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What Matters to Performance Fluctuation: The Roles of Global Diversification and Home-region Concentration

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Abstract

Risk reduction by geographic expansion has been proposed but not systematically examined in the traditional multinationality and performance literature or the recent regionalization and performance literature. Risk diversification should be one of main considerations in the debate of inter- and intra-regional diversification strategy for both academics and practitioners. Drawing on portfolio theory, we argue that geographic diversification helps to reduce idiosyncratic risk associated with a particular market and leads to lower performance fluctuation. This relationship is weakened by home-region concentration in general and by the homogeneity of macroeconomic conditions of the home region in particular. In a sample of 818 publicly-listed Japanese manufacturing firms and their overseas manufacturing affiliates from 1985 to 2006, we find support to our predictions.

Key words: performance fluctuation, geographic diversity, home-region concentration, home-region homogeneity