

Is there an effect of diversification in Fico's on market valuation?

Theory

- Overview in paper Walter
- Overcome informational asymetry
 - Williamson 1970
 - Lewellen 1971
 - Gertner, Scharfstein, and Stein 1994
 - Stein 1997 JoF Winner picking
- Coordinate distinct activities Chandler 1997
- Insiders may expand the range of corporate activities for private gain
 - Jensen 1986
 - Jensen and Meckling 1986
- Inensify agency problems between insiders and small stockholders
 - Aron 1988
 - Stulz 1990
 - Rotemberg and Saloner 1994
- Other
 - Influence activities (Scharfstein and Stein, 2000; Wulf, 1998)
 - Bargaining problems (Rajan, Servaes, and Zingales, 2000)
 - Bureaucratic rigidity (Shin and Stulz, 1998)

Empirics

- There is a discount ...
 - Lang and Stulz 1994 Subtopic
 - Berger and Ofek 1995 closer the SIC the lower the loss
 - Servaes 1996
 - Laeven and Levine 2005 Banks
Tobin's q
 - Morck, Schleifer and Vishny 1990
 - Comment and Jarrell 1995
 - John and Ofek 1995
 - Lins and Servaes 1999 ~= Berger and Ofek
Japan and UK
 - Rajan, Servaes and Zingales 2000
 - Others ...
 - Denis, Denis and Sarin 1997 Agency problems
 - Chen and Ho 2000 Singapore
 - Beiner and Schmid 2005 14-24%
lower with sound governance and large investors
 - Schmid and Walter 2006 not caused by sample selection
geographic diversification is good
TBTF
- ... but what drives it?
 - less productive firms tend to diversify, but diversity is not causing the discount Maksimovic and Philips 2002
 - The same traits that induce firms to diversify also lower firm values
 - Campa and Kedia 2002 FE, SE, Heckman
 - Villalonga 1999
 - Villalonga 2004 FinMan FE, SE, Heckman. Firm specific vars!
artifact of Compustat's segment data
 - Fluck and Lynch 1999
 - Chevalier 2000
 - Lamont and Polk 2001
 - Whited 2001