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Research on Development of Firm Related Diversification from a Co-evolutionary Process View

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Cohort: 2017

Candidate: LI Zhangyi

Supervisor: JING Runtian

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ABSTRACT

Diversification is an unignorable strategy in corporate development. Any firms, whatever specialized or diversified, need to think about the development and extension direction of market, products, technologies and organization during their growth. Specialization and diversification are relative where the former is an extreme case of the latter. Diversification is an inevitable topic that most firms confront or think about at some point in their development.

Most of the earlier studies on diversification strategy have been based on the ANOVA technique, exploring how related diversification impacts a firm's performance from the lens of an outsider, the researcher. The complementarity of sibling business services often serves as one of the mechanisms to explain the impact on performance. However, due to the knowledge limitations of the outsider, the earlier studies are mostly based on secondary data analysis and cannot truly reflect the emergence and evolution of complementary effects brought by related diversification, which also gave rise to different or even contradictory research conclusions in this regard. Therefore, based on the process research method, this thesis carefully tracks and analyze all the evolutions and business expansions in which the case firm has implemented related diversification strategy for 23 years, as well as the organizational changes and innovations supporting the strategy implementation (such as organizational structure, process system, and incentive mechanism).

The research questions include: how a firm with related diversification co-evolve? how its complementary mechanism form? Combining these questions, this thesis intends to open the black box of complementarity mechanism in the previous related diversification studies, produce more exhaustive first-hand data for scholars and business practitioners to understand firm related diversification strategy, and provide a more profound explanation facility for researchers to discern the contradictory conclusions of prior empirical studies.

Built upon the analysis of Sunwoda's development course and various changing factors, this thesis also extracts a co-evolution model, spanning stages of exploring, deepening, diffusion, and upgrading, and proposes the following propositions: (1) In exploring, firms should try to find an opportunity both to meet customers' demands and to achieve sales, profits and other value; (2) In deepening, in face of many opportunities, it's necessary to determine the core positioning, go deep around a main thread to build the core competence which helps a firm to

gain an edge over other competitors in its core technology, business model or management model; (3) In diffusion, firms shall expand business based on specialization and the compatibility between resource capabilities and the market opportunities, and thus are more likely to succeed; (4) In upgrading, firms need to stand at the stance of a larger ecosystem and think and make planning from the perspective of the entire industrial chain and stakeholders. The platform building endeavor has a long way to go, and it is difficult for platform-based enterprises without core competence to integrate the strengths of numerous eco-enterprises and to leverage the value of the entire ecosystem.

To further explain the formation and mechanism of complementarity, the key toward successful related diversification, this thesis proposes the process model of complementary mechanism formation and the following propositions: (1) Resource sharing provides firms with resources and capabilities to implement related diversification strategy, and thus helps them to enter the new industry; (2) There are six types of complementary assets, among which technology and customer resource are two of the typical complementary assets. Corporate complementarity exists in form of sharing, complementing, alignment as a whole, etc.; (3) The implementation progress of related diversification strategy depends on whether a firm can seize the market opportunity with perfect timing, where organization features a co-evolution with the changing strategy and environment; (4) Organizational innovation is necessary as the approach in incorporating the resource for new industry entry into its organizational system; (5) In the implementation of a related diversification strategy, two basic activities presenting the complementarity are business expansion and business synergy, where a wider business expansion requires a higher level of business synergy; (6) The business boundaries of related diversification strategy is decided by the resource preparation and management capabilities of the firm, such as its capability to accumulate complementary assets, timing skill, and management synergy skill. To sum up, during its co-evolutionary process, a firm gradually shapes its complementary mechanism where complementarity exists among business activities and in form of interdependency, unity of opposites, and consistency. Such a mechanism helps a firm with related diversification in developing its competitive strength and acquiring good performance at length.

In general, this thesis provides a holistic and dynamic perspective on the analysis of the process, elements, relationship, and mechanism of corporate diversified development in order to systematically and comprehensively explain the key factors and operating principles of the related diversification progress, particularly the formation of complementary mechanism.

Keywords: Related Diversification, Complementarity, Co-evolution, Innovation, Organizational Change

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“Learning is the positive mind”, said Liang Shuming, a Chinese philosopher, politician, and writer. His words remind us that the form and content of learning are the processes that will leave learners with the inner power and spirit.

What's past is prologue.

-- William Shakespeare

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