

Revisiting Product/Industry Diversification and Corporate Performance

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Abstract

Extensive research has focused on the impact of diversification on performance. Current theory and thinking in practical circles is that diversification has a positive impact on performance through risk reduction. The underlying assumption is that firms choose to reduce risk through diversification, which then improves performance, especially in transitional economies with high levels of uncertainty. However, this theoretical assumption begs the question of whether firms that perform differently actually choose a different diversification strategy. That is, is it possible that performance actually has an impact on the firm's diversification strategy, rather than the reverse? In this paper we argue (1) prior performance directly relates to diversification strategy, and (2) that appropriate understanding of the impact of diversification strategies on performance requires consideration of prior performance.

Field of Research: Management, International Business

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