Product Diversification, Symbiotic Orientation and Firm Performance:
A Perspective of Extended Resource-Based View of the Firm

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A thesis submitted in partial fulfillment of the requirements
for the degree of
Master of Philosophy

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Hong Kong Baptist University

January 2008
ABSTRACT

In the strategic management literature, the relationship between product diversification and firm performance has received extensive attention (e.g. Ansoff, 1957; Chandler, 1962; Ramanujam and Varadarajan, 1989; Palich, Cardinal, and Miller, 2000). However, the results of existing empirical tests are mixed (cf. Datta, Rajagopalan, and Rasheed, 1991). To untangle the inconsistency, this paper examines the relationship between intra-industry product diversification and firm profitability and growth, as well as the moderating effect of symbiotic orientation.

I argue that product diversification, especially intra-industry product diversification, will increase the firm profitability based on the perspective of economies of scope. But it is more complex regarding to firm growth performance. On the one hand, diversifiers employing excess resources/capabilities in newly developed markets are expected to gain higher market increase. On the other hand, diversification distracts firms’ core resources and capabilities from core business and fails to espouse further exploitation; at the same time new markets experience decreasing development abilities due to certain fixed supplied resources/capabilities.

As argued by Hill, Hitt and Hoskisson (1992), one most plausible explanation to the inconsistent results is that large amount of previous research on product diversification has ignored the effects of other organizational characteristics. One set of the important organizational characteristics may be firm resources. The previous studies on diversification place solely focus on those internal resources that are controlled and owned within the firm, but ignore the external resources that are embedded in the inter-organizational relationships. According to the extended resource-based view (Dyer and Singh, 1998; Lavie, 2006), a comprehensive and
dynamic consideration of internal and external firm resources that enable firm to obtain an advantage position over their competitors is needed. On the one hand, firms through diversification can cross-utilize their internal core resources and capabilities among multi-units. On the other hand, firms can benefit from inter-firm combination and complementation of core resources and capabilities by participating in external symbiotic relationships with other firms.

The empirical study was conducted in the insurance industry in P. R. China, using secondary data from *Yearbook of China's Insurance*, an official annually publication by Statistical Bureau of China. As hypothesized, intra-industry product diversification contributes to higher profit, but leads to lower firm sales growth. Symbiotic orientation is shown to positively moderate the relationship between product diversification and firm profitability and growth. The theoretical contribution, implication and limitation will be presented and discussed.
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