

Thoughts on the Risks of Diversified Investment of Zhejiang Kanglaite Group

Jianwei Ma, Yuxi Shi, Renjian Yao

Lanzhou University of Technology, Lanzhou, Gansu 730050, China

Abstract: *Diversified investment is a common strategy adopted by group companies for rapid development, but it is also a “double-edged sword”, and the impact on corporate risks is uncertain. While reducing the volatility of corporate returns, problems such as excessive volatility caused by diversified investment, increased funding and allocation pressure, increased financial risks, and reduced organizational competitive advantages and coordination capabilities are not diversified to a certain extent. It is self-expanding risk. On the basis of summarizing and drawing on the existing results, this paper uses Zhejiang Kanglaite Group as a case to explore the motivations of diversified investment, and uses the analytic hierarchy process to identify and evaluate risks. The study found that management capability risk, core technology risk and industry familiarity are the main risks that affect the success or failure of the company's diversified investment. It is recommended to improve risk management capabilities, supervisory management capabilities, and operational management capabilities to effectively avoid risks and improve risk response capabilities.*

Keywords: *Diversified investment, Risk identification, Risk control*

1. Introduction

With the in-depth development of economic globalization and the saturation of various traditional industries in China, the competition among enterprises has become more intense, and the risks of diversified operations have become more unpredictable. How to strengthen the management and control of diversified investment risks has become a serious and realistic problem facing enterprises. This article takes Zhejiang Kanglaite Group (hereinafter referred to as Kanglaite Group) as a case to explore its diversified investment history and status quo, and conducts risk identification and risk analysis on Kanglaite Group's diversified investment through the analytic hierarchy process(AHP), and finally proposes countermeasures in order to bring inspiration to other companies' diversified investment.

2. Diversified Investment Status of Kanglaite Group

Kanglaite Group is a high-tech enterprise that takes science and technology as the forerunner and takes industry as the foundation to engage in the operation of anti-tumor drugs. The company was established in October 1993. After more than 20 years of rapid development, it has formed a cross-industry and cross-regional diversified business group enterprise, involving medicine, medical equipment, wine, catering, animal feed, cultural entertainment, financial securities and In industries such as private equity funds, diversified investments have brought good investment returns to the company, and also caused significant losses to the company, especially now that it has begun to accumulate more and more investment risks for the company. Under the complex international background of globalization and anti-globalization, the company's diversified operations have encountered huge challenges. In the face of increasingly fierce market competition and emergencies, the company's management should think rationally and rethink carefully. The company's diversified investment behavior to ensure the company's healthy and sustainable development. The company's large cash surplus over the years has provided innate conditions for diversified investment, but the results are always unsatisfactory. The investment history is shown in the following table:

Table 1: Diversified Investment History of Kanglaite Group

Number	Project Name	Time (year)	Investment Nature	Diversified Categories	Amount (ten thousand yuan)	Result
1	Zhejiang Kanglaite Pharmaceutical Company	1995	Equity investment	Relevance	5283	Success
2	Hangzhou Laifu Liquor Industry Company	1996	Equity investment	Relevance	2200	Success
3	Wushan Minglou Catering Management Company	2010	Equity investment	Irrelevance	3000	Fail
4	Kanglaite (U.S.) Corporation	2012	Equity investment	Relevance	48500	Processing
5	Weihai Tianyihe Company	2013	Equity investment	Irrelevance	2000	Fail
6	Beijing Daimeike Technology Development Company	2014	Equity investment	Relevance	2500	Processing
7	Tianjin Yibo Digital Company	2016	Equity investment	Irrelevance	3060	Fail
8	Zhejiang Yipin Venture Capital Company	2016	Equity investment	Irrelevance	2000	Fail
9	Hangzhou Kanglaite Health Technology Company	2016	Equity investment	Relevance	1000	Processing
10	Zhejiang New Third Board Company	2016	Equity investment	Irrelevance	5100	Fail
11	Beijing Hanfu Asset Management Company	2016	Equity investment	Irrelevance	14000	Fail
12	Zhejiang Jincheng Group Company	2016	Equity investment	Irrelevance	39600	Fail

3. Risk Identification of Diversified Investment in Kanglaite Group

Uncertainty and potential are important characteristics of risk, which are not easy to be perceived or understood by people. Therefore, the company's diversified investment risk management should follow the process of risk identification, risk assessment, risk control and risk adjustment, and master scientific methods and technologies, so as to better discover risks, analyze risks and improve risk response ability.

Table 2: Statistical Analysis of Correlation between Diversification Risk Factors of Kanglaite Group

Number	Risk Factors	Correlation Degree of Risk Factors	
		Comprehensive Score	Degree of Correlation
1	Management capability risk	4.8	High
2	Core technology risk	4.8	High
3	Financial environment risk	4.4	High
4	Industry familiarity	4.4	High
5	Environmental policy risk	4.4	High
6	Imbalance of investment structure	4.6	High
7	Concentration of investment scale	4.6	High
8	Personal quality and integrity	3.0	Higher
9	Leadership risk	2.8	Normal
10	Industry competition risk	0.6	Low
11	Risk of contract breach	2.6	Normal
12	Cultural integration risk	1.0	Low
13	Market demand risk	0.8	Low
14	Exit mechanism risk	1.8	Lower
15	Product quality risk	0.2	Low
16	Sino US trade war	2.4	Normal
17	Profitability risk	0.6	Low
18	Material procurement risk	0.2	Low
19	Human resource risk	1.8	Lower
20	Emergency risk	2.8	Normal
21	Production and operation risk	0.2	Low
22	Financing capacity risk	0.4	Low
23	Risk of improper decision making	3.2	Higher
24	Tax policy risk	0.2	Low
25	Risk of absence of supervision	1.2	Lower

Note: The risk correlation score of "high" is 5 points, "higher" is 4 points, "normal" is 3 points, "low" is 2 points, "lower" is 1 point

Through the questionnaire survey method, 55 qualified employees from the internal finance department, technology development department, production and operation Department, quality management department, human resources department and other departments of the group are given questionnaires. According to the statistical results of the questionnaire, 25 factors affecting the diversified investment risk of the company are finally identified. In order to analyze the effectiveness and correlation of the risk factor summary data, so as to identify the main risk factors affecting the company's diversified investment, five senior people who are familiar with the company's situation and engaged in investment and risk management are invited to conduct correlation analysis and evaluation. The statistical results are shown in table 2.

It can be seen from the above table that the risk factors with high correlation degree of diversified investment risk of the company are management ability risk, core technology risk, financial environment risk, industry familiarity, environmental protection policy risk, imbalance of investment structure and concentration of investment scale, and the risk factors with high correlation degree are personal quality credit risk and improper decision-making risk, The correlation degree of other risk factors was from low to general.

4. Risk Assessment of Diversified Investment of Kanglaite Group

4.1. Characteristics of Diversified Investment Risk

Risk refers to the probability and influence degree of uncertain events encountered by an enterprise in the process of operation in order to achieve its goal, that is, the difference between the expected goal and the actual result, which can be expressed as the uncertainty of income, cost or cost. The ultimate goal of diversified investment is to obtain more economic benefits. At the same time, managers also understand the truth of "seeking wealth from insurance". Therefore, in the process of diversified investment, risk is inevitable, which has the characteristics of uncertainty, objectivity, universality, loss and variability.

4.2. Motivation of Diversified Investment

The main reasons for the diversified investment of Kanglaite Group are as follows: (1) Obtain economies of scope. After years of rapid development, Kanglaite has accumulated a certain amount of capital, technology and management experience, and is in a leading position in the anti-cancer market of traditional Chinese medicine. To invest in white wine industry is to make use of the residual value of coix seed after extracting effective substances, invested Hangzhou Leifu Wine Company to produce coix wine. To invest in the medical device industry, the company has worked in the drug market for many years and accumulated certain market, technical and interpersonal resources. In order to give full play to the advantages of surplus resources and synergy effect, the company has invested and established Beijing Daimeike Technology Development Co., Ltd. (2) theoretically, diversified investment can disperse business risks, improve the viability and operational safety of enterprises, but from the actual situation, diversified investment sometimes increases risks. Based on the effect that diversified investment can disperse business risks, Kanglaite Group began to invest from a single medical and pharmaceutical industry to the catering industry, animal feed, culture and entertainment, financial securities, private equity and other industries. However, it backfired because of improper risk management and insufficient response measures in the process of diversification, In fact, some diversified investments of the company increase the business risk of the company.(3)In order to improve the core competence of the enterprise, Kanglaite Group has invested in Beijing Daimeike Technology Development Company to realize the combination of strong technology and improve the core technological competence. The technical team of Beijing Daimeike Technology Development Co., Ltd. is jointly composed of experts and technicians led by academician Dapeng Li of the Chinese academy of engineering and experts and technicians led by academician Mengsun Yu of the Chinese academy of engineering. The two academicians have core technical capabilities in their respective research fields, and new core capabilities and competitive advantages can be formed through cooperation and complementarity.(4)Speed up the development of the enterprise, Kanglaite Group has been deeply engaged in the traditional Chinese medicine preparation industry for more than ten years. Both the market share and the scale are in the dominant position in the subdivided industry. If it continues to grow at a high speed through internal increment, it will be a very difficult thing. The subdivided market has the ceiling board of the industry. It is against the law of market economy to continue to increase investment, and the effect is poor, Kanglaite Group has invested a large amount of

money to diversify the catering industry, animal feed, cultural entertainment and financial securities, private equity and other industries, in order to realize the rapid growth of the enterprise.

4.3. Risk Assessment of Diversified Investment

In order to analyze and evaluate the risk factors of diversified investment of Kanglaite group in each stage, two questionnaires, namely the influence degree of risk factors and the probability of risk occurrence, were designed in October 2019 according to the risk identification work and statistical results done in the earlier stage, and sent to five practical experts and scholars engaged in diversified investment for analysis and evaluation, Through comprehensive statistical analysis, the influence degree and occurrence probability of risk factors in the company's diversified investment process in more than ten years are obtained, as shown in Table 3 and table 4.

Table 3: Summary Table of Expert Scores for Impact of Kanglaite Group's Diversified Investment Risk Factors

Number	Risk Factors	Risk Impact Score				
		Expert 1	Expert 2	Expert 3	Expert 4	Expert 5
1	Management capability risk	0.8	0.6	0.6	0.8	0.8
2	Core technology risk	0.6	0.8	0.6	0.6	0.6
3	Financial environment risk	0.4	0.4	0.6	0.4	0.4
4	Industry familiarity	0.6	0.8	0.4	0.6	0.6
5	Environmental policy risk	0.2	0.2	0.1	0.1	0.2
6	Imbalance of investment structure	0.1	0.1	0.2	0.1	0.1
7	Concentration of investment scale	0.2	0.2	0.2	0.4	0.2

Table 4: Summary Table of Expert Scores on the Probability of Occurrence of Diversified Investment Risk Factors of Kanglaite Group

Number	Risk Factors	Probability of Risk Occurrence				
		Expert 1	Expert 2	Expert 3	Expert 4	Expert 5
1	Management capability risk	0.7	0.9	0.9	0.9	0.7
2	Core technology risk	0.9	0.7	0.7	0.7	0.7
3	Financial environment risk	0.3	0.5	0.3	0.1	0.5
4	Industry familiarity	0.7	0.5	0.5	0.7	0.3
5	Environmental policy risk	0.1	0.3	0.1	0.1	0.1
6	Imbalance of investment structure	0.1	0.3	0.1	0.3	0.3
7	Concentration of investment scale	0.5	0.3	0.3	0.5	0.1

Establish a diversified investment risk factor matrix table according to the above table assignment:

Table 5: Risk factor matrix of diversified investment

Probability of Occurrence					
0.9	0.09	0.18	0.36	0.54	0.72
0.7	0.07	0.14	0.28	0.42	0.56
0.5	0.05	0.10	0.20	0.30	0.40
0.3	0.03	0.06	0.12	0.18	0.24
0.1	0.01	0.02	0.04	0.06	0.08
Influence Degree	0.1	0.2	0.4	0.6	0.8

The horizontal axis represents the influence degree of risk factors, and the vertical axis represents the probability of risk occurrence. The data marked with color in the model table is equal to the product of the influence degree and the probability of occurrence. For a single risk factor, when the comprehensive score is above 0.30; it means that the factor belongs to high risk, which is indicated by red. When the comprehensive score is above 0.10 and below 0.30, it means that the factor belongs to medium risk, which is indicated by yellow. When the comprehensive score is lower than 0.1, the factor belongs to low risk and is expressed in green.

According to the above discriminant table, this paper analyzes the seven risk factors of diversified investment identified in the previous paper, establishes the corresponding matrix, and summarizes the matrix obtained by scoring the occurrence probability and influence degree of each risk factor of diversified investment, as shown in table 6.

Table 6: Proportion of comprehensive risk level of each risk factor

Number	Risk Factors	Proportion of risk level		
		High risk	Medium risk	Low risk
1	Management capability risk	100%	0%	0%
2	Core technology risk	100%	0%	0%
3	Financial environment risk	4%	76%	20%
4	Industry familiarity	72%	28%	0%
5	Environmental policy risk	0%	0%	100%
6	Imbalance of investment structure	0%	0%	100%
7	Concentration of investment scale	0%	48%	52%

It can be seen from the above table that experts believe that the high risk factors of diversified investment are management ability risk, core technology risk and industry familiarity risk, the medium risk factor is financial environment risk, and the low risk factor is environmental policy risk, imbalance of investment structure and concentration of investment scale. According to the risk factor analysis and evaluation results of experts, Kanglaite Group has deficiencies in risk management ability, risk identification ability, risk decision making ability and risk response ability in the process of diversified investment, so it needs to improve the diversified investment management level of corporate governance decision making level and business operation level. In the aspect of diversified investment, the lack of technical reserve and talent reserve, and the blind investment in unfamiliar industries lead to the high failure probability of some unrelated diversified investment. They are too optimistic about diversified investment, eager for quick success and instant benefit, and ignore the complexity, variability and risk of external factors such as financial environment, economic environment and political environment. Limited understanding of the fund securities market, too concentrated investment in fund projects, and lack of supervision and control of post investment management lead to huge losses in case of risks. According to the risk factor analysis and evaluation results in the above table, the company needs to improve its diversified operation risk management ability, diversified supervision and management mechanism, and diversified operation comprehensive ability.

5. Deal With Diversified Investment Risks

5.1. Improve Risks Management Ability of Diversified Operation

Firstly, we must improve the ability to identify diversified risks. Operational risk management has always been the weakest link in the company's diversified operations, and it is also the ability that needs to be improved, especially the ability to identify diversified risks. This requires the company to improve the allocation of professional personnel. Enhance the capabilities of the company's professional personnel. When cross-industry diversification, industry professionals are required to do due diligence, risk identification and strategic planning. Secondly, it is necessary to improve the diversified risk decision-making ability, and establish and enhance the company's diversified risk decision-making Ability must avoid personal subjective consciousness. Only by mastering and familiarizing with scientific decision-making procedures and methods can the company's diversified risk decision making capabilities be improved. Specifically, the company's management decision-making level must fully grasp the basic theories, criteria, methods and techniques of risk decision making use of tools.

5.2. Strengthen Comprehensive Management Ability of Diversified Operation

Firstly, it is necessary to cultivate and build the core competitiveness of the enterprise, which mainly includes these four aspects: core talents, core technology, corporate culture and brand influence. The core competitiveness of Kanglaite Group is undoubtedly the core talents and core technologies. At present, the company is in the enterprise Good achievements have also been made in terms of culture and brand influence, but compared with the first two aspects, the company still needs to increase investment and research to further enhance its competitive advantage.

Secondly, it is necessary to determine a reasonable investment structure and scale. Through research, it can be seen that the investment scale and structure of Kanglaite Group are affected by factors such as industrial policies, market competition, financing capacity, economic prospects, investment objectives, and return on investment. The main problem is: the investment scale of the

company's three debt investment projects is too large and too concentrated, and the risk is high; the company's investment structure is unreasonable, and the proportion of investment in non-related projects is too large, causing the company's business to be irrelevant and ignoring its own competition. Advantages, blindly entering other industries with competitive disadvantages; related diversification projects have basically succeeded or are in healthy growth, and all unrelated diversification projects have failed. Although the results are somewhat extreme, it also shows and confirms that related diversification is better than non-related diversification projects. The probability of successful relevance diversification should be high. In summary, the company must reasonably control the investment scale and investment balance, prevent investment projects from being too concentrated, and fully assess the degree of risk, and invest more of the company's resources in relevant projects with competitive advantages, give play to the synergy of resources.

Thirdly, we must strengthen the ability to integrate diversified resources, identify, analyze and select all tangible and intangible resources based on their source, structure, content and merge them to create new resources. The process of corporate diversification is the continuous integration of resources. In order to reduce risks in diversified investment, the company must face up to its own shortcomings, make up for shortcomings, find gaps, and improve the ability to integrate diversified resources.

5.3. Establishing the Supervision and Management Mechanism of Diversified Operation

The first is to establish a diversified risk control and supervision system. Kanglaite Group is ambiguous in terms of ownership, operation and supervision. The founders of the company sometimes combine the three powers, which lead to the failure of corporate governance and supervision. Therefore, in establishing and improving the supervision of the shareholders meeting, the group needs to separate the ownership and control rights to strengthen the supervisory role of the shareholders meeting; in establishing and improving the supervision of the board of directors, it is necessary to clarify the supervisory function of the board of directors over the company's management and apply for professional managers, Through the incentive mechanism to restrain professional managers' business behavior; in establishing and improving the supervision of the board of supervisors, it is necessary to continuously strengthen the independent supervision of the board of directors and management of the company; in establishing and improving employee supervision, the company should encourage employees to actively participate in the supervision work.

The second is to establish a reward and punishment mechanism for diversified operations. Looking back on the many failures of Kanglaite Group in the diversification process, the failure to establish a scientific reward and punishment mechanism is one of the important reasons. Improper rights and responsibilities, and improper rewards and punishments will cause the failure of the management mechanism and strengthen the human nature to seek advantages and avoid disadvantages. Over time, the company will be exposed to many uncertain high risks. Therefore, the establishment of a reward and punishment mechanism with a clear distinction between right and wrong and appropriate rewards and punishments is conducive to motivating company operators to work diligently, improve operating efficiency, and reduce moral and legal risks.

6. Conclusion and Inspiration

The investment history of Kanglaite Group is a microcosm of the diversification process of some Chinese private enterprises at present, and it has certain reference and enlightening significance for other enterprises that are undergoing or planning to diversify operations. First of all, when making diversified strategic decisions, it is necessary to consider the enterprise's risk response ability and tolerance under extremely pessimistic conditions. Most of the time, survival is more important than development. Secondly, financial leverage must be sound and appropriate when diversified investments. Many companies die of excessive financial leverage and cut off cash flow. Finally, make decisions and act later. Blind investment and quick success will fall into the trap. Diversified investment is a strategic issue related to the development direction of an enterprise and requires careful decision, in-depth research and investigation. I hope that the failure of Kanglaite Group's diversified investment and the huge price it has paid can give other companies warning and enlightenment.

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