Exposing Corporate Value: Synergizing Global Diversification and Operational Flexibility in SMEs

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ABSTRACT

In the modern era of interconnected economies and globalized markets, Small and Medium-sized Enterprises (SMEs) are increasingly pursuing global diversification strategies and operational flexibility as means to enhance their competitive positions and sustain market value. This study delves into the intricate relationship between these two critical factors – global diversification strategy and operation’s flexibility – and their cumulative effect on the corporate market value of SMEs. Drawing upon a comprehensive review of existing literature, this research aims to uncover the mechanisms through which SMEs can leverage global diversification strategies to enhance operational flexibility, leading to a positive impact on their market value. The study employs a qualitative approach, encompassing qualitative examination of strategic decisions and operational practices. The qualitative analysis was focused to gather data from prior studies, online sources, journals and SMEs online websites operating across multiple industries. The findings of this research contribute to both theoretical and practical domains. The study offers valuable insights into how SMEs can effectively design and implement global diversification strategies to enhance their operation’s flexibility, resulting in improved corporate market value. Furthermore, the research provides guidance for policymakers, business leaders, and stakeholders seeking to support and optimize the growth trajectory of SMEs in a globalized business environment.

1. INTRODUCTION

In today’s advanced and interconnected global business landscape, Small and Medium-sized Enterprises (SMEs) play a pivotal role in driving economic growth, innovation, and employment generation. As these enterprises expand their reach beyond national borders, the implementation of strategic initiatives becomes crucial for their sustained success and competitive advantage (Makhlofui et al., 2017). Among these strategic considerations, the adoption of a global diversification strategy and the enhancement of operational flexibility have emerged as key determinants influencing SMEs’ corporate market value (Alolayyan et al., 2022). Global diversification entails the geographical expansion of an SME’s operations, enabling it to access new markets, tap into diverse customer segments, and mitigate risks associated with local market fluctuations (Kim et al., 1989). On the other hand, operational flexibility refers to an organization’s ability to swiftly adapt and respond to changing market conditions, technological
advancements, and internal or external disruptions (Simchi-Levi et al., 2018). The synergistic effects of a well-executed global diversification strategy and a highly flexible operational framework can significantly influence an SME’s market value, thereby influencing its long-term sustainability and competitiveness (Vachani, 1991).

The impact of these strategic dimensions on corporate market value is of paramount importance not only for SMEs themselves but also for policymakers, investors, and other stakeholders in the business ecosystem (Puntito, 2009). However, the nature and extent of this impact remain relatively underexplored, particularly within the context of SMEs. Most existing research has predominantly focused on larger corporations, thus leaving a notable gap in the understanding of how these factors influence the value creation process in SMEs (Dubey et al., 2021).

This research aims to bridge this gap by investigating the intricate relationship between global diversification strategy, operational flexibility, and corporate market value within the SME sector (Arias-Aranda et al., 2011). By examining the interplay of these factors, the study seeks to provide valuable insights into the mechanisms through which SMEs can enhance their market value in a dynamic and uncertain global business environment (García Manjón, 2020). Through a comprehensive analysis of empirical data and a robust theoretical framework, this research endeavors to contribute to both theoretical advancements in strategic management literature and practical implications for SMEs striving to optimize their performance and competitiveness (Yu et al., 2015).

In the subsequent sections of this paper, we will investigate into the existing literature surrounding global diversification, operational flexibility, and corporate market value. We will also outline the research methodology employed to investigate the relationship between these factors, followed by the presentation and discussion of the empirical findings. By shedding light on the role of global diversification strategy and operational flexibility in shaping corporate market value in SMEs, this study aims to enrich the strategic management discourse and provide actionable insights for SMEs seeking to navigate the complexities of the global marketplace.

2. THEORETICAL FRAMEWORK

2.1. Global Diversification Strategy

A global diversification strategy can be defined as the strategy that is adopted by the organizations in order to reduce the risk, particularly by investing in more than one country. With the help of diversifying across countries whose economic cycles are not likely to perfectly correlated, the organizations can be able to reduce the variability of the returns (Farrukh et al., 2023; Gaytan et al., 2023). There are three dimensions of global diversification strategy in which it has been divided named as increase market share, reduce uncertainties and minimize risks. By investing in various countries, the organizations can not only increase the share in the market but can also reduce uncertainties as well as risk (Muhammad Turki Alshurideh et al., 2023a).

2.2. Operation’s Flexibility

Operations flexibility can be defined as the system’s ability to coping with changes. More precisely, it can be explained as that when there are changes in the demand by the customers, it is crucial for the organizations to make changes in the system in order to fulfil required demand (Kassem and Martinez, 2022). In order to do this, there are three dimensions with which it can be done effectively named as internal robustness, external flexibility and planning and controlling. By planning and controlling, identifying the external flexibility and with internal robustness of the management, the organization can ensure the operation flexibility (Aljumah et al., 2021a; El Khatib et al., 2020b).

2.3. Corporate Market Value

Corporate market value can be defined as the highest price that is paid by the buyer and accepted by the seller for the product or share of the organization in the competitive market (Al-Kassem et al., 2022). The higher the willingness of the buyer to pay for the item of the company depicts the higher the market value of the company. There are three dimensions with which the market value of the company is determined named as stock prices, outstanding shares and the size of the company (H M Alzoubi et al., 2022). These three aspects play a pivotal role in
determining the market value of the company (T M Ghazal et al., 2023a).

3. LITERATURE REVIEW

The article conducted by (Abudaqa et al., 2022; AlDaher et al., 2023; Gulseven and Ahmed, 2022) explores the international diversification as well as the firm’s value in which the study has been conducted in the developing nations (El Khatib et al., 2019; Kassem and Martinez, 2022). The main purpose of this research is to identify the impact of international or global diversification through the investment abroad activities of the MNCs in Malaysia, on their financial performance (Hani Al-Kassem, 2021). In order to fulfil the purpose of the study, the GMM (generalized methods of Moments) technique has been used for better results (Alshurideh et al., 2022; E Tariq et al., 2022). The empirical findings of the study have shown that the decision to invest abroad is positively associated with the impact on the financial performance of MNCs in Malaysia (El Khatib et al., 2020a; Hani Al-Kassem, 2021). However, the results of the study found to be contradictory in terms of risk that it opposes the hypothesis of internationalization risk. An identical kind of view has been found in the study of (Aljumah et al., 2021b; El Khatib and Opulencia, 2015; Mubeen et al., 2022).

The research of (Al-Kassem et al., 2012; A I Aljumah et al., 2022a; Arshad et al., 2023; Varma et al., 2023) examines the effect of diversification in the operational strategy of the companies of capital goods. The main purpose of this article is to view the impact of diversification, particularly in the operations strategy of capital goods companies (Khatib et al., 2016; Nuseir, 2020). In order to do this, the researcher has used qualitative data as well as exploratory research. The results of the study showed that there is a significant impact of diversification in the operations strategy in the companies of capital goods (Al-Kassem, 2017; Nuseira and Aljumahb, 2020).

The research of (Abudaqa et al., 2021; Ahmed et al., 2022; A I Aljumah et al., 2022b) examines the supply chain flexibility. In this article, the authors have shared their views in favour of globalization that it generates flexibility, particularly on the manufacturer’s part as well as all other supply chain parties (M T Nuseir and Aljumah, 2020).

With persistent improving opportunities of communication, organizations trade with partners worldwide and execute the activities at the profitable locations. Likewise the same results have been found in the study of (Al-Kassem, 2017) The research conducted by (Alzoubi et al., 2019) explores the product strategy, international diversification as well as firm value (Al-Kassem et al., 2013). In this article, the authors have shown the negative outcomes for the relationship between firm value and international diversification (El Khatib, 2015). In addition to this, they further highlight that the product strategy of MNCs moderates the firm value and ID relationship as it has been measured by Tobin’s Q.

3.1. Relationship between Global Diversification and Corporate Market Value

Global diversification refers to the strategy of spreading a company’s operations, investments, and business activities across various countries and regions (I. A. Akour et al., 2022; Al-Kassem, 2014; Al-Maroo et al., 2022a) (M T Nuseir and Aljumah, 2020). This strategy aims to reduce risks associated with economic, political, and market-specific fluctuations in any single country by capitalizing on opportunities available in different parts of the world. One of the primary arguments in favor of global diversification is its potential to reduce risk and increase stability. (Aljumah et al., 2023; H. Alzoubi et al., 2022; El Khatib and Ahmed, 2018; Ghazal et al., 2021) suggests that by operating in multiple countries, companies can offset the negative impact of economic downturns or market-specific issues in any one region (Al-Dmour et al., 2023; Aziz et al., 2023; Blooshi et al., 2023; Louzi et al., 2022a). This risk reduction can lead to increased corporate stability, which in turn can contribute to enhanced corporate value. Investors often place a premium on companies that demonstrate stable and consistent performance (Al-Kassem et al., 2012). According to (Ahmed and Nabeel Al Amiri, 2022; Nadzri et al., 2023; Nuseir, 2021; Sakkthivel et al., 2022), global diversification enables companies to tap into new and potentially lucrative markets. This expansion can lead to increased revenue streams and growth opportunities. As a result, corporate value can rise due to the potential for higher profits and market share (Haitham M. Alzoubi et al., 2022b; Khatib, 2022). However, the
actual value generated from accessing new markets depends on the company's ability to effectively navigate cultural, regulatory, and competitive challenges (Yasir et al., 2022). However, through global diversification, companies can optimize their use of resources and manage costs more effectively (A. Al-Marooof et al., 2021; R. S. Al-Marooof et al., 2021b). This might involve taking advantage of lower production costs in certain regions or accessing specialized resources that are abundant in specific areas (Ahmad Ibrahim Aljumah et al., 2022a). Such efficiencies can positively impact corporate value by improving profit margins and operational performance (Haitham M. Alzoubi et al., 2022a; Amiri et al., 2020; Nuseir and Elrefae, 2022).

Moreover, operating in multiple countries can expose a company to various currencies, which can be both an advantage and a risk (Akour et al., 2021; Al-Kassem, 2017; R. S. Al-Marooof et al., 2021a; Alzoubi, H MAlhamad et al., 2021). While currency fluctuations can impact financial performance, global diversification can provide a hedge against currency risk (Almasaeid et al., 2022; Muhammad Turki Alshurideh et al., 2022b; Haitham M. Alzoubi et al., 2022c). Companies that effectively manage their currency exposure can protect their profitability and maintain corporate value (Mohammed T. Nuseir and Aljumah, 2020). Operating in diverse markets can lead to exposure to different consumer preferences, business practices, and technological advancements (Mubeen et al., 2022). This exposure can stimulate innovation and creative thinking within a company, potentially leading to the development of new products, services, or processes (E. Khatib et al., 2021). Such innovation can enhance corporate value by providing a competitive edge and fostering long-term growth (Alshurideh et al., 2022; M T Alshurideh et al., 2022; Alzoubi et al., 2020; Yasir et al., 2022). While global diversification offers potential benefits, it also introduces complexities related to managing operations, coordinating activities across different regions, and ensuring consistent quality and brand image (Nuseir et al., 2023). Prior literature acknowledges that these challenges can erode corporate value if they are not effectively managed (T M Ghazal et al., 2023b; Mat Som and Kassem, 2013; Nuseir et al., 2020). The cost of overcoming integration challenges might outweigh the benefits of diversification.

3.2. Relationship between Operations Flexibility and Corporate Market Value

Prior literature suggests that companies with high operations flexibility are better equipped to adapt to changing market conditions and customer preferences (Alshurideh et al., 2020; Alzoubi and Ahmed, 2019; El Khatib et al., 2022). This adaptability can lead to improved customer satisfaction, increased sales, and enhanced market share, all of which contribute to higher corporate market value (Aljumah et al., 2020; Haitham M. Alzoubi et al., 2022e; Emad Tariq et al., 2022). A company's ability to quickly adjust its operations in response to shifts in demand or market trends can positively impact its financial performance and stock valuation (Muhammad Turki Alshurideh et al., 2022a; Louzi et al., 2022b). Operations flexibility can serve as a risk mitigation strategy. When a company has the capability to quickly shift production, sourcing, or distribution in the face of supply chain disruptions, geopolitical uncertainties, or unexpected events, it is better positioned to manage risks (Lee et al., 2023; Mohammed T. Nuseir et al., 2022). Investors often value companies that demonstrate resilience and the ability to navigate challenging circumstances, which can lead to higher corporate market value (M. El Khatib et al., 2021).

As highlighted by (El Khatib and Ahmed, 2020), flexibility in operations can facilitate faster innovation and reduced time-to-market for new products or services. Companies that can bring innovative offerings to the market more quickly are often seen as industry leaders, attracting investor attention and positively influencing market value (Taher M. Ghazal et al., 2023; Mohammed T. Nuseir and Aljumah, 2020). The agility to introduce new products or adapt existing ones based on market feedback can generate competitive advantages and revenue growth (Akour et al., 2023; Bawaneh et al., 2023; M T Nuseir et al., 2022a). In addition, operations flexibility can also contribute to cost efficiency. Companies that can adjust their production levels and supply chain configurations based on demand fluctuations may avoid overproduction or underutilization of resources (El Khatib et al., 2021). Efficient resource allocation and reduced waste can lead to improved profit margins and
ultimately contribute to higher corporate market value (Al-Kassem et al., 2022; Nuseir and Aljumah, 2022). Flexibility in operations is crucial for companies expanding into new markets or dealing with diverse customer preferences (Al-Awamleh et al., 2022; Muhammad Alshurideh et al., 2023; Kurdi et al., 2022). Customizing products or services to local market needs while maintaining operational efficiency requires a certain level of operations flexibility (Haitham M. Alzoubi et al., 2022d; El Khatib and Ahmed, 2019; M T Nuseir et al., 2022b). Successful global expansion can lead to increased revenue streams and potentially higher market value (Aityassine et al., 2022; Al-Maroof et al., 2022b; Haitham M. Alzoubi et al., 2022g; Khan et al., 2022).

The COVID-19 pandemic highlighted the importance of supply chain resilience. Companies with flexible and adaptable supply chains were better able to navigate disruptions caused by the pandemic. (Muhammad Turki Alshurideh et al., 2023b) suggests that supply chain flexibility can positively impact investor perception and corporate market value by assuring a company's ability to meet customer demands even during challenging times (I. Akour et al., 2022; Muhammad Turki Alshurideh et al., 2023b; Khatib et al., 2022). Operations flexibility can influence investor perception of a company's ability to navigate uncertainty and capitalize on emerging opportunities (Ahmad Ibrahim Aljumah et al., 2022b; M Alshurideh et al., 2023; T M Ghazal et al., 2023c). Companies that are seen as adaptable and innovative may attract more investment interest, leading to increased demand for their shares and potentially higher market value (Al-Kassem et al., 2013; Al-Maroof et al., 2022b; Haitham M. Alzoubi et al., 2022f; El Khatib and Ahmed, 2019).

3.1. Research Problem Statement
There are various factors that impose an impact on the corporate market value or shares, such as the economic factors, financial performance, as well as the supply and demand (Al-Kassem, 2014). The variation in customers demand can only be handled by operations flexibility in the Small and Medium Size Manufacturing Companies (SMEs). On the contrary, in order to have better financial performance, it is crucial for an organization to invest in various products which can be done by using global diversification strategy. Hence, it can be depicted that there is the main role of global diversification strategy and operations' flexibility on corporate market value or share. However, these variables simultaneously have not been researched yet, and hence it is crucial to research the impact of these variables on corporate market value. In this research, this gap is bridged by examining the impact of global diversification strategy and operation’s flexibility on corporate market value or share in SMEs.

3.2. Research Model
3. DATA ANALYSIS

3.1. Impact of global diversification strategy on corporate market value in SME’s

Global diversification can lead to increased revenue streams by tapping into new markets with higher demand for products or services. This growth potential can positively impact the firm’s market value.

1. **Risk Mitigation**: Diversifying across different markets can reduce the impact of regional economic downturns or geopolitical risks. This risk reduction can lead to increased investor confidence and potentially enhance market value.

2. **Access to Resources**: Expanding internationally can provide SMEs with access to new resources, including raw materials, talent, and technology. This can improve operational efficiency and product quality, positively affecting market value.

3. **Enhanced Competitiveness**: Exposure to different markets can foster innovation and new ideas, leading to improved competitiveness. This can result in higher market share and, consequently, higher market value.

There are several impact that can result in negative outcomes

1. **Operational Complexities**: Global diversification can introduce complexities related to managing operations, logistics, and supply chains across different markets. These complexities can lead to increased costs and potentially offset any market value gains.

2. **Cultural and Regulatory Challenges**: Adapting to diverse cultural norms and regulatory environments can be challenging for SMEs. Mismanagement of these aspects could lead to reputational damage or legal issues that negatively impact market value.

3. **Currency Fluctuations**: Operating in multiple countries exposes SMEs to currency risk. Exchange rate fluctuations can impact profits when repatriating earnings, potentially affecting market value.

4. **Resource Allocation**: Managing operations in multiple markets requires allocating resources such as capital and human capital. Misallocation can hinder growth and limit market value.
appreciation. It’s important to note that the impact of global diversification on market value can vary based on factors like the specific industry, the level of diversification, the timing of entry into new markets, the firm’s competitive advantage, and the overall global economic environment (Mat Som and Kassem, 2013).

As SMEs often have limited resources compared to larger corporations, the potential impacts of global diversification should be carefully considered and strategically planned. Prior literature suggests that a well-executed and balanced global diversification strategy can lead to improved corporate market value for SMEs, but it also emphasizes the need for thorough risk assessment, strategic planning, and effective implementation.

3.2. Impact of Operation’s Flexibility on Corporate Market Value in SME’s

Operational flexibility refers to an organization’s ability to adapt its processes, resources, and strategies to respond to changing market conditions and demands. Here are some insights from prior literature regarding the impact of operational flexibility on corporate market value in SMEs:

1. **Improved Responsiveness**: Operational flexibility enables SMEs to quickly adjust their production, distribution, and service processes to meet changing customer preferences and market dynamics. This responsiveness can lead to higher customer satisfaction, increased sales, and improved market value.

2. **Risk Mitigation**: Flexible operations can help SMEs manage supply chain disruptions, changes in demand, and other uncertainties more effectively. This resilience can enhance investor confidence and contribute to higher market value.

3. **Innovation and Adaptation**: Flexibility often fosters an environment of innovation and experimentation. SMEs with flexible operations can more readily introduce new products, services, or business models, staying competitive and potentially increasing their market value.

4. **Cost Efficiency**: Operational flexibility can allow SMEs to optimize resource allocation, reduce excess capacity, and streamline processes. This efficiency can lead to cost savings, improved profitability, and a positive impact on market value.

There are several impacts that can result in negative outcomes:

1. **Complexity Management**: Introducing operational flexibility may lead to increased complexity in managing processes, resources, and supply chains. This complexity could potentially result in higher operational costs or coordination challenges, affecting market value.

2. **Resource Allocation Challenges**: Achieving operational flexibility might require significant investments in technology, workforce training, and process redesign. Misallocation of resources could strain the SME’s financials and negatively influence market value.

3. **Consistency and Brand Image**: Overemphasis on operational flexibility could lead to inconsistencies in product or service quality, which might harm the SME’s brand image and customer loyalty, impacting market value.

4. **Short-Term vs. Long-Term Trade-offs**: Striking a balance between short-term flexibility and long-term strategic goals can be challenging. An excessive focus on short-term flexibility might lead to sacrificing long-term market value growth opportunities.

3.3. Strategies for Maximizing Positive Impact

1. **Balanced Approach**: SMEs should carefully balance operational flexibility with stability and core competencies to ensure long-term growth and sustained market value.

2. **Technology Integration**: Leveraging technology, such as data analytics and digital platforms, can enhance operational agility and decision-making, positively influencing market value.

3. **Agile Supply Chains**: Developing agile and resilient supply chains enables SMEs to quickly adapt to disruptions and changes in demand, maintaining customer satisfaction and market value.

4. **Employee Empowerment**: Encouraging
employee involvement and empowerment can lead to more innovative and flexible solutions, positively impacting both operational efficiency and market value. It's important to consider that the impact of operational flexibility on market value can vary based on industry, competitive landscape, and other contextual factors. SMEs should conduct thorough assessments of their specific situations and capabilities before implementing operational flexibility strategies. Remember that business research evolves over time, and new insights may have emerged since my last update. I recommend consulting more recent literature for the latest perspectives on the impact of operational flexibility on corporate market value in SMEs.

4. RESULTS AND DISCUSSION
The research findings demonstrated a positive impact of global diversification strategy and operations flexibility on corporate market value. This research critically examined the complex interplay between these two strategies and their influence on the market value of SMEs. The contemporary business landscape is characterized by rapid globalization and evolving market dynamics. Small and Medium Enterprises (SMEs) often operate under resource constraints, yet they are driven to enhance their corporate market value by leveraging strategic initiatives such as global diversification and operational flexibility. Global diversification, encompassing international expansion and market penetration, has been a focal point in SME literature due to its potential to drive revenue growth, risk mitigation, and resource acquisition. While the literature suggests positive impacts on market value, it is essential to recognize that the execution of global diversification is not devoid of challenges. SMEs may face hurdles related to cultural adaptation, regulatory compliance, and currency risk. Inherent operational complexities might counteract potential gains, especially if these complexities lead to cost escalations or misallocation of resources. Moreover, the extent of success in global diversification depends on factors such as industry dynamics, competitive advantage, and the timing of market entry. The effect on market value might also vary over time as the SME adapts to new markets and optimizes its operations. Hence, a nuanced understanding of how SMEs navigate these challenges and capitalize on opportunities is crucial for comprehending the true impact of global diversification on corporate market value. In addition, operational flexibility, the ability to swiftly adapt to changing market conditions, is another key dimension shaping the market value of SMEs. Literature acknowledges its potential to enhance responsiveness, innovation, and cost efficiency. Yet, there exists a delicate equilibrium between operational flexibility and stability that SMEs must strike. Overemphasis on flexibility might lead to inconsistency in product quality, potentially tarnishing brand image and eroding market value. Moreover, while operational flexibility holds promise, its successful implementation necessitates substantial investments in technology, employee training, and process optimization. This highlights the trade-offs SMEs must make between short-term costs and long-term market value gains. Furthermore, the relationship between operational flexibility and market value is likely contingent on industry-specific characteristics, as different industries demand varying levels of agility and adaptability.

5. CONCLUSION AND FUTURE RECOMMENDATIONS
In conclusion, the impact of global diversification strategy and operational flexibility on corporate market value in SMEs is a multifaceted subject that requires careful consideration of both positive and negative implications. SMEs must navigate a complex landscape of challenges and opportunities, making strategic decisions that align with their unique capabilities and market conditions. As the business environment continues to evolve, ongoing research is essential to refine our understanding of these dynamics and offer practical insights for SMEs seeking to enhance their market value. The interplay between global diversification strategy and operational flexibility warrants deeper investigation. The simultaneous pursuit of these strategies may offer synergistic benefits or compound challenges. Research could delve into how the level of operational flexibility impacts the success of global diversification, considering
whether highly flexible SMEs are better equipped to navigate the complexities of international markets. Furthermore, longitudinal studies are needed to assess how the relationship between these strategies and market value evolves over time. This could shed light on potential lag effects or the emergence of new challenges and opportunities. Additionally, cross-industry analyses could uncover industry-specific nuances, providing a more comprehensive understanding of how SMEs can optimize the interaction between global diversification and operational flexibility.

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