

DOCTORAL THESIS

The effect of product diversification on firm performance in an emerging economy: a perspective of sub-national institutions

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ABSTRACT

Reviewing literature of product diversification in the large emerging economy China, this paper finds that prior studies related to the effect of product diversification on firm performance (PD-P, hereafter) in China have not yet paid sufficient attention to two important aspects. First, just as national institutions among countries are heterogeneous, sub-national institutions in China also vary greatly. Assuming homogeneous sub-national institutions in the large emerging economy China is at odds with reality. Studying whether PD-P in China will be contingent on sub-national institutional development will help to shed lights on PD-P in China and other emerging economies. Second, in China, state ownership is an important institutional context for individual firms. Prior research has not yet investigated state ownership of individual firms in studying PD-P in China. It would be of theoretical significance to examine whether state-owned enterprises can better take advantage of sub-national institutional development to improve firm performance than non-state-owned enterprises.

Considering variation in sub-national institutions within a large emerging economy, this paper also extends the approach of using an institution-based view of business strategy to shed further lights on PD-P. Reviewing extensive literature of product diversification, this paper finds that there has been lack of consensus on PD-P. An institution-based view of business strategy is useful to reconcile divergent findings on PD-P by considering institutional environments in which firms adopt product diversification. Relatively consistent findings are that product diversification has a positive effect on firm performance in emerging economies and has a negative effect on firm performance in developed economies. This paper goes further to explore the influence of sub-national institutions on PD-P in emerging economies.

This paper uses a sample of 37,856 observations of 124 insurance firms in 31 provinces of China over the period from 2005 to 2014. It finds that in China, product diversification of a firm in a region has a positive effect on firm performance in that region, but this positive effect holds true only in regions with a high instead of low level of sub-national institutional development. Furthermore, the positive moderating effect of sub-national institutional development on PD-P is context-specific and stronger for firms with a high level of state ownership.

Keywords: product diversification, sub-national institutions, an institution-based view of business strategy, state ownership

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