

Comparing the Investment Behavior of Diversified Versus Focused Firms: Insights from the Movie Industry

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I compare the real investment behavior of diversified and focused firms using rich ex post project-by-project data for a comprehensive sample of projects in the movie industry. If diversified firms allocate resources more competently than focused firms because of the larger internal capital markets accompanying diversified firms, returns of projects by diversified firms would be more favorable than those for similar projects by focused firms. On the other hand, the reverse would hold if diversified firms are beset by inefficiencies that arise due to agency problems. My findings are consistent with theories in which diversified firms are plagued by agency problems, leading to distorted investment behavior by diversified firms relative to focused firms.

Field: Agency Problems, Diversified Firms, Movie Industry