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The effect of International diversity and corporate resources on the company's performance

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Abstract

In recent years, the relationship between performance and diversity of the company has been an important issue in financial management. Diversification Strategies in the business of companies could affect the competitive balance in an industry. On the other hand, specific economic conditions of the operating companies have caused the competitive advantage of these companies not to be based on their tangible assets. What make these companies competitive in today's economy are intangible assets, i.e. their intellectual capital. This study aimed to investigate the effects of international diversification strategy and company resources on performance of the company with control variables of financial leverage and firm size. The statistical population were Tehran Stock Exchange's member companies. According to the requirements of sample selection 122 companies were studied during the years from 2008 to 2013. To test the hypothesis, required data were collected from companies' financial statements, and after performing the required calculations, the data were analyzed using SPSS software, and the hypotheses were approved with confidence level of 95%. The results show there is a significant relationship between variables of international diversity, intellectual capital, marketing assets and performance of the company.

Keywords: International diversity, Intellectual Capital, Financial Performance

Introduction

Competition has been accelerated in the world that its outstanding feature is rapid changes and diversity so it is necessary for the economic units and in particular the production units to convert their resources innovatively to the diverse products in the best possible way to gain a competitive advantage and to be able to survive in competition. Also, many organizations in the world today, probably due to responding to multiple needs of customers, are getting larger and increasing their business operating environment. Managers try to make customers more committed to the organization through fulfillment of customers' various needs.

For this reason and other technical reasons such as providing the raw materials and distribution system of the final product within the organization, many organizations have turned to diversity (Tehrani, et al., 2008). On the other hand, with the revolution in technology and information technology, after 1990s, the pattern of the global economy has undergone fundamental changes. In today's economy knowledge as the main capital has replaced the financial and physical capital (Ghlich lee and Moshbaki, 2006). In the case of institutions, assets indicate to each property that generates future cash flows. More known assets have tangible and objective nature, therefore tangible assets refer to physical and financial assets of organization. The value of this asset is disclosed periodically (by public sector companies) and can be easily found on the balance sheet from the financial records of the company. Physical assets can mean land, machinery, goods inventory, equipment, etc. While the financial assets refers to equity, accumulated profits, working

capital, prepaid expenses, accounts receivable, etc. The importance of intangible assets in determination of future earnings is increasingly on the rise. In addition, the identification of these assets is more difficult and this difficulty is related to determining their value, the problem which has continued from the past to the present time, and that is why in most companies the values are not reported at all. As a result, these assets remain invisible to the world outside of the institution, and even sometimes not recognizable to employees within the organization.

In the twentieth century, the economy was based on the industry. Any company and any country with more physical and evident financial assets created more wealth, but the 21st century the economy is based on the knowledge. For example, Seetharaman, (2002) according to Kendrick, one of American economists, states that the ratio of intangible assets to tangible assets was 30 to 70 in 1925, but increased in the 1990s to about 63 to 37.

Stewart (1991), sees human capital as the most important asset of the company.Therefore, it is expected that companies with higher intellectual and human capital has a higher financial performance too.

Definition and motivations of international diversification strategy

To achieve growth in the future companies necessarily have to use one of the following methods:

- Development of the current activities or diversification of activities, and considering new activities in two ways: internal developmental activities or taking over another company.
- Risk of diversification strategy implementation is more than other developmental strategies because according to this strategy, company must learn and implement new operations and work with new and unfamiliar customers.

Hoopes(1999), Goerzen and Beamish(2003), and Nachum(2004) defined the diversification strategy as entering in related or unrelated businesses and new geographic market, noting that the diversification strategy plays an important role in long-term leadership position of the industry (Nath, et al. 2010).

International diversity is also one of the developmental strategies through which companies seek market opportunities outside the country (Capar and Cotabe, 2003). International diversification is the development of firms along the borders of the regions and other countries in different situations and geographic markets (Hitt et al, 2007).

Recently, more researchers have used resource-based view and organizational learning theory more than before in order to demonstrate the effect of the international diversity on firm performance. The resource-based view states that the company's success depends on the economy and the successful utilization of unique, valuable and rare resources. While organizational learning theory suggests that knowledge and experience are determinant factors for the company's performance. Companies which are active in more than one country and sell their products in different countries change their activities from less profitable activities to more profitable due to the instability the markets. The international diversity empowers the companies in the development of risk, achieve savings in scale and scope, acquisition the additional returns by investing in market and product innovation (Thomas, 2006).

Kotler(2003) believes that although diversification strategy does not guarantee profit growth it will minimizes the risk. So, diversification is one of the most important concepts of strategic management to achieve long-term financial goals.

Rumlet (2005) believes that the main motivation for the agreement may be a series of factors related to the current environmental situation of the company including competition in the market, declining sales, market saturation and other threatening factors (Kang et al, 2010). Therefore,

diverse organizations have some advantages to focused companies; they can consciously invest in a wider range of activities, resulting more stable growth and profitability because they can compensate reductions occurred in an area of activity with the profits and revenues from other areas (Vaker et al, 2007). Therefore, according to what is said the main motive for diversity strategies is creating synergistic (efficiency Theory), economies of scale, reduction in risk of company and achieving profit. By synergy, we mean that the overall result is greater than the sum of the individual items; it boosts the total performance more than if we might otherwise do.

New forms of organizational resources

Limited Physical resources available to organizations have caused new approaches in the development of non-physical possibilities and procedures to increase value to develop and improve product / service. In the traditional economy, asset was considered as a collection of those possessions involved in the course of the production of goods. In other words, in the traditional economy, the concept of fixed assets refers to buildings, manufacturing equipment, materials, means of transportation, which are used in the production process and don't transform unless they are depreciated. Based on this attitude, assets include economic resources, whose price and cost can be measured and controlled at the time of acquisition. In this view, an asset whether physical or non-physical, has no meaning without regard to its involvement in the creation of value in subsequent periods. And, accountants register the expected future cash flows as an increase in assets and income if there is concrete evidence about the financial event. But, in the late twentieth century traditional concepts of accounting and economics faced new challenges. This challenge stemmed from a significant difference between the recorded market value and the recorded book value. In fact, the book value could only account for and interpret part of the market value. This led to doubts on the credibility of traditional measurement systems and prompted researchers to examine the challenges facing them and explain the theoretical and practical foundations in this domain. With the advent of the knowledge-based economy, the necessity for new requirements to justify the arisen economic issues, and the establishment of new definitions and formats was felt more than ever.

In the mid twentieth century, in addition to fixed assets, technical assets and tangible capital in circulation, new initiatives have emerged which are recognized as intangible assets and intellectual capital. The notion of intangible assets and its coinage returns to the intangible value creation in terms of the difference in market value over book value. Because calculating the true value of the business is very important in the field of business valuation (Edvinson, 2007).

Literature Review

Berger et al (2010) studied the impact of product and geographical diversity on a sample of Chinese banks. According to the results of their research, diversification strategy is associated with profitability reduction and cost increases. Centralized Banks make more profits, with lower risks and costs, and their performance in the functions of interest and costs is more.

Nath et al (2010) study the impact of functionality of operations and strategy of international diversification on the performance of companies in the UK's transport industry. According to the results of their research, functionality of operations and international diversity has a positive impact on financial performance of companies.

Kahloul, et al (2010) in a study investigated the impact of corporate diversity on the performance of 69 large French companies. They considered return on assets and Tobin's Q as dependent variables, and corporate diversity as the independent variable, they also considered risk, debt ratio, and the growth of the company as moderating variable. They did not find any significant relationship between diversity and corporate performance.

Doaei et al on a research in the field of manufacturing companies listed on Bursa Malaysia Stock Exchange in the five-year period from 2006 to 2010 concluded that the product variety, international diversity and corporate diversity has a negative effect on the performance of manufacturing firms Bursa Malaysia Stock Exchange.

Griffith et al (2010) in a study investigate the effects of intangible assets on the company's marketing capabilities. For this purpose, 239 samples were studied in both America and Japan. The results showed that human capital and relational capital has an impact on marketing capabilities of the companies, while organizational capital was effective on the marketing capabilities just in America.

Khalique, et al (2011) investigates the relationship between intellectual capital and organizational performance in pharmaceutical companies of Pakistan. They studied the effect of human capital, customer capital and structural capital on the performance of pharmaceutical companies in Pakistan. The results showed that these intangible assets have a positive impact on firm performance.

Azimi et al (2010), using a resource-based view, studied the role of functionality of operations and international diversification strategy on the financial performance of companies. According to the results of their research, functionality of operations and international diversity has a positive impact on the financial performance of companies. So, in order to improve risk and output and gain competitive advantage, company must have superior capabilities in operations and operate in different geographic markets.

Doaiy etal (2013) in a study investigated the effect of both parts of corporate diversity (product diversity and international diversity) on the performance of the companies listed in the Tehran Stock Exchange. The results showed no relationship between product diversification and international diversity with company performance in the Tehran Stock Exchange. But, corporate diversity has a significant positive effect on the performance. Also, the results indicated that to achieve higher efficiency, managers must make use of the product variety and diversity of international together to obtain more desirable result.

Afjeh and Ghaderpour (2011) assessed the impact of intellectual capital management on financial performance. The findings of the study conducted in Sadid Industrial Group showed that there is a positive relationship between intellectual capital management and financial performance; we can say that commitment, employee satisfaction, the alignment of employees' values with organizational values, knowledge management, strong organizational culture and customer satisfaction are the intangible factors which will lead to improved financial performance of the organization.

Sinaiy, Hajipour and Taheri (2011) examined the relationship between intellectual capital and the company's performance. Results based on data collected from 26 high-tech manufacturing and 26 low-tech manufacturing companies showed that both variables of innovation capital and customer have a significant positive correlation with financial performance. But, other notable result was that the relationship between innovation capital with performance in high-tech companies was not more significant than the relationship in low-tech companies.

Research Hypotheses

H1: There is a significant linear relationship between international diversity and corporate performance.

H2: There is a significant non-linear relationship between international diversity and corporate performance.

H3: There is a significant relationship between intellectual asset (innovation) and corporate performance.

H4: There is a significant relationship between marketing assets and corporate performance.

Research territory

A) Thematic: In this study, the correlation between international diversity and marketing assets and intellectual property investigated with return on assets as an indicator to assess the company's performance in the presence of control variables, financial leverage and firm size.

B) Location: Location of the study was the companies listed on Tehran Stock Exchange.

C) Time: Period of the study was during a period of 5 years since the beginning of 2008 until end of 2013.

Population and statistical sample

The population of this research were the firms listed in the Tehran Stock Exchange with the following characteristics:

It required that:

1. The company should not to be among investment and financial intermediary firms and insurance companies. This was due to the different nature of operations of these companies. For example, insurance companies used the standard 28 as an alternative to the standard 3.

2. The company's fiscal year should not to be at the end of Esfand (the last month in the Persian calendar). This is for more homogenization of seasonal changes in the company's performance.

3. The stock of company to be traded since the beginning of the years 2008 till the end of 2013 in Tehran Stock Exchange.

In this study, the statistical population consisted of all companies (444 companies) listed on the stock exchange, which 122 eligible companies were selected by random sampling and examining the financial statements and the above-mentioned restrictions.

Research Methodology

This study is inductive and descriptive. It is a correlative and Ex- post Facto research (using data from the past). It is also a cross sectional research. Data are quantitative and in ratio scale which are based on regression analysis and Pearson correlation coefficient.

Results of hypothesis testing

First research hypothesis

The first hypothesis states that there is a significant linear relationship between company performance and international diversity.

Table 1: Results of correlation coefficient

		International diversity	Performance	Financial Leverage	Company size
International diversity	Pearson Correlation	1	.209**	-.026	.097**
	Sig. (2-tailed)		.000	.488	.010
	N	716	714	716	716
Performance	Pearson Correlation	.209**	1	-.244**	.010
	Sig. (2-tailed)	.000		.000	.791
	N	714	714	714	714

**. Correlation is significant at the 0.01 level (2-tailed).

Statistical expression of this hypothesis is as follows:

H0- There is no significant linear relationship between company performance and international diversity.

H1- There is a significant linear relationship between company performance and international diversity.

In order to evaluate the certainty of a linear relationship between two variables, statistical hypothesis of the total significance test of regression model is as follows.

H0: There is no linear relationship between two variables

H1: There is a linear relationship between two variables

Fitted model to evaluate the hypothesis is $y_t = \beta_0 + \beta_1 X_t + \varepsilon_t$

Table 2: Results of ANOVA for first research hypothesis

(profile 2) Model Summary b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.318a	.101	.097	11.6989370	1.805
a. Predictors: (Constant), Firm size, financial leverage, international diversity					
b. Dependent Variable: Performance					

(profile3)ANOVA b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10914.161	3	3638.054	26.581	.000a
	Residual	97174.240	710	136.865		
	Total	108088.402	713			
a. Predictors: (Constant), Firm size, financial leverage, international diversity						
b. Dependent Variable: Performance						

Result of the first hypothesis testing

According to the profile (2) observed that the moderated determination coefficient of model (r2) is equal to 0/097, and it means that approximately %9/7 of the changes in the response variable (performance) can be explained by the independent variable (international diversity).

The probability of the null hypothesis that represents lack of linear relationship between the independent variable and the response variable (H0) at (profile 3) is equal to 0.000 that is smaller than 0/05, so the statistical hypothesis H0 could not be confirmed with %95 confidence.

As a result, there is a significant linear relationship between the two variations and therefore hypothesis (H1) is approved. Finally the fitted model is presented as follows.

Perf=12.592+0.204Intl. Div-0.239FL-0.010Size

Second hypothesis testing

The second hypothesis states that there is a significant nonlinear relationship between company performance and international diversity.

Statistical expression of this hypothesis is as follows:

H0- There is no significant nonlinear relationship between company performance and international diversity.

H1- There is a significant nonlinear relationship between company performance and international diversity.

Table 3: Results of correlation coefficient

		International diversity	Square of international diversity	Performance	Financial Leverage	Company size
International diversity	Pearson Correlation	1	.939**	.209**	-.026	.097**
	Sig. (2-tailed)		.000	.000	.488	.010
	N	716	716	714	716	716
square of international diversity	Pearson Correlation	.939**	1	.192**	-.040	.035
	Sig. (2-tailed)	.000		.000	.279	.347
	N	716	716	714	716	716
performance	Pearson Correlation	.209**	.192**	1	-.244**	.010
	Sig. (2-tailed)	.000	.000		.000	.791
	N	714	714	714	714	714

**. Correlation is significant at the 0.01 level (2-tailed).

In order to evaluate the certainty of a nonlinear relationship between two variables statistical hypothesis of total significance test of regression model is as follows.

H0: There is no non-linear relationship between two variables

H1: There is non-linear relationship between two variables

Fitted model to evaluate the hypothesis is $y_t = \beta_0 + \beta_1 X^2_t + \beta_2 X_t + \varepsilon_t$

Table 4: Results of ANOVA for second research hypothesis

(profile 5) Model Summary b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.319a	.102	.097	11.7028568	1.805
a. Predictors: (Constant), Company size, financial leverage, international diversity and square of international diversity					
b. Dependent Variable: performance					

(profile 6)ANOVA b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10985.989	4	2746.497	20.054	.000a
	Residual	97102.412	709	136.957		
	Total	108088.402	713			
a. Predictors: (Constant), Company size, financial leverage, international diversity and square of international diversity						
b. Dependent Variable: performance						

Result of the second hypothesis testing

According to the profile (5), it is observed that the moderated determination coefficient of model (r2) is equal to 0/097, and it means that approximately %9/7 of the changes in the response variable (performance) is explained by the independent variable (international diversity and square of international diversity). The probability of the null hypothesis that represents lack of linear relationship between the independent variable and the response variable (H0) at (profile 6) is equal to 0.000 that is smaller than 0/05, so the statistical hypothesis H0 could not be confirmed with %95 confidence. As a result, a nonlinear (quadratic) relationship between the two variations can be seen. Therefore hypothesis (H1) is approved. Finally the fitted model is presented as follows.

$$Perf=12.734+0.276Intl.\ Div-0.076Intl.\ Div^2-0.240FL-0.014Size$$

Third hypothesis testing

The Third hypothesis states that there is a significant linear relationship between company performance and intellectual assets.

Statistical expression of this hypothesis is as follows:

H0- There is no a significant linear relationship between company performance and intellectual assets.

H1- There is a significant linear relationship between company performance and intellectual assets.

Table 5: Results of correlation coefficient

(profile 7) Correlations					
		Intellectual assets	performance	Financial Leverage	Company size
Intellectual assets	Pearson Correlation	1	.076*	-.038	.040
	Sig. (2-tailed)		.041	.311	.286
	N	719	717	719	719
performance	Pearson Correlation	.076*	1	-.241**	.026
	Sig. (2-tailed)	.041		.000	.481
	N	717	717	717	717

In order to evaluate the certainty of a linear relationship between two variables statistical hypothesis of total significance test of regression model is as follows.

H0: There is no linear relationship between two variables

H1: There is linear relationship between two variables

Fitted model to evaluate the hypothesis is: $y_t = \beta_0 + \beta_1 X_t + \varepsilon_t$

Table 6: Results of ANOVA for third research hypothesis

(Profiles8) Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.252a	.063	.059	12.1087982	1.765
a. Predictors: (Constant), Company size, financial leverage, Intellectual Assets					
b. Dependent Variable: performance					

(Profiles 9)ANOVA [b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7059.886	3	2353.295	16.050	.000a
	Residual	104542.194	713	146.623		
	Total	111602.080	716			
a. Predictors: (Constant), Company size, financial leverage, Intellectual Assets						
b. Dependent Variable: performance						

Result of the third hypothesis testing

According to the profile (8) it is observed that the moderated determination coefficient of model (r2) is equal to 0/059, and means that approximately %5/9 of the changes in the response variable (performance) can be explained by the independent variable (intellectual assets).

The probability of the null hypothesis that represents lack of linear relationship between the independent variable and the response variable (H0) at (profile 9) is equal to 0.000 that is smaller than 0/05, so the statistical hypothesis(H0) could not be confirmed with %95 confidence.

As a result, there is a significant linear relationship between the two variables and therefore hypothesis (H1) is approved. Finally the fitted model is presented as follows.

Perf=11.335+0.066RD-0.239FL+0.024Size

Fourth research hypothesis testing

The fourth hypothesis states there is a significant linear relationship between company performance and marketing assets.

Statistical expression of this hypothesis is as follows:

H0- There is no significant linear relationship between company performance and marketing assets.

H1- There is a significant linear relationship between company performance and marketing assets.

Table 7: Results of correlation coefficient

Correlations(Profiles 10)					
		Marketing Assets	Performance	Financial Leverage	Company size
Marketing Assets	Pearson Correlation	1	-.048	.042	-.008
	Sig. (2-tailed)		.195	.264	.840
	N	719	717	719	719
Performance	Pearson Correlation	-.048	1	-.241**	.026
	Sig. (2-tailed)	.195		.000	.481
	N	717	717	717	717

**. Correlation is significant at the 0.01 level (2-tailed).

In order to evaluate the certainty of a linear relationship between two variables Statistical hypothesis of total significance test of regression model is as follows.

H0: There is no linear relationship between two variables

H1: There is a linear relationship between two variables

Fitted model to evaluate the hypothesis is: $y_t = \beta_0 + \beta_1 X_t + \varepsilon_t$

Table 8. Results of ANOVA for fourth research hypothesis

(Profiles 11) Model Summary b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.246a	.060	.056	12.1276797	1.763
a. Predictors: (Constant), Company size, financial leverage, marketing Assets					
b. Dependent Variable: Performance					

(Profiles 12) ANOVA b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6733.602	3	2244.534	15.261	.000a
	Residual	104868.478	713	147.081		
	Total	111602.080	716			
a. Predictors: (Constant), Company size, financial leverage, marketing Assets						
b. Dependent Variable: Performance						

Result of the fourth hypothesis testing

According to the profile (11) it is observed that the moderated determination coefficient of model (r2) is equal to 0/056, and this means that approximately %5/6 of the changes in the response variable (performance) can be explained by the independent variable (marketing assets). The

probability of the null hypothesis that represents lack of linear relationship between the independent variable and the response variable (H0) at (profile 12) is equal to 0.000 that is smaller than 0/05, so the statistical hypothesis H0 could not be confirmed with %95 confidence.

As a result, there is a significant linear relationship between the two variables and therefore hypothesis (H1) is approved. Finally the fitted model is presented as follows.

$$Perf=11.593-0.038AD-0.24FL+0.026Size$$

Conclusion

In several studies conducted in the field of the diversification strategy, the researchers have not yet achieved the clear and fixed result about the relationship between diversity and organizational variables such as performance, risk and profitability and depending on the population and sample of the study different results have been obtained. Some researchers have achieved positive or negative linear relationship, some of them found non-linear and curved relationship and others have achieved a non-linear and reverse curve relationship between diversification strategy and performance and other researchers have found no relationship between them.

In general, diversification strategy is like a double-edged sword. While diversity by creating synergies in operations leads to improved performance, at the same time may lead to deterioration of the company's performance with the imposition the costs of coordination and control to the company, and when the central competence is transferred to the different markets, it paves the way for inefficiency of the company. As a result, it can be concluded that international diversification strategy have a significant positive impact on financial performance. So the international diversity and activity of the companies in the geographical markets and various countries have a significant positive impact on financial performance.

According to the results of this study, intellectual capitals are among the factors affecting the performance of companies. As noted by intellectual capitals we mean knowledge, creativity, skills, culture, and as whole the intangible assets that are an important source and in fact the driving force behind production and business success. In other words intellectual capital performance significantly affects the profit figure, value and improves organizational performance. It also improves stability of organizational life and increases staff skills.

Companies which have a high level of intellectual capital are most probably learning organizations which regularly test new ways of doing things. They allocate the resources optimally. These companies review and analyze issues from different angles, and adapt for adopting and implementation of new knowledge and technologies faster than organizations. These lead to innovation, effective internal governance, better relations with foreign customers and suppliers in order to understand their demands and preferences, work force training through in-service training and upgrading their knowledge, better financial performance, and in return these companies will be more profitable. Companies who are looking for greater profitability should in addition to physical capital attend to increasing intellectual capital in the organization.

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