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The Effect of Institutional Factors on the Value of Corporate Diversification

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Abstract

Using a large sample of diversified firms from 38 countries we investigate the influence of several national-level institutional factors or 'institutional voids' on the value of corporate diversification. Specifically, we explore whether the presence of frictions in a country's capital markets, labor markets, and product markets, affect the excess value of diversified firms. We find that the value of diversified firms relative to their single-segment peers is higher in countries with less efficient capital and labor markets, but find no evidence that product market efficiency affects the relative value of diversification. These results provide support for the theory of internal capital markets that argues that internal capital allocation would be relatively more beneficial in the presence of frictions in the external capital markets. In addition, the results show that diversification can be beneficial in the presence of frictions in the labor market.

Keywords: [diversification](#); [diversification discount](#); [institutions](#); [labor market](#); [capital markets](#); [competition](#); [human capital](#); [Human Capital](#); [Diversification](#); [Value](#); [Capital Markets](#);

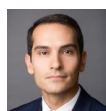
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