

**IMPACT OF CORPORATE DIVERSIFICATION ON  
FINANCIAL PERFORMANCE OF THE LISTED COMPANIES  
IN SRI LANKA**



By

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## ABSTRACT

Diversification refers to a process of distributing the wealth of an organization in optimal portfolios that would guarantee optimal returns. Diversification is used to maintain firm competitiveness so as to achieve value creation through economic of scope, financial economies, or market power. By diversifying, managers form internal resource markets where capital distribution is more proficient as a result of lower levels of disproportionate information.

This study sought to find out the effects of corporate diversification on financial performance among selected companies listed in the Colombo Stock Exchange. This study sought to find out the effects of corporate diversification on financial performance among selected companies listed in Colombo Stock Exchange. The main variables that were used to measure the financial performance were related products diversification from the core products, unrelated product diversification and international diversification. The sample was selected by using a non-probability sampling called judgmental sampling method using secondary data for the period 2014 to 2018. In order to achieve the research objective, multiple regression model was applied to identify the impact of corporate diversification. Firm financial performance was measured based on the Return on Assets (ROA) and diversification was measured by the using Specialization Ratio(SR). For the data analysis purpose STATA software and Excel was used.

The findings show diversification strategies had a positive impact on firm financial performance and also Related Product Diversification had a significant positive relationship between financial performance, International Diversification had a negative relationship and Unrelated Product Diversification had a positive relationship between financial performance. Diversification increases market share and growth prospects of companies. This study therefore recommends that companies adopt diversification strategies to diversify their risk exposures.

**Keywords:** Corporate Diversification, Product Related Diversification, International Diversification, Unrelated Product Diversification, Financial Performance

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