



CORPORATE DIVERSIFICATION AND BUSINESS PERFORMANCE: THEORETICAL FRAMEWORKS, INSTITUTIONAL CONTEXT AND DYNAMIC EFFECTS

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Abstract: Corporate diversification remains a central topic in contemporary strategic management, yet its impact on firm performance continues to spark debate. Related diversification can generate synergistic efficiencies and strengthen outcomes, whereas unrelated diversification often introduces coordination costs and reduces profitability. This study conducts a systematic analysis of leading theoretical perspectives and empirical findings to identify the conditions under which diversification improves—or undermines—business results. Both developed and emerging markets are included, enabling comparisons across different institutional and industrial environments. Evidence indicates that a moderate degree of business-activity variety produces the most favourable effects, while excessive expansion increases costs and weakens performance. Although internal capital markets may provide temporary protection during periods of economic instability, this advantage is largely short-lived. The paper therefore recommends that managers align the scope and mode of diversification with available resources and the specific business environment, since only a carefully balanced combination of breadth and focus can preserve and enhance a company's long-term value.

Keywords: corporate diversification; firm performance; conglomerate discount; institutional context; strategic management.

JEL classification: L25, L22, G34, M10

1. Introduction

Corporate diversification has long held a prominent position in strategic management research as the process of expanding business activities beyond a company's core operations. It represents a key decision in the allocation of resources and the shaping of sustainable competitive advantage. This study analyses the relationship between diversification strategies and business performance, with particular attention to the differing effects of related and unrelated forms across diverse institutional and industrial contexts.

The academic and practical relevance of this research lies in providing a framework for managers and shareholders to determine the optimal boundaries of diversification—avoiding losses associated with the conglomerate discount while identifying opportunities for additional value creation. Previous studies present mixed results: some record declines in firm value and profitability, while others question the existence of a universal negative effect. These varied findings highlight the need for a context-sensitive approach that integrates multiple theoretical perspectives and captures the dynamic nature of market conditions.

Methodological limitations, possible interdependence of observed phenomena, and differences in sample composition and time horizons help to explain inconsistencies in earlier research. These challenges underscore the need to link theoretical foundations with empirical evidence. The central premise of this paper is that the effects of diversification are not uniform; they depend on the mode of corporate growth, the environment in which the company operates, and the managerial ability to allocate resources efficiently.

To capture this complexity, the paper combines the resource-based and relational perspectives, incorporates the concept of dominant managerial logic, and examines the functioning of internal capital markets. By integrating these theoretical approaches with contemporary empirical findings, the analysis provides a more comprehensive understanding of both the opportunities and the constraints that accompany diversification strategies.

The main results indicate an inverted-U or S-shaped relationship between diversification and performance: moderate diversification delivers the greatest benefits, whereas excessive expansion reduces returns. Diversification can also act as a temporary protective mechanism during economic crises through internal capital markets, but this stabilising effect is generally short-lived. Following the introduction, the paper presents the research methodology, offers a review of the relevant literature, and concludes with a synthesis of the key challenges and recommendations for future research.

2. Research Methodology

This study operationalises key concepts—related and unrelated diversification, institutional context, and the conglomerate discount—into analytical categories suitable for comparative analysis. The research relies exclusively on secondary data, drawing on scholarly articles, meta-analyses and empirical studies that explicitly examine the relationship between diversification strategies and business performance. No primary data were collected, as the aim was to systematise and critically re-evaluate existing knowledge.

The final sample comprises 110 peer-reviewed articles from leading international journals, of which 63 were identified as the most relevant and are listed in the references. The dataset covers both developed markets (e.g., the United States and Western Europe) and emerging economies (e.g., China, India and South Korea), enabling comparative analysis across different institutional environments.

During data preparation, studies without a direct connection to diversification were excluded. The remaining papers were grouped into thematic clusters, and the core concepts were converted into measurable categories for comparison across different time periods.

Conclusions were derived through a content-analysis and comparative-analysis approach, without applying traditional statistical techniques, but with systematic synthesis of the frequency and strength of arguments found in the literature. Reliability was enhanced by examining the effects of diversification in different institutional and temporal contexts, thereby reducing the risk of one-sided interpretation. This qualitative strategy provides a deeper understanding of the mechanisms and contextual factors that shape the relationship between diversification and firm performance.

3. Literature Review

3.1. Theoretical and Empirical Approaches to Corporate Diversification: From Synergies to Constraints

The relationship between corporate diversification strategies and business performance remains one of the central debates in contemporary strategic management. Two primary strategic directions dominate this discussion: related diversification, which relies on shared resources and knowledge to achieve operational synergies, and unrelated diversification, which seeks to stabilise cash flows and increase borrowing capacity but often at the expense of profitability.

Empirical findings generally show that firms entering related activities achieve better business results, although the magnitude and significance of these effects vary across studies (Amit & Livnat, 1988). In contrast, unrelated diversification tends to

generate additional costs and greater managerial complexity (Ahuja & Novelli, 2017). Comparative analyses confirm that moderate product and international diversification provides the greatest benefits, with the relationship between diversification and performance often described as an inverted-U curve (Arte & Larimo, 2022).

Rumelt (1974) was the first to emphasise the importance of relatedness in new business ventures, later demonstrating that diversification strategy remains an independent determinant of profitability even when industry effects are controlled (Rumelt, 1982) and advocating closer integration of economics and strategic management (Rumelt, 1991). Grant and Jammie (1988) found that British manufacturing firms pursuing diversification were, on average, more successful than narrowly focused companies, although they detected no clear advantage of related over unrelated expansion.

Historical data add further nuance. Klein (2001) observed that the conglomerates of the 1960s were not necessarily inefficient and were often valued at a premium owing to internal capital markets, although their profitability declined during the 1970s. Later research highlights the decisive role of context: Benito-Osorio et al. (2012) show that diversification outcomes depend on domestic market conditions and historical period, ranging from a premium to a discount or following an inverted-U pattern. Stern and Henderson (2004) identify intra-firm diversification as a source of long-term competitiveness in dynamic industries. Grant et al. (1988) note diminishing returns beyond a certain diversification threshold, while Hashai (2015) formalises an S-shaped relationship in which moderate variety enhances performance but excessive expansion raises coordination and adjustment costs. Mayer and Whittington (2003) likewise confirm that results differ across countries and time periods, and a meta-analysis of more than one hundred empirical studies finds no universal pattern, underscoring the influence of methodology and institutional settings (Bausch & Pils, 2009).

Management research further introduces the concept of the “Too Much of a Good Thing” (TMGT) effect, which explains how a relationship initially beneficial can become harmful once a saturation point is reached (Pierce & Aguinis, 2013). Contemporary diversification theory also draws on cognitive perspectives, particularly the concept of dominant logic, defined by Prahalad and Bettis (1986) as a managerial mindset that guides decisions about new activities. They argue that diversification is not merely an organisational arrangement but a set of ingrained habits that shape strategic action. Prahalad and Hamel (1990) expand this view, demonstrating through the contrasting experiences of GTE and NEC that the development of core competences forms the foundation of long-term competitive advantage.

Industry-specific studies further illuminate these insights. Lee and Greenwood (2004) identify three principal benefits of diversification within the same industry: economies of scale, multi-market contact that fosters mutual forbearance, and greater

efficiency in shaping market structure. Their findings show that such synergies can be a powerful source of competitive advantage, although diversification itself does not guarantee superior performance. Markides and Williamson (1994) similarly argue that strategic relatedness of activities is a more reliable predictor of sustainability than mere market overlap, as it accelerates the creation of new resources.

Family firms illustrate a distinctive dynamic. They generally adopt more conservative strategies, concentrating on core activities and opting for diversification only when it aligns with long-term objectives and complementary expertise (Hafner, 2021).

Taken together, this body of evidence indicates that diversification is neither inherently beneficial nor inherently harmful. Its outcomes depend on the relatedness of activities, the institutional and industrial context, and the firm's ability to balance the benefits against the rising costs of complexity.

3.2. Conglomerate Discount and the Valuation of Diversification

The question of whether diversification creates or destroys value remains one of the most contentious issues in corporate finance and strategic management. Empirical studies typically compare the stand-alone values of a company's individual segments—i.e., the hypothetical sum of each unit if it were operating independently—with the firm's total market value.

Berger and Ofek (1995) report that, during the period 1986–1991, diversified firms traded at an average value loss of 13–15 per cent, with the discount smaller when segments operated in the same industry. They attribute much of this loss to overinvestment and cross-subsidisation, while noting that certain tax advantages can partly offset the negative effect. For example, if one unit reports a profit of USD 10 million and another a loss of USD 6 million, the combined firm pays tax on a net USD 4 million, whereas two independent entities would be taxed separately without the ability to offset losses.

Similarly, Lang and Stulz (1994) find a negative relationship between diversification and Tobin's q —the ratio of market value to replacement cost of assets—suggesting that diversified firms are valued lower than specialised peers.

Campa and Kedia (2002) emphasise the importance of endogeneity, showing that although a negative correlation exists, the discount declines markedly when self-selection into diversification or specialisation is taken into account. In other words, firms choosing diversification often already face weaker prospects in their core business, so the observed discount partly reflects pre-existing conditions.

Subsequent research questions the universality of this effect. Ammann, Hoechle and Schmid (2012) argue that diversified firms may appear undervalued because

debt is measured at book rather than market value; after adjustment, only a small valuation gap remains. Graham, Lemmon and Wolf (2002) observe that markets usually react positively to acquisition announcements, but the excess value subsequently erodes because conglomerates frequently buy already discounted units, complicating comparisons with independent firms.

Maksimovic and Phillips (2002) propose a model in which the discount may represent an optimal outcome of profit-maximising strategy. Their analysis indicates that diversified companies allocate investments according to industry conditions and segment productivity, implying that the discount can reflect rational decisions rather than inefficiency.

Rudolph and Schwetzler (2014) criticise the “excess value” metric introduced by Berger and Ofek, noting that differing cash levels can distort results. Using enterprise value—which includes market capitalisation, debt and cash—they show that the estimated discount is significantly reduced or disappears entirely.

Historical patterns also play a crucial role. Servaes (1996) finds that in the 1960s insider ownership was negatively related to diversification, whereas in the 1970s, when the discount weakened, firms with higher insider ownership were the first to diversify, suggesting that manager–shareholders adjusted strategies as market perceptions evolved.

Villalonga (2001) applies propensity-score matching, pairing each diversified firm with a specialised counterpart of similar size, profitability and industry. Under this comparison, the conglomerate discount largely vanishes and sometimes turns into a premium, further challenging the notion of a universal penalty for diversification.

Taken together, the evidence shows that the so-called conglomerate discount is context-dependent, varying with methodology, industry, time period and firm characteristics. Rather than a fixed outcome of strategy, it reflects a complex interaction of managerial decisions, market conditions and measurement methods.

3.3. The Wave of De-Diversification and Corporate Refocusing during the 1980s

During the 1980s, large US conglomerates encompassing numerous unrelated activities initially represented a dominant organisational form, but by the end of the decade their prominence had visibly declined. Davis et al. (1994) attribute this shift to two main forces: a surge of hostile takeovers that encouraged the divestiture of non-core business units, and the strategic withdrawal of firms that chose to abandon the conglomerate growth model. By 1990, the largest American industrial corporations had become significantly more specialised, and the corporation itself was increasingly viewed as a network of contracts rather than a single integrated entity.

The move towards specialisation was closely linked to the goal of maximising shareholder wealth. Comment and Jarrell (1995) show that, during the 1980s, economies of scope eroded and firms that narrowed their activities achieved higher stock-market returns. Large, focused corporations were less vulnerable to hostile takeovers, whereas diversified firms remained active participants in the market for corporate control, both as buyers and as sellers.

Research on spin-off processes further supports these findings. Daily et al. (1997) find that divestments of unrelated business lines generate significantly higher excess returns than separations within the same industry, with most operational improvements accruing to the parent company. Similarly, Lichtenberg (1992) documents that the intense wave of takeovers in the late 1980s substantially reduced the average level of industrial diversification. Plant-level data reveal a negative relationship between diversification and productivity, suggesting that de-diversification was an important mechanism for productivity growth.

Incorporating the concept of opportunity cost adds further explanation to these strategic decisions. Mackey and Barney (2013) emphasise that the value of reinvesting in existing operations rises when alternatives—such as diversification or paying dividends to shareholders—carry higher opportunity costs. When deciding how to allocate retained earnings, managers compare the expected returns from expanding into new activities, paying dividends, or investing in the core business. If diversification entails higher risk and lower expected returns, and dividend payments limit future growth, continued investment in the primary business becomes the most rational option.

Markides (1995) examines the broader phenomenon of “refocusing” during the 1980s and identifies a threshold beyond which diversification diminishes profitability. Under the pressure of acquisition waves and hostile takeovers, many firms sold unprofitable divisions and redirected resources to their main business lines. His research shows that renewed focus was associated with higher profitability and stronger market valuations.

Overall, the experience of the 1980s demonstrates that diversification creates value only up to a certain point. Once that threshold is crossed, performance typically declines. Spin-off transactions and the sale of weaker units—combined with reinvestment in core operations—not only increased market value but also aligned managerial incentives more closely with shareholder interests. De-diversification therefore became a rational and often value-enhancing response to changing market conditions and remains a key mechanism for improving corporate performance.

3.4. Resource-Based and Relational Approaches to Diversification

The Resource-Based View (RBV) remains one of the key explanations of the motives and outcomes of corporate diversification. From this perspective, firms

diversify in order to exploit surplus or under-utilised resources, with the nature of these “slacks” guiding the direction of expansion. Chatterjee and Wernerfelt (1991) show that physical surpluses, knowledge assets and the ability to obtain external financing are statistically associated with a higher likelihood of related diversification, whereas an abundance of internal financial resources more often leads to unrelated diversification.

This resource perspective is complemented by the relational view, which stresses that crucial sources of competitive advantage can also arise beyond the firm’s boundaries, in inter-organisational relationships. Dyer and Singh (1998) argue that knowledge-sharing routines, complementary capabilities and effective partnership management create relational rents—unique gains that emerge through collaboration and are difficult to imitate. Competitive advantage therefore often stems from networks in which joint learning and complementary skills generate value unattainable by any single firm.

Recent studies increasingly shift attention from seeking a universal “average” effect of diversification to examining firm-specific conditions. Mackey et al. (2017) demonstrate that both focused and diversified companies select the configuration—focus, related or unrelated diversification—that maximises value in line with their unique resources and external environment. No single strategy is universally optimal: some firms achieve the highest returns by remaining specialised, others by expanding into related areas, and still others by entering entirely unrelated industries, depending on the combination of resources, capabilities and market circumstances.

Organisational learning provides an additional layer of explanation. Pennings et al. (1994) show that accumulated experience and knowledge influence both the choice of new markets and the success of diversification moves. Firms do not enter unfamiliar sectors at random; previous attempts and lessons learned shape subsequent diversification paths. Companies with stronger learning capabilities have a greater probability of successful expansion.

The core RBV model (Peteraf, 1993) emphasises that sustainable competitive advantage requires: resource heterogeneity and superiority, ex-post barriers to competition, limited resource mobility and ex-ante barriers to entry. In a corporate-strategy context, diversification succeeds only when new activities meet these conditions—possessing unique, hard-to-imitate resources, protected by barriers that hinder imitation, while competitors face obstacles to pre-emptive entry.

Empirical research on multi-business firms confirms that profits stem not merely from superficial similarity but from the ability to transfer complementary knowledge about products, customers and management across units. Tanriverdi and Venkatraman (2005) highlight that one-dimensional relatedness is insufficient; value emerges when multiple types of knowledge are integrated and mutually reinforcing, significantly improving both market and accounting performance.

Taken together, these findings show that diversification outcomes depend on the specificity of a firm's resources and its capacity to develop and exploit relational advantages. Companies that possess unique, difficult-to-replicate resources or that can generate relational rents through strong partnerships have a far greater likelihood of sustaining competitive advantage (Peteraf, 1993; Dyer & Singh, 1998). At the same time, success depends on organisational learning and the ability to integrate diverse knowledge flows into a coherent, complementary system (Tanriverdi & Venkatraman, 2005). Diversification is therefore most effective when grounded in resources and relationships that create enduring value, rather than in advantages that competitors can easily replicate.

3.5. Internal Capital Markets, Financial Policies and Diversification

The financial dimension of corporate diversification is closely tied to the functioning of internal capital markets and the management of corporate cash flows. Stulz (1990) analyses financial policies in firms with dispersed ownership, where shareholders lack complete insight into cash movements and managerial investment decisions. He finds that managers often have incentives to expand investments for personal benefit, leading to overinvestment when cash flows are abundant and underinvestment when they are constrained. Well-defined financial policies and rigorous oversight of available resources can significantly mitigate such agency problems.

Chevalier (2004) revisits the claim that cross-subsidisation within conglomerates necessarily destroys value. By analysing investment behaviour before diversification mergers, she shows that similar patterns existed prior to integration, pointing to a selection effect. Moreover, market reactions to the announcement of diversification-driven acquisitions were not determined by the degree of diversification introduced by the merger.

Cash reserves play a crucial role. Harford (1999) reports that firms with large cash holdings are more inclined to pursue acquisitions, but such moves often reduce value; on average, each additional dollar of free cash flow lowers overall firm value by around seven cents. These firms frequently use acquisitions as a means of diversification, yet many subsequently experience declining operational performance. Using a dynamic model of internal capital markets, Matvos and Seru (2012) show that such markets can cushion external financial shocks and stabilise internal financing. Their analysis reveals that weaker segments often receive excessive capital while more productive ones face constraints. Even so, during financial crises internal markets absorb 16–30 per cent of external pressures, confirming that internal allocation can partly offset disruptions in external financing.

From the perspective of organisational economics, Klein and Lien (2009) combine transaction cost theory—which views entry into new industries as an alternative to market contracting—with resource and capability approaches to explain diversification. They find that unrelated diversification can enhance the

efficiency of internal capital markets and that diversified firms often shape industry development through faster growth and lower exit rates.

Opler et al. (1999) add that companies with greater growth opportunities and more volatile cash flows usually hold larger cash reserves, whereas larger firms and those with strong credit ratings maintain lower levels. Successful companies frequently accumulate more cash than expected, and changes in reserves are driven more by operating losses than by investment or shareholder payouts.

Evidence of inter-segment financial dependence is provided by Shin and Stulz (1998), who, using Compustat segment data, show that the investment of one segment depends not only on its own cash flow but also—albeit less strongly—on the cash flows of other segments within the same firm. Segments of highly diversified companies therefore display lower sensitivity of investment to their own cash flows, and this interdependence is not necessarily linked to individual investment opportunities.

Stein (1997) develops a model emphasising the role of corporate headquarters in allocating scarce resources among projects. Unlike external creditors, headquarters can reallocate funds through a “winner-picking” process, creating value even when the firm as a whole faces credit constraints. The model suggests that internal capital markets are most efficient when headquarters manage a relatively small number of projects with a clear strategic focus.

Rajan et al. (2000) examine internal resource allocation in diversified firms and propose a model in which intra-firm competition for capital can lead to inefficient investments. When divisions have similar opportunities, resources flow to the projects with the best prospects. However, greater differences between divisions can cause funds to spill over into less efficient units, reducing overall firm value. Their empirical analysis of US diversified companies from 1980 to 1993 confirms these predictions.

Overall, the literature shows that internal capital markets are a double-edged sword. On the one hand, they ease financial constraints and buffer external shocks (Stein, 1997; Matvos & Seru, 2012). On the other, excessive cash reserves and intra-firm competition for resources can lead to inefficient investments and value loss (Rajan et al., 2000; Harford, 1999). Long-term success therefore depends on the ability of management and corporate headquarters to channel capital to the most productive segments while preventing internal distortions that undermine performance. These findings confirm that diversification is not merely a strategic choice but also a financial process shaped by managerial incentives, the structure of cash holdings, the efficiency of internal capital markets and institutional constraints—factors that together explain why diversification can both increase and reduce corporate value.

3.6. Institutional and Industry Context as Determinants of Diversification Effects

Research over recent decades shows that the effects of corporate diversification are strongly shaped by the institutional and industry environments in which firms operate. In developed economies diversification is often associated with weaker performance, whereas in less developed markets it can play a compensatory role—particularly where financial and legal infrastructures are underdeveloped (Chakrabarti et al., 2007; Fauver et al., 2003). Tashman et al. (2023) emphasise that, under such conditions, diversification may provide strategic advantages, while its impact in mature institutional settings is far more limited. Likewise, technological diversification generates positive performance effects only when a company possesses strong internal competences and complementary resources (Ceipek et al., 2019).

Empirical findings consistently highlight the decisive importance of the institutional context. Using a sample of firms from six Asian countries, Chakrabarti et al. (2007) reveal that in well-developed institutional environments diversification reduces performance, whereas in the least developed it can yield gains—although these benefits are constrained during systemic economic shocks. Wan (2005) integrates institutional economics and the resource-based view to show that the national context determines the optimal combination of capabilities and strategies. Fauver et al. (2003), analysing more than 8,000 companies in 35 countries, confirm that the quality of financial and legal infrastructure is a key factor in the value of diversification, while Kogut et al. (2002) argue that no universal pattern exists because institutions and actors jointly shape strategic outcomes.

Changes in institutional environments further illustrate the dynamic nature of diversification effects. In the case of South Korea, Lee et al. (2008) document that the diversification premium gradually turned into a discount as institutional reforms progressed. Peng et al. (2005) introduce the concept of institutional relatedness, showing that relationships with actors providing resources and legitimacy largely determine the scope of a company's activities. Wan and Hoskisson (2003) likewise emphasise the critical role of home-country characteristics in shaping corporate strategy and performance.

The industry context is equally important. Santalo and Becerra (2008) find that diversified firms achieve better results in sectors where the share of specialised competitors is low, whereas in industries dominated by specialised rivals the effects of diversification become negative. A similar conclusion is offered by Schüle (1992), who highlights that the intensity of specialised competition is a key determinant of diversified firms' success.

Taken together, these findings confirm that the outcomes of diversification depend on both institutional conditions and industry structure. In less developed

environments diversification can enhance stability and growth (Lee et al., 2008; Peng et al., 2005), whereas in mature markets it more often leads to a discount. At the industry level, diversified firms gain an advantage when specialised competitors are few but face disadvantages when such rivals are numerous (Santalo & Becerra, 2008; Schüle, 1992). An effective diversification strategy must therefore be formulated with careful consideration of the interplay between institutional context and competitive dynamics.

3.7. Diversification and Corporate Resilience during Recessions and Crises

Economic crises and recessionary shocks provide a crucial test of the sustainability of diversification strategies, forcing firms to reassess investment priorities, restructure operations and reallocate capital. Geroski and Gregg (1997), using survey data and long-term financial series, show that the recessions of the early 1980s had a profound impact on British companies, shaping their resilience, adaptation strategies and the evolution of institutional frameworks.

The global financial crisis of 2007–2009 further highlighted the potential role of diversification as a protective mechanism against external shocks. Kuppuswamy and Villalonga (2010) find that conglomerates increased their relative value compared with specialised firms during this period, owing to access to internal capital markets; paradoxically, higher leverage became an advantage because it enabled more flexible financing.

Earlier evidence offers similar conclusions. Lamont (1997), analysing the 1986 oil price collapse, shows that the fall in cash flows in energy segments directly reduced investment in other divisions of the same corporations, demonstrating how financial constraints in one part of a diversified company can limit investment across the whole firm. Volkov and Smith (2015) report that diversified firms temporarily outperform specialised peers during recessions, but that this advantage usually dissipates within a year—a pattern they attribute to superior short-term internal capital allocation under financial stress.

Overall, these findings indicate that diversification can act as a short-term protective mechanism in times of crisis, providing greater flexibility in capital management and more efficient internal resource allocation (Kuppuswamy & Villalonga, 2010; Volkov & Smith, 2015). However, long-term benefits generally fade, and difficulties in one segment can negatively affect others (Lamont, 1997). Diversification during recessions should therefore be viewed less as a permanent source of competitive advantage and more as a temporary strategy for adaptation and risk mitigation.

Conclusion

Research on corporate diversification shows that there is no single, universal pattern in its impact on firm performance. Outcomes depend on the type of diversification, the institutional and industry context, and the historical period in which strategies are implemented. Related diversification most often generates synergies and operational efficiencies, whereas unrelated diversification can stabilise cash flows but typically yields lower profitability (Amit & Livnat, 1988; Rumelt, 1982; Klein, 2001). Numerous empirical studies confirm that a moderate degree of diversification offers the greatest benefits, consistent with the well-known “inverted-U” relationship (Arte & Larimo, 2022).

The phenomenon of the conglomerate discount is likewise not universal. Some studies document value losses (Berger & Ofek, 1995; Lang & Stulz, 1994), while others show that the discount depends on methodology and endogeneity and may weaken or disappear entirely (Campa & Kedia, 2002; Villalonga, 2001). Historical evidence indicates a decline in later decades (Servaes, 1996), and the US wave of de-diversification in the 1980s further underscored the limitations of the conglomerate model (Davis et al., 1994; Comment & Jarrell, 1995; Markides, 1995).

Multiple theoretical perspectives help explain these varied results. The resource-based view (RBV) highlights the strategic use of existing resources and competences (Chatterjee & Wernerfelt, 1991), while the relational framework emphasises competitive advantages that arise through partner networks and inter-organisational collaboration (Dyer & Singh, 1998). Organisational learning and the integration of distinct knowledge bases often prove critical to successful diversification (Pennings et al., 1994; Tanriverdi & Venkatraman, 2005). Financial studies indicate that internal capital markets can ease external constraints and enhance resilience (Stein, 1997; Matvos & Seru, 2012), but that excessive cash holdings and cross-subsidisation can lead to inefficient investment and value erosion (Harford, 1999; Rajan et al., 2000).

The institutional context remains a key determinant. In mature economies, diversified business groups often trade at a discount, whereas in markets with weaker institutions diversification can facilitate access to scarce resources and improve performance (Chakrabarti et al., 2007). Family firms generally maintain a strong focus on core activities (Hafner, 2021). During economic crises, diversification tends to function as a short-term buffer, providing temporary flexibility rather than a lasting advantage (Kuppuswamy & Villalonga, 2010; Lamont, 1997; Volkov & Smith, 2015).

Research on diversification also faces persistent methodological challenges. Different measures—such as Rumelt’s classification, the Herfindahl index and entropy—often yield divergent conclusions, while endogeneity further complicates causal identification (Campa & Kedia, 2002; Bausch & Pils, 2009). Many studies

also find that performance declines once firms exceed a certain expansion threshold (Grant et al., 1988; Hashai, 2015).

Future research should employ longitudinal designs that track effects over longer horizons and across economic cycles. Integrating multiple theoretical frameworks—RBV, the relational approach and the concept of dominant managerial logic (Prahalad & Bettis, 1986; Dyer & Singh, 1998)—combined with cross-country comparisons and advanced econometric techniques, can provide more robust insights into the dynamics of diversification strategies.

Overall, corporate diversification is a context-dependent strategy. Its effectiveness hinges on carefully balancing breadth and focus, aligning expansion with available resources and market conditions, and on management's ability to channel capital to the most productive opportunities. Understanding this complex phenomenon requires a multidisciplinary perspective and careful analysis of institutional, historical and industry factors that jointly shape long-term value creation and sustainable competitive advantage.

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KORPORATIVNA DIVERZIFIKACIJA I PERFORMANSE PREDUZEĆA: TEORIJSKI OKVIRI, INSTITUCIONALNI KONTEKST I DINAMIČKI EFEKTI

Apstrakt: Korporativna diverzifikacija ostaje centralna tema u savremenom strategijskom menadžmentu, ali njen uticaj na performanse preduzeća i dalje je predmet debate. Srodna diverzifikacija može da generiše sinergijske efikasnosti i ojača rezultate, dok nesrodna diverzifikacija često uvodi troškove koordinacije i smanjuje profitabilnost. Ova studija sprovodi sistematsku analizu vodećih teorijskih perspektiva i empirijskih nalaza kako bi identifikovala uslove pod kojima diverzifikacija unapređuje — ili narušava — poslovne rezultate. Uključena su i razvijena i tržišta u razvoju, što omogućava poređenja kroz različita institucionalna i industrijska okruženja. Dokazi ukazuju da umeren stepen raznovrsnosti poslovnih aktivnosti daje najpovoljnije efekte, dok preterana ekspanzija povećava troškove i slabi performanse. Iako interna tržišta kapitala mogu da pruže privremenu zaštitu tokom perioda ekonomske nestabilnosti, ova prednost je u velikoj meri kratkog daha. Stoga se u radu preporučuje da menadžeri usklade obim i način diverzifikacije sa raspoloživim resursima i specifičnim poslovnim okruženjem, budući da samo pažljivo uravnotežena kombinacija širine i fokusa može očuvati i unaprediti dugoročnu vrednost preduzeća.

Ključne reči: korporativna diverzifikacija; performanse preduzeća; konglomeratski diskont; institucionalni kontekst; strategijski menadžment.

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