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The Strategy of Diversified Management of Enterprises

Taking Giant Group as an Example

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***Abstract*—In order to gain more benefits and win a place in the fierce market competition, wave after wave of enterprises have chosen to take the road of diversified operation, such as general motors, Google and Alibaba. The diversified modes include horizontal diversification, vertical diversification and concentric diversification. Some enterprises have indeed gained benefits through moderate diversification, but it is undeniable that excessive pursuit of diversification will bring huge risks to the enterprise's finance. This topic chooses giant group as the research object. This paper introduces the related concepts of diversified management, the problems arising from diversified management and the corresponding methods, and analyzes the problems caused by excessive diversified management and the countermeasures by taking Giant Group as an example.**

Keywords—component; formatting; style; styling; insert

I. INTRODUCTION

In recent years, both domestic and foreign market competition has become more and more fierce. In order to seek a larger market and a broader living space, enterprises are competing to implement diversification strategy. In 1993, China's computer industry entered a cold winter, which caused Giant Group to suffer repeated blows. In order to disperse some company risks, Giant Group gradually developed real estate and biological industries, but it began to flourish before it had a firm foothold. Giant Group's choice of non-related diversification is not to develop another industry chain on the basis of consolidating the original industry, but to continue to develop another new industry for the development of new industry. Like building a house, the foundation is not firmly established and new layers are constantly built. However, will such a non-related diversification strategy keep Giant Group in a leading position in the market? Does the strategy without in-depth analysis diversify the financial risks within the group or make the group overwhelmed? Are there any measures to reduce risks and maximize benefits after choosing the road of diversification?

According to the above series of problems, this topic will take Giant Group as an example to analyze the financial risks and corresponding countermeasures of the problems in the implementation of diversification strategy, hoping to give some suggestions and references to some enterprises that intend to take the diversification path.

II. RELEVANT THEORIES OF DIVERSIFICATION

A. The Concept of Diversity

Diversification refers to the reorganization of things with different characteristics, and social diversification refers to the combination of different regions, races and genders. Enterprise diversification strategy refers to the operation and development strategy of an enterprise, which produces or operates a wide variety of products or provides a variety of efficiency by spanning its products and industries. These business projects include relevant and irrelevant.

In Harvard Business Review, Ansov, a well-known scholar from the United States and around the world, is the first to conduct a strategic study on diversification. His proposed diversification focuses on different products produced by enterprises and the number of their varieties, but this definition is not comprehensive and accurate.

In the book Enterprise Growth Theory, Penrose proposes that diversification is to develop production behavior, expand production scale and innovate products, but to ensure the production line of the original main business of the enterprise. Penrose's definition is a good complement to Ansov's understanding of enterprise management, and more accurately describes the real situation of enterprise diversification strategy.

B. The Role of Diversification

Decentralize the financial risks of enterprises and enhance the overall safety of enterprises. The fluctuation of market trajectory and the fission of competition pattern may affect the continuity of the whole enterprise. As a result, rigorous managers will try their best to avoid the whole company crisis caused by the downturn of a product while formulating their diversification strategy. Therefore, more and more enterprises will constantly improve the innovation of their products, break the inherent thinking, and constantly open up new market areas to avoid risks without putting eggs in a basket. [1]

It is conducive to promoting the optimization of original products, enhancing market influence and expanding brand effect. The promotion expenditure saved by using the same trademark for different products of an enterprise can promote the progress of the original products by means of diversified operation and extending business items. Big Japan Printing Company is a leader in Japanese printing industry. At the same stage of developing printing industry, it continuously extends its business, such as preparing for international talks, providing information and so on. These newly developed businesses are inseparable from the printing industry. The development of some new service projects not only improves the enterprise's income, but also gradually makes profits from the debt of a batch of original printing services.

III. Analysis on the Problems of Diversified Management in China

A. *Diversification of Most Enterprises Lacks Technological Relevance*

Most enterprises in China lack technological innovation, and the ability of independent innovation is weak. Most of the core technologies rely on the introduction. To a certain extent, enterprises cannot better diversify and develop the relevance of technology. Diversification is a way to pursue greater profit margin, not the ultimate goal of enterprise development. Assuming that diversification is the goal of an enterprise, it will lead to the lack of technological linkages in business to a large extent.[2] Because enterprises blindly pursue diversification, they have no time to consider the relevance between new business development and the degree of mutual assistance. And there is no bright spot attracting customer service in the market between different products that are not related, nor can one or several businesses become the backbone of corporate cash. More serious is that there is no connection between different businesses, in the production, sales and other links cannot achieve resource sharing, there is no common customer resource. At the same time, it also increases the difficulty of management between different businesses. Enterprises are also difficult to deal with different business, which greatly depletes people, money and goods. Diversified operation of enterprises is a sequential process. It is impossible to become a fat man in one swallow. To open up a new market, it is necessary to equip with considerable manpower, material resources and technology, and to do the corresponding market investigation well in advance. During the process of project development, it is necessary to follow up and learn new technology and experience constantly. Therefore, enterprises must optimize the allocation of resources in order to choose diversified business strategy. [3] Most of Chinese enterprises lack technological innovation, and their independent innovation ability is weak. Most of the core technologies rely on importation, which to a certain extent makes enterprises unable to diversify better and develop the relevance of technology. Diversification is a way to pursue greater profit margin, not the ultimate goal of enterprise development. Assuming that diversification is the goal of an enterprise, it will lead to the lack of technological linkages in business to a large extent. Because enterprises blindly pursue diversification, they have no time to consider the relevance between new business development and the degree of mutual assistance. And there is no bright spot attracting customer service in the market between different products that are not related, nor can one or several businesses become the backbone of corporate cash. More serious is that there is no connection between different businesses, in the production, sales and other links cannot achieve resource sharing, there is no common customer resource. At the same time, it also increases the difficulty of management between different businesses. Enterprises are also difficult to deal with different businesses, which greatly deplete people, money and goods. Diversified operation of enterprises is a sequential process. It is impossible to become a fat man in one swallow. To open up a new market, it is necessary to equip with considerable manpower, material resources and technology, and to do the corresponding market investigation well in advance. [4] During the process of project development, it is necessary to follow up and learn new technology and experience constantly. Therefore, enterprises must fully optimize the allocation of resources when choosing diversified business strategies.

B. *Inadequate Competence of Business Managers Leads to Inefficiency*

With the process of enterprise diversification, the organizational structure of enterprises will be changed. Diversification not only increases more branches, but also increases the number of functional departments within enterprises, which requires managers to have higher knowledge literacy. It is true that diversification will also cause difficulties in the allocation of corporate resources. Reasonable allocation of resources to the underlying departments requires a highly competent management team, otherwise it will lead to inefficient business operations and endanger the performance of enterprises.[5] To be a real manager, it is necessary to not only have a macro view of the overall situation, but also grasp the micro aspect, pay attention to the whole enterprise, and regard the whole as the primary task. At the same time, it is also necessary to learn how to use the knowledge of different positions to serve the whole. According to the main goal of the enterprise in the future, the way to plan the enterprise to meet the goal is how to divide the rights, responsibilities and interests of the managers, so that the various departments in the enterprise can cooperate effectively and promote the process of diversification. At this stage, most enterprises adopt a more humane management model, too strong management is not conducive to the development of diversification, in order to better carry out diversified enterprises should try to combine the two. As a qualified manager, he should have enough courage to make judgments and make decisive choices when he encounters problems in the process of diversification. But at present, most enterprises in Chinese do not invest enough in the training of managers, which leads to the inefficiency of enterprises. In the process of providing services for customers, managers have different division of labor. Assuming that team management is not enough, they have actually operated. In the process, it will run into a wall everywhere, which will greatly reduce the efficiency of management. Enterprise management should not be a scattered sand, should be a systematic management model, from a long-term point of view, a person should not always be in a position, but each post must have competent people, or once a post has left, the position may not be able to compete, affecting the normal operation of the enterprise.

C. *Inadequate Preparation for Diversification Strategy*

Whether an enterprise can go to brilliance is directly influenced by enterprise management. When many enterprises take the road of diversification, there are management loopholes in all aspects of enterprise. In addition to improving product functions horizontally, diversification also requires enterprises to strengthen management at each level vertically. With the cooperation of horizontal and vertical aspects, enterprises need to deepen reform, but enterprises need to deepen reform. There are still many problems in the internal organizational structure planning. At the same time, information transmission lags behind in the management of employees. At the same time, there are unreasonable phenomena in the performance evaluation of employees.

IV. The Countermeasure of Controlling the Risk of Diversified Management

A. *Promoting the Management Ability of Enterprises and Grasping Market Resources in Time*

The strategy of diversification of enterprises will surely lead to the gradual rise of organizational hierarchy. Every management decision of enterprises requires the participation of employees, which is fully understood and well implemented. This puts forward higher standards for the comprehensive quality of company managers and strengthens the management of the company. Enterprises can regularly communicate with lower-level employees to understand the performance of various departments. If there are deviations, they can make timely changes according to the environment and enterprise practice, so that the company's governance efficiency can improve and timely access to information. [6]

B. *Focuing on the Cultivation of Enterprise Competitiveness*

The key for enterprises to obtain sustainable competition is to improve their competitiveness. Therefore, enterprises need to clearly understand their core advantages and find the right position of advantages. Firstly, they should make their main business and superior business bigger and stronger, increase market share and reduce product costs. Under the condition of ensuring the stability of the main business, enterprises can use the remaining resources to open up new markets and start to diversify and broaden, so as to achieve the optimal allocation of resources, and then make the enterprise sustainable development. When an enterprise can predict in advance that a certain business behavior may bring financial risks to the enterprise, the enterprise can abandon the financial activities with risks to avoid risks. Although this way can completely eliminate risks, the enterprise will lose all opportunities for profit. When the risk of enterprises is unavoidable, enterprises should adopt various means to reduce the probability of risk generation, or reduce the loss caused by risk generation. Enterprises should also establish a reasonable evaluation system to minimize risk in the diversification road. Enterprises can transfer their financial risks by purchasing insurance and signing contracts. [7]

V. Case Study on Risks Caused by Diversified Operation of Giant Group

A. *A Review of Giant Group*

Giant Group originally evolved from a technology company in Zhuhai. At the beginning of the company's establishment, Shi Yuzhu, as president, did his best to sell the company's main product, M-6401 system, and earned the first barrel of gold. The annual sales of M-6403 system in 1992 are 32,000 sets, with a total market value of 280 million yuan and a profit of 40 million yuan. In early January of 1993, Giant Group continuously invested funds to accelerate the pace of development and built nine subsidiaries nationwide. In a short period of 12 months, a number of powerful electronic products have been launched, with a total sale of 380 million yuan and a profit of 48 million yuan. They are far ahead of China's computer industry. At the same time, because of the fierce development of domestic production and biotechnology industry, Giant Group wants to take advantage of the victory to pursue greater profits, and carry out the development of new industries again, and enter the road of diversified operation. The next year, Giant Group's biological industry has not made breakthrough progress, but blindly marched into the real estate industry, hoping to create brilliance through real estate. It is anticipated that the construction plan of Giant Building will be constantly revised and the floors will be continuously increased, without considering the financial situation of the enterprise at all. In early February 1994, the Giant Tower began to be built. Mad investment in the construction of Giant Tower breaks the capital chain of Giant Group, which is a fatal blow to Giant Group. Giant Group, in order to make up for the deficit caused by building construction, constantly withdraws funds from its main projects and sells buildings to obtain funds. It is also stipulated in the sales agreement that if the project is not completed within the deadline, a large amount of economic compensation will be paid. Ultimately, Giant Group has not survived, the contract has not been fulfilled on schedule, the fund supply of Giant Group is in crisis, the fund is seriously scarce, it is difficult for the Group to carry out daily production and operation, and it is on the verge of bankruptcy.

B. *The Diversified Management of Giant Group*

1) No strong core competence: "Giant" started its business in August 1989. In the first few years, Giant Group took the main products independently developed as the cornerstone. By the end of 1992, its operating profit was nearly 40 million yuan. After the accumulation of wealth to a certain extent, the company began to develop other industries unrelated to its main business in order to disperse risks, in order to gain a dominant position in the competition of other companies. But the reality of the market reflects that this is a wrong choice, not only did not achieve the original idea of the enterprise, but also dragged down the business of the company itself and brought adverse effects to the group. [8]

2) Insufficient environmental prediction: The computer market became extremely fierce because of the entry of some Western companies, the market environment changed dramatically. Giant Group launched new products, and sales entered the bottleneck. But at this time, enterprises did not pay attention to the changes of the external environment in time, and timely strengthen the development of the main business. Instead, they choose to operate blindly in areas they are not familiar with, which leads to enterprises falling into a quagmire.

C. The Countermeasure of Controlling the Risk Caused by the Diversified Operation of Giant Group

1) Based on the main business: Enterprises want to maximize profits on the premise of their main business. Therefore, enterprises should develop new markets on the basis of protecting their main businesses so that their resources can be allocated optimally. Otherwise, it is not only difficult for enterprises to occupy a place in the market to achieve economies of scale, but also endanger their main business if they invest their limited capital in unfamiliar business. [9]

2) Grasping the opportunity of strategic development: The production and operation of any company has a life cycle. It will be a necessity to seek the appropriate stage in the life cycle to diversify the development. When the enterprise life cycle enters the mature stage, it is a better time to diversify. Because, at this time, the industry market tends to be saturated, the growth environment in the industry has become bad, China Enterprises should implement the strategy at the critical time.

VI. CONCLUSION

Diversification strategy is an integral part of enterprise management strategy. Although it was widely used in western countries in the 1950s and 1960s, for most enterprises in China, they must be cautious in choosing this strategy. The reasons are as follows: there is no conclusive evidence that diversification can avoid competition and reduce risks, because it is difficult to avoid the impact of average profit margin on any industry, and avoid competition and risk. Giant Group embarked on diversification in the hope that the strategy can reduce risk and competition, but this idea is wrong at first. If Giant Group can face up to competition, increase investment in manpower and material resources, and constantly innovate, it will have a different result, because the Giant Group at that time accumulated experience and strength in terms of market, technology and manpower.

Enterprises must have certain conditions in order to take the strategy of diversified development, regardless of all blind diversification will lead to failure. On the other hand, the diversification of enterprises must pay attention to cultivating the internal competitiveness of enterprises, support the common development of all aspects, and form unique competitive advantages. The consequences of Giant Group's blind diversification are painful and profound. At the same time, whether the enterprise chooses diversification or not should be analyzed according to the internal and external environment and conditions of the enterprise, that is to say, diversification needs to be based on certain conditions.

Enterprises should pay attention to timing when they want to carry out diversified management strategy. Only when their main business is stable, they have strong competitiveness, and they have surplus resources to invest in new products, and the external environment has the right opportunity for their own development, can they consider diversified strategy.

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