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Geographical Diversification, Risk and Firm Performance of US Casinos

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Abstract

Although geographical diversification is an emerging issue and has been considered a key competitive strategy in the casino industry, an examination of the effects of geographical diversification on casino firms' risks and firm performances has been sparse. Thus, this study investigates the impact of the degree of geographical diversification on risk measured by the standard deviation of daily stock returns and firm performance measured by Tobin's q of publicly traded US casino firms. The results of this study show the trade-off between risk and firm performance associated with the degree of geographical diversification of sampled casino firms. While geographical diversification can reduce risk, at the same time it can diminish firm performance. The findings suggest that when implementing a geographical diversification strategy, managers of casino firms need more elaborate decision making, while they need to

develop devices and management capabilities to mitigate problems that deter firm performance.

Key Words:

Geographical diversification

casino industry

risk

firm performance

Herfindahl Index

Tobin's q

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