Nature and Extent of Diversification: A Comparative Study of MNCs and Domestic Companies in India

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This paper presents a comparative study of the nature and pattern of diversification of domestic and multinational companies (MNCs) in India during 1995-2004. Out of 252 companies selected from BT-500 "India's most valuable companies" published in Business Today, *208 companies are Indian companies while remaining 44 constitute MNCs. There exist both similarities and dissimilarities in the diversification strategies of the two groups of companies. Both the groups prefer the strategy of diversification though the extent of diversification is more in case of MNCs as compared to Indian companies. Dominant Business (DB) is the most popular strategy for both the groups and Unrelated Business (UB), the least preferred one. With respect to the pattern of diversification, MNCs move more consistently from Single Business (SB) to DB and DB to Related Business (RB) as against Indian companies that follow a mixed pattern.*

INTRODUCTION

The present era is the era of dynamism where business environment is changing rapidly. To keep pace with the changing environment, constant planning is required. The policy of liberalization, privatization and globalization has brought about drastic changes in the business environment during the past two decades and has united the world into one whole. On the one hand, it has brought latest technology, infrastructure and know how with it and on the other hand it has led to increase in competition through multinational companies and brought in challenges for the developing countries like India. To outshine such competitive scenario and win the race, strategic planning and strategic management are required. A firm's survival is dependent upon its ability to adapt successfully to the changing environment and strategic planning is one tool to manage such environmental turbulence (Ringbakk, 1972; and Baum and Wally, 2003). Non-planners today are misfits in the market. Rather corporate strategic planners not only outperform non-planners but also

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have a high survival rate (Capon *et al.*, 1994). While comparing formal planners with informal planners, Thune and House (1970) found that formal planners had 44% higher Earning Per Share (EPS), 38% more earning on common equity and 32% more earning on total capital as compared to informal planners.

Diversification is developing as an important strategic tool of growth in majority of the industrial countries that are a part of the phenomenon of globalization. The term diversification is derived from the word 'diverse' that means 'difference', 'unlike', 'distinct' and 'separate', when applied to a business enterprise. There exists a great deal of variation in the way the term 'diversification' has been defined by different authors. It is the entry of firms into new markets with new products (Ansoff, 1957 and 1965; and Gort, 1962). To Rumelt (1974), 'diversification move' is an entry into new product market activity that requires or implies an appreciable increase in the available managerial competence within the firm. It means reaching out to new areas and developing new competencies. It is in fact the ability of a firm to operate in different businesses simultaneously (Pitts and Hopkins, 1982). It incorporates multi dimensional aspects and includes an increase in number of industries in which firms operate (Berry, 1975), entering into new markets involving varying skills (Steiner, 1975) and the producing of new products or services or and manufacturing new products either from different inputs and/or selling them into new industries (McDougal and Round, 1984). In nutshell it refers to expanding the base of the businesses in activities different from the existing business, which may be achieved, by any means as internal development, acquisitions, joint ventures, licensing agreements, etc. (Booz *et al.*, 1985; and Ramanujam and Vardarajan, 1989).

Diversification as a strategy is preferred because of many reasons. It satisfies a firm's synergetic motives and offers economies of scale in manufacturing, marketing, raw material purchases and R&D, by exploiting commonalities of the related business, through exchange of skills and resources (Rumelt, 1974; Backaitis *et al.*, 1984; and Raman *et al.*, 2003). Managerial economies are also enhanced as the complimentarity in skills can be transferred within the firm (Porter, 1987; and Krishnan *et al.*, 1997). Even financial synergies are generated through diversification. By combining projects with uncorrelated cash streams, diversified firms are able to ensure stability of earnings. This allows increased debt capacity, which generates value through increased tax shield (Lewellen, 1971; and Majd and Myers, 1987). Diversification is followed as an escape route for declining and low profitability industries (Weston and Mansinghka, 1971; and Rumelt, 1986). Firms, after reaching the maturity phase of product lifecycle, can postpone the declining phase by undertaking diversification. It helps in making portfolio of products that leads to risk reduction (Paul, 1986). Cyclical fluctuations can be overcome easily as recession in one product line does not affect total profits of a diversified firm. Firms are able to develop new innovations through R&D as diversification helps them to enter foreign markets and collaborate with technologically advanced countries through the mode of international diversification (Hitt *et al.*, 1997). Assets are utilized to their full capacity (Pawaskar, 1999). Diversified firms are also able to create barriers to entry through predatory pricing which helps to improve firm performance (Rhoades, 1973). In brief, diversification allows for faster growth, helps in increasing market share and market profitability (Christensen and Montgomery, 1981; Prahalad and Hamel, 1990; Khanna, 1994; and Miller, 1998).

However, diversification is not free from limitations. No doubt diversification leads to economies of scope but achieving technical and personnel economies require establishing operating relationships among businesses in diversified firms. Such relationships are problematic and lead to diseconomies in the shape of high administration complexities and costs (Carman and Langeard, 1980; Lubatkin, 1983; Hoskisson and Hitt, 1988; and Jones and Hill, 1988). Personnel synergies are also reduced because the advantage of specialization is not fully exploited. Managers who are specialists in one field are not able to justify their role in a diversified portfolio. Similarly, role of top management becomes less significant, as diversified firms require more of general management rather than specialization (Oijein and Douma, 2000). It creates agency problems (Fama, 1980). By losing specialization diversified firms lose their competitive positions and thus have less market power in terms of market share and market profitability (Montgomery, 1985). Limited information processing capability of corporate headquarters and the enormously complex information needs for strategically managing a large range of business makes diversification a futile activity (Williamson, 1967; and Hill, 1994). Because of these reasons only, some companies are going in for restructuring, through refocusing, that is, reducing diversification and sticking to the core skill (Markides, 1995).

REVIEW OF LITERATURE

The empirical work on diversification has been done since past many decades. Pavan (1976) studied a sample of 100 largest manufacturing firms in Italy over the years 1950-70. The extent and pattern of diversification was studied on three points of time as 1950, 1960 and 1970. Adopting Wrigley's (1970) scheme of diversification, firms were divided into four categories as Single Business (SB), Dominant Business (DB), Related Business (RB) and Unrelated Business (UB). It was found that the companies preferred to diversify over the 20-year period as from 25, 20, 36 and three firms in SB, DB, RB and UB strategy respectively in 1950, there were 22, 19, 50 and three firms in each category in 1960 and there were 10, 33, 52 and three firms in each strategy in 1970. Thus, maximum preference was for DB and RB strategies while the SB and UB were the least preferred strategies. He also showed that the pattern of movement followed by the sample companies was from SB to DB and from DB to RB over the study period.

Rumelt (1982) is considered as the pioneer in the field of measurement of nature and extent of diversification. He studied *Fortune* 500 companies over the period 1949-74. He divided the companies into five categories as Single Business, Vertically Integrated Business, Dominant Business, Related Business and Unrelated Business. The diversification move was studied over six points of time. Rumelt found a gradual decrease in Single Business firms from 42% to 14.4% over the study period. There was also a decline in the vertically integrated and dominant business categories while there was a sharp increase in the Related Business category from 25.7% to 42.3%. Similarly, the Unrelated Business was also a popular strategy as the number of companies following this strategy increased from 4.1% to 20.7% from 1949-74.

Chaudhri *et al.* (1982) studied 72 large public and private sector firms in India over the time period 1960-75. The number of single business firms declined from 19 in 1960 to 7 in 1975. The number of related firms declined from 16 in 1960 to nine in 1975. The number of related-cum-unrelated firms increased from six in 1960 to 24 in 1975. The unrelated firms also increased from 16 in 1960 to 20 in 1975. They concluded that there was an increasing tendency to diversify into unrelated businesses in case of private sector where as the public sector companies diversify into related businesses.

Itami *et al.* (1982) while studying *Fortune* 500 companies, too found decrease in Single Business companies from 26.3% to 16.9% from 1958 to 1973 respectively. In case of Vertically Integrated group the percentage of companies increased from 13.2% to 18.6%. Similarly in Related Business category the increase was from 30.7% to 39.8%. However, the Dominant Business and the unrelated category witnessed a decrease of 5% and 2% respectively.

Luffman and Reed (1982) studied 205 large manufacturing British companies over the period 1971-79. In 1971 41.5% of the firms belonged to SB category, suggesting that in the beginning of the 70s, British companies followed an undiversified approach. Even in the year 1979, not much expedition was observed in the diversification move, as 72.77% of the companies followed a no change strategy. However, 22.4% chose to diversify into higher diversification categories and 4.9% showed backward move of diversification. Most favored pattern observed was from SB to DB and RB and the least favored was from SB to UB.

McDougal and Round (1984) selected 108 Australian industrial companies listed on the Sydney Stock Exchange to study the diversification move between 1974-75 and 1978-79. It was observed that on average diversification rose from 17.6% of sales in 1974-75 to 23.6% in 1977-78. Of the 35 firms that increased diversification 19 did so by 10% points while 23 firms almost doubled their level of diversification. Thus, Australian firms showed a fast move of diversification.

Lecraw (1984) took 200 largest manufacturing firms in Canada to study the extent of diversification over the period 1975-78 by dividing the firms into four categories as Single Business, Vertically Integrated Business, Related Business and Unrelated Business. He found that RB and UB were the most popular strategies followed by majority of the firms. Out of 200 firms 72 firms followed RB strategy while 54 followed UB strategy as against only 32 firms in SB category and 42 firms in Vertically Integrated Business by the end of 1978. Thus firms in Canada preferred more diversified categories as compared to the less diversified ones.

Jammine (1984) studied a sample of 305 large British companies over the period 1960-80. He divided the companies into Single Business, Vertically Integrated Business, Dominant Business, Related Business and Unrelated Business. He found a tremendous decrease in Single

Business companies from 34.2% in 1960 to 9.5% in 1980. However, the companies into Related Business increased from 32% to 49.7% over the study period. Also the companies into Unrelated Business almost doubled from 7.4% to 13.2%. Thus the Related and the Unrelated strategies were the most popular strategies of diversification followed by the British companies.

Kaura (1987) took a sample of 251 private sector firms in India. He divided the firms into three categories as undiversified, related diversified and unrelated diversified. He found that out of the total sample only 63% of the firms followed diversification strategy, with unrelated diversification as the most popular strategy among Indian companies. Besides this, he also highlighted that diversification was followed more intensively in Indian subsidiaries of MNCs rather than whole Indian companies, as 36.7% of the Indian companies followed SB strategy as against only 25% of MNCs in SB strategy. RB strategy was followed by 37.5% MNCs and only by 25.8% Indian companies. However, 37.5% of the companies both for Indian companies and Indian subsidiaries of MNCs favored UB strategy equally.

Grant and Jammine (1988) studied the nature of diversification in 305 British manufacturing companies for the period 1972-84. They found that proportion of SB firms declined over the period from 14.1% in 1972 to 9% in 1984. They also suggested that there was an increase in both Related and Unrelated Business categories from 49.7% firms following RB and 12.5% following UB in 1972 to 54.4% following RB and 15.7% following UB in 1984 respectively.

Raman (1991) has measured the pattern of diversification of 67 Indian companies from the private sector. The pattern was studied over 11-year period from 1979-89 at three points of time, that is, 1979, 1984 and 1989. Using Rumelt's classification the firms were divided into nine categories. It was observed that companies preferred going in for Unrelated Business rather than Single Business. Among the Dominant Business, Dominant Vertical was the same for each year while Dominant Linked was larger in 1989 as compared to 1979. The number of companies in related linked also increased as compared to related constrained.

However, between 1980-90, studies also show that companies started favoring refocusing rather than diversification. Lichtenberg (1992) showed that the level of diversification declined between 1985 and 1989 in a sample of 6,505 firms. Spender and Grant (1996) also reported that the average index of diversification for *Fortune* 500 companies declined from 1.00 to 0.67.

Raman (2002) studied the pattern of diversification of 89 private sector manufacturing companies in India listed on BSE over a period of 10 years from 1991 to 2000 at three points of time that is, 1991, 1996, and 2000. He observed that out of the sample taken 28% of the companies had diversified while the remaining 72% did not diversify at all. The trend of Single Business and Unrelated Business is declining while that of Dominant Business and Related Business is increasing.

Raman *et al.* (2003) studied the nature and pattern of diversification in 109 Indian manufacturing firms over the period

1991-2000. It was observed that there was a sharp decline in the number of SB companies over the period of the study. Maximum number of firms followed RB strategy followed by DB strategy. UB was the least favored category of diversification. Among the subcategories, DC and RC were more popular as compared to DL and RL categories. The pattern of diversification was also studied for 1991-96 and for 1996-2000. Overall it was seen that the companies followed the move from SB to DB and from DB to RB. There was also a backward shift from UB to RB or DB. Thus, both DB and RB categories were becoming popular with respect to Indian companies. An industry-wise comparison of Indian companies was also made with the foreign companies operating in India. Out of the total sample 14 companies were the foreign companies operating in India. It was observed that almost a similar preference of diversification strategies existed amongst both Indian companies and foreign companies operating in India.

Ushijima and Fukui (2004), on a sample of 118 Japanese firms suggested an increase in diversification for 1973-78, though in the related activities only.

NEEDS AND OBJECTIVES OF THE STUDY

From the review of various studies it is clear that there exists sufficient empirical literature on the nature and pattern of diversification with respect to companies in India and abroad. But there is a dearth of studies that compare the nature and pattern of diversification in Indian companies and the Multinational Companies (MNCs) operating in India. In fact, in the literature reviewed, only two studies, that is, Kaura (1987) and Raman *et al.* (2003) have compared the nature of diversification of these two groups. The former study is related to the pre-liberalization era with only 32 MNCs from a sample of 251 companies. In the latter study, not only the sample size is small comprising 14 foreign companies out of 109 companies but also the exercise involving comparison of the two groups has been done with reference to preference of diversification strategies in specific industries only and the overall nature of diversification for the two groups has not been examined. In fact no comprehensive study has been conducted to analyze the comparative pattern of diversification of Indian companies with MNCs. Hence a need was felt to compare in greater detail, the nature and pattern of diversification followed by domestic companies and MNCs operating in India.

Thus, this paper focuses on the following two objectives:

1. To compare the nature of diversification of the domestic and the multinational companies; and
2. To compare the pattern of diversification of the domestic and the multinational companies.

DATABASE AND RESEARCH METHODOLOGY

TIME PERIOD

The study covers a period of 10 years for 1995-2004. The total time span has been split up into 3 points of time as, 1995, 2000 and 2004 to study the nature and pattern of diversification. This period has been selected because it represents the post liberalization period, in which it is assumed that more multinational companies should have made India their destination and diversification move too should have gained momentum as a result of economic reforms.

SAMPLE SIZE

BT-500 "India's most valuable companies" published in *Business Today* (November 2004) constitutes the universe of the study. In order to give a large representation to various industries, a sample of 400 companies was selected to which following filters were applied:

- Service companies were eliminated.
- Companies that existed between the time period 1995-2004 were taken. Companies incorporated after 1995 have not been taken.
- Companies not existing in the PROWESS database were eliminated.
- Companies whose split sales information was not given in PROWESS database have also been eliminated.

Thus, as a result of these filters, out of 400 companies a resultant sample size of 252 companies in the private sector was selected. Further as per the information given in PROWESS database the sample of 252 companies was divided into Indian companies and the MNCs. Out of 252 companies 44 companies were the MNCs while the remaining 208 were the domestic companies.

SOURCE OF INFORMATION

Since Rumelt's Methodology has been followed, so the data on split up sales of the sample companies for the different years were taken from PROWESS, which is a data base developed by Centre of Monitoring Indian Economy (CMIE).

METHODOLOGY USED FOR MEASURING DIVERSIFICATION

Primarily there are two methodologies to measure diversification: 1) Categorical measures given by business policy researchers popularly known as Rumelt's methodology and 2) Continuous measures given by industrial economists popularly known as Standard Industrial Classification (SIC) codes. Rumelt's measures are based on productwise split up sales of an organization. It gives weightage to the relative size of the largest individual business. It also defines the manner in which businesses are related to each other. SIC codes on the other hand simply count the number of products in a particular firm to measure the extent of diversification and also do not distinguish between relatedness and unrelatedness. At international levels also Rumelt's methodology is preferred to SIC codes and is the most widely accepted research methodology.

In this paper Rumelt's methodology has been used. Rumelt has used three ratios, that is, Specialization Ratio, Related Ratio and Vertical Ratio which are defined as:

1. **Specialization Ratio (SR)**

   It is defined as "the proportion of a firm's revenue that can be attributed to its largest single business in a given year" (Rumelt, 1974). Here single business means "one that could be managed independently of the firm's other activities" (Rumelt, 1974).

2. **Related Ratio (RR)**

   It is "the proportion of a firm's revenue attributable to its largest group of related businesses" (Rumelt, 1974). The business units are related when a common skill, resource, market or purpose applies to each. Each member of this group needs only be related to one another (linked relatedness) or all may directly be related to all other businesses (constrained relatedness).

3. **Vertical Ratio (VR)**

It is defined as "the proportion of a firm's revenue attributable to all of the by-products, intermediate products and final products of a vertically integrated sequence of manufacturing operations" (Rumelt, 1974). The major activities of these companies consist of stages in the sequential processing of a particular material from its raw form to a finished product or a variety of products.

On the basis of these ratios, four broad categories of diversification have been derived as Single Business, Dominant Business, Related Business and Unrelated Business. Dominant Business has been further subdivided into Dominant Constrained, Dominant Linked, Dominant Unrelated and Dominant Vertical. Similarly, Related Business has been divided into Related Constrained and Related Linked.

Single Business (SB): When Specialization Ratio is more than 95%.

Dominant Business (DB): When Specialization Ratio is more than 70% but less than 95%.

Dominant Constrained (DC): A dominant firm in which all component businesses are directly related to the base business.

Dominant Linked (DL): A dominant firm in which all component businesses are related to one another but all are not related to the base business.

Dominant Vertical (DV): A dominant firm that is vertically integrated, that is vertical ratio is more than 70%.

Dominant Unrelated (DU): A dominant firm in which all component businesses are not related to each other.

Related Business (RB): When Related Ratio is more than 70%.

Related Constrained (RC): A related firm in which all component businesses are directly related to the base business.

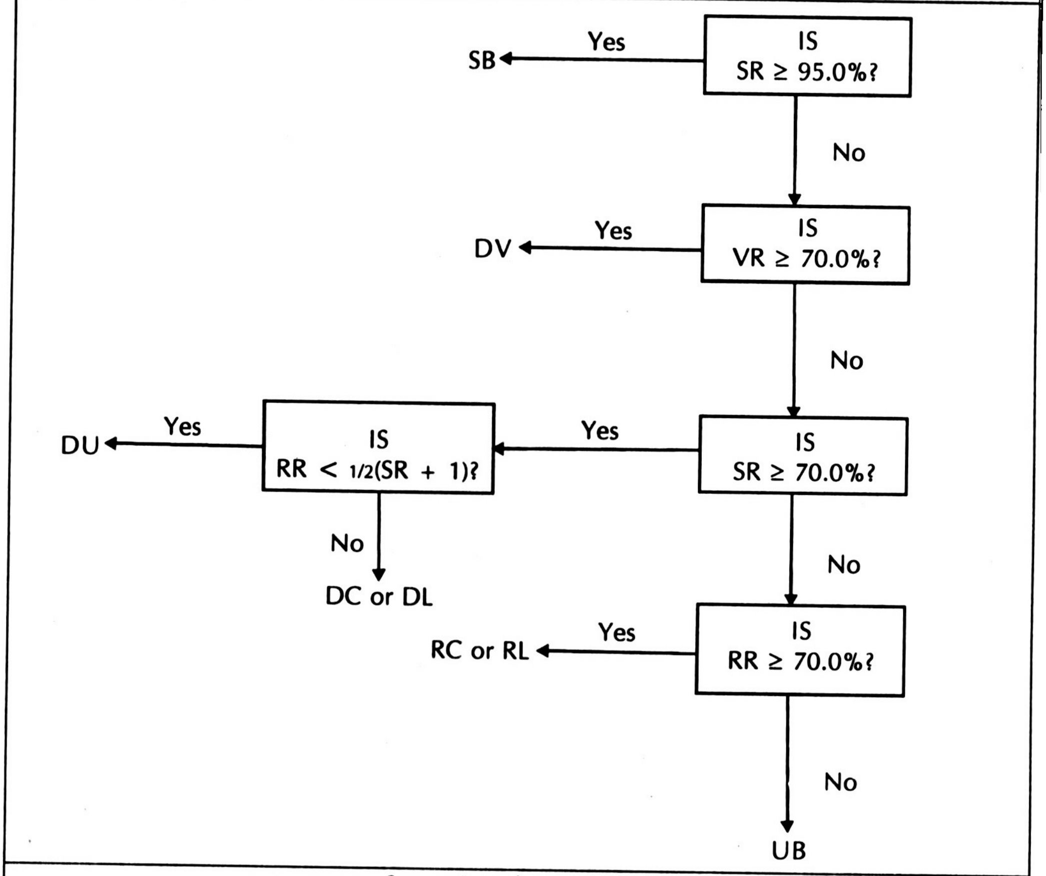
Related Linked (RL): A related firm in which component businesses are not all directly related to the base business.

Unrelated Business (UB): When Related Ratio is less than 70%.

Rumelt's classification is diagrammatically presented in Figure 1.

Hypotheses formulation and testing: The opening up arrival of liberalization, privatization and globalization has attracted large number of MNCs in our domestic boundaries. As against the *swadeshi* culture followed by India, MNCs undoubtedly have come from more liberalized environment. Though the review of literature does not help to frame any strong evidence about the difference in diversification strategies followed by MNCs and domestic companies, as not much work has been done on this specific issue, yet on account of the differences of indigenous and foreign environments it is hypothesized that the diversification strategies are not independent of the nature of the companies, that is, whether they are multinationals or domestic companies.

Figure 1: Rumelt's Classification of Diversification



Source: Rumelt, 1974, p. 30.

In order to test the dependence of attributes, Chi-square test, which is a non-parametric test, has been applied at 5% level of significance over three points of time, that is, 1995, 2000 and 2004.

ANALYSIS AND RESULTS

The analysis and results have been divided into two parts:

1. Nature and extent of diversification in MNCs and domestic companies and their comparison. And
2. Pattern of diversification in MNCs and domestic companies and their comparison.

NATURE AND EXTENT OF DIVERSIFICATION OF MNCs AND INDIAN COMPANIES

NATURE AND EXTENT OF DIVERSIFICATION IN MNCs

The data of nature and extent of diversification of 44 MNCs have been presented in Table 1.

From Table 1, it is seen that in 1995, out of 44 companies 57% of the companies followed SB strategy and 43% were in diversified group. Among the diversified category, 58% companies were in DB

Table 1: Nature and Extent of Diversification in MNCs

Categories	1995 Number	1995 Percentage	2000 Number	2000 Percentage	2004 Number	2004 Percentage
Single Business (SB)	**25**	**57**	**23**	**52**	**18**	**41**
Diversified Business	**19**	**43**	**21**	**48**	**26**	**59**
Dominant Business (DB)	**11**	**58**	**12**	**57**	**14**	**54**
Dominant Constrained (DC)	06	55	08	67	07	50
Dominant Linked (DL)	04	36	02	17	05	36
Dominant Vertical (DV)	01	09	01	08	00	00
Dominant Unrelated (DU)	00	00	01	08	02	14
Related Business (RB)	**06**	**32**	**08**	**38**	**11**	**42**
Related Constrained (RC)	05	83	03	38	07	63
Related Linked (RL)	01	17	05	62	04	37
Unrelated Business (UB)	**02**	**11**	**01**	**5**	**01**	**04**
Total	**44**	**100**	**44**	**100**	**44**	**100**

strategy, 32% in RB strategy while only 11% of the companies followed UB strategy. In 2000, however, the proportion of companies in SB category declined to 52% while those in diversified category rose to 48%. DB was followed by 57% of the companies, RB strategy by 38% of the companies, while UB by only 5% of the companies. In 2004, companies that followed SB strategy declined tremendously to 41% and those in diversified category increased sharply to 59%. In diversified category companies following DB strategy also declined to 54% while those following RB strategy increased to 42%. Companies following UB strategy also declined to 4%.

From the above results it can be concluded that MNCs picked up diversification momentum especially during 2000-04. The percentage of diversified companies increased by 11% during this period, which is more than double the increase of 5% during 1995-2000. Though at all the three points of time that is, 1995, 2000 and 2004, DB is the most popular strategy followed by RB but companies in DB strategy have declined by 4% over 1995-2004 while those in RB strategy have increased by 10% during the study period. In a nutshell, diversification picked up momentum with respect to MNCs. Thus, DB followed by RB is the most popular strategy of MNCs operating in India.

Moving towards subcategorization, it is seen from Table 1, that in 1995, 55% of the companies followed DC strategy, 36% followed DL strategy, 9% followed DV while none of the companies was in DU strategy. In 2000, companies in DC increased to 67% while those in DL declined to 17%. Companies in DV remained almost the same with a minor decrease of 1%. However, 8% of the companies diversified to DU strategy. In 2004, there is a decrease in DC strategy to 50% while the companies in DL have increased by more than double to 36%. None of the companies followed DV strategy while those in DU doubled to 14%. Thus in total study period DC has remained the most popular strategy followed by DL. DV was popular in 1995 but over the years DU seems to have surpassed this category. One noticeable finding as seen from Table 1 is that there is a sharp rise in DL and DU strategies between 2000 and 2004 while a fall in DC and DV categories. Thus, over a period of time MNCs have shown the tendency to leave their cores and diversify further.

Among the RB strategy, in 1995 83% companies followed RC strategy while only 17% were in RL category. In 2000, a sharp increase in RL strategy to 62% is seen while companies in RC category declined to 38%. However, again in the year 2004 RC increased to 63% while RL has reduced to 37%. Thus it seems that MNCs tried to extend diversification in the year 2000 and went beyond DB category, even to RL the higher diversified segment, but in 2004 again adopted a reverse behavior.

To conclude, it can be said that MNCs in totality have diversified more during 2000-04 and were rather slow during 1995-2000. In diversified category no doubt DB is the most favored strategy followed by RB but RB strategy has also picked up momentum. In subcategorization, DC and RC seem to be the most popular strategies but companies also seem to take chance with DL, DU and RL categories. However, UB strategy is the least preferred one.

NATURE AND EXTENT OF DIVERSIFICATION IN DOMESTIC COMPANIES

The data of nature and extent of diversification of 208 domestic companies has been presented in Table 2.

From Table 2 it is seen that for 208 Indian private companies, in 1995, 63% of the companies followed SB strategy and only 37% were in the diversified category. Among the diversified category, 46% followed DB, 37% were in RB strategy while only 17% followed the UB strategy. In 2000, however, the number of companies in SB strategy declined to 55% while those in diversified category rose to

Table 2: Nature and Extent of Diversification in Domestic Companies

	1995		2000		2004	
Categories	**Number**	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
Single Business (SB)	**130**	**63**	**114**	**55**	**100**	**48**
Diversified Business	**78**	**37**	**94**	**45**	**108**	**52**
Dominant Business (DB)	**36**	**46**	**48**	**51**	**53**	**49**
Dominant Constrained (DC)	13	36	16	33	17	32
Dominant Linked (DL)	06	17	09	19	13	25
Dominant Vertical (DV)	06	17	14	29	06	11
Dominant Unrelated (DU)	11	30	09	19	17	32
Related Business (RB)	**29**	**37**	**32**	**34**	**42**	**39**
Related Constrained (RC)	16	55	21	66	31	74
Related Linked (RL)	13	45	11	34	11	26
Unrelated Business (UB)	**13**	**17**	**14**	**15**	**13**	**12**
Total	**78**	**100**	**94**	**100**	**108**	**100**

45%. In the diversified category, DB strategy picked up momentum as 51% of the companies diversified into this category while both RB and UB strategies witnessed a decline to 34% and 15% respectively. In 2004, there was a further decline in SB strategy with 48% of the companies left in this category as against 52% companies in the diversified category. In the diversified strategy, DB declined to 49% while companies in RB strategy rose to 39%. UB strategy declined further to 12%.

Thus, the foregoing discussion reveals that a considerable number of domestic companies diversified their business during the period of the study as the percentage of such companies increased from 37% to 52% during this period.

In case of subcategories of various strategies it is seen that in 1995 among the DB strategy, 36% of the companies followed DC, 17% each were in DL and DV strategy respectively while 30% of the companies were in DU category. In 2000, companies in DC strategy declined to 33% In 2004, DC further declined to 32% whereas the DL rose to 25%. However, once again the DV and DU strategies show a reversal of behavior as number of companies following DL declined to 11% and the companies in DU showed a major increase to 32%.

Thus, though DC strategy is preferred by majority of domestic companies, but the preference for this strategy has declined during the period of the study whereas that has increased consistently for DL. However, DV and DU are giving highly inconsistent results. It seems that Indian companies are experimenting with other high-diversified subcategories in the Dominant group of strategy.

Among the RB strategy in 1995, 55% companies followed RC while 45% were in the RL category. In 2000, companies in RC category rose to 66% while those in RL declined to 34%. In 2004, there was a further rise in the number of companies in the RC category to 74% and a tremendous decline in RL category to 26%. Thus RC is the most preferred category in the Related Business strategy.

To sum up, it can be said that Indian companies are diversifying but at a slow and a gradual pace. Indian companies prefer to remain near their core businesses and as a result DB is the most popular strategy followed by the RB. In subcategorization no doubt major proportion of companies follow DC strategy but DL is gaining momentum at a faster rate and preference for DC strategy is on the decline. However, with respect to RC strategy, the preference of Indian companies is very strong. UB is the least preferred strategy among the Indian private companies.

The hypotheses that the diversification strategies are not independent of the nature of the company, that is, whether it is an MNC or a domestic company, has been tested statistically using Chi-square test as follows:

- When two categories of diversification were tested, that is, Single Business (SB) and Diversified Business, the results are presented in Table 3.

From Table 3, it is clear that the calculated values of Chi-square over all the three points of time (1995 = 0.47; 2000 = 0.11; 2004 = 0.99) are less than

Table 3: Chi-square Using Two Categories of Diversification	
Years	**Calculated Value**
1995	0.47
2000	0.11
2004	0.99
Source: Tabulated value at 5% level of significance (d.o.f. = 1) = 7.8	

the tabulated value which is 7.8 at 5% level of significance, (with degree of freedom 1), we reject the hypothesis that diversification strategy is not independent of the nature of the companies as to whether they are MNCs or domestic companies.

- When four categories of diversification were tested, that is, SB, DB, RB and UB, the results are presented in Table 4.

Table 4: Chi-square Using Four Categories of Diversification	
Years	**Calculated Value**
1995	1.96
2000	2.31
2004	3.10
Source: Tabulated value at 5% level of significance (d.o.f. = 3) = 12.8	

From Table 4, it is clear that since calculated values of Chi-square over all the three points of time (1995 = 1.96; 2000 = 2.31; 2004 = 3.1) are less than the tabulated value which is 12.8 at 5% level of significance (with degree of freedom 3), we reject the hypothesis that diversification strategy is not independent of the nature of the companies as to whether they are MNCs or domestic companies.

COMPARISON OF NATURE AND EXTENT OF DIVERSIFICATION OF MNCs AND DOMESTIC COMPANIES

Though statistically it is found that the diversification strategies are independent of the nature of the companies as to whether they are MNCs or domestic companies but theoretically if we compare the nature and extent of diversification of the MNCs and the domestic companies, the following similarities and dissimilarities have been observed in their diversification behavior:

Similarities

- Diversification strategy is preferred by both the group of companies over three points of time.
- The nature of diversification in both cases is the same as DB followed by RB are popular strategies of MNCs as well as domestic companies. Both the groups do not prefer to diversify into UB strategy.
- Within subcategorization, also DC is the most popular strategy for both groups of companies.

Dissimilarities

- The extent of diversification in MNCs is more as compared to domestic companies as at the end of 2004, 59% of MNCs are in the diversified category as against 52% of the domestic companies.
- With respect to the three main categories of diversification, MNCs present a more consistent behavior as there is a gradual fall in companies following DB strategy over three points

of time and gradual rise in those following RB strategy. But an inconsistent behavior has been observed in case of Indian companies for both DB and RB strategies. Indian companies seem to be experimenting with the strategies over three points of time. And

- However, in the subcategories of diversification, especially DC, DL, RC and RL, Indian companies are exhibiting a more consistent behavior as against MNCs. Also domestic companies are showing more preference for high-diversified subcategories that is, DV and DU, rather than foreign companies.

In brief, it can be said that the extent of diversification is comparatively more in case of MNCs as compared to Indian companies and the nature of diversification is also more consistent in case of MNCs as against Indian companies.

PATTERN OF DIVERSIFICATION OF MNCs AND INDIAN COMPANIES

The pattern of diversification, that is, the strategy of change has been studied for MNCs and Indian companies over three periods that is, 1995-2000, 2000-04 and 1995-2004.

PATTERN OF DIVERSIFICATION OF MNCs

The diversification pattern of 44 MNCs during 1995-2000 has been presented in Table 5.

From Table 5 it is clear that from SB strategy 21 companies did not change their strategy while two each moved from SB to DB and RB respectively. However, none of the companies diversified to UB strategy. From DB strategy, seven companies didn't change their strategy while three moved to RB strategy and one to SB. Again none of the companies diversified into UB strategy. From RB strategy, three companies followed no change strategy while the remaining three moved backward; two to DB and one to SB. Similarly, from UB one moved to DB and 1 did not change its strategy.

Table 5: Diversification Pattern of MNCs between 1995 and 2000

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (1995)	**25**	**11**	**06**	**02**	**44**	—
SB	–4	+ 2	+ 2	0	—	21
DB	+ 1	–4	+ 3	0	—	07
RB	+ 1	+ 2	–3	0	—	03
UB	0	+ 1	0	–1	—	01
Total (2000)	**23**	**12**	**08**	**01**	**44**	**32**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

Thus, out of 44, 32 companies, that is, 73% followed a no change strategy while 27% showed some change. The pattern followed is from SB to DB and DB to RB.

The move is restricted till RB only as not even a single company went in for UB strategy. There is also a backward move from RB to DB and SB and from DB to SB.

The pattern of diversification of 44 MNCs during 2000-04 has been presented in Table 6.

Thus between 2000-04, 81% companies followed a no change strategy and only 19% showed some movement in their strategies. The pattern remained the same, that is, from SB to DB and from DB to RB. It is also seen that after RB strategy to DB category. Also from UB none of the companies moved to anywhere.

Table 6: Diversification Pattern of MNCs between 2000 and 2004

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (2000)	**23**	**12**	**08**	**01**	**44**	
SB	–5	+3	+2	0	—	18
DB	0	–2	+2	0	—	10
RB	0	+1	–1	0	—	7
UB	0	0	0	—	—	1
Total (2004)	**18**	**14**	**11**	**01**	**44**	**36**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

From Table 6 it is seen that between 2000-04, out of SB strategy 18 firms did not move, while three moved to DB and two to RB strategies. Similarly from DB strategy, 10 firms did not move while two moved to RB. However, from RB strategy there is minimum movement as seven companies did not move and the remaining one showed a backward move companies followed a backward move, which is from RB to DB. However, none of the companies moved either to SB the undiversified strategy or to UB the most diversified strategy.

The pattern of diversification of 44 MNCs during the entire period of the study, that is, 1995-2004 has been presented in Table 7.

Table 7: Diversification Pattern of MNCs between 1995 and 2004

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (1995)	**25**	**11**	**06**	**2**	**44**	
SB	–7	+4	+3	+2	—	18
DB	0	–4	+4	0	—	7
RB	0	+2	–2	0	—	4
UB	0	+1	0	–1	—	1
Total (2004)	**18**	**14**	**11**	**01**	**44**	**30**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

From Table 7 it is seen that over the total ten-year period of study out of 44 MNCs 30 companies, that is, 68% followed a no change strategy. From SB category seven companies moved forward to more diversified categories; four to DB and three to RB strategy. In DB category seven companies did not move at all while the remaining four moved to RB strategy. However, from RB four companies remained in RB category only while 2 showed a backward move to DB category. Only one company remained in UB and one moved backwards to DB strategy.

Thus, over the total study period the pattern is very consistent that is from SB to DB and RB and from DB to RB. One noticeable observation is that the MNCs do not follow any of the extreme strategies. As is seen from the strategic movements none of the companies moved forward to UB strategy and also none of them moved backward to SB strategy. Hence, in the total study period the pattern is both consistent as well as gradual.

DIVERSIFICATION PATTERN OF DOMESTIC COMPANIES

The pattern of diversification of 208 domestic companies during 1995-2000 has been presented in Table 8.

From Table 8 it is seen that between 1995-2000, 109 companies did not move from SB strategy while 15 companies moved to DB strategy, four to RB and two to UB strategies. From DB strategy, 29 companies followed a no change strategy, while three moved to RB and one to UB. Three companies also moved backward to SB category. From RB 25 companies did not move at all while only one moved to UB. Also 2 companies moved to DB and one to SB strategies. From UB category, two companies moved backward to DB and one to SB while 10 companies did not move anywhere.

Table 8: Diversification Pattern of Domestic Companies between 1995 and 2000

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (1995)	**130**	**36**	**29**	**13**	**208**	
SB	–21	+15	+4	+2	—	109
DB	+3	–7	+3	+1	—	29
RB	+1	+2	–4	+1	—	25
UB	+1	+2	0	–3	—	10
Total (2000)	**114**	**48**	**32**	**14**	**208**	**173**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

Thus, between 1995-2000 out of 208, 173 domestic companies, that is, 83% followed a no change strategy. They move from SB to all the diversified categories, that is, DB, RB and UB and also from DB to RB and UB and from RB to UB. A few companies have also shown a backward movement towards all less diversified categories from highly diversified categories. So, domestic companies followed a mixed pattern of diversification during 1995-2000.

The pattern of diversification of 208 domestic companies during 2000-04 has been presented in Table 9.

SB. Similarly, from RB, 26 followed a no change strategy, two moved to UB and four companies moved backward to DB. 10 companies from UB category did not change their strategy, while four moved backward, that is, two each to DB and SB *strategies respectively*.

Table 9: Diversification Pattern of Domestic Companies between 2000 and 2004

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (2000)	**114**	**48**	**32**	**14**	**208**	
SB	–21	+11	+10	0	—	93
DB	+5	–12	+6	+1	—	36
RB	0	+4	–6	+2	—	26
UB	+2	+2	0	–4	—	10
Total (2004)	**100**	**53**	**42**	**13**	**208**	**165**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

Table 10: Diversification Pattern of Domestic Companies between 1995 and 2004

Diversification Category	SB	DB	RB	UB	Total	No Change Strategy
Total (2000)	**130**	**36**	**29**	**13**	**208**	
SB	–37	+19	+15	+3	—	93
DB	+5	–10	+5	0	—	26
RB	+1	+5	–8	+2	—	21
UB	+1	+3	+1	–5	—	08
Total (2004)	**100**	**53**	**42**	**13**	**208**	**148**

Note: + sign indicates movement into the category.
– sign indicates movement out of the category.

As seen from Table 9, between 2000-2004, 93 companies did not change their strategy from SB, while 11 moved to DB and 10 to RB strategies. From DB strategy, 36 companies remained in DB only and six moved to RB and one to UB. However, five companies also moved backward to

Thus 79% of the sample companies followed no change strategy. Even between 2000-04, no exact pattern of diversification is found for domestic companies. Though they move from SB to DB and RB and from DB to RB and UB and from UB to RB also but in all the categories a backward pattern is also observed.

The diversification pattern of 208 domestic companies during 1995-2004 has been presented in Table 10.

From Table 10 the results of ten years under study that is 1995-2004 show that from SB strategy 93 companies did not move and out of remaining 37, 19 moved to DB, 15 to RB and three to UB strategies. From DB strategy, 26 companies followed no change strategy and five moved to RB. Also 5 companies showed a backward move to SB category. Similarly from RB, 21 companies did not move, while only two moved to UB, five to DB and one to SB strategies suggesting a backward move in diversification pattern. From UB strategy eight companies showed no change, while 1 moved to RB, three to DB and one to SB.

In brief, domestic companies have no exact and defined pattern of diversification. Though the general pattern of SB to DB and RB and from DB to RB and also from RB to UB has been observed amongst domestic companies but also considerable backward movement, that is from DB to SB; RB to SB and DB and UB to SB, DB and RB has also been noticed which restricts their diversification pattern.

COMPARISON OF DIVERSIFICATION PATTERN MNCs AND DOMESTIC COMPANIES

If we compare the pattern of diversification of MNCs and the domestic companies, the following similarities and dissimilarities have been observed in their diversification behavior:

Similarities

- No sudden jumps or changes are observed in both groups of companies in following the diversification pattern. Both groups move very gradually from one strategy to another.

Dissimilarities

- MNCs follow a very consistent and identifiable pattern from SB to DB and DB to RB, as against domestic companies, which lack such consistency.
- Indian companies follow a mixed pattern of diversification as compared to MNCs. And
- Foreign companies do not touch extreme strategies while taking strategic moves. These companies have neither diversified to UB and have nor reverted back to SB. However, Indian companies seem to wander wide.

CONCLUSION

To conclude, it is evident that both MNCs and domestic companies are following diversification as an important growth strategy, keeping in view the need of the same in the period of rising liberalization and globalization. The data when analyzed through percentages suggest that there are identifiable differences between the nature and extent of diversification between MNCs and domestic companies, however, these differences are not statistically significant. The extent of diversification is more in case of MNCs as compared to Indian companies. Both groups of companies have preferred DB as the most popular diversification strategy and have given second preference to RB strategy, but MNCs follow a very gradual move from one strategy to another whereas domestic companies reveal abrupt movements between different categories.

However, in subcategories the choice of Indian companies is more consistent as compared to MNCs. With respect to diversification pattern followed by the two groups of companies, MNCs have a very clear and identifiable pattern from SB to DB and to RB as compared to Indian companies where no single pattern can be defined and the diversification move is mixed. In fact, it is advisable for Indian companies to follow the MNCs with respect to the diversification pattern and make it more uniform rather than experimenting with the strategies of diversification and making abrupt shifts between them as they have to compete with the MNCs in future in their own indigenous market.

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