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RESEARCH ARTICLE

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Global diversification, profitability and revenue creation: Evidence from an emerging economy

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Abstract

The aim of this article is to examine the impact of global diversification on firm performance. Data for this study were gathered from a total of 714 firms over a period of 5 years, from 2016 to 2020, totalling 2904 firm-year observations. The relationship between global diversification and firm performance is analysed using ordinary least square (OLS) and quantile regression (QR) approaches. Based on OLS regression, global diversification negatively influences both the ability to create revenue and generate profits, with significant evidence only for revenue. On the other hand, QR analysis presents various perspectives of the relationship. Although global diversification is still negatively associated with the profitability of under-performing firms, the relationship can be positive once the firms begin to perform well. In terms of revenue creation, its association with global diversification is found to be significantly negative for all levels of revenue. This demonstrates how global diversification can provide a distinctive platform for firms to generate profits even though their ability to make revenue decreases as their performance improves. Policy implications are discussed accordingly.

KEYWORDS
global diversification, profitability, quantile regression, revenue creation

1 | INTRODUCTION

Since Rumelt's seminal work in 1974, studies examining the performance effect of corporate diversification activities have grown significantly in number and continue to garner considerable attention in corporate finance literature. Due to the inconclusive findings, different policies of a country, and the nature of business, scholars continue to examine whether firms should diversify their operations into new markets or industries or focus exclusively on their home country in order to achieve greater performance. Empirical evidence indicates that either industrial or geographical diversification (GD) can create both benefits and discounts to firms (Nigam & Gupta, 2021; Song et al., 2021; Vu & Ha, 2021). A number of recent studies have attempted to investigate the combined effect of industrial diversification (ID) and GD on firm performance. Numerous scholars, including Chang et al. (2016), Denis et al. (2002) and Gao and Chou (2015) refer to this phenomenon as 'global diversification'. Investors might benefit from opportunities in various economies and locations that may have varying economic cycles or growth prospects by diversifying their holdings geographically (Miah et al., 2023). Furthermore, research has indicated that geographic diversification can provide a more stable portfolio and lower volatility over the long term, both of which can increase risk-adjusted returns (Tembo & Makina, 2020; Wulansari & Adhariani, 2023). By combining diversification strategies, managers may be able to better manage the complexity and diversity created by each strategy. For instance, firms that have diversified their business on a local level may be able to replicate their structure and capabilities in international markets and they can leverage their resources and information gleaned from diverse markets to create synergies across industries.

