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REVIEWS AND OVERVIEWS

Revamping research on unrelated diversification strategy: perspectives, opportunities and challenges for future inquiry

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Abstract With the aim of achieving an advanced understanding of current research on unrelated diversification and providing fruitful groundwork to foster active interchange between disciplinary traditions, this paper detects articles from two relevant research streams; i.e., strategic management and financial economics. We first provide a brief overview of management thinking on unrelated diversification strategy. Then, we present a conceptual map that offers a comprehensive appreciation of unrelated diversification strategy antecedents (i.e., environmental and institutional, organizational value-enhancing, and managerial drivers), implementation process (i.e., managerial complexity, misallocation of resources, and structural inertia), and consequences (i.e., diversification premiums and discounts). Finally, we unpack the major gaps in our current knowledge that may help refocus the research agenda on unrelated diversification strategy and revamp the apparent waning proclivity of this issue.

Keywords Unrelated diversification · Market power · Strategic flexibility · Internal capital market · Agency theory · Diversification premium/discount

This article is one of the outcomes of a multi-annual research project that we are conducting on unrelated diversification and performance.

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1 Introduction

Since the inaugural contributions of Ansoff (1957), Chandler (1962), and Rumelt (1974), research on diversification strategy has rapidly grown to become one of the most vigorously sought off research streams in management studies (Singh et al. 2003). While there is ample consensus on the economic and strategic logic underlining firms' decisions to operate in related businesses (Wan et al. 2011), "no absolute truths" are found concerning the *effectiveness* of operating in unrelated businesses[1] (Montgomery 1994). Various studies have shown a negative relationship between the breadth of a business portfolio and corporate performance (e.g., Berger and Ofek 1995; Bettis and Prahalad 1995; Best et al. 2004; Burch and Nanda 2003; Denis et al. 2002; Lang and Stulz 1994; Lyandres 2007b; Maksimovic and Phillips 2002; Rajan et al. 2000).

Notwithstanding that, more recently some empirical studies have started to submit that a high degree of diversification contributes to the *creation* of value (David et al. 2010; Gomes and Livdan 2004; Hadlock et al. 2001; Jandik and Makhija 2005; Mathur et al. 2004; Schoar 2002). More interestingly, Campa and Kedia (2002) and Villalonga (2004b) found that highly diversified firms *can* in fact create value under some contingencies. This argument leads to the examination of key contingencies of unrelated diversification, such as the institutional context (Chakrabarti et al. 2007; Guillen 2000; Khanna and Palepu 2000a; Peng 2003; Wan and Hoskisson 2003), past performance, and subsequent acquisition strategies (Park 2003).

Extant literature not only offers managers and investors conflicting advices on the effectiveness of unrelated diversification, but also presents a noticeably fragmented and fuzzy state of the art (Reed and Luffman 1986). This state of affairs occurs for three main reasons. First, research has detected the various antecedents, features of the implementation process, and consequences of unrelated diversification. While this practice has certainly enriched our understanding of specific aspects of managing a multibusiness firm, there is a flipside of the coin. A reliable representation of the diversification phenomena is possible only by means of a critical analysis of the links among the contributions available.

Second, one of the most important characteristics of unrelated diversification research is grounded into two different disciplinary backgrounds; i.e., strategic management and financial economics. Specifically, *strategic management* focuses on the characteristics that shape a firm's ability to govern many businesses and hence its resource orchestration breadth (e.g., Sirmon et al. 2011). This literature stream aims to help executives to organize better resources within a highly diversified firm (Matsusaka 2001; Ng 2007), as well as to show the interrelations between diversification strategy

[1] We observe that financial economics and strategic management have dissimilar preferences in using terminology. In strategic management, the expression "conglomerate diversification" came into disrepute in the 1990s, since when strategy researchers prefer to talk of "unrelated diversification." Conversely, finance researchers are more comfortable with "conglomerate diversification" and frequently use the term synonymously with "unrelated diversification." In fact, the management literature generally assumes that single-business, related, and unrelated diversification are equivalent to low, moderate, and high diversification, respectively. In this vein, Palich et al. (2000) observe that "it is very common for researchers to convert measures of type of diversification into continuous data representing levels of diversification" (p. 158).

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and other corporate strategies (e.g., international diversification; Hitt et al. 1997; Nachum 2004). *Financial economics* literature, on the other hand, includes numerous studies that use internal capital market theory (e.g., Campello 2002; Doukas and Kan 2008; Hubbard and Palia 1999; Peyer and Shivdasani 2001; Stein 1997), and corporate governance arguments (e.g., Anderson et al. 2000; Denis et al. 1997) to explain why firms diversify (Staglianò et al. 2013) and how diversification premium/discount emerges. While the two major strands of unrelated diversification literature have developed their exploration "within them" in a rather cumulative way, they have typically behaved as watertight compartments "between and among them" (Purkayastha et al. 2012). Little or no interaction between and among the two research bodies has seemingly occurred, and no significant cumulative efforts have been made.

Finally, the bulk of the literature on unrelated diversification strategy is informed by a *multiplicity* of conceptual perspectives (such as market power theory, the resource-based view, internal capital market arguments, and agency theory). Thus, most studies have contributed to the management conversation in a rather fragmentary way, and current discussions inevitably lack thoroughness (Datta et al. 1991).

We posit that time has come to synthesize the existing body of research on unrelated diversification so as to lie the foundations to develop a more solid knowledge base. Despite various reviews of the diversification literature conducted over the last decade, no single review has yet offered a detailed literature analysis specifically applied to unrelated diversification strategy. Some studies have addressed the relationship between diversification and performance at large (Benito-Osorio et al. 2012; Martin and Sayrak 2003; Palich et al. 2000), while others have focused on a resource-based view of diversification contributions (Wan et al. 2011), or deal with comparing diversification research in developed and emerging market environments (Purkayastha et al. 2012).

This paper contributes to the existing literature in three ways. First, we contribute to studies on unrelated diversification strategy by thoroughly detecting the current state of inquiry on the issue and by identifying its core arguments. The organized picture we offer may be viewed as a "comprehensive introduction" to unrelated diversification, which may be of interest to both scholars and practitioners, who either have or wish to have some knowledge of this topic.

Second, by advancing our understanding of unrelated diversification strategy and the management of diversified firms, it offers a set of conceptual insights, and forges some groundwork that intriguingly proffers the convergence and integration of disciplinary traditions and conceptual perspectives.

Finally, by supplying a *conceptual map* that displays a comprehensive appreciation of unrelated diversification strategy antecedents, key features of the diversification implementation process, and its consequences, we aim to revamp discussion on unrelated diversification research and to identify directions for future investigation. In doing so, we unveil challenges and opportunities for further investigations on unrelated diversification.

The remainder of this paper is organized in four sections. First, we summarize the evolution of management thinking on unrelated diversification. Second, using the platform Web of Knowledge, we illustrate the selection methods employed to choose the unrelated diversification articles that lead to eventually select 120 key articles.

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Third, by developing a conceptual map of the literature, the paper aims to provide a fertile terrain for understanding alternative explanations supplied on unrelated diversification antecedents, implementation process, and consequences. Finally, drawing on the thorough literature review performed, we identify the major gaps in our current knowledge, and discuss opportunities and challenges for future inquiry.

2 Management thinking on unrelated diversification

Diversified firms operate in various unrelated businesses to capitalize on the governance of resources and scope economies (Williams et al. 1988). Operating in several unrelated businesses should serve firms as well as, if not better than, more focused strategies. Diversified firms are expected to generate *synergy value* resulting from the difference between the valuation of a combination of business units and the sum of the valuations of stand-alone units. Although the logic of diversification strategy is the search for the "super-additivity" of the value of business combinations, the costs associated with unrelated diversification strategy may be greater than the benefits. Therefore, management research has long devoted attention on the conditions under which unrelated diversification strategy creates value.

Generally speaking, strategic management view of the effectiveness of unrelated diversification has changed over time (Goold and Luchs 1993). Figure 1 depicts the evolution of management thinking on the topic.

Throughout the 1960s, highly diversified firms (e.g., Textron, ITT, and Litton) were believed to outperform expectations (Gort 1962; Matsusaka 1993), and therefore an unrelated merger wave emerged (Martynova and Renneboog 2008). The financial economics perspective considered that firms which chose a high level of diversification were "size maximizers" (Reid 1971). Actually, firm growth represented an imperative for profitability and success (Nippa et al. 2011) and the common wisdom was that unrelated diversification did not perform worse than related diversification (Bettis and Hall 1982). Essentially, strategic management scholars saw with favor the choice to diversify in an unrelated fashion for two major reasons. First, the advantages of strategic planning and resource allocation that hierarchical coordination supplies (Galbraith 1952). Second, the universal principles

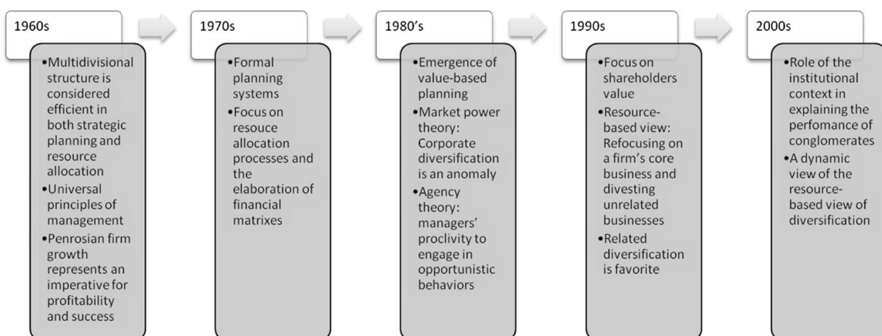

Fig. 1 Management thinking on unrelated diversification: an overview

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of management (Fayol 1949; Urwick 1942) dictated that executives possess general management skills applicable to all kinds of businesses.

During the 1970s, the idea has come to light that managing a multibusiness firm is more complex than managing a focused firm (Goold and Luchs 1993). Specifically, diversification strategy leads to managerial challenges and hitches in resources allocation. As a consequence, corporate portfolio management turns into an important issue. Two business portfolio matrixes (i.e., the growth-share matrix and the industry attractiveness-business strength matrix, elaborated respectively by consulting firms such as the Boston Consulting Group and McKinsey & Co.) started to become popular in management practice (Haspeslagh 1982).

Over the following decade, research has drawn attention on the long-term sustainability of unrelated diversification. According to market power theory, corporate diversification is an *anomaly* and, hence, well-performing unrelated diversification strategies are at best improbable (Scherer 1980; Montgomery 1985). Correspondingly, some authors concluded that unrelated diversification reveals an objective divergence between the principal and the agent as well as managers' proclivity to engage in opportunistic behaviors (Amihud and Lev 1981).

Starting in the last five-years of 1980s, strategic planning in large firms has progressively turned from focusing on firm growth to paying attention to systems of performance management. This dramatic change in managerial practice is considered a primary driver of firms' choice to refocus (Grant 2010). Additionally, an extensive theoretical and empirical literature emerged that looked at diversification as an approach to leverage valuable and imperfectly imitable resources (Farjoun 1994; Govindarajan and Fisher 1990; Markides and Williamson 1996; Nayyar 1993; Robins and Wiersema 1995; Tanriverdi and Venkatraman 2005). Following resource-based view recommendations and drawing on Rumelt's (1991) findings (i.e., the most relevant bases of economic rents are business-specific), diversification literature has suggested to concentrate on a firm's core business and to divest unrelated businesses (Markides and Williamson 1994; Silverman 1999). Firms should penetrate markets with resource requirements similar to their own (i.e., *resources similarity* strategies; Markides 1995; Montgomery and Hariharan 1991). From this perspective, Varadarajan et al. (2001) emphasized that: (1) a "deconglomerate" firm may be expected to be more competitive and customer oriented vis-à-vis a conglomerate firms; (2) while multimarket contacts with competing firms and seller concentration may increase; (3) businesses maintained by the ex-firm that operated in unrelated businesses may be more innovative, thereby emphasizing advertising over sales promotion; and, finally, (4) the deconglomerate firm's culture may be more externally adapted. As a consequence, many firms decided to restructure and rationalize, "basing their strategies on 'sticking to the knitting' and eschewing broad diversification" (Goold and Luchs 1993: 8).

While some authors have maintained that an efficient economic market deters unrelated diversification (Zuckerman 2000) and, over time, ultimately eliminates highly diversified firms (Kay 1992; Liebeskind 2000), these kinds of firms continue to play a significant role in the market. Unrelated diversification persists in efficient and developed markets (such as the UK and the US) as well as in emerging markets (e.g., China, Korea, Brazil, Mexico, and Argentina; Hitt et al. 2009). Therefore,

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whether and how operating in many unrelated businesses allows a firm to achieve superior performance vis-à-vis other strategies continue to be a managerially intriguing questions. During the 2000s, management literature underlined the interrelationships between competitive contexts, resources, and performance. A main justification of unrelated diversification strategy seems linked with the firm's capacity to create a resource pool that substitutes the lack of an efficient market o industry. Nonetheless, as we shall show in the following sections, a dynamic view of the resource-based perspective and the consideration of strategic flexibility may also represent a fruitful background to understand the role of unrelated diversification.

3 Article selection method

With the aim of presenting a systematic review of research on unrelated diversification strategy, we have selected the articles using the platform Web of Knowledge for all the span of time available (i.e., from January 1985 to May 2014) according to the following criteria. First, we searched for articles that contain the words "diversif*", "business group*", "multi-business*", "multibusiness*", "conglomerate*", "internal capital*" in the title.

Since the generated sample is rather wide (i.e., 2,608 articles), we refined a second time the results for the journals on the basis of the five-year impact factor. Although we acknowledge that other valuable works has been published, we consider the five-year impact to be a good proxy of the "certified knowledge" and "knowledge dissemination" in the academic community (Amin and Mabe 2000). We included the management and finance journals that, in 2011, presented more than 2.5 in their five-year impact factor. Third, we further refined the results for the type of document: articles, namely we excluded proceedings papers, and editorial materials. We selected 388 articles. We then analyzed each article to determine if it explicitly contributed to detect *unrelated* diversification strategy. Therefore, articles on geographic diversification, scope economies of related diversification, network perspective on business groups, and conglomerates as a result of M&A operations were eliminated. Consequently, the data base is composed by 99 ISI articles.

We recognize that, while the Web of Knowledge platform supplies articles published from January 1985, the roots of diversification literature are actually much older. Therefore, we included a further step. On the basis of the citations of the 99 articles selected, we have managed to recognize 21 other additional contributions in the unrelated diversification literature that date back to the period before 1985. By adding these 21 contributions to the 99 articles earlier selected, we reached a final set of 120 articles in the database. Then, we included them as the basis for this comprehensive review.

4 A map of unrelated diversification strategy literature

As anticipated earlier, this paper aims to provide a solid groundwork for understanding the bouquet of alternative explanations supplied on unrelated

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diversification decisions and consequences. As follows up prior reviews concerned with diversification strategy (Hoskisson and Hitt 1990; Wan et al. 2011) and our database detection, we develop a conceptual map of the unrelated diversification literature (see Fig. 2) that considers antecedents, implementation process, and outcomes. In the left-hand side of Fig. 2 (the first rectangle), we find the antecedents of unrelated diversification: environmental and institutional drivers, value-enhancing drivers, and managerial drivers. In the midway rectangle of Fig. 2, we find the key features of unrelated diversification strategy implementation process. Specifically, we focus on the emergence of diversification traps: managerial complexity, the misallocation of resources, and structural inertia. In the right-hand side of the map (the third rectangle of Fig. 2), we consider the performance of highly diversified firms, discussing the emergence of diversification premium/discount, its determinants, and the evidences collected across countries.

In the sections that follow, we discuss carefully the specific content of the conceptual map of the literature we have advanced by starting from the antecedents of unrelated diversification. While we can confirm that the conceptual map at hand is firmly grounded on thorough analysis and solid understanding of the content of the bulk of the literature on unrelated diversification, we acknowledge that it might be to some extent liable to the interpretation bias of the authors. We shall deal with this condition in the section dedicated to the limitations of the study.

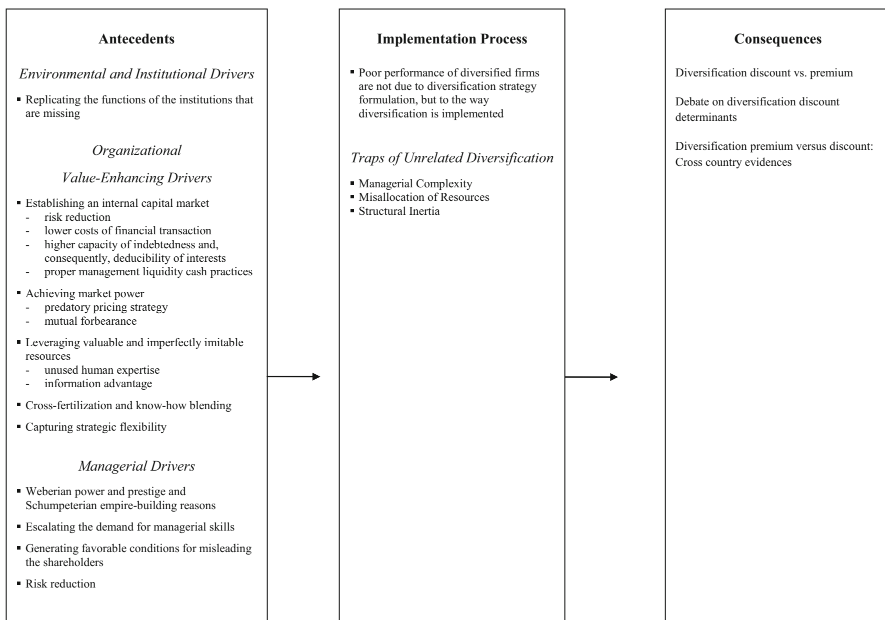

Fig. 2 Map of the literature on antecedents, implementation process and consequences of unrelated diversification

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5 Antecedents of unrelated diversification

Unrelated diversification comes into being for a set of reasons, varyingly labeled as "antecedents", "drivers" or "motivations". We systematically analyze the literature in order to detect the key antecedents of unrelated diversification considering: (a) environmental and institutional drivers; (b) organizational value-enhancing drivers; and (c) managerial drivers. As Limmack (2003) noted, there are various possible classifications of the antecedents of diversification, such as classifications on the basis of the conceptual theories that inform the studies, and classifications for the scope economies that diversification turns possible thanks to strategic interdependencies (Cable 1977). Two are the key reasons that underlie the decision to adopt the aforementioned classification. First, it splits between drivers that may be coherent with shareholders' interests (namely, environmental and institutional drivers and organizational value-enhancing drivers) and those that are not. Second, this classification provides a clear-cut link between the firm's strategic choice to diversify in unrelated fashion and environmental and institutional conditions. Such classification allows us to recognize when managers should change the firm's portfolio on the ground of external variables.

5.1 Environmental and institutional drivers

A handful of studies show that the influence of unrelated product diversification on performance changes across countries and over time (Mayer and Whittington 2003).Therefore, scholars have moved to explore how environmental and institutional factors drive the decision of firm scope's degree. While unrelated diversification does not seem to be driven by cultural values (Chung 2001; Singh 2007), a high-degree diversification is helpful to overcome asymmetry information problems, institutional underdevelopment, and the inefficiency of products, labor, and external capital markets (Fauver, Houston and Naranjo 2003; Gopalan et al. 2007; Khanna and Palepu 1997; Kock and Guillén 2001). From this perspective, Khanna and Palepu (2000a) and He et al. (2013) argue that Indian and Chinese conglomerates usually add value by replicating the functions of the institutions that are inefficient or missing in those emerging markets. Chakrabarti et al. (2007) corroborate the impact of various institutional environments on the performance of highly diversified firms. Because unrelated diversification is a response strategy to market failures (Khanna and Rivkin 2001; Chang and Hong 2002; Khanna and Yafeh 2007), when institutions improve, firms are more prone to refocus on core business (Hoskisson et al. 2004; Hoskisson et al. 2005).

5.2 Organizational value-enhancing drivers

To elucidate the key motives for pursuing unrelated diversification strategy on the ground of extant research, it is possible to identify five sets of organizational value-enhancing drivers: (1) achieving market power; (2) establishing an internal capital market; (3) leveraging valuable and imperfectly imitable resources; (4) knowledge cross-fertilization and know-how blending, and (5) capturing strategic flexibility.

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We call attention to the multiple conceptual perspectives that inform the literature on organizational value-enhancing drivers. The first two sets of drivers emphasize the firm-market interface through market power (Porter 1981, 1985) and the exchange-based approach (Williamson 1975, 1985). The third set of drivers is rooted in the resource-based view as it underscores the importance of distinctive resources in generating sustained competitive advantage (Barney 1986, 1991). The two latter sets of drivers transcend the single resource driver per se, as they take into account the multifaceted and dynamic interactions among types of resources, knowledge integration, and strategic flexibility.

5.2.1 Achieving market power

The initial set of value-enhancing drivers of diversification is the opportunity to achieve market power (Sobel 1984). Diversified firms show greater facility to erect entry barriers (Baumol et al. 1982) and then to influence "price, quality, and the nature of the product in the marketplace" (Shepherd 1970: 3). In addition to increasing a firm's absolute size (Markham 1973), an unrelated diversification strategy opens up two relevant opportunities for achieving market power. First, thanks to the cross-subsidization among businesses, a multibusiness firm might support a *predatory pricing strategy* (Edwards 1955): by subsidizing a business with the profits of another business, the firm is able to reduce prices (Bettis and Prahalad 1995; Scherer 1980). Therefore, the financial benefits of unrelated diversification support predatory strategy in driving out rivals (Bolton and Scharfstein 1990, 1998). Additionally, unrelated diversification strategy may signal a credible threat to new incumbents in one of the diversified firm's businesses (Saloner 1987).

Second, unrelated diversification creates the conditions for *mutual forbearance* (Caves 1981; Gimeno 1999; Miller 1973). When two or more firms are rivals in multiple markets, the intensity of competition downgrades because they will forsake to implement strong competitive actions in a business when they believe their rivals have the capability to counterattack in another market (Chen 1996; Karnani and Wernerfelt 1985).

5.2.2 Establishing an internal capital market

The second set of value-enhancing drivers of unrelated diversification draws attention to the benefits of the firm's internal capital market in making financial resources available for firm investments (Khanna and Tice 2001; Peyer and Shivdasani 2001; Stein 1997). The benefits that the internal capital market provides via unrelated diversification can be summarized in the two following sets: (a) risk reduction; and (b) lower costs of financial transactions vis-à-vis undiversified firms. First, firms pursue unrelated diversification to establish an internal capital market with the capacity to compensate the positive and negative performances of many businesses. Unrelated diversification *reduces the operational risk* triggered by the low degree of correlation among the performances of different business units (Amit and Livnat 1988). Therefore, unrelated diversification strategy helps ensure a low variability in financial results (Estrin et al. 2009). Financial economics researchers

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observe, however, that conglomerate portfolio management from the shareholders' perspective does not necessarily bring about a specific risk reduction advantage. In fact, shareholders can reduce risk more straightforwardly and effectively by diversifying their own stock portfolio (Brealey and Myers 2000). Nonetheless, this remark is rooted in the assumptions of efficient capital market theory. Conversely, firm-level unrelated diversification strategy might help shareholders overcome an inefficient personal portfolio when the external capital markets are actually not fully developed or efficient.

Second, a multibusiness firm's capital market creates the conditions to *reduce the costs of financial transactions* vis-à-vis undiversified firms. Specifically, the internal capital market might prevent high transaction costs (Williamson 1979) because a firm's headquarters is deemed to have richer information on business performance than banks do. Typically, a firm's headquarters takes differential advantage of "informal channels such as personal acquaintances" (Massa and Rehman 2008). Additionally, a diversified firm's headquarters can adjust for incentives when businesses performance is unsatisfying. The costs of information asymmetry inside the boundaries of a diversified firm are therefore lower than the cost of external financing (Hann et al. 2013).

Finally, financial synergies may emerge because diversified firms leverage on a *higher level of indebtedness* (Lewellen 1971; Shleifer and Vishny 1997; Bernardo, Luo, and Wang 2006), take tax advantage of the deductibility of interests (Bettis and Prahalad 1995), and are more able to *properly manage liquid cash* (Duchin 2010).

5.2.3 Leveraging valuable and imperfectly imitable resources

The resource-based view claims that firms diversify to put their excess resource capacity into use (Chatterjee and Wernerfelt 1991; Penrose 1959). Additionally, firms reach and sustain competitive advantages by organizing valuable resources and capabilities that are inelastic in supply (Barney 1991). Therefore, when firms have an excess of valuable, rare, and costly-to-imitate resources, a diversification strategy based on sharing those resources will contribute to achieve superior corporate performance (Wan et al. 2011). Since the goal of unrelated diversification strategy is not to directly transfer resources and activities among businesses, it may leverage only "on a typology of resources which is generalizable" across many businesses (Palepu 1985: 34). Here, we focus specifically on resources that are generalizable across businesses, but potentially valuable and rare.

First, we recall the Penrosian idea of the excess capacity of "unused human expertise" (Mahoney and Pandian 1992: 366), in which the resource-based view of firm diversification is deeply rooted. Despite extant theoretical and empirical studies taking contradictory positions on the so-called universal principles of management (Fayol 1949; Kotter 1982; Urwick 1942), we posit that some managerial *synergies* among unrelated business may emerge. For instance, we recall cognitive capabilities in the industry selection processes and managerial and entrepreneurial skills used to walk into a new business (Ganco and Agarwal 2009; Guillen 2000). In this case, the sheer managerial awareness of value creation options justifies the firm's ambitions in unrelated businesses.

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Second, we suggest the use of *informational* advantages. Informational advantage may bring into play the prospects for unrelated projects that are difficult to communicate to the market. For these projects, the investment of internally generated funds may be the only appropriate way to obtain funding (Myers and Majluf 1984). As Campello (2002) observes, an internal capital market relaxes credit constraints in financial conglomerates. In fact, highly diversified firms can fund profitable projects that the external capital market cannot (Lamont 1997).

5.2.4 Knowledge cross-fertilization and know-how blending

Drawing on the dynamic approach of the resource-based view, Ng (2007) considers unrelated diversification strategy as the possibility to leverage different sets of knowledge to generate new possibilities for efficient knowledge integration. He makes reference to taking decisions on “the degree to which an organization expands its pool of resources to discover their varied uses in incomplete markets” (Ng 2007). This argument lends importance to the capacity to learn rapidly to alter the resource configurations in adapting to market changes by means of unrelated diversification strategy. In the long run, the diversified firm serves as an “*information disseminator*” among the businesses involved (Ng 2007). A high degree of diversification promotes the emergence of a large and complex network of resources and expertise, which is created and constantly recreated within the firm’s borders by developing new resources and expertise. This process of sharing and cross-learning between different businesses establishes a broad background for the reorganization of production processes and/or businesses at the firm level (Quintana-García and Benavides-Velasco 2008). Information dissemination can lead to a valuable, rare, and costly-to-imitate resource because it is formed in a context that is highly complex and difficult to replicate (Avenel et al. 2007). We also emphasize that, when unrelated knowledge is recombined, the outcomes are more innovative than when related knowledge is integrated (Wanous and Youtz 1986; Miller et al. 2007). However, while unrelated diversification supports cross-fertilization and know-how blending (as occurs frequently in biotechnology and nanotechnology settings), as Kim et al. (2013) argue, this phenomenon emerges only when firms promote a broad technological search strategy. On the other hand, Leten et al. (2007) argue that high level of diversification may generate in turn high integration costs. Actually, a lack of common knowledge among businesses might serve as an impediment to the combination and recombination of knowledge.

5.2.5 Capturing strategic flexibility

The fourth set of value-enhancing drivers to diversify is linked to a stream of dynamic diversification models (Matsusaka 2001). In fact, it aims to capture the flexibility value. In this vein, Matsusaka (2001) argues that “if a firm’s existing businesses are down, but not yet out, it is safer to maintain the old businesses while searching for a better opportunity instead of liquidating and throwing all resources into a new venture with uncertain prospects.” Firms employ diversification strategy to switch from businesses that are becoming unattractive to others more attractive

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businesses. They implement unrelated diversification strategy in order to "quickly commit resources to new courses of action in response to those changes, and recognize and act promptly when it is time to halt or reverse existing resource commitments" (Shimizu and Hitt 2004). Accordingly, diversified firms' performance is the outcome of a dynamic, multidimensional series of decisions, as firms operate in many businesses while seeking and expanding new growth opportunities (Stowe and Xing 2006). We underscore that *information* is the most critical resource in generating the strategic flexibility required to recognize and capture project values hidden in dynamic uncertainties. The main benefit of unrelated diversification strategy is that it provides a *platform* for future strategies (Ng 2007). From this perspective, operating in many businesses increases preferential chances for investment options, such as expanding in a growing market, changing a business when the market takes a downturn, or earning capital gains through divestiture.

5.3 Managerial drivers

Scholars in strategic management and financial economics have credited the CEO an important role in pushing for diversification strategy (Hoskisson and Hitt 1990; Krishnan et al. 1997). Some of the most cited studies have applied agency theory (Eisenhardt 1989; Jensen and Meckling 1976) to US firms. Agency theoretical perspective considers the decision to diversify in unrelated fashion as a decision taken merely for managerially opportunistic reasons. Four reasons underlie the option to consider unrelated diversification as the result of opportunistic behaviors combined with an excess of discretionary power. First, managing a diversified firm usually leads to a high level of Weberian power and prestige (Benston 1985; Gomez-Mejia and Wiseman 1997). Thus, managers are prone to diversify for Schumpeterian empire-building reasons (Jensen 1986; Kim et al. 2009), for their entrenched interests (Shleifer and Vishny 1989), and "in response to changes in private benefits" (Aggarwal and Samwick 2003, p. 71).

Second, since unrelated diversification strategy substantially amplifies managerial complexity (Jones and Hill 1988; Kotter 1982; Schroder et al. 1967), it establishes the conditions for strengthening the managers' position by escalating the demand for managerial skills. Executives could thus push for an unrelated diversification strategy to obtain access to higher compensation schemes (Jensen and Murphy 1990; O'Reilly III et al. 1988).

Third, the managerial complexity underlying unrelated diversification strategy makes it difficult to recognize a clear cause-and-effect link between managerial decisions and corporate performance. Actually, the information asymmetry "about what the agent is actually doing" (Eisenhardt 1989: 60) is amplified by managerial complexity underlining unrelated diversification strategy. Therefore, managers may push for unrelated diversification because it generates favorable conditions under which managers mislead the shareholders (i.e., moral hazard). Essentially, unrelated diversification helps generate greater agency benefits for opportunistic behaviors in the future (Tong 2011).

Fourth, while unrelated diversification strategy is helpful to reduce firm risk, managers and shareholders have different preferences in this regard. CEOs are

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usually prone to enlarge the span of their business portfolio (Amihud and Lev 1981), because their wellness (as regards retribution, reputation, and human capital) largely depends on a single firm performance (Goranova, Alessandri et al. 2007; Wang and Barney 2006). Basically, managers-controlled firms have a greater propensity to undertake unrelated mergers and other actions that reduce diversification risk (Amihud and Lev 1999).

Agency theoretical researchers have identified the corporate governance circumstances associated with the desire of pursuing unrelated diversification. For instance, Kim et al. (Kim et al. 2009) find that CEO duality is positively linked to unrelated diversification. Other scholars (Denis et al. 1997; May 1995) corroborate the "managerial opportunism hypothesis", showing that the span of diversification is negatively related to managerial equity ownership. Moreover, Amihud and Lev (1999) argue that firms with greater ownership concentration are less diversified on average. In fact, ownership concentration is a valid counterbalance to managerial opportunism (Maug 1998; McConnell and Servaes 1990; Zeckhauser and Pound 1990) and, according to Amihud and Lev (1999), a block of shareholders will push executives to formulate more effective strategies. Intriguingly, Ramaswamy, Li and Veliyath (2002) have shed new light on the relationship between ownership and diversification as their suggest that the ownership block may take distinctive postures in monitoring and influencing the choice to diversify in unrelated fashion, as well as that, consequently, it needs to consider the context specific to the change in the ownership group.

6 Implementation process of unrelated diversification

Analyses of the antecedents of unrelated diversification strategy show that this strategy begets various opportunities to create value. However, there is limited empirical support in the literature that unrelated diversification promotes value creation. The evidence does not thoroughly address unrelated diversification strategy value creation. Nonetheless, we ought to consider that poor performance of multibusiness firms may not be due to unrelated diversification strategy design and formulation, but to the way it is actually implemented (Dundas and Richardson 1982). Drawing on (Markides 1992), we focus on the emergence of "*diversification traps*": (a) managerial complexity (i.e., diseconomies related to organization and potential conflicting dominant logics among businesses); (b) the misallocation of resources (or internal capital market inefficiencies); and (c) structural inertia.

6.1 Managerial complexity

The first trap of unrelated diversification strategy involves the excess of managerial complexity. Managing a highly diversified firm requires processing a much larger amount of information than running a more focused firm (Jones and Hill 1988; Kotter 1982; Schroder et al. 1967). Further, while managers of focused or related diversified firms have to prevent or react only to a few market and technological stimuli, highly diversified firms suffer from their variety because each unrelated

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business requires its own strategic approach (Calori et al. 1994). The CEO of a highly diversified firm has to screen, anticipate, and react to many competitive dynamics, technologies, and customers. Unrelated diversification implies *multiple dominant logics* (Prahalad and Bettis 1986), comprising market and technological factors that often diverge. In this vein, Bettis and Prahalad (1995) emphasize the difficulty of identifying a strategic thinking approach that matches businesses with different characteristics, and that applies to today's intensely fluctuating competition that, rather than in sustainable competitive advantage, is grounded in a series of temporary advantages (D'Aveni et al. 2010). Consequently, unrelated diversification generates significant demand for managerial services (Hutzschenreuter and Guenther 2008). Additionally, managerial complexity generates costs, such as for managing spans of control, coordination costs, rigidity costs, inflexibility, and cultural mismatches within the central bureaucracy (Rawley 2010), that may dissolve economies of scope (Lauenstein 1985).

6.2 Misallocation of resources

We have mentioned that internal capital markets economies are an important driver of unrelated diversification. By contrast, the implementation of a diversification strategy may generate misallocation of resources. First, we underscore that the information process is particularly relevant to establish and preserve the effectiveness of an internal capital market. Billet and Mauer (2003) maintain that efficient subsidies for financially constrained segments significantly increase excess value, while inefficient transfers from segments with good investment opportunities significantly decrease excess value. Highly diversified firms may nevertheless suffer from managerial complexity in their information management (Jones and Hill 1988) and will probably perform inefficient transfers.

Second, building on Coase (1937), studies have identified in the agency relationship between corporate headquarters and divisions a determinant of the misallocation of resources. As Boot and Schmeits (2000) and Cline et al. (2014) argue, despite diversification's benefits, unrelated diversification can effectively relax the limited liability constraint. Conglomeration weakens market discipline and encourages free riding behavior, where resource misallocation may occur. Intriguingly, Matsusaka and Nanda (2002) show that the relative efficiency of integration and separation among business units depends on the assignment of control rights over cash flow. More specifically, using the argument of control rights' impact in divisional rent-seeking behavior, Scharfstein and Stein (2000) claim that the costs of integration arise naturally for the Schumpeterian empire-building phenomenon. From this perspective, the benefits of internal capital market are exacerbated by overinvestment agency problem (Stulz 1990; Bettis and Prahalad 1995).

Third, Rajan et al. (2000) develop a conceptual framework explaining the so-called "conglomerate socialism": The framework is entrenched in two strong assumptions: (a) "a firm's headquarters has limited power over its divisions"; and (b) "surplus is distributed among divisions through negotiations", while divisions can influence "the share of surplus they receive through their choice of investment"

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(p. 37). Rajan et al. (2000) argue that, when there are more diverse resources and opportunities in the divisions of a diversified firm, the resources flow to the least efficient division advocating major investments. Business units with fewer investment opportunities require higher financial resources and can feature much inefficiency, which effectively penalizes divisions with better opportunities. In this perspective, Bernardo et al. (2006) ascribe to internal capital market socialism rising agency costs and information asymmetries.

Fourth, Goel et al. (2004) identify another source of resource misallocation traps: CEOs with career anxiety will assign more resources to the business whose performance is more revealing of their managerial skills. Finally, Lyandres (2007a) find an additional set of motivations that lead to misallocation of resources: the lack of connections between the firms' capital structures and their product market decisions.

6.3 Structural inertia

A high level of diversification may deter innovativeness at both corporate and business levels (Chang et al. 2006) and reduce the firm's agility in reacting to market changes (Donaldson 2000; Greenwood and Hinnings 1996; Hoskisson and Hitt 1994). Various studies have detected that unrelated diversification negatively impacts on R&D activities and innovation (Banker et al. 2011; Hoskisson and Hitt 1988; Hoskisson et al. 1993). Several reasons explain the emergence of the structural inertia trap (Hannan and Freeman 1984; Surendran and Acar 1993). First, most firms operating in many unrelated businesses strongly emphasize financial performance, including managing of human resources (Rowe and Wright 1997). Managerial logic is often characterized by a short-term perspective, or "short-termism" (Baysinger and Hoskisson 1989; Cardinal and Opler 1995), which in turn reduces entrepreneurial incentives (Gertner, Scharfstein and Stein 1994; Hoskisson and Johnson 1992).

Second, owing to managerial complexity, CEOs are often unable to assess properly the long-term potential of the new strategic paths for each business and, hence, the prospects of R&D investments. Under these conditions, they prefer to reduce risk. In fact, innovation implies costs and risks that are to be carefully circumvented.

Third, drawing on Hannan and Freeman (1984), we argue that the managerial complexity underlying unrelated diversification strategy increases with the time duration of change. Since the possibility of failure increases exponentially along with change duration, managerial complexity may lead to negative prospects for R&D projects.

Fourth, the misallocation of resources underlining unrelated diversification strategy may also affect the productivity of R&D activities (Seru 2014).

7 Outcomes of unrelated diversification

While the relationship between unrelated diversification and corporate social performance is an emerging research area (Kang 2013), a huge body of literature

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has investigated the impact of unrelated diversification on financial performance and hence analyzed the emergence of a diversification premium or discount. Namely, whether a multiple-segment firm's consistently calculated value is above or below the value imputed using single-segment firm multiples. Servaes (1996) found no specific evidence that diversified firms were valued more highly than were single-segment firms in the 1960s and early 1970s. Conversely, for several years, diversified firms sold in the market at a substantial discount compared to single-segment firms. This result is consistent with Fluck and Lynch (1999), who provide an explanation for conglomerate mergers by arguing that they are a technique for allowing projects to survive a period of distress. This approach implies that mergers can increase the combined values of acquirers and projects that could not be financed as stand-alone, while, as these projects are only marginally profitable, diversified firms are less valuable than stand-alone firms.

Graham et al. (2002) show that the literature implicitly assumes that stand-alone firms are a valid benchmark with which to evaluate the divisions of highly diversified firms and that this practice masks systematic and incorrect assumptions. They examine two samples of firms that expanded through acquisition and/or increased their reported number of business segments. Hence, they show that units combined into firms "through mergers or acquisitions are priced at significant discounts relative to the median of a stand-alone firm in the same industry prior to joining a larger firm" (p. 717). They argue that the characteristics of acquired units are important factors in determining valuation discount. Graham et al. (2002) conclude that excess value is not reduced when a firm increases the number of business segments in which it operates without making an acquisition. Villalonga (2004b) centers on the endogeneity problem in diversification decisions and "estimates the value effect of diversification by matching diversified and single-segment firms as concerns their propensity scores" (p. 5). Like Graham et al. (2002), Villalonga (2004b) finds that the diversification discount is reduced when conglomerates are compared to stand-alone firms with similar propensity to diversify. Finally, Campa and Kedia (2002) show that the benefits and costs of diversification are related to firm-specific characteristics.

On the ground of the two mentioned studies of Villalonga (2004b) and Campa and Kedia (2002), we can conclude that it is seemingly significant to investigate the drivers of the diversification discount or premium also using cross-country evidence.

7.1 The debate on the determinants of diversification discount

Various scholars have focused their attention on the determinants of diversification discount. Inderst and Laux (2005) argue that, operating an active internal capital market, is "unambiguously beneficial only when the divisions have the same level of financial resources and the same investment potential" (p. 216). Specifically, they argue that managers' incentives may be lower and that an internal capital market may decrease the firm's value, even when a firm's headquarters allocates capital in an efficient fashion. In the same vein, Inderst and Muller (2003) emphasize that conglomerates generally lack strong capital market discipline and conclude that

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conglomerate strategy should generate a decreased average productivity vis-à-vis stand-alone firms. Lamont and Polk (2002) and Rajan et al. (2000) come to the same conclusion: diversification destroys value, and the inefficient internal capital markets hypothesis is consistent.

Schoar (2002) finds that new plant acquisition increases productivity. Examining account statistical data on diversified productivity, he argues that highly diversified firms have a *productivity advantage* over their stand-alone counterparts, but also that higher productive efficiency does not automatically translate into higher shareholders value. Conversely, Maksimovic and Phillips (2002) pinpoint that conglomerates have a discount because of their lower productivity and not necessarily because of agency problems.

7.2 Diversification premium versus discount: cross-country evidence

Focusing the attention on the peculiarities of the countries in which firms operate, studies have built on the argument that a high level of diversification is motivated by internal capital market advantages. These studies generally focus on conglomerate performance when the external capital markets are weak. From this perspective, Hubbard and Palia (1999) underscore the influence of institutional contexts and, considering the wave of acquisitions in the 1960s, argue that internal capital markets actually emerge to overcome the information inadequacies of less developed external capital markets. Lins and Servaes (1999) examine comparative differences in the valuation of diversified firms in Germany, Japan, and United Kingdom. Their empirical results suggest that the effect of diversification on firm value differs across countries. Subsequently, the same authors (Lins and Servaes 2002) analyze the value of corporate diversification in seven emerging markets. While they do not fully support the hypotheses emerging from the internal capital markets perspective, they conclude that greater systematic information asymmetry and market imperfections increase the net benefits of corporate diversification.

8 Opportunities and challenges for future research

This section offers a few hints that emerge from the systematic review of extant studies on managing highly diversified firms in order to outline the main gaps in the literature and propose a structured path to develop an agenda for future research. We wish to underscore that, due to the long-lasting controversy on the choice between refocusing a business or using related or unrelated diversification, this study suggests that unrelated diversification may be considered an intriguing subfield at the interface of finance economics and strategic management. In a way, it may seem a particularly attractive feature to study unrelated diversification strategy. In fact, leveraging on the multiple perspectives that inform unrelated diversification strategy, we draw attention on issues on the subject that are open to further inquiry. Table 1 presents a synopsis of the most intriguing research questions and conceptual perspective(s) that are fruitful to investigate.

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Table 1 Opportunities for future research

Conceptual perspective(s) that inform unrelated diversification research questions	Research question
Coopetition strategy	Exploring how coopetition practices may be helpful in circumventing the traps of unrelated diversification
Coopetition strategy	Exploring how the *dynamic dance* between cooperative and competitive tensions inside a multibusiness firm evolves over time
Corporate social responsibility	Exploring the relationship between unrelated diversification and corporate social performance
Dynamic capabilities	Exploring the role of dynamic capabilities in understanding and managing the (multiple) dominant logics in a multibusiness firm
Institutionalism	Exploring the dynamic evolution of diversification strategies and their effect on performance, guided by changes in the institutional context
Institutionalism agency theory	Exploring why and how the relationship between the institutional context and unrelated diversification strategies is influenced—in its intensity or direction—by the type of ownership
Institutionalism internal capital market	Exploring the conditions under which internal capital markets operate or take up the challenge
Institutionalism agency theory	Exploring how differences in institutional contexts shape the development of specific corporate governance determinants of unrelated diversification in a variety of countries
Market power theory competitive dynamics	Exploring how unrelated diversification may support the reshaping of single-business strategic postures to reply to rival attacks
Organizational ambidexterity	Exploring how the ambidextrous organizational form may provide buffer contexts for pursuing unrelated diversification strategy
Real option resource-based View	Exploring how firms deal with technological uncertainties by means of unrelated diversification
Real options	Exploring whether and under what conditions the possible absence of short-term performance of unrelated diversification strategy may deter firms from starting it in the long term
Resource-based view social network	Exploring the conditions for improving innovation performance under which firms prefer an unrelated diversification strategy to a networking strategy
Resource-based view	Investigating whether it is possible to elaborate an unrelated diversification's life cycle premium or discount
Strategic leadership	Exploring whether and, eventually, how effective strategic leadership may halt the spiral of events that, over time, usually leads to the deterioration in the performance of highly diversified firms
Upper Echelons theory	Verify the hubris hypothesis of unrelated diversification and, eventually, whether the diversification premium/discount occurs partly due to managerial hubris

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We will structure this section largely as a mirror image of the critical synopsis of the literature reported in the previous sections (i.e., antecedents, implementation process, and consequences of unrelated diversification), in order to present the key points for advancing a research agenda on unrelated diversification strategy.

8.1 Antecedents of unrelated diversification

8.1.1 Environmental and institutional drivers

While considerable research attention has been paid to a few antecedents of unrelated diversification strategy, the relationship between this strategic choice and the evolution of the macroeconomic and social system remains a gray area (Purkayastha et al. 2012). In this vein, Campa and Kedia (2002) propose to develop a dynamic model that “will allow for both diversification and focus in response to changes in the economic environment and that could be structurally estimated with available data” (p. 1762). By exploring the dynamic evolution of diversification strategies and their effect on performance guided by changes in the institutional context, we hint at a promising research space that extends and clarifies the received literature. At a deeper level, we recommend to assess whether the relationship between the institutional context and unrelated diversification strategies is influenced—in both intensity and direction—by the type of ownership (e.g., family ownership, and institutional investors). This line of research brings the potential to shed new light on the role of ownership type in interpreting and reacting to changes in institutional contexts, as well as to clarify the conditions under which each type of ownership may prefer unrelated diversification.

Additionally, little attention has been paid heretofore to the possibility that unrelated diversification may be deemed a strategic answer to cope with technologically turbulent environments (Kay 2002). We know that technological uncertainty dramatically increases along with the depth and breadth of the knowledge, resources, and capabilities, required for achieving firm competitiveness. Since unrelated diversification strategy leads to knowledge integration and strategic flexibility (Ng 2007), one might suppose that technologically turbulent pressure pushes toward unrelated diversification. Therefore, drawing on Ganco and Agarwal (2009), we suggest researchers to explore how firms may deal with technological uncertainties by means of unrelated diversification strategy.

8.1.2 Value-enhancing drivers

An appealing debate concerns how and to what extent diversification strategy may achieve superior performance. We propose some research questions that can contribute to this debate. First, drawing on Stein (1997), empirical studies examine internal capital market’s benefits (e.g., Doukas and Kan 2008; Yan et al. 2010) and emphasize the potential of these benefits for firms operating in underdeveloped financial markets (Khanna and Palepu 1997, 2000a). Furthermore, Khanna and Palepu (2000b) conjecture that the evolution of institutional contexts alters the potential value creation process of a diversified firm. Among the most promising

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research areas, we encounter the option to explore particular conditions in which internal capital markets operate; i.e., taking up the challenge, earlier proposed by Purkayastha et al. (2012), to assess the relationship between firm diversification and performance in different time periods of stability and instability.

Second, we have observed that, while market power arguments have deeply informed extant diversification literature, they have concurrently received fewer attention in recent decades. Moving from Mathews and Robinson (2008), we speculate that it might be fruitful to elaborate a multidisciplinary framework that shows the interrelations between the advantages of internal capital market and the creation of market power. Additionally, we maintain that multipoint competition and competitive action-reaction literature (Yu and Cannella 2013) may refresh the market power perspective of unrelated diversification strategy. For instance, we suggest to investigate how unrelated diversification may be able to support the reshaping of single-business strategic postures to reply to rival attacks (D'Aveni 1995).

Third, since multibusiness firms are able to stretch knowledge within their boundaries and recombine unrelated knowledge over time (Ng 2007), we suggest to detect the conditions to improve innovation performance under which firms prefer an unrelated diversification strategy vis-à-vis a networking strategy (namely, activating an array of interorganizational relationships with heterogeneous partners in order to access timely and sharing complementary resources; Powell et al. 1996; Dhanaraj and Parkhe 2006; Schilling and Phelps 2007). This research approach may provide an intriguing countervailing perspective on performance concerning interorganizational networks (Dagnino et al. 2015; Von Hippel 2007; Westerlund and Rajala 2010).

Fourth, in the footsteps of Leiblein (2003), unrelated diversification strategy may be deemed sunk cost oriented as follows: (a) there are opportunity costs generated by irreversible investment; (b) each investment creates valuable follow-on investment opportunities. This stringent logic takes into account the firm's strategic flexibility underlying unrelated diversification strategy. From this perspective, one may suppose that while unrelated diversification strategy may allow the firm to survive in the long term, it may concurrently weaken its performance in the short term. We suggest to investigate whether and under what conditions the absence of short-term performance of unrelated diversification strategy may discourage firms from starting this strategy in the long term.

8.1.3 Managerial drivers

We have observed that agency theory is deemed as the dominant conceptual perspective to explain the managerial drivers of unrelated diversification strategy. Research on this issue is generally wide-ranging, but it shows some limitations as concerns a few important aspects (Lane et al. 1998). First, while a great deal of studies on unrelated diversification concern US firms, yet we know that cross-national differences may play an important role in altering the key features of the principal-agent relationship (Filatotchev et al. 2013). Future studies might enrich our understanding of how differences in institutional contexts (e.g., the legal

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protection of investors) may shape the development of specific corporate governance determinants of unrelated diversification in a variety of countries.

Second, moving from the studies of Castañer and Kavadis (2013), and Hoechle, Schmid, Walter and Yermack (2012), additional investigation may verify whether the diversification discount may be explained by poor corporate governance. The aim of this line of inquiry is to clarify the mechanism that underlies the relationship between unrelated diversification and diversification discount by means of the inclusion of a third explanatory variable, namely poor corporate governance (e.g., low level of ownership concentration in civil law countries, the CEO duality and so on).

Third, investigation of the choice between alternative corporate growth strategies that considers individual-level psychological factors might be a fruitful investigation area. A micro-level analysis would be appropriate because CEOs' attention, effort, and choices are based on their underlying preferences and biases (Hambrick et al. 2008), which in turn influence performance. For example, following Hiller and Hambrick (2005), who indicates a higher core self-evaluation in top executives than in the general population, we posit that our understanding of unrelated diversification decision processes would benefit from testing the power of the hubris hypothesis in diversification strategy (Picone et al. 2014). Since a CEO affected by hubris usually pays little attention to risk, one might suppose that CEOs prefers related diversification strategy as a way for achieving additionally synergies. On the other hand, CEO hubris may lead to an inflated sense of capabilities and abilities, a bias that generates misapprehension of control and implausible expectations that the CEO has a 'recipe' for exceptional performance. This condition potentially applies to any kind of business. An appraisal of the impact of the hubris hypothesis on unrelated diversification might uncover the dilemma of whether the diversification premium/discount occurs, at least in part, due to managers' hubristic behavior.

8.2 Implementation process of unrelated diversification

While strategic management and financial literatures have devoted a great deal of attention to recognize the traps of unrelated diversification, the role of organizational and strategic mechanisms to sidestep these traps has been fundamentally overlooked.

First, to understand and manage the (multiple) dominant logics in a multibusiness corporation (thereby circumventing the managerial complexity trap), financial economics literature on unrelated diversification overlooks the recent strategic management studies on dynamic capabilities. Therefore, it may be intriguing to juxtapose the role and types of managerial dynamic capabilities of top-performing highly diversified firms with firms whose diversification strategies have been more often unsuccessful than successful (Ramanujam and Varadarajan 1989). Additionally, it may be useful investigate what the dynamic capabilities body of research (Peteraf et al. 2013; Teece 2012) can add to unrelated diversification success and diversified organizational design. Further, the relationships among CEO characteristics, managerial perceptions, decision-making abilities, organizational design, and performance of diversified firms are still largely unknown.

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Second, drawing on Xuan (2009) that show how job histories of CEOs inspire their capital allocation choices, we argue that it would be intriguing to extend this line of research by exploring not only the single CEO, but also top management teams.

Third, unrelated diversification strategy usually leads to structural inertia trap. Sheer financial logic and managerial complexity make it difficult to explore latent opportunities for pursuing further growth. On the other side, we observe a countervailing effect of unrelated diversification strategy on innovative performance: unrelated diversification impact is as such that it may mitigate path dependency. In addition, strategic management literature has detected the concept of *organizational ambidexterity*; i.e., organizations that can "simultaneously explore and exploit if they develop the ability to perturb stable patterns of interactions throughout the organization" (Lavie et al. 2010: 131). We suggest to use both qualitative and longitudinal empirical analyses to explore how ambidextrous organizations may provide suitable contexts for pursuing unrelated diversification strategy.

Finally, little attention has been paid heretofore to managing the simultaneous presence of competitive and cooperative forces in relationships among the firm's business units. While the resources allocation process in unrelated diversification paves usually the way to competitive arrangements (Hill, Hitt and Hoskisson 1992; Hoskisson 1987), the benefits of unrelated diversification strategy may lead to cooperative arrangements. Since the emergence of coopetitive interactions has turned into an intriguing research area in the strategy field (Dagnino and Rocco 2009), a theme of interest that remains unexplored is to assess the level and the quality of simultaneous cooperation and competition between and among business units or subsidiaries of a diversified firm. In this vein, we ask how coopetition practices may be helpful in circumventing the traps of unrelated diversification, and how the "dynamic dance" between cooperative and competitive tensions inside a multibusiness firm evolves over time (Fernandez et al. 2014). Additionally, by matching entrepreneurship strategy and corporate finance perspectives, we ask: what is the role of headquarters, as third parties, in promoting entrepreneurial spirit as well as in reducing free-ride behaviors (Chandler 1991; De Motta 2003). Finally, we wonder how the coopetition perspective may inform the resource allocation process in unrelated diversification literature.

8.3 Outcomes of unrelated diversification

The thorough literature review we performed shows that the assessment of financial performance of unrelated diversification strategies remains a puzzling and baffling issue. First, drawing on Martin and Sayrak (2003), we call attention on the kinds of measures of corporate diversity and firm performance (Montgomery 1982; Palepu 1985a; Ramanujam 1987; Chatterjee and Blocher 1992; Robins and Wiersema 2003), as well as on assessing biases in econometric estimations (Whited 2001; Mansi and Reeb 2002; Villalonga 2004a).

Second, drawing on Borghesi et al. (2007), who examine corporate product diversification as a dynamic process and show that diversification reduces the firms' mortality rate, we suggest that future studies may fruitfully investigate how the

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relationship between unrelated diversification strategy and performance changes over time. We propose to tackle the issue of unrelated diversification failure and success, considering the opportunity to investigate the prospect of detecting an unrelated diversification's lifecycle premium or discount.

Third, Bettis et al. (1978) have called attention on the research opportunity to shift the analysis from central tendencies to *outliers* in order to understand the drivers of diversification success. Actually, the received literature has hitherto fallen short to analyze the sources of success of some highly diversified firms. On the ground of Galbraith (1993), we suggest to consider how effective strategic leadership may help discontinue the spiral of events that, over time, usually leads to the deterioration in the performance of highly diversified firms. Since this research line emphasizes the idea that top management plays an important role in organizational success, it may be considered as an evolution of the resource-based view of diversification, thereby stretching the initial research agenda proposed by Wan et al. (2011).

Finally, we have earlier underscored that an emerging research space concerns the relationship between unrelated diversification and corporate social performance. Recently, Kang (2013) has found this relationship to be positive. This result appears counterintuitive for two main reasons. First, it puts into question the short-term perspective of highly diversified firms. Second, drawing on Buacus and Near (1991), one might suppose that managerial complexity leads to greater opportunities of irresponsible actions. Actually, the identification of irresponsible executives in a large diversified firm is a problem more complex than in a mono business firm. Given this state of affairs, we suggest to reconsider the outcome of early studies or to search for more thorough alternative explanations.

9 Conclusions

Inconsistencies of the outcomes of empirical studies on the effectiveness of operating in various unrelated businesses pushes scholars to make additional efforts to understand the drivers and consequences of managing diversified firms (Nippa et al. 2011). On the ground of a comprehensive review of the bulk of unrelated diversification literature, this article advances a threefold contribution. First, we have managed to identify the key themes of the issue. Focusing on the peculiar traits of operating in many unrelated businesses, we have attempted to single out the issues that previous literature has tackled the most (*core* issues), as well as the ones that it has fallen short to deal with (*peripheral* issues) (Purkayastha et al. 2012; Wan et al. 2011).

Second, by taking into account a bulk of 120 studies on unrelated diversification strategy published in the strategic management and financial economics fields, we have detected for the first time the relative *convergence* of two different disciplinary traditions that have heretofore almost always operated independently (i.e., strategic management and financial economics). Therefore, an original feature of this study is in that it is able to unravel and juxtapose the contents of a truly multidisciplinary background. Accordingly, we stress that, understanding more clearly the value

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creation opportunities of unrelated diversification in financial markets (Smit and Trigeorgis 2012), requires to match the applicable tools of corporate finance with the principles of governance and the rejoinders of strategic management.

Third, drawing on the comprehensive appraisal of unrelated diversification strategy literature, we have managed to gather and propose a set of avenues for future inquiry. This of set of intriguing issues may serve as a trigger to revamp research in unrelated diversification. We acknowledge that various interesting issues remain open in the literature of antecedents, implementation processes, and consequences of unrelated diversification strategy. This condition makes in fact unrelated diversification an intriguing subfield of research, solidly located at the interfaces between strategic management and financial economics.

Finally, since a part of the analysis performed complementary to the article selection method used is inevitably left to our considerate understanding, this study is to some extent liable to the interpretation bias of the authors. Interestingly, we suggest that further research make use of bibliometric methods to examine the citation patterns of unrelated diversification literature and analyze the links among them (Dagnino et al. 2015). By means of a systematic assessment of the diversification literature performed on the ground of bibliometrically grounded inquiry, such kind of studies may be used to corroborate the interpretation presented in this paper.

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