Why Companies Are So Different?  
Alternative View on The Firms’ Financial Design

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Abstract
For years we believed in the sectoral structure of the economy. We believed in similar business models, decision-making processes, risk preferences and performance for firms in one sector. However, now we observe the structural changes in the global economy. New leaders have different business models, stakeholders, and risk preferences. Today it is more about people, we believe. Decision-makers (investors, CEOs, directors) develop the firm financial design based on their risk preferences, goals, and behavioral biases. We reexamine the links between the financial decisions in the corporations and governance mechanisms. We apply cluster analysis to determine the typical patterns of firm design. We show that there are 9 sustainable patterns of firm design in US market nowadays, and describe the portraits of typical firms in each cluster. We show that performance and risk differ significantly through clusters. Finally, we state that industry factors do not play a crucial role in the firm’s risk preferences and performance anymore.

Keywords: ownership structure, corporate governance, firm performance, cluster analysis

Methodology
We apply cluster analysis as an agnostic, black-box approach in contrast to the clustering by the exact criteria (age [La Rocca et al., 2011], sector [Jain, Kini, 2006]).

Step 1. We choose 9 firm internal characteristics that influence the decision-making process and, in turn, firm design. Inputs are governance variables (board size, independence, gender diversity); ownership variables (ownership concentration and the ownership of insiders, PE, VC, corporations, institutions); capital structure.

Step 2. k-means clustering of the companies 2015 and 2011.

Step 3. 9 clusters are the optimal number for firm design.


Outputs are risk and performance (Tobin’s Q, ROE, ROA, payout ratio, growth rates).

No Sectoral Benchmarks - People Decide

Discussion and open questions
Should we rely on the common benchmarks, or it’s worth trying to capture differences in decision-making processes (governance, ownership, risk preferences)?
What comes first? What makes companies different? Industry, life cycle, decision-making, ownership or financing? How to find a benchmark?

References

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Median Firm
Russel 3000 index as of EqY 2015:
- 98% of US market covered:
- All sectors covered, except financials
Total Assets in USD
- 1340
- 1530
- 84% WACC
- 8.4%
Tobin’s Q
- 2.6

Board
9 directors
83% Independence
12.5% female directors
Top5
63.8%
Top10
84.1%

Owners
83% Institutional Investors
2% insiders
Top5
68.3%
Top10
84.1%

9 Clusters of Companies in the US ⇒ 9 decision-making technologies ⇒ 9 of firm design patterns: People decide where to go

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