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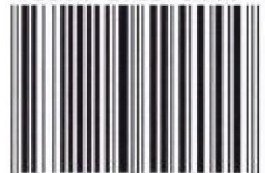
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DIVERSIFICATION AS AN EFFECTIVE BUSINESS STRATEGY

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INTRODUCTION

There are several strategies available for businesses to fulfill the organizations' objectives, aims or goals such as the integration, intensive, diversification and defensive strategies. Selecting the best suitable business strategies for the company based on their respective aim is very important because not all strategies can be used for a certain specific aim.

DIVERSIFICATION AND EFFECTIVENESS

Diversify means making something diverse or varied. Diversification is a practice of varying products, operations or industries in order to expand an influence, to spread risk and to exploit spare capacity. A strategy that can help firm reducing business risk, to gain competitive advantages and also reduce failure rates is diversification (Lin & Kim, 2019).

Effectiveness is a level of success to achieve an intend result. A researcher defines that effectiveness is an extent to which approach can be achieved the intended outcome (Lin et al., 2020) where it can be measured in term of profit growth, sales growth and market growth. In order to achieve effectiveness, a firm must decide which strategy should be implemented. This means that effective business strategies occur when the strategies chosen can present a better result in achieving the goals. Before implementing diversification strategies, a firm should identify the one that will give a better result for a specific endeavor.

TYPES OF DIVERSIFICATION

Diversification strategy is divided into three sections which are geographic diversification, brand diversification and segment diversification (Lin & Kim, 2019) Geographic diversification is the several different market places where the export or selling takes place which allows risks and opportunities spread by exporters (Arranguéz & Hinlo, 2017).

Brand diversification is a process of releasing new products in the market as in Ansoff's Growth Matrix. Segment diversification can be defined as a firm that operate in different quality segments and serve different customer types (Lin & Kim, 2019).

Diversification of product strategy can be separated to related diversification and unrelated diversification. Some researchers proved that related diversification improves the performance (Chen, Jiang & Wang, 2013) while some argue due to unclear relationship and require further studies (Fritsch & Kublina, 2018). High related diversification is assumed to enjoy performance advantage such as economies of scope (Ramaswamy et al., 2017).

PREVIOUS RESEARCH OF DIVERSIFICATION STRATEGIES

The relationships between company performance and diversification have been made by several studies. One of the studies of diversification strategy within industry shows a negative result on firm profitability but, no significant effect on sales growth in the short run. While in long run, within industry diversification does have a positive impact on profitability and sales growth (Park & Jang, 2013). During a short period, diversification strategy within the industry does not affect the growth of company sales, but proven impact during a longer period. This means that diversification strategy is only proven to affect the profitability and growth of sales in the long-term by implementing the strategy within the industry.

Another study about geographical and product diversification has also been done (Garrido-prada et al., 2019) and they found that when the company has low, or do not apply the geographic diversification, the product diversification has a negative effect on the company performance. However, geographic diversification is still the best strategy to enhance product diversification. The result shows that when the geographic diversification strategy is implemented, the product diversification will give a better effect on the company's performance. These findings proved that diversification strategy can be implemented with a combination of geographic and product diversification.

Zabala-Iturriagagoitia, et al. (2020) did a study in comparison between related and unrelated diversification against economic conditions, it shows that related diversification is more effective during economic crisis while during economic expansion, unrelated diversification provide better results. The results mean that in the period of economic crisis, implementing the related diversification strategy will be the better preference compared to unrelated diversification strategy and the economic expansion period will need to implement unrelated diversification strategy for a better outcome.

Unrelated industry that indicates the regional R&D activities may stimulate knowledge spillovers and knowledge recombination (Fritsch & Kublina, 2018), where the entrepreneurial experimentation is important in transforming the unrelated diversification into a growth.

In order to implement the diversification strategy in the overseas market, (Chen et al., 2013) stated that company who adopts unrelated product diversification strategy will be less exploiting the advantages they develop in their homeland. To do so, they need to cope with the risks of complex operation in different business line in the new market. Adopting a related product diversification strategy is proven successful in the homeland because transferring and exploiting business capabilities in the local market will reduce costs and compete only with the local competitors.

CONCLUSION

In conclusion, diversification strategy can be an effective business strategy in a few circumstances. In order to make sure the chosen strategy is the best for the company they should consider the duration of the company's goal, whether the period of achieving the goal needed in a short- term period or long-term period. Diversification can only be evidence for the best result during the long-term period toward the profitability and the sales growth of the company.

Businesses should also consider which diversification strategy will suit the company's goal based on some provisions that may occur. The company must also be aware of the current economic condition before implementing any diversification strategy. Different economic condition will need different strategies for an effective business result.

Finally, before implementing diversification strategy in a foreign market, the businesses need to do research on which strategy that can help them to exploit the advantages. A successful implemented strategy in the local market may not have the same outcome as implementing strategy in the foreign market.

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