

Curvilinearity in the diversification–performance linkage: an examination of over three decades of research

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Abstract

While an extensive literature examines the diversification–performance relationship, little agreement exists concerning the nature of this relationship. Both theoretical and empirical disagreements abound. This study synthesizes findings from three decades of research to address major theoretical issues that remain open to debate. We derive three competing models from the literature and empirically assess these using meta-analytic data drawn from 55 previously published studies. The results of our tests indicate that moderate levels of diversification yield higher levels of performance than either limited or extensive diversification. Thus, we provide support for the curvilinear model; that is, performance increases as firms shift from single-business strategies to related diversification, but performance decreases as firms change from related diversification to unrelated diversification. The results also indicate major effects from variation in diversification and performance operationalizations. Copyright © 2000 John Wiley & Sons, Ltd.

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