantage. The companies aware of their technological superiority can invest in new areas after analyzing where and how to use their superiority (Chiu et al, 2008). In particular, the method applied by the

Japanese technology companies such as Canon, Matsushita, Fujitsu, Toshiba, Sony, and such giant companies set the examples. Canon is noteworthy among these firms as it has realized large proportion of growth in the last two decades by using its technological ability (Watanabe and others, 2005).

Marketing Capability: Companies may transfer their brand name as well as their marketing capabilities. Companies diversified in their ability of marketing research, distribution channel management, and new market access can gain competitive advantage. For instance, Philip Morris' diversification from tobacco products to beer, soft drinks (Seven Up), and processed food (Kraft and General Foods) is based on strong brand management, international marketing and market segment (Craig and Grant, 1993).

Operational Capability: It refers to the transfer of the capability of production of strategic business units to some other diversified business areas; more precisely that is the ability that one of the strategic business units has can be used by other units where the production process is similar (Helfat and Eisenheart, 2004). For instance, with the effect of the transfer of the operational capabilities owned by units in Canon (Digital camera, camera, copier, and printer) significant increase in performance could be announced (Watanabe et al, 2005).

2.2.3. *Sharing General Management Skills*

In case of transfer or share of resources and capabilities among strategic business units of diversified companies some technical or market relatedness is needed. The capabilities transferred are not only functional skills but also are in relation to general management skills. Top executives can make some suggestions to business units regarding the general management skills and such suggestions do not necessitate a close relation or in other words a related diversification between strategic business units in terms of customer or in technical sense. General management skills encompass the idea that similarities in management skills are possible due to the collective use by corporate and strategic business unit managers (Craig and Grant, 1993).

3. **Risks And Disadvantages Of Diversification Strategy**

3.1. *Bureaucratic Costs*

One of the reasons for the failure of corporate diversification strategies stands out as the bureaucratic costs. It is possible to examine bureaucratic costs under two main headings. These are the number of businesses in portfolio and costs of coordination between businesses (Hill and Jones, 1998).

Number of businesses: Increases in the number of businesses in the company's portfolio may result in top executives' loss of control over the whole of the company thus deteriorations in performance happen. The main reason for the loss of this control appears to be the concept of limited rationality which refers to not having all the data required for rational decision-making. Increases in the number of business in the portfolio will have a mitigating effect on top executives' having substantial information to make rational decisions concerning all units of the company (Hoskisson and others, 1991). Without the necessary information required top managers can not allocate resources as needed by each separate unit. Transferring an extra resource to one of the strategic business units while another unit is in deficit set an example to such phenomenon (Hill and Jones, 1998).

Coherence between Businesses: Another bureaucratic cost is the coordination and coherence problem between the businesses. As mentioned in the sources section, sharing and transfer of resources, and the concept of content economy, are advantageous for businesses. Transfer of resources between the strategic business units requires an effective coordination system. Since the processes will be filled with bureaucratic procedures, increasing number of businesses in company's portfolio has an obstructive effect on determination, transfer and share of resources required by the units. Perhaps the most problematic point in this process is while the purpose is to determine the resources and utilize content economy; a contrary result that such process may result in the minimum utility from the mentioned resources may arise (Hill and Jones, 1998).

Other routine activities are also encountered as a cost element in the bureaucratic processes and procedures. Routine activities and procedures in a growing majority of organizations appear as an element of cost, and the difficulty of changing these processes can result in deteriorated business performance. For instance, in case that changes in the processes, strategy, product, innovation, creativity and structure require alterations in the basic level of

operational activities of strategic business units, that will bring a unique coordination problem (Hoskisson and others, 1991) and the effect of these fundamental changes may lead to problems deeper and more complicated (Hill and Jones, 1998).

3.2. Agency Problem

One of the foresights of this theory is that managers when not observed closely focus on selfish behaviors. In this case, the board of directors or shareholders will wish to control the managers for their own interests, whereas, with the delegation of power the directors will stand against this control. With increasing number of business units due to the corporate diversification strategy, it will be hard for the top executives and shareholders to control these units. Reasons for this power attorney based problem can be summarized briefly as follows. First, the managers and shareholders each will want to augment their own interests. In fact, the problem will arise at this very point. For instance, the manager who is accountable to shareholders could present the company more profitable, may prefer short-term benefits rather than the strategic benefits and exercise immoral behaviors so as to fulfill his individual interests. So, structure of corporate ownership is an important problem. Researches show that the ownership structure is effective on the diversification strategy; however diversified companies with delegation problem have experienced problems in performance (Lane and other, 1998, Denis and other, 1999).

3.3. Stock Return Risk

The findings of the prior research suggest that related diversification yields significant performance advantages and that related investments are relatively less risky and highly profitable to unrelated diversification (Chiu, 2007). However, this fact should not be inferred as related diversification always bears the outcome of low risk level and high profits since some researches suggest related diversification can also generate undesirable results (Bettis and Mahajan, 1985). In each diversification strategy regardless of being related or unrelated diversified, albeit at different rates there is the problem of return risk. Differences in risk-return rates will vary depending on the sector, the company size, the number of businesses within the company and the degree of related diversification (Chang and Thomas, 1989).

One of the reasons for bearing potential risks in diversification strategy is that some companies base their diversification strategy on with inaccurate rationale. Executives who decide for diversification strategy make their analysis on false grounds, like ignoring the curve of product life, which may lead to failure of the diversification strategy (Hill and Jones, 1998).

4. Relationship Between Diversification Strategies And Organizational Performance In Developing Countries

According to Khanna and Palepu, unlike in developed countries, corporate environmental factors such as gaps in developing country markets, business government relations, production, markets, labor market can be effectual for companies that have engaged in diversification strategy (Khanna and Palepu, 1997). The possible effects of this strategy of diversification in developing countries and other environmental factors on organizational performance relationship can be expressed as follows.

4.1. Political and Economic Systems

Each country's political and economic systems and regulatory decisions will affect how that country operates in the economic sense, market structure, and the capital markets. For instance, in China, wage levels could be affected since workers in China can not establish independent trade unions and form an organized struggle. South African government supports the transfer of resources from their own country strongly as never before (Khanna and others, 2005). In Turkey, recent privatization policies are an example of the situation. Acceleration on the privatization policies in Turkey creates an opportunity for businesses who want to invest in new areas. After all, a profitable public enterprise can be sold regardless of being related or unrelated to a company's current industry.

4.2. Faults in the market

The concept of market faults which implies the issue of what trouble buyers and sellers face in obtaining three basic informations has been debated for a long period of time. These 3 basic informations are: First, the communication infrastructure in developing countries is not sufficiently reliable, fast and developed. Second, manufacturers experience the problem of forwarding relevant information with regard to products they produce to the

customer. Lastly mechanisms for the customers to check the accuracy of the information delivered about the products are not sufficient (Khanna and Palepu, 1997). The fact that in developing countries conditions of perfect competition is not constituted may be a factor in steering businesses into unrelated diversification rather than related diversification. Underdeveloped sectors will create advantageous conditions for unrelated diversification instead of making use of advantages associated with related diversification.

4.3. *Government-Business Relations*

There are differences in various applications of government policies that affect the relationship between diversification strategy and organizational performance across developed countries and developing countries. Laws and regulations in developing countries following a similar path to Turkey in privatization period can now and then be encouraging, compelling or deterring for companies to expand into new areas. Thus companies wishing to invest in an area review their investment decisions. On the other hand, relations with the government can be important in developing countries to overcome bureaucratic problems and facilitate relations (Khanna and Palepu, 1997). Incorporation of the requests of large group of diversified enterprises into government economic programs or using their priorities for allocation of resources can be types of government and business relations.

4.4. *Financial Markets*

In Turkey, as well as in developing countries, inadequate financial controls and delusive financial statements will affect diversification and performance relationship. In addition, firms choose investments they have control over since the intermediate elements such as effective financial analysts in markets, mutual funds, investment banks, and venture capital firms are inadequate in developing countries. In this case, the appropriate conditions raise the option of related or unrelated diversification (Khanna and Palepu, 2000; Khanna and Palepu, 2000). Such factors arising from underdevelopment of financial markets is regarded to have a deterring effect on generating effective venture capital conditions in developing countries and on new entries to the market (Mishra and Akbar, 2007).

Labor Market: In developing countries, another factor that may affect the relationship between diversification strategy and organizational performance is the labor market. In developing countries difficulties in finding well-trained employees needed for businesses appears to be a negative factor in diversification. On the other hand high employment rates (not necessarily facilitating finding qualified employee) may result in decreased costs of unqualified employee. The absence or impotence of the law regarding the labor market may affect factors such as unemployment insurance, job security, employee wages which consequently will have an obstructive effect on finding qualified employee needed by growing businesses, and because of the inadequate or ineffective legal regulations and applications the continuity of labor will be problematic (Khanna and Palepu, 1997). On the other hand increased young population in Turkey enables employee wages and conditions to be in favor of the companies. Although the problems in finding qualified employees exist, when evaluated in terms of production costs young people inevitably will be a factor in lowering the costs. This situation will lead the companies to invest in business areas, though unrelated, that does not need qualified workforce.

Because of the conditions such as different levels of diversification of businesses in Turkey, diversification practices in line with government policies, macro-economic indicators, interest rate due to country risk, inflation policies and the fact that research covers the period of crisis suggest that a relationship outside of the general trends exists. Building on the fact that Turkey is a developing country; following hypotheses for the diversification and performance relationship are claimed after the theoretical examination.

H1. As the diversification degree increases to the average level, organizational performance (ROA) will increase and organizational performance will decrease after average level.

H2. As the diversification degree increases to the average level, organizational performance (ROS) will increase and organizational performance will decrease after average level.

5. **A Research On Companies Listed On Istanbul Stock Exchange**

5.1. *Aim and Universe of the Study*

Aim of this research is to determine whether there is a significant difference between diversification and performance values, i.e. ROA, ROS. For this purpose, performance values of companies listed on ISE, and their diversification measures will be analyzed.

The research universe is the 359 companies listed on the Istanbul Stock Exchange Market and whose shares got traded in period of 2005-2009. The reason for the selection of companies listed on ISE is the opportunity that the balance sheets, ownership information and diversification levels required for their ROA and ROS calculations can be obtained reliably. Thus, the universe is designed to accommodate many industries. A sample group is not selected for the analysis; but full counting is carried out. Although shares of 359 companies were traded as of 2009, total data of 342 companies listed on ISE were analyzed since the 17 of them are excluded because of their fund traits.

4.5. The variables and measurement methods of the research

The independent variable of the research is diversification measure and the dependent variable is organizational performance.

4.5.1. Diversification Measure

In this study diversification measure is Herfindahl Index, perhaps the most widely used (Woerheide, and, Persson, 1993), measure of economic concentration. Thus, our first proposed index is

$$DI(O) = 1 - HI = \sum_{i=1}^N w_i^2$$

‘Where, DI is the diversification index, HI is the Herfindahl Index, W_i is the proportion of portfolio market value invested in security i (in decimal form), and N stands for the number of securities in the portfolio. Our use of the complement of this index is for the stylistic purpose of altering the index value so that zero represents a portfolio with absolutely no diversification (a one security portfolio) and 1.0 would represent the ultimate in diversification’.

4.5.2. Organizational Performance

The analysis to measure organizational performance, utilized financial measures and reasons for using these measures are summarized below.

Researches in which Performance is measured by ROA; ROA is accepted as an important indicator to measure the effectiveness of management by the researchers that measure organizational performance by ROA value only. In addition, external shareholders and business managers who need the performance of the business organization express that ROA is a sufficient criterion to evaluate the performance of organization (Tihanyi, 2003; Dubofsky, 1987; Kim and others, 2004; Ravichandran, 2009; Hill and others, 1992). On the other hand, Christensen and Montgomery ROA is a standardized measure of performance (Dubofsky, 1987). This rate shows to what extent the assets are used effectively in other words how much revenue can a company make over its assets (Fool and Others, 2008).

Researches in which Performance is measured by ROS (Return on Sales); the reason that researchers use the ROS value only or with other financial measures for organizational performance is that the ROS ratio is calculated after deducting taxes and other expenses. The ROS value is accepted as an important factor in measuring the efficiency of operational activities (Palepu, 1985; Markides and Williamson, 1994; Markides, 1995; Markides, 1996).

4.6. The Analysis Of The Research

Herfindahl diversification measure based analysis is used in the research to see the performance- diversification relation of the businesses listed in Istanbul Exchange Stock. First of all , the frequency values will be shown. After calculating the average diversification degree, correlation analysis will be subject to the dependent and the independent variables to see whether performance increases to the average level of diversification and decreases after the average or not. Finally, regression analysis is used to see the probable effect of diversification degree on performance.

4.6.1. Frequencies for Diversification, ROA and ROS

As Table 1 demonstrates, 238 businesses are included in the research. When grouped according to corporate level, there are 124. It is understood that the average diversification degree of the businesses included in the research is 0,1195, the ROA value is 0,0397 and the average ROS value is 0,0708.

Table 1. Frequencies for Diversification , ROA and ROS Values

| In the research | Business level | Corporate level | Total | Average | | |
|----------------------|----------------|-----------------|-------|-----------------|--------|--------|
| | | | | diversification | ROA | ROS |
| Number of businesses | 94 | 144 | 238 | 0,1195 | 0,0397 | 0,0708 |
| Number of corporate | 94 | 30 | 124 | | | |

4.6.2. Diversification Degree, Performance Criteria, Correlation Analysis

In order to understand the relation with performance, up and down of average diversification are subjected to correlation analysis separately. Table 2 demonstrates that there is no correlation between up and down average value and a performance criteria ROS. Thus, hypothesis 2 is refused in terms of ROS value. Accordingly, performance increases up to the average diversification and it decreases after the average. However, there aren't any findings showing that performance increases to the level of average diversification when ROA is used as the performance measure hence it is inferred that there is a negative weak relation between performance and up the average diversification($p=0,05$). Hypothesis 1 is partially accepted for ROA.

Table 2. Diversification, ROA and ROS Correlation(Spearman) Analysis

| Diversification measure (Herfindahl) | | HERFINDAHL | ROA | ROS |
|--------------------------------------|-----------------|------------|----------|-------|
| up (0,1195) average | Correlation | 1,000 | -,444(*) | -,142 |
| | Coefficient | | | |
| | Sig. (2-tailed) | . | ,014 | ,455 |
| | N | 30 | 30 | 30 |
| down (0,1194) Average | Correlation | 1,000 | -,060 | -,090 |
| | Coefficient | | | |
| | Sig. (2-tailed) | . | ,566 | ,386 |
| | N | 94 | 94 | 94 |

* Correlation is significant at the 0.05 level (2-tailed). ** Correlation is significant at the 0.01 level (2-tailed).

4.6.3. Diversification Degree ROA Regression Analysis

Table 3 demonstrates the linear regression analysis results intended for understanding how ROA, a performance criterion, is explained by diversification strategy.

Table 3. Diversification Degree ROA Regression Analysis Results

| Model | R | R Square | Adjusted R Square | F |
|------------|---------|----------|-------------------|-------|
| | ,347(a) | ,120 | ,089 | 3,821 |
| | B | Beta | T | Sig |
| (Constant) | ,097 | | 2,755 | ,010 |
| HERFINDAHL | -,126 | -,347 | -1,955 | ,061 |

Dependent Variable: ROA Independent Variable: Herfindahl

So the research model between ROA, the dependent variable and diversification (Herfindahl), the independent variable is designed as follows; It is understood that ROA equals to 0,097- 0,126 Diversification (Herfindahl). According to the research model, % 0,126 of the performance value is explained by diversification.

5. Conclusion

When the findings of the study are considered in terms of ROA, Hypothesis 1 indicating the relation between diversification measure and organizational performance is partially supported and Hypothesis 2 indicating the relation between ROS and diversification strategy is refused. Chakrabarti, and others, examining six countries in Asia have elicited that the relationship between organizational performance and the diversification strategy differ in terms of countries. According to this research, a positive correlation between performance and diversification exists in India, a negative relationship exists in Korea and Japan and that this relationship is found to be statistically significant in three countries. On the other hand, results of the same research suggested that in developing countries, Malaysia and Thailand, corporate environmental factors such as the national income and sectoral ROA affect this relationship. In Singapore, the fact that the existence of such relationship is not statistically supported was revealed (Chakrabarti, and others, 2007). Another research by Chakrabarti and others supporting the findings of not eliciting significant results in researches carried out in developing countries is an analysis made in Taiwan based on Tobin's q. According to this study, there is not a statistically significant difference between each diversification strategy and organizational performance measures (Shyu and Chen, 2009).

When considered in general, it is seen that the findings have similarities to the developing countries only in terms of the performance measure ROA and down the average diversification. However, there is no statistically significant finding about ROA, up the average diversification and ROS. As it is revealed in the above mentioned studies carried out in the developing countries, the causes that findings are not significant can be due to the fact that diversification is based on different reasons. It is thought that some factors such as some privatization policies in Turkey, working conditions, the crisis which occurred during the research period, the absence of perfect competition conditions in Turkey and the fact that while some sectors are at the end of product lifecycle in developing countries, Turkey is at the beginning can affect the relation between diversification and performance. The researchers interested in this subject can make comparative studies using different diversification measures for Turkey or different quantitative studies intended for seeing whether there is a significant difference in the relation between different diversification measures and organizational performance or not in the developing or developed countries including Turkey. Furthermore, a qualitative study including the factors within the organization and out of the organization together or separately can be carried out in order to understand the reasons of diversification in Turkey.

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