

The Effect of Technological Diversification and Business Diversification on Performance

-Empirical Analysis on Japanese Electric Machinery Industry-

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Abstract

The impact of diversification strategy on the economic performance of corporation has been a significant issue on management economics. A number of previous studies try to find out the relationship between diversification and performance, although, concrete result still not emerged.

The purpose of this study is to analyze how two-way of diversification – business diversification and technological diversification – affects to firm's performance. Using corporate financial data and patent data, this research considers both business diversification and technological diversification to explain the profitability on Japanese electric machinery industry.

The findings of empirical analyses are follows. First, business diversification has negative effects on firm performance. This result can be explained by *diversification discount*, moreover, the discount is found especially in non-manufacturing business diversification. On the other hand, technological diversification has positive effects on firm performance. As a result, this paper empirically indicates that technological multiplicity is a key determinant of firm profitability.

These empirical findings guide significant implications for comprehensive understanding of the diversification behavior and innovation activity.

Keywords: Business Diversification, Technological Diversification, Economies of Scope, Firm Profitability.

JEL Classification: L25, L63

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