

**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

**DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
February 2015**

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By

KHAWAJA KHALID MEHMOOD

**Thesis Submitted to
School of Business Management,
Universiti Utara Malaysia,
in Fulfilment of the Requirement for the Degree of Doctor of Philosophy**

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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

Kajian terdahulu memperoleh dapatan bercampur-campur mengenai kesan strategi kepelbagaian terhadap prestasi syarikat. Kelebihan dan kesan strategi kepelbagaian produk berkait berbanding dengan strategi kepelbagaian produk tidak berkait terhadap prestasi syarikat adalah tidak dapat dipastikan. Namun begitu, adalah jelas bahawa kepimpinan syarikat induk telah dikenal pasti sebagai sangat penting dalam strategi kepelbagaian. Secara khususnya, kajian ini memberi fokus kepada ketidakjelasan strategi kepelbagaian berhubung dengan prestasi yang berkaitan dengan kesan kepimpinan syarikat induk iaitu sebagai perantara. Kajian ini turut menggunakan beberapa pengukur prestasi lain bagi meningkatkan keberkesanan kajian. Kajian ini dilakukan terhadap syarikat awam yang tersenarai di Bursa Malaysia berasaskan pemahaman tentang kepentingan sektor korporat dalam pertumbuhan dan pembangunan serta kesan syarikat menggunakan strategi kepelbagaian di Malaysia. Secara khususnya, data sekunder diperolehi daripada laporan tahunan syarikat dan data prima pula daripada soal selidik yang dihantar kepada pegawai kanan Syarikat Senaraian Awam (SSA) yang berkaitan. Kajian ini menggunakan sampel data daripada 123 SSA dan pelbagai kaedah statistik berasaskan SPSS dalam pembentukan rumusan berkaitan. Kajian ini turut mendapati bahawa strategi kepelbagaian tidak memberi kesan kepada prestasi syarikat korporat. Namun begitu, strategi kepelbagaian produk berkait memberi kesan positif kepada Tobin q dan harga kepada nilai buku, dan strategi kepelbagaian produk tidak berkait memberi kesan negatif kepada pulangan ke atas aset dan harga kepada nilai buku. Pengurus sinergi pula moderat secara positif hubungan antara strategi kepelbagaian produk berkait dengan Tobin q dan harga kepada nilai buku. Kepimpinan syarikat induk pula moderat secara positif hubungan strategi kepelbagaian dan semua ukuran kewangan korporat. Pengurus portfolio turut moderat secara positif hubungan antara strategi kepelbagaian tidak berkait dengan pulangan ke atas aset dan ekuiti. Syarikat yang menggunakan strategi kepelbagaian produk berkait didapati mengatasi prestasi syarikat yang menggunakan strategi kepelbagaian produk tidak berkait iaitu berasaskan Tobin q dan harga kepada nilai buku. Di samping itu, kepimpinan syarikat induk pula menunjukkan prestasi lebih baik berbanding dengan pengurus sinergi dalam aspek pulangan ke atas aset dan ekuiti. Dapatan kajian ini menyumbang kepada teori-teori yang berkaitan dan juga pengurus-pengurus iaitu dari aspek peranan kepimpinan syarikat induk dalam menentukan strategi kepelbagaian yang terbaik dan sesuai untuk diadaptasi.

Kata kunci: strategi kepelbagaian produk, peranan kepimpinan syarikat induk, prestasi korporat, syarikat senaraian awam Malaysia.

ACKNOWLEDGEMENTS

All praises and thanks to Allah, the Most Gracious, the Most Merciful and Allah's Prophet, Muhammad (S.A.W).

This thesis has been product of extreme hard work. However, it could not have been accomplished without the support of several people. First and foremost, I would like to pay my big thanks and sincere appreciation to my supervisor Associate Prof. Dr. Haim Hilman Bin Abdullah for his guidance, support, patience, commitment and firm belief in my capability to complete this challenging task. He has always been there for me to help and pull me out of troubles and problems.

My gratitude also goes to staff members of Othman Yeop Abdullah Graduate School of Business (OYA), College of Business (COB), and other UUM Staff for their help and support in different administrative matters. I am also thankful to my university (Bahauddin Zakariya University, Multan, Pakistan) for giving me opportunity to pursue this PhD through study leave with pay.

I would also like to thank all the companies, respondents and secretaries who helped me in getting the desired response rate. I appreciate the cooperation of Malaysian Institute of Corporate Governance (MICG) for giving me the opportunity to attend one of the conferences and making discussions with certain respondents.

Last but not least, I am grateful to my parents for their continued financial and social support, my wife and my kids; Amin and Usman, for their love and patience they showed during the time period, without which this task could not have been completed.

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LIST OF ABBREVIATIONS

No.	Abbreviation	Meaning
1	ACE	Access Certainty Efficiency
2	DR	Related Diversification Strategy
3	DRCentred	Related Diversification Centred Variable
4	DRPDCentred	Centred Interaction term for Related Diversification and Parental Developer
5	DRSMCentred	Centred Interaction term for Related Diversification and Synergy Manager
6	DT	Product Diversification Strategy (Total Diversification)
7	DU	Unrelated Diversification Strategy
8	DUCentred	Unrelated Diversification Centred Variable
9	DUPMCentred	Centred Interaction term for Unrelated Diversification and Portfolio Manager
10	EMAS Index	Exchange Main Board All-Shares Index
11	EPU	Economic Planning Unit
12	ETP	Economic Transformation Programme
13	FTSE	Financial Times Stock Exchange
14	GTP	Government Transformation Programme
15	IPC	Infrastructure Project Companies
16	IWK	Indah Water Konsortium Sdn Bhd
17	KLCI	Kuala Lumpur Composite Index
18	KLSE	Kuala Lumpur Stock Exchange
19	LRT	Light Rail Transit
20	MAICSA	The Malaysian Institute of Chartered Secretaries and Administrators
21	MAS	Malaysian Airline System
22	MASB	Malaysian Accounting Standards Board
23	MATRADE	Malaysia External Trade Development Corporation
24	MCMC	The Malaysian Communications and Multimedia Commission
25	MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
26	MIA	Malaysian Institute of Accountants
27	MIDA	Malaysian Investment Development Authority

No.	Abbreviation	Meaning
28	MIER	Malaysian Institute of Economic Research
29	MITI	Ministry of International Trade and Industry
30	MRT Corp	Mass Rapid Transit Corporation Sdn Bhd
31	P/B Value	Price to Book Value ratio
32	PD	Parental Developer
33	PDCentred	Parental Developer Centred Variable
34	PLC	Public Listed Company
35	PM	Portfolio Manager
36	PMCentred	Portfolio Manager Centred Variable
37	REIT	Real Estate Investment Trust
38	RMK-10	Rancangan Malaysia ke-10
39	ROA	Return on Assets
40	ROE	Return on Equity
41	SC	Securities Commission
42	SCP	Subjective (assessment of) Corporate Performance
43	SM	Synergy Manager
44	SMCentred	Synergy Manager Centred Variable
45	SPAC	Special Purpose Acquisition Company
46	SUHAKAM	Suruhanjaya Hak Asasi Manusia
47	VIF	Variance Inflation Factor
48	*ZRESID	Standardized Residual Values
49	*ZPRED	Standardized Predicted Values

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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