

Corporate Diversification and Investment Characteristics

Based on industry exposures derived from
disclosed business segments

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Contents

Executive summary	4
Introduction	5
Mapping corporate diversification	7
Firm age and diversification.....	10
Strategic investor involvement across diversification categories.....	11
Firm characteristics across the diversification categories	12
Factor exposures across geographic regions.....	12
Factor exposures across sectors	15
Economic exposures	17
Thematic exposures	18
Performance variation with diversification category	19
Conclusion	22
References	23
Appendix A: Business-segment mapping to sub-industry	24
Appendix B: Distribution of effective number of sub-industries.....	27
Appendix C: Market leadership across diversification categories.....	28

Executive summary

Historically, conglomerates have been a dominant corporate structure, but the 1980s heralded a shift toward corporate specialization, driven by the belief that focused firms could better enhance shareholder value. Since then, conglomerates have declined in terms of their representation in global equities.

Investment decisions can be informed by analysis that shows how companies have diversified themselves across business activities and, hence, how they have generated revenues or allocated resources. To better understand how firms along the diversification spectrum — from pure play to conglomerate — have varied in their investment characteristics, we used [MSCI's Business Segment Data](#) to analyze global equities and break down these differences.

We mapped companies' operations — as measured by their revenues, assets and operating income — to the sub-industries in the Global Industry Classification Standard (GICS®).¹ Based on this analysis, we found that the U.S. equity market is dominated by firms in a single sub-industry, whereas the Japanese equity market is dominated by multi-industry firms. Other East Asian markets, such as China, Korea, India and Taiwan, also have a high proportion of multi-industry firms. From a sector standpoint, industrials leads the firm count of diversified companies, especially in Japan and the emerging markets (EM).²

We categorized the firms in our analysis as single industry, moderately diversified and diversified. We found that, in general, as companies grow, age and mature, they become more diversified. On average, a company in the diversified category was 10 years older than a firm in the single-industry category. Our analysis revealed that diversified firms generally exhibited lower valuations compared to their single-industry peers from the same sector, consistent with the "conglomerate discount," a theory well documented in corporate finance (Berger and Ofek 1995). These firms have also faced challenges in sustaining earnings growth and have displayed lower profitability and weaker quality characteristics.

Further, the diversified companies have tended to operate in old-economy sectors, and thus have trailed their single-industry peers in their exposures to forward-looking investment themes, such as the digital economy and autonomous technologies. On the flip side, however, diversified firms were generally more successful in demonstrating resilience across business cycles and exhibiting lower stock-price volatility. They also exhibited greater geographic revenue diversification. Nevertheless, single-industry firms outperformed diversified firms over the last decade.

Although diversified firms may have efficiently leveraged their assets and mitigated market risk, they have lagged the profitability and growth of their single-industry counterparts. Our analysis helps underscore corporate diversification as a key dimension for investors to consider in their decision-making process.

¹ GICS® is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence. The hierarchical structure of GICS includes four tiers: sectors, industry groups, industries and sub-industries.

² We grouped firms based on their sector classification, and we counted the number of companies that operated across multiple sub-industries, both within and across sectors.

Introduction

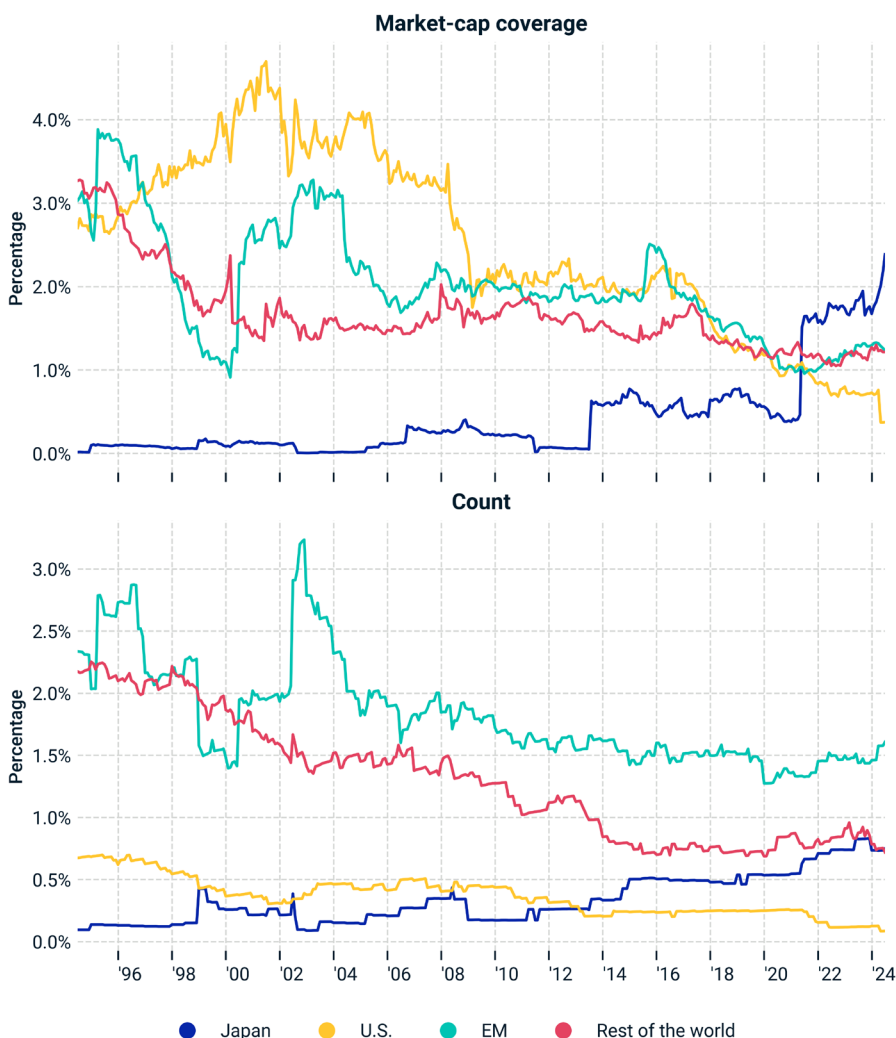
Conglomerates reached their heyday in the late 1970s as one of the most dominant corporate structures. By 1980, fewer than 25% of the largest corporations in the Fortune 500 derived all of their sales from a single broadly defined (two-digit SIC code) industry (Davis, Diekmann and Tinsley 1994).

The emergence of a “deconglomeration” wave in the 1980s, however, signaled a shift toward greater corporate specialization. This transition was driven by the growing belief that specialized companies were better equipped to create shareholder value than conglomerates. The prevailing rationale was that investors, rather than firms, were better suited to determine how to diversify their portfolios (Amihud and Lev 1981). Furthermore, the inherent complexities of conglomerates — such as intricate management structures, reduced transparency and limited expertise across unrelated business units — were seen as diminishing the overall value of the enterprise relative to the sum of its individual components.

In more recent decades, industrial conglomerates have continued to experience a gradual decline in prominence across developed and emerging markets. As illustrated in Exhibit 1, the proportion of firms — both in terms of free-float market capitalization and firm count — that were categorized in the industrial-conglomerates sub-industry in the MSCI ACWI Investable Market Index (IMI) has steadily declined since the early 2000s, with the notable exception of Japan. Japan’s case can be largely attributed to its *keiretsu* — the interconnected groups of manufacturers, suppliers, distributors and financial firms with mutual crossholdings. These networks were instrumental in Japan’s industrial development after the 1950s (Calder 1993, p. 142).³

³ Recent developments around corporate-governance reforms introduced in Japan have resulted in lower cross-shareholdings, putting pressure on the Japanese *keiretsu* networks.

Exhibit 1: Declining representation of industrial conglomerates across most regions



Data as of June 28, 2024. The upper chart illustrates the free-float market-capitalization weight of industrial conglomerates by region within the MSCI ACWI IMI, and the lower chart shows the distribution of such firms based on firm count.

Although the sub-industry definition for industrial conglomerates offers a useful starting point for analyzing diversified companies, its scope is somewhat limited.⁴ Instead, for purposes of this study we expanded the definition to include any firm that derives revenue from more than one sub-industry – effectively categorizing them as multi-industry firms – to enable a more comprehensive analysis of their role within the investment universe.

⁴ As a general rule, a company is classified in the sub-industry whose definition most closely describes the business activities that generate more than 60% of the company's revenues. When a company has business activities in three or more sectors, none of which contributes a majority of revenues, the company is classified either into the industrial-conglomerates sub-industry (industrials sector) or the multi-sector holdings sub-industry (financials sector). For more details, refer to the [GICS methodology](#).

To support this broader analysis, we leveraged MSCI's Business Segment Data, which maps individual business segments or divisions, as disclosed by companies in their financial statements, to the most appropriate sub-industry, the most detailed level of GICS classification.⁵ Different disclosed business segments may be mapped to the same sub-industry. This overlay of a company's business segment with sub-industries is then a standardized and simplified approach to classifying and comparing firm operations, whether measured by sales, assets or operating income.⁶

Intuitively, analysis of how companies generate revenue and allocate capital is relevant when making informed investment decisions. For instance, are multi-industry firms more concentrated in certain regions or sectors? How do a firm's fundamental characteristics change with the extent of its revenue diversification across industries? How have multi-industry firms performed relative to single-industry firms? These are some of the questions we explore using the decomposition of company operations into the GICS-labeled aggregates of the disclosed business segments.

Mapping corporate diversification

Although the prominence of multi-industry firms has steadily declined in the U.S. over the last few decades, the country continues to lead globally in terms of the number of such firms.⁷ As shown in Exhibit 2, as of June 28, 2024, approximately 21.5% of the 2,730 firms deriving revenue from more than one sub-industry in the MSCI ACWI IMI were based in the U.S.; Japan ranked second with 16.2%. Collectively, East Asia — encompassing the Japanese *keiretsu*, Chinese *jituan*, South Korean *chaebol*, Taiwanese *guanxi qiye* and Indian conglomerates — accounted for much of this group, some 44% of the total firm count.⁸

On a sector basis, industrials dominated, accounting for roughly 21.8% of the total, followed by other old-economy sectors, such as financials and materials. In contrast, the utilities and energy sectors had the fewest firms operating across multiple sub-industries.

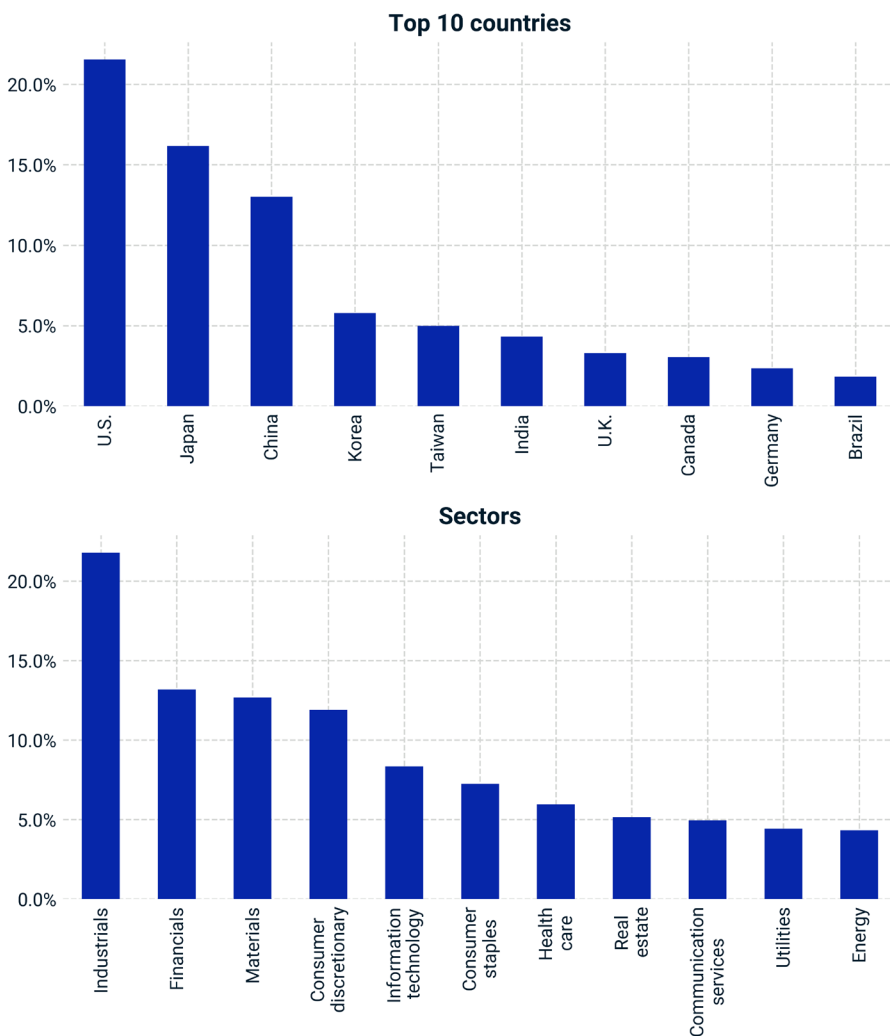
⁵ As of the most recent GICS structure that came into effect at the close of March 17, 2023, the 11 GICS sectors (tier 1) were decomposed into 163 GICS sub-industries (tier 4). MSCI's Business Segment Data is maintained for the MSCI ACWI IMI coverage universe only, a significant subset of the GICS coverage universe.

⁶ More details are provided in Appendix A.

⁷ The U.S. equity universe is significantly larger than many other single-country equity markets, which explains why it has the largest number of multi-industry firms. As we show later, however, the U.S. does not lead in terms of index weight.

⁸ *Keiretsu* (Japan), *jituan* (China), *chaebol* (South Korea) and *guanxi qiye* (Taiwan) are all terms commonly used for business groups in different parts of East Asia. Historically, these groups have been characterized by cross-shareholdings and close-knit networks of affiliated companies. A similar structure existed in Germany with the so-called Deutschland AG (Germany Inc.), a network linking large banks, insurance companies and industrial firms. However, due to changes in tax policies and the rise of institutional investors in recent decades, these cross-shareholding arrangements have largely disappeared.

Exhibit 2: Country and sector distribution of multi-industry firms in global equities



Data as of June 28, 2024. Proportion of total firms by country and sector in the MSCI ACWI IMI.

Motivated by these results, we segmented global equities into four key geographic regions: Japan, U.S., EM and the rest of the world (RoW).⁹ Further, we used the Herfindahl-Hirschman Index (HHI) applied to shares of revenue to determine the effective number of sub-industries a company operates in.¹⁰ For instance, a firm generating 90% of sales from one sub-industry and 10% from another could be seen as operating in two sub-industries. However, adjusting for the dominance of the primary sub-industry using the HHI yields a sub-industry count of just 1.22, offering a more

⁹ RoW corresponds to all developed markets (MSCI World Index) except the U.S. and Japan.

¹⁰ $HHI_i = \sum_{j=1}^N S_j^2$ where:

- N is the total number of GICS sub-industries for company i .
- S_j is the proportion of revenue derived from GICS sub-industry j , expressed as a decimal.

$$\text{Effective Number of GICS sub-industries}_i = \frac{1}{HHI_i}$$

intuitive reflection of the company's actual diversification. Using the HHI, we categorized firms into three diversification categories:¹¹

Group	Diversification category	Effective number of sub-industries ¹²
Single industry	Single industry	1
Multi-industry	Moderately diversified	> 1 and < 2
	Diversified	2 or more

The firms' distribution across these diversification categories and regions is presented in Exhibit 3.¹³

Exhibit 3: Distribution of firms by diversification category across regions

	Region											
	Japan			U.S.			EM			Rest of the world		
	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)
Diversified	97	11.9	21.7	64	3.4	6.1	154	6.2	7.1	104	6.9	13.7
Moderately diversified	344	42.3	41.2	524	27.5	42.6	922	37.2	37.1	521	34.8	43.6
Single industry	372	45.8	37.1	1,315	69.1	51.4	1,405	56.6	55.8	873	58.3	42.7
Total	813	100.0	100.0	1,903	100.0	100.0	2,481	100.0	100.0	1,498	100.0	100.0

Data as of June 28, 2024.

As shown, by count, single-industry firms dominate in most regions, particularly in the U.S., where they account for 69.1% of the total firm count. Japan, in contrast, has the highest share of multi-industry firms (diversified and moderately diversified firms), comprising 54.2% of the firms by count and 62.9% by market capitalization.

The sector distribution of firms in the diversified category across regions is reported in Exhibit 4.

¹¹ For a practical understanding of how this works and of the selection of cutoffs, the distribution of the effective number of GICS sub-industries within the global equity universe is provided in Appendix B. Additionally, Appendix C includes illustrative examples of companies in each diversification category.

¹² Given the chosen thresholds of 1 and 2, a company with 98% revenue from one sub-industry and 2% from another is categorized as a moderately diversified company. To account for these marginal cases and assess their impact on the results, we conducted every analysis presented in this paper with two different sets of thresholds: 1.05 and 2.1, and 1.1 and 2.2. We found that the results were consistently aligned with the findings highlighted in this document.

¹³ We found that breaking down the EM and RoW categories into subregions or even countries resulted in too few securities per group for the results and their interpretation to be stable and reliable.

Exhibit 4: Sector distribution in the diversified category

	Region											
	Japan			U.S.			EM			Rest of the world		
	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)	Count	Count (%)	Market-cap coverage (%)
Industrials	36	37.1	36.8	22	34.4	32.6	47	30.5	21.6	25	24.0	12.5
Consumer discretionary	15	15.5	25.8	6	9.4	1.9	8	5.2	2.3	8	7.7	15.1
Information technology	14	14.4	10.3	2	3.1	1.3	7	4.5	0.8	7	6.7	0.7
Materials	16	16.5	7.5	5	7.8	0.8	24	15.6	16.5	18	17.3	14.5
Financials	3	3.1	7.5	14	21.9	52.3	19	12.3	23.6	13	12.5	19.4
Real estate	4	4.1	6.2	4	6.3	1.9	10	6.5	2.9	9	8.7	1.3
Consumer staples	6	6.2	5.4	2	3.1	0.2	13	8.4	14.5	7	6.7	10.2
Communication services	2	2.1	0.4	2	3.1	6.2	5	3.2	2.6	1	1.0	0.4
Energy	1	1.0	0.1	1	1.6	0.0	10	6.5	10.1	7	6.7	22.0
Health care	0	0.0	0.0	4	6.3	1.9	4	2.6	2.5	5	4.8	2.5
Utilities	0	0.0	0.0	2	3.1	0.9	7	4.5	2.7	4	3.8	1.5
Total	97	100.0	100.0	64	100.0	100.0	154	100.0	100.0	104	100.0	100.0

Data as of June 28, 2024.

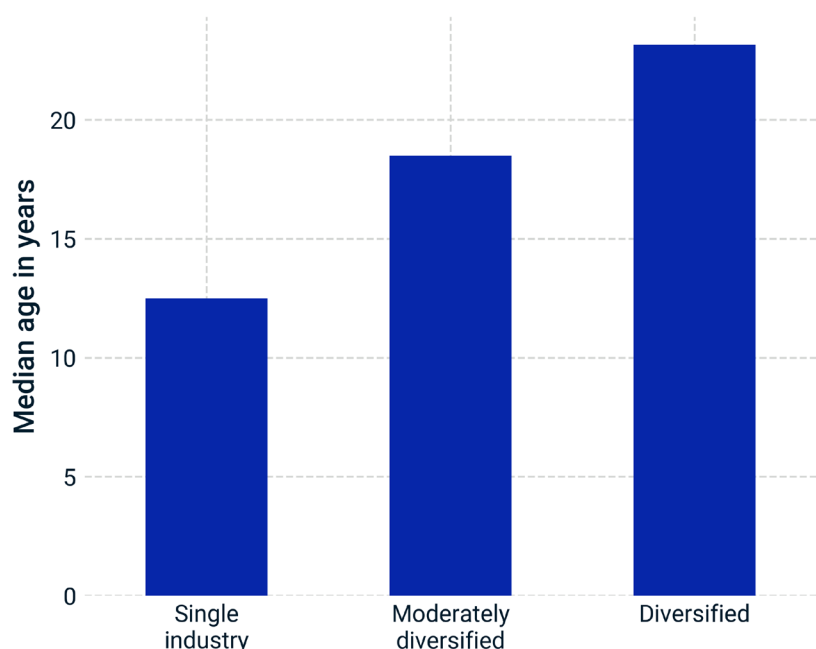
Clear patterns emerge after an examination of the sector composition of the diversified category. The industrials sector leads in firm count across regions, particularly in Japan and EM, where it comprises 37.1% and 30.5% of firms, respectively. In the U.S. and EM, the financials sector dominated based on companies' market capitalization, leading with weights of 52.3% and 23.6%, respectively.

Firm age and diversification

Expanding into multiple business lines or products typically requires significant scale and resources, which is often associated with larger, more-mature firms. As these firms increase in size, achieving growth organically also becomes more challenging and, so, expansion may be sought through acquisitions (horizontal integration) or by acquisitions related to other parts of the value chain (vertical integration). It is natural, therefore, that the most-diversified companies today tend to be concentrated in old-economy sectors that have had longer to mature and consolidate.

The relationship between a firm's age and its diversification is illustrated in Exhibit 5.

Exhibit 5: On average, diversified firms are 10 years older than their single-industry peers



Data as of June 28, 2024. The bars show the median age of firms in each diversification category. We define the age of a company as the length of time since its first inclusion in the MSCI ACWI IMI. The historical data for the index starts in June 1994.

Strategic investor involvement across diversification categories

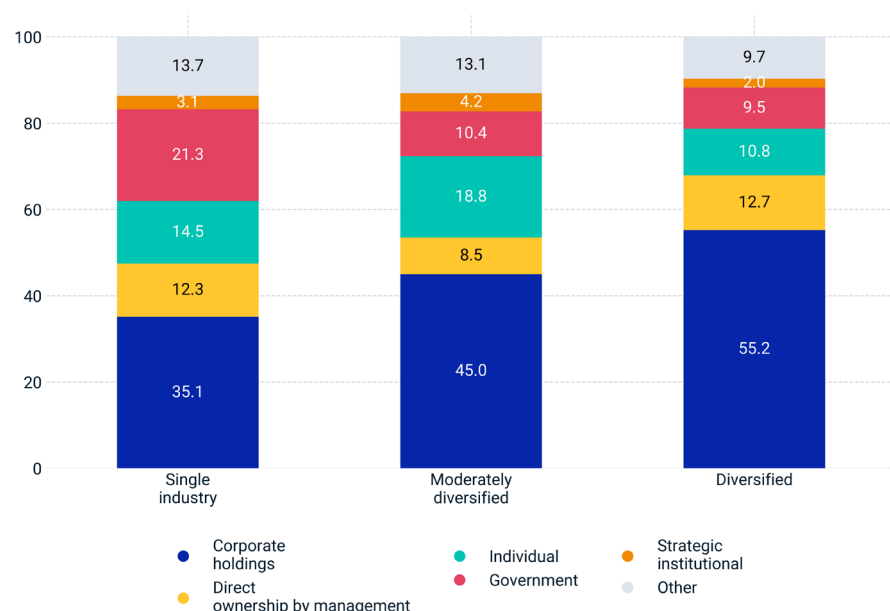
One key aspect of investability and corporate-governance dynamics that has varied across the diversification categories is the strategic shareholder structure of companies. We found that, as of June 28, 2024, strategic investor ownership in single-industry firms was higher than in multi-industry firms, with aggregate ownership at approximately 24% – compared to 18% in moderately diversified firms and 21% in diversified firms.¹⁴

Further, breaking down these strategic ownership stakes by investor type (Exhibit 6), we observed that government involvement decreases with higher corporate diversification. This finding is plausible because government ownership often focuses on strategically important firms (so-called national champions) for reasons such as national security, economic stability or public welfare. Such companies may be specialized and operate more frequently in sectors such as energy, utilities, communication services and health care.

We also found that corporate holdings (i.e., ownership stakes between companies) were more prominent as our diversification metric increased. This trend mirrored the presence of inter-corporate partnerships and cross-ownership in multi-industry firms in, say, Japanese *keiretsu*.

¹⁴ For detailed information on strategic shareholder types and their definitions, please refer to the [MSCI Free Float Data Methodology](#).

Exhibit 6: Strategic ownership and investor composition by diversification category



Data as of June 28, 2024.

Firm characteristics across the diversification categories

Because investment decisions can be informed by how companies have diversified themselves across business activities and, therefore, how they have generated revenues or allocated resources, we looked closely at how firms along the diversification spectrum have varied in their investment characteristics. We examined our company universe based on factor exposures across geographic regions and sectors, economic exposures and thematic exposures.

Factor exposures across geographic regions

The diversified multi-industry firms had lower valuations compared to their single-industry peers across all regions. This finding aligns with the concept of a “conglomerate discount.”

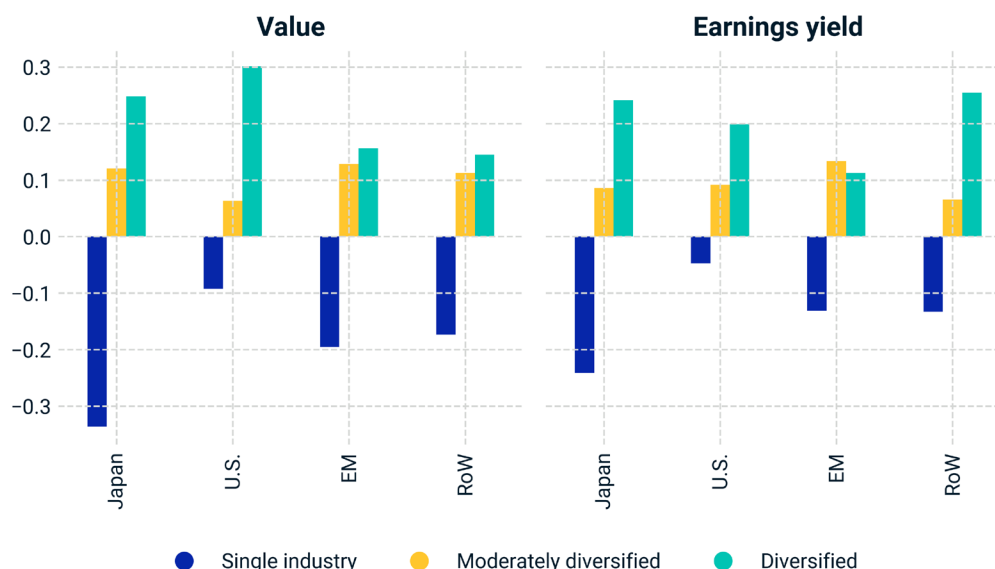
Exhibit 7: Value exposure by region and diversification level

	Region			
	Japan	U.S.	EM	RoW
Single industry	-0.43	-0.13	-0.24	-0.24
Moderately diversified	0.18	0.12	0.23	0.14
Diversified	0.39	0.39	0.21	0.33

Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Exposures were calculated based on [MSCI's FaCS methodology](#).

Breaking down the value factor into its core components using the MSCI global equity risk model (EFMGEMLT),¹⁵ we observed a consistent pattern across different valuation descriptors: Firms in the diversified category displayed above-average book-to-price and earnings-yield ratios. As Exhibit 8 shows, this trait persisted even in Japan.

Exhibit 8: Exposure by value descriptors



Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Data sourced from the EFMGEMLT risk model. The value style factor in the risk model measures a company's relative valuation using both book-to-price and sales-to-price ratios.

We also observed that diversified firms typically delivered lower growth compared to their single-industry peers. This finding was true for all regions and was particularly evident in the U.S., where diversified firms showed a significant negative exposure to the growth factor.

Exhibit 9: Growth exposure by region and diversification level

	Region			
	Japan	U.S.	EM	RoW
Single industry	0.10	-0.01	0.08	0.09
Moderately diversified	-0.06	-0.05	-0.06	-0.07
Diversified	-0.03	-0.33	-0.04	-0.15

Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Exposures were calculated based on [MSCI's FaCS methodology](#).

Additionally, diversified multi-industry firms exhibited weaker quality characteristics compared to their single-industry peers, particularly in the U.S. and EM, as shown in Exhibit 10. We found that profitability among diversified firms was lower, especially in the U.S., which aligned with prior comments on the likely operational challenges of managing highly unrelated business units within a

¹⁵ For further details, please visit [Equity Factor Models](#).

single company. We also observed that diversified firms use more leverage, which further weakens their quality profile.

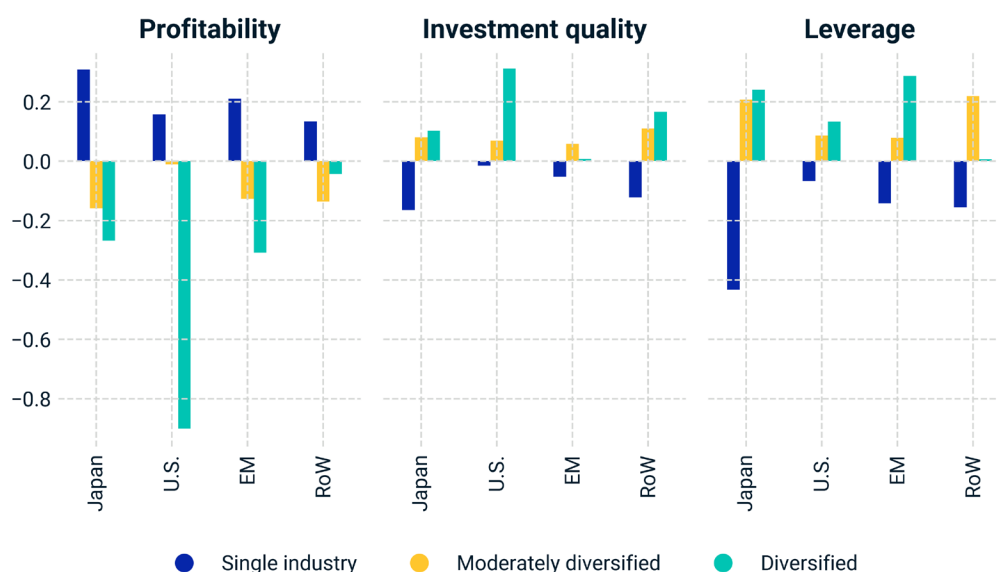
Exhibit 10: Quality exposure by region and diversification category

	Region			
	Japan	U.S.	EM	RoW
Single industry	0.14	0.10	0.19	0.04
Moderately diversified	-0.17	0.08	-0.10	-0.07
Diversified	-0.06	-0.48	-0.27	0.05

Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Exposures are calculated based on [MSCI's FaCS methodology](#).

Diversified firms demonstrated positive exposure to investment quality, likely driven by their lower share issuance and increased participation in share-buyback programs, compared to their single-industry counterparts.

Exhibit 11: Exposure by select quality descriptors



Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Data is based on the EFMGEMTL model.

Another motivation for companies to maintain different business lines (sufficiently diverse to qualify in different sub-industries) could be to support a business model that is more resilient in a range of market and macroeconomic conditions. We found that diversified firms had lower stock-price volatility compared to pure-play single-industry firms (Exhibit 12).

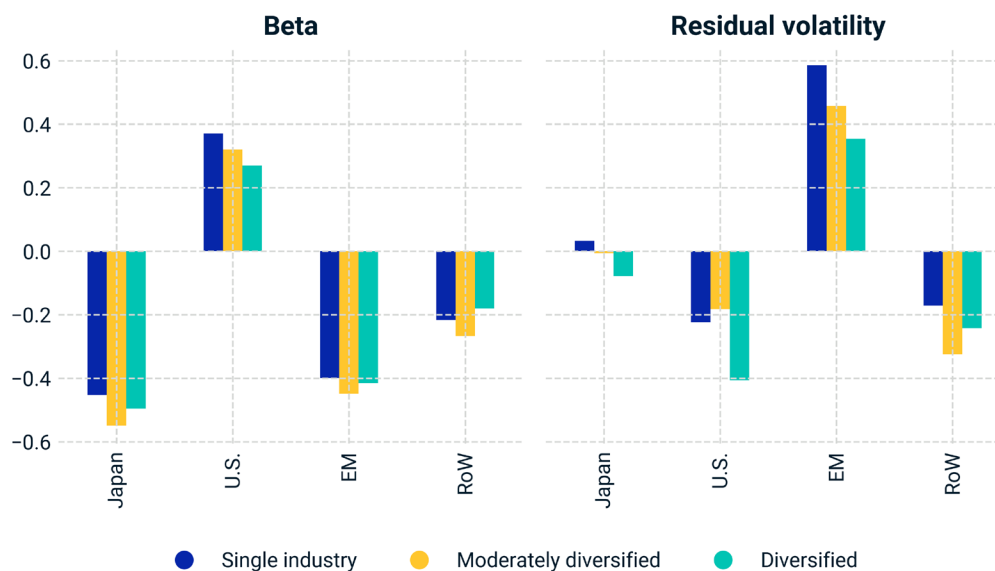
Exhibit 12: Volatility exposure by region and diversification level

	Region			
	Japan	U.S.	EM	RoW
Single industry	-0.41	0.18	-0.03	-0.31
Moderately diversified	-0.52	0.16	-0.14	-0.45
Diversified	-0.52	-0.01	-0.17	-0.32

Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Exposures were calculated based on [MSCI's FaCS methodology](#). The regional variation in volatility exposures, regardless of the diversification bucket, reflects the global standardization of volatility exposures as opposed to within countries.

Such firms had the largest reduction in exposure to market fluctuations in Japan and the U.S., based on their beta exposures. Additionally, idiosyncratic risk (residual risk to market beta) was also typically lower.

Exhibit 13: Exposure by select volatility descriptors



Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Data sourced from the EFMGEMTL risk model.

Factor exposures across sectors

Sectors such as industrials, materials and financials have higher representation in multi-industry firms. The weight of these sectors also varies globally. To assess potential factor biases introduced by these sectoral differences, we repeated a cross-sectional factor analysis for each sector. But because there were not always greater than 30 companies in all sectors' diversification categories, we merged the moderately diversified and diversified categories into a single multi-industry group. As shown in Exhibit 14, the prior patterns identified regionally for the value, growth and volatility factors largely persisted across most sectors.

In a few sectors, single-industry firms displayed a stronger value tilt than their diversified counterparts (utilities, materials and consumer staples) but, for the most part, diversified multi-industry firms maintained a higher value orientation. Diversified companies also tended to show a

relative underexposure to growth. Moreover, the multi-industry group also demonstrated a lower relative exposure to volatility in nine of the 11 sectors.

Exhibit 14: Value, quality and volatility exposures by sector and diversification level

	Value		Growth		Quality		Volatility	
	Single industry	Multi-industry	Single industry	Multi-industry	Single industry	Multi-industry	Single industry	Multi-industry
Energy	0.74	0.78	0.00	-0.20	0.06	0.33	0.65	0.25
Utilities	0.37	0.15	-0.50	-0.47	-0.51	-0.43	-0.69	-0.73
Financials	0.71	0.94	-0.19	-0.19	-0.79	-1.03	-0.06	-0.14
Materials	0.44	0.36	-0.19	-0.25	0.01	0.15	0.01	-0.13
Consumer discretionary	-0.29	-0.24	0.20	0.54	0.28	-0.05	0.21	0.64
Consumer staples	-0.16	-0.28	-0.31	-0.32	0.41	0.45	-0.84	-1.04
Industrials	-0.23	0.03	-0.02	-0.08	-0.01	-0.13	-0.08	-0.07
Health care	-0.28	-0.07	0.02	-0.19	-0.04	0.45	-0.25	-0.56
Communication services	-0.21	0.28	0.21	-0.15	0.58	0.41	0.09	-0.05
Information technology	-0.55	-0.20	0.19	-0.05	0.37	0.51	0.47	0.21
Real estate	-0.17	0.54	-0.30	-0.28	-0.76	-0.90	-0.17	-0.25

Amounts represent the five-year annual average factor exposures between June 2019 and June 2024. Exposures calculated based on [MSCI's FaCS methodology](#).

No clear pattern emerged in the quality-factor exposures across sectors. In about half, diversified firms showed higher quality, whereas the opposite was true for the remainder. Components of quality (profitability, investment quality and leverage) lacked any consistent pattern. Our analysis showed this mixed result could be understood, for example, by looking at the drivers of return on assets (ROA), namely, the firm's profit margin and its asset turnover; a firm can deliver higher profitability (e.g., ROA) by increasing its profit margin or improving its asset efficiency, or both.

With data on revenue, operating income and assets at the sub-industry level for each company, we calculated the operating-income margin (operating income to sales) and asset turnover (sales to assets) for each sub-industry in which a company operated. This analysis allowed us to break down multi-industry firms into a number of synthetic entities operating in different sub-industries and compare their financial ratios with those of each of the single-industry firms operating exclusively in the respective sub-industries. We thus aimed to evaluate how profitability and asset efficiency were varied when a given business is not the primary focus of its parent company in comparison to pure-play peers.

The results indicate that multi-industry firms consistently achieved higher asset-turnover ratios during the period of analysis, but they had lower operating margins in most sectors.

Exhibit 15: Asset turnover and operating margin by sector and diversification category

	Asset turnover		Operating margin	
	Single industry	Multi-industry	Single industry	Multi-industry
Communication services	0.54	0.58	0.26	0.16
Consumer discretionary	1.36	1.29	0.14	0.12
Consumer staples	1.55	1.74	0.17	0.14
Energy	0.63	1.32	0.20	0.10
Financials	0.19	0.19	0.31	0.27
Health care	0.70	0.88	0.13	0.21
Industrials	0.90	1.20	0.14	0.11
Information technology	0.72	1.24	0.27	0.03
Materials	0.92	0.85	0.19	0.18
Real estate	0.17	0.31	0.44	0.27
Utilities	0.41	0.37	0.19	0.17

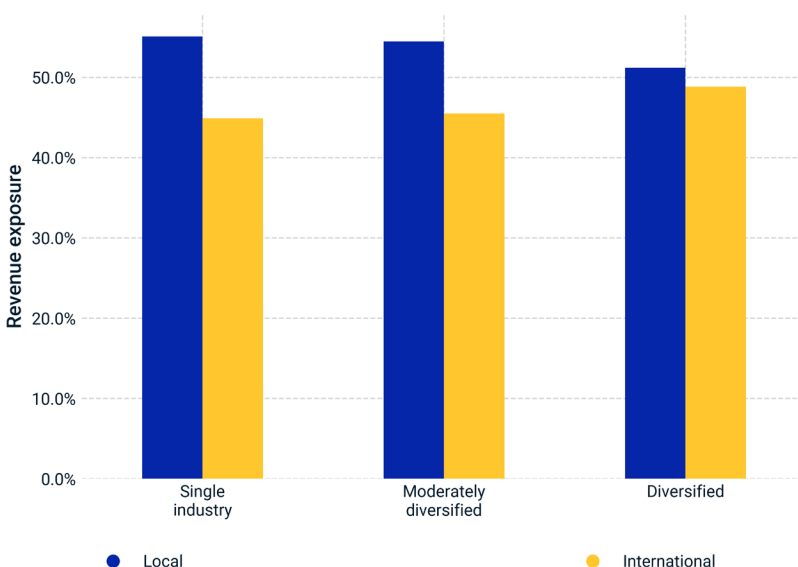
Average asset turnover and operating margin calculated within each group over the five-year period between June 2019 and June 2024. Between June 2019 and June 2024, companies with available operating income and assets data accounted for an average of 79% and 53% of the MSCI ACWI IMI by market-capitalization weight, respectively. Asset-turnover ratios were calculated based on companies with both sales and assets data, while operating margins were based on those with both sales and operating income data. A separate analysis using firms with all three data points (sales, operating income and assets) confirmed that the relationships persisted in magnitude and direction, leading to the same conclusions. We opted to use the results from the separate subsets to maximize the number of observations for each metric.

Economic exposures

Do companies that diversify across different business lines and industries also diversify geographically? This point is important to understand because companies could plan to mitigate risks associated with localized economic downturns by diversifying their revenue streams across products, business lines and multiple markets.

We used [MSCI Economic Exposure Data](#) to analyze this problem. This dataset provides estimates of the proportion of a company's global revenues that originate from individual markets and regions worldwide. For this analysis, we classified each firm's revenues into local and international sources, and then calculated a weighted-average economic exposure for each source within each diversification category. Exhibit 16 shows the aggregate economic exposure across the three diversification categories.

Exhibit 16: Diversified multi-Industry firms achieve greater geographic diversification



Five-year annual averages between June 2019 and June 2024. Data based on MSCI Economic Exposure data.

Single-industry firms tended to derive a somewhat higher proportion of their revenues from local markets, while multi-industry firms appear to have had a balanced mix of revenues from local and international sources.

Thematic exposures

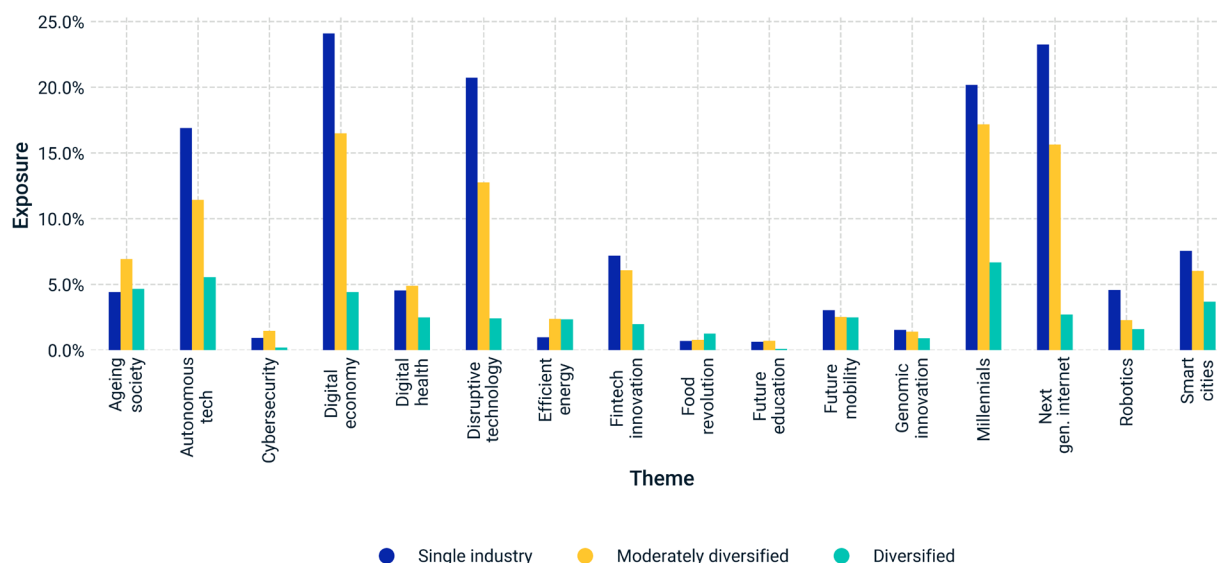
Thematic investing seeks to capitalize on trends that stand to redefine future business models and reshape global economies through structural change. At MSCI, we have identified four primary megatrends: environment and resources, transformative technologies, health and health care and society and lifestyle.

For our analysis of thematic exposures, we assigned each security in the global-equity universe (represented by the MSCI ACWI IMI) a “[relevance score](#),” which quantifies its economic linkage to a specific theme and measures the theme’s importance to the company’s business activities.¹⁶ Using this framework, we analyzed how firms in different diversification categories are exposed to these four megatrends.

We found the most-diversified firms had the lowest exposure to most of the investment themes – particularly in technology-driven areas such as autonomous technologies, digital economy and next-generation internet – while single-industry firms had the highest exposure. This disparity appears to arise from the inherent sector bias, which we noted earlier, in the diversified category.

¹⁶ The score ranges between 0% and 100%. It should be noted that it is not an explicit measurement or estimate of the proportion of revenue that the company derives from business activities exposed to the theme.

Exhibit 17: Multi-industry firms had lower exposure to secular thematic trends



Amounts represent the five-year annual average of free-float market-cap-weighted thematic exposures for each diversification category between June 2019 and June 2024. Thematic exposures for each period are calculated as a market-cap-weighted sum. Data sourced from MSCI's [Thematic Exposure Standard](#).

Performance variation with diversification category

We finish by reviewing how the described differences in fundamental, factor, geographic and sector characteristics across diversification categories influenced overall performance. Using the five available annual snapshots of MSCI's business-segment dataset for the MSCI ACWI IMI (from 2020 to 2024, with each snapshot ending on the last business day of June), we segmented companies into the three diversification categories and simulated their performance over the last 10 years. For the first half of the simulation, covering the period from June 30, 2014, to May 31, 2021, we held static the membership baskets from the oldest-available snapshot.¹⁷ The corresponding results are presented in Exhibits 18 and 19.

¹⁷ The oldest available snapshot of MSCI's business-segment data for the MSCI ACWI IMI universe is from June 30, 2020. As of the June 28, 2024, snapshot, 79.9% of companies by count — representing 91.8% of the MSCI ACWI IMI's weight — maintained the same diversification category they held on June 30, 2020. This indicates that changes in a company's diversification category is infrequent over shorter time windows. Given the relative stability of these classifications, the interpretation of 10 years of simulated results using static baskets for the first half of the period should be fairly indicative of the actual performance of these diversification categories.

Exhibit 18: Relative performance of each diversification category against the MSCI ACWI IMI



Ten-year relative performance from June 30, 2014, to June 28, 2024, based on the gross return index variant in USD.

Exhibit 19: Active-performance attribution vs. the MSCI ACWI IMI

	Single industry		Moderately diversified		Diversified	
	Return	Risk	Return	Risk	Return	Risk
Total	11.28	15.40	7.42	14.67	7.34	15.57
Benchmark	8.72	15.04	8.72	15.04	8.72	15.04
Active	2.56	2.30	-1.30	1.88	-1.38	4.18
Specific	1.31	1.15	-1.16	1.24	0.20	2.01
Currency	0.32	0.47	-0.11	0.22	-1.09	1.48
Common factor	0.93	1.94	-0.02	1.48	-0.49	3.31
Country	0.11	0.57	-0.01	0.34	0.01	1.73
Industry	0.75	1.15	-0.36	0.85	-0.62	1.84
Market	0.00	0.00	0.00	0.00	0.00	0.00
Style	0.06	1.06	0.35	0.85	0.11	1.69

The performance attribution is based on monthly returns from June 30, 2014, to June 28, 2024. Active returns are measured relative to the MSCI ACWI IMI.

Exhibit 20 highlights a performance divergence between single-industry firms and diversified firms. In our backtest, the single-industry category outperformed the broader MSCI ACWI IMI by over 25%. Conversely, both moderately diversified and diversified categories underperformed the benchmark by about 10%.

Exhibit 20: Style factors' performance-attribution breakdown

	Single industry		Moderately diversified		Diversified	
	Return	Risk	Return	Risk	Return	Risk
Value	-0.16	0.22	0.09	0.13	0.18	0.21
Earn. yield	-0.03	0.17	0.05	0.15	0.01	0.28
LT reversal	-0.08	0.19	0.11	0.16	0.05	0.23
Size	-0.07	0.17	0.04	0.20	0.13	0.58
Mid cap	0.01	0.07	-0.01	0.04	0.00	0.17
Momentum	0.30	0.40	-0.19	0.28	-0.25	0.53
Beta	-0.06	0.42	0.06	0.22	0.06	0.77
Res. vol.	-0.01	0.07	0.11	0.13	0.01	0.24
Leverage	-0.04	0.17	0.04	0.15	0.03	0.12
Earn. qlty	-0.01	0.02	0.01	0.04	-0.03	0.07
Inv. qlty	-0.08	0.08	0.08	0.06	0.11	0.17
Profitability	0.25	0.25	-0.10	0.11	-0.39	0.43
Earn. var.	0.00	0.02	0.00	0.03	0.12	0.13
Div. yield	0.00	0.18	-0.01	0.17	-0.03	0.25
Growth	0.05	0.07	-0.01	0.06	-0.16	0.16
Liquidity	0.00	0.11	0.02	0.09	0.04	0.29
Short interest	0.02	0.05	0.04	0.05	0.03	0.12
ESG	0.01	0.03	0.00	0.06	0.05	0.15
Carbon eff.	-0.05	0.10	0.03	0.07	0.13	0.29

The performance attribution is based on monthly data from June 30, 2014, to June 28, 2024. Factor returns are sourced from the EFMGEMTL risk model.

To understand the drivers of this divergence, we conducted an active-performance attribution analysis. We found that the diversified category's performance was affected by its exposure to currencies and industries. The overrepresentation of Japan within this category, during a period when the JPY was continuously depreciating against the USD and eroding returns, was likely a key factor. Additionally, the category's underweight in the information-technology sector further contributed to the underperformance.

We found that style factors positively impacted the diversified category's performance. A positive tilt toward value, size and investment quality, along with lower exposure to earnings variability, contributed to positive returns; the lower profitability of these firms, however, caused a drag on overall performance.

Conclusion

Corporate diversification reached its peak with the prominence of conglomerates in the 1970s, but has declined markedly since then, particularly in the U.S. Today, U.S. firms largely specialize in single sub-industries, whereas Japanese and East Asian firms still often maintain a significant share of multi-industry companies. In this paper, we used MSCI Business Segment Data to differentiate between single- and multi-industry firms.

Our analysis showed that companies that diversified their operations across multiple industries tended to exhibit lower valuations, slower earnings growth and weaker quality (lower profitability and higher leverage). These firms are typically older and operate in more-mature industries with lower exposure to technology-driven, future-focused business models. However, they have demonstrated greater resilience across business cycles, as evidenced by their lower stock-price volatility and broader geographic-revenue diversification.

Our findings underscore corporate diversification as a key dimension for investors to consider in their decision-making process.

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Appendix A: Business-segment mapping to sub-industry

Mapping a company's individual business segments to corresponding sub-industries facilitates a standardized approach to classifying and comparing the operations of firms. Because companies often categorize their activities differently – by product type, services, brand or geographic location – the ability to directly compare them can be challenging. For example, as Exhibit A1 shows, Berkshire Hathaway Inc. segments its businesses both by service or product type (e.g., manufacturing, insurance group and service and retailing) and brand (e.g., Berkshire Hathaway Energy, BNSF Railway, McLane Company, Inc. and Pilot Flying J Travel Centers). In contrast, LVMH organizes its operations solely by product type. Meanwhile, Wheaton Precious Metals classifies its business by geographic region, focusing on its principal mining sites and projects.

MSCI's approach overlays these varied business-segment definitions with a consistent sub-industry classification. For instance, Berkshire Hathaway's seven business segments are mapped to seven sub-industries across six sectors, preserving the full granularity of its operations. For LVMH, its five business segments are mapped to four sub-industries: fashion and leather goods, and watches and jewelry, are both mapped to one sub-industry (apparel, accessories and leather goods). In contrast, Wheaton Precious Metals' disclosed mining sites and projects are mapped to the type of mining, narrowing the original disclosure from six business lines to only three sub-industries.

While some loss of granularity may thus occur, the bar chart at the bottom of Exhibit A1 shows that over the five-year period from June 2019 to June 2024, approximately 42% of firms in the MSCI ACWI IMI experienced no "shrinkage" in the number of business segments, while around 41% were reduced by, at most, two business segments.¹⁸ More importantly, when we analyzed the correspondence between the SIC codes and sub-industries that were mapped to companies based on their business segments, we found that over 80% of firms maintain the same number of distinct business segments under both approaches.

¹⁸ Shrinkage at a company level equals its number of business segments less its number of GICS sub-industries.

Exhibit A1: MSCI Business Segment Data mapping: three examples

Berkshire Hathaway

Business segment	GICS code	Sector	Sub-industry
Berkshire Hathaway Energy	55101010	Utilities	Electric utilities
BNSF	20304010	Industrials	Rail transportation
Insurance group	40301050	Financials	Reinsurance
Manufacturing	20106020	Industrials	Industrial machinery & supplies & components
McLane	30101020	Consumer staples	Food distributors
Pilot Flying J Travel Centers	10102040	Energy	Oil & gas storage & transportation
Service and retailing	25504050	Consumer discretionary	Automotive retail

LVMH

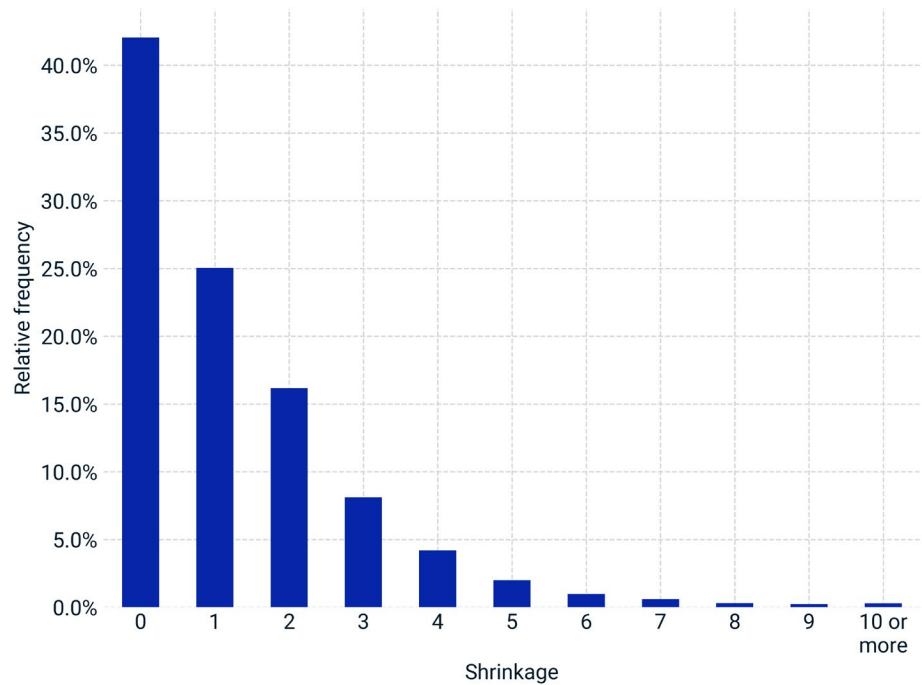
Business segment	GICS code	Sector	Sub-industry
Fashion and leather goods	25203010	Consumer discretionary	Apparel, accessories & luxury goods
Perfumes and cosmetics	30302010	Consumer staples	Personal care products
Selective retailing	25504010	Consumer discretionary	Apparel retail
Watches and jewelry	25203010	Consumer discretionary	Apparel, accessories & luxury goods
Wines and spirits	30201020	Consumer staples	Distillers & vintners

Wheaton Precious Metals

Business segment	GICS code	Sector	Sub-industry
Marathon	15104020	Materials	Diversified metals & mining
Peñasquito	15104045	Materials	Silver
Salobo	15104030	Materials	Gold
Stillwater - Palladium	15104020	Materials	Diversified metals & mining
Other-Gold	15104030	Materials	Gold
Other-Silver	15104045	Materials	Silver

Mapping of company business line and GICS-based classification as of June 28, 2024.

Exhibit A2: Sub-industry mapping and the impact on operational granularity

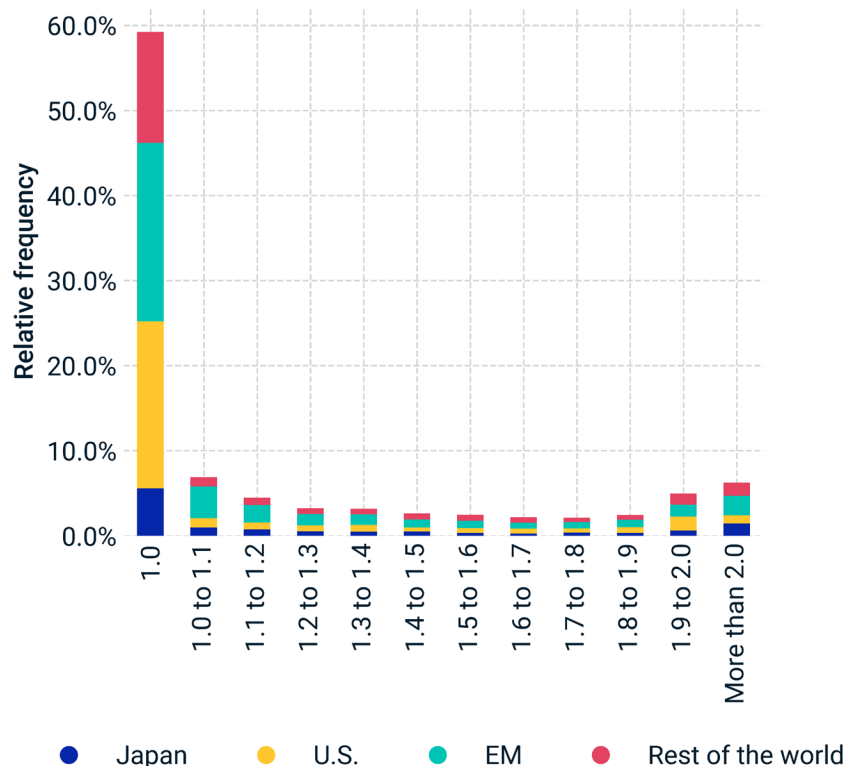


Relative frequency of reduction in business segments for the MSCI ACWI IMI from June 2019 to June 2024.

Appendix B: Distribution of effective number of sub-industries

As of June 28, 2024, approximately 60% of firms in the global-equity universe derived their revenues from a single sub-industry. Within this group, firms domiciled in the U.S. and those in EM each accounted for roughly a third, while Japan contributed just 9.3%. On the other end of the spectrum, firms with more than two effective sub-industries represented about 6.2% of the total firm count, with the U.S. having the smallest representation in this category, contributing approximately 15.3%.

Exhibit B1: Distribution of effective number of sub-industries in the global-equity universe



Data as of June 28, 2024. Distribution of the effective number of sub-industries in the MSCI ACWI IMI. The bars represent the relative frequency of observations per bin, with increments of 0.1 starting from 1.0.

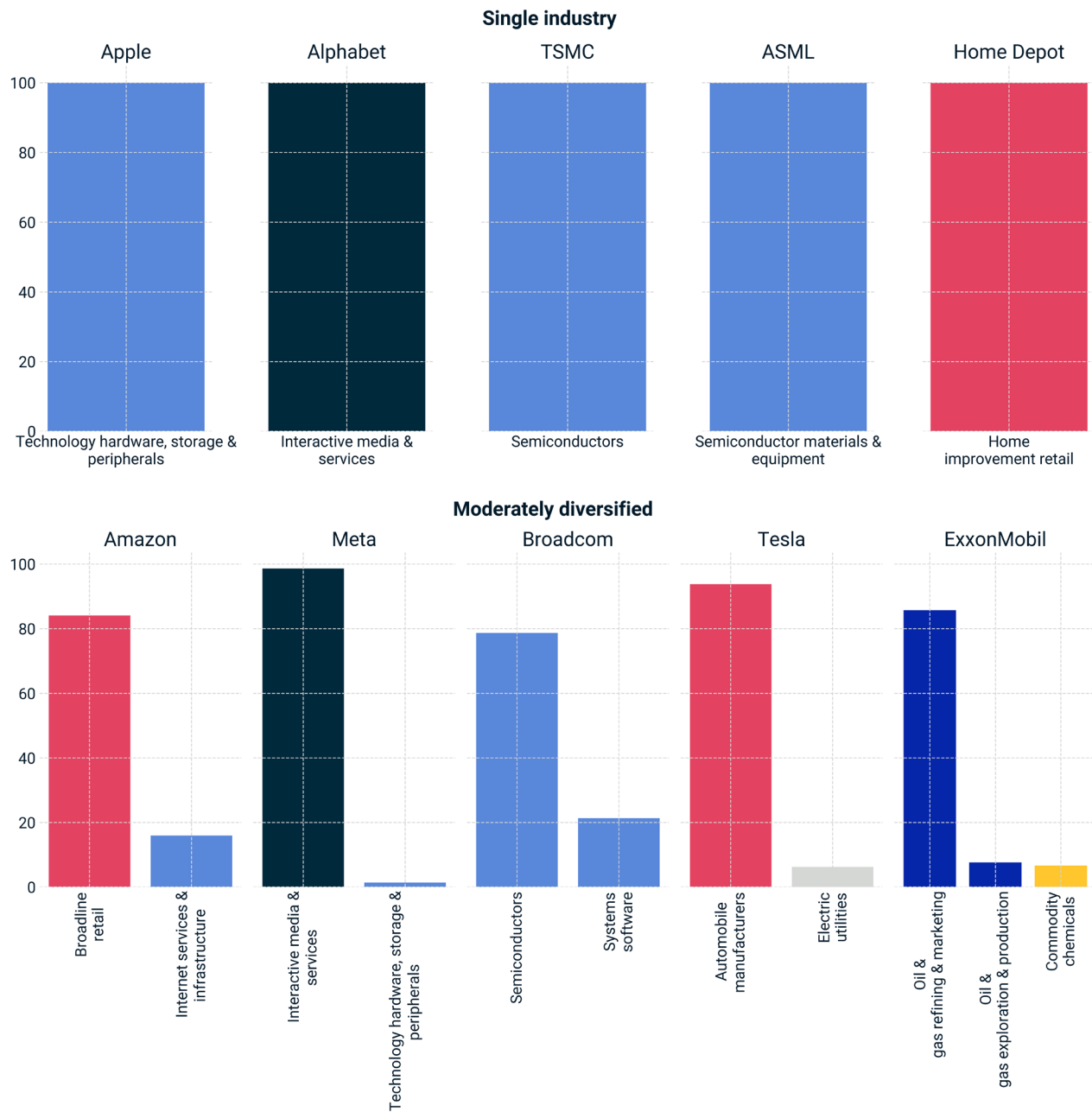
Appendix C: Market leadership across diversification categories

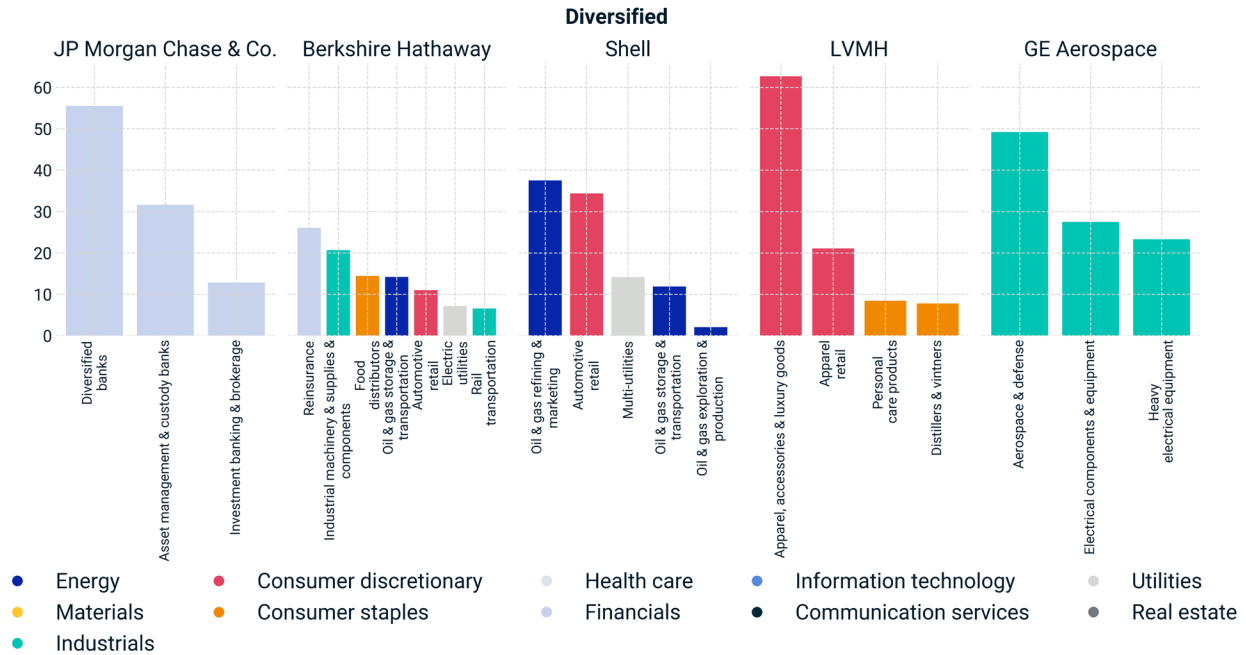
For the three diversification categories in our analysis – single industry, moderately diversified and diversified – we highlight in Exhibit C1 some of the largest global firms from each category. The bar charts display the revenue distribution across sectors (tier 1) and sub-industries (tier 4) for the five largest companies by index weight in each diversification category.

Four of the five largest single sub-industry firms are involved in electronics manufacturing or digital services: Apple Inc., Alphabet Inc., Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) and ASML Holding N.V.

In the other diversification categories, companies from “real economy” sectors (energy, industrials, financials and consumer discretionary) appear. In the diversified category, Berkshire Hathaway stands out among the examples as having the most-differentiated business lines (seven in total) with presence across six sectors: financials, industrials, consumer staples, energy, consumer discretionary and utilities. In contrast, JP Morgan Chase & Co. and GE Aerospace operate across several sub-industries but remain primarily focused on their core sector.

Exhibit C1: Top five companies by market capitalization in each diversification category





Data as of June 28, 2024. The charts display the five largest companies by market capitalization in each diversification category. The bars represent the proportion of revenues from each sub-industry and color coding indicates the sector classification for each sub-industry.

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