MODERATING EFFECT OF CORPORATE PARENTING
ROLES ON THE RELATIONSHIP BETWEEN PRODUCT
DIVERSIFICATION STRATEGIES AND CORPORATE
PERFORMANCE OF LISTED COMPANIES ON BURSA
MALAYSIA

KHAWAJA KHALID MEHMOOD

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By

KHAWAJA KHALID MEHMOOD

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ABSTRACT

Past research examining effect of product diversification strategy on corporate performance has produced inconclusive results. Equal ambiguity resides in the relative superiority and effects of related diversification strategy versus unrelated diversification strategy on corporate performance. Amidst, corporate parenting has been considered as a crucial issue related to diversification strategies. Primarily, this study attempted to reconcile paradox concerning diversification strategies – performance relationship by focusing on the moderating effect of corporate parenting roles on the relationship. Additionally, the study used multiple performance measures to enrich the investigation. Keeping in view the important role of Malaysian corporate sector in country’s growth and development, and proliferation of diversified companies in Malaysia, this study was conducted on Public Listed Companies (PLCs) listed on Bursa Malaysia’s Main Market. Secondary data was obtained mainly from companies’ annual reports, while primary data was collected through questionnaires sent to top managers of PLCs. This study utilised sample of 123 PLCs, and employed various statistical methods to draw conclusions using SPSS. The study reveals that product diversification strategy in total, does not affect corporate performance. Related diversification strategy positively affects Tobin’s q and price to book value, and unrelated diversification strategy negatively affects return on assets and price to book value. Synergy manager positively moderates relationship between related diversification strategy and Tobin’s q, and price to book value. Parental developer positively moderates relationship between related diversification strategy and all financial measures of corporate performance. Portfolio manager positively moderates relationship between unrelated diversification strategy and return on assets, and return on equity. Related diversifiers seem to outperform unrelated diversifiers on Tobin’s q and price to book value. Parental developers perform well against synergy managers on return on assets and return on equity. The findings contribute to relevant theories and recommend managers to adopt suitable corporate parenting roles while pursuing diversification strategies.

Keywords: product diversification strategies, corporate parenting roles, corporate performance, Malaysian public listed companies.
ABSTRAK


**Kata kunci:** strategi kepelbagaian produk, peranan kepimpinan syarikat induk, prestasi korporat, syarikat senaraian awam Malaysia.
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<td>Graphs for DU and SCP with low/moderate/high PMlevel</td>
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<td>Figure 4.14</td>
<td>Graphs for DU and SCP with low/high PMlevel</td>
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**LIST OF ABBREVIATIONS**

<table>
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<tr>
<th>No.</th>
<th>Abbreviation</th>
<th>Meaning</th>
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<tbody>
<tr>
<td>1</td>
<td>ACE</td>
<td>Access Certainty Efficiency</td>
</tr>
<tr>
<td>2</td>
<td>DR</td>
<td>Related Diversification Strategy</td>
</tr>
<tr>
<td>3</td>
<td>DRCentred</td>
<td>Related Diversification Centred Variable</td>
</tr>
<tr>
<td>4</td>
<td>DRPDCentred</td>
<td>Centred Interaction term for Related Diversification and Parental Developer</td>
</tr>
<tr>
<td>5</td>
<td>DRSMCentred</td>
<td>Centred Interaction term for Related Diversification and Synergy Manager</td>
</tr>
<tr>
<td>6</td>
<td>DT</td>
<td>Product Diversification Strategy (Total Diversification)</td>
</tr>
<tr>
<td>7</td>
<td>DU</td>
<td>Unrelated Diversification Strategy</td>
</tr>
<tr>
<td>8</td>
<td>DUCentred</td>
<td>Unrelated Diversification Centred Variable</td>
</tr>
<tr>
<td>9</td>
<td>DUPMCentred</td>
<td>Centred Interaction term for Unrelated Diversification and Portfolio Manager</td>
</tr>
<tr>
<td>10</td>
<td>EMAS Index</td>
<td>Exchange Main Board All-Shares Index</td>
</tr>
<tr>
<td>11</td>
<td>EPU</td>
<td>Economic Planning Unit</td>
</tr>
<tr>
<td>12</td>
<td>ETP</td>
<td>Economic Transformation Programme</td>
</tr>
<tr>
<td>13</td>
<td>FTSE</td>
<td>Financial Times Stock Exchange</td>
</tr>
<tr>
<td>14</td>
<td>GTP</td>
<td>Government Transformation Programme</td>
</tr>
<tr>
<td>15</td>
<td>IPC</td>
<td>Infrastructure Project Companies</td>
</tr>
<tr>
<td>16</td>
<td>IWK</td>
<td>Indah Water Konsortium Sdn Bhd</td>
</tr>
<tr>
<td>17</td>
<td>KLCI</td>
<td>Kuala Lumpur Composite Index</td>
</tr>
<tr>
<td>18</td>
<td>KLSE</td>
<td>Kuala Lumpur Stock Exchange</td>
</tr>
<tr>
<td>19</td>
<td>LRT</td>
<td>Light Rail Transit</td>
</tr>
<tr>
<td>20</td>
<td>MAICS A</td>
<td>The Malaysian Institute of Chartered Secretaries and Administrators</td>
</tr>
<tr>
<td>21</td>
<td>MAS</td>
<td>Malaysian Airline System</td>
</tr>
<tr>
<td>22</td>
<td>MASB</td>
<td>Malaysian Accounting Standards Board</td>
</tr>
<tr>
<td>23</td>
<td>MATRADE</td>
<td>Malaysia External Trade Development Corporation</td>
</tr>
<tr>
<td>24</td>
<td>MCMC</td>
<td>The Malaysian Communications and Multimedia Commission</td>
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<tr>
<td>25</td>
<td>MESDAQ</td>
<td>Malaysian Exchange of Securities Dealing and Automated Quotation</td>
</tr>
<tr>
<td>26</td>
<td>MIA</td>
<td>Malaysian Institute of Accountants</td>
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<tr>
<td>27</td>
<td>MIDA</td>
<td>Malaysian Investment Development Authority</td>
</tr>
<tr>
<td>No.</td>
<td>Abbreviation</td>
<td>Meaning</td>
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<tr>
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<tr>
<td>28</td>
<td>MIER</td>
<td>Malaysian Institute of Economic Research</td>
</tr>
<tr>
<td>29</td>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
</tr>
<tr>
<td>30</td>
<td>MRT Corp</td>
<td>Mass Rapid Transit Corporation Sdn Bhd</td>
</tr>
<tr>
<td>31</td>
<td>P/B Value</td>
<td>Price to Book Value ratio</td>
</tr>
<tr>
<td>32</td>
<td>PD</td>
<td>Parental Developer</td>
</tr>
<tr>
<td>33</td>
<td>PDCentred</td>
<td>Parental Developer Centred Variable</td>
</tr>
<tr>
<td>34</td>
<td>PLC</td>
<td>Public Listed Company</td>
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<tr>
<td>35</td>
<td>PM</td>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>36</td>
<td>PMCentred</td>
<td>Portfolio Manager Centred Variable</td>
</tr>
<tr>
<td>37</td>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
</tr>
<tr>
<td>38</td>
<td>RMK-10</td>
<td>Rancangan Malaysia ke-10</td>
</tr>
<tr>
<td>39</td>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>40</td>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>41</td>
<td>SC</td>
<td>Securities Commission</td>
</tr>
<tr>
<td>42</td>
<td>SCP</td>
<td>Subjective (assessment of) Corporate Performance</td>
</tr>
<tr>
<td>43</td>
<td>SM</td>
<td>Synergy Manager</td>
</tr>
<tr>
<td>44</td>
<td>SMCentred</td>
<td>Synergy Manager Centred Variable</td>
</tr>
<tr>
<td>45</td>
<td>SPAC</td>
<td>Special Purpose Acquisition Company</td>
</tr>
<tr>
<td>46</td>
<td>SUHAKAM</td>
<td>Suruhanjaya Hak Asasi Manusia</td>
</tr>
<tr>
<td>47</td>
<td>VIF</td>
<td>Variance Inflation Factor</td>
</tr>
<tr>
<td>48</td>
<td>*ZRESID</td>
<td>Standardized Residual Values</td>
</tr>
<tr>
<td>49</td>
<td>*ZPRED</td>
<td>Standardized Predicted Values</td>
</tr>
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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This chapter starts by providing a general overview and background of past research on product diversification – performance relationship. Section 1.3 highlights the contextual importance of the study as it points towards current challenging scenario faced by Malaysian economy and the past research conducted on the topic in Malaysian context. Section 1.4 presents problem statements of the study followed by research questions and research objectives in proceeding sections. Section 1.7 discusses theoretical and practical significance of the study. Section 1.8 explains scope of the study. The chapter concludes by providing organisation of thesis and chapter summary in last two sections.

1.2 Research Background

1.2.1 Overview of Past Research on Product Diversification – Performance Relationship

To diversify or to remain focused is one of the most important questions for a company’s strategist (Marinelli, 2011). In the West, the trend of diversifying into different industries started in 1960’s which continued till 1970’s, but many companies started to refocus and restructure themselves during 1980’s (David, 2011; Gupta, Gollakota, & Srinivasan, 2007). Perspectives and theories such as market power view (Palepu, 1985; Palich, Cardinal, & Miller, 2000; Saloner, 1985), resource based view (Teece, 1982; Wernerfelt, 1984), internal capital market efficiency (Berger & Ofek,
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