EVALUATION OF DIVERSIFICATION POLICIES AND PERFORMANCE OF SELECTED TEXTILE COMPANIES IN INDIA.

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A business organization is a living entity. The urge to grow is natural. It is very import for the business units to plan its growth strategy, so that it is able to face competition and survive in the market. Diversification is one of the strategies, which can be defined as producing new products or service or entering new markets, which may involve different skills, processes and knowledge from those, associated with the present products, services or markets. It can be done internally or externally, horizontally or vertically and it can involve related or unrelated changes in products, markets or functions.

The study covered a sample of 37 large Indian Companies of Textile Industry. The period 1989-90 to 1998-99 was covered to measure their financial performance. Measures of Financial performance reflect corporate vide performance from the point of view of shareholders and financial markets and also ensure comparability across companies. These measures were profitability measures, liquidity, leverage, growth in sales, growth in assets and risk assumed by the companies. Two types of classifications have been made to study the association between diversification of the companies and their financial performance. First classification was based on Wrigley/Rumelt classification i.e. Dominant Business group, Diversified group, Related Business group and Unrelated Business group. Second classification was done by the researcher i.e. Low Diversified group, Highly Diversified group, Related Diversified group and Unrelated Diversified Group.

Some hypotheses have been formulated relating to the financial performance of Diversified Companies. The results relating to diversification strategies have shown that Diversified Business group companies have performed better than Dominant Business group companies. It was found that diversification contributed to a reduction in the level of risk or uncertainty in the earnings of a company with relatively higher profitability, higher growth in assets and in sales. Related Business companies outperformed Unrelated Business companies Le. Related Business companies proved to be highly profitable, highly liquid, had higher growth in sales and in assets, higher risk with low degree of leverage as compared to Unrelated Business group companies.

Highly Diversified group companies had financial performance better than that of Low Diversified group companies. It was found that if the extent of Diversification is low then despite the attractiveness of product development, it might often raise uncomfortable dilemmas for organization because the process of creating broad product line in Low

Diversified company is expensive, risky and potentially unprofitable. Highly Diversified company can apply a particular skills and knowledge acquired in one business to solve problems and exploit opportunities in other business, which resulted into higher profit, lower risk and higher growth. It was also found that Related Diversified companies have outperformed Unrelated Diversified companies. It can be inferred that firms pursuing related diversification strategy might be possible for it to exploit its "Core factors" or core competency leading to economics of scale, efficiency in resource allocation and more opportunity to exploit particular technical and managerial skills. In unrelated diversification, risk can be reduced because of the strategy of the company to distribute their corporate eggs over a variety of product baskets.

There are many aspects of the theme of this study, which need to be further research. Large sample size can give more validity of the findings, Relationship between business is another issue because we took product relatedness whereas relatedness in terms of technology (functions) and markets are also important.