

Significance of Studying Product Diversification, Geographic Diversification, and Their Interaction Impacts for Malaysian Companies: A Literature Review

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Abstract

The objective of this study was to comprehensively and critically review research literature on impacts of product diversification strategy and geographic diversification strategy, conducted particularly in Asian context, and set forth guidelines for future studies. The study concludes that past research into impacts of product diversification and geographic diversification produced indecisive results. There has also been absence of any consensus on the interaction impacts of the two strategies on corporate performance. Although past research studied the topic using variety of methodologies but there has been limited research on the topic for Asian economies compared to Western ones. This is especially true about Malaysian public listed companies (PLCs) for which, particularly, studies regarding interaction impacts of the two strategies are extremely limited. For Malaysia, the challenging business scenario in future coupled with quite significant number of diversified companies warrant research into these areas. Future research could take up the objective of analysing and understanding individual and interaction impacts of product diversification and geographic diversification on corporate performance of Malaysian companies and contribute significantly to this research field. It could adopt new and advanced methodologies for measuring diversification strategies as well as employ several measures of corporate performance to produce comprehensive and robust results. Findings of such research would certainly be useful for practicing managers, particularly Malaysian strategists, and guide them in their decisions concerning diversification strategies and help them better manage their companies' performance.

Keywords: product diversification strategy, geographic diversification strategy, Malaysian public listed companies

1. Introduction

Determining firm's boundaries have been among one of the basic concerns for strategy makers and an important investigation in past research. But, in spite of almost over 40 years of research targeted into finding pros and cons of corporate diversification, it is quite possible to conclude that there has been no consensus on the impact of product diversification and geographic diversification on performance, or in other words, confident set of guidelines could not be developed about whether a firm should diversify (product wise or geographically) or it should remain undiversified (Asrarhaghighi, Rahman, Sambasivan, & Mohamed, 2013; Lu & Beamish, 2004; Mehmood & Hilman, 2013). Moreover, the interaction impacts of product diversification and geographic diversification on corporate performance did not achieve agreement among scholars (Capar, 2003; Kang, 2011).

Traditionally, perspectives and arguments have been laid by various theorists about the possible benefits and drawbacks associated with product and/or geographic diversification but more could be explored and suggested about these strategies (Asrarhaghighi et al., 2013) by studying them in different contexts and using latest approaches. Historical as well as contemporary theorists in internal market efficiency and transaction cost economics advocated diversification on the grounds that it offered organizations substantial advantages in terms of lower transaction costs inside the organization as compared to costs outside the organization and also provided them a healthy internal market in terms of capital, assets, technology, land and HR for mutual transfer and sharing (Lins & Servaes, 1999; Williamson, 1998).

Theorists in market power view advocated product based and/or geographic based diversification on the basis of

their ability to provide a firm greater market power in various product and geographic segments in terms of greater brand reputation and recognition compared to its competitors (George, 2007; Park, 2010). Similarly, theorists related to resource based theory argued in favour of diversification as they suggested that excess resources and capabilities that were unique and those possessing potential to provide sustainable competitive advantages could be exploited through product diversification as well as geographic diversification (Matrin & Sayrak, 2003; Teece, 1982). However, in contrary to these, theorists belonging to agency theory argued that strategists usually pursued diversification not for organizational benefits rather for their own growth, motives and personal benefits (Aggarwal & Samwick, 2003; May, 1995).

Regarding empirical research, the area concerning product/geographic diversification-performance relationship is characterised by absence of any consensus. Certain scholars also emphasized the need of studying interaction impacts of the two strategies together (Geringer, Tallman, & Olsen, 2000; Hitt, Hoskisson, & Kim, 1997; Tallman & Li, 1996) but research studying those interaction impacts has also been inconclusive (Capar, 2003; Kang, 2011).

Moreover, although this topic has been researched extensively using different research methodologies but there is lack of sufficient research for Asian economies, particularly Malaysia (Afza, Slahudin, & Nazir, 2008; Doaei, Anuar, & Ismail, 2014). This is in spite of the fact that diversified organizations (by product and geography) have been operating in Malaysia for last many years (Daud, Salamudin, & Ahmad, 2009; Doaei et al., 2014). Coupled with this, current business scenarios confronted by Malaysian economy require Malaysian corporate sector to be careful in strategic decision making and improve its contribution towards country's GDP. This situation necessitates the need of extensively studying impact of product diversification, geographic diversification and their interaction on corporate performance of PLCs in Malaysia.

2. Research Regarding Impact of Product Diversification and Geographic Diversification on Performance

2.1 Positive Impacts of Product/Geographic Diversification

In support of theories and perspectives like transaction cost economics, resource based theory, market power view, internalization theory, and internationalization theory; certain scholars revealed that product diversification (Kuppuswamy & Villalonga, 2010; Miguel & Ri'os, 2007; Morck & Yeung, 2003; Zhao, 2008) as well as geographic diversification (Bodnar, Tang, & Weintrop, 1999; Han, Lee, & Suk, 1998) proved to be useful corporate strategies. These studies supported linear premium model of diversification (Palich, Cardinal, & Miller, 2000) which asserts that the benefits of diversification outweigh the costs of diversification. Also, these studies agreed to market power view of diversification which proposes that diversified firms gain advantage over focused firms through predatory pricing, mutual forbearance, and reciprocity (Bernheim & Whinston, 1990; George, 2007).

They also provided reinforcement to internal market efficiency hypotheses as well as TCE which state that diversified firms are at a strategically advantageous position compared to single segment firms as diversified firms have their own internal market where they could conduct business transactions inside themselves and gain ready access to all organizational assets such as capital, labour, technology, information, and other resources (Lins & Servaes, 1999). For example, in context of financial crises of 2007-09, research by Kuppuswamy and Villalonga (2010) based on Stein's (2003) idea of "smarter money" and "more money" effects, presented empirical support of product diversification strategy with reference to arguments of internal capital market. Further, these studies also confirm to the arguments of resource based theory (Wernerfelt, 1984) that diversified companies could gain benefits over focused companies as former ones could use their excess resources and capabilities in form of capital, labour, marketing and administrative skills, for instance, to buy competitors, buyers and suppliers, cut prices and create economies of scope across various businesses.

Similarly, theoretical support for geographic diversification has been provided by internationalization theory and internalization theory. Firstly, internationalization theory asserts that geographic diversification provides benefits to firms through learning (Barkema & Vermeulen, 2001; Zahra, Ireland, & Hitt, 2000), risk reduction, economies of scale (Bartlett & Ghoshal, 1989; Kobrin, 1991), resource availability, greater bargaining power, global experience and exploitation of various assets in international markets, (Beleska-Spasova & Glaister, 2010; Hamel, 1991; Hennart, 2007; Hymer, 1976). Logically, the benefits offered by internationalization of firms must lead to increased performance but the empirical evidence about geographic diversification's impact on performance is mixed as mentioned earlier. Being interested in examining the mysterious relationship, Contractor (2007) analysed about 100 past studies conducted in 30 years and suggested that except for over internationalization and internationalization at initial stage, for the most part of internationalization, the relationship was revealed to be positive (Beleska-Spasova & Glaister, 2010).

Secondly, internalization theory (Buckley & Casson, 1976; Rugman, 1981; Rugman & Verbeke, 2008) proposes that geographic diversification proves helpful to diversified companies as it provides them internal market to make successful allocation of various resources among different geographic segments as well as help itself to reduce its overall risk (Galván, Pindado, & De la Torre, 2007). The theory suggests that in case of market imperfections, geographic diversification provides benefits to firms as they create their own internal markets for doing business which reduces costs of organizing and transacting business operations. Hence, the firm could avoid external markets and start exchanging these assets across its own different geographical segments. However, for how long this process goes on depends upon the relative costs and benefits of conducting those business transactions inside the organization versus those of conducting them outside the organization (Coase, 1937). In a way, internalization theory hypothesizes that the market value of multinational companies is proportional to their degree of foreign involvement (Pantzalis, 2001).

Overall, there has been substantial empirical support in favour of geographic diversification as well as product diversification. Additionally, studies supporting these strategies have been heterogeneous in their research designs, thus indicating power of their findings. But these findings and arguments are contradictory to many other studies which didn't support positive impact of these strategies on performance.

2.2 Negative Impacts of Product/Geographic Diversification

On the other hand, another group of researchers put forward their suggestions that product diversification (Comment & Jarrell, 1995; Grass, 2010; Hill & Hansen, 1991; Rajan, Servaes, & Zingales, 2000) and geographic diversification (Denis, Denis, & Yost, 2002; Fauver, Houston, & Naranjo, 2004) were not useful and they led to significant company discount. Firstly, these studies conformed to the linear discount model implying that the costs of excessive product diversification increase the benefits of diversification and consequently focused firms do better as compared to diversified firms (Benito-Osorio, Guerras-Martin, & Zuniga-Vicente, 2012; Berger & Ofek, 1995).

Secondly, they point towards the cost aspects of diversification. For instance, although internationalization theory and internalization theory advocate geographic diversification, but it might also carry certain costs (Beleska-Spasova & Glaister, 2010; Lu & Beamish, 2004). Extreme level of geographical diversification might logically lead to problems of higher coordination costs, diseconomies of scale, problems of managing large flow of communication and information across broadly dispersed geographical segments (Gomes & Ramaswamy, 1999; Wiersema & Bowen, 2011). It could largely be due to these reasons that research on geographic diversification's impact on performance has not yet affirmed positive relationship between them (Wiersema & Bowen, 2011).

According to Benito-Osorio et al. (2012), some of the key assumptions explaining low value of highly diversified companies comprise: First, misallocation of capital in cross-subsidization of businesses leading towards inefficiencies and reduced profitability (Berger & Ofek, 1995; Meyer, Milgrom, & Roberts, 1992; Palich et al., 2000). Second, higher costs of management and business coordination, and problems in organizational control due to information asymmetries (Harris, Kriebel, & Raviv, 1982; Myerson, 1982). Third, higher agency costs created by conflict of interest between shareholders and managers (Amihud & Lev, 1981; Wan, Hoskisson, Short, & Yiu, 2011).

Importantly, finance literature on the subject revealed discovery of conglomerate discount in the range of 13% to 15% of company value (Berger & Ofek, 1995). Finance researchers focused their attention on whether shareholders actually gained from diversification by dividing a conglomerate into its constituent industry segments and then valuing those segments using the comparables approach to valuation (Marinelli, 2011). They concluded that conglomerates destroyed value and single segment firms were beneficial if they were not part of a large conglomerate, accompanied by arguments that benefits of internal capital market were offset by higher agency costs in single segment firms (Denis, Denis, & Sarin, 1997; Marinelli, 2011; Rajan et al., 2000; Scharfstein & Stain, 2000).

2.3 Non-linear Product/Geographic Diversification Impacts

Another stream of research in the area came up with the assertion that product diversification (Palich et al., 2000; Ramírez & Espitia, 2002; Tallman & Li, 1996) and geographic diversification (Capar & Kotabe, 2003; Hitt et al., 1997; Kotabe, Srinivasan, & Aulakh, 2002; Ruigrok & Wagner, 2003) had curvilinear impacts on corporate performance. They argued that diversification provided performance benefits up to certain levels, however after that, excessive diversification led to decrease in rewards as could be explained through diseconomies of scale, governance or other problems.

Palich et al. (2000) conducted crucial study in this respect which was based on 55 past studies and synthesized findings of last 30 years of research. They lent their support for the curvilinear model suggesting that limited or higher degree of product diversification was not beneficial, rather moderate level of diversification was useful for companies' performance. Similarly, Gomes and Ramaswamy (1999) and Hitt et al. (1997) provided strong evidences in support of curvilinear geographic diversification's impact on performance. All these studies negated linear discount model and linear premium model of diversification and suggested optimum point in diversification. This point could be considered as point of balance between diseconomies of scale and economies of scale (Datta, Rajagopalan, & Rasheed 1991).

2.4 Insignificant Product/Geographic Diversification's Impact

Interestingly, certain scholars suggested that diversification was not significant predictor of corporate performance. One group of researchers revealed that product diversification did not significantly impact performance (Bausch & Pils, 2009; Chang & Thomas, 1989; Isobe, Makino, & Goerzen, 2006), while the other group of researchers revealed that geographic diversification was also not a significant predictor of corporate performance either (Geringer et al., 2000; Jung, 1991; Sambharya, 1995). Marinelli (2011) explicitly argued that firm performance could be attributable to some factors other than the extent of diversification. In a rich study on Japanese multinational firms, spread over 16 years, Geringer et al. (2000) revealed that mere for one time period, product diversification had any impacts on corporate performance, whereas international diversification's impacts on profitability were also non constant over time. Findings like these restrict concluding any causal impacts of these diversification strategies on performance of companies.

2.5 A Comment on Methodologies

Undoubtedly, the problem of fragmented findings is apparent, attributable to multiple frameworks, techniques and approaches on which this research area has been based. In fact, several reasons could be attributed to the variation of results from past research (Palich et al., 2000) and the contradiction in findings might be because of sampling issues, contexts, product/geographic diversification measurements, and different indicators of firm performance (Asrarhaghighi et al., 2013).

Firstly, differences in sample sizes of past studies into the area have indeed been significant. The sample sizes have been varying from as low as 30 (Palepu, 1985) to as high as 4000 (Hoechle, Schmid, Walter, & Yermack, 2012). Certain other studies were executed with sample sizes as high as 1572 (Duru & Reeb, 2002), 1552 (Mishra & Akbar, 2007), 1489 (Lu & Beamish, 2004), 617 (Mansi & Reeb, 2002), and as low as 70 (Daud, et al., 2009), and 108 (Geringer et al., 2000). The differences in time periods of these studies have also been great. Furthermore, certain studies encapsulated all sort of sectors (Nachum, 2004; Varadarajan & Ramanujam, 1987), while other studies were focused on including only selected sectors for various reasons (Geringer et al., 2000; Palepu, 1985).

Next, concerning product diversification measurement, certain scholars (Pandya & Rao, 1998; Tan, Chang, & Lee, 2007) measured this strategy using Rumelt's (1974) diversification classes, while others depended on using continuous measures such as Diversification Entropy Measure (David, O'Brien, Yoshikawa, & Delios, 2010; Singh, Mathur, Gleason, & Etebari, 2001) or Herfindahl Index (Çolak, 2010; Fukui & Ushijima, 2006). The use of different measurement methodologies for geographic diversification such as foreign sales ratio (Capar & Kotabe, 2003; Geringer, Beamish, & daCosta, 1989), geographic entropy measure (Hitt et al., 1997), along with many others have also been frequently observed in the history of literature on the field.

Similarly, as regards corporate performance, some researchers employed accounting ratios for its measurement (Marinelli, 2011; Muzyrya, 2010; Nachum, 2004), while others have been utilizing market based measures of performance (Deng & Elyasiani, 2008; Gomes & Livdan, 2004; Hoechle et al., 2012), and still certain others measured corporate performance by using both, market and accounting based ratios (Capar, 2003; Doukas & Lang, 2003; Kang, 2011).

One of the other important considerations is that the impact of diversification on performance has been suggested to be influenced by the effect of certain contingency variables or moderators also (Datta et al., 1991; Kang, 2011). More recent researchers on product diversification have found some factors as important contingency variables for product diversification-performance relationship. For example, Ravichandran, Liu, Han, and Hasan (2009) found information technology spending as moderating variable between concentric diversification and performance. Martínez-Campillo and Fernández-Gago (2008) discovered CEO's style as important moderating variable for product diversification-performance relationship. Similarly, others have been improving the understanding on geographical diversification-performance relationship by including certain moderating or mediating variables relevant to this relationship (Lu & Beamish, 2004; Vermeulen & Barkema,

2002).

Further, plenty of research on diversification strategies' impact on performance was conducted in U.K. or U.S. context (Afza et al., 2008; Doaei et al., 2014). Perhaps, limited studies outside these contexts have been compounding the confusion about the relationship. After a long period of time, researchers moved their attention to study these relationships in international contexts, so as to observe how environmental factors in emerging countries influence diversification's impact on performance (Wan, 2005). However, findings from those studies could not be generalized as they concentrate on particular country subgroups, majorly in Asian context (Chakrabarti, Singh, & Mahmood, 2007; Claessens, Djankov, Fan, & Lang, 1998; Jeon & Kim, 2004). Most importantly, these studies were concentrated on product diversification and did not consider geographic diversification (Tan, 2007).

Overall, it could be summarized that research into product/geographic diversification's impact on performance has been limited in Asian context. Malaysia has not been exception. Notably, diversified organizations have been operating in Malaysia for last many years (Daud et al., 2009; Doaei et al., 2014). But contrary to the evidence, limited research has examined impact of product diversification, geographic diversification, as well as their interaction impact on performance of PLCs in Malaysia (Doaei et al., 2014; Yaghoubi, Abidin, & Yaeghoobi, 2011). To highlight the importance of this area, the next section makes comments on the literature available regarding interaction effect of the two strategies.

3. The Interaction between Product Diversification Strategy and Geographic Diversification Strategy

As discussed before, the discrepancies in findings of product/geographic diversification-performance research might be credited to number of factors such as methodological dissimilarities, industry, and country differences (Fauver et al., 2004; Kang, 2011; Ruigrok & Wagner, 2003; Tallman & Li, 1996). Most importantly, failure to consider interaction impacts of product diversification strategy and geographic diversification strategy might also lead to misinterpretations of impact of an individual diversification strategy on performance (Gleason, Mathur, & Wiggins, 2003; Kang, 2011; Sambharya, 1995). Hence, a research design considering the impact of only one type of diversification strategy on performance while ignoring the impact of other type of diversification strategy might produce biased results.

Considering this, certain scholars examined the interaction effect of product diversification and geographic diversification on performance (Chang & Wang, 2007; Geringer et al., 2000; Hitt et al., 1997; Tallman & Li, 1996). However, the results of this body of research are not conclusive (Capar, 2003; Kang, 2011) as some studies revealed insignificant interaction effects (Geringer et al., 2000; Tallman & Li, 1996), some studies reported positive interaction effects (Hitt et al., 1997), while other studies revealed negative interaction effects (Sambharya, 1995). Certain studies found mixed results against different performance indicators and with different strategies (Chang & Wang, 2007; Simmonds & Lamont, 1996).

Study of Hitt et al. (1997) investigated the interaction impact of product diversification and geographic diversification on performance for 293 U.S. manufacturers for 1988-1990. They concluded that product diversification positively moderated the relationship between geographic diversification and performance. However, there could be certain reservations on the findings of this study as the researchers employed only one ratio (return on assets) to measure firm performance. Interestingly, Chang and Wang (2007) discovered a positive moderating impact of related product diversification strategy on the relationship between geographic diversification and performance, but a negative moderating impact of unrelated product diversification strategy on this relationship. Hence, this study highlighted the need of dividing product diversification strategy into its two types. Simmonds and Lamont (1996) also reported mixed results by suggesting positive interaction effect of the two strategies on sales growth and no interaction effect on ROA.

Researchers reporting positive interaction effect of the two strategies provide justifications to the organizational learning and synergy effects propositions (Kang, 2011). That means a firm could gain benefits of attaining economies of scale and scope through interdependencies among various businesses and can also apply learning and experience gained through product diversification in coping with challenges of international/geographic diversification (Capar, 2003; Chang & Wang, 2007; Hitt et al., 1997; Kang, 2011).

On the other hand, study of Sambharya (1995) reported negative interaction impact of product diversification and international diversification on performance. The study found positive main effect of international diversification and a negative main effect of product diversification on performance. The study took an average of data for the years 1985-1987, and used three performance indicators; ROA, ROE, and ROS, but relied on mere 54 firms' sample. Scholars reporting negative interaction effect of the two diversification strategies confirm the proposition about higher transaction and governance costs in managing both product and geographic

diversification which are incurred when the degree of product or geographical diversification becomes excessive (Hitt et al., 1997; Tallman & Li, 1996; Wiersema & Bowen, 2011).

Another group of findings in this body of research argues that interaction of product diversification and geographic diversification has no significant impact on firm performance. For instance, while using a sample of 192 U.S. manufacturers for 1987, research of Tallman and Li (1996) reported no significant interaction effect of the two diversification strategies on performance. They measured product diversification through Herfindahl index or entropy measure and international diversification through foreign sales to total sales ratio (FSTS) as well as by country scope. This study also suffered from weaknesses in terms of relying on only ROS as performance indicator and using only one year data (1987).

Similar to study of Tallman and Li (1996), research by Geringer et al. (2000) also suggested no significant interaction effect of product diversification and geographic diversification on performance. Their study used sample of Japanese firms and used cross sectional research design for a longer time period however; 1977-1993. Hence, the findings of the studies looking into interaction impacts of the two strategies are contradictory due to several reasons such as different time periods, economic environments and measurement methodologies (Capar, 2003; Kang, 2011). However, it is quite obvious that none of these researches covered Malaysian PLCs.

At the same time, several scholars argued that while product diversification and geographic diversification could allow a firm to gain benefits of synergies, but the degree to which these synergy effects are available would depend upon the level of diversity (Capar, 2003; Tallman & Li, 1996). As suggested by Capar (2003), the advantages of international/geographic diversification would likely to be greater for firms with low product diversification levels. Or, a firm that has lower level of product diversification would successfully apply its limited product scope in number of geographical areas to increase its performance. In the same way, it can be argued that the benefits of increasing product diversification would apply to those firms with limited level of geographical diversification. It is in consistency with the results of Sambharya (1995) and arguments of Tallman and Li (1996), Capar (2003), and Geringer et al. (2000). This phenomenon could be successfully tested in emerging Malaysian economy, where diversified organizations are in abundance. In fact, the next section is devoted to presenting justifications for conducting the required research in Malaysian context.

4. The Significance of Studying the Topic in Malaysian Context

4.1 Introduction

Since the independence of Malaysia in 1957, Malaysian economy has transformed itself from heavy reliance on rubber plantation and tin mining to fast pace industrial based society (Asid, 2010; Mun, 2007). During the occurrence of Asian financial crisis in mid of 1997, Malaysian economy had been marking high growth for a decade for over 8% per annum, lowering rates of unemployment, escalating pressures on wage rates, and overinvestment in properties and infrastructure facilities (Asid, 2010; Thillainathan, 1999). Malaysia is rapidly shifting itself into knowledge-based, service-focused economy in number of leading industry sectors and market segments (Abdulai, 2004; Cheng, 2001; Ministry of International Trade and Industry [MITI], 2010; Muhammad, Char, Yaso, & Hassan, 2010). Formerly a struggling economy, Malaysia now is an “Asian Tiger” with an inspiring and impressive growth rate in manufacturing as well as service sectors for the previous few decades (Naqshbandi & Idris, 2012).

The contribution of Malaysian manufacturing sector towards economic growth and development has increased significantly over last few decades. Regarding Malaysian trade, the export of manufactured products made the largest contribution to Malaysia's total exports, wherein, competitive pricing, product improvement, and better marketing strategies facilitated Malaysian products to penetrate strategically important markets like Oceania and Africa (Asid, 2010). Among manufactured products, export of electrical and electronic products represented largest share of exports around 1990's.

Malaysian services sector also contributes significantly to the Malaysian economy in terms of around 50% share (Downe, Loke, Ho, & Taiwo, 2012). In terms of employment, this sector provided 57% of the total employment in 2009 and its contribution to economy is projected to be at 61% in 2015 with annual growth rate of 7.2% (Malaysian Investment Development Authority [MIDA], 2009; Naqshbandi & Idris, 2012). With a strong infrastructure, well-educated and skilled workforce, and a business friendly policy framework, Malaysia has rather become an attractive place for international enterprises looking for outsourcing services (Downe et al., 2012; Hamzah, Aman, Maelah, Auzair, & Amimddin, 2010).

However, Malaysian GDP's growth rate in 2013 was 4.7% as opposed to 5.6% for the previous year which represents a difficult situation in coming years (IMF Staff Country Report, 2014). According to MIDA (2015),

IMF has projected a 3.5% growth rate for the global economy, while Malaysia is forecasted to keep its growth rate up to 5.5% in 2015. Moreover, according to MIDA (2013), Malaysia would be confronted by challenging global business scenario, and especially Malaysia's manufacturing sector needs to further renovate itself into modern state of the art industrial hub by incorporating new technologies, R&D and human capital development.

4.2 Malaysian Corporate Sector and Diversified Malaysian PLCs

As regards features of Malaysian corporate sector, Malaysia has been characterised by presence of high percentage of product and geographically diversified companies (Ahmad, Ishak, & Manaf, 2003; Doaei et al., 2014). Particularly, among private companies, diversified business groups are the most prominent corporate houses operating across a diversified choice of segments across various sectors such as manufacturing, industrial products, trading and services, construction, finance, property investment and property development, and plantation.

Study of Claessens et al. (1998), based on nine East Asian countries found that 70% of Malaysian companies reported multiple segments in their annual reports which was second to 72% for Singapore. Ishak and Napier (2006) also reported significant diversification at around 55% for Malaysian PLCs in 2000. Similarly, recent study of Doaei et al. (2014) also shows considerable level of international diversification for Malaysian companies. Meanwhile, scholars have reported that these levels of extensive diversification from Malaysian PLCs might have resulted in misallocation of investments in less profitable and more risky business segments (Claessens et al., 1998; Thillainathan, 1999). Amidst, importance of carefully selecting the level of geographic diversification for the companies (Duru & Reeb, 2002; Geringer et al., 2000) has as well been highlighted by scholars. It is noted before that companies usually might go for product or geographic diversification for getting benefits of internal capital market. But, past research on product/geographic diversification-performance relationship conducted for Asian countries, including Malaysia had inconclusive results. In this regard, certain researches revealed that diversification strategy negatively impacted performance or it was not beneficial strategy in certain ways (Lins & Servaes, 2002; Tongli, Ping, & Chiu, 2005) which is contrary to arguments of internal market efficiency.

As far as developed countries such as U.S. and European countries are concerned, it is evident that external capital markets and financial institutions are more efficient there and the benefits related to higher diversification levels are supposed to diminish rapidly (Benito-Osorio et al., 2012). Therefore, companies must select for lower levels of product diversification (Benito-Osorio et al., 2012; Peng, Lee, & Wang, 2005; Wan & Hoskisson, 2003). However, in emerging economies like Malaysia, institutional development tends to be weaker and this provides proposition for testing linear premium model of product/geographic diversification (suggesting positive impact of diversification on performance) over here. Although certain studies conducted for economies of South Korea (Lee, Peng, & Lee, 2008), India (Ramaswamy, Li, & Petit, 2004), China (Yiu, Bruton, & Lu, 2005) and Turkey (Gunduz & Tatoglu, 2003) present certain evidence in support of linear premium model but the findings do not provide consensus. For instance, study of Malaysian companies by Yaghoubi et al. (2011) reveals that lower level of product diversification was beneficial for companies, and another study of Malaysian companies by Doaei et al. (2014) indicate negative impact of international diversification on performance.

Most importantly, given the fact that there is a huge percentage of diversified PLCs in Malaysia, though few studies are available on impact of product diversification and geographic diversification on performance, but research into interaction impacts of the two strategies on corporate performance for Malaysian PLCs is extremely limited (Doaei et al., 2014; Yaghoubi et al., 2011) which indicates an important research gap. Hence, a research into this area is warranted.

5. Conclusion

In conclusion, although there has been sizeable research on impact of geographic diversification and product diversification on performance, but the disagreement among researchers or theorists asks for more investigation in the area, particularly in developing countries like Malaysia. Kumar (2009) suggested that product and geographic/international diversification were closely related to each other and therefore must be studied simultaneously. This is especially important to be done for Malaysian PLCs due to lack of research in the area.

Although Malaysian economy is progressing well given its growth and development targets, but it needs persistent contribution from corporate sector for maintaining its competitive position as well as to counter global environmental challenges. Malaysian corporate sector needs set of strong recommendations and guidelines with respect to such important issues like product diversification and geographic diversification. There is high percentage of diversified firms in Malaysia which represents frequent diversification from those companies. Therefore, it is crucial to conduct a research which looks into the aftermaths of pursuing product diversification

and geographic diversification as well as their combined or interaction impact when they are implemented together so as to put convincing set of guidelines for Malaysian managers for taking diversification decisions. This would help enable and facilitate achievement of national programs via helping the corporate sector in strategic decisions.

Additionally, future research must rely on best methodologies for measuring the two diversification strategies. Results could be interesting if the analyses are performed separately for different types of product diversification strategies; unrelated and related diversification. Further, future research must employ several performance indicators to enrich the findings and improve overall conclusions.

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