MODERN STRATEGIES FOR THE PERFORMANCE IN THE ORGANIZATION

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Abstract: *The elevation of business is one of the key objectives while starting or running any business despite of its type and the business model. There are assorted strategies to escalate the business performance which are generally adopted by the board of directors and which directly or indirectly affect the overall business of the organization. The modern strategies for the organization performance may include the additional tie-ups and the associations with the other organizations. In addition, the approach of competitive analysis is also adopted. This manuscript is presenting the approaches and strategies for the performance elevation in the organization.*

Keywords: *Business Performance Strategies, Corporate Performance, Organization Performance Strategies.*

JEL Classification: *M41.*

1. Introduction

The growth of any business organization depends on its product line as well as the services with the associations and rich market survey. There are assorted factors which affect the overall performance of any business (Means, G., 2017).

2. Business Diversification Strategy

Business diversification strategy is defined as a practice under which a corporate enters a new industry or market which is different (may be similar one) from its core business (Burke, W.W., 2017; Pedersen, E.R.G., 2018, Mackey, T.B. et al., 2017). It can also be seen through, the variations between businesses, within the company. The degree of diversity is primarily determined by two factors namely the degree of difference in various dimensions of product produced and the number of dimensions in variation like customer type technology used etc. (Mackey, T.B., 2017)
Out of several reasons for the corporate to diversify the primary reason is reducing risk of relying on only one or few sources of income. Some other possible reason to diversify is avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles, achieving higher growth rate and countering a competitor by invading the competitor's core industry or market (Sakhartov, A.V., 2017).

Figure 1. Growth Matrix in the Business

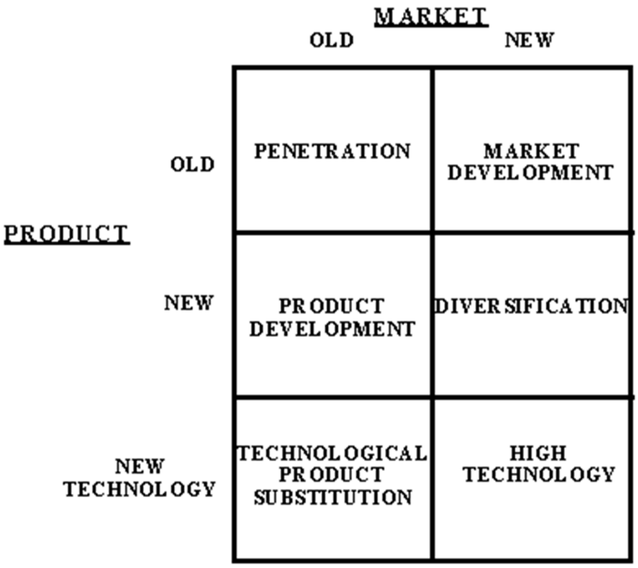

Figure 2. Evaluation Matrix for the Market Penetration

A number of studies have hypothesized that diversification improves profitability through economies of scope by pre empting the product space. All though the views on the phenomenon is very mixed, one possible explanation by famous work of Scott which demonstrated three effect of diversification. The first one is that it may generate multi market economies thereby increasing profit. It may also increase the number of contacts between the businesses, thus increasing chance of collusion. In addition, it can also facilitate the transfer of resources into more profitable markets thereby overcoming the problem of entry barrier and that of reducing profits.
When a corporate chooses to diversify, it faces a decision as to how related the new business is to the existing businesses of the corporation. Strategic actions are aimed at creating value for the organization. Therefore, it is important to look at the value creation rationale of diversification. Diversification create value when economies of scope exist among the multiple businesses in the organization, and exploiting these scope economies can be done more efficiently by the corporate rather than by shareholders on their own. The general discussion on value creation in diversification sets the stage for the next important pasture for the instructor – outlining the key elements of economies of scope.
The strategy of diversification is indeed not rare. The inimitability of a corporate diversification strategy depends upon the economy of scope that is the focal point of the strategy. Core competencies and multipoint competition are obvious examples of costly-to-duplicate economies of scope, while tax advantages and risk reduction are typically less costly-to-duplicate economies of scope. In general, economies of scope based upon tangible resources are usually relatively easy to duplicate. In other words, if Procter and Gamble acquired Gillette to exploit economies of scope based upon shared sales force, Colgate- Palmolive can do the same.
Scope economies based on intangible resources particularly those based on tacit collective knowledge are much more difficult to imitate. The realization of capital allocation economies of scope require sophisticated information processing capabilities. Similarly, multipoint competition requires considerable coordination skills. Finally, to exploit market power, the corporate first of all must have market power advantage. In short, inimitability is not the same across the board; rather it depends upon the resources involved.
Instead of leveraging scope economies across businesses, a corporate may decide to grow and develop each of its businesses separately. It can replicate the success in one business to another, rather than look across businesses to leverage common activities. Strategic alliances are another substitute for growth through diversification. Instead of looking to share activities across two of its own businesses in the area of R&D or marketing, the corporate can enter into a marketing partnership with another corporate. By looking at diversification from the perspective of rarity and limitability, it can be said that corporate diversification strategy must have the goal of helping the corporate obtain a sustainable competitive advantage. This not makes a case for careful deliberation from the corporations point-of-view, it also reveals that the VRIO framework is applicable in a variety of strategic situations.
Diversification strategies are used to make bigger business operations larger by adding up markets, products, services or stages of profit to the on hand business. The rationale of diversification is to permit the companionship to enter lines of business that are dissimilar from existing operations. Diversification is a form of growth strategy, but cannot be a guaranteed route to success. Probable growth also increases earnings, but only in strenuous industries. However, substituting growth

rates of the trader business themselves do not have an effect on fallout much, signifying that own-growth rates possibly will certainly be sensible alternatives for demand growth.

Generally, growth strategies occupy an extensive supplement in performance objectives such as sales and/or market share, away from past stages of performance. Many corporates follow one or different types of growth strategies. One of the main reasons is the outlook held by many investors as well as corporate is that _bigger is better‘. Growth in sales is over and over again used as a gauge of performance. Still if profits stay behind, constant or turn down, an increase in sales satisfies several people. The statement is frequently completed that if sales increase, profits will ultimately go after.

These are some of the main reasons in the last five decades the strategy researchers have studied corporate diversification decisions, and several relationships have been examined consequently. Investigation and research have connected diversification strategy to a variety of outcomes together, but not limited to, corporate economic performance, capital structure and corporate restructuring. In adding together, strategy research has included business and manager characteristics as determinants of diversification strategy. On one hand the diversification literature, studies the differential effects of related vs. unrelated diversification strategy and the corporate performance had proved to be an admired research area. Nevertheless, a few strategy relationships have acknowledged adequate intellectual attention to validate a quantitative integration of research results. The relationship between diversification strategy and corporate performance is one such strategy connection for which amalgamation of results is defensible and potentially helpful of dissimilar business groups. The effect, in fact conveys that geographic diversification permits business groups to make use of their core competencies and distinguishing group ability crossways units in diverse international markets. Worldwide revelation might have also provided a wider pedestal of markets for obtaining returns from modernization and offer new market opportunities.

The standard work of has provoked many readers and policy makers to recognize the capital structure decisions of the corporate. An in depth literatures review discussed theories, interpretations such as static buy and sell off, group cost and empirically tested these theories to be acquainted with aspects influencing capital structure decisions of the corporate. The diversification strategies assist business to improve their financial corporate performance. In fact diversification strategy has been revealed to be an imperative element of capital structure measured the impact of diversification on the monetary option of the corporate subsequent to scheming intended for additional most important elements of capital structure Chen from his findings suggested that the costs of corporate diversification dominate the benefits of corporate diversification and highlight the importance of diversification strategy in affecting the market valuation of R&D innovation. Investigate the majority of different strategies are restricted to developed nations, while of behind there is rising attention in assessment of developing countries.

3. Business Performance and Diversification

Large multi business establishments have been observed to develop and exploit corporate level distinctive competencies and enhance their performance. The corporate level distinctive competencies / performance relationships were found to

vary by type of diversification strategy but not by type of corporate structure. Additionally, only a small relationship was found to exist between diversification strategy and corporate structure. The specific relationships between corporate level distinctive competencies and performance and their normative implications are explored and are discussed further.
While assessing the relationship between diversification had defined diversification and confirmed that measuring its associated returns is anything but straight forward. Research in the management field and a fair proportion of the work in industrial organization has searched for relationships between a business total amount of diversification and its overall profitability. In contrast, work in the agency-theoretic tradition has focused almost exclusively on mergers and acquisitions—changes at the margin, rather than evaluation of a business diversification as a whole.
Each of these approaches has its merits and drawbacks. Diversification has been included in a number of standard industrial organization studies which examine the relationship between corporate performances.
Wan (2011) suggested that diversification is a strategic choice of a corporate to improve performance. However, there are opposing views in studies examining diversification and performance relationship. The first view favors focused corporates while the other favours diversified business. Amit and Livnat (1988), suggest that both of these strategies are pursued based on two motives which are synergistic and financial motives. If business have synergistic motive, they may pursue focused strategy but if they have financial motive, then the diversified strategy would be adopted and is more advisable. Nevertheless, pursuing these strategies to increase performance would not assure obtaining the expected result as debate over which strategy is most suitable remains ongoing.

4. Approaches towards Business Performance Un-diversified Business

Focused strategy is defined as business activities within corporates respective resources but products or services offered may differ from currently served (Johnson, Scholes and Whittington, 2008). This is a strong recommendation which is proposed by all the researchers who belong to this school of thought, where corporates should concentrate on their core business in order to perform better. They concluded that focused strategy is expected to enhance performance as business operation is relatively close to the existing business. This argument is supported by empirical evidence from developed countries. They suggest that focused corporates perform better than diversified corporates because they are more efficient in converting underutilized resources to achieve maximum performance. Another reason is associated with market power whereby focused corporates could use predatory pricing to deter and eliminate competitors from their respective industries (Montgomery, 1994).
Montgomery (1994) supports this view by showing superior performance of focused corporate opposite to diversified corporate. Better advantage of focused corporates could be the key factor that led United States‘ corporates to diversify around their core business in 1980‘s as seen in the pattern of profitability premiums also supported by empirical tests conducted by (Rumelt, 1982). It seems that focused strategy was the appropriate diversification strategy to be implemented at that time. Similarly, Tsai (1994), working on the similar lines, tried to derive a relationship between construction corporates financial performance/risk and there diversification

strategies. The research suggests that for maximization of corporates in construction business a single business strategy is a good choice.
However, Johnson et al., (2008) suggested some other possible causes could impact performance of focused corporates. The first cause could be time and cost related, making it difficult to determine the effect of synergy on corporates. While the second cause could be unwillingness of managers to share resources as each business division has respective performance measurement to achieve and sharing of resources complicates such measurement.

5. Diversified Business

The second stream of evidence indicates that diversified strategy could be used to enhance corporate performance, among them (Gourlay and Seaton, (2004). Diversified strategy seems to dominate corporate action from the middle of twentieth century till date in US as shown by Rumelt (1982). However, this behaviour of US corporates changed due to new control and policy introduced by the government in the early 1980‘s resulting in widespread sale of non-core asset. Diversified strategy is identified if corporates have operations in more than one industry. Bettis and Mahajan (1985) from their research also suggested that diversified corporates have significantly able to reduce their systematic risk and increase returns. The author had also very strongly confirmed that there is still some level of correlation between related diversification and corporate performance but the unrelated corporate performance bears a negative correlation with diversification.
Agency cost, cash flow and transaction cost are the three most important reasons that have been mentioned by Amit and Livnat (1988) on why corporates pursue diversified strategy. As mentioned above, agency cost arises from conflict of interest between managers and owners of corporates. Nevertheless, Aggarwal and Samwick (2003) argue that managers could not get involved in an industry that is totally different from existing operations without the owners‘ permission. The second reason is associated with surplus funds available to corporate. Extra money means corporates are not tied to debt obligations; therefore, they could diversify their business with the expectation of improving performance (Hitt, Hitt and Hoskisson, 1992). Finally, the third and possibly the most important reason as mentioned by several researchers, linked to transaction cost where certain assets could not be rented or sold; hence, diversified strategy becomes an option to efficient use of those assets (Amit and Livnat, 1988).
Kim (1989) advocates that corporate in developing countries would be better off by adopting diversified strategy due to the presence of the commodity sectors. Most empirical studies relating to diversification and performance were done using manufacturing sector data particularly in developed countries. Therefore, result obtained in developed countries may not be applicable to developing countries. In addition, presence of market imperfections in developing countries could benefit diversified corporates.
Leontiades M. (1979) have theoretically emphasized that unrelated product diversification leads to success and have discarded some of the old theories and concept in the area. The researchers concluded that conglomerate corporates are not inherently superior or inferior to horizontally or vertically structured corporate. Furthermore, Geringer et al., (2000) who studied Japanese corporates suggest that every country has their own uniqueness which could explain variation in the result

obtained. Lee et al., (2003) found similar finding when they performed a comparative study between Korean and United States of America (US) markets during the period 1992 to 1996. Diversification creates positive results for Korean corporates and vice versa for US corporates. This finding seems to be the reason why corporates in emerging markets pursue diversified strategy. It is possible that differences in executing diversification strategy brought about contrasting outcome between Korea and US.

6. Other Factors Affecting Business Performance

Contrasting evidence thus far may be due to different variables being used in respective studies. There are various studies which have examined variables that may explain corporate performance. However, these studies offered mixed results, in a way that most of the researchers concluded from their studies that diversification strategy can lead the company's profitability to a new paradigm and thus every company should try to diversify based on the specificity of the corporate. On the contrary there are some very strong objection to such a research in which some researchers claim that the research conducted by them proves a very week or negative relationship between diversification and market performance of the corporate. The justification offered by them is that a company can gain expertise in manufacturing of only one type of product in such situation if the company starts making more than one product than the core competency of that company tends to lose.

There are even some researchers which claim that if a company follows related diversification strategy than there are chances of profit where as those companies whose line of product are unrelated shows a negative response as far as profitability or market value is concerned. One major problem is the existence of market imperfections brought about by economical, political and operating environments in each country (Lee. 2003). Kracaw, Lewellen & Woo (1992) support those findings in which they mentioned that inflation variable also influences performance. Apart from inflation, leverage also significantly influence performance.

Due to the strategic management approach, corporate strategies despite being based on various sets of management guidelines identifying the appropriate scale and scope of the firm, all converge in dealing with conflicting demands of synergies and responsiveness with respect to allocating resources. Successful corporate strategies are the result of organizational capabilities or competencies that allow firms to exploit potential synergies that large size or diversity can offer. On one hand, the synergy of interrelated businesses within a diversified firm brings in the benefit of economies of scope which arise from sharing both common tangible inputs such as markets, distribution systems, product and process technologies, or manufacturing facilities (Ansoff, 1965; Rumelt, 1974; Teece, 1980), and intangible assets such as brand names and know-how, managerial capabilities and routines and repertoires (Bettis, 1986; Grant, 1988). The more interrelated the businesses of a firm, the greater the potential for organizational synergy.

Firms are assumed to have different innovative capabilities that lead them to pursue different types of product diversifications. A firm with a diversified portfolio of products may be better positioned to determine the general applicability of new ideas than a firm with a narrower portfolio of products, because it can capture internal knowledge spillages.

The present study tries to derive relationship and impact of significant economic variable, like diversification strategy on capital structure, systematic risk and corporate performance. This has been achieved using three models namely, leverage model, market risk model and corporate performance model.
The Dependent Variable for this model is Capital Structure (Leverage) which is alternatively measured by Total Debt to Total Assets (TDTA), Total Debt to Total Equity (TDTE), Long Term Debt to Total Assets (LTDTA), and Short-Term Debt to Total Assets (STDTA).The Independent Variables on the other hand are Diversification, Corporate Profitability, Corporate Growth, Corporate Size, and Corporate Asset Tangibility. The interrelationship between the variables can be seen from the following figure:

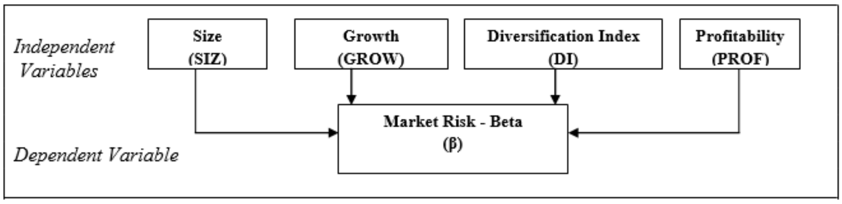

Figure 3. The Market Risk (Beta) Model

The Dependent Variable of this model is Market Risk and the value is alternatively given by Systematic Risk i.e. Beta (β).The Independent Variables remains as Diversification Index, Corporate Profitability, Corporate Growth, and Corporate Size. The Dependent Variable for Corporate Performance Model is corporate performance value which is alternatively measured by ROA, and ROE. The independent Variables being Diversification Index, Corporate Leverage, Corporate Growth and Corporate Size.

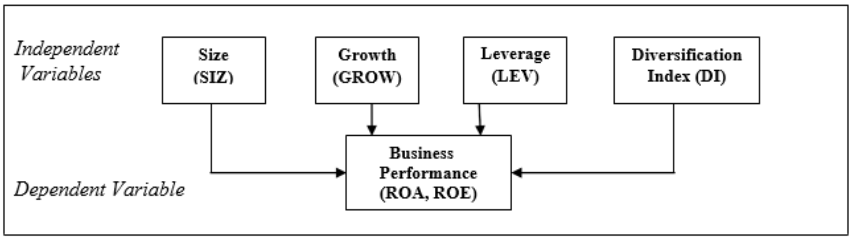

Figure 4. Variables and the Business performance

Diversification (measured by (1- Herfindahl Index)):

$$\mathrm{HI} = \sum_{i=1}^{N} S_i^2$$

Where, S^2 is the market share of corporate *i* in the market, and *N* is the number of business points.
Total Debt to Total Assets (TDTA)

Total Debt to Total Equity (TDTE)
Long-Term Debt to Total Assets (LTDTA)
Short-Term Debt to Total Assets (STDTA)
BETA (Market Risk = Systematic Risk): Cov (R_i, R_m) / Var(R_m) where, R_i is the daily return on security *i* and R_m is the daily return on stock weighted market index.
ROA (Return on Assets): Profit after Tax / Total Assets
ROE (Return on Equity): Profit after Tax / No. of shares outstanding
PROF (Profitability): EBIT + Depreciation / Total Assets
GROWTH (Growth: Total Assets – Book Value of Equity + Market Value of Equity / Total Assets)
SIZE (Size): ln (Sales)
AT (Asset Tangibility): Fixed Tangible Assets / Total Assets.

7. Conclusion

Business financial performance is a very important parameter in gauging a corporate activity. But there are various angles by which the academician's, researchers and policy makers look into it. Increment in corporate assets used to be the most important parameter to assess corporate performance, the concept changed to share price maximization concept and other such parameters. There are several parameters of corporate growth and development like use of latest technology, operational efficiency, customer satisfaction other than market share and increase in the share price of the corporate which can be considered by the organizations as the strategic points.

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