

# Graduate Research Day 2013

## Florida Atlantic University

### College of Business

#### **Does corporate diversification enhance firm value during times of crisis?**

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This paper examines the effect of corporate diversification on firm value by comparing the actual diversified firm value to imputed firms value calculated by estimating firm's segment values based on the values of single segment firms operating in the same industry. Overall findings show an existence of a significant discount associated with all types of diversification. A specific focus of this paper is to analyze the effect of crisis on the observed discount. I find that during time of crisis the discount in value of diversified firms decreases significantly, therefore suggesting that diversified firms are relatively more valuable in times of financial distress. I do not find any evidence of diversified firms increasing their relative leverage during time of crisis, and therefore conclude that reduction in the amount of discount associated with diversification is caused by reduction in agency cost and more efficient management decision making during times of crisis.