The Impact of Diversification on Chinese Enterprise Value

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Abstract

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Abstract

Diversification is an important way for a company to grow and an important research topic for corporate finance. The core issue of diversification research is the impact of diversification on company value. However, in Chinese academia, there are few studies on the impact of diversification on the value of Chinese companies. Diversification strategy is the main problem that Chinese enterprises will encounter when they develop to a certain scale and stage. Not all companies that chose a diversification strategy finally achieved their goals and increased their profits. But this does not mean that there is a problem with the diversification strategy itself.

The research objective of this thesis is to understand under what circumstances choosing a diversification strategy can achieve the company's goals and achieve success. This thesis will use a qualitative method, including literature review, case analysis and other methods to obtain information in a natural context to explain whether companies can succeed in using diversification strategies and the reasons for failure.

This thesis will study the situation of Chinese companies' implementation of diversified management strategies, summarize existing research, deeply explore the relationship between diversification and enterprises, and study diversified management strategies from the perspective of corporate life cycle combined with case analysis.

The conclusion of the thesis is that according to the influence of company diversification on company performance, it provides specific guidance for the company to choose the type of diversification strategy reasonably according to its own development stage.

Keywords

Diversification, Value, Strategy

CONTENTS

1 INTRODUCTION

1.1 Research background

Diversification, as a business strategy of enterprises, was first formally proposed by the American corporate strategy manager Ansoff (1950). Then in the 1960s, many large enterprises began to implement diversified business strategies to quickly seize the product market on a global scale, compete for social resources and enter new industries. The impact of diversification on corporate value is the most core part of the theory of corporate diversification, because it is related to a basic question: why should companies diversify? The relationship between diversification and corporate value is not only the logical starting point for understanding diversification, but also the fundamental criterion for judging whether diversification is reasonable. Diversification, as the process and state of an enterprise's expansion into the field of diversified activities, is an important feature in the evolution of an enterprise. Since the 1960s, diversification strategy has continued to be an important topic of corporate management. (Hymer 1960.) The research content has expanded from the early product / business diversification level to geographic / market diversification (mainly internationalization) and research and development / technology diversification field. In the late 1980s, many large and medium-sized enterprises in China embarked on the path of diversified development to make them bigger and stronger, but most of the diversification behaviors during this period did not achieve the expected results. In the 1990s, after many companies went through "shrinking the front" and "simplifying business", they began to use diversification in new industries, and the trend of diversified operations became increasingly obvious. (Hua & W. L. 2007, vol.1.) Correspondingly, the relationship between diversification and corporate value is still widely disputed in Chinese theoretical circles (Byoung et al., 2001).

The diversification strategy refers to the long-term business policy and thoughts of an enterprise that simultaneously produces or provides two or more products or services with different basic economic uses in multiple related or unrelated industries in order to expand the scale, obtain the market, and create benefits (Rumelt 1982, 359-369). Enterprise value can be divided into financial value, economic value and market value (Liu & Zhang 2017, 1075-1084). The diversified development of Chinese enterprises has its inherent characteristics. Generally speaking, companies will exhibit different characteristics at different stages of development. During the growth period, companies focus on exploring the market for related products, increasing the market share of related products, and expanding corporate influence (Ramaswamy, Ueng & Carl 2008, 21). Companies in the mature stage focus on exploring new business areas and avoid the risk of declining profits in the original industry. Companies in the recession period divest non-specialized business areas, focus on main business operations, and cultivate core market competitiveness. (Bakarich, Hossain &Hossain 2019, 69-86.) Therefore, when the enterprise is at different stages of development, the diversified operation type of the enterprise will also have different effects on the enterprise. Chinese representative companies such as Giant Group, Haier Group, TCL Group and many other companies have begun to implement diversified operations. And the wave of diversified operations continues, like today's Wanda's entry into the entertainment industry, and Alibaba's crossover to banks, funds, securities firms, social insurance, insurance and other industries. Among the companies that choose to diversify their operations, some have achieved sustained growth, such as Haier Group; some have failed, such as Giant Group and Zhuangji Group (Hu 2012).

1.2 Thesis Objectives, Research Questions and Limitations

Research question: How do Chinese companies implement diversification strategies?

On the basis of summarizing previous studies, and aiming at the characteristics of the Chinese economy and Chinese listed companies, the purpose of this article is to: 1. Prove that whether a company adopts a diversification strategy is not only related to the company's own development, but also closely related to the institutional environment and its development stage . 2. Help companies figure out under what circumstances they can choose a diversification strategy, which is conducive to the development of the company.

The limitation of the thesis is that due to the lack of data, scholars have not conducted in-depth research on the field. This article will use qualitative research methods to fill the gaps.

1.3 Theoretical Framework and Thesis Structure

This thesis starts with the theory of diversification strategy and discusses the definition of diversification and the motivation of corporate diversification. Second, this article will further discuss the specific impact of diversification on the value of Chinese companies. At the same time, I will analyze the development characteristics of the enterprise in the initial stage, the growth stage, the mature stage and the decline stage from the perspective of the enterprise life cycle. Finally, this article will summarize the reasons and countermeasures for the failure of diversification of Chinese enterprises for Chinese enterprises.

2 DIVERSIFICATION

2.1 Definition of diversification

Since the 1950s, many scholars have tried to define diversification. At the earliest, Ansoff (1965) believed that diversification was a company using new products to develop new markets. He emphasized the company's diversification behavior rather than status. American scholar Gort (1962) pointed out that diversification refers to the increase of market heterogeneity of enterprise products, emphasizing that the so-called market heterogeneity is different from the nuance of the same product. It refers to products or services across industries. Berry and Jacquemin (1979) define diversification as an increase in the number of business industries. Since then, Pitts and Hopkins (1982, 620-629) defined diversification as the degree of operation in different business areas. They have improved their subjective judgments on the measurement of diversity.

Later, scholars emphasized the multiple maintenance points of diversification and believed that diversification is a way to spread the base of a business to obtain sustained growth and reduce overall risks (Chan, S. M. & Chang 2003, 213-233). On this basis, the thesis defines diversification as follows, a business method or expansion behavior of an enterprise to produce products or provide services across more than one industry. It has two meanings: static and dynamic. The former refers to a state in which a company’s business is distributed in multiple industries and emphasizes a business method. The latter refers to a behavior that expands to a new industry, that is, growth behavior through internal development or external mergers and acquisitions. Diversification is mainly defined and measured from the perspective of the business structure of the enterprise. The organizational structure and technical structure of the enterprise will also change with the expansion of the business scope. (Berry 1971, 371-383.)

2.2 Motivation for diversification

Ansoff (1965) believes that corporate strategy is essentially a set of decision-making criteria that guide corporate behavior, consisting of product and market scope, competitive advantage, synergy, and growth vector. The choice of product and market scope involves product and market. The growth vector is the choice of business development and growth direction, including market penetration, market development, product development and diversified operations.

Kottler and Armstrong (2010) classified corporate strategies into three categories: intensive development, overall development, and diversified development strategies. Therefore, the corporate growth model here is mainly reflected in the choice of strategy, which has become the core content of the corporate strategic system, and the diversification strategy is an important component of the corporate development strategy. Coase (1937) explained from another angle why companies practice diversification. The theory points out that the cost factor is the fundamental reason that determines the enterprise to adopt diversification. If the enterprise uses the existing resources and can guarantee the basic profit rate, it can produce products or provide services at a lower cost than the open market price. The company will have motivation to enter new industries and develop diversified businesses. Whether an enterprise develops diversification and the degree of diversification depends on the comparison of the cost of incorporating transactions into the enterprise's internal and external costs. Both internal resources and external market conditions will affect the diversification of the enterprise.

The results of empirical research on the impact of diversification on corporate value at home and abroad can be roughly divided into three views. The first view is that diversification increases corporate value (Imen & Seboui 2011, 10). The second view is that diversification reduces corporate value (Zheng, S., Gan-Zhong, 2004). The third view is that there is no direct relationship between diversification and corporate value. The process of implementing diversification in Chinese companies is relatively late compared to foreign countries like America, so the related research on the relationship between diversification and corporate value also started relatively late (R Mehmood, Hunjra & Chani 2019, 12).

Diversified companies can share certain resources, thereby saving unit costs (Vancil & Lorange 1997, 788-801). For example, sharing equipment and raw materials. The sharing of knowledge and experience can promote innovative activities and increase knowledge reserves. Especially in some cases, the knowledge and skills of an enterprise coexist. Companies adopt a diversification strategy to make full use of this sticky knowledge (Miller & Fern 2007, 307-325.). Therefore, the better the transferability of industries in which a company has resources or capabilities, the more diversified the company will become. This income is mainly applicable to the situation of related diversification.

3 DIVERSIFICATION AND ENTERPRISE VALVE

3.1 The relationship between diversification and enterprises value

3.1.1 Diversification increases corporate value

Tobin (1975, 1248-1280) found that diversification can effectively improve the company's operating level and performance, and can effectively increase shareholder wealth. Chandler (1977, 46-78) believes that because a diversified operating company creates an opportunity for the management to coordinate and manage different operating departments, its operation is more efficient and more profitable than a single operating company. Relevant research by Stulz (1990, 3-27) pointed out that because diversified companies have created a large internal capital market, it will effectively solve the problem of under-investment in companies, enabling diversified companies to use more net present value than singular companies. It is a positive investment opportunity to increase company value. Some scholars believe that many companies fail to classify industries according to correct principles, and even treat departments with the same or similar businesses as sub-sectors or fail to update industry data in a timely manner. In response to the above problems, Villalonga (2000, 263-286) re-established the database using unified classification principles. The results show that diversified companies in the same industry will generate a significant premium compared with non-diversified companies.

Khanna and Palepu (1997, 41-51) studied the diversification strategy and performance of group companies in India, Mexico and other countries, and pointed out that due to the varying degrees of government intervention and imperfect market mechanisms in emerging market economies, companies can improve performance through diversified development. Porter (2005, 5-6) believes that in countries with underdeveloped capital markets, diversification continues to increase shareholder value.

Ansoff (1965) first proposed in the "Corporate Strategy" that the related diversified production and operation of enterprises based on concentric circles would be better than those based on hybrids. The risk of unrelated diversification is lower, and it is believed that concentric related diversification can connect many similar business units of the company and produce synergistic effects in the production process, which can promote the improvement of corporate performance. Sánchez and Bueno (2009, 609-627) believe that the main purpose of companies implementing related diversification strategies is to achieve "economy of scope" and reduce total costs. In this way, the resource sharing of each business unit in the aspects of finance, management, technology, etc. is finally realized. Therefore, related diversification can better promote the improvement of corporate performance.

In the field of Chinese research, Zhang and Chen (2002) combined multiple regression models and analysis of variance to study the relationship between diversified strategy types and corporate performance. They also found that related diversification strategies can improve corporate performance (Zhang & Chen, 135-139). The study of Wang Min, Wu Xiaofang, and Chen Yong (2018) used 369 companies in Shanghai and Shenzhen stock exchanges from 2012 to 2016 as samples. They found that the degree of company diversification was significantly positively correlated with performance. In contrast, unrelated diversification is negatively correlated with corporate performance and is significantly correlated (Wang, Wu & Chen 2018, 85-91). For this reason, they believe that related diversified business strategies have relatively low operating risks and can share resources, while non-related diversified business strategies need to invest too much capital to develop new business areas, which makes it difficult for companies to make full use of limited resources to maximize performance in a short time.

3.1.2 Diversification reduces corporate value

Stein (1997, 111-133) found that the operating performance of diversified companies is lower than the industry average, especially when the return on capital is measured. Research by Amit and Livnat (1988) shows that diversified companies have lower profit levels than non-diversified companies. Chang and Thomas (1994, 1248-1280) found that low returns are associated with high diversification. Comment and Jarrell (1995) pointed out that the increase in specialization in the 1980s was associated with a significant increase in shareholder value. There is a negative correlation between abnormal stock returns and diversification measures. Berger and Ofek (1995, 39-65) compared the total virtual value of the enterprise and the actual value of the enterprise when operating in each direction of the enterprise separately, and revealed that between 1986 and 1991, diversification caused an average loss of 13% to 15%. Servaes (1996, 1210-1225) conducted a research on the trend of corporate diversification from 1961 to 1976. The results of the research pointed out that the decline in corporate value was the result of corporate diversification.

Denis and Satin (1997) found that diversification reduces the value of the company, and the reorganization that increases the concentration of the company's main business will get 47% abnormal returns after three years, which is greater than the reorganization that does not increase the concentration of the main business. Claessens (2000) and others analyzed data from more than 10,000 companies in nine East Asian countries and regions from 1991 to 1996 before the Southeast Asian financial crisis, and the results showed that the diversification of companies in Indonesia, South Korea, Taiwan, and Thailand is negatively correlated with company performance. Li and Zhao (1998) used Shanghai and Shenzhen listed A-share companies as research samples. Their analysis of financial data from 1993 to 1997 shows that the degree of diversification of listed companies is negatively correlated with corporate value. The higher the diversification of listed companies, the lower the corporate value. But this correlation is not significant. Zhang, Yuan, etc (2002) used 72 companies in Shanghai and Shenzhen as a sample in 1999 to investigate the relationship between corporate diversification and corporate performance earnings per share, return on net assets, and return on total assets.

The empirical results show that the degree of corporate diversification is related to There is a negative correlation between corporate performance. The higher the degree of corporate diversification, the worse the corporate performance.

3.2 Practice process and empirical research in China

Before the 1980s, China implemented a planned economy system. Business managers did not have autonomy in the direction and mode of operation. Under state planning and regulation, companies basically engaged in specialized operations in their respective fields. Diversified operations were rare. In consideration of the full utilization of by-products. Such diversification is accidental and spontaneous. With the deepening of reform and opening up in the mid to late 1980s, a large number of enterprises gained the right to operate independently (Li 1989, 219-243). At that time, it coincided with the rapid economic growth and the full expansion of various industries. Enterprises one after another made loans, launched projects, built new factories, and adopted diversified strategies to achieve rapid corporate growth, which reached its peak in the mid-1990s. At this stage, the diversification and blindness are strong. It is often the industry that has good current benefits was invested in a swarm, lacking consideration of the industry's prospects and its own advantages. At the same time, the government also plays a media role in mergers and acquisitions between enterprises. The government even forced a coalition to assist local companies in their expansion or rescue companies on the verge of bankruptcy. The consequence of blind diversification was that in the late 1990s, with the effectiveness of the country's macroeconomic austerity policies and the impact of the East Asian economic crisis, corporate performance declined significantly, and previously blind investment projects generally suffered losses .(Bai & Lu & Tao 2006, 353-357.)

Starting in the late 1990s, the industry began to reflect on the previous diversification strategy. The company adopted a shrinking strategy, stripped off non-performing assets, and shifted from external expansion to internal in-depth development. By the beginning of the 21st century, the diversified growth strategy of the company had changed. Even if a company acquires externally, it mainly purchases assets or departments related to its core business. (Delios & Zhou & Xu 2008, 473-483.) Starting around 2001, the diversification trend of enterprises has strengthened. This is due to the fact that as China’s national economy as a whole emerges from a trough, enterprises have accelerated their horizontal expansion. On the other hand, when enterprises in China have formed a certain scale, they often encounter bottlenecks that lack core technologies or have limited market space.

3.3 Relationship between diversification and corporate value of Chinese companies

Through the above review, it is found that the relationship between diversification and corporate value in China’s listed companies has not reached a unified conclusion. There are three main reasons: Firstly, because the sample size of listed companies in China is small and it varies from year to year. The performance of the company is very volatile, so choosing different samples or time sections may lead to completely different conclusions. Secondly, the industry distribution information disclosed by Chinese listed companies is often incomplete, and subjective judgment is often used to determine the degree of diversification of the company. Different judgment standards lead to differences in empirical results. Thirdly, there are many methods to measure corporate value and the degree of diversification. Choosing different methods for regression analysis will also produce different results. But what is certain is that the relationship between corporate diversification and corporate value in China, an emerging market, cannot draw a unified conclusion that diversification will harm corporate value as in Western developed countries. The pros and cons of diversified enterprises needs to be analyzed in a comprehensive manner in combination with the market environment and historical processes. (Qin 2008, 416-419.)

3.4 U.S. Diversified Practice Process

Since the end of the war, corporate strategy in the US market has undergone an evolution from relative concentration to diversification. Then re-normalize the process. The following table describes the diversification of the wealthy companies in the United States.

The distribution ratio of the diversification status of the Fortune 500 companies in the United States (%)					
Strategy type	1949	1959	1974	1981	1987
Single business	42	22.8	14.4	23.8	30.4
Leading business	28.2	31.3	22.6	31.9	28.1
Related Business	25.7	38.6	42.3	21.9	22.4
Irrelevant business	4.1	7.3	20.7	22.4	19

Source: Markids (1993)

According to the evolution of the diversification and re-nuclearization of the wealthy companies in the United States, we can see the evolution trend of diversification in recent years.

Evolutionary trend in 40 years (1949-1987)			
	1949-1959	1959-1969	1981-1987
Percentage of companies in a diversified trend	21.7	25	8.5
Percentage of companies that are in the trend of reconciliation	1.3	1.1	20.4

Source: Markids (1993)

As can be seen from the above table, companies that adopted a diversification strategy increased by 3 percentage points in the 1960s compared to the 1950s, and dropped sharply to 8.5% in the 1980s. The strategy of denuclearization was very rare before the 1970s. In the 1980s, companies that adopted the strategy of reconciliation increased to 20% of the sample data. The trend of diversification has undergone a huge shift in the past 40 years.

4 THEORY OF THE IMPACT OF DIVERSIFICATION ON THE VALUE OF CHINESE COMPANIES

4.1 Benefits of diversification

Diversified enterprises can copy the original management model to newly established enterprises, reducing the possibility of failure in the product, labor, and capital markets. This is particularly important in developing countries where successful operating mechanisms and advanced management experience are scarce. (Herrmann & Datta 2005, 69-78.) Emerging markets often lack entrepreneurial talents who both have advanced management experience and adapt to localized operations. Diversified expansion is an important way to make full use of their comprehensive capabilities (Khanna & Palepu 1997, 41-54.).

4.1.1 Diversify risks

Diversification can diversify corporate risks (Wagner 1971, 48-53). The business risk of an enterprise consists of two parts. One is the non-dispersible risk of the enterprise, also known as systemic risk, which reflects the fluctuations in the internal and external environment faced by the enterprise and cannot be eliminated by the enterprise, such as the impact of natural and man-made disasters on the operation of the enterprise.

According to the portfolio theory proposed by Markwitz (1999, 5-16), without affecting the expected return of investment, the assets of the enterprise can be effectively matched, thereby reducing the degree of asset loss, especially as the degree of irrelevance between investment businesses deepens, the effect of this asset collocation method on risk prevention will become greater and greater. In view of this, when companies make diversified investments, they can consider extending their assets to several independent business areas, and this expansion and business will not affect the formation of each business profit stream. Combining several independent businesses with unrelated profit streams, diversification does not necessarily improve corporate profit margins, but it can reduce fluctuations in corporate profit streams. It is always good to stabilize the profit flow and continuously reduce corporate risks.

4.1.2 Exploit market

The changes in the external environment of the company may make the company's product sales increasingly narrow, the market share is declining, and the original industry has lost the potential for further development. At this time, the wise thing for the company is to enter a new and vibrant industry(Qian 1997, 127-149). Diversification is imperative. For example, with the development of the Internet, e-books and online shopping will have a great impact on traditional bookstores and shopping malls.

At this time, companies should follow the trend and adopt diversified business strategies and adopt different strategies according to the different needs of customers' way of consuming. Therefore, the main reason for the external incentives of the diversification of enterprises is the force of the business environment, that is, the five market forces mentioned by Michael Porter (2008, 78): industrial competitors, buyers, suppliers, potential entrants, and substitutes.

4.1.3 Reduce risk of managers' human capital

Human capital is different from financial capital. It cannot be dispersed in various companies and industries. A manager can only be employed by one company for a certain period of time. The value of its human capital, especially dedicated human capital, stays together with the enterprises which hire these capitals. If a company managed by a manager implements diversified operations, as more industries join in, the risk faced by the company will decrease, and the risk faced by the manager's human capital will also decrease. (Kor & Leblebici 2005, 967-985.) Therefore, diversification in fact provides employment security for managers.

4.1.4 Enhance core competence

The core competence is the ability of the enterprise as a whole that can create basic benefits and value for customers and determine the company's lasting competitive advantage. It consists of a set of interrelated, organically coordinated, combined technologies and functions, and is decisive force to seize future business opportunities and seek greater development for enterprise (Markides & Wiliamson 1994, 149-165).

At this time, there are usually two forms of diversified operations: one is to improve the level of core competence through the use of existing core capabilities in new industries. The other is to obtain new core capabilities from new industries, and then combine existing and new integrate to improve the overall core competence. For example, Canon Inc. of Japan has continuously entered the electronic calculator industry and the copier industry because of its core capabilities in precision machinery and optical technology. It continuously improves the company's core capabilities through diversified operations (Wantanabe 2005, 11-27) .

4.2 Risks of diversification

4.2.1 Cross-industry investment risk

Diversified operations increase the risk of companies entering new industries (Elyasiani 2016, 681-718). If an enterprise diversifies through internal development, it will face barriers to entry into new industries. According to Michael Porter’s (2011) explanation in "Competitive Advantage", barriers to entry include economies of scale, benefits from experience, customer brand loyalty, access to distribution channels, cost advantages, capital requirements, and transfer costs. Cross-industry investment will bring new investment risks to enterprises, including cross-industry market development risks and cross-industry technology development risks (Doeringer& Terkla 1995, 225-237). Cross-industry market development risks. By adopting diversified operations, the cross-industry investment of enterprises is in an unfamiliar field. To carry out business that they were not good at before, they must open up new markets through marketing, advertising and other means, and the development of new markets has great uncertainty. This brings greater market development risks to companies' cross-industry investment, and at the same time makes companies' external transaction costs increase significantly. Cross-industry enterprise technology development risks. The development of an enterprise is inseparable from technology. For enterprises to invest in new industries across industries, if they want to have a place in the fierce market competition, they must carry out technological innovation. Due to the adoption of diversified operations, the different industries that companies enter, and the irrelevance of products, the requirements for technology are also irrelevant. This increases the difficulty of new technology development, increases the cost and risk of technology development, and gives Industry investment brings greater technology development risks. (Elyasiani 2016, 681-718.)

4.2.2 Cross-industry subsidy risk.

The implementation of diversified operations makes investment benefits different and profit and loss status different for enterprise, which can play the role of balancing returns and diversifying risks, but at the same time, it also produces the drawbacks of cross-industry subsidies. Generally speaking, after a single operating company has a negative net asset value (insolvency), it is less likely to survive, and it will usually go bankrupt or be merged by other companies (Kling 2014, 116-132). However, if the above-mentioned enterprise does not exist as an independent enterprise, but as a department of a diversified enterprise, the possibility of surviving in the event of insolvency is greatly increased, because the diversified enterprise will use other profits of the industry subsidizes loss-making industries, and such subsidies usually reduce the overall strength of the enterprise and bring the risk of cross-industry subsidy to the enterprise.

4.2.3 Resources diversify risks

Since the resources of an enterprise are limited, after diversified operations, the company will inevitably re-allocate its personnel, property, and assets, and will often divert resources from the original business to the new business. At the same time, diversified companies often use certain profit of each industry subsidizes loss-making industries in an attempt to achieve the "parallel development" of various industries. Such behavior usually causes the company to be in an embarrassing situation where the overall scale is huge, but the scale operation effect is not achieved in each business field. As a result, the original advantages of the main business are discarded, and the new business does not constitute a competitive advantage. (Mishra, 2004.) Diversification has not only failed to diversify risks and stabilize operations but also has increased the instability of business operations.

4.2.4 Financing risk

Compared with single-operated enterprises, diversified enterprises have more demand for capital. From the perspective of capital structure, there are two sources of funds for enterprises: one is equity funds (also called free funds), and the other is debt (also called borrowed funds). Under normal circumstances, companies that use methods such as absorbing investment and issuing stocks to raise equity funds are subject to relatively large restrictions. In this way, companies can only conduct debt operations through bank loans and issuance of bonds, which increases the company's debt ratio and brings greater financing risks (Fatemi 1988, 17-30).

4.2.5 Operational management risks

Diversified operations expose companies to multiple industries and multiple markets, which result in an increase in departments or subsidiaries, which will inevitably form a more complex management system and increase the degree of management. The new school of management—the "empirical school" believes that the greater the complexity of an enterprise, the more management levels, the more various reports, procedures, accounting, the more difficult it is to communicate information, and the more delays in decision-making, causing inefficiency. (Babich & Burnetas 2007, 123-146.)

5 CASE ANALYSIS BASED ON LIFE CYCLE

5.1 Early Stage

As a newly established company, a start-up has just completed a process of transformation from nothing to something. At this time, it was like a newborn baby. Its resistance in all aspects is very weak, and it is possible to get sick and die from it at any time. In this fragile stage of development, the primary goal of an enterprise should be survival, and the second goal is development. During this period, the company has just begun to invest in the construction of factory buildings, the purchase of equipment, the research and development of new products, and the development of the market (Masurel& Van 2006, 461-473). However, due to the short establishment time and limited resources in all aspects, the company has not been able to quickly develop the extremely competitive market. Therefore, start-up companies generally maintain a relatively small amount in terms of asset scale and operating income.

At the same time, the start-up enterprises are still in a state of making ends meet, and they need to rely on continuous investment from investors to maintain normal production and operation. In addition, due to the short establishment time of start-up enterprises and the small scale of production and operation, the owner will hire a limited number of workers in order to save labor costs. Therefore, start-up enterprises generally have a small number of employees, simple organizational structures, and incomplete internal management systems. Although there are various problems in start-up enterprises, it also has certain advantages. Generally speaking, when entrepreneurs first form a company, they are very passionate about doing everything, can understand and support employees, and have a strong pioneering spirit. At the same time, due to the small scale of assets, small number of personnel, simple organizational structure, and imperfect rules and regulations in the start-up stage, employees can freely express their opinions and give full play to their talents within the enterprise, so that the entire enterprise is full of vitality. In addition, many problems encountered by enterprises in the start-up stage appear for the first time. Managers and employees will not be affected by traditional ideas when solving problems, and they can display their own creativity.

5.1.1 Case analysis

In December 1993, Stone Lifang Information Technology Co., Ltd. was established in Beijing with Wang Zhidong as the general manager. In 1995, Wang Zhidong went online for the first time. In early 1997, Stone Lifang obtained the Internet Chinese application platform development project in the National 863 Plan. In December 1998, Stone Lifang announced the acquisition of the largest overseas Chinese website company "Huayuan Information" and the establishment of the world's largest Chinese website "Sina.com", which attracted great attention at home and abroad. Nowadays, Sina, Sohu, and NetEase are the three famous portal websites in China. Sina was also officially listed on Nasdaq in April 2000 as a high-tech company. Sina issued four million shares and raised a total of US$68 million, making it the first Chinese mainland Internet company listed in the United States.

In May 1995, Beijing Yinghaiwei Technology Company was founded. The "Yinghaiwei Time and Space" network designed by Zhang Shuxin and her husband was hung under the Chinese Academy of Sciences. It was the only network open to ordinary families in China at that time. In January 1997, Yinghaiwei and Microsoft formed a strategic partnership. In February, Yinghaiwei's national network was launched. Within three months, eight central cities including Shanghai and Guangzhou opened up, and its online user revenue reached 1.1 million yuan. In the 2000 "China Internet Influence Survey", Yinghaiwei's stock fell to the 131st position. In June 2000, Xingfa Group proposed to Mbit Corporation to acquire Yinghaiwei Communication through zero acquisition.

The Internet is an exotic product. For China in the 1990s, it was a completely new industry. Emerging industries are always full of risks and opportunities, and they are full of great temptation for entrepreneurs. Sina and Yinghaiwei are both pioneers at the time, and both have their own "China No. 1", but their endings are completely different. Based on this, it can be concluded that the experience accumulated in traditional industries is of little help to emerging industries, and the probability of success and failure in entering new industries is 50%. The factors that determine success or failure do not lie in whether the industry is new or old, nor whether the entrepreneurs are passionate, nor whether they have succeeded in other industries, but depend on the understanding and grasp of emerging industries, and on the enterprise. The quality of management depends on whether there is a unique way of operating in the emerging industry, whether the future of the emerging industry is "foresight", and whether there is a sense of crisis (Jianhui 1998).

5.1.2 Applicability of diversification strategy at start-up stage

From the above analysis, it can be seen that, as a newly established enterprise in the start-up stage, although it has a strong pioneering spirit, the comprehensive competitiveness of the enterprise is very weak, and there are many problems in organization and management as well as in production and operation. The enterprises may go bankrupt at any time because of these problems. Therefore, if a company rashly expands into multiple business areas, it can only further consume its own resources and bring about a greater survival crisis. At this stage of development, enterprises should make full use of their limited resources and good market opportunities to rapidly expand the production scale of their core businesses, cultivate their core competitiveness, enhance their overall strength, and become small but strong potential stocks. From a comprehensive analysis point of view, the implementation of relevant diversified business strategies with strong business relevance or the implementation of non-related diversified business strategies with weak business relevance may cause the loss of corporate performance at the start-up stage.

5.2 Growth stage

5.2.1 Characteristic of growth stage

After undergoing many tests in the start-up period, the company has finally ushered in the growth period. At this time, the company has achieved great success in the production and sales of products, technical research and development services, or the management of internal resources. At this stage, the company already has a certain market share. In order to obtain a larger market share, the company’s primary goal has been completely changed. The secondary goal "development" in the initial stage has begun to become the main goal at this stage. This enterprise will start a new round of large-scale investment. In this round of investment, the company began to gradually expand the scale of production and operation, invested more funds in the purchase and construction of production assets, increased research and development costs, increased the number of employees, and improved the technical level of employees and the management capabilities of managers (Mac & Lucey, 2011).

At the same time, the company also started to pay attention to some aspects with long-term impact, such as brand and social reputation. Compared with start-up enterprises, the advantages of scale economies of growth enterprises have begun to be highlighted, production and operation costs have been effectively reduced, and production and sales have increased rapidly. The company is no longer financially losing but has a positive net cash flow. At the same time, with the expansion of the scale of corporate assets, there is increase in the number of personnel and in operating income, the management model of the industry have also been effectively improved. With regard to the construction of internal governance systems, growth-stage companies have begun to follow up with mature large-scale companies, sort out existing organizational structures, establish some key departments, strengthen internal management system management and control, and improve regulations and systems including job responsibilities and salary systems.

Under this series of measures, the growth stage enterprises have made great progress in financial management, personnel management, organizational assessment and incentives, but this does not mean that there are no problems in the growth stage. In the growth period, although a company has a certain market share, its market control is still weak, facing attacks and squeezing out of competitors in the same industry. Its market position is extremely unstable, and there is a risk of being replaced by competitors. At the same time, although the growth stage enterprises have certain profitability, they are still in the state of investment and need a large amount of external capital support, and enterprises have begun to have financing problems. In addition, the establishment of enterprises during the growth period is relatively short, and there are still problems such as not prominent core business capabilities and low management level.

5.2.2 Case analysis

Haier Group, the "giant" of China's home appliance industry, together with New York Life Insurance Company, one of the world's largest insurance companies, joined hands in Shanghai on December 20, 2002 to formally announce the establishment of Haier New York Life Insurance Company. The company has a registered capital of 200 million yuan, each of which holds 50% of the shares. The combination of Haier and New York Life Insurance will undoubtedly form complementary advantages. On the one hand, as a well-known Chinese corporate group, Haier's brand influence and user network are a wealth resource that cannot be ignored. On the other hand, as a company with rich experience and professional management, Haier is also a force not to be underestimated. In fact, since 2001, Haier Group took the lead in the financial industry, took over Qingdao Commercial Bank, participated in Yangtze River Securities and became the largest shareholder, established Haier Insurance Agency Co., Ltd., and obtained almost all financial licenses for trust, insurance, securities, and banking.

In September 2002, Haier established a group finance company with a capital injection of 500 million yuan. These business activities have strongly shown that Haier Group, as a mature enterprise, has begun to enter the financial field in a strategic, planned and targeted manner. International experience shows that financial companies characterized by the combination of industrial capital and financial capital are the mature products of large international companies, and they are also the need for large corporate groups to reduce operational risks and costs in the process of international operations. More than two-thirds of the global top 500 companies have their own financial companies.

The cooperation between Haier Group and the New York Life Insurance Company of the United States has given Haier Group a brand-new "integration of industry and finance" framework that has begun to take shape. The operating space of Haier Group has also expanded from commodity markets and capital markets to financial markets. It can be said that Haier has made strategic gains after years of painstaking operations (Zheng & Jin 2008, 2).

5.2.3 Applicability of diversification strategy at growth stage

Through the above analysis, it can be seen that the biggest characteristic of a growth stage enterprise is development, and the core goal is to obtain a larger market share. At this stage, the company's total sales revenue and net profit are gradually increasing, the scale of assets is also steadily expanding, and key production technologies have been initially formed. All of this will make the founders and the entire staff team full of confidence in the future. At the same time, the gradual profit returns of enterprises will also bring stable cash inflows to enterprises. Banks and other investors are also optimistic about the development of enterprises, making it easier for enterprises to finance compared to before. All of this is inducing enterprises. Begin to expand into other business industries and implement diversified business strategies, but different types of diversified strategies will bring different results. When implementing relevant diversified business strategies, companies will gather relatively surplus resources and gradually make large-scale investments in industries related to their existing main business.

Due to the strong correlation between the new investment business and the existing business, the original successful experience of the operator can be applied to the new business. At the same time, the enterprise can also make full use of the existing remaining resources to realize the coordinated development of various businesses. In addition, business investment in industries related to existing business operations can further gather corporate resources, enhance the core competitiveness of the company, and bring about an improvement in the overall performance of the company. However, when implementing non-related diversified business strategies, companies will face industries that have not yet been involved, and therefore have to invest a relatively large amount of capital to develop this market. Although there are certain surplus resources in growth stage enterprises, their resources are still relatively limited, and they are still unable to make large-scale investments.

At the same time, non-related business areas are relatively weakly related to existing business operations, and the previous successful experience of the operators may not be applicable in the new industry. In addition, the establishment of a company is relatively short, and the operator’s qualifications are relatively shallow. There are many shortcomings in the management of the company or in the control of new business. Therefore, for the growing company, the implementation of non-relevant diversified business strategy has risks such as operation, management, finance and credit, which to a certain extent will be enough to threaten the survival and development of enterprises.

5.3 Mature stage

5.3.1 Characteristic of mature stage

After experiencing the rapid development of the growth period, the company will usher in the harvest period of steadily increasing profits, that is, the mature stage. At this stage, the company has a certain scale of production and operation and has a stable market share. It has matured in terms of organization and management level and the construction of rules and regulations, and the company has reached the peak of operating profit. At this time, the primary goal of the company is no longer to maintain rapid development during the growth period, but to consolidate its existing position in the market and delay the arrival of the recession period. Driven by this goal, companies will no longer continue to expand consumer groups, but strive to maintain existing customer loyalty. For this reason, enterprises in the mature stage have to maintain their original production and operation plans that have adapted to customers and deepen their market influence through aspects such as brand reputation. (Bergerson 2020, 1-25.)

Compared with enterprises in other stages, the operating activities of enterprises in the mature stage are very stable, and the net profit and cash flow of each period will not fluctuate greatly. During this period, through production and operation, investment and mergers and acquisitions, the company's strategic goals and competitive advantages have begun to highlight, and its position in the industry has also been established. In addition, mature enterprises have already standardized their rules and regulations and institutional settings. All production and operation activities have rules to follow, and there will be no business problems, management problems, and sales problems that occur in other stages.

In order to maintain the product brand and establish a public image, the company invests a large amount of money every year in the promotion and brand building of the company, and thus has achieved a good reputation. However, enterprises in the mature stage also have certain problems. Due to the imitation of small and medium-sized competitors and the advancement of product technology, the differences between products will gradually shrink. The existing product market will begin to become saturated. At the same time, due to the excessive size of enterprises, it began to become less sensitive to market changes and lacked the innovative spirit of the initial stage.

5.3.2 Case analysis

Galanz, known as the "price butcher" in the microwave oven industry, occupies 80% of the world's microwave oven market share, can be described as very strong. On September 21, 2000, Galanz Group broke its professional positioning and entered the air-conditioning refrigerator refrigeration industry with 2 billion yuan. It applied its "rigid strategy" in the microwave oven industry to the refrigeration industry, and further improved its position among Chinese home appliance manufacturers.

However, the facts did not develop as Galanz imagined. In the first half of 2002, the total factory inventory and circulation inventory of China's domestic air-conditioning industry exceeded 10 million units, setting an unprecedented inventory peak in the industry. Beginning in mid-June, except for a few air-conditioning manufacturers who have retained one or two production lines, most manufacturers have given workers a holiday. In fact, as early as April, most factories had discovered something wrong and started to limit production.

This shows that Galanz's diversification path has basically failed. The reasons for its failure are Firstly, achievements in one industry cannot be successfully replicated in other industries. Secondly, insufficient market research and forecasts have failed to analyze how large the industry’s production capacity is and to predict when the market will reach saturation. Thirdly, underestimating competitors, such as Haier, etc. have established a strong market advantage, how to seize the market space of competitors, lack of preparation. Fourthly, changing the original positioning of the company and extending the brand infinitely can easily lose focus. Regarding the fourth point, Jack Trout (1986) clearly stated that brand power is inversely proportional to the types of products it represents. The more types of products a brand is given, the easier it is for the mind to lose focus, the weaker the brand will be. Just like Chevrolet, its products are all-encompassing, and the brand gradually becomes nothing in people's minds. With sufficient funds and experience in market competition, they cannot succeed again. "Interlace is like a mountain." This statement does make sense. It can be seen that sufficient resources are not a sufficient condition for diversification.

5.3.3 Applicability of diversification strategy at mature stage

From the above analysis, we can see that the mature enterprises in the harvest stage have strong capital strength, sophisticated technology, and strong core competitiveness. They have basically formed the brand effect of their products and are in a leading position in a single market. But at the same time, mature enterprises are also facing certain development difficulties. The main reason is that although the original product market of the enterprise is very large, it is basically saturated and there is not much room for development. If the company continues to expand its share in this market, it will inevitably attract fierce resistance from competitors and trigger a price war. Therefore, the path of squeezing the market share of competitors to achieve development is out of reach, and the expansion of mature enterprises into other business areas will become the best choice to break through the predicament. However, when choosing a specific type of diversification strategy, the company still needs to conduct a comprehensive analysis based on its own situation.

Generally speaking, related and non-related diversified business strategies have their own advantages and disadvantages. Among them, non-related diversified business strategies can diversify the risk of a single business industry's decline, while related diversified business strategies can achieve resource sharing. Therefore, from the actual situation, the choice of any diversified business strategy by a company will fail or succeed. However, in general, there are general differences between the two diversified management strategies, and they have different effects on corporate performance. When implementing relevant diversified business strategies, companies will choose industries that are similar to their existing business operations for investment. At this time, the enterprise can better realize the coordinated development of various business departments, but at the same time, it will increase its dependence on the original production resources to a certain extent.

Since companies have entered a mature period and are already facing greater industry risks, and related diversified business strategies will further increase this risk, theoretically, the implementation of relevant diversified business strategies by companies in the mature stage will generally result in corporate performance Loss. However, if a mature company implements an unrelated diversified business strategy, it will choose industries that are less relevant to the existing business units for investment.

At this time, although companies are facing relatively large barriers to entry into the industry, the mature companies have strong comprehensive strength and abundant internal resources and can basically deal with problems that they cannot face during the growth period. Meanwhile, the non-related diversified operation of the enterprise can avoid the production and operation risks caused by the saturation of the original business industry market. Therefore, theoretically, the implementation of the non-related diversified operation strategy by the mature company will generally promote the improvement of corporate performance

5.4 Recession stage

5.4.1 Characteristic of recession stage

Due to the failure of companies in the mature stage to respond quickly to market changes and seize market opportunities, in the fiercely competitive environment, companies began to gradually become less vigorous, gradually aging and perishing, and entered a new stage of development——The period of recession. Compared with companies in other stages, companies in the recession period are still very large in terms of asset scale and market share. However, due to weakened competitiveness, oversupply of products and backlogs of products have begun to cause companies to increase inventory.

In order to expand product sales, companies have to lower product prices, so that the company's operating income and financial conditions deteriorate in both directions during the recession, and even begin to lose money. In terms of management, although enterprises have established relatively mature and complete management systems and rules and regulations during the recession period, due to the large number of personnel and the excessive scale of assets, the management decision-making system has become disorganized. The contradiction between the two companies has gradually increased, and the organization and coordination have become difficult. At this time, the enterprise is like a mess, without pioneering spirit.

In addition, due to the sharp decline in the profitability of enterprises during the recession, the cash flow obtained through production and operation activities will not support the normal operation of the enterprise, the asset-liability ratio will begin to rise, coupled with problems such as internal management confusion, the corporate image will also It began to deteriorate. Although the decline of enterprises in production and management and internal organization and management in the recession period, the comprehensive strength of the enterprise is still very strong due to the accumulation and efforts in the early stage, so the decline period of the enterprise is not necessarily going to die. At this stage, the primary goal of the company is no longer to maintain and consolidate its current status in the mature period, but to seek reforms and change the current situation. The key for an enterprise to achieve this goal is to change its business strategy, adjust its internal organizational structure, and adapt to changes in the industry, so as to move toward a new life and achieve growth and development again.

5.4.2 Case analysis

In October 1958, the 780 factory broke ground. In March 1965, the Fourth Machinery Department renamed the State-owned Sichuan Radio Factory, the second factory of the 780 Factory, to the State-owned Changhong Machinery Factory. In August 1986, Panasonic technology was successfully introduced and the first color TV building was completed. In June 1988, the shareholding system reform was started and Sichuan Changhong Electric Co., Ltd. was established. In 2002, while Changhong was firmly on the throne of China's color TV kings, its ranking in the world's color TV industry was also greatly improved, and it successfully ranked second in the world's color TV production and sales.

This old military-industrial enterprise's switch to producing civilian products is inseparable from the background of China. After China's reform and opening up, the world structure has undergone fundamental changes. "Peace and development" have become the theme of the times. This change has forced many military industry companies to switch to production, restructuring, or diversified operations. They either switch to the production of civilian products or produce both military and civilian products. Changhong was one of the best, and her success later benefited from its famous slogan "Changhong takes industry to serve the country and revitalize national industry as its mission."

Regardless of whether the enterprise playing the national brand really takes "revitalizing the national industry" as its mission, the national brand has indeed played a role in beautifying the corporate brand image, attracting the attention of the media, and winning the favor of Chinese consumers. In 1990, Lenovo Computer came out. In 2002, Lenovo Group's computer sales ranked first in the Asia-Pacific personal computer market. Its sales growth is twice that of Hewlett-Packard, the world's leading PC company. This is a company that has benefited from the reform and opening up, and a group of people engaged in basic research have created their own industry.

Given Lenovo’s clear sense of crisis, strong marketing initiatives, its beliefs, perseverance and unstoppable enthusiasm, and the country’s preference for national brands. In the long run, it is difficult for us to conclude that it will collapse. When the big ship of Lenovo begins to sail into the world's oceans, it will definitely encounter wind and waves. Its opponents are also quite powerful and fierce, but its progress is obviously unstoppable. Although both companies have succeeded, the common ground of the two cannot be ignored: both were once "national" enterprises. The national brand enterprises have either a large amount of financial support or advanced technical support when they change production, transform or engage in diversified operations. And capital and technology can have a place in the market, not to mention both. When a company does not have strong capital and technology backing, diversification is tantamount to gambling.

5.4.3 Applicability of diversification strategy at recession stage

From the above analysis, it can be seen that after the company entered a period of recession, the supply of products began to exceed demand, both operating income and operating profit had deteriorated, and the asset-liability ratio was rising. In order to improve this situation, companies in the recession period have to choose to minimize investment activities and use existing facilities to maintain basic production operations. This means that the company will reintegrate existing resources, divest non-leading industries, focus on the company's core business, optimize resource allocation, and get rid of existing difficulties.

At this time, different types of diversification strategies will have a different impact on the development of enterprises. When implementing related diversified business strategies, companies in the recession period will reduce business units that are not related to their main business, and on this basis, invest in industries with strong business relevance. Through this approach, enterprises in the recession period can effectively gather various resources, cultivate core business capabilities, reduce the scale of the enterprise, strengthen production and operation management, and reconstruct the core competitiveness of the enterprise, so that the enterprise can be reborn.

Conversely, if a non-related diversification business strategy is implemented, the company will seek to invest in other non-related industries on the basis of maintaining existing business industries. Due to a certain shortage of resources in the enterprise itself during the recession, if it re-enters a new industry, it will inevitably increase the production and operation risks of the enterprise. At the same time, enterprises in the recession period have already encountered problems in some business sectors that cannot meet the needs of market development. If they cannot be divested, it will further aggravate the recession of the enterprise and cause a serious crisis for the enterprise. Therefore, from the perspective of cultivating core competitiveness and integrating corporate resources, the implementation of unrelated diversified business strategies by companies in a recession period will seriously damage corporate performance.

6 CONCLUSION

6.1 Answers to Research Qestions

Based on the above analysis, although the results of implementing the diversified business strategy are mixed, one thing is certain, it is very difficult for Chinese companies to grow bigger and stronger through diversified business. Vanke became strong only by embarking on a path of specialization; Giant Group closed down because of diversified operations; Changhong converted to specialize in color TVs; Lenovo specializes in computers; Galanz turned to diversified operations and failed miserably when the microwave oven became stronger; Haier was the franchise home appliance industry that has gained a strong market position and then turned to diversification. The actual development path is from strong to big, not from big to strong; Stone Lifang enters the emerging network industry and creates Sina.com and finally succeeds; Ying Haiwei, the first Chinese Internet access company, ultimately failed.

The failure of Chinese enterprises' diversified operations cannot be simply attributed to the limitation of resources and entering into unfamiliar business areas. The actual reasons are varied. The primary reason may be that the diversification of Chinese enterprises is not the result of free market choice. The so-called free choice in the market means that enterprises make decisions independently according to their own development needs, including diversified decisions. The reason for the diversification of many Chinese enterprises is to solve the work of the family, relatives and friends of government officials, or to be led by the government. Most of this diversification is an inefficient diversification, a diversification that loses efficiency. Such failures of corporate diversification are not surprising. The second reason should be the variability of policies. Changes in policies have created instant investment opportunities in the market, and companies are tempted by these opportunities to set foot in other business areas. However, because such market opportunities are short-lived, not only will the policy adjustments once again make the investment of the company “lost”, but also a “bubble” will appear in the short term because of the irrational investment of all companies. If the company’s response is not quick enough, when the short-lived market opportunity disappears, waiting for the enterprise can only be a bitter fruit. As a result, the grasp of policies has become a watershed for the success of corporate diversification. The final reason lies in the enterprise itself. Business leaders cannot grasp the timing and scope of diversification, do not diversify when they should be diversified, and diversify when they shouldn’t; or insist on diversification when they should adopt a shrinking strategy; or be infinitely diversify.

6.2 Validity and Reliability

Reliability refers to the degree of consistency of the results obtained when the same method is used to repeatedly measure the same object. Validity refers to the degree to which a measurement tool or means can accurately measure what needs to be measured. Although this article does not use a large number of cases, typical cases are sufficient to prove that it is difficult for Chinese companies to develop and bring value through diversification. At the same time, it is validity to analyze the use of diversification strategies at different stages.

Nevertheless, China's market and policy environment are very suitable for companies to conduct diversified operations, and they also require companies to conduct diversified operations. Some people say that after experiencing an extreme shortage of materials, China has now slowly entered the buyer's market stage. However, the judgment of the Chinese market's entry into the buyer's market is inaccurate. Due to the dual economic structure, the products in some large and medium cities in China have been saturated, but there is still a huge demand in the vast small and medium cities and rural areas. Therefore, for many products, companies almost still sell the products they produce. When the market is not yet fully mature and saturated, and policy changes usually bring artificial profit opportunities, the company can not only diversify, but also diversify. The key question is how to achieve diversification.

7 SUGGESTIONS

For Chinese companies to diversify, the primary task is to grasp the country’s macro policy trends. In the words of Haier Group President Zhang Ruimin, during the transition from a planned economy to a market economy, companies must have three eyes, focusing on employees and users. We have to watch the government and market changes.

The government's policy is not only the maker of market opportunities for enterprises, but also the destroyer of enterprises. When an enterprise conducts diversified operations, it must grasp the bottom line and direction of the government's policy. As soon as a market opportunity appears, the enterprise will act immediately. When the policy becomes unclear or the policy shows negative trends, the company should start to withdraw from operations. Secondly, companies must carry out diversified strategic planning and determine what role diversified operations play in the overall strategy of the company.

Generally speaking, a company’s diversification positioning can be divided into two types: one type regards all or most of the industries involved in diversification as the company’s main business, and both play a very important role in the company’s overall strategy. The other type is to treat diversification outside the main business of the enterprise as a sideline, and the enterprise only regards diversification as a temporary source of profit to supplement the capital gap for investment in the main business.

The strategies adopted by the two different positioning companies are different. For the diversification of the main business, the company must analyze the industry status of the company in each field of operation. If it cannot enter the top few of the industry, the company should consider abandoning some main businesses, or further strengthen these main businesses under the conditions of obtaining capital permits. If the company only uses diversification as a source of profit, supplements the company's capital and helps strengthen investment in the main business, but does not want to maintain a lasting competitive advantage in various fields of diversification, then the company should choose an industry with relatively low exit thresholds. Make "short-term" investment because companies need to withdraw investment at any time in accordance with policy and market changes. Companies that make "short-term" investments must grasp the country's policy trends and grasp the short-term opportunities that appear in the market.

Finally, Chinese companies must have a degree of assurance when diversifying their operations. The range of diversification cannot be widened, because too long the front line will exhaust the resources of the enterprise and thus cannot cope with any small changes in the market. Such enterprises are extremely prone to business crisis or even bankruptcy. As for the extent of diversification, there is no uniform standard for a company. It mainly depends on the company's cash flow scale and financing strength. But for the enterprise as a whole, there may be a relatively clear and moderate range, which requires the support of further empirical research.

8 SUMMARY

This thesis introduces the adjustment factor of enterprise life cycle, analyzes the characteristics of enterprises in different stages of development and combines their characteristics to study the impact of diversified strategy types on enterprise performance at different stages of development. At the same time, from the perspective of enterprise life cycle, this thesis analyzes the development characteristics of enterprises in the early period, growth period, maturity period, and recession period, as well as the selection of appropriate diversification strategies at different stages.

In short, this thesis analyzes the three issues of diversification of Chinese enterprises: What is diversification? The impact of diversification on the value of Chinese companies? Should Chinese companies diversify? When should a diversified business strategy be implemented? Due to the impact of the transitional economy, Chinese companies not only have diversified intrinsic motivations, realistic needs, but also the helplessness faced by companies. There are many reasons for the failure of diversification of Chinese enterprises. Government intervention and policy changes play an important role. Of course, enterprises also have internal management problems. Successful diversification requires companies to have a clear understanding and grasp of the bottom line and trend of the country's economic policy; secondly, companies need to strategically position diversification, whether to treat diversification beyond the original core business as a new core business or just as a sideline. However, no matter how it is positioned, companies should maintain a concept of a dynamic transformation of the main business and sideline business. Finally, for Chinese business operators, diversification must be certain to give play to the greatest positive impact of diversification on corporate value.

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