

# DIVERSIFICATION THROUGH ORGANIC GROWTH STRATEGY AND VALUE CREATION: EVIDENCE FROM DEVELOPED AND EMERGING CAPITAL MARKETS

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## Abstract

The article investigates corporate diversification through organic growth strategy and firm performance in developed and emerging capital markets. We analyze differences in firm performance, as well as the form of dependence between diversification level and firm performance of companies which diversify business through organic growth strategy. We also identify key determinants of performance in case of diversification through organic growth.

On the sample of 365 companies with 104 companies representing emerging capital markets and 261 companies from developed capital markets for the period of 2009–2012 we show that in emerging capital markets such diversification destroys value in the short-term period. As far as developed capital markets are concerned corporate diversification through organic growth creates value in the short-term and long-term run for moderate and high levels of diversification.

We empirically prove a U-shaped form of dependence between diversification level and operational, strategic and long-term strategic performance for companies from developed capital markets. We identify a linear form of dependence between diversification level and operational and strategic performance in emerging capital markets.

The key determinants of strategic performance in case of diversification through organic growth are profitability for companies from developed and emerging capital markets, as well as financial leverage and capital intensity for companies from developed capital markets.

We can also conclude that the key determinants of long-term strategic performance for companies from developed capital markets are company size and profitability.

**Keywords:** corporate diversification, organic growth, value creation, firm performance, developed capital markets, emerging capital markets.

**JEL:** G30, G32, G34

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