

Influence of Diversification Strategy of Industrial Enterprises on Company Performance

-- A Case Study of Hubo Cement

Haoran Fu

School of Economics, Anyang Normal University, Anyang, China

hao3681@foxmail.com

Abstract

In recent years, China's economic development mode is becoming more and more diversified, and industrial enterprises are constantly developing and innovating. Henan Hubo Cement Co., Ltd, as a well-known industrial enterprise in Anyang, can improve its performance to a certain extent by implementing diversified strategies, but inappropriate industrial enterprise strategies will also increase the burden on enterprises. In this paper, through the concrete diversified development of Hubo cement on the company's performance, analyzes the background of industrial enterprises and the process of implementing diversification of Hubo cement. Combined with theoretical practice, it further analyzes the operating performance of Hubo cement enterprise, summarizes the problems in improving the company's performance, and puts forward its own views and suggestions.

Keywords

Industrial enterprises; Diversification strategy; Corporate performance.

1. Introduction

With the continuous development of China's economy, the business models of industrial enterprises are constantly changing. In this paper, through the specific case analysis, taking Henan Hubo Cement Co., Ltd as an example, we have a deep understanding of the beneficial and adverse effects of the diversification strategy of industrial enterprises on the company's performance relationship, and correctly understand and play the role of the diversification strategy of industrial enterprises and the development model of industrial enterprises in Constantly improve, so as to contribute to China's economic development.

2. The Background and Significance of Diversification Strategy Development of Industrial Enterprises

(1) The background of diversified industrial enterprises

Industrial enterprises are profit-making economic organizations directly engaged in industrial production and operation activities (or services). The rapid development of China's economy determines that industrial enterprises need to constantly improve their development strategies, and an important business method for companies to improve their performance is to adopt diversified strategies. Diversification strategy refers to the strategy that enterprises selectively enter new business fields in order to occupy more markets and open up new markets, or avoid the risk of operating a single business [2]. A company not only operates a single product, but also operates multiple fields and expands multiple sources of income. Diversification strategy of industrial enterprises is a necessary measure to improve the company's performance.

(2) Diversification strategy is an important strategy for an enterprise to improve its performance

① The requirements of diversification strategy of industrial enterprises

Industrial enterprises are constantly looking for opportunities and methods to improve company performance, among which diversification strategy development is one of the important measures. Industrial enterprises are no longer engaged in a single business activity to obtain more sources of income, thereby enhancing company performance. There is no fixed form and mode for diversification, but industrial enterprises need to meet some specific conditions to better implement the diversification strategy, thereby promoting the improvement of the performance of industrial enterprises. Companies need to measure whether their own capabilities meet the requirements of diversification, and whether the improvement of company performance and corporate profits can cope with the risks that diversification brings to the company. The diversification of industrial enterprises is generally manifested in the strategy of product development with one product as the main product and other products or industry fields as a supplement, and the simultaneous development of multiple products or fields [3]. Enterprises should first consider whether to choose industries that are closely related to the development of the original product industry to develop new products or new fields to promote the sustainable development of the original development fields, or to choose new fields that are completely different from the original industry development direction, so as to promote the development of enterprises into a new field and promote the development of the two industries.

② The choice of diversification strategy for industrial enterprises

If industrial enterprises want to have long-term profitable areas and new areas of sustainable operation, rational diversified strategic development planning is very important. Only by formulating a reasonable development strategy, can enterprises make clear the development direction of the industry. Only when enterprises have clear goals can they develop better and increase their market share in industrial enterprises. Through continuous practice, enterprises will compare and analyze their development strategies, analyze their advantages and disadvantages, and find out the most suitable development direction for enterprises. Of course, these plans are only a general direction of long-term development. When enterprises implement the plans concretely, they should analyze the most suitable development direction in combination with other environments such as the market at that time. Overall according to the annual plan, according to the annual plan to make a reading plan and weekly plan, so as to ensure that the enterprise plans and goals, to achieve the purpose of enterprise profit. There is no doubt about the importance of implementing diversification strategy. In order to improve the new profit direction, many industrial enterprises have formulated different development strategies, some of which implement the strategy of concentric diversification, continuously develop new products related to existing industries and promote related sales of multiple products.

Many industries at home and abroad have chosen this development mode, and some enterprises have gradually developed into well-known enterprises in China due to the implementation of this strategy, and are gradually emerging in related fields. For example, Haier, etc., through the implementation of diversified strategies suitable for the company's development, has gradually transformed the enterprise from an unknown and small-scale enterprise into a well-known enterprise in the industry field, with its development scale expanding and its market share increasing. However, there are many cases of diversification strategy failure. For example, Chunlan and other enterprises failed to enter the automobile industry in the end, which brought great losses to the company and the original industry. This also includes well-known enterprises that rank higher, such as Chrysler Automobile Company. The company adopts a diversified business strategy, but due to the development direction and

planning errors, the company's resources are scattered, the mistakes in product selection are increased, and the original industries are affected. Due to the limited resources and limited management attention, the company cannot reasonably avoid the impact of mistakes on the enterprise and cannot take care of all industries, resulting in the core competitiveness of the whole company being greatly dampened [4]. Therefore, industrial enterprises must weigh the advantages and disadvantages and consider whether the company should implement this strategy.

This paper will discuss the strategic planning of Henan Hubo Cement Co., Ltd, which is well-known in Anyang. In the early days of Hubo Cement, the enterprise mainly engaged in cement manufacturing. In order to improve the company's performance, Hubo Cement Co., Ltd. has also chosen a diversified business strategy, expanding its revenue sources and expanding cement production in Anyang, Henan Province. In this paper, according to whether Hubo Cement Group's investment in developing related industries will help the company's performance and whether it is advisable to invest in other industries.

3. Brief Introduction of Henan Hubo Cement Group Co., Ltd

Henan Hubo Cement Group Co., Ltd (Hereinafter referred to as Hubo cement) was founded in 1989. It is a well-known cement production industrial enterprise in Anyang and has invested in multiple product industries. The following table shows the specific companies invested and the investment situation. Hubo Cement has four internationally advanced new dry-process rotary kiln cement clinker production lines and twelve high-efficiency energy-saving grinding systems [5]. There are more than 2,000 employees in the company, and about 60% of the employees in the company have college graduates, which makes good use of the advantages of local college students and reasonably improves the cultural and technical level of the company's employees. The average annual cement production capacity of Hubo Company is 13 million tons, and the clinker production capacity is more than 6 million tons. It is also one of the best in the local area and is the first choice of many people. The company's comprehensive strength is among the best in the cement industry in Henan Province.

Cement, the core product of Hubo Cement, was once rated as a national inspection-free product and a high-quality product in Henan Province [6]. It is an excellent enterprise in the field of cement industry in Henan Province. The company follows the call of the state to manage the pollution of cement production reasonably, effectively controls the environmental pollution generated during production, and creates a good employment environment.

Table 1. The following table is Henan Hubo Cement Co., Ltd's foreign investment information

Enterprise name	Registration time	Investment amount (10000 yuan)
Anyang Tianhu Financial Consulting Co., Ltd	2017-03-20	1000
Anyang xintianhe Cement Co., Ltd	2004-12-03	2870
Yuzhou Lingwei cement clinker Co., Ltd	2007-07-23	8609.58
Anyang Hubo economic and Trade Co., Ltd	2007-03-07	1000
Anyang Hubo clinker Co., Ltd	2012-04-18	66600
Anyang Jinhupo Cement Co., Ltd	2007-03-14	8166
Anyang Jiahe Transportation Co., Ltd	2013-07-04	30
Henan Yuelai Yuexi business	2015-10-21	27
Hubo Holding Group Co., Ltd	2014-08-14	100

4. Diversified Development Process of Henan Hubo Cement Group Co., Ltd

(1) Classification of diversification strategy of Henan Hubo Cement Group Co., Ltd

The main business scope of Hubo Cement is to manufacture cement, including limestone, clinker, refractory materials, etc. Besides cement sales, it also operates enterprise management consulting services, etc. Hubo cement adopts concentric diversification strategy to increase products similar to cement and produce cement and clinker in many places in Henan Province; adopts vertical integration strategy to expand transportation of cement and clinker and other related businesses; adopts compound diversification strategy to expand Yuelai Yuexi convenience store services and financial consulting services.

(2) Motivation analysis of diversification strategy of Henan Hubo Cement Group Co., Ltd

① External environmental factors

The former cement manufacturing market of Henan Hubo Cement Co., Ltd has fierce competition. The instability of cement sales and the variability of non-production time required by the state prompt the company to pay more attention to the development of idle production time. In order to meet the needs of the market and improve the company's performance, the company not only produces cement, but also produces other products similar to cement raw materials and develops new profit-making fields. When developing new retail areas completely unrelated to cement, the company first conducted market research. With the increasing diversified needs of people, people's consumption patterns are becoming more and more extensive. People's needs are constantly changing. Consumption is also affected by many factors, such as people's income, gender, age, living habits and so on. These are affecting people's consumption, and different hobbies have different demands for products. At the same time, with the continuous improvement of people's income, there are more and more requirements for product quality and service. These factors lead to a sharp decline in the demand for some products with slightly lower quality, and affect the company's performance development.

The diversification of people's needs urges enterprises to start diversified development strategies [7]. With the diversification of people's needs, more and more enterprises have seen this opportunity of diversified development. In order to gain more performance improvement and market share, the company will choose to develop into new products or new industries, to achieve the purpose of higher operating profit. In order to obtain higher profits, companies often adopt diversified business strategies according to their own characteristics to enhance their development and obtain higher profits. When industrial enterprises develop products and industrial fields, it will inevitably affect the strong counterattack of the companies that already operate these products. Enterprises must adopt some corresponding marketing strategies to effectively occupy the market [8]. Therefore, many industrial enterprises choose to enter a product extension or a brand-new field in pursuit of more benefits and profits. When some enterprises enter new fields and succeed, the companies of other enterprises in the same industry will imitate the diversified development strategies of successful companies, thus improving their competitive advantages.

② Internal environmental factors

Enterprises have strong resources and capabilities. The cement production technology of Hubo Cement has been very mature, and its market share is also relatively high in the same area. In order to make rational use of the company's resources and improve the utilization efficiency of resources, Hubo Cement Company considered that it had the conditions for diversified business development and had the resources, capital and talents needed to develop new fields, so it chose the strategy of diversification. If an industrial enterprise does not have a diversified development strategy, no matter how excellent the company's development conditions are, it

must not implement this strategy. With the diversification of procurement methods, product sales competition is becoming more and more fierce, the company is faced with the possibility of investment failure at any time, leading to the possibility of merger or acquisition. If the company only operates a single cement production, the enterprise will face great pressure and fierce market competition. It will not only be affected by the market demand, but also the policy risks in the period of national pollution control. The company adopts diversified development strategy, to a certain extent, it can share the risk of enterprise operation and realize the stable economic growth. Each industry has a life cycle composed of seedling stage, growth stage, maturity stage and decline stage [9].

China's economy is developing rapidly, and the speed of product renewal is getting faster and faster, which is even more unfavorable to the promotion of enterprise performance. In order to reduce the adverse effects of a single product on the company's performance, and to disperse the risks brought by a single industry to the company's economic development, more and more enterprises have chosen to diversify their operations and adopt a diversified development strategy. Through the implementation of diversified operation, Hubo Cement Co., Ltd. also produces similar products and develops new business areas. It combines new business development and produces different types of products, so as to make the enterprise development more diversified and reduce the risk of a single product entering the recession period.

The diversification strategy of the company ensures to a certain extent that even if the original production technology and market demand have changed, the company can guarantee the stability and safety of its development through the benefits of other products and industries. At the same time, the development field of each product is different, which also brings different development opportunities to the company, expands the development field and space of the enterprise in some aspects, and relatively reduces the risk loss of a single product. So as to balance the income, realize the stable development of Hubo Cement Company and improve the company's performance. As far as Hubo Cement is concerned, the implementation of diversification strategy has more advantages than disadvantages.

5. Influence of Diversification Strategy of Hubo Cement on Company Performance

In recent years, the implementation of diversification strategy has always been the focus of the enterprise industry, because there are great differences in the development model and regional inconsistency of each company, thus putting forward different views on the impact of diversification strategy on the company's performance relationship. One is that diversification reduces the company's performance, the other is that diversification has no influence on the company's performance, and the other is that diversification may improve the company's performance. The following is mainly divided into two points of view:

(1) The beneficial influence of diversified development on corporate performance relationship

① Spread risk

The development of Hubo Cement involves manufacturing cement, transportation industry and new retail industry, which can spread risks to a certain extent. When cement-related products cannot be produced, new products or new markets can provide protection for enterprises. It is more appropriate for early Hubo Cement to increase its profits through related diversified enterprises. Through specific investment in related fields, the company allocates costs, improves resource utilization, and reduces the integration cost of developing new products through internal departmental adjustment.

② Easier access to financing

Through diversification strategy, Hubo Cement Company manages multiple products, which makes it easier to obtain financing from capital market. On the other hand, when the cement industry stops production and cannot grow in the industry, it will find a new development direction and improve the performance increase point.

③ Make full use of idle resources and improve resource utilization efficiency

In order to make full use of resources and surplus funds, companies often adopt diversified development strategies. Using idle resources and idle funds to develop new products and improve performance. The company invests in unrelated industries, occupies new market areas, helps the company enter new business areas, and provides new marketing methods. Hubo Cement operates convenience stores in a new retail way. On the one hand, the brand awareness and goodwill of the original product industry are used to develop the popularity of new fields. On the other hand, use the development of existing industries to promote the development of the original industries. The reasonable diversification strategy of the company can make the scale of the company expand rapidly, and play an important role in the asset reorganization and optimal allocation of the company. Hubo Cement Company has a good corporate image and popularity in Henan market, as well as the connection between the company and universities, so it is easier to obtain favorable resources such as talents in the development of new products. The epidemic broke out this year, and many industrial enterprises stopped working and stopped production, which had a great impact on the company's performance, because Hubo Cement involved the upstream and downstream industries of cement manufacturing, from raw material procurement, production and transportation to sales companies, which was more conducive to the promotion of performance.

(2) The negative impact of diversified development on corporate performance relationship

Hubo Cement's investment in many industries is not only affected by the original cement industry, but also impacted by new investment products. Many scholars have proved that diversification has diversification discount, that is, diversification can not only improve the value of the company, but also cause the value of the company to decrease [11]. The following three points mainly explain the impact of diversification strategy on the company's performance and the countermeasures taken by Hubo Cement.

① Increase management difficulty

Hubo cement operates multiple products, but the energy of the management is limited, and the business structure of the enterprise cannot be reasonably changed in a short time, which is easy to cause unreasonable resource allocation, thus affecting the funds and management system in the field of new products, and even weakening the excellent competitiveness of the original cement industry. In view of this phenomenon, Hubo Cement has adopted the staff rotation system, which makes employees know the skills needed for this kind of post, regulates their behaviors, regularly enrolls college graduates every year, trains new management, regularly reads post-related books, and holds speech contests to improve the management ability of management.

② Increase financial risk

Investment in new products by Hubo Cement will inevitably require constant investment. Only with sufficient funds, the company is more likely to cultivate talents needed for new industries, etc., which will increase the investment cost of the company to a certain extent, easily lead to shortage of funds, unable to continue to invest in products, and even affect the production of original cement products. When the capital fails to flow normally, it will not only affect the cement industry chain, but also affect the investment of the new production line equipment, as well as the annual maintenance cost of cement production and the purchase of production line equipment. In view of this adverse effect, Hubo Cement has adopted the business image of

keeping good reputation of the enterprise, keeping good contact with banks, facilitating financing and keeping the normal operation of funds as much as possible.

③ Entry and exit risks of new products

Hubo cement chose to enter the new retail industry in the development of unrelated product diversification strategy. This industry needs a lot of capital support, which is likely to affect the capital turnover of cement industry. If the company stops production because of uncontrollable factors, the industry involved will impact the company's performance. Every time the investment in new products cannot bring benefits to the enterprise quickly. When the investment fails, it will have a greater impact on the performance of the enterprise. It will not only not bring profits, but also increase the debt phenomenon of the enterprise. When investing in new products, we should not only consider the risk of products entering the new market, but also consider the risk of exit after investment failure. In view of this shortcoming, Hubo cement adopts a multi-directional and comprehensive market research to control the process of diversification. First of all, we should diversify the related products. After the products are stable, we will enter the unrelated product diversification, invest in the new retail industry with good development prospects, and try our best to maintain the good operation of the company's products.

6. Improvement and Suggestions on the Development of Diversification Strategy of Industrial Enterprises

The different process of diversification of industrial enterprises, the timing of diversification strategy and the different industries involved have different impact on the performance relationship of the company. According to the diversified development strategy of Hubo Cement Co., Ltd., some suggestions are put forward.

(1) The degree of diversification should be appropriate

Hubo cement's diversified strategic operation in the early stage was mainly related to the original core industry, and in the later stage, it began to develop enterprises not related to the original core industry. However, not all industries are suitable for diversified development strategies to improve their performance. Diversification needs to meet the corresponding conditions, and blindly following the trend of diversification can easily lead to the failure of diversified development of enterprises.

① Industrial enterprises should choose the right time to enter diversified operation

Enterprises should not only meet the corresponding objective conditions, but also choose the right time, the right time and the degree of diversification process. Every enterprise has its own life cycle, so it is very important to choose the right time to enter. It is generally believed that enterprises are more suitable for diversification after entering the mature stage of specialized industries. If an enterprise starts to diversify before the original industry is mature, it will easily lead to the unreasonable allocation of resources in the two product areas, which will bring losses to the company and affect the profit of the normal operation of the enterprise. If the enterprise has entered the recession period in the original product industry and then implement diversified operation, it is easy to cause that the enterprise cannot timely improve the shortage of the original product, nor can it reasonably plan the development of new products, and the resources in the early and later stages cannot keep up. Therefore, enterprises should choose the right time to enter the diversification strategy.

② Industrial enterprises should choose appropriate diversified strategic rhythm

The rhythm of diversification of industrial enterprises has a great influence on the success of diversification strategy. Generally, after successfully entering a new industry, the enterprise has a certain market share and a stable position before starting to look for another new industry

[12]. If the diversification process is too slow, it will lead to insufficient market share, which will easily cause enterprises to make ends meet. If the process of diversification is too fast, it will easily lead to the capital and resources failing to keep up with the development of new products, which will lead to the failure of new products entering.

When considering diversification strategy, industrial enterprises should first judge whether the company's ability and objective conditions meet the requirements of diversification. Enterprise operation is concentrated in one business, which can concentrate capital, technology, energy and time on this business. It is easy to improve and optimize management mechanism adjustment, cost control, market tracking and development. Only one product is easier to manage and plan, and the risks faced by enterprises are relatively less. If an enterprise implements a diversified business strategy, it will easily lead to a series of problems such as scattered resources and increased management difficulty [14]. After the diversification of the company, the capital, resources and management will be affected. If the enterprise cannot control the pace of the diversification strategy, it is easy to fail, and cannot effectively achieve the purpose of improving performance according to the original plan. It may also lead to the fields involved in the original enterprises being affected, and ultimately affect the operation of the whole company, leading to the failure of diversified strategic operation. If the enterprise can reasonably control this rhythm, then the company will be more likely to succeed than other companies, more quickly and correctly develop new products or new areas, driving the growth of the company's performance.

The diversified development of Hubo Cement Co., Ltd. in the early stage mainly focused on the development of similar products around the field of cement production and sales. It has already had the core competitive advantage in the original cement industry, and then began to get involved in other product development fields. Hubo Cement's core competitiveness in cement manufacturing has been improved in Anyang and many regions, and it has become one of the top 500 private enterprises, and it has gradually diversified development after establishing its core competence. In the later period, we started to get involved in unrelated industries, and the new business development field has good development prospects, which belongs to the sunrise industry in recent years and in the future. In recent years, the new retail industry has a relatively large development potential and bright prospects. The performance and growth space of the industry are very large. The new retail industry is expected to have a greater return, which is of great help to the improvement of the company's performance.

(2) The industries involved in diversification should be appropriate

The diversified operation of industrial enterprises requires different industries at different times. Enterprises are not always able to implement diversification. Industrial enterprises have different requirements for choosing diversified industries in different growth periods and different growth environments. For many years, industrial enterprises have succeeded and failed in implementing diversification strategy. With the passage of time and the improvement of the economic development model, some enterprises have developed mature diversified development models and theories. In order to improve the company's performance, how to choose diversified strategic mode of operation, how to choose suitable industries according to their own conditions and the current development environment, and bring effective and sustainable benefits to the company's performance development are all issues that need to be considered in diversified development. If an enterprise wants to implement the strategy of developing from a single product to multiple industries, it should meet the conditions of mature development in a certain field, good core product competitiveness, and the surplus resources to obtain greater investment income [15]. At this time, enterprises are fully equipped with the objective conditions of diversified operation. Even if the investment in new products or new fields fails, enterprises can also bear the consequences of investment failure.

Hubo cement is a strategy of diversified operation in the rapid economic development period after the cement industry has been mature and stable. Hubo cement stabilized its development status through cement manufacturing industry, diversified operation, invested in clinker company, expanded business of similar products, increased income source and invested in transportation industry. On the one hand, this reduces the pressure on the company's freight, on the other hand, it has multiple sources of income. The following diversified development expands the business scope of the company, invests in the financial consulting industry, and adopts the rotation system. Through the understanding of the financial consulting industry, the financial personnel can standardize the business norms of the financial personnel to a certain extent. Hubo Cement invested in the new retail industry of Yuelai Yuexi. Yuelai Yuexi is a chain convenience store brand, which is mainly operated in Zhengzhou at present. Zhengzhou, the capital of Henan Province, has a rapid economic development, which is suitable for the launch of new retail industry, can meet people's life and social services, and has good prospects for domestic economic development.

Hubo Cement has chosen different industries for diversified development through different time periods, and rationally planned diversified industries and opportunities for industries to enter, which is of great help to improve the company's performance to a certain extent.

7. Conclusion

Different allocation methods of diversified strategic resources have different impacts on enterprise performance. After the industrial enterprises have diversified conditions, enterprises should choose the right time to enter diversification and choose the right diversification process to promote the sound development of the company's performance. If industrial enterprises blindly follow the trend, they don't know their own resources and capabilities properly and pursue diversification unilaterally, which will easily lead to enterprise failure. You can't do whatever you want to make money, without considering your own abilities. Many enterprises have proved that diversification can avoid certain risks and reduce operational risks. However, many enterprises have proved that improper diversification will bring great losses to enterprises. Enterprise diversified business will disperse the resources of the original industry, the distribution and attention of the management, etc., and choose the wrong field, resulting in the company's decision-making mistakes. After making mistakes, it affects the utilization of existing resources such as funds, and the resources of main business are affected, resulting in more and more losses.

In a word, it is necessary to manage the core industry well, regardless of whether the diversification strategy of industrial enterprises has an impact on the company's performance relationship. In order to improve the company's performance more stably, the general industry generally chooses to diversify when the core industry is mature and the main products have a high market share. It will be easier for enterprises to succeed in diversified operations after operating the original core business well and improving the core competitiveness of the original industry, thus improving the company's performance. If the industrial enterprises just want to increase new economic growth industries and blindly choose an industry or field for diversified operation without considering their own factors, they may fall into the misunderstanding of diversified operation. Therefore, the development of diversification strategy of industrial enterprises must be considered comprehensively. It is necessary to evaluate whether their own ability and resources meet the requirements of the development of diversification strategy, and whether the market and the diversified industries that will enter into are good or not.

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