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STUDY THE RELATIONSHIP BETWEEN PRODUCT DIVERSIFICATION STRATEGY WITH FINANCIAL PERFORMANCE

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ABSTRACT

As of late, the connection among execution and assortment of organization was an imperative trial issue in money related administration. Broadening techniques can influence the focused equalization in the business. This examination plans to quantify the connection between the two factors of enhancement and monetary proportions as criteria of bookkeeping based execution utilizing required measurable tests. This exploration pursues Ex-Post Facto Method with useful reason. Factual example of this exploration are 99 organizations recorded in Tehran Stock Exchange Market. The aftereffects of this exploration have demonstrated that applying significant enhancement system has no effect on money related execution of delivering organizations and insignificant methodologies has various tie with execution marker and development of organization. Also, the effect of control factors of organization's size, budgetary use, development openings and proportion of market estimation of value to book estimation of value on the connections between research factors and suspicions have been estimated in this examination.

KEYWORDS

marketing, product diversification, financial performance.

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INTRODUCTION

Many of today's organizations around the world move towards being larger and increase their business activities environment. One of the reasons for this is accountability to multiple needs of customers. Managers try to meet the multiple needs of customers and make them loyal to their organization. For this reason and other technical reasons, such as to prepare the raw material and finished product distribution within the system, many organizations have turned to diversity. The question that may arise in the minds of managers is that the diversification of the company's business to what extent can effect on the Company's performance and growth.

Financial ratios are considered as criteria for assessment of company's performance. The current research aimed to figure out the relationship between variety of business with financial performance of companies and growth of company by selecting sample of Tehran Stock Exchange Companies and computation of their variety and these ratios as financial performance criteria.

STATEMENT OF THE PROBLEM

This study aims to examine the strategies of diversifying the product and its effects on financial performance and growth. Diversity is the extent to which the institutions simultaneously work in the production and distribution of various products (Varaderajam and Ramanujam 1987). The objective of diversifying the product such as production and distribution is reduction of risk including operational and commercial. Applying product diversification strategy can affect on performance and growth of one company if it was an assessed effort for determining available resources for production of pursuing appropriate and coordinate strategies.

In today's dynamic markets, many firms to meet the needs of customers and the protection of life in competitive economic environments move toward expanding the production and distribution of its products. The company's market share is defined with products that offer in comparison with competitors in industry (Tehran & et al 2008).

New product development is an important factor in a country's economic wealth. Unfortunately, the importance of new product development cannot match with the level of success and the risk of failure is high on new product development. Despite this, and to identify new product failure rates in several studies, scientists warned that the failure rate of new products is still worrying. Therefore, the researchers have attempted to provide a prescriptive approach to help the best field of new product development for its success (Seyed Hosseini & Iranban 2004). The main problem of this research is to assess the modern strategies through product diversification strategies and on the other word, to improve the financial performance and growth by diversifying and to achieve better result and more interest thorough that.

IMPORTANCE & NECESSITY OF RESEARCH

The profitability and development of selling is one of the most important and basic goals of the company; so, efforts to achieve a wide product and broad market is considered to be one of its main programs. Thus, one way to achieve this is to apply strategy of products diversification and in this study we are going to assess its impact on performance and growth of these companies. Other important reasons that led to assessment of this study are awareness and knowledge for managers who follow this strategy in various circumstances. Because the lack of understanding of the tools, time and conditions of applying, not only would not cause the growth and profitability of companies, but also it would have the opposite result. In recent years, the relationship between performance and diversity is a major issue in financial management. Diversification strategies can affect the competitive balance in an industry; while, the researchers come to three different result (positive tie, negative tie and no tie) between diversification and organizational performance.

OBJECTIVES OF THE STUDY

- The scientific aim of this study is crediting the research hypothesis so that this research can be effective in raising the level of general knowledge required to the users and also help them better understand the elements of financial statements.
- The purpose of this study was to identify differences in the predictions of investors in the capital market in Iran and seeks to provide ways to reduce the information asymmetry between managers and other users of financial statements; in other words, by analyzing the relationship between product diversification strategy with financial performance and growth in the capital market in Iran, increase of the quality of accounting information demand can be predicted.

METHOD OF RESEARCH

This research is an analytical-experimental research which is applied in terms of objective. In connection with the results of sample, descriptive method and in generalizing the results of statistical population, inductive inference will be used. Because the collected data from the companies is based on the historical financial statements; so it is considered as an Ex-Post Facto research.

Sampling Method

Systematic elimination sampling method (screening) has been applied to do sampling.

Data Collection Method

Study of Documents: Considering type of research, data will be collected based on previous performances. Library Study: It is used to collect data based on theoretical basis and background of research.

Internet Search: It is used to collect related data to previous records.

Diversification Strategy: To calculate the diversity of company's product in three different levels of total diversity, relevant and irrelevant diversity, the following steps have been gone through: First by using information in the Library of the Tehran Stock Exchange on the company studied collect the entire data concerning the sales of these companies in 2008 to 2017 about the level of products.

By using ISIC classification system for every single product of companies, ISIC double-digit and four-digit codes have been extracted and collected through coding booklet of all commodities and industrial services and also site of the United Nations. Therefore, it is specified that each company works in how many industry and business. Finally, applying total, relevant and irrelevant diversity ties, score of diversity in three level of total, relevant and irrelevant diversity for the companies of statistical sample are computed:

Return on Assets: ROA stated a profitability ratio for the company. This ratio is prepared for showing power of profitability of company in proportion of sum of book value of assets that will be compared between two or more companies in on industry in different sizes. ROA will be computed as below:

ROA=NI/TAS (net interest) / (total assets)

Return on Equity: ROE stated a profitability ratio for the shareholders. This ratio is provided for showing profitability power of company in proportion to the book capital of the shareholders. ROE is computed as below: ROE=NI/TE (net interest) / (total equity)

Company's Sales Growth: To assess this variable, sales growth criteria is used which as measured as below:

$$GS = \frac{\text{Sale of current year – sale of Previous Year}}{\text{Sale of Previous Year}}$$

Profit Margin: This ratio shows the profit of each Real sale.

$$PM = \frac{\text{Net Interest}}{\text{Sale}}$$

Statistical Population

Statistical population of research includes the whole companies listed in Tehran Stock Exchange. Given the 6-year period of research (opening of 2008 till closing of 2013) companies which are at least once a member of Tehran Stock Exchange in beginning of 2008 and their fiscal year end to March have been selected. Method of sampling was stage with systematic elimination. In this research, companies that have the whole following conditions have been elected as sample. They have been member of Tehran Stock Exchange from the beginning of 2008. Their fiscal year end to March of each year. Share of stock companies doesn't have significant trade gap (more than 6 months). They have delivered their fiscal statement for review in stock exchange.

Some listed companies, including banks, financial institutions, financial investment companies, financial intermediaries and holding companies that have different reporting structure are removed from the samples. Among all listed companies in Tehran Stock Exchange till closing 2017, considering the foregoing limitations, statistical population reaches to 99 among 2008 to 2017.

DATA ANALYSIS

To analyze data, first collected data shall be transferred to EXCEL and after organizing and performing required computations, Eviews-8 econometric software will be applied for data analysis. Afterward, descriptive statistics are presented and using statistical tests, heterogeneity of variance and correlation coefficient are analyzed. Then, by using analysis of regression model, result of research process, significant assessment of regression model and coefficient of variables, hypotheses will be rejected or confirmed.

Statistical Methods

Considering the fact that in this research, Compound Linear Regression is used as compound method or Data Panel, following methods is used for analyzing assumptions:

Kolmogorov – Smirnoff Test to determine normality of distribution of dependent and independent variables. Durbin - Watson Statistics to determine normality of distribution of reminders in Regression

Distribution Diagram or variance comparison tests to assess the stability of variances. Pearson correlation test to analyze linear independence of the independent variables.

Evaluation of determination coefficient (R^2) to analyze linearity assumption of the relationship between variables. For assumptions of Data Panel of Chow – Hausman Tests. In addition, considering that variables are used as absolute figures, logarithm model are used for data normalization.

TABLE 1

Type of Variable	Variable	Symbol	# of Observation	Least	Most	Mean	Standard Deviation
	Return on Equity	ROE	500	0.057	0.853	0.374	0.339
Dependent	Return on Assets	ROA	500	0.0473	0.694	0.191	0.239
	Profit Margin	PM	500	0.174	0.931	0.673	0.481
	Company's Sale Growth	GS	500	0.471	3.250	1.376	1.731
	(Entropy Index)						
		DR	500	0.271	0.964	0.759	0.427
	Relevant Diversity						
Independent							
	(Entropy Index)						
		DU	500	0.0051	0.275	0.0931	0.1874
	Irrelevant Diversity						
	Size	SIZE	500	4.067	8.391	5.760	0.376
Control	Financial Leverage	Lev	500	0.172	0.8104	0.597	0.631
	Company's Sale Growth	BM	500	0.671	4.752	1.894	2.053

Descriptive Statistics

The main central index is the mean that shows balance and distribution center and is a good indicator to show data centrality. For instance, amount of mean for ROE is 0.374 which indicates that more data are centralized in this point. Moreover, distribution parameters are criteria for determining the amount of each distribution or dispersion relative to the mean. The most important parameters of the distribution is standard deviation that the variable of return on assets and growth opportunities for the company to have the lowest and the highest standard deviation.

Dickey-Fuller Generalized Test for Stability of Variables:

In the following table, mentioned variables have less p-value from 0.05; therefore, H_0 is rejected and variables are stable.

TABLE 2

Variable	Statistics	P - value
ROE	594	0.000
ROA	594	0.000
PM	594	0.000
GS	594	0.000
DT	594	0.000

Hausman Test

In 1st and other hypotheses, given that p-value obtained is equal to zero in Lymr F test, H_0 is rejected (p-value≤0.05) and panel data methods are accepted. Furthermore, considering the amount of p-value from Hausman Test that is equal or lower than 0.05, Hausman H_0 is rejected and fixed effects will be accepted.

TABLE 3

Hypotheses	Lymr F	probability	p-value	Result	Hausman Test	probability	p-value	Result
Hypotheses.1	3.956	0.000	P<0.05	Panel data	6.782	0.000	P<0.05	Fixed effects
Hypotheses.2	6.394	0.000	P<0.05	Panel data	9.7367	0.0001	P<0.05	Fixed effects
Hypotheses.3	2.8752	0.000	P<0.05	Panel data	7.861	0.000	P<0.05	Fixed effects

Hypotheses Analysis

Testing 1st Main Hypothesis: There is relationship between relevant diversity with financial performance.

$PERF_{it} = \alpha_0 + \beta_1 DR_{it} + \beta_2 size_{it} + \beta_3 lev_{it} + \beta_4 BM_{it} + \varepsilon_{it}$

This hypothesis is tested as per following hypotheses: Analyzing Subsidiary Hypotheses:

There is relationship between relevant diversity in product with return on equity.

$ROE_{it} = \alpha_0 + \beta_1 DR_{it} + \beta_2 size_{it} + \beta_3 lev_{it} + \beta_4 BM_{it} + \varepsilon_{it}$

TABLE 4

	Dependent Variable of ROE			
Variable	Coefficient	Standard Deviation	Statistics t	P-Value
C	6.57	1.614	4.0712	0.000
DR	57.4	1.474	0.875	0,0008
SIZE	9.97	4.938	2.019	0.0038
Lev	1.14	0.570	1.999	0.0758
BM	0.928	0.176	5.274	0.000
Durbin – Watson Statistics		1.684	Adjusted R-squared	
Prob (F-statistic)		0.000	0.3932	

Considering the result of regression model test as above, it has been observed that the p-value related to Prob (F-F statistic) that indicated the significance of total Regression is equal to 0.000 and indicate that the model is meaningful in 95% confidence level. Adjusted determination coefficient (R^2) is equal to 0.3932 and indicates that 39% of changes of dependent variable can be explained with independent variables that shows the good explanatory power of this Regression. Furthermore, Durbin – Watson Statistics is equal to 1.684 that this value in 1.5 to 2.5 distances indicates lack of correlation between variables. As it can be seen above, coefficient of relevant diversity (DR) in product is equal to 8.75 and Prob is 0.0008. The t statistics and p-value of this variable indicates the significance of this coefficient in error level of 5%. These results show that there is direct and meaningful relationship between relevant diversity in product with return on equity.

There is relationship between relevant diversity in product with return on assets.

$ROA_{it} = \alpha_0 + \beta_1 DR_{it} + \beta_2 size_{it} + \beta_3 lev_{it} + \beta_4 BM_{it} + \varepsilon_{it}$

TABLE 5

	Independent Variable of ROA			
Variable	Coefficient	Standard Deviation	Statistics t	P-Value
C	2.91	1.328	2.192	0.0089
DR	3.43	0.970	3.537	0.0014
SIZE	4.58	1.098	4.172	0.0001
Lev	1.18	0.530	2.228	0.0099
BM	277.90	0.081	8.36	0.0000
Durbin – Watson Statistics		1.787	Adjusted R-squared	
Prob (F-statistic)		0.000	0.361	

Considering the result of regression model test as above, it has been observed that the p-value related to Prob (F-F statistic) that indicated the significance of total Regression is equal to 0.000 and adjusted determination coefficient (R2) is equal to 0.361 which indicates that 36% of changes of dependent variable can be explained with independent variables that shows the good explanatory power of this Regression. Furthermore, Durbin – Watson Statistics is equal to 1.787 that this value in 1.5 to 2.5 distances indicates lack of correlation between variables. As it can be seen above, coefficient of relevant diversity (DR) in product is equal to 3.43 and Prob is 0.0013. The t statistics and p-value of this variable indicates the significance of this coefficient in error level of 5%. As to these results, H_1 based on existence of direct and meaningful tie between relevant diversity in product with return on asset is accepted.

CONCLUSION

In diversification, a continued growth should exist in ability of management of diversity-oriented managers. One of the reasons for not getting the desired results is that managers follow the diversity strategy while their management's ability doesn't have consistent growth with expand of their complex.

Diversification companies have shortage of skilled and experienced labor that has skill, capability, experience and knowledge of several businesses. This subject can be affective on relationship of diversification & performance.

The cost of setting up diversified companies especially irrelevant diversity is high. As long as the costs are too high, it negatively affects the financial performance of diversified companies.

Iran's economic situation is mostly affected by the profitability of rents, market conditions and government support and minor factors. Therefore, strategy selection will not have expected impact on performance and profitability.

Root of strategy and its effectiveness lies in competition. Since the competition is not a full competition in Iran, strategy selection will not have expected impact on performance, management theories can be applied in competitive situations.

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