

## On the Strategic Choice of Enterprise Diversification

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**Abstract:** In the rapid development of the global economy, the fierce competition in the society, the development of enterprises and their own choice of development strategy has a significant relationship, the enterprise in the complex and volatile environment some survival must have an overall strategy and development ideas for their own enterprises, to find suitable for their own development of the business strategy. Based on this background, the purpose of this paper is to study how enterprises choose business strategies suitable for their own development in the fierce competition, so as to increase their ability to resist risks and gain a place in the competition. Research idea of this article is based on enterprise specialized business strategy and diversification strategy analysis comparison research, focus on the diversity of research, through the typical case analysis of corporate diversification strategy choice research, discusses the basis of a diversification strategy implementation, information analysis illustrate with diagrams, make the content more clearly. The results of this paper show that enterprises form their core competitiveness with professional development in the early stage, and then develop into diversified ones, which is a process of gradually achieving large-scale development. It can not only avoid the risk of a single business, but also realize multi-channel development, so as to achieve stable growth in the fierce economic competition.

### 1. Introduction

In order to maintain development in the modern complex and changeable economic environment, the overall layout and planning of the enterprise must combine the characteristics of the enterprise and the current advanced business strategy, and the development of any enterprise cannot be separated from its own advantages<sup>[1]</sup>. In the current of global economic integration, the competition between domestic and international enterprises has reached a new peak<sup>[2]</sup>. Combined with its own economic development status in China established the socialist market economy system, promote modern economic system, the implementation of the enterprise in the face of domestic economic system, change the way of economy, the change of market structure, to choose their own marketing strategy to adapt to market changes, makes its own powerful enterprise development, has the ability to resist risk and can synchronize with the world economy is in line with<sup>[3]</sup>. At the same time, the competition with enterprises in the world will become increasingly fierce, which imposes higher and stricter requirements on enterprises. Enterprises must take strategic issues of development seriously, combine the changes in the internal and external environment of the economy and society, absorb advanced scientific ideas and combine their own advantages, and become more stable and stronger in the market<sup>[4]</sup>.

In reality, a large number of Chinese enterprises have successfully listed on the stock market and become world-renowned enterprises by applying diversified business strategies, and there are also many enterprises in the choice of business strategies<sup>[5]</sup>. In particular, in the choice of diversified business strategy, there is a large number of imitation without understanding of diversification, without in-depth understanding of the basis of diversification, internal and external environment changes, blindly follow the expansion, and eventually appear insolvent<sup>[6-7]</sup>. Compared with China, the economic development level of foreign countries is relatively mature and there are many

diversified enterprises, but there are also many large enterprises that have been focusing on specialized production, such as Coca-Cola company<sup>[8]</sup>.

It has always been an important research topic in the industry for enterprises to choose professional development or diversified operation strategy. Diversification is a double-edged sword for enterprises, and there has been no clear research conclusion on how to choose enterprise strategy<sup>[9]</sup>. This paper analyzes the selection of diversified business strategies by combining specific examples of enterprise development, so as to provide sufficient theoretical support and ideological guidance for the selection of diversified business strategies<sup>[10]</sup>.

## **2. Theoretical Description of Diversified Business Strategy and Specialized Business Strategy**

### **2.1 Business Strategy**

Enterprise management strategy is to point to in order to adapt to the development of the society, in their own development in the process of continuous optimization development method, make the enterprise the management can resist the risk of the outside world and the long-term survival and the scale grows and timely adjust strategy make the enterprise to survive the competition and the test of a development plan, in the face of fierce competition environment, can run for a long time. Enterprise strategy must be the central idea of enterprise development planning, must be scientific planning, must have the concept of professional planning and development, have integrity and standardization. Business strategy is to ensure the normal development of the enterprise, combined with the enterprise's own characteristics, combined with internal and external development environment and seize the opportunity to create ways and countermeasures to expand the scale of the enterprise; Let the enterprise itself get development, challenge the fierce competitive environment, can grow in the competition; Business strategy is a concept that takes change as its essence. To develop in the modern competitive environment, it is necessary to constantly innovate and develop the business enterprise, so that the enterprise can constantly adapt to the new development needs and the future economic environment.

### **2.2 Specialized Business Strategy**

Professional management and diversification is relative, the specialized management strategy refers to the enterprise's business scope is relatively single, focus on developing a business, is the enterprise's core business, provide only a single product or service, according to the scale of the enterprise development, large-scale development of the company will develop the main industry related products, such as automotive company can also manufacture related industrial products, and a small computer accessories company may only produce a computer mouse. Specialized operation is more suitable for small enterprises or enterprises in the initial stage, focusing on the development of core competitiveness, strengthening the business foundation, enhance the ability to resist risks, so as to make small enterprises grow step by step.

### **2.3 Diversified Business Strategy**

Diversification strategy refers to the business scope of an enterprise in two or more different service products, including diversification of other products related to the main business, as well as diversification of completely unrelated different products. Enterprises should correctly understand the inherent meaning of diversified management when applying diversified management strategy, and should not blindly follow the trend to expand the business scope, and should not bring incorrect guiding strategies to enterprises due to their lack of understanding of diversification. Many enterprises in China have failed in the process of transforming from a single management reform to a diversified management, and the results of the implementation are far from what they expected, mainly because their understanding and development of the diversification strategy are not in place.

### **3. Case Investigation and Analysis**

#### **3.1 Case Description**

Haier initially refrigerator as the main industry management, the enterprise first professional development as the core competitiveness of the refrigerator, pay attention to brand publicity, pay attention to after-sales service, in the lead in the industry, Haier began to gradually involved with the main related refrigeration technology products, diversified development strategy, and then began to involve has nothing to do with the main industry of home appliance products, now the development of the knowledge industry.

#### **3.2 Case Analysis**

For enterprises that choose diversification strategy, the main business of enterprises is still an important source of capital and a stable basis for development. With diversified development strategy and changeable market development, a certain product becomes a hot-selling product and a certain product becomes a stagnant state, which can realize the internal fund mobilization of the company, greatly reduce the damage to the enterprise, and improve the ability of the enterprise to resist risks. Enterprises to carry out the strategy of diversification into new areas, where there are a lot of unprofessional way for the new field, so the enterprise also need to pay a higher risk, and in the field of new product cycle is long, money can't fast-track sale, profit is low, so the enterprises to choose diversification must have enough security and economic strength, avoid the diversified development of the original business areas are involved and direct threat to the survival of enterprises.

### **4. Survey Results and Analysis**

#### **4.1 Analysis of Advantages and Disadvantages of Diversified Development**

(1) The advantages are shown in the analysis of concentrating resources and improving internal economic benefits

If make A type of product, A company B, company B type of product, C company C types of products, there is A company D A, B, C three kinds of products at the same time, if D company A, B, C three types of product quantity and A, B, C three companies with the number of production, so the total cost of D company is lower than A, B, C, the total cost of the three companies, so D company to achieve the diversification of economic benefits. Diversified economic benefits are equivalent to concentrating the products of multiple single economic enterprises into one enterprise for production, improving the efficiency of resource allocation and resource sharing, reducing the production costs of enterprises and improving the interests of enterprises.

(2) The advantages are shown in the analysis of dispersing enterprise risks and ensuring stable operation

Modern social and economic environment is complicated, the development of science and technology rapidly, product upgrading faster, the rise of a product suddenly, the sudden decline of another product is unable to estimate in advance, and each product from production to the finished product will need a lot of manpower and money, so the development of a single enterprise risk is very high, and the existence of diversified just can avoid this risk, through the scientific configuration enterprise internal resources effectively, increase the enterprise manufacturing products, still can guarantee profits, make the enterprise stable development, the enhancement enterprise's ability to resist risk. Synchronously ensure the position adjustment and distribution, the internal staff income is stable, reduce the social risk.

(3) The disadvantage lies in the analysis of dispersing limited enterprise resources and low income

The internal resources of enterprises are limited, including tangible resources and intangible resources. Diversified management will result in the distribution of limited enterprise resources to unlimited product production, resulting in uneven resource distribution, increasing the work

intensity of employees, thus affecting the development of enterprise products. If an enterprise enters a new field blindly without the conditions for diversified development, it is more likely to get into trouble. The empirical analysis results of enterprises' specialized and diversified business performance are shown in Table 1.

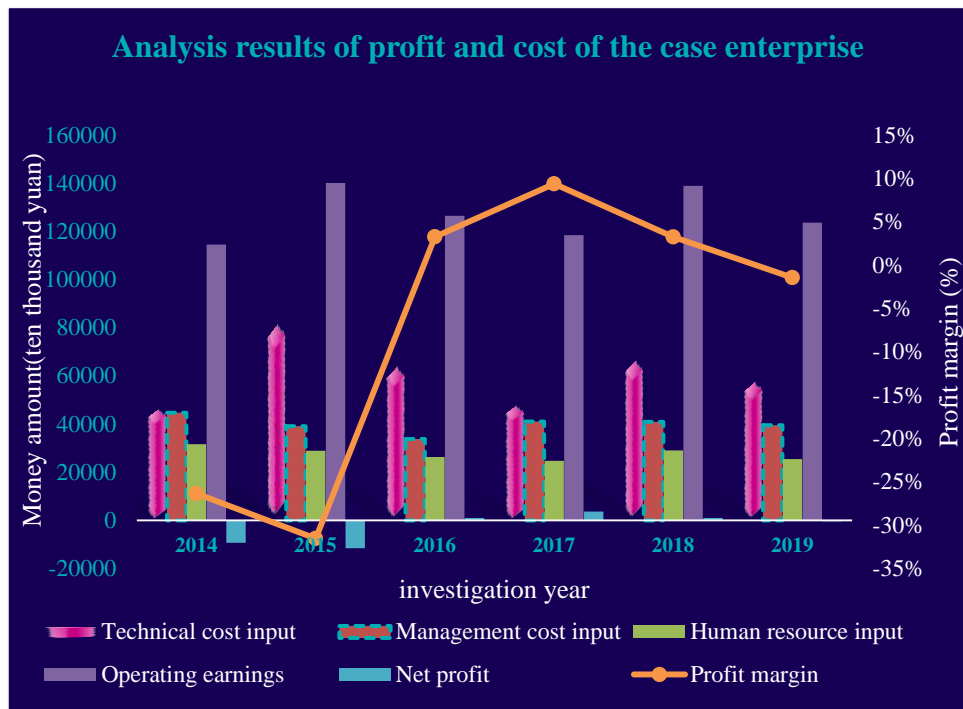
**Table 1.** Empirical analysis of business performance of enterprise specialization and diversification

Indicator/type	Mixed type	Association type	Vertical uniform type	Professional type
Main business revenue growth rate	0.2745	0.1636	-0.2463	0.3532
Main business profit growth rate	-0.8356	-0.1263	-0.03574	-0.01353
Total profit growth rate	-0.3574	-0.1893	-0.0286	0.0945
Net profit growth rate	-0.5367	0.1732	-0.0583	-0.1246
Growth rate of net asset profit	0.6074	-0.7947	-0.7149	0.6548
Average return on net assets	0.3343	0.1465	0.2719	0.6535
Return on weighted net assets	0.1	0.8959	0.302	0.7626
Average total assets: ten thousand Yuan	4026	5069	4755	3583
Average shareholder equity ratio	0.7079	0.1328	0.6035	0.449

As can be seen from the Table, the average profit margin on net assets of the mixed diversified enterprises is low, the scale of each product business is small, and the performance has experienced a significant decline. The profit of the main business decreased by 83.56%, while the performance of other businesses declined (the total profit decreased by 35.74%, while the net profit decreased by 53.67%).

(4) Disadvantages are shown in the analysis of large span and high cost of the enterprise

The analysis results of profits and costs of a case company are shown in Figure 1. Figure in the survey results reflect the enterprise to enter each additional manufacturing a new product, striding to a new areas, because of the lack of professional technical and management experience will increase the management risk of the enterprise, and not only that, the introduction of new products, corresponding to the introduction of new technology, new talent training, this a series of process need to pay a big price, if the enterprise did not according to their own development diversification blindly, expand the scale of development, the development of enterprise is very bad, easy to cause the division of labor is not clear, staff redundant, inefficient.



**Figure 1.** Analysis results of a case company's profit and cost

#### 4.2 Advantages and Disadvantages Analysis of Professional Development

(1) To improve the core competitiveness and reduce enterprise risk advantage analysis

Professional manufacturing a product, management strategy, improve product quality and efficiency, reduce business risk, according to the market for product quality, level of demand, enterprise can focus all technology, innovation, design, function, etc. to improve the product's production and manufacturing, to develop a bigger market for products, products with the need of people also constantly improve, promote the development of enterprises, improve product performance, enhance core competitiveness.

(2) Analyze the advantages of concentrating various resources to improve the competitiveness of enterprises

The implementation of specialized business strategy, focus on the development of the most professional and familiar products and markets, can effectively improve the competitiveness of enterprises. By focusing on one business, you can concentrate your limited resource advantages and business capabilities to compete in familiar fields and easily gain a competitive position better than your competitors in the industry: you can grasp the direction of the industry and even lead an industry, such as Microsoft's software industry.

A single product, the market impact of the greater disadvantage analysis

If it is related to the industry with large profit space, and the industry development is sustainable, the enterprise's specialized operation will gain great benefits. Market is complicated, however, rapid development of science and technology, any products may not retain the market development, will be replaced by more market popular products, we can't judge a product in the market of survival time, when adhere to professional management strategy to become the market leader for success, then it doesn't mean the end, at a competitive disadvantage of the company will try to catch up, alternatives to break equilibrium, create new resource requirements.

#### 4.3 How do Enterprises Choose Specialization and Diversification

When making a development strategy for its own development, the enterprise should make a clear and correct choice according to its own development characteristics and the external environment in the social market. The enterprise management development is mature, has the sufficient material and the capital, has the sufficient anti-risk ability is the enterprise choice diversification management premise condition, when the enterprise resources is insufficient or can

only maintain this product production, does not choose the diversification strategy; How an enterprise chooses its strategy is also related to the development degree of the region in which it is located. Half of the enterprises choose specialized economic development strategies in the primary stage of social and economic development, and most of them adopt diversified development strategies in economically developed regions.

## Conclusion

In theory, specialized development and diversified development have their own advantages, and there are many successful examples in the development of the real market, all of which are feasible. The diversified development reduces the risk of the enterprise and maintains the normal operation of the enterprise by involving different products in different fields. The development of specialization is mainly reflected in the specialization of a product and the development of its advantages to enhance the core competitiveness of the market. However, the business results of the two strategies are often disputed. In fact, the development of the two strategies is not good or bad, according to the enterprise's own development situation to choose, the two strategies are aimed at the enterprise's future development, the future in the fierce market environment will not be engulfed and develop. At the present stage, from the perspective of the international and domestic forms of China, it is inappropriate to pursue a high degree of diversified development, nor a high degree of professional development, but a moderate degree of diversified development, so as to enable enterprises to make steady progress in the fierce competition.

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