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Diversification or Desynchronicity: an Organizational Portfolio Perspective to Risk Reduction

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Motivation

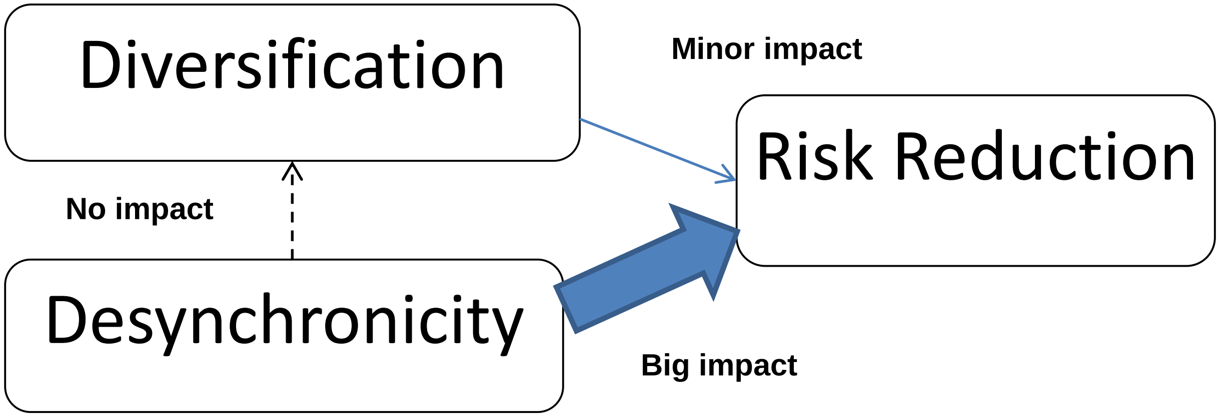
- Reducing corporate risk is important!
- Diversification studies: Diversity → risk reduction (Andersen, Denrell, & Bettis, 2007; Maurer, 2011)
- Organisational Portfolio Analysis: Synchronization Compensation → risk reduction (Donaldson, Charlier, and Qiu; 2012)

Research Gap:

Limited large-scale analysis to examine whether diversification or Synchronization Compensation could reduce corporate risk

Theory

A model of theoretical development



Methodological Approach

Objective	To examine the hypothesis that desynchronicity, rather than diversification, could explain risk reduction
Data collection	• COMPUSTAT business segment data • Choosing the firms which have sufficient segment data between 2002-2011
Sample firms and alternative operationalisations of financial performance	• **Sales data**: 737 companies with completed segment for risk and desynchronicity calculation • **ROA data:** 332 companies with completed segment for risk and desynchronicity calculation
Data Analysis	Multivariate analysis (i.e. regression)

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Results for corporate risk

Diversification Groups in relation to Risk Mean Test

	Difference between means	Simultaneous 95% confidence limits		Comparisons significant at the 0.10 level are indicated by †
UD – RD	0.09	-0.07	0.24	
UD – Dominate	0.08	-0.07	0.23	
UD – Single	-0.12	-0.36	0.125	
RD – Dominate	-0.004	-0.13	0.12	
RD – Single	-0.20	-0.43	0.02	†
Dominate – Single	-0.20	-0.42	0.02	

Variables	Model1		Model2		Model3		Model4	
	CV of Sales		SD of ROA		Δ CV of ROA		Δ SD of ROA	
Entropy diversification	-0.05	(0.06)	-0.05	(0.15)	-0.18	(0.12)	-0.16	(0.21)
B-H diversification	**-0.12**	**(0.11)**	**-0.08**	**(0.25)**	**-0.39 †**	**(0.22)**	**-0.46**	**(0.40)**
Desynchronicity	**-0.18*****	**(0.02)**	**-0.36*****	**(0.06)**	**-0.19*****	**(0.01)**	**-0.32*****	**(0.04)**

Contributions

- The first study that develops the measure of desynchronicity, to operationalize the theoretical framework of OPA.
- Indicating diversification might not be the key factor for risk reduction
- Providing empirical evidence that supports a negative desynchronicity-risk relationship.

Thank you !