

# Product diversification strategies: A review of Managerial skills for firm performance

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## ABSTRACT

This paper reports about how product diversification strategies drive for firm performance through managerial skills. Extant literature has presents that increases in product market diversification generate both positive and negative impact on firm performance. The paper aims to embed that diversification in many industries are highly imputable to the power to cross-sell their products, get cost savings, enter the new markets, produce hybrid products and increase brand image. Also with the global financial market liberalization, firms in many countries are increasingly using the product diversification strategies. This is to expand the market share of the firm and also to improve the financial performance.

When investigating managerial skills it is more important to identify seven major factors of management tasks. This includes managing individual performance, instructing to their subordinates, planning and allocating the resources, coordinating of mutually beneficial groups, managing of their group performance, continually monitor the business environment and represent in one's staff. Also this is important to examine the findings has given clear-cut differences in the importance of the role of the level of the manager. Many studies have examined managerial skills in many ways. This is about predicting the effectiveness of managers from the managers' skills dimensions such as skills of technical, administrative, human and citizenship behavior. In some studies administration skills have a more effectiveness in managers' effectiveness. There are few empirical studies that describe managerial skills evaluations of firms. This is an organizational level as a moderator of the skill of managerial effectiveness relationship. Future researches need to continue to dig into new variables to identify skills and features that help managers to do more successful. Therefore this paper explains how managerial skills related to the product diversification strategies to drive to firm performances.

**Keywords :** Firm performance, Managerial skills, Product Diversification

## 1 INTRODUCTION

Diversifications will give a success in the performance of a firm when there are capable managers in the various divisions of the company. As porter said "competition occurs at the business unit level. Diversified companies do not compete; only their businesses do" (Porter, 1987). This comment is a valid one for every diversification success. Every business manager needs to be performed with their skills and diversification success will remain there. If not diversification will face many difficulties and corporate level need to take the responsibility of it. Therefore the managers should be capable enough to do the diversification to avoid all problems (Kenny, 2012).

The skillful managers are the main powerful employees who have to bring successful diversification to the company. Selecting these managers as good managers in the firm diversification should have a good system to select. If not, they will identify as bad managers. So measuring these good manager's performance is a key decision of the company and it should have a proper system. Then the perform managers will work more actively and will drive for the performance by developing as success diversifies (Kenny, 2012).

There are important factors that need to considerate to manage a diversified team in a firm. Business managers and executives should utilize and work with the operation teams at the

company. Therefore, team members of the diversified firms should have developed in internal and external diversified skills and the capabilities. There are maximum benefits of team members of a diversified firm. In an effectively diversified firm, team members should see them as one unit with norms, best values and collective goals. They need to know each other to implement the same goals as a unit of a successful team (Agrawal, 2012). However Managers follow up on greater diversification for the gain in power and prestige (Jensen, 1986).

### 1.1 Purpose of the study

Purpose to do this study because the diversification is an interesting area of the company's growth strategies. Today every companies or industry are driving for diversifications. Many companies' success in diversification and some fail with the diversification. This involves managerial skill with knowledge experience and the financial skills of managers. Also the productivity of them is another factor that needs to find the relationship to the firm performance.

Sometimes diversification has also a negative relationship firm performance (Lee, 2017). Today markets expected to face more challenges and increasing high competition. Because the markets have become more competitive, to keep the cost struc-

ture in the low level is crucial for the firms in the long-run for their survival. The formal opinion is that product diversification is linked with both costs factors and the benefits to the firm. This paper is important because of the current industry growth of Sri Lanka. Also the Country economy growth and the industrial diversification is one direction for the business growths of many industries.

This area is worth to investigate because the outcome of the research will benefit the current and future organizations to drive their directions. Firms will gain new penetrations into the high nature of relationships between product diversification and firm performance. Also firms can move to search the roles the home country environment and time can play in this relationship (Osorio, et al 2012)

Also diversification can use frequently as a risk management strategy. Therefore, has the added advantage of price risk options (Clark, 2004). In a firm always corporate boards are the important decision-makers in firm strategies such as joint ventures, diversification and acquisitions (Finkelstein and Hambrick, 1996). Therefore, investigating about diversification is more useful for the firm's future. Finally, the paper is more important because a cluster of managerial skills need to be analyzed as a system of interrelated skills (Madhoun and Analoui, 2002).

Many studies are associated with the basic question of why firms diversify. The reason for diversification should fully understand the diversification-performance, and also provide a theoretical support for empirical studies at the same time. Therefore, this paper bases itself can examine a different and broader conceptual framework and efforts to identify the factors that contribute to the diversification decision and the give values.

There are valuable insights into the effects of diversification and business structure on the firm performance. Managers need to have clear their objectives and carefully work with the firm resources when driving to product diversification and business structure. Lee has not clarified the real skills effect in the diversification-performance (Lee, 2017). Also the value firms achieve through product diversification can depending on both on the specific environmental dependency of the current environment and time period dependency. But Osorio finding does not examine the managerial skills on diversification (Osorio, 2012). Another article has done to find out the effect of top management teams, managerial resources on international diversification. But it does not examine other factors of managerial skills or specific product diversification (Li, and Lo, 2017).

Weiss and Schneider have investigated a research gap in management teams' diversification strategy fit of the expedition. To attack this gap, a study has developed two ways for managers in six demographic characteristics and two types of diversification strategies. Those are low and high diversification. But this is not explaining the effects of managerial skills with the strategic fit for diversification of the firms (Weiss and Schneider 2015). Poggesi and Borra have investigated when a manager of an own family involvement in a firm. This investigates that diversification and the performance relationship with the management role of the owners of the business. This is a negative moderating role of the management hen it's a

family business for the diversification and the performance (Poggesi and Borra, 2016). When researches conducting managers should be aware that decisions that modify the international form of an organization should have clear-cut deductions across different firms. This is into given particular firm, industry and environment contingencies. Therefore, no universal prescriptive preference has to be expectations of international diversification and firm performance (Carneiro, et al 2014).

When investigating about managers' individual tasked with developing, selecting, or placing them should take all four skill dimensions of technical, administrative, human and citizenship behavior into account. Also a special attention should give to administration skills, and this emphasis will be increasing managers higher up in the firm power structure (Tonidandel et al, 2012). How changes in the workplace may have coincided with shifts in the importance of managerial skills over the past 15 years and to identify the managerial skills needed at different levels and functions in today's work context. Identifies which managerial skills are important at different levels and across different functions of an organization in today's work environment. The results have implications for training and development, selection and succession planning (Gentry, et al 2008).

## 2 METHODOLOGY

This study is mainly followed by the reviewed literature of many authors. The Paper explains and arguments present in the deductive approach (Zalaghi and Khazaei, 2016). Therefore the main research tool of this paper is done with literature review. This is supported with many explanations for managerial skills, diversification strategies and the firm performance. The paper well examines many theoretical contents and supported by empirical evidence. This is with many industrial publications which describe diversification strategies and firm performance. Also the paper has reviewed many journal articles which have helped to explain managerial skills along with diversification. Readers of this paper will make many practical related insights into the discussed cases about product diversifications and managerial skills. The paper has highlighted some of the industry practices of case evidence and issues. This paper is presented as a concept paper with some empirical support and theoretical arguments. As a summary this paper involving to give future directions for research and wide discussion and conclusion. (Gentry, et al 2008).

## 2 LITERATURE REVIEW

In the literature review mainly describes product diversification and types of managerial skills. Also describes how it the effect on the firm performance with diversification strategies. The types of managerial skills, managerial experience, educational background, finance skills and productivity are described with the diversification strategy and how it effects on the firm performance.

### 3.1 Managerial skills

Managerial skill is the store of competences, knowledge and personality attributes are the ability to perform (Sullivan and Sheffrin 2003). The theory of management skills has been proposed by Schultz in 1961 and has been developed extensively by Becker in 1964. Schultz has written an article titled "Investment in Human Capital" introduces his theory of human capital (Schultz, 1961). There are different manager's skills and those are can divide into three categories. These categories are self-skills, people skills and task-related skills. The most effective of managers are on task-related and self-related skills other than the people related skills (Madhoun, and Analoui, 2002).

### 3.2 Managerial skills and firm performance

Managerial experience examines the role of in small and medium enterprise growth using the Managerial Capacity Index (MCI). The MCI is a measure of managerial experience and managers' activity. A study presents that a high score in the MCI is positively related to both strategic planning and firm performance and growth (Asah, and Fatoki, et al 2013). Martin and Staines in 2008 investigated that lacking managerial experience, managerial skills and personal qualities of them are the main reasons why new firms have failed. Also other factors such as contrary economic circumstances, poorly implement business plans and resource starving are the other reasons to fail new firms. The differentiating feature of high and low-growth small firms are the levels of education of senior managers and training and experience of senior managers. Other empirical studies such as Shariff and Peou (2008) and Parida et al, (2010), investigated that managerial competencies can measure by managerial education, managerial experience, managerial experience and knowledge of the industry. This factors positively impact the performance of small firms and medium firms.

The lacking of managerial education and training has reduced management capacity in firms. This is one of the reasons for the low level of entrepreneurial creation and the high failure rate of new ventures (Herrington and Wood, 2006). However, finds that the managerial skills of entrepreneurs are not the unique determinants of performance. The authors did not find a significant relationship between the managerial skills of managers and firm performance (Bosma et al. (2004).

Some studies did not find a significant relationship between the managerial skills of managers and firm performance (Du-Brin, 2012). But many empirical kinds of literature such as find an insignificant relationship between managerial skills and firm performance. The argument of this study is that firms with owners-managers that are educated and have industry or managerial experience should outperform firms whose owners-managers do not possess these characteristics. As a result, it is hypothesized that there is a significant positive relationship between management skills of SME managers and firm performance Appuhami (2007) and Chan (2009).

Some studies have found that top management teams have a negative impact on diversification strategies. But manager's experience maintains a positive impact on the diversification strategies. Also the educational background of managers' diversification and international experience will have reduced

the negative effects of firms' performance in implementing diversification (Li and Lo, 2017).

### 3.3 Product diversification

In the Business dictionary Product diversification has defined as the process of expanding business opportunities through the additional market potential of an existing product. Diversification will be achieved by entering into additional markets and also by pricing strategies. Also can the product be improved, adapted or changed, or new marketing activities can develop. The planning process admits market research, product adjustment analysis and legal reviews (Business dictionary, 2018.) Also my tutor explains diversification defined as the growth strategy where a business markets new products in new markets. Its strategy has a risk because the business is displacing into a new market area in which it has less experience. Therefore business needs to have a clear mind about what will carry to gain from the strategy (My tutor, 2018).

There are the potential effects of product diversification on the performance of the firms (Osorio 2012). The results from numerous studies that have investigated the relationship between diversification and firm performance have been mixed (Lei and Schmit, 2010). Many studies have examined that the interaction effect of product diversification on firm performance. Studies show that by investigating the differential impacts of product diversification strategies on the relationship between diversification and firm performance. We find that while related product diversification positively influences the performance of firms (Chang and Wang, 2007).

### 3.4 Managerial experience for diversification

There are both positive and negative impacts on Diversification with top management and their high experience. This management impact can have minimized by the education background of diversification and well experienced for the negative impact. (Li, and Lo, 2017)When there is experience in mix ways managers are well argued and applying effective strategies. Also this mixed experience of managerial will work to grow the firm through diversification. This is the best time to practice with top management teams who are having well-mixed experience and capable skills to drive diversification in this environment (Kor, 2003).

### 3.5 Educational background of the management

The top management teams with well-diversified education knowledge is a heterogeneous resource to the organization. This educational background of the top management team will execute good thinking and innovative ideas for the diversification. This managerial knowledge will contribute with well-diversified experience and skills to think innovatively. Also top management has a high range of networks, strategically thinking and wide range of skills with their diversity background (Finkelstein and Hambrick, 1996).

In many studies explain that diversity of educational experience for the top management teams are well contributing positively to the diversification. These skills have taken firms to position in the markets and also to capture the new markets geographically. This has driven with top-level managerial new ideas and innovative strategies contribution (Carpenter and

Fredrickson, 2001). Also top management educational background will contribute to professional and very value-creating a situation in the access of diversification (Hambrick and Mason, 1984). More ever managerial thinking process and also the managerial knowledge will improve by giving training in education (Wiersema and Bantel, 1992). Always managers should be an open mind when going for diversification to alert the issues. The managerial level and the corporate level should be in a good alert to prevent from different facts that can unsuccessful the diversification. Therefore always they need to come up with new ideas and good opportunities to grow the business by diversification. (Kenny, 2012).

### 3.6 Managerial Capable financial skills

When a firm diversified with corporate diversification, decisions of financing and management in earnings are considerable. The firm's expenditure will arise high in research and development. Therefore, the division cost is going to be high due to the information that is found from research and development. The managers will decide their own of this expenditure in diversification and controlled the earnings. Diversified firms use to change their policies in depreciation because if affect the financial policies of the firm and also the taxes on assets (Keating and Zimmerman, 2000). Managers can decide their own to control the expenses to manage the earnings of the diversified firm. These expenses are mainly with research and development, sales and administration costs, expenditure on advertising. This managerial actions will drive to a good cash flow of the firm in the future and control the earning management (Roychowdhury, 2006). Therefore, corporate level managers are offered with incentives to control the research and development expenditure. This is done by the firm investors who will go toward to achieve short-term goals in earning (Bushee, 1998).

Diversification is given motivation to managers in changing the accounts numbers of the firm and also to continue with favorable systems in earning processes. The reasons for this conditions is when a firm diversification it is very less in transpiring. Therefore, it is not possible in detecting earnings like a focused firm (Mehdi and Seboui, 2011). There can be an effect on the firm's long-term growth when managers are reducing the expenses. It may show higher earnings but in the long run it is not good for the firm. Research and development costs and also the advertising costs are based on projects of the diversification strategy. These cost reductions can make earnings bigger (Oswald and Zarowin, 2004). When implementing a level of diversification in a firm with over involvements and practicing to increase costs there are effects to the firm. (Palich et al., 2000). When firms diversifying, budgets are more important and it affects to slow down the activities. The administration systems that diversify firms go through can affect the budgets such as controlling budgets and also the current incentive systems. Budgets that are allocated to business units have a positive effect on the corporate diversification. Effective control of budgets and the powerful incentive systems will pick up the business (Van der Stede, 2000).

When firms diversify budgets slack is a big issue and firms stimulate in distinct business. At the same time firms are active in clear-cut businesses (Pitts and Hopkins, 1982). Corpo-

rate managers in the diversified firm are not close with different activities that are run by the business units (Campbell et al., 1995). Most of the time corporate managers are attending with the controlling budgets, financial result measures and administrative operations. But they are not much involved actively in business operations (Ghoshal and Moran, 1996).

### 3.7 Managerial Productivity for Diversification

Diversification is depending on the productivity of the organization to be successful as a business strategy itself. Studies have investigated these productivities of the firm to success diversification are the efficiency of the management structures and also recourses of the firm. Therefore, firms functioning in productivity has defined as a moderate variable in the diversification and the organization's performance. This moderating variable of firm productivity has impacts on the performance and diversification of the firm. There are factors that the firm should able to utilize their resources productively to give benefits to the firm. So this business strategy of diversification will give a return benefits to the firm by productivity (Giroud and Mueller, 2015)

A process that can add value to the core activities of a firm business is by producing the products from the given inputs or resources (Tangen, 2002). There should be a viable environment when a firm wants to innovate. When the firm financial systems are not in the maturity stage productivity will be limited (Gatti and Love, 2008). Still managers follow up on greater diversification for the gain in power and prestige (Jensen, 1986). Firm trust to enter on greater diversification in a large size because of the firm's size is linking positively to manager's compensation. Therefore, managerial behavior on diversification level is effecting for the delivery of firm performance (Jensen and Murphy, 1990). Firms can gain a high market power by implementing the strategy of diversification. It also creates luxury benefits with the surplus of productivity factors. Also diversification can create an efficient internal capital market by allocating resources efficiently (Chakrabarti et al., 2007).

Diversification is a good focus for a company and sometimes it can be bad due to the diversifying business. But still firms fail even their focus is so good. There are many boards of the companies and the managers are still fearful of diversification because of how to make it a success. Company's best opportunities are that they can go to a potential business which will benefit them and overcome the barriers (Kenny, 2012). Writing the failure of a diversification is very easy. One reason for the bad reputation of diversification is this sloppy analysis of diversifying businesses (Kenny, 2012). Managers need to clarify the objectives that they are going to implement with the firm recourses. Managers should careful when they use firm recourses processing with business structure and the product diversification. (Lee, 2017).

### 3.8 Firm Performance with Diversification

There are potential effects of product diversification related to the performance of the organization. Widely diversification has good results. Successful firms have achieved their value with product diversification and depending on country environment and time period. (Osorio at el, 2012). There are many

studies on the relationship between diversification and the company performance. But they are not shown a clear relationship between these two factors of the performance and diversification (Palich et al., 2000). But many studies have gone through to find out which are the factors that affect the relationship between performance and the diversification. As in the early statement says there is no clear relationship between these two factors, there should be some dependable reasons for it (Chakrabarti et al., 2007).

Firms with product diversifications and international diversification are not powered to act as a strong player than the firms with focused strategy in the capital structure. But firms with product and market diversification are having a positive earning on the asset base (Ajay and Madhumathi, 2015). Diversification directing firms to reach strategic assets, new technology, natural resources and skills (Lewellen, 1971). In this growth with diversification firm is ready with markets and products to compete for worldwide standards (Teece, 1982). Also diversification will improve the firm's profitability and the assets by reaching to new markets and new products (Williamson, 1988)

Firm's diversification is a strategy that connected with its performance and also effects to the earning management in the firm practices. So the managers are facing challenges with financial support for their decisions. Those are to maximize the values and minimize the cost of the firm (Mehdi and seboui, 2011). Diversification is creating conditions for earnings. It can be favorable or unfavorable conditions. To perform firm earnings with the corporate strategies, need to create with the performance of the operational level (Chung et al., 2005). Also diversifications direct into related or unrelated diversifications. There are many modes of diversification. Those are by internal expansion. Also mergers and acquisitions or choice of this strategy (Kwangmin and Jang, 2012).

Diversification and performance links will not have held in many economies. It runs in the well-developed economies and emerging economies (Berger and Ofek, 1995). Divarication is put forward in rising economies to make values to firms. (Guillen, 2000). Firms with implementing higher diversification deliver high performance in emerging economies (Chang and Hong, 2002). Sometimes in the emerging economies diversification will perform negatively within the firms (Tevfik, 2008). But in other ways diversification gives value to firms in the emerging economies (Olu, 2009). Firm's performance exists when there is a relationship keep positively. Diversification delivers mix results with the condition of the economy, and types of diversification. That is related and unrelated diversification and also when the time periods are different diversification gives a mixed performance (Yaghoubi et al, 2011). Diversification will give a high firm performance in developed economic settings. This is as a result of high costs adopting the financial markets and weak entries from the financial markets (Khanna and Palepu, 1997). Some findings present that greater diversification activates in complication in managing, structural and organizational factors of firms (Donaldson, 2000). Firms are creating segments with new business and also different product categories to bring under control and put to use as diversification. Expansion of a firm with their control is a basic description for the diversification (Tevfik, 2008).

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When over diversified there are many ways of failing the businesses. There are points that a success diversification company should not have and also we focused company for diversification should not have. Those are keeping not effective managers in many levels, regulatory and cultural differences when expanding to other countries. Also the acquisitions with many requirements to integrate. Doing big payments to acquisition even when the expenses are high. The diversifying firm should keep the good discipline of the total management and also total staff increase to the current operations (Kenny, 2012). When a firm diversify the highest performance will give with the moderate unrelated diversification. Rather than going for a high related diversification or high unrelated diversification moderate diversification will give good performance to the firm. Always firm's businesses run to achieve the corporate performance and when there is a moderately diversified business, it gives the best performance (Kenny, 2012).

When considering insurance firm, it gives a negative relationship with product diversification. These results are logical according to the theory of diversification discount. Diversification has resulted there is an impact of the firm's business lines on the performance of the firm. The size of the firm and the product diversification involves that there are increasing results of product diversification in large size firms. There is high-value points that the diversification effects and business structure for the firm performances in countries that are under developing (Lee, 2017). In many countries a product diversification strategy is used highly to increase the financial performance. Also these product diversification strategies will lead to expanding the market shares (Elango et al., 2008).

### 3.9 Other Factors of a Diversification Strategy

Always international diversification drives into the best financial performance of the firm. These performances in finance measuring based on markets. Also there are moderate effects to the financial performance and to international divarication from different characteristics of the board of directors (Arten et al, 2015). There are mixed findings of international strategies in management literature for the relationship between firm performance and the international diversification (Hitt et al., 2009). International diversification decisions are linking in an imperial manner with the corporate characteristics (Tihanyi et al., 2003). There can be moderate effects on the financial performance and the international diversification. Many studies present that outside directors are affecting diversification, restructuring of the corporate, strategic investments and selecting of entries (Musteen et al., 2009).

When there is a decision to take which diversification should do, the firms with family operations have faced many difficulties. Because the decision is to take like to go for product diversification or the geographical diversification. These strategic decisions are common in family firms even in the general selections (Munoz-Bullon and Sánchez-Bueno, 2012). The expansion of the global region across the border is we can identify as the geographic diversification. Also can clarify the countries, geographical markets and locations as the geographic diversification (Hitt et al., 1997). When a firm reached with different markets in many geographical areas it

makes the level of the geographical diversification. The firm operations in different markets will create sales for the firm and the firm's value will build up (Kim and Mathur, 2008).

There are different techniques for measuring the product diversification strategy of the firms. These techniques are developed by the researchers over the fast years. There are unique methods that can quantify diversification of the firms with related and unrelated diversification (Doukas and Pantzalis, 2003). This kind of short-term investing systems will affect the research and developments and also the targeted earnings. So the international market diversification and the debt financing of the firm has a positively related finding. Also researchers have investigated the negative relationship of the firm leverage with international market diversification (Burgman, 1996). Diversification in the manufacturing sector will dive to develop a required success in the economy. There is a relationship between economic development and the manufacturing firms (Clark et al, 2017).

The government policies should have more attention to support for diversification in the production of new areas. Also policies should support the marketing firms to reach new advanced technologies in order to develop manufacturing through diversification. When industrial policies applying in manufacturing firms, the government should support them to reach their requirements (Rodrik, 2004). When a firm diversifying based on the market performance there is a moderate effect on the productivity. The firms' performance of return on assets in international diversification not creating any significant impact on productivity. But there are impacts on industrial diversification (Gyan, 2017).

When there are advanced financial institutes and capital markets, diversification drives into a reversed relation with firm performance. When there are undeveloped financial institutes and markets firms with diversification will benefit the environment (Chakrabarti et al., 2007). Diversification needs to build the competitive advantage to the firm by various actions. Here the managers should work in their divisions as they are the owner of this small business. Then this manager will identify what are the real needs of their identified customers. (Slater, 1999). When a firm diversifying there should have a corporate center which supports each business. When the small businesses of the company diversify and build the competitive advantage themselves supporting center should develop by the corporate level. This supporting center of the corporate level will give successful guidelines to each business units and support to diversification. When there is lacking skills, background knowledge or the experience of business managers it will slow down to diversification strategy. Also not giving the correct guidelines to the business for responsibilities and authorities by the corporate level is a reason for meddling. Another main reason for meddling is when the corporate sector not defining their duty correctly. Anyway now there is lack believes that the diversification is bad and also not thinking that the focus is good on businesses (Kenny, 2012).

When a company drives for diversification most of the time they go for acquisition. It is a successful diversification but should take more attention which amount the company pays for acquiring. Diversification is a success when there is good

integration. When there is great integration with the acquisitions diversification drives to a very successful. The employees of the firm will accept the acquisition and work positive way if the integration has applied to the diversification. Integrated Acquisition Company is very successful in diversification when it is these firms work together. The systems of Human resources, measuring and computer of the two firms should work together in this success in diversification (Kenny, 2012). The financial performance is measured by productivity with the firm output and input with the productivity concepts. Return on equity can measure by net income and the total equity as the main output variable. Also profits measured with a ratio of net income and market value of a share (Burgess, 1990). The studies have investigated that firms which are late industrializing have gone to unrelated diversification. Firm's diversification strategy has a relationship with the firm capabilities type. There are three stages of capabilities skill of a firm to implement the diversification strategy (Kock and Guillen, 2001).

The first stage of the firm will drive for the unrelated diversification. In the second stage firms drive less for the unrelated diversification with their general capabilities. At the third stage firms will implement a related diversification strategy. At this stage firms will have capabilities technologies and organization (Kock and Guillen, 2001). In the recent year's business groups with diversification have been activating in the countries like China. They were moving forward as the active players in the existing economies. There are many investigations on why firms take a decision for diversification on their business. There are factors that affect externally for diversification. When analyzing the ownership of the firm, diversification has implemented by more government operating business. The ownership of the firm's relationship is in a low level of diversification (Zhao, 2015)

Many studies have investigated why business groups are favoring diversification in emerging markets. This includes perspectives of transaction cost, resource base view and political-economical view. The transaction cost of business group diversification in an emerging economy is a strategy in the external market (Chang and Hong, 2000). Resource base view is factors that business groups and diversification entering the new market continuously, because of firms collect extra strong capabilities (Guillen, 2000; Yiu et al., 2005). The third view of business groups is political-economic which is using as to achieve many objectives by the government. Those are the objectives of political, social and economic which is can be used as firm devices. These business groups diversification will give more jobs to the country and also will support the country economic strategies by building new industries (Nolan, 2001). Also because of diversification strategy implementation by the business groups, the government will support them with the friendly conditions to the business. Also the government will encourage them by giving capital, funds and technologies to a low cost to success their diversification (Guthrie, 1997).

Related diversification is implicating performance by specializations. A firm can diversify multiple services of specializations. At this stage the firm will remain in the same area of industries and attend to the same customers or similar cus-

tomers. In related diversification firms can use their customer's business knowledge and specialize that knowledge to cross-sell services. This can be done in one area and give good services into related extending (Greenwood et al, 2005).

There are studies has investigated of business groups directions of related and unrelated diversification performance resulting in the emerging markets. Group associations of business groups are resulting of good benefits in the emerging markets. But groups are not having equal group association benefits in related and unrelated diversification (Mishra and Akbar, 2007). When studies investigate about unrelated diversification it is a strategy that unrewarding business groups. But related diversification leads to develop the best structure for the business groups and creating the benefits. That is with the working together in relatedness and harvesting from the effective internal capital market (Khanna and Palepu 2000). The studies have proven logically internalization and the transaction cost possibilities of firms. Firms with industrial and international diversification make advantages of intangible assets and engage with more complex forms (Malone, 2006). When diversifying by the widening of the firm with foreign direct investments with internationalization theory, they are facing the growth option. Firms make choices for this growth by choosing the industrial diversification and foreign products, domestic products (Qian, 2000). There are more factors to foreign direct investments by diversification. Those are held in mergers and acquisitions of firms (Bodnar et al, 1998).

Product diversification and internationalization of subsidiaries are reaching too high performance with their high attention to the activities. Subsidiaries will get increased performance by reinvesting in related business by engaging outside internationalization (Chiao et al, 2008). Many studies have investigated that the issues of the corporate level of firms in product diversification and internationalization. Firms own specific set of advantages and will be engaged in many activities (Lu and Beamish, 2001). Subsidiaries can self-directed existence to expand in other countries and diversify in the local market. When firms develop advantages in other countries and make capabilities it drives to diversification (Delios and Beamish, 1999). Today the markets are in a very competitive stage and maintaining the company cost structure in a low range is important for the survival and the long run of the firm. The impressions of established are that the benefits and costs linked with product diversification of the firm. In the insurance industry there are other options other than diversification. Those are highly given inputs of cross-selling products, saving costs, entering new markets, market hybrid products and increase the brand image. (Seol, 2000)

Diversification will lead to blowing up agency costs in firms (Rotemberg and Saloner, 1994). Also allow crossing stabilize inefficiently of business units that poorly perform (Rajan, et al., 2000). Further diversification leads to power the joint marketing channels by selling a product which increases the values of the firm and cost savings by the interests of the firm (Pieroni, 2004). While the firms make profits on the strategies of product diversification, they also will need to assume the relative costs (Kang et al., 2010). When considering the insurance industry, the businesses types they operate is related to performances with the diversification strategy for their

businesses. Other than that they operate a sustainable way to face in the competitive markets. There are relationships between mergers and acquisition in the past period of time with the diversification and the financial performance (Shim, 2011). In some periods financial performance depending on the geographical diversification effecting the business line (Elango et al, 2008).

Many studies found that firm's diversification with products and markets with giving both negative and positive performance to the firm. Diversification will return benefits or bad effects to the firm results, with a moderate framework of diversification. When the market is highly unstable firms turn their recourses to the few markets and also diversify into more markets. At the same time firms individual risk will increase. When the market is in a low turbulence, firms taking high stresses and going for diversifying in highly. That is because of having a low risk at this time to the firm (Sun and Govind, 2017). Overall about diversification strategy is that, it is changing as the world the way that the world wants and with the world population growth. Even if the firms are global or not global directly or indirectly global diversification is happening. In this continuing diversification need to have a cross-cultural working team in the firm to be a success (Black Enterprise, 2001).

#### 4 CONCLUSION AND FUTURE RESEARCH

This paper mainly discusses the relation of product diversification and managerial skills which are a drive for a firm performance. This paper outcome will be a real direction for a product diversification of a growing industry in Sri Lanka. Also this study outcome can be applied to the similar industries of Sri Lanka when a firm wants to drive for a product diversification. Corporate level of many industries can use this study results when they are going for mergers and acquisitions or choice of this strategy (Kwangmin and Jang, 2012). Also product diversification strategy can us highly to increase the financial performance and product diversification strategies will lead to expanding the market shares of the firm (Elango et al., 2008).

The paper presents the effects of managerial skills for a success of product diversification. Therefore, for the future of product diversification of a firm can have a clear direction of the manager's skills to succeed it. Those skills are in managerial experience, their educational background, capable financial skills and the productivity. Managers need to pay more attention to the effects of the diversity of managerial resources on diversification strategies. Manager's experience has maintained a positive impact on the diversification strategies. Also the educational background of managers' diversification and international experience will have reduced the negative effects of firms' performance in implementing diversification (Li and Lo, 2017).

This study outcome is more important to the firms who drives to the product diversification in the future. The Sri Lankan growing industries both in government and private will be more benefit of this study outcomes. Companies who need to strategically grow will more use of this study results in product diversifications and to correct their managerial

skills of the managers. This study is important for the managers who are planning to implement diversification strategies. They can use educational background knowledge and their experience with a reduction in the negative effect of diversification (Li and Lo, 2017). Many boards of organizations can have an outcome of this study because there are moderating effect on diversification and financial performance by them (Sahin, et al 2015). This study may direct outside directors who are affecting diversification in the restructuring of the corporate or strategic investments and selecting of entries (Musteen et al, 2009). This paper is guiding to take more attention to managerial skills when a firm wants to drive for a product diversification strategy to grow the firm performance.

There are no researches have been done on the effects of managerial skills for diversifications for the firm performance in the healthcare industry in Sri Lanka. But there are many studies have done with diversification strategy and the firm performance. Therefore future research can be done in the context of the healthcare industry in Sri Lanka with the managerial skills effects for the product diversification (Rumelt et al., 1996)

In future product diversification researches can examine the relative importance of four managerial skill dimensions of technical skill, administrative skill, human skill, and citizenship behavior. Product diversification can significantly examine the performance in differently sized firms. Therefore future research can be developed with above managerial skills with the product diversification strategies (Lee, 2017)

There are areas that related to different views or models need to consider as “environment-dependent” and “time-dependent” for diversification strategies. It reasons out by advising a framework in guiding to future researches (Osorio, B. 2012). Future research should also consider the importance of managerial skills from a leader, peer, or direct report perspective. This can be matched with product diversifications or the firm growth strategies (Gentry, A.W. et al 2008). In future studies it is important for investigating in IT or e-commerce important factors are driving for product diversification to explaining firm performance (Callaway, 2008).

According to this paper findings, the product diversification strategies will relate to the firm performance. Therefore can investigate how this growth strategies effecting by managerial skills such as the background knowledge, experience and managers financial skills.

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