Joint Seminar – The Effect of Forced Refocusing on the Value of Diversified Business Groups

Speaker: Professor John G. Matsusaka  
Marshall School of Business

Date: 10 October 2014, Friday
Time: 1.00pm – 2.30pm
Chairperson: Professor Sea-Jin Chang
Venue: Mochtar Riady Building  
Biz 1 Excellence 3b, #3-2

Abstract

This paper studies how investors responded when Chinese regulators required a group of large, publicly traded companies to divest their non-core hotel and real estate assets in 2010. The quasi-experiment allows direct estimates of the effect of diversification on value that are free from common selection problems in the literature. For firms with nontrivial divestitures, stock prices rose 2.3 to 3.5 percent on average in response to the announcement, suggesting that corporate diversification was a value-destroying strategy for those firms. The return was most positive for companies in which the ultimate controller had small cash flow rights, suggesting that investors were concerned with the possibility of tunnelling. The implied “excess value/diversification discount” does not predict the announcement return.

About the Speaker

John Matsusaka is Charles F. Sexton Chair in American Enterprise in the Marshall School of Business, Gould School of Law, and Department of Political Science at the University of Southern California, and Executive
Director of the Initiative and Referendum Institute at USC. He received his Ph.D. in economics from the University of Chicago, and has held visiting appointments at the Hoover Institution at Stanford University, UCLA, Caltech, and the University of Chicago. His research focuses on the financing, governance, and organization of corporations and governments. He has published numerous scholarly articles, served as a consultant for the White House Council of Economic Advisors, and is the author of *For the Many or the Few: The Initiative, Public Policy, and American Democracy* (University of Chicago Press, 2004). From 2007 to 2013 he served as Vice Dean for Faculty and Academic Affairs in the USC Marshall School of Business.

**Enquiries**

For enquiries on our department seminars, please email Rasheeka at 6516-6723 or Woo Kim at 6516-4660.

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Please note that attendance is compulsory for ALL S & P Dept PhD students.

**Lunch will be served at 12.15 pm noon at BIZ1 Level 3 Sofa Area**

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