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Diversification Strategies in the Changing Environment: Empirical Evidence from Indian Firms

ABSTRACT

In today’s competitive and dynamic business environment, proper strategic planning is the key to success. Diversification is one of the important strategies of growth for businesses. The present paper studies the extent of diversification on a sample of 536 companies in India using the Jacquemin-Berry Entropy-Index measure. The study covers a period of 10 years from 2001 to 2011. This period takes into account the influence of both liberalization reforms and global recession. The results show that Related Diversification (RD) is the most favored diversification strategy in the Indian corporate sector. Further, the pattern of diversification over a period of ten years suggests that both forward and backward movements are being followed by Indian companies; thus making the overall pattern somewhat erratic.

KEYWORDS: Diversification, Nature, Extent, Pattern, India.

INTRODUCTION

Indian corporate sector has experienced a paradigm shift over the last two decades with the initiation of liberalization reforms. LPG opened the way towards the world trade, development of advanced means of communication, internationalization of financial markets, and entry of MNC’s into India, as well as allowed Indian companies to enter into foreign collaborations. Also, due to these reforms the environment became more competitive, demanding and speedy. To transcend the cut throat competition and sustain in the present scenario, strategic planning and strategic management became the keys to success because as an organization becomes global, strategic management becomes increasingly important to track international developments and position the organization for long-term competitive advantage (Ringbakk, 1972; Baum and Wally, 2003; and Bhatia and Chander, 2007).
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Diversification has been increasingly used by large corporations as a strategy for adapting to changes in the business environment. It has often been viewed as an essential vehicle for growth and improved performance from a strategic perspective (Nachum, 2004). Diversification refers to the entry of firms into new markets with new products (Ansoff 1957, 1965). Rumelt (1974) defined diversification as a strategy to make an entry into the new business activity that requires an appreciable change in the available managerial and technical competence within the firm. According to Rushin (2006) diversification is a key strategic decision used as part of an organization’s corporate strategy to pursue different markets in anticipation of creating enhanced returns and ultimately greater profits.

Diversification gives stability to the business. It reduces the effects of cyclicalality and improves profitability (Luffman et al., 1982). Diversification strategy helps to spread risk (George, 1985); achieve synergy (Lewellen, 1971; Majd and Myers, 1987); seek growth and capture value added opportunities (Christensen and Montgomery, 1981). It also helps to control the supply & distribution channels (Haberberg and Rieple, 2001) and prevents competitors from gaining ground (Backaitis et al., 1984). Diversification is the best tool for a business at the maturity phase of its product life cycle. At this phase, when sales tend to decline, diversification helps firms to revive. Diversification at this phase, especially into unrelated areas helps poor performing firms to reach average performance (Weston and Mansinghka, 1971).

But on the pessimistic side, diversification involves new technology and new markets due to which the existing staff experiences problems in adapting to this growth pattern. The tasks and responsibilities of top executives increase because of the need to handle new products, technologies and markets (Oijein and douma, 2000). On the other hand as per McIntosh (2001), role of top management who are specialists, becomes less significant, as diversified firms require
more of general management rather than specialization. Also diversification through mergers & acquisitions involves certain problems as incompatibility of business, overestimation of synergy savings, doubling of expenses, lack of knowledge etc (McIntosh, 2001). Still diversification has been viewed as one of the most important strategies of growth, especially after the introduction of LPG reforms.

**REVIEW OF LITERATURE:**

Globalization has merged the whole world into a single entity, by removing the barriers of trade and commerce. As a result, corporate sector now prefers to diversify in order to grow as well as to sustain both nationally and internationally. Hence, many researchers have studied the nature, extent and pattern of diversification. A brief review of some of the studies is given as follows:

Berry (1971) studied the extent of diversification of 460 largest US corporations in 1960 and 1965 and used Herfindahl Summary of Index of Industrial Concentration. To measure extent of diversification mean values of diversification at the 2-digit, 3-digit and 4-digit level were calculated for the year 1960 and 1965. He found that the extent of diversification in the USA was low and had decreased from 1960 to 1965. Luffman and Reed (1982) studied the extent and pattern of diversification of a sample of 205 British firms from 1950 to 1979. The results suggested a sluggish movement of companies into higher strategies of diversification. Out of 205, 72% of the companies did not change their strategies at all. The companies which changed their strategies followed conservative pattern of movement. Rumelt (1982) also analyzed the nature of diversification of 273 Fortune 500 firms from 1949 to 1974. He classified the firms as Single Business, Vertical Integrated Business, Dominant Business, Related Business and Unrelated Business. The results suggested that Single Business, Vertical Integrated Business and
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Dominant Business were least popular whereas Related Business and Unrelated Business were the most favored strategies. Lecraw (1984) also studied the extent of diversification of 200 largest manufacturing Canadian firms during the period 1975-1978. He classified firms into four strategic categories as Single Business, Vertically Integrated Business, Related Business and Unrelated Business. He observed that most of the Canadian firms were in higher categories of diversification such as Related Business (72) and Unrelated Business (54) strategies.

Shergill (1989) also gauged the extent and pattern of diversification on a sample of 103 non-financial companies from New Zealand during a decade of 1975-1985. He classified firms into four cells as per Varadarajan and Ramanujam (1987). He observed that companies in SB category declined whereas, Unrelated Diversified and Highly Diversified categories were found to be most popular categories. The results also suggested that only unidirectional move that is towards the higher level of diversity was preferred. However, Bosworth et al. (1997) took a sample of 942 US firms. He showed that during the period 1989-1994, out of 942 firms: 290 were highly diversified firms, 345 were intermediate diversified firms and 307 were focused firms; thus suggesting a preference for in-between strategies only.

Rajan et al. (2000) analyzed diversification strategies of 30 American firms over the period 1985-93. The Jacquemin and Berry (1979) entropy measure was used to calculate both the nature and extent of firm diversification. The results revealed that with the exception of marginal increase of 1.46% in Unrelated Business, an overall reduction in the diversification portfolio was observed. Likewise, Singh et al. (2003) studied a sample of 1528 firms over the period 1994 to 1996 and used SIC- Entropy measure classification. They classified the firms into two categories named as product-focused and product-diversified. Out of the sample of 1528 firms, 155 reported diversifying moves whereas 279 firms reported focusing moves; thus more preference
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for focused firms was observed. However, Ushijima and Fukui (2004) studied industrial diversification on the sample of 118 largest Japanese manufacturing firms over the period of 1973-1998. Three measure of diversification were used as, the number of 4-digit industry segments, Herfindahl index and core sales ratio. The study observed that the lower diversification strategies that is SB followed by DB or RB strategies were the most preferred strategies whereas UB was the least popular strategy. Rushin (2006) and Subbramoney (2010) also measured nature of diversification in African listed companies. They classified firms into two groups namely; focused organizations and diversified organizations. The results showed a mixed preference for diversification strategies.

With specific reference to India, Chaudhuri et al. (1982) found that firms in private and public sector firms followed different diversification strategies as private sector firms favored UB strategy against their counterpart in the public sector that diversified into Related strategies only over the period 1960-75. Kaura (1987) also studied a sample of 251 Indian private sector companies and used modified version of Rumelt’s methodology (1974). It was observed that the unrelated diversification was the most popular strategy among the Indian corporate sector. Similarly, Shanker (1989) studied the extent and magnitude of product diversification of 1694 Indian firms over the period of 1975-76 to 1980-81. The results showed that both the extent and magnitude of diversification was low as companies diversified into activities related to their main activity only. Raman et al. (2003) also studied the nature and pattern of diversification in 109 Indian manufacturing companies during the period 1991-2000. Rumelt’s Typology was used for the measurement of diversification. The results suggested that SB and UB were the least popular strategies whereas DB and RB were the most preferred ones. Also, both forward and backward pattern of movement was seen. Raman et al. (2003) also observed that in the pre-
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In the liberalization period, higher forms of diversification were popular while, in the post liberalization period, the trend was towards the central strategies. Bhatia and Chander (2007) also studied the nature, extent and pattern of diversification in 252 Indian corporate sectors over the period 1995-2004. It was observed that DB and RB were the most popular strategies while UB, was the least preferred one. Both forward and backward pattern of diversification was followed.

NEED AND OBJECTIVES OF THE STUDY

The review of literature reveals that there are sufficient number of empirical studies on nature, extent and pattern of diversification with respect to India as well as foreign countries. But in the globalized world denoted with high integration and interconnectivity of countries, certain international events tend to leave an evident impact on economic growth of the corporate sector. The global recession of 2008 has been one such event in the past. The environment of Indian corporate sector was effected to a large extent due to the U.S. meltdown. So it is imperative to study the nature, extent and pattern of diversification during the period when India was influenced by the global recession. Also, as suggested by review of literature not even a single study has been found that studies the nature, extent and pattern of diversification during the recessionary phase. Thus, a modest attempt has been made to fill the gap in the present study, with respect to Indian corporate sector. The specific objectives of the paper include:

- To study the nature and the extent of diversification in the Indian corporate sector.
- To analyze the pattern of diversification strategies followed by companies in India.
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DATA BASE AND METHODOLOGY

**Sample:** 1000 companies taken from BS-1000 (March, 2012) represent the universe of the study. These companies are the leading companies of India in terms of net sales. In order to arrive at the sample following filters have been applied:

(i) Only manufacturing companies have been selected and companies from service sectors i.e. Shipping, Air Transport, Entertainment, Media, Hotel & Restaurants and Trading have been eliminated. Also companies from financial sector i.e. banking and insurance have not been taken. This is because these companies offer only intangible services and hence cannot be compared with the companies in the manufacturing sector that produce tangible products.

(ii) Only companies that existed between the time period of study i.e. 2001-2011 have been taken.

(iii) Companies not existing in the CAPITALINE database have been eliminated.

(iv) Companies whose sales information was not given in CAPITALINE database have also been eliminated.

Thus, as a result of these filters, an effective sample of 532 companies has been obtained and studied.

**Time-Period:** The study covers a total time span of 10 years from 2001-2011. India has completed two decades of liberalization, privatization and globalization since 1991. This time period would help to know, the momentum of diversification that Indian companies have picked up after liberalization, privatization and globalization. Also, US real estate bubble, which burst during 2007-2009 leading to global recession, is covered under this time period. To gauge the effect of liberalization as well as recession on the nature, extent and pattern of diversification, the
time period has been divided into three points of time i.e. 2001, 2006 and 2011. The year 2001 has been taken as the base year representing post liberalization period and pre recession period, 2006 represents the recession period and 2011 represents the post-recession period.

**Database:** Majority of the data has been taken from CAPITALINE database. It is the database of capital market and contains information for approximately 13000 listed as well as unlisted companies.

**Measurement of Diversification:** The Jacquemin-Berry entropy-index measure (1979) has been used. It is based on three elements of a firm’s diversity of operations; first, the number of product segments in which the firm operates; second, the distribution of the firm’s total sales across the product segments and third, the degree of relatedness among the various product segments. What distinguishes the entropy measure from the other diversification indices, is its ability to consider the third element. Products belonging to different 4-digit SIC industries within the same 2-digit industry group are treated as related; products from different 2-digit SIC industry groups are defined as unrelated. Entropy measure of diversification (Berry 1979), is calculated as follows:

Total Diversification \[ DT = \sum_{i=1}^{N} P_i \times \ln\left(\frac{1}{P_i}\right) \]

Related Diversification \[ DR = \sum_{j=1}^{M} DR_j \times P_j \]

With \[ DR_j = \sum_{i<j} P_{ji} \times \ln\left(\frac{1}{P_{ji}}\right) \]

Unrelated Diversification \[ DU = \sum_{j=1}^{M} P_j \times \ln\left(\frac{1}{P_j}\right) \]

Also \[ DT = DR + DU \]

Where, \[ M = \text{Number of industry groups (number of 2 digit SIC codes the firm is involved in)} \]
In order to divide the companies into strategic categories, first of all, mean values of the Related and Unrelated Diversification have been calculated over the three points of time. The use of mean values of TD, RD and UD for three years alone is not sensitive. Only calculating the mean values, cannot measure the changes in strategies and the movement between diversification strategies. So to gauge the extent and the movement between diversification categories, the sample of 536 companies has been split into four groups by using the cut-off mean values of Related (RD) and Unrelated Diversification (UD). The cut-off values of RD and UD, the entropy measures of Jacquemin and Berry (1979) has 0.2298 for Related Diversification (RD) and 0.1922 for Unrelated Diversification (UD), on the basis of base year 2001. The classification has been made as follows:

**Very Low Diversified (VLD):** The firms with low mean Related Diversification and low mean Unrelated Diversification has been labeled as Undiversified or Very Low diversified.

**Related Diversified (RD):** The firms with high mean Related Diversification and low mean Unrelated Diversification has been labeled as Related Diversified.

**Unrelated Diversified (UD):** The firms with low mean Related Diversification and High mean Unrelated Diversification has been labeled as Unrelated Diversified.

**Very High Diversified (VHD):** The firms with high mean Related Diversification as well as high mean Unrelated Diversification has been labeled as Very High Diversified.
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RESULTS AND ANALYSIS:

NATURE, EXTENT AND PATTERN OF DIVERSIFICATION

In order to have comprehensive analyses of the nature, extent and pattern of diversification, this section of the paper is divides into two parts as:

A. Nature and Extent of Diversification

B. Pattern of Diversification

SECTION A

NATURE AND EXTENT OF DIVERSIFICATION

The nature and extent of diversification has been measured at three points of time i.e. 2001, 2006 and 2011. The sample of 536 companies has been divided into four groups as: Very Low Diversified (VLD), Related Diversified (RD), Unrelated Diversified (UD), and Very High Diversified (VHD) categories on the basis of mean values of Related (RD) and Unrelated Diversification (UD). Table 1 records the number and the percentage of companies in each strategic category in 2001, 2006 and 2011 as follows:

Table 1: Diversification strategies of Indian companies (2001-2011)

<table>
<thead>
<tr>
<th>Categories</th>
<th>2001</th>
<th>2006</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>(A) Very Low Diversified (VLD)</td>
<td>257</td>
<td>228</td>
<td>219</td>
</tr>
<tr>
<td>(B) Total Diversified</td>
<td>279</td>
<td>308</td>
<td>317</td>
</tr>
<tr>
<td>TOTAL (A+B)</td>
<td>536</td>
<td>536</td>
<td>536</td>
</tr>
<tr>
<td>1. Related Diversified (RD)</td>
<td>143</td>
<td>162</td>
<td>182</td>
</tr>
<tr>
<td>2. Unrelated Diversified (UD)</td>
<td>91</td>
<td>90</td>
<td>92</td>
</tr>
<tr>
<td>3. Very High Diversified (VHD)</td>
<td>45</td>
<td>56</td>
<td>43</td>
</tr>
</tbody>
</table>
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Table 1 shows that, in 2001, 48% of the companies followed Very Low Diversified strategy whereas 52% followed Diversified strategy. Among Total Diversified category, 51% of the companies were in Related Diversified category and 33% of the companies followed Unrelated Diversified category while only 16% were in Very High Diversified category. It is evident that Indian companies preferred diversification strategy in 2001, as more than 50% of the firms fell in Diversified category. Also, from the diversification categories, Related Diversified (RD) category is most preferred with 51% companies following it, as compared to Unrelated Diversified category (33%) and Very High Diversified category with just 16% of the companies adopting it. This time period represents post liberalization and pre-recession period; when it seems that Indian corporate sector had adjusted itself with the LPG reforms in the past decade, and made a move towards the global market. However, sticking to the core still seems important for Indian companies as the maximum number of companies have followed RD strategy.

In 2006, the companies that followed Very Low Diversified strategy declined to 43% from 48% in 2001, while those that followed Total Diversified strategy showed an appropriate increase of 5% and moved to 57%. From Total Diversified category, there was an increase in Related Diversified category at 52.6% and a significant increase in Very High Diversified category at 18.2%. However, there was a decrease in Unrelated Diversified category to 29.2%. It is also noted that even in 2006 RD is the most favored category as 52.6% of the companies still followed it. Also, the increase in Very High Diversified (VHD) category is more evident from 16% in 2001 to 18.2% in 2006. This is a pre-recession time, when India was not caught in the spillover effects of meltdown. Rather Indian corporate sector was trying to explore both national and international markets with newer products, even in the unrelated areas. This same is
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suggested by an appreciable increase of 5% from 2001 to 2006 in the Total Diversified category as well as the rise in number of companies in VHD category.

In 2011, the companies that followed Very Low Diversified strategy further declined to 41%; likewise those in Diversified strategy increased to 59%. However, in Total Diversified category, there was a significant increase in Related Diversified category from 52.6% to 57% while the companies those followed Unrelated Diversified category decreased slightly from 29.2% to 29% and those in Very High Diversified category declined tremendously from 18.2% to 14%. The year 2011 represents the post-recession period when India was recovering from the ripples of USA meltdown. Corporate managers sneaked back to their ‘cores’ and favored RD category even more than earlier years with 57% of the diversified firms following the same. The same is suggested by a sharp decline in the VHD category. During the time period of 2007-09, U.S. meltdown had squeezed Indian corporate sector by affecting its export-import, Foreign Direct Investment, employment, quantum of FII’s, etc. Recession had grabbed almost all the industrial sectors in India. As a result it seems that Indian companies perhaps started reverting from highly diversified categories i.e. UD and VHD and located a safe shelter to diversify in RD strategy.

Overall during the total study period Indian companies have diversified, with high proportion of companies in the Total Diversified category as 59%; while only 41% left in the Very Low Diversified category. In post-liberalization and pre-recession period, more companies were adopting Related and Very High Diversified categories of diversification. However during the post-recession period (2006-2011), Indian companies started reverting in RD category. The
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famous quote ‘when USA sneezes, India catches cold’ is reflected from the nature as well as extent of diversification in the Indian corporate sector.

SECTION B

PATTERN OF DIVERSIFICATION

In this section the pattern of diversification, that is, the strategy of change has been studied over three periods that is, from 2001-2006, 2006-2011 and 2001-2011. This would help us to know that which had been the most popular pattern of diversification followed by Indian corporate sector over a period of time in the changing business environments.

Change in strategy between 2001-2006

The pattern of diversification and strategy of change in 2001-2006 has been presented in Table 2 as follows:

Table 2: Changes between 2001-2006

<table>
<thead>
<tr>
<th>Diversification Category</th>
<th>VLD</th>
<th>RD</th>
<th>UD</th>
<th>VHD</th>
<th>TOTAL</th>
<th>No Change Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL (2001)</td>
<td>257</td>
<td>143</td>
<td>91</td>
<td>45</td>
<td>536</td>
<td>208</td>
</tr>
<tr>
<td>Very Low Diversified (VLD)</td>
<td>-49</td>
<td>+31</td>
<td>+16</td>
<td>+02</td>
<td>-</td>
<td>208</td>
</tr>
<tr>
<td>Related Diversified (RD)</td>
<td>+11</td>
<td>-22</td>
<td>+03</td>
<td>+08</td>
<td>-</td>
<td>121</td>
</tr>
<tr>
<td>Unrelated Diversified (UD)</td>
<td>+07</td>
<td>+05</td>
<td>-26</td>
<td>+14</td>
<td>-</td>
<td>65</td>
</tr>
<tr>
<td>Very High Diversified (VHD)</td>
<td>+02</td>
<td>+05</td>
<td>+06</td>
<td>-13</td>
<td>-</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL (2006)</td>
<td>228</td>
<td>162</td>
<td>90</td>
<td>56</td>
<td>536</td>
<td>426 (79.5%)</td>
</tr>
</tbody>
</table>

+ Sign denotes movement into the strategy
- Sign denotes movement out of the strategy

From Table 2 it is seen that during 2001-2006, 20.5% Indian companies changed their strategies whereas 79.5% adopted a no change strategy. From Very Low Diversified category 208 companies did not change their strategy while 49 moved forward. Out of 49 companies, 31 companies moved to Related Diversified category, 16 to Unrelated Diversified and only 2
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companies moved to Very High Diversified category. From the Related Diversified category, 121 companies did not change their strategy and out of 22 companies 3 moved to UD and 11 companies moved back to VLD strategy whereas, 8 companies moved to VHD category. From Unrelated Diversified category, 65 companies remained in UD category and 14 companies moved to VHD category while 5 moved back to RD and 7 returned to VLD category. From Very High Diversified category, 32 companies did not change their strategy and 2 returned to VLD category and 5 companies moved back to RD and 6 returned back to UD category. Thus, it is seen that from VLD category, companies diversify gradually and move from lower category to higher categories stepwise. Likewise, step by step pattern of movement in all categories of diversification has been noticed. Though from both RD and UD a faster move is observed towards VHD category and also from VHD although the move is Backward still it is very sluggish and gradual. From the Table 2 it is evident, the extent of diversification increased in RD and VHD category whereas it has decreased in VLD and UD category during 2001 to 2006.

Since Indian companies have adopted both forward and backward movement, so Table 2(a) shows the number of companies following these strategies:

**Table 2(a): Changes Showing Forward and Backward Movement (2001-2006)**

<table>
<thead>
<tr>
<th>Forward Movement</th>
<th>No. of Companies</th>
<th>Backward Movement</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLD to RD</td>
<td>31</td>
<td>RD to VLD</td>
<td>11</td>
</tr>
<tr>
<td>VLD to UD</td>
<td>16</td>
<td>UD to RD</td>
<td>05</td>
</tr>
<tr>
<td>VLD to VHD</td>
<td>02</td>
<td>UD to VLD</td>
<td>07</td>
</tr>
<tr>
<td>RD to UD</td>
<td>03</td>
<td>VHD to UD</td>
<td>06</td>
</tr>
<tr>
<td>RD to VHD</td>
<td>08</td>
<td>VHD to RD</td>
<td>05</td>
</tr>
<tr>
<td>UD to VHD</td>
<td>14</td>
<td>VHD to VLD</td>
<td>02</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>74 (67%)</strong></td>
<td><strong>TOTAL</strong></td>
<td><strong>36 (33%)</strong></td>
</tr>
</tbody>
</table>

As suggested in Table 2(a) in totality out of 536 companies, 110 companies (74+36) i.e. 20.5% changed their strategies during 2001-06. Also from these 110 companies, 74 (67%) companies
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followed forward move whereas only 36 (33%) companies followed backward move. A clear observation suggests that both forward and backward patterns of diversification are adopted by the Indian companies but reasonably more number of companies adopt forward pattern. The highest forward move is from VLD to RD (42%) followed by VLD to UD (21.6%) and UD to VHD (19%). However, backward move is more from RD to VLD i.e. 30.5%. It represents that Indian companies preferred to move in higher diversification categories (during 2001-06). Post liberalization era brought with it trade liberalization, delicensing, entry of MNC’s, exchange of currency and technology advancements. The standard of living had increased in the country and a good circular flow of money was in existence. This perhaps required a balance between increased demand and supply equilibrium, thus motivating firm to produce bigger, better and newer.

Change in strategy between 2006-2011

The pattern of diversification and strategy of change in 2006-2011 has been presented in Table 3 as follows:

Table 3: Changes between 2006-2011

<table>
<thead>
<tr>
<th>Diversification Category</th>
<th>VLD</th>
<th>RD</th>
<th>UD</th>
<th>VHD</th>
<th>TOTAL</th>
<th>No Change Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL (2006)</td>
<td>228</td>
<td>162</td>
<td>90</td>
<td>56</td>
<td>536</td>
<td></td>
</tr>
<tr>
<td>Very Low Diversified (VLD)</td>
<td>-43</td>
<td>+34</td>
<td>+07</td>
<td>+02</td>
<td>--</td>
<td>185</td>
</tr>
<tr>
<td>Related Diversified (RD)</td>
<td>+21</td>
<td>-23</td>
<td>+01</td>
<td>+01</td>
<td>--</td>
<td>139</td>
</tr>
<tr>
<td>Unrelated Diversified (UD)</td>
<td>+11</td>
<td>--</td>
<td>-20</td>
<td>+09</td>
<td>--</td>
<td>70</td>
</tr>
<tr>
<td>Very High Diversified (VHD)</td>
<td>+02</td>
<td>+09</td>
<td>+14</td>
<td>-25</td>
<td>--</td>
<td>31</td>
</tr>
<tr>
<td>TOTAL (2011)</td>
<td>219</td>
<td>182</td>
<td>92</td>
<td>43</td>
<td>536</td>
<td>425 (79.3%)</td>
</tr>
</tbody>
</table>

+ Sign denotes movement into the strategy
- Sign denotes movement out of the strategy

From Table 3 it is clear that between 2006-2011, 425 companies (79.3%) have preferred a no change strategy while 20.7% (111) companies have shown a change in their pattern of strategies. From Very Low Diversified category 185 companies did not change their strategy while 43
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moved forward. Out of 43 companies, 34 companies moved to Related Diversified category, 7 to Unrelated Diversified and only 2 companies moved to Very High Diversified category. From the Related Diversified category, 139 companies did not change their strategy and out of 23 companies only one company moved to UD while huge number of companies i.e. 21 moved back to VLD strategy likewise, only one company moved to VHD category. From Unrelated Diversified category, 70 companies remained in UD category and 9 companies moved to VHD category while none of the company moved back to RD category whereas 11 returned to VLD category. From Very High Diversified category, 31 companies did not change their strategy and 2 returned to VLD category and 9 companies moved back to RD and 14 returned back to UD category. From the Table 4, it is clear that In-between strategies are more popular during 2006-11 as, RD and UD categories.

Both forward and backward movement has been adopted by Indian companies simultaneously. So the movement of companies with respect to the diversification strategies has been presented in Table 3(b) as follows:

**Table 3(b): Changes Showing Forward and Backward Movement (2006-2011)**

<table>
<thead>
<tr>
<th>Forward Movement</th>
<th>No. of Companies</th>
<th>Backward Movement</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLD to RD</td>
<td>34</td>
<td>RD to VLD</td>
<td>21</td>
</tr>
<tr>
<td>VLD to UD</td>
<td>07</td>
<td>UD to RD</td>
<td>-</td>
</tr>
<tr>
<td>VLD to VHD</td>
<td>02</td>
<td>UD to VLD</td>
<td>11</td>
</tr>
<tr>
<td>RD to UD</td>
<td>01</td>
<td>VHD to UD</td>
<td>14</td>
</tr>
<tr>
<td>RD to VHD</td>
<td>01</td>
<td>VHD to RD</td>
<td>09</td>
</tr>
<tr>
<td>UD to VHD</td>
<td>09</td>
<td>VHD to VLD</td>
<td>02</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>54 (48%)</strong></td>
<td><strong>TOTAL</strong></td>
<td><strong>57 (52%)</strong></td>
</tr>
</tbody>
</table>

As seen from Table 3(b), out of 536 companies, only 111 companies (54+57) i.e. 20.7% change their strategies during 2006-11. Out of which only 54 (48%) companies preferred forward pattern to diversify whereas 57 (52%) companies moved backward. It is also seen from the Table 3(b) that more than 50% of companies adopted forward move i.e. from VLD to RD (63%) followed
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by UD to VHD (16.7%). However, backward move is more from RD to VLD i.e. 37% followed by VHD to UD (24.6%) and UD to VLD (19.3%). In totality, backward move also suggests that out of 57, huge number of Indian companies i.e. 34 (60%) companies moved back to VLD category. As per Table 3(b), forward movement is comparatively sluggish while backward movement is fast in the years 2006-11. Even in totality a higher proportion of 52% moved backward with 48% companies following a forward pattern. Also, the forward move is restricted up till RD category only while the backward move weighs heavy in VLD category. The impact of recession (2007-09) is highly evident in the patterns of diversification of Indian companies. The Indian companies had the major outsourcing deals with the U.S., conceivably, it is one of the major reasons that many sectors of the Indian economy were affected with U.S. meltdown.

Change in strategy between 2001-2011

The pattern of diversification and strategy of change in 2001-2011 has been presented in Table 4 as follows:

Table 4: Changes between 2001-2011

<table>
<thead>
<tr>
<th>Diversification Category</th>
<th>VLD</th>
<th>RD</th>
<th>UD</th>
<th>VHD</th>
<th>TOTAL</th>
<th>No Change Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL (2001)</td>
<td>257</td>
<td>143</td>
<td>91</td>
<td>45</td>
<td>536</td>
<td></td>
</tr>
<tr>
<td>Very Low Diversified (VLD)</td>
<td>-78</td>
<td>+55</td>
<td>+20</td>
<td>+03</td>
<td>--</td>
<td>179</td>
</tr>
<tr>
<td>Related Diversified (RD)</td>
<td>+21</td>
<td>-27</td>
<td>+02</td>
<td>+04</td>
<td>--</td>
<td>116</td>
</tr>
<tr>
<td>Unrelated Diversified (UD)</td>
<td>+13</td>
<td>+05</td>
<td>-31</td>
<td>+13</td>
<td>--</td>
<td>60</td>
</tr>
<tr>
<td>Very High Diversified (VHD)</td>
<td>+6</td>
<td>+06</td>
<td>+10</td>
<td>-19</td>
<td>--</td>
<td>23</td>
</tr>
<tr>
<td>TOTAL (2011)</td>
<td>219</td>
<td>182</td>
<td>92</td>
<td>43</td>
<td>536</td>
<td>378 (70%)</td>
</tr>
</tbody>
</table>

From Table 4, in totality 70% (378) companies did not change their respective strategies and 30% (158) companies followed a change in pattern of their strategies. 179 companies remained in VLD category only, while 78 companies moved forward; with 55 companies adopting RD
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strategy while 20 moving to UD and 3 companies following VHD category. From RD category, 2 companies moved to UD and 4 companies to VHD while 21 companies returned to VLD category. From UD category, 13 companies moved forward to VHD category and an equal number moved to VLD also. Backward movement has been also observed from VHD category, 10 companies moved back to UD category while 6 returned to RD and also 6 companies preferred to come back into VLD category. In totality, the move is gradual as well as cautious with a more preference for in-between categories of diversification.

As Indian companies have adopted both forward and backward movement respectively thus Table 4(c) shows the number of companies following these strategies:

Table 4(c): Changes Showing Forward and Backward Movement (2001-2011)

<table>
<thead>
<tr>
<th>Forward Movement</th>
<th>No. of Companies</th>
<th>Backward Movement</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLD to RD</td>
<td>55</td>
<td>RD to VLD</td>
<td>21</td>
</tr>
<tr>
<td>VLD to UD</td>
<td>20</td>
<td>UD to RD</td>
<td>05</td>
</tr>
<tr>
<td>VLD to VHD</td>
<td>03</td>
<td>UD to VLD</td>
<td>13</td>
</tr>
<tr>
<td>RD to UD</td>
<td>02</td>
<td>VHD to UD</td>
<td>10</td>
</tr>
<tr>
<td>RD to VHD</td>
<td>04</td>
<td>VHD to RD</td>
<td>06</td>
</tr>
<tr>
<td>UD to VHD</td>
<td>13</td>
<td>VHD to VLD</td>
<td>06</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>97 (61%)</strong></td>
<td><strong>TOTAL</strong></td>
<td><strong>61 (39%)</strong></td>
</tr>
</tbody>
</table>

In totality out of 536 companies, 158 companies (97+61) i.e. 30% change their strategies during 2001-11. Out of which 97 (61%) companies followed forward pattern while 61 (39%) companies preferred backward pattern. It represents that the extent is low during the period (30%) but the momentum of diversification is fast. It is also evident from the Table 4(c) that highest forward move is more toward VLD to RD (56.7%) followed by VLD to UD (20.6%) and UD to VHD (13.4%). However, backward move is more from RD to VLD (34.4%) followed by UD to VLD (21.3). During this decade of 2001 till 2011, Indian corporate sector has seen many ups and downs and the same is evident from their strategies of growth as well. The erratic pattern i.e.
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both backward and forward pattern simultaneously seems to suggest that Indian companies are playing with these strategies and are trying to maintain a balance between profitability and stability in the globalized competitive markets. Hence the Indian companies follow a safe pattern of diversification for earning steady revenues and also diversify more into related areas.

Our results support Luffman and Reed (1982) and Rumelt (1982) who showed a decline in SB category and a greater move towards RB category. Luffman and Reed, (1982) also observed that only 27.3% companies change their strategies whereas 72.7% adopted no change strategy. Similarly Lecraw (1984) observed that Related Business followed by Unrelated Business were the most popular strategies rather than Single Business or Vertically Integrated Business among Canadian firms. Our results are even consistent with the studies conducted among Indian companies by Raman et al. (2003) and Bhatia and Chander (2007) that showed preference for extreme strategies of SB and UB declined, whereas the in-between strategies as DB and RB became popular. They also observed that both a backward pattern and forward route has been followed by Indian corporate sector. Likewise, as per Chaudhuri et al. (1982), among Indian companies, SB has declined while related cum unrelated business increased. Our results conglomorate with Shanker (1989) who showed that extent of diversification was low in Indian firms.

As opposed to our findings Luffman et al. (1982) study highlighted faster forward move. Rumelt (1982) and Kaura et al. (1989) showed that UB category was the most favored category than Related Diversification category. As per the study by Shergill (1989), Unrelated Diversified category and the Highly Diversified category was found to be most popular categories among New Zealand firms; and the firms only followed the unidirectional move that is towards higher
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level of diversity. Whereas Singh et al. (2003) also observed more preference for focused firms over the period from 1990-1996. The difference in results might be because of level of development in particular countries and their environment.

CONCLUSION

To conclude, it is evidently found the Indian companies are diversifying in the market oriented and open environment brought in by the liberalization, privatization and globalization of Indian economy. However, the in-between strategies, specially the RD category remains the most favored of all the strategies. Traditional pattern of diversification is being followed by the Indian companies. A backward pattern of diversification is also found; which makes the overall pattern erratic. During this time period Indian corporate sector has experienced many changes over the last two decades with the initiation of liberalization reforms and the great global crash of 2008. In fact the Indian managers seem to have followed a prudent behavior and made sensible decisions related to strategic planning; so that the companies earn stabilized revenues even during the wobbling environment and compete cautiously with MNC’s.
REFERENCES


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