An Empirical Research on Diversification Discount

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The purpose of this research is to empirically discuss (1) how the Japanese capital market evaluates companies that are under industrial and geographic diversifications, and (2) how the evaluation is related to the quality of accounting information, including segment information.

Through this research, it was found, for the first time for Japanese firms, that both industrial and geographic diversifications have adverse effects on firm value, but these adverse effects are alleviated when the quality of business and geographic segment information is high. Some economic benefits for firms emerge, when high-quality accounting information is given to the market by voluntarily disclosing business and geographic segment information.

It was also found that the above mentioned effects of disclosure are not exerted when diversifications have already progressed considerably. This indicates that it is impossible to make up for the adverse effects of diversification only by disclosing corporate information and managements need to implement measures for developing effective governance and in-company coordination systems according to the progress of diversification.