

Diversification strategy and firm technical efficiency in Moroccan real estate sector: A Data envelopment analysis application

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ABSTRACT

This research paper provides an additional empirical evidence by exploring the link between the diversification and economic performance. Diversification is a form of business strategy that aims to improve the profitability of the company by increasing the volume of sales thanks to the multiplication of products and services, and the conquest of new markets both locally and internationally. This paper aims to fill in the gap and investigate the relationship between business diversification and economic performance in the context of real estate businesses in Morocco. Economic performance has been approached from the perspective of the firm's resources, in particular its production function, represented by the variables of inventory and personnel costs. The sampling includes 60 firms in the real estate sector for the fiscal year of 2019/2020. A quantitative research method is used to measure the link between the diversification strategy and economic performance. The results show that diversification has important implications to drive profit-maximizing firms and advocate the economies of scale and scope. In addition, the findings reveal that growth contributes to scale and scope economies, but at the same time it can lead to diseconomies, when further impetus to economic integration and the increasing complexity of diversification no longer generate profit. The analysis of DEA scores reveal that on average, companies are underperforming with a score of technical efficiency not exceeding 41%; however their score of scale efficiency is pretty good with 85%; that is, most companies are operating at increasing return to scale.

Keywords: Real Estate, Diversification, Morocco, DEA.