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	Literature Review		Literature Review
Introduction Why Diversify? Literature Review Refocus Discount Why Discount International Measurement Endogenous Emerging Marke Research Gap Data Compilation Data Analysis Robustness Test	 Measurement errors Database biased in favor of finding a diversification discount from survivor and self-reporting biases Harris (1998), Villalonga (2000), Schoar (2002) Firm value measurements might not reflect true firm values Lamont and Polk (2001), Whited (2001), Mansi and Reeb (2002) 	Introduction Why Diversify? Literature Review Refocus Discount Why Discount International Measurement Endogenous Emerging Market Research Gap Data Compilation Data Analysis Robustness Tests	 Endogenous factors cause both decision to diversify and discount in firm value Campa and Kedia (1999), Chevalier (2000), Graham, Lemmon and Wolf (2000), Campa and Kedia (2002), King, Datton, Daily and Covin (2004) Discount but still optimal Fluck and Lynch (1999), Maksimovic and Phillips (2001), Maksimovic and Phillips (2002)
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Introduction

Refocus

Discount

Why Diversify?

Literature Review

Why Discount

International

Measurement

Endogenous

Research Gap Data Compilation Data Analysis Robustness Tests

Emerging Markets

Literature Review

- Diversification in the emerging markets
- Institutional and other differences
- Conflicting findings
- La Porta, Lopez-de-Salinas, Shleifer and Vishny (1998, 1999, 2000a, 2000b), Claessens, Djankov, Fan and Lang (1998), Lins and Servaes (1999, 2002), Khanna and Palepu (1997, 2000), Khanna and Rivkin (2001), Fauver, Houston and Naranjo (2003), Kim and Singal (2004)

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Introduction Why Diversify? Literature Review Research Gap Data Compilation Data Analysis Robustness Tests

Research Gap

- Effects of diversification on firm value in the emerging markets still uncertain
- Contributions can be made from several perspectives
 - Management firms are competing globally
 - Shareholders buy diversified firms or divest personally
 - Academics why and how is diversification different in the emerging markets

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Data Compilation

Data source

D Thomson Financial's Worldscope database Introduction Data selection and screening Why Diversify? Literature Review Research Gap Data Compilation **Data Analysis**

Robustness Tests

Only public firms traded on major exchanges

- □ 50% or more of revenue from financial services excluded
- Number of segments based on two digit SIC codes
- □ Others

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Data Compilation

Full data set before screening

□ Based on January 2003 Worldscope database

Why Diversify?

Introduction

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Literature Review Research Gap		Developed Countries	Emerging Countries	Total
Data Compilation Data Analysis	Number of countries	18	17	35
Robustness Tests	Number of firms	13,462	6,832	20,294

5,000 data points expected after screening □ 3,500 from developed countries

□ 1,500 from emerging countries

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	Data Analysis			
-	Ln (V / I (V)) =	Dependent Variable (Excess Firm Value)		
Introduction	a +			
Why Diversify? Literature Review	$\mathbf{b}_1 \mathbf{H}_{\text{IND}} + \mathbf{b}_2 \mathbf{H}_{\text{INTL}} + \mathbf{b}_3 \mathbf{H}_{\text{IND}} \mathbf{H}_{\text{INTL}} +$	Level of Diversification		
Research Gap Data Compilation	$b_4 Ln(BV_{TA}) + b_5 Opinc/Sales + b_6 Capex/Sales + b_7 BV_p/Total assets $	Firm Factors		
Data Analysis Dependent	b ₈ DMEM +	Developed Versus Emerging Markets		
Independent Robustness Tests	b ₉ Own00 + b ₁₀ Own10 + b ₁₁ Own20 + b ₁₂ Own30	Ownership Concentration		
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	Data Analysis	
-	Ln (V / I (V)) =	Dependent Variable (Excess Firm Value)
Introduction	a +	
Why Diversity? Literature Review	$\mathbf{b}_1 \mathbf{H}_{\text{IND}} + \mathbf{b}_2 \mathbf{H}_{\text{INTL}} + \mathbf{b}_3 \mathbf{H}_{\text{IND}} \mathbf{H}_{\text{INTL}} +$	Level of Diversification
Research Gap Data Compilation	$b_4 Ln(BV_{TA}) + b_5 OpInc/Sales + b_6 Capex/Sales + b_7 BV_D/Total assets +$	Firm Factors
Data Analysis Robustness Tests	b ₈ DMEM +	Developed Versus Emerging Markets
	b ₉ Own00 + b ₁₀ Own10 + b ₁₁ Own20 + b ₁₂ Own30	Ownership Concentration
	b ₁₃ Н _{мкт} +	Market Power
	$b_{\rm 14}$ (100 – 100 $\rm G_{\rm LM}$) H $_{\rm MKT}$ +	Growth Barriers
	b ₁₅ Cap + b ₁₆ Bank	Capital Markets Development
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Introduction Why Diversify? Literature Review Research Gap Data Compilation Data Analysis Robustness Tests

Robustness Tests

- Country level differences in consolidation standards
- Consolidation dummy variable to identify firms that do not provide consolidated information
- Exclude firms that do not provide consolidated information
- Exclude firms with varying levels of investments in associated companies
- Exclude firms with varying levels of minority interest

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Conclusion

- Effect of diversification on firm value in the emerging markets is uncertain
- Factors that affect this relationship is also uncertain
- Important from several perspectives: firm and management, shareholders, academic
- This research tries to reduce this knowledge gap by determining if market power, growth barriers, and internal capital market are factors that affect firm value from diversification in the emerging markets

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- I expect to find the following relationship
 - □ H₁: Firm value increases if diversification can increase market power
 - □ H₂: Firm value increases if diversification reduces growth barriers
 - **D** H₃: Firm value increases if diversification can provide an internal capital markets when needed