MANAGEMENT TODAY

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An International Journal of Management Studies

home page: www.mgmt2day.griet.ac.in

Vol.7, No.4, October-December 2017

Corporate Diversification on Firm's Financial Performance: An Empirical Analysis of Select FMCG Companies in India

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A R T I C L E I N F O

Article history:

Received 06.11.2017
Accepted 25.12.2017

Keywords:

diversification, corporate strategy, specialization ratio, trend analysis.

A B S T R A C T

The present study made an attempt to understand motives of diversification and impact of diversification on financial health of diversified companies. For the purpose of analysis the study focused on the listed conglomerates in the Fast Moving Consumer Goods (FMCG) sector included in NSE Nifty FMCG Index for the purpose of measuring Financial Health and further the diversification classes. The principal data consisted of the Ratios and values of turnover from each firm's business segments, as well as firm equity capital, the profit for each year during the period considered. Using the Rumelts Classification, the companies have been categorized into three - Highly diversified, Moderately diversified and Undiversified - and made the comparisons between the performance parameters easy. The analysis revealed that the overall financial health of the companies was satisfactory. In other words, diversification has led to a sound financial performance of the companies. It is clear that all the companies under study have not performed equally well on all the ratios examined. However, some have performed consistently well on most fronts, while others had revealed uniformly mediocre results comparatively. Though it is difficult to strictly state that diversification has led to good performance, yet it can be emphasized that the diversified companies studied have performed well. It is possible that factors other than diversification could have contributed to this success.

Introduction

The growing development of the Indian Economy, the drive for privatization and the impact of globalization have made the Fast Moving Consumer Goods Industry very volatile and more competitive and with the India's Market being consumer driven with spending to be double by 2025. The consumer segment is broadly segregated into urban and rural, thereby attracting marketers from across the world. According to the report by Boston Consulting Group (BCG) and the Confederation of Indian Industry (CII), India's robust economic growth and rising household incomes would increase consumer spending to US$ 3.6 trillion by 2020. The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors. The report further stated that India's share of global consumption would expand more than twice to 5.8 per cent by 2020.

This increase in the consumer purchasing power, volatility and competitiveness of the FMCG industry has made the industry more susceptible to the variation in demand, thereby exasperating the situation and making survival more

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Responsibility of Contents of this paper rests upon the authors and not upon GRIET publications

ISSN: 2348-3989 (Online)
ISSN: 2230-9764 (Print)
Doi: http://dx.doi.org/10.11127/gmt.2017.12.02
pp. 194-205

imperative. In order to survive in such competitive environment, the FMCG companies must have vigorous strategic planning and management frameworks. A firm's competence to survive is reliant upon its ability to acclimate successfully to the changing environment, and strategic planning is one apparatus to administer such environmental turmoil.

In the process of such competent growth a point is reached where the firm can no longer expand in its basic product market. Market infiltration or market penetration may no longer be appropriate. At this stage it has to contemplate adding new products or markets to its existing business line. This results in diversification in which the growth ambition is sought to be accomplished by adding new products or services to the existing product or service line.

Diversification has been defined by different researchers. Rumelt (1974) defined a "diversification move" as an entry into a new product market activity that requires or implies an appreciable increase in the available managerial competence within the firm. Thus, according to him, the substance of diversification is taken to be "embracing" new areas or fields, requirement the development of new proficiency of the existing ones. Mc Dougal & Round (1984) stated that diversification is the manufacturing of new products and services using significantly different inputs from the current products and services, and/or selling to new industries.

Fluctuations in demand fail to guarantee the future needs of the consumers hence the firms need to expand their spectrum of business operations outside those then they are currently engaged (Cannon & Hillebrandt, 1989). Accordingly the current study examined the impact of product diversification on the firm's performance of FMCG companies in India in order to unveil the merits and demerits for the FMCG sector. Studies of researchers such as Lang & Stulz (1994), Ramanujam & Varadarajan (1989), Rumelt (1974), and Palepu (1985) have sought to determine the effect of diversification strategy on firm's performance. The findings of these studies are inconsistent.

Although many studies exist in abundance on the diversification performance relationship as stated earlier, the findings of these studies are inconsistent. For example, Raei, Tehrani, & Farhangzadeh (2015); Iqbal, Hameed and Qadeer (2012) found that there is no positive relationship between diversification and the firm performance. In contrast, study conducted by Grant, Jammie, & Thomas (1988), found that the relationship between diversification and performance is positive in both product and multinational.

Although many studies have made significant contributions under this field, they are however not contextually applicable to Indian FMCG Sector. The level of competition, general financial conditions and government regulations differ from nation to nation. In this way, development organizations are presented to various challenges relying upon the nation in which they work. This concentrate in this way addresses this inadequacy by assessing the effect of the diversification on performance in the Indian FMCG sector. Revealing this effect will explain the nature of the diversification-performance relationship in the Indian connection and will likewise demonstrate significant for researchers in planning fitting future methodologies to survive the very unpredictable and ever changing FMCG companies.

Review of Literature

Nasiru, Ibrahim, Yahya, & Ibhrahim (2011), evaluated the impact of Product Diversification on Financial performance of selected Nigerian Construction Firms. The purpose of the study was to determine the influence of diversification on the performance. The paper concluded that diversification does not necessarily lead to an improvement in profitability.

George & Kabir (2008), in their paper titled, "Corporate Diversification and Firm Performance: How does Business Group Affiliation Matter?" investigated how a firm's key organizational and corporate governance characteristics influence diversification–performance relationship, and found that firms affiliated to business groups are more diversified than independent firms and that while diversifying activities by independent firms reduces firm profitability.

Nagendran & Rao (1985) examined patterns of diversification among large Indian Companies. A sample of 50 Companies from private sector was studied. The study examined the difference of diversification strategies of firms in different industries. The study revealed that diversification amongst top companies increasing, and it is in areas unrelated to the business. No significant relationship was found between diversification and financial performance.

Hsu & Liu (2008) in their paper Corporate Diversification and Firm Performance: The Moderating Role of Contractual Manufacturing Model this paper examines the features of diversification, a firm's operating context and its impacts on economic performance in detail. The investigation found that product diversity and customer diversity are positively associated with firm performance, whereas geographic diversity is negatively associated with firm performance.

Raei, Tehrani, & Farhangzadeh (2015) studied Relationship between Diversification Strategy, Firm Performance and Risk: Evidence from Tehran Stock Exchange. To analyze and to test relationship between diversification strategy, firm performance and risk. The results shown that there is no significant relationship between diversification strategy, firm performance and risk.

Ravichandran & Bhaduri (2015) studied Diversification and Firm Performance: A study of Indian manufacturing Firms. This paper focuses on this relationship in the context of the Indian manufacturing sector. The results show that highly diversified firms perform poorly on account of vertical diversification while horizontal diversification has a positive effect on performance.

Pandya & Narendar (1998) in their paper titled "Diversification and Firm Performance: An Empirical Evaluation" concluded that a dominant undiversified firm may perform better than a highly diversified firm in terms of return but its riskiness will be much greater. If managers of such firms opt for diversification, their returns will decrease, but their riskiness will reduce proportionately more than the reduction in their returns. In such firms, there will be a tradeoff between risk and return.

Ooi, Hooy & Som (2014) in their study titled "Corporate Diversification and Firm Performance: Evidence from Asian Hotel Industry" looked into the best diversification strategy for firm performance betterment. The study measures the degree of diversification using entropy measurement. The results suggest that unrelated industrial diversification is the only alternative to improve hotel firm performance. Unrelated international diversification, instead has a significant negative effect towards firm performance.

Iqbal, Hameed, & Qadeer (2012) in their paper "Impact of Diversification on Firms' Performance" evaluates performance with respect to diversification classes. The classes were categorized on the basis of Specialization Ratio (SR) as proposed by Rumelt (1974). The results of this study showed reflected no positive relationship between diversification and firms' performance. All firms are performing equally whether they are highly diversified firms, moderately diversified firms or less diversified firms with respect to their return and risk dimensions.

Objectives of the Study

The general objective is to study the relationship that exists between corporate diversification and Firm Performance of Indian FMCG Sector while the Specific objectives are to:

1) Examine the objectives necessitating corporate diversification.
2) To study the financial health of the diversified companies with the help of financial ratios
3) To classify the companies into their nature of diversification using Specialization Ratio.
4) To analyze the impact of Diversification on Profitability of the firms under study.

Hypothesis

$H1_0$: There is no significant difference in performance between the undiversified and the moderately diversified firms.

$H2_0$: There is no significant difference in performance between the undiversified and the highly diversified firms.

$H3_0$: There is no significant difference in performance between the moderately diversified and the highly diversified firms.

Research Methodology

The study focused on the listed conglomerates in the Fast Moving Consumer Goods (FMCG) sector with operations in NSE (Nifty FMCG Index) for the purpose of measuring Financial Health and further the diversification classes. The principal data consisted of the Ratios and value of turnover from each firms business segments, as well as firm equity capital the profit for each year during the period considered. The financial data for the study was obtained from the prowess database published by the Centre for Monitoring the Indian Economy (CMIE). The period of study is form Mach 2005 to March 2015 and the frequency of data is annual, derived from the Annual Financial Statements of the firm, reported on the Prowess database.

The Sample consists of a total of 15 companies in the FMCG sector namely Britannia Industries lt., Colgate-Palmolive (India) Ltd., Dabur India Ltd., Emami Ltd., GlaxoSmithKline Consumer Healthcare Ltd., Godrej Consumer Product Ltd., Godrej Industries Ltd., Hindustan Uniliver Ltd. I T C Ltd., Jubilant Food works Ltd., Marico Ltd., Procter & Gamble Hygiene & Health Care Ltd., Tata Global Beverages Ltd., United Breweries Ltd., United Spirits Ltd. A brief profile of these companies is given in this chapter later on.

Framework of Analysis

The ratios used o measure performance can be grouped into four sub- categories:

a) **Liquidity Ratios:** This includes the Quick Raito and the Current Ratio.
b) **Profitability Ratios**: Five Ratios were used, namely Gross Profit Ratio, Net profit Ratio, Return on Assets, Return on Capital Employed and Return on Shareholders' equity.
c) **Capital Structure Ratio:** The Debt-Equity Ratio was employed.
d) **Activity Ratio**: The Asset Turnover Ratio was used.

In the next chapter to measure the extent of diversification the data collected was analyzed using the Specialization Ratio (SR), according to Rumelt, (1974), is a ratio of the firm's annual revenues from the largest discrete product-market (core product-market) activity to its total revenues. This analysis provided a basis for organize the firm into undiversified, moderately diversifies and highly diversified companies according to the classifications provided in Table 1

Table-1: Values of Specialization Ratio in Rumelt's Scheme

Groups	SR Values in Rumelt's Scheme
Undiversified Firms	SR $\geq$ 0.95
Moderately Diversified Firms	0.7 $\leq$ ASR < 0.95
Highly Diversified Firms	SR < 0.7

Key: SR means Specialization Ratio and **ASR** means Average Specialization Ratio. Source: (Ibrahim & Kaka, 2007)

This classification of the sample is then measured in terms of their performance a different level of diversification. Performance is defined as the level of the profitability of business unit. Return on Assets (ROA), Return on Equity (ROE) and Profit Margin (PM)was used to measure the financial performance of the FMCG Companies, which are the common performance measures used to measure performance according to Nasiru, Ibrahim, Yahya, & Ibhrahim (2011); Palepu (1985) and Pandya & Narendar (1998). Further, while studying the impact of the diversification on firm performance, the Student t-statistic was conducted to test the difference between two means.

Objectives necessitating corporate diversification

The motives behind diversification strategies adopted by business are many and based on the nature of this research problems; motives only with respect to performance and competiveness are discussed.

Synergistic Motive

Synergy is concept that the value and performance of two companies' combined will be greater than the sum of the separate individual parts. It is the ability of a group to outperform even the best well developed organizations. A corporate synergy refers to a financial benefit that a corporation expects to realize when it merges with or acquires another corporation. The benefit of synergy can be viewed from various aspects of the business such as marketing which cater to the needs of information campaigns, discovery and experimentation for research or development thereby promoting sale of products for varied off- market sales as well as development of marketing tools. The next benefit of synergy can be in terms of Revenue, which helps the organization to generate more revenue than a standalone companies would be able to generate. The other can be financial assistance in the form of cash slack, Debt capacity, Tax benefits etc.

The first motive is in the cases where synergy exists where individual units are operated as single organization. Hitt, Ireland, & Hoskisson (2001) Stated that Synergy occurs when the sum of all businesses together equals more than the sum separately. Amit & Livnat (1988) in their paper argued that related business diversification hype the market power of diversified company which in turn helps the company escalate its long-term strategic position. Additionally, synergy may be created if operations of the individual units commend one another, so there are benefits from offering consumers a complete line of products.

Financial Motive

Financial Motive is based on the fundamental premise of Portfolio theory that "one should not put all ones eggs in one basket". It has also been argued that a firm should diversify and not depend on a single operation. Amit & Livnat (1988) stated diversification reduces the total risk, as measured by variability of consolidated cash flows, when the cash flows of the individual, by reducing the total cost of capital. To put it in a concrete form, shareholders may require lower expected returns. Alternatively, Lenders attach smaller risk premiums due to the reduced likelihood of bankruptcy (Briglauer, 1999).

The Market Power Motive

The Motive deals with the anti-competitive strategies followed by diversified firms in pursuit to increase profits, whereby the management work best in the interest of the shareholders (Briglauer, 1999). Hill (1985) stated that diversified firms have conglomerate power which makes them thrive on their diversity at the expense of non-diversified firms. Diversified Companies control various competitive instruments which are not at the disposal of a single product firms.

Montgomery (1994) explains three possible sources for the market power view:

i) Cross Subsidization i.e. which offers the rapacious evaluating as a way to teach rivals who plan value cuts, to set up business sector obstructions by debilitating potential participants. This develops inside diversified firms from inner capital markets. this procedure can be considered as a levelheaded venture just in those occasions, where the present estimation of additions of misusing the forthcoming restraining infrastructure benefits exceed the subsequent expenses of savage, in a static perspective non-esteem boosting, costs. Whether this strategy ends up being fruitful or not, relies on upon the capacity of differentiated firms to develop market boundaries that create long haul monetary benefits.

ii) Mutual Forbearance, which involves organizations to meet on another business sector to contend less extremely. A prospect of advantage from vigorous competition in one market may be weighed against the danger of retaliatory forays by the competitor in other markets (Edwards, 1955). As per his view, the contention that improves deceitful steadiness alludes to the expanded potential for rebuffing diversified firms. Be that as it may, this thinking overlooks the motivation to cheat at the same time on the whole markets, which may prompt a relative increment in short run benefits.

iii) Reciprocal Buying, i.e. vast and differing firms can likewise purchase proportionally in different markets to seal rivalry from littler contenders. In other words, it is taking business to those who bring business to you in order to eliminate competition.

Lindstorm (2005) highlights the counter aggressive activities frequently connected with intentions in expansion. The diversified organizations can misuse, amplify, or shield their energy by systems and strategies. In conclusion, the business sector power intention is most certainly not considered as to build effectiveness, organizations enhance to pick up business sector power, and in this manner procure benefits.

The Agency Motive

Corporate directors go about as specialists or agents for the benefit of the shareholders. Tragically, this relationship is laden with pioneering administrative conduct that prompts genuine clashes, as in directors take after techniques that don't come up to the interests of the shareholders, i.e. Profit maximization. The key perception fundamental of this idea is that the information is disseminated unevenly among the parties of the agency relationship. To be concrete, shareholders more often than not cannot pass judgment on the estimation of an executed technique enough, neither can they screen the endeavors of directors consummately.

Diversification of firms leads to the wide dispersion of the investors' equity and as a result no single equity owner has the ability to enforce value maximization. Though institutional investors may enforce a certain degree of control, compensation contracts may divert managerial behavior towards value maximization through bonus systems, profit sharing or managerial equity holdings (Denis, Denis, & Sarin, 1997).

Four main Reasons for companies to diversify are:

i) **Empire building**, Montgomery (1994) states that the managers in an organization diversify with a view to create their own empire.

ii) **Managerial entrenchment**, Managers will diversify into business sectors or products in a way that builds the interest for their aptitudes and capacities (Shleifer & Vishny, 1989).

iii) **Risk Reduction**, managers attempt to decrease their job hazard by diversifying into various markets and items and in this way make the association less subject to a solitary business sector or item. The premise of portfolio hypothesis that expresses that a firm ought not to put all her egg in one crate (Amit & Livnat, 1988).

iv) **Free Cash Flow theory,** where free cash flow is characterized as excess money subsequent to financing all profitable investment projects, i.e. those yielding a positive net present value. Because of productivity contemplations these benefits ought to be paid out to shareholders, however this strategy would be to manager's hindrance. The measure of assets controlled by managers diminishes, and corporate autonomy may diminish and also managers might need to appeal to external credit markets so as to raise new funds. Hence instead of paying the shareholders managers spend the excess on acquisition (Jensen, 1986). Mueller (1972) stated that the purpose behind this is beginning of the firms life cycle there are part of gainful open doors or opportunities for reinvestments, be that as it may, at the point when the firm gets to be develop these opportunities turn out to be more scarce, thus the income from prior developments are being utilized for opportunistic diversification.

The Resource Motive

Conventional astuteness recommends that the greater the organization the more resources it controls, henceforth it ought to perform above average in an industry. This astuteness is the resource- based intention or motive which states that bundled resources and capabilities that are accumulated over time also supports a company's competitive advantage (Barney, 1991). When a firm has excess resources or underused resources which can be profitably employees, it paves way for diversification opportunities.

Financial Analysis – Study of Ratios

For the examination of matters of an organization, ratio analysis can be taken as the most imperative and capable device. A ratio is defined as "Ratios are the simplest mathematical (statistical) tools that reveal significant relationships hidden in mass of data, and allow meaningful comparisons". The absolute figures provided in the financial reports of the organizations do not yield much information about the monetary matters. Ratio analysis is utilized as a yard stick for assessing the monetary execution or financial performance of the diversified firms under study.

Inter-Firm Comparison based on the Average values of Financial Ratios

Inter-Firm Comparison based on the Average values of ratios for the period of 2005 to 2015 is undertaken to evaluate the overall total performance and which firms reflect a better financial position with respect to Liquidity, Profitability, Capital Structure and Activity measures.

Table 2 reflects the averages of the respective ratios for the period of fifteen years for the companies under study.

As discussed earlier in the chapter Liquidity ratios reflect the ability of the firm to meet its current obligations. It shows the cash level as well as to convert other assets into cash to pay off liabilities. In case of Current ratio Tata Global Beverages had the highest ratio of 1.3 following United Breweries with a ratio of 1.2 and Jubilant Food works having the lowest of 0.3 percent indicating the company's inability of firm to pay off its current debt payments. And the quick ratio of 0.9 for United Breweries revealed its ability to meet its current obligations. Hence can be concluded that United Breweries have a good liquidity position whereas, jubilant Foodworks had a poor liquidity ratios.

In terms of Profitability ratios, Colgate-Palmolive, Dabur, Hindustan and ITC overall showed an excellent performance in terms of all the profitability ratios considered for the study. While United Spirits showed a poor performance with negative values, reflecting the firms inability to generate profits from its operations.

Debt-Equity Ratio evaluates the firm's Capital Structure i.e. the percentage of finance which comes from creditors and the investors. A higher value of this ratio indicates major fiancé of the organization is from the creditors which is considered to be a risky position for the organization as a higher ratio implies more debt and interest payments hence investors do not find it attractive to invest in firms with higher ratio. Whereas, a ratio of equal to one indicates a balance in the finance. As depicted by the averages of companies the debt-equity ratio is maintained at a level of less than one indicating equity finance in this business except for United spirits and Jubilant an average of more than two reflects risky position of the organization. Followed by United breweries and Godrej industries.

The averages of activity measure of three shows how efficiently Britannia have utilized it assets to generate sales. Followed by Colgate, Hindustan, Jubilant, ITC depict as well as the others reflected a moderate ratio except for Tata Global which shows a lowest ratio of 0.9.

Overall evaluation of the companies reflect Britannia, Colgate, Hindustan, ITC, Jubilant performed exemplary well as compared to United Spirits which reflect a poor efficiency of the firm. The evaluation of overall ratios, indicates that the payment of debt .i.e. a high level of Debt-equity ratio consumes the major chunk of profits earned by the firm. Changes in the government policies as well as the change in the taxation policies may be a reason for its inability of low efficiency. The rest companies reflecting a moderate level of success and financial performance.

Table-2: Inter-Firm Comparison based on the Average values of Financial Ratios

Financial Ratios	Britannia	Colgate	Dabur	Emami	Glaxo-smith	Godrej Consumer	Godrej Industries	Hindustan	I T C	Jubilant	Marico Ltd.	P &G	Tata Global	United Breweries	United Spirits
Liquidity Ratios															
1. Current Ratio	0.7	0.5	0.7	1.1	0.8	1.2	1.1	0.7	1.3	0.3	1.0	0.7	1.3	1.2	1.1
2. Acid Test Ratio	0.2	0.4	0.4	0.8	0.6	0.7	0.4	0.4	0.5	0.2	0.4	0.6	0.8	0.9	0.6
Profitability Ratio															
1. Gross Profit Ratio	6.9	20.5	16.4	21.3	19.4	16.4	5.5	15.5	34.0	16.8	11.3	24.3	15.3	5.6	-1.9
2. Net Profit Ratio	5.2	15.7	12.0	14.4	11.4	11.7	2.5	12.7	22.6	6.3	9.0	17.7	5.2	4.4	-2.1
3. Return on Assets Ratio	2.9	2.0	1.6	1.4	1.1	1.5	1.0	2.3	1.3	2.6	1.8	1.2	0.8	1.6	1.3
4. Return on Capital Employed Ratio	20.0	99.3	38.2	25.6	31.3	25.0	5.1	86.8	30.7	23.0	21.7	33.8	10.4	5.2	-2.0
5. Return on Equity Ratio	41.1	103.2	49.9	33.0	31.4	49.1	12.6	101.5	31.3	43.8	40.6	35.7	19.4	11.7	-13.2
Capital Structure Ratio															
1. Debt-Equity Ratio	0.8	0.0	0.3	0.4	0.8	0.8	1.3	0.0	0.0	2.0	0.8	0.6	0.7	1.6	2.6
Activity Ratio															
1. Asset Turnover Ratio	3.0	2.0	1.5	1.4	1.1	1.3	0.9	2.3	1.3	2.5	1.8	1.1	0.8	1.7	1.4

Source: CMIE Prowess Database

Firm Classification according to Extent of Diversification using Specialization Ratio

To classify the companies according to the extent of diversification, each firm annual Specialization Ratio was calculated. Specialization Ratio (SR), according to Rumelt (1974), is a ratio of the firm's annual revenues from the largest discrete product-market (core product-market) activity to its total revenues. It emulates the importance or significance of the firm's core product to the rest of the firm.

In the diversification literature, SR has been one of the methods of choice for measurement of diversification as it is easy to understand and calculate (Pandya & Narendar, 1998). Chatterjee & Blocher (1992) affirmed that the specialization ratio is an entirely objective measure, especially when the same source of data is used for information on sales in each business.

Computation of SR of Britannia Industries ltd. for the period of 2005 to 2015 is shown in table 3. For instance, in the year 2006 the turnover figures of business unit that recorded the highest turnover was from Biscuits & High Protein Food with a turnover of Rs.16759.30 million was divided by the total turnover of the firm in that year which was Rs.18179.10 million. The same was repeated for all the years, and an average was then computed for the whole period to obtain the Average Specialization Ratio (ASR).

Table-3: Average SR of Britannia Industries Limited

Product/Raw Material name	Turnover (N) (in million)	Specialization Ratio
3/31/2006		
Biscuits	16759.30	
Bread	917.20	
Cake & Rusk	422.00	
Others	80.60	
Total Annual Turnover	**18179.10**	**0.92**
3/31/2007		
Biscuits	20910.80	
Bread	1435.70	
Cake & Rusk	624.00	
Others	200.70	
Total Annual Turnover	**23171.20**	**0.90**
3/31/2008		

Biscuits	23299.40	
Bread	1956.00	
Cake & Rusk	769.60	
Others	144.80	
Total Annual Turnover	**26169.80**	**0.89**
3/31/2009		
Biscuits	27380.20	
Bread	2836.50	
Cake & Rusk	985.10	
Others	227.20	
Total Annual Turnover	**31429.00**	**0.87**
3/31/2010		
Biscuits	29282.00	
Bread	3468.70	
Cake & Rusk	1193.10	
Others	302.00	
Total Annual Turnover	**34245.80**	**0.86**
3/31/2011		
Biscuits	36041.30	
Bread	4080.70	
Cake & Rusk	1936.20	
Others	401.60	
Total Annual Turnover	**42459.80**	**0.85**
3/31/2012		
Biscuits	41924.40	
Bread	4952.30	
Cake & Rusk	2713.30	
Others	466.60	
Total Annual Turnover	**50056.60**	**0.84**
3/31/2013		
Biscuits	46758.10	
Bread	6017.60	
Cake & Rusk	3107.80	
Others	613.10	
Total Annual Turnover	**56496.60**	**0.83**
3/31/2014		
Biscuits	53144.80	
Bread	6774.40	
Cake & Rusk	3042.80	
Others	516.50	
Total Annual Turnover	**63478.50**	**0.84**
3/31/2015		
Biscuits	60519.60	
Bread	7636.90	
Cake & Rusk	4021.60	
Others	514.50	
	72692.60	**0.83**
	Average SR	**0.86**
	Status	**MDF**

The computations for all the other companies were performed in the same way; however they are not shown for the sake of condensation. Table 4 presents the results of the classification of the firms according to their extent of diversification and ASR.

Table-4: Results of Categorization of Study Sample into HDF, MDF and UDF

Sl.no	Company	ASR	Status
1	Hindustan Unilever Ltd.	0.29	HDF
2	Godrej Industries Ltd.	0.44	"
3	Godrej Consumer Products Ltd.	0.58	"
4	Dabur India Ltd.	0.60	"
5	Procter & Gamble Hygiene & Health Care Ltd.	0.60	"
6	ITC Ltd.	0.69	"
7	Marico Ltd.	0.76	MDF
8	Emami Ltd.	0.77	"
9	Jubilant Foodworks Ltd.	0.83	"
10	Britannia Industries Ltd.	0.86	"
11	Colgate-Palmolive (India) Ltd.	0.93	"
12	Glaxosmithkline Consumer Healthcare Ltd.	0.97	UDF
13	United Breweries Ltd.	0.99	"
14	United Spirits Ltd.	0.99	"
15	Tata Global Beverages Ltd.	1.00	"

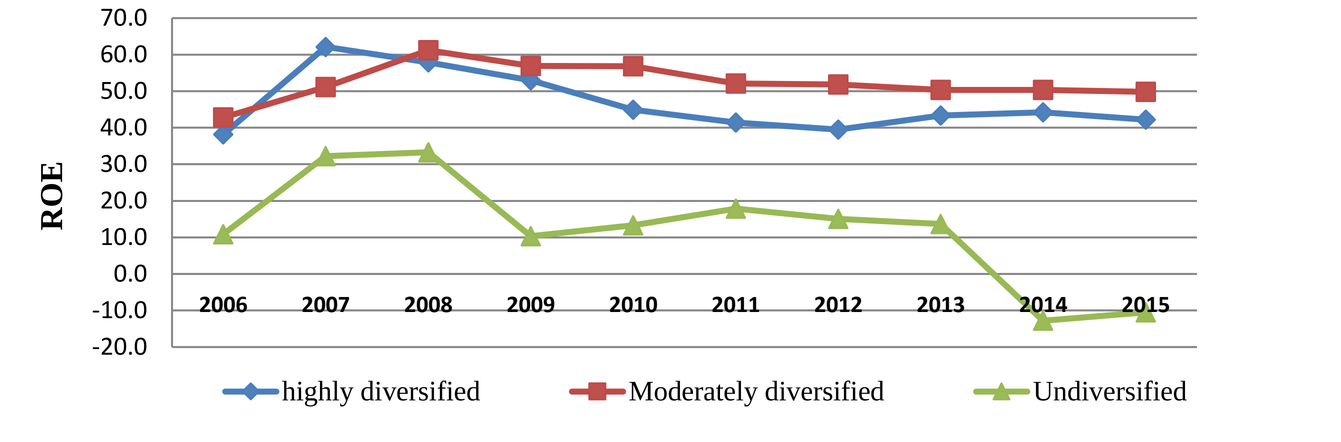
Key: HDF means highly diversified, MDF is moderately diversified and UDF is undiversified.

As shown in Table 4, six firms (40% of the total sample) are highly diversified, five firms (33% of the total sample) are moderately diversified, and another four firms (27% of the total sample) are undiversified.

Measurement of Performance on Yearly Averages

A group-wise performance measurement of the firms was conducted on the basis of the three performance measures mentioned. The performance trend of all the diversification group is given in Figure 1 to Figure 3 as a group-wise comparison of the firm's performance.

Figure-1: Average Annual Performance of the Groups (ROE)



From Figure 1, the performance of the highly diversified firms appears to be lower than those of the moderately diversified firms according to the annual return of equity. Suggesting that both undiversified and moderately diversified firms have been able to maintain and utilize the investors fund at a moderate level. Whereas, the performance of undiversified appears more erratic and unstable than that of the others when considering the high values in the year 2007 & 2008 and low values in the year 2014 and 2015. The results indicate the inefficiency of those from in utilization of the investor's funds over the period 2006-2015.

Figure-2: Average Annual Performance of the Groups (ROA)

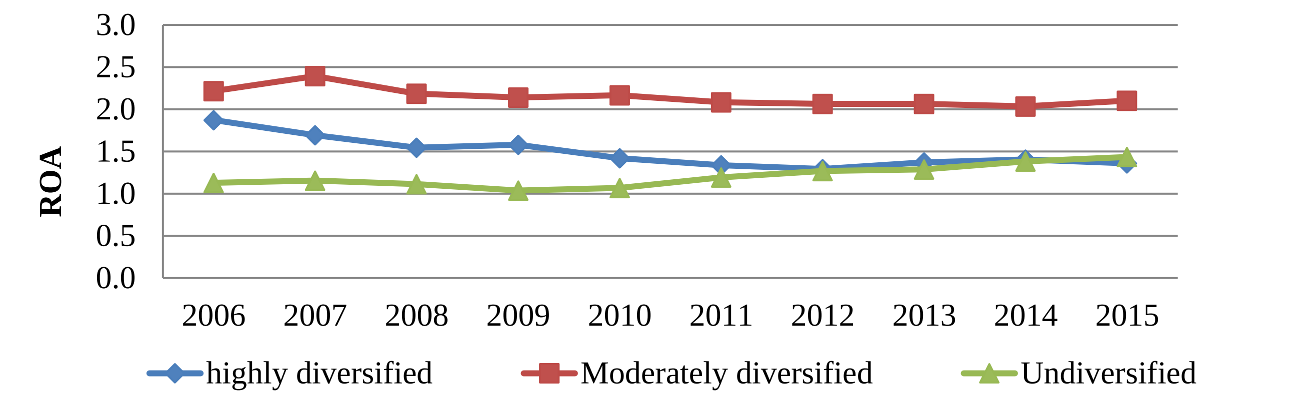


Figure 2 compares the group-wise performance trend of all three diversification categories on the basis of return on assets. Here too, the moderately diversified firms seem to perform better than highly diversified firms. However the undiversified firms in recent years i.e. from 2011 to 2015 the management of the assets has improved thereby generating profits at a level more than one rupee. However the performance of highly diversified firms depict a deteriorating performance, implying poor utilization of its assets.

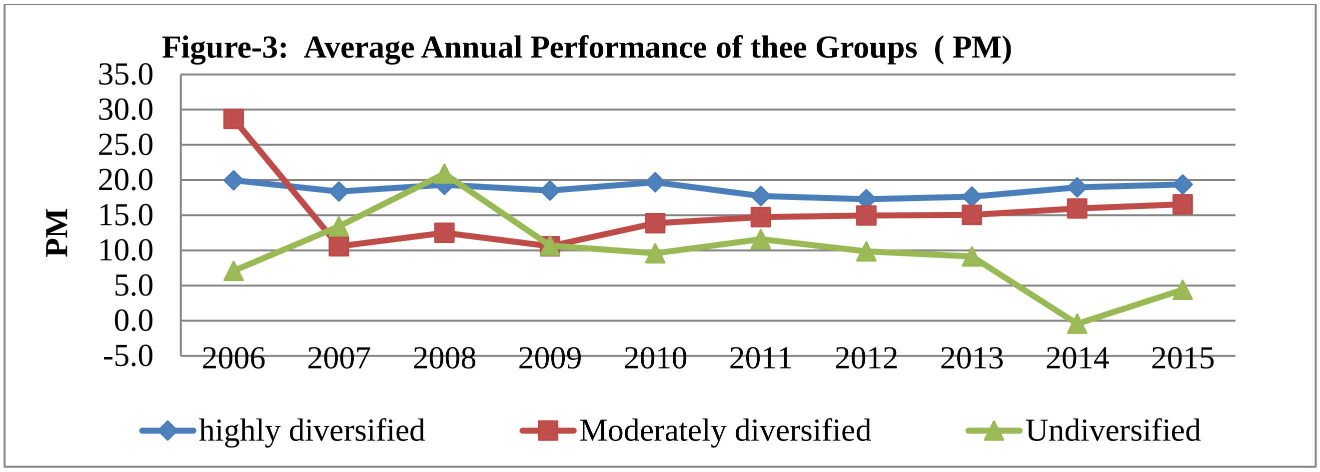


Figure 3, depicted that the performance of highly diversified firms is more stable than those of undiversified and moderately diversified firms. And those of the moderate diversified firms showed considerable increase over the years implying that the firms are better controlling their expenses. Whereas, undiversified firms reflected a declining trend with a negative value in the year 2014. This low value of PM can be attributed to the very low ratio reported by the undiversified group (-40.2) in 2014 by United Spirits but an improvement in the control of its assets in the year 2015.

Test of Differences in the Group-wise performance of the Firms.

To establish a relationship between diversification and performance requires testing the following null hypotheses using the parametric t-statistic to compare the differences between the means of the group-wise average annual performance of the firms.

$H1_0$: There is no significant difference in performance between the highly diversified and the undiversified firms.

$H2_0$: There is no significant difference in performance between the moderately diversified and the undiversified firms.

$H3_0$: There is no significant difference in performance between the highly diversified and the moderately diversified firms.

Table-5: Results of the t-Test for the Difference in Average Profit Margin between Highly Diversified, Moderately Diversified and Undiversified Firms

Group	Mean	Observations	Deg. of Freedom	t-critical	t-stat
Highly Div.	18.68	6	8	0.18	1.46
Undiversified	9.6	4			
Mod. Div	15.36	5	7	0.30	0.21
Undiversified	9.6	4			
Highly Div.	18.68	6	9	0.52	0.66
Mod. Div	15.36	5			

The results of table 5 of Average Profit Margin show no performance difference between the Moderately diversified and Undiversified firms. Therefore, the null hypothesis, $H2_0$ is accepted, and alternate rejected. However, both the moderately diversified and undiversified firms have out-performed the highly diversified firms. The null hypothesis $H1_0$ and $H3_0$ are thus rejected.

Table-6: Results of the t-Test for the Difference in Average Return on Assets between Highly Diversified, Moderately Diversified and Undiversified Firms

Group	Mean	Observations	Deg. of Freedom	t-critical	t-stat
Highly Div.	1.48	6	8	0.32	1.06
Undiversified	1.2	4			
Mod. Div	2.14	5	7	0.02	0.16
Undiversified	1.2	4			
Highly Div.	1.48	6	9	0.07	-2.057
Mod. Div	2.14	5			

The results of table 6 show that both highly diversified and moderately diversified firms have a significant difference in performance in terms of Average return on assets with the t-stat value greater than the t-critical value. Hence we reject the null hypotheses $H1_0$ and $H2_0$ and accept the alternate hypotheses. In the case of difference in performance between highly diversified and moderately diversified is none, with a negative value of t-statistic. Hence we accept the null hypothesis, $H3_0$.

The result of the t-test in table 7 show a significant difference in performance between highly diversified and undiversified firms and, moderately diversified and undiversified firms based on the return on equity rejecting both $H1_0$ and $H2_0$ and accepting the alternate hypotheses for the respective. However no performance difference was found between highly diversified and moderately diversified firms. Therefore the null hypothesis $H3_0$ is accepted.

Table-7: Results of the t-Test for the Difference in Average Return on Equity between Highly Diversified, Moderately Diversified and Undiversified Firms

Group	Mean	Observations	Deg. of Freedom	t-critical	t-stat
Highly Div.	46.68	6	8	0.07	2.00
Undiversified	12.33	4			
Mod. Div	52.34	5	7	0.04	0.49
Undiversified	12.33	4			
Highly Div.	46.68	6	9	0.75	-0.31
Mod. Div	52.34	5			

Findings and Conclusion

The results drawn with respect to the first objective of studying the financial performance of the companies under study, four ratios were undertaken. The two liquidity ratios studied to examine the health of the companies under study were Current ratio and Quick ratio. It was found that on the whole all the fifteen diversified companies had sound financial ratios with an exception of Britannia (0.7), Colgate-Palmolive (0.5), Dabur Jubilant Foodworks (0.7) had a lower ratio. Whereas ITC Ltd. and Global Beverages maintained a ratio of 1.3. Regarding the quick ratio it was observed that Tata Global Beverages maintained a high ratio of 1.3 times, United Breweries maintained a lower ratio of 0.9 which was lower than the normally accepted standard 1:1. Here again, It must be observed that some firms seemed more cautious, while others relied on their past experience to be less conservative and yet remain invulnerable.

Five ratios considered to study profitability are Gross Profit, Net Profit, ROA, ROCE, and ROE. The G.P. and the N.P. ratios revealed that the firms had performed well as well as the satisfactory with respect to United Spirits. However, firms like Britannia and United Breweries which showed a high Gross Profit ratio 23.8 percent and 27.4 percent respectively. Rather depict a low ratio N.P. of 6.9 percent and 5.6 percent respectively. On further examination it was revealed that this is because the different accounting policies adopted by the firms and the nature of the businesses. As far as ROA is concerned it was observed a consistent performance between all the companies under study. In case of ROCE there existed wide difference between the companies under study ranging from 99.3 percent to (-2.0) percent. Further with respect to ROE some companies showed an increasing trend while showed a decreasing trend and still others a fluctuating one.

The debt-equity ratio which is a leverage ratio employed, depicted that compared to the standard D-E ratio maintained of 2:1, all the firms revealed a much lower debt component. Where HUL, ITC and Colgate has the lowest of 0.00. But all the companies were consistent to maintain it at the same level over the period of study.

Activity ratio in the study was Asset Turnover ratio revealed that Britannia, Colgate, HUL showed an efficient management of the assets, indicating that for every one rupee of investment in fixed and current assets, the firms could generate sales more than the amount of investment.

The above analysis revealed that the overall financial health of the companies was satisfactory. This, in other words, diversification has led to a sound financial performance of the companies. It is clear that all the companies under study had not performed equally well on all the ratios examined. However, some had performed consistently well on most fronts, while others had revealed uniformly mediocre results comparatively.

Though it is difficult to strictly state that diversification had led to good performance, yet it can be emphasized that the diversified companies studied had performed well. It is possible that factors other than diversification could have contributed to this success.

The Classification of the fifteen companies using Rumelts Classification categorized the companies into 3 categorized Highly diversified, Moderately diversified and Undiversified and made the comparisons between the performance parameters more easy, as already stated in the analysis chapter the results revealed that a moderately diversified companies performed more better than highly diversified and undiversified firms.

Further Independent T test results revealed that moderately diversified firms outperform the highly diversified firms in terms of Profit Margin and Return on Assets. Similarly, the undiversified firms were found to outperform highly diversified firm again in terms of Profit Margin and Return on Equity. However both Moderately diversified and undiversified firm reflected a difference in terms of the Return on Equity with respect to Highly diversified firms. No performance difference was found between the moderately diversified firms and undiversified firms based on the measures used except for Return on Equity. This findings suggest a nonlinear relationship between the level of diversification in terms of Return on Assets and Profit Margin, however depicts a linear relationship in terms of Return on Equity implicating that a high degree of diversification does not seem to improve profitability of the organization.

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End notes:

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