Online Supplementary Document

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Appendix 1: Alternative measure of conformity (estimated dependent variable)

To ensure the robustness of our main results presented in the paper, we replicate our empirical analyses using an alternative measure of *Conformity* derived directly from a Random Coefficient Hierarchical Linear Model (RCM). This approach follows recent methodological advancements in Strategy research (Alcácer et al., 2018), which emphasize that RCMs can uncover firm-level heterogeneity by estimating firm-specific slopes in multi-level models. We estimate *Conformity* as the random coefficient of *Industry Opportunity* in a mixed-effect hierarchical linear model of segment's *Investment*, while controlling for other segment- and firm-level variables that may affect investment decisions. This estimation-based routine offers the advantage of jointly modeling the differential effects of *Industry Opportunity* across firms alongside control variables. However, we acknowledge that using the estimated *Conformity* variable in our hypothesis-testing models as an estimated dependent variable (EDV) may introduce sampling error, as noted by Lewis and Linzer (2005). In this document, we provide details on the estimation of our estimated *Conformity* variable and the results of our robustness checks in which we use our estimated *Conformity* variable instead of our main, calculation-based, measure of *Conformity*, i.e., *AVA*. Equation (A1) formally presents our empirical approach:

$$Investment_{ijt} = \alpha_0 + \gamma_t + \beta_0\ Relative\ size_{ijt} + (\beta_1 + \beta_{1jt})\ Cash\ flow_{ijt} + \nu_{0jt}$$
$$\beta_{2jt}\ Industry\ opportunity_{ijt} + \beta_3\ Sisters'\ cash\ flow_{ijt} + \beta_4\ \text{Dominated by Focused}_{ijt} + \varepsilon_{ijt} \quad \text{(A1)}$$

where the variable $Investment_{ijt}$ is the asset-scaled capital investment in firm *j*'s business segment being active in industry *i* in year *t* adjusted for both that of peers in industry *i* and sister businesses in firm *j*'s portfolio (see Rajan et al. 2000). The variable $Investment_{ijt}$ is calculated as follows:

$$Investment_{ijt} = \frac{Capex_{ijt}}{BA_{ijt}} - \frac{Capex^{SS}_{it}}{BA^{SS}_{it}} - \sum_{i=1}^{n} w_{ijt}\left(\frac{Capex_{ijt}}{BA_{ijt}} - \frac{Capex^{SS}_{it}}{BA^{SS}_{it}}\right) \quad \text{(A2)}$$

where $Capex_{ijt}$ is the focal segment's capital expenditure, BA_{ijt} is the segment's asset at the beginning of the period, $\frac{Capex_{it}^{ss}}{BA_{it}^{ss}}$ is the median of the asset-scaled capital expenditure of single-business firms in industry i, and w_{ijt} is the segment's assets divided by firm *j*'s total assets.

We apply a mixed-effect hierarchical linear model—including both fixed-effects and random-effects components—to the capital-investment Equation (A1). The fixed-effect part of our model includes control variables as well year fixed effects. The random-effect part includes the firm-year random coefficients of the variables *Cash flow* and *Industry opportunity.* Random coefficients are imported into the model and estimated at the firm-year level. Our preliminary analysis revealed significant variation among firms in whether and how a firm's segment's generated cash is related to its allocated capital. This was why we decided to control for the random coefficient of the segment's *Cash flow* at the firm-year level in addition to *Industry opportunity*, whose random coefficients are needed to construct the firm's *Deviation* variable. Considering the hierarchical linear structure of Equation (A1), we use empirical Bayes predictions (Skrondal and Rabe-Hesketh 2009) to derive the estimated random coefficients.

In Equation (A1), our main variable is $Industry\ opportunity_{ijt}$ that is the median of single business firms' *Tobin's q* in the segment's industry (see e.g., Arrfelt et al. 2013). We mean-center this variable across the segment's parent's portfolio to capture the segment's industry opportunities relative to those of its sister businesses (see Hofmann 1997). β_{2jt} give the estimate of the random coefficient through the portfolio of the segment's parent's (i.e., firm *j*) portfolio for the variable *Industry opportunity* in year *t*. The vector of firm-year level β_{2jt} *indicates* how strongly each firm-yar more strongly investment capital in segments operating in overall more attractive industries and away from segments operating in overall less attractive industries.[1] The other right-side variables in Equation (A1) are as follows: the variable $Relative\ size_{ijt}$ measured as the natural logarithm of the total assets of the parent firm divided by the segment's asset. This is associated with the model coefficient β_0. The variables

[1] We would like to emphasize that β_{2jt} vector's coordinates are directly used as estimated firm-year level measures of conformity to industry-comparing logic, and no additional aggregation (e.g., summing or averaging) is performed.

$Cashflow_{ijt}$ and $Sisters'\ cashflow_{ijt}$ are the focal segment's and weighted average of its sister businesses' asset-adjusted generated cash (that is, the segment's operating profit plus its depreciation of fixed assets divided by the segment's asset). They are associated with the model coefficients $(\beta_1 + \beta_{1jt})$ and β_3, respectively. The last control variable, $Dominated\ by\ focused_{ijt}$, is a dummy variable that gets a value equal to 1 if the number of single-business firms is higher than the number of the divisions of multi-business firms in the industry of a the focal segment, and zero otherwise. This is to account for the varying presence of single-business firms across industries and that a higher presence of specialized competitors reduces relative competitive advantages of multi-business firms' divisions against their specialized competitors (Santalo and Becerra 2008). It controls for the potential effect of this factor on multi-business firms' capital allocation practices. The parameter α_0 is the model's constant. The coefficients γ_t are related to the year fixed effects. The model coefficients ν_{0jt} are firm-year random intercepts; and ε_{ijt} are error terms.

Table A1 presents the descriptive statistics and correlations among the variables used in our estimation of *Deviation* and Table A2 provides the results of our mixed-effect models. Model 1 includes control variables only. All variables in the fixed part of the model have statistically significant coefficients. As expected, a segment's generated cash flow has a positive relationship with that segment's share from the parent's internal capital market. Furthermore, consistent with the results of previous studies (Bardolet et al. 2011, Billett and Mauer 2003), segments' *Relative size* has a significant negative coefficient (i.e., smaller businesses are subsidized). Finally, the significantly positive coefficient estimated for *Dominated by focused* variable aligns with the theoretical argument in Santalo and Becerra (2008), suggesting that the corporate headquarters may systematically allocate more resources to segments in industries that are dominated by single-business firms to account for their divisions' competitive disadvantage against focused competitors.

Insert Tables A1 and A2 about here

We complete our model in Model 2 by introducing the vector of *Industry opportunity*'s random coefficients at the firm-year level. This variable is our main variable of interest. The results show that the variance of the dependent variable *Investment* explained by the vector of *Industry opportunity*'s random coefficients is statistically significant, with its related variance component more than 10 times larger than its standard error.

The improvement in model fit from including random slopes is reflected in the increase in the model's Log Likelihood from 24868.671 to 25022.149. The Likelihood Ratio (LR) test comparing the final model with random slopes to the previous-stage model — which includes control variables in the fixed part of the model and the random coefficients of Segment *Cash* — indicates that adding random slopes for *Industry Opportunity* significantly improves model fit ($\chi^2(1) = 306.96$, $p < 0.001$). This result suggests that firms exhibit statistically significant heterogeneity in how they shape their capital allocation decisions based on investment attractiveness. To assess the economic significance of including random slopes, we calculate the Proportional Reduction in Error Variance (PRE), which quantifies the share of the first-level residual variance in the dependent variable (*Investment*) explained by the random slope specification. The first-level error variance in the null model (i.e., the model without any regressors) is 0.0033968 (not presented in the table). Introducing control variables reduces the first-level residual variance to 0.0032298, corresponding to a 4.9% reduction. Adding random slopes for *Industry Opportunity* further reduces the first-level residual variance to 0.0028118, resulting in a 17.2% total reduction compared to the null model (more than 12% in addition to that explained by both fixed-effect and random-effect control variables). These results indicate that heterogeneity in firms' responsiveness to *Industry Opportunity* explains a substantial portion of the variance in the dependent variable (*Investment*). Put differently, these results emphasize that differences in firms' responsiveness to the overall attractiveness of industries explain a significant share of the variance in capital investment across segments. They underscore the core premise of our study: whether estimated or calculated, *Conformity* captures a distinct dimension of variation in firms' capital allocation behavior and thus represents a meaningful construct worthy of independent investigation.

Tables A3 and A4 present the results of replicating our hypothesis-testing models and post hoc analyses using the estimated *Conformity* measure. Model 1 in Table A3 includes only the control variables, serving as the baseline model. In Model 2, we add our independent variable of interest, *FSIE*, which yields a positive but statistically non-significant coefficient (p-value = 0.12). Although this estimate is consistent in sign with the results of our main models, its lack of statistical significance prompted us to conduct an additional robustness check. Specifically, we replicated the analysis by limiting the sample to observations before 2020 — to rule out the potential impact of the COVID-19 pandemic on firms' capital allocation practices. This restriction yields a statistically significant positive coefficient for *FSIE* (p-value = 0.059), suggesting that the pandemic may have affected the relationship between *FSIE* and *Conformity*. The results of this restricted-sample analysis are reported in Models 3 and 4 of Table A3. Applying the same pre-2020 restriction to our main hypothesis-testing models — in which *AVA* serves as the proxy for *Conformity* — further strengthens the statistical significance of the *FSIE* coefficient, with the p-value decreasing from 0.025 in the full sample to 0.011 in the pre-2020 sample.

Insert Tables A3 and A4 about here

Replicating the post hoc analysis with the estimated *Conformity* variable, shown in Table A4, produces results that are qualitatively consistent with our main findings, albeit with slightly stronger statistical significance (i.e., smaller p-values). The interaction term between variables *Conformity* and *Highly covarying* — which captures the difference in the value implications of *Conformity* between the two strategically-conforming and non-strategically-conforming firms subsamples — remains strongly significant (p = 0.001) in Model 3. It again supports the view that the value implications of conformity to an industry-comparing logic of capital allocation differ significantly between strategically-conforming and non-strategically-conforming firms. As expected, we find a strongly significant positive coefficient for *Conformity* only in Model 5 (p = 0.000), which tests the value implications of *Conformity* among strategically-conforming firms. By contrast, *Conformity* is not significantly associated with firm value in Model 4, which examines the group of firms whose *Conformity* less strongly covaries with *FSIE*. The

replication of our post hoc analysis tests yields consistent estimates across both the full sample and the sample excluding observations from 2020 to 2023 (not presented here). This finding suggests that, while our robustness checks provide insufficient and main tests provide weaker statistical support to confirm that FSIE systematically shaped the extent to which firms followed an industry-comparing logic of allocation during the pandemic years, compared to before the pandemic years, firms' value creation remains positively associated with the extent to which *Conformity* covaries with *FSIE*. An increase in conformity with the industry-comparing logic is strongly and positively associated with a firm's excess value only for firms with more strategic conformity behavior. In contrast, it is not associated with any positive change in a firm's measures of market value for non-strategic conforming firms.

We used a wide range of different specifications in our random coefficient (RC) hierarchical linear model (HLM) from which we derived the measure of firms' conformity to the industry-comparing logic of capital allocation and replicated our main hypothesis-testing models and the post hoc analysis. Our results indicate that the estimated *Conformity* is highly robust across different model specifications, with the resulting vectors of *Conformity* showing correlations above 0.95 with each other in almost all cases. Moreover, the significance or insignificance of all the important variables in all three tables, A2, A3, and A4 is robust to this wide range of specifications. The results are available upon request.

Appendix 2: Addressing endogeneity (reverse causality)

As specified in the manuscript, to ensure that our findings are not susceptible to reverse causality (i.e., that firms' capital investment behavior does not influence their FSIE), we replicate our hypothesis-testing models using a subsample of firms that did not change their scope of activities during the study period — 688 firms out of the total 947 in our sample. As shown in the tables A5 through A7, the results for this subsample are qualitatively consistent with our main findings: the FSIE variable continues to exhibit a statistically significant positive coefficient.

Insert Tables A5 through A7 about here

In particular, the first two models in Table A6 are exactly those in manuscript's Table 2 (i.e., the results of hypothesis testing models). The second two models are the replication of the first ones in a sample limited to firms that have not changed their scope of activity during the study's timeframe.

Appendix 3: AVA as a valid measure for conformity rather than value added by allocation

The so-called Added Value by Allocation (*AVA*) variable has been used as a measure of capital allocation efficiency in multi-business firms (e.g., Dickler and Folta 2020, Kuppuswamy and Villalonga 2016, Lovallo et al. 2020, Rajan et al. 2000). However, in this paper, we argue that *AVA* is not inherently a measure of capital allocation efficiency or value creation. Rather, by construction, *AVA*, i.e. $\sum_{i=1}^{n} w_{ijt}\, q_{ijt} * Investment_{ijt}$, indicates firms' investments' sensitivity to *Tobin's q* — i.e., conformity with industry-comparing logic — which is not necessarily always value-creating.

Table A8 provides some insights on this argument. If a firm shows high sensitivity to *Tobin's q* in its capital allocations, we expect most of its capital investment decisions to fall in Quadrant 1 (receiving more than average capital investment if having more than average *Tobin's q*) and Quadrant 3 (receiving less than average capital investment if having less than average *Tobin's q*). According to the *AVA* formulation, quadrants 1 and 3 generate positive values. Therefore, when a firm's capital decisions fall mostly in quadrants 1 and 3 (rather than in quadrants 2 and 4), its ultimate *AVA* score will be a large positive number. It may be worth reiterating that q_{ijt} in *AVA* formulation is mean-centered across the segment's parent's portfolio to capture the segment's industry investment opportunities relative to those of its sister businesses.

Insert Tables A8 about here

Appendix 4: Alternative measure of conformity (AVA in which Investment is not mean-centered in the parent firm's portfolio)

To assess the robustness of our results to the operationalization of *AVA* as a measure of conformity, we re-estimated our hypothesis-testing models using an alternative version of *AVA*. In this version, the *Investment* variable is adjusted only for the industry median of single-business firms, omitting the firm-level adjustment described in Equation 2 of the manuscript (and Equation A2 in the Appendix). Therefore, the variable $Investment_{ijt}$ is calculated as follows:

$$Investment_{ijt} = \frac{Capex_{ijt}}{BA_{ijt}} - \frac{Capex_{it}^{ss}}{BA_{it}^{ss}} \qquad \text{(A3)}$$

As shown in Table A8, the results are very similar to those obtained using our operationalization of Conformity — i.e., AVA as constructed by Rajan and colleagues.

Insert Table A9 about here

The issue with this alternative version is that the sign of the $q_{ijt} * Investment_{ijt}$ term for each division becomes less meaningful. For example, a negative investment value might simply reflect the firm's limited access to capital — i.e., it has invested less than single-business firms in the focal division's industry — even if it has allocated more to that division relative to its other divisions. If q_{ijt} is positive, this combination will produce a negative value in the unadjusted formulation — even if the allocation internally follows the industry-comparing logic. This misalignment weakens the interpretability of the division-level conformity score. That said, at the firm level, it is likely that this issue is less problematic — especially since our models include firm fixed effects.

Appendix 5: Results supporting the non-sensitivity difference in value implication of Conformity for highly-covarying and low-covarying subsamples to the cutoffs for the two subsamples

As explained in the main manuscript, we not only test the contingency effect of *FSIE–Conformity Covariance* on the value implications of *Conformity* but also examine this relationship more closely by splitting the sample. Specifically, we divide firms into two groups based on whether the covariance between their *FSIE* and *Conformity* is above or below the sample median. We then compare the value implications of *Conformity* across these two subsamples. The results, presented in Model 4 of Table 3, indicates a strongly significant negative coefficient for Conformity in the low-covariance group, suggesting that these firms destroy value by conforming to industry trends. In contrast, the significantly positive coefficient on the interaction term *Conformity* × *Highly Covarying* indicates that the difference in value implications between the two groups is statistically significant.

To assess the robustness of these findings to the choice of cutoff, we replicate the analysis in Model 4 after excluding firms near the median of the *FSIE–Conformity Covariance* distribution. Specifically, we conduct three additional tests that remove the central 10%, 20%, and 50% of firms — retaining only those in the bottom and top 45th, 40th, and 25th percentiles, respectively. The results, reported in Table A10, remain consistent: the coefficient on *AVA* (reflecting the low-covariance group) stays significantly negative, while the coefficient on the *Conformity* × *Highly Covarying* interaction (capturing the difference between the two groups) remains significantly positive across all three tests.

Together, these findings provide robust evidence that the value implications of *Conformity* vary systematically with the degree to which a firm's *Conformity* covaries with its *FSIE*. This effect persists even when excluding firms near the median, reinforcing the distinction between firms that strategically conform and those for whom conformity may be misaligned with their idiosyncratic context. The gradual decline in statistical significance is likely attributable to the reduced sample size — dropping from the full sample in the main analysis to only half the firm-level observations in the final replication.

TABLES

Table A1. Descriptive statistics and correlations

Variables	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)
(1) Investment	0.003	0.064	-0.568	0.753	1					
(2) Industry opportunity	0.044	0.39	-4.312	4.322	0.03	1				
(3) Relative size	1.481	1.083	0	6.204	0.08	0.11	1			
(4) Cash flow	0.147	0.163	-0.993	0.999	0.02	-0.04	-0.01	1		
(5) Sisters' cash flow	0.148	0.26	-11.17	5.522	-0.01	-0.01	0.03	0.12	1	
(6) Dominated by Focused	0.562	0.496	0	1	0.02	0.03	-0.05	0.03	0.02	1

This table of descriptive statistics and correlation is related to Equation A1, in which we examine the segment-level investment aimed at deriving firm-year-level random coefficients of *Industry opportunity* to be used for building the dependent variable of our hypothesis-testing model, i.e., *Deviation*. Number of segment-level Observations = 17377

Table A2. Random coefficient hierarchical linear model to derive estimated conformity

Dependent variable: Investment				
	(1)		(2)	
Fixed part of the model	Coefficient	Standard error	Coefficient	Standard error
Relative size	4.48e-3***	(4.15e-4)	4.31e-3***	(4.12e-4)
Cash flow	9.39e-3***	(2.96e-3)	9.12e-3***	(2.91e-3)
Sisters' cash flow	-5.07e-4	(9.16e-4)	-6.35e-4	(9.33e-4)
Dominated by Focused	2.45e-3***	(8.91e-4)	2.06e-3**	(8.67e-4)
Year fixed effects	YES		YES	
Random part of the model	Variance component	Standard error	Variance component	Standard error
Level 1, e_{it}	3.23e-3***	(3.70e-5)	2.81e-3***	(4.08e-5)
Level 2, corporate-year intercept	1.70e-12	(2.08e-10)	3.08e-17	(9.62e-15)
Cash flow random slope	2.58e-3***	(3.12e-4)	2.19e-3***	(2.81e-4)
Industry opportunity random slope			2.49e-3***	(2.34e-4)
Observations	17,377		17,377	
Log likelihood	24868.671		25022.149	

This table of results is related to Equation A1, in which we examine segment-level *investment* aimed at deriving firm-year-level random coefficients of *Industry opportunity* to be used as an estimated dependent variable (EDV) for the dependent variable of our hypothesis-testing model, *Conformity* in our robustness checks. We use mixed effects (Stata mixed) models, including year fixed effects. Robust standard errors are reported in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table A3. Replicating hypothesis testing models using the estimated conformity

Variables	(1) Conformity (EDV)	(2) Conformity (EDV)	(3) Conformity (EDV)	(4) Conformity (EDV)
Size	0.00156*	0.00154*	0.00137	0.00134
	(0.000930)	(0.000930)	(0.00104)	(0.00104)
Cash flow	0.00820	0.00808	0.00847	0.00828
	(0.00761)	(0.00761)	(0.00807)	(0.00807)
Solvency	-0.00252	-0.00258	-0.00171	-0.00179
	(0.00399)	(0.00399)	(0.00430)	(0.00430)
Current ratio	-0.000624	-0.000619	-0.000430	-0.000422
	(0.000646)	(0.000646)	(0.000699)	(0.000699)
Number of divisions	0.00165*	0.00158*	0.00175*	0.00165*
	(0.000906)	(0.000907)	(0.000977)	(0.000978)
Divisions' resource relatedness	0.00923*	0.00949*	0.0103*	0.0105*
	(0.00548)	(0.00548)	(0.00593)	(0.00592)
Divisions' opportunity diversity	-0.00371***	-0.00372***	-0.00449***	-0.00454***
	(0.00134)	(0.00134)	(0.00147)	(0.00147)
No geographical data	-0.00460**	-0.00451**	-0.00382	-0.00366
	(0.00220)	(0.00220)	(0.00233)	(0.00233)
One foreign market	-0.00292	-0.00283	-0.00253	-0.00242
	(0.00220)	(0.00220)	(0.00233)	(0.00233)
Geographically diverse	-0.00617**	-0.00616**	-0.00614**	-0.00612**
	(0.00273)	(0.00272)	(0.00291)	(0.00291)
Degree of multi-nationality	0.000227	0.000224	0.000245	0.000248
	(0.000267)	(0.000267)	(0.000302)	(0.000302)
FSIE		0.00727		0.00991*
		(0.00467)		(0.00524)
Constant	-0.00672	-0.00697	-0.00652	-0.00676
	(0.00809)	(0.00809)	(0.00894)	(0.00894)
Observations	4,938	4,938	4,606	4,606
R-squared	0.374	0.375	0.342	0.343

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

This table displays the results of the replication of the hypothesis testing models using the estimated dependent variable (EDV) *Conformity*. The first two models are the exact replication of Models 1 and 2 of Table 2. Models 3 and 4 report the results of the same models but limit the observations to before 2020.

Table A4. Replicating post hoc analysis models using the estimated conformity

Variables	(1) Excess value	(2) Excess value	(3) Excess value	(4) Excess value	(5) Excess value	(6) Excess value
Size	-0.105***	-0.107***	-0.109***	-0.110***	-0.109***	-0.102***
	(0.0268)	(0.0267)	(0.0267)	(0.0267)	(0.0409)	(0.0351)
Cash flow	1.425***	1.413***	1.405***	1.396***	1.713***	1.283***
	(0.220)	(0.220)	(0.220)	(0.219)	(0.332)	(0.291)
Solvency	-0.224*	-0.216*	-0.215*	-0.222*	-0.414**	0.0323
	(0.120)	(0.120)	(0.120)	(0.119)	(0.177)	(0.163)
Current ratio	-0.00298	-0.00155	-0.000372	0.00113	0.00677	-0.00872
	(0.0190)	(0.0190)	(0.0190)	(0.0190)	(0.0274)	(0.0265)
Number of divisions	-0.603***	-0.599***	-0.601***	-0.602***	-0.541***	-0.650***
	(0.0387)	(0.0387)	(0.0387)	(0.0386)	(0.0593)	(0.0505)
Divisions' resource relatedness	-0.0307	-0.0330	-0.0332	-0.0323	-0.0149	-0.0555
	(0.0265)	(0.0265)	(0.0265)	(0.0264)	(0.0400)	(0.0350)
Divisions' opportunity diversity	0.544***	0.534***	0.526***	0.515***	0.402*	0.533**
	(0.161)	(0.161)	(0.161)	(0.160)	(0.242)	(0.214)
No geographical data	-0.0169	-0.0101	-0.00816	-0.00410	-0.0373	0.0379
	(0.0662)	(0.0662)	(0.0661)	(0.0660)	(0.101)	(0.0871)
One foreign market	0.0139	0.0183	0.0212	0.0204	-0.0374	0.0435
	(0.0648)	(0.0648)	(0.0648)	(0.0646)	(0.103)	(0.0828)
Geographically diverse	-0.0927	-0.0835	-0.0857	-0.0911	-0.197	-0.0310
	(0.0803)	(0.0803)	(0.0802)	(0.0801)	(0.126)	(0.104)
Degree of multi-nationality	-0.0102	-0.0106	-0.0104	-0.0100	-0.0407***	0.0133
	(0.00764)	(0.00763)	(0.00763)	(0.00762)	(0.0119)	(0.00994)
FSIE	0.0528	0.0422	-0.0213	-0.0526	-0.332	0.112
	(0.135)	(0.135)	(0.138)	(0.137)	(0.221)	(0.172)
Conformity (EDV)		1.393***	1.161**	-0.655	-0.941	3.059***
		(0.461)	(0.471)	(0.677)	(0.722)	(0.606)
FSIE–Conformity Covariance * Conformity (EDV)			2.600**			
			(1.123)			
Highly covarying * Conformity (EDV)				3.847***		
				(0.934)		
Constant	1.537***	1.541***	1.559***	1.579***	1.834***	1.331***
	(0.234)	(0.234)	(0.234)	(0.234)	(0.346)	(0.320)
Observations	4,309	4,309	4,305	4,309	2,141	2,168
R-squared	0.564	0.565	0.565	0.567	0.563	0.585

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
This table displays the results of the replication of the post hoc analysis models (Table 3 in the main manuscript) using the estimated dependent variable (EDV) Conformity.

Table A5- Replication of descriptive statistics and correlations for the subsample of firms that did not change their scope of activity during the study's timeframe, to address potential reverse causality

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Conformity	0	0.01	-0.097	0.23	1						
(2) FSIE	0.068	0.093	0	0.602	0.04	1					
(3) Divisions' resource relatedness	0.195	0.153	0.014	0.749	-0.01	-0.07	1				
(4) Size	7.565	1.923	3.273	12.339	-0.01	0.04	0.19	1			
(5) Cash flow	4.224	2.113	0	9.416	0.01	0.08	0.1	0.77	1		
(6) Divisions' opportunity diversity	0.562	0.389	0	4.515	-0.08	0.05	-0.05	0.01	0.08	1	
(7) Number of divisions	2.136	0.424	2	5	0	0	0	0.24	0.15	-0.15	1
(8) Tobin's q	1.6	0.998	0.402	16.533	-0.02	0.08	-0.07	-0.01	0.09	0.18	-0.07
(9) Solvency	0.561	0.188	0.057	1	-0.02	-0.09	0.12	0.28	0.06	-0.18	0.18
(10) Current ratio	1.797	1.144	0.035	9.717	0.02	0.07	-0.19	-0.38	-0.08	0.08	-0.18
(11) No geographical data	0.115	0.319	0	1	0.01	0	0.07	-0.02	-0.04	-0.03	0.01
(13) One foreign market	0.198	0.398	0	1	0.01	0.02	-0.03	-0.12	-0.13	-0.07	0.02
(14) Geographically diverse	0.463	0.499	0	1	-0.01	0.09	-0.2	0.12	0.31	0.09	0.02
(15) Degree of multi-nationality	1.838	2.686	0	31	-0.02	0.08	-0.16	0.15	0.31	0.06	0.06

	Mean	S.D.	Min	Max	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(8) Tobin's q	1.6	0.998	0.402	16.533	1						
(9) Solvency	0.561	0.188	0.057	1	-0.17	1					
(10) Current ratio	1.797	1.144	0.035	9.717	0.08	-0.53	1				
(11) No geographical data	0.115	0.319	0	1	-0.03	0.11	-0.06	1			
(12) One foreign market	0.198	0.398	0	1	0	-0.06	0.09	-0.18	1		
(13) Geographically diverse	0.463	0.499	0	1	0.12	-0.15	0.11	-0.33	-0.46	1	
(14) Degree of multi-nationality	1.838	2.686	0	31	0.09	-0.09	0.07	-0.25	-0.34	0.74	1

This table of descriptive statistics and correlation is related to replication of our hypotheses testing models in the subsample of firms that did not change their scope of activity during the study's timeframe, to address potential reverse causality. Number of firm-year-level observations = 2505

Table A6- Replication of hypothesis testing models for the subsample of firms that did not change their scope of activity during the study's timeframe, to address potential reverse causality

VARIABLES	(1) Conformity	(2) Conformity	(3) Conformity	(4) Conformity
Size	0.000573	0.000558	0.00115	0.00118
	(0.000416)	(0.000415)	(0.000759)	(0.000759)
Cash flow	0.00820**	0.00812**	0.0159***	0.0160***
	(0.00340)	(0.00340)	(0.00534)	(0.00533)
Solvency	-0.00215	-0.00219	-0.00103	-0.000877
	(0.00178)	(0.00178)	(0.00265)	(0.00265)
Current ratio	-0.000215	-0.000212	-0.000132	-0.000146
	(0.000289)	(0.000288)	(0.000437)	(0.000437)
Number of divisions	0.000226	0.000182		
	(0.000405)	(0.000405)		
Divisions' resource relatedness	0.000457	0.000627	0.000505	0.000608
	(0.00245)	(0.00245)	(0.00541)	(0.00541)
Divisions' opportunity diversity	-0.00422***	-0.00423***	-0.00512***	-0.00512***
	(0.000599)	(0.000598)	(0.000951)	(0.000950)
No geographical data	0.00139	0.00145	-0.000597	-0.000450
	(0.000983)	(0.000983)	(0.00168)	(0.00168)
One foreign market	0.00115	0.00121	0.000417	0.000527
	(0.000982)	(0.000982)	(0.00159)	(0.00159)
Geographically diverse	0.000663	0.000668	0.000967	0.000995
	(0.00122)	(0.00122)	(0.00203)	(0.00203)
Degree of multi-nationality	-6.95e-05	-7.10e-05	-0.000669**	-0.000676**
	(0.000119)	(0.000119)	(0.000304)	(0.000304)
FSIE		0.00468**		0.00661**
		(0.00209)		(0.00335)
Constant	-0.00211	-0.00227	-0.00566	-0.00652
	(0.00361)	(0.00361)	(0.00596)	(0.00597)
Observations	4,938	4,938	2,505	2,505
R-squared	0.342	0.343	0.362	0.363

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The first two models in this table are exactly those in manuscript's Table 2 (the results of hypothesis testing models). The second two models are the replication of the first ones in a sample limited to firms that did not changed their scope of activity during the study's timeframe.

Table A7. Replicating post hoc analysis models for the subsample of firms that did not change their scope of activity during the study's timeframe, to address potential reverse causality

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Excess value	Excess value	Excess value	Excess value	Excess value	Excess value
Size	-0.257***	-0.255***	-0.256***	-0.255***	-0.282***	-0.186***
	(0.0465)	(0.0466)	(0.0467)	(0.0466)	(0.0740)	(0.0590)
Cash flow	1.195***	1.226***	1.226***	1.225***	1.060**	1.538***
	(0.324)	(0.325)	(0.325)	(0.325)	(0.512)	(0.412)
Solvency	-0.0874	-0.0897	-0.0886	-0.0899	0.0515	-0.173
	(0.172)	(0.172)	(0.172)	(0.172)	(0.269)	(0.225)
Current ratio	-0.0334	-0.0337	-0.0325	-0.0320	-0.0472	-0.00429
	(0.0277)	(0.0277)	(0.0277)	(0.0277)	(0.0434)	(0.0355)
Divisions' opportunity diversity	-0.622***	-0.632***	-0.635***	-0.636***	-0.599***	-0.706***
	(0.0578)	(0.0583)	(0.0585)	(0.0584)	(0.0914)	(0.0743)
Divisions' resource relatedness	0.602*	0.602*	0.589*	0.586	0.834	0.223
	(0.357)	(0.357)	(0.357)	(0.357)	(0.646)	(0.411)
No geographical data	-0.0617	-0.0608	-0.0600	-0.0593	0.0110	-0.142
	(0.115)	(0.115)	(0.115)	(0.115)	(0.196)	(0.137)
One foreign market	-0.153	-0.152	-0.150	-0.149	-0.0643	-0.265**
	(0.100)	(0.100)	(0.100)	(0.100)	(0.164)	(0.124)
Geographically diverse	-0.422***	-0.421***	-0.421***	-0.422***	-0.334	-0.601***
	(0.128)	(0.128)	(0.128)	(0.128)	(0.214)	(0.157)
Degree of multi-nationality	0.0497***	0.0485***	0.0487***	0.0496***	0.0272	0.0809***
	(0.0181)	(0.0181)	(0.0181)	(0.0181)	(0.0286)	(0.0234)
FSIE	0.0457	0.0598	0.0164	0.0152	-0.710*	0.532**
	(0.206)	(0.206)	(0.213)	(0.210)	(0.384)	(0.237)
Conformity (AVA)		-1.852	-2.059	-3.811*	-4.444*	-1.553
		(1.416)	(1.441)	(2.292)	(2.618)	(1.627)
FSIE–Conformity Covariance * Conformity (AVA)			2.620			
			(3.295)			
Highly covarying * Conformity (AVA)				3.192		
				(2.938)		
Constant	2.502***	2.491***	2.502***	2.496***	2.583***	2.147***
	(0.368)	(0.368)	(0.369)	(0.368)	(0.581)	(0.477)
Observations	2,003	2,003	1,999	2,003	1,008	995
R-squared	0.649	0.650	0.650	0.650	0.605	0.719

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

This table displays the results of the replication of the post hoc analysis in the subsample of firms that did not change their scope of activity during the study's timeframe,.

Table A8- Insights into AVA as a measure of conformity to industry-conforming logic of capital allocation

	Lower than average Tobin's q	High than average Tobin's q
Higher than average capital invested	Quadrant 2	Quadrant 1
Lower than average capital invested	Quadrant 3	Quadrant 4

This table supports our argument that *AVA* primarily captures a firm's conformity with industry-based investment logic—specifically, its sensitivity to *Tobin's q*. A firm's divisions that receive more capital when their *Tobin's q* is above parent firm's portfolio's average (Quadrant 1) and less capital when their *Tobin's q* is below parent firm's portfolio's average (Quadrant 3) get positive $q_{ijt} * Investment_{ijt}$ and contribute to an increase in parent firm's *AVA* score. On the other hand, divisions that locate in Quadrant 2 and Quadrant 4 get negative $q_{ijt} * Investment_{ijt}$, which signifies a parent firm's deviation from industry-comparing logic of allocation. This is why AVA as $\sum_{i=1}^{n} w_{ijt}\, q_{ijt} * Investment_{ijt}$ makes a valid measure of firm's conformity to the industry-comparing logic of allocation.

Table A9- Replicating hypothesis testing models without mean-centering AVA within the firm portfolio

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	AVA				AVA (*Investment* is not mean-centered within the parent firm portfolio)			
	Full sample		Firms with Invariant Scope		Full sample		Firms with Invariant Scope	
Size	0.000573	0.000558	0.00115	0.00118	0.000675	0.000658	0.00118	0.00121
	(0.000416)	(0.000415)	(0.000759)	(0.000759)	(0.000428)	(0.000428)	(0.000772)	(0.000772)
Cash	0.00820**	0.00812**	0.0159***	0.0160***	0.00797**	0.00788**	0.0161***	0.0162***
	(0.00340)	(0.00340)	(0.00534)	(0.00533)	(0.00350)	(0.00350)	(0.00543)	(0.00542)
Solvency	-0.00215	-0.00219	-0.00103	-0.000877	-0.00221	-0.00225	-0.00102	-0.000871
	(0.00178)	(0.00178)	(0.00265)	(0.00265)	(0.00184)	(0.00184)	(0.00270)	(0.00269)
Current ratio	-0.000215	-0.000212	-0.000132	-0.000146	-0.000272	-0.000269	-0.000132	-0.000146
	(0.000289)	(0.000288)	(0.000437)	(0.000437)	(0.000297)	(0.000297)	(0.000444)	(0.000444)
Number of divisions	0.000226	0.000182			0.000484	0.000435		
	(0.000405)	(0.000405)			(0.000417)	(0.000417)		
Firm's divisions' relatedness	0.000457	0.000627	0.000505	0.000608	0.000442	0.000632	-0.000504	-0.000399
	(0.00245)	(0.00245)	(0.00541)	(0.00541)	(0.00252)	(0.00252)	(0.00551)	(0.00550)
Divisions' opportunity diversity	-0.00422***	-0.00423***	-0.00512***	-0.00512***	-0.00425***	-0.00426***	-0.00523***	-0.00522***
	(0.000599)	(0.000598)	(0.000951)	(0.000950)	(0.000617)	(0.000616)	(0.000967)	(0.000966)
No geographical data	0.00139	0.00145	-0.000597	-0.000450	0.00159	0.00166	-0.000250	-9.92e-05
	(0.000983)	(0.000983)	(0.00168)	(0.00168)	(0.00101)	(0.00101)	(0.00171)	(0.00171)
One foreign market	0.00115	0.00121	0.000417	0.000527	0.000988	0.00105	0.000117	0.000231
	(0.000982)	(0.000982)	(0.00159)	(0.00159)	(0.00101)	(0.00101)	(0.00161)	(0.00161)
Geographically diverse	0.000663	0.000668	0.000967	0.000995	0.000513	0.000520	0.00102	0.00105
	(0.00122)	(0.00122)	(0.00203)	(0.00203)	(0.00125)	(0.00125)	(0.00207)	(0.00207)
Degree of multi-nationality	-6.95e-05	-7.10e-05	-0.000669**	-0.000676**	-9.96e-05	-0.000101	-0.000892***	-0.000899***
	(0.000119)	(0.000119)	(0.000304)	(0.000304)	(0.000123)	(0.000123)	(0.000309)	(0.000309)
FSIE		0.00468**		0.00661**		0.00525**		0.00676**
		(0.00209)		(0.00335)		(0.00215)		(0.00341)
Constant	-0.00211	-0.00227	-0.00566	-0.00652	-0.00326	-0.00344	-0.00542	-0.00631
	(0.00361)	(0.00361)	(0.00596)	(0.00597)	(0.00372)	(0.00372)	(0.00606)	(0.00607)
Observations	4,938	4,938	2,505	2,505	4,938	4,938	2,505	2,505
R-squared	0.342	0.343	0.362	0.363	0.350	0.351	0.382	0.383

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

The first four models in this table are exactly those in Table A5. The second four models are the replication of the first ones when the *Investment* variable used to build *Conformity* (*AVA*) is adjusted only for the industry median of single-business firms, omitting the firm-level adjustment.

Table A10- Replicating Model 4 in Table 3 using different cutoffs for high covarying and low covarying subsamples

VARIABLES	(1) Excess value	(2) Excess value	(3) Excess value	(4) Excess value
Size	-0.105***	-0.0933***	-0.102***	-0.191***
	(0.0267)	(0.0277)	(0.0286)	(0.0414)
Cash	1.442***	1.505***	1.267***	0.563*
	(0.220)	(0.231)	(0.236)	(0.318)
Solvency	-0.223*	-0.204*	-0.154	0.0666
	(0.120)	(0.123)	(0.127)	(0.166)
Current ratio	-0.00213	0.00165	0.00747	0.0721***
	(0.0190)	(0.0195)	(0.0199)	(0.0272)
Divisions' opportunity diversity	-0.606***	-0.626***	-0.643***	-0.713***
	(0.0389)	(0.0402)	(0.0412)	(0.0554)
Number of divisions	-0.0311	-0.0407	-0.0333	-0.0225
	(0.0265)	(0.0277)	(0.0283)	(0.0351)
Firm's divisions' relatedness	0.534***	0.543***	0.605***	0.464**
	(0.161)	(0.166)	(0.169)	(0.224)
No geographical data	-0.0198	-0.0349	-0.0142	-0.0566
	(0.0661)	(0.0683)	(0.0695)	(0.0940)
One foreign market	0.0131	0.0104	0.0435	-0.131
	(0.0647)	(0.0666)	(0.0678)	(0.0890)
Geographically diverse	-0.0968	-0.0972	-0.0630	-0.0796
	(0.0802)	(0.0823)	(0.0843)	(0.115)
Degree of multi-nationality	-0.00958	-0.0102	-0.0104	-0.00379
	(0.00763)	(0.00786)	(0.00792)	(0.0118)
FSIE	-0.0240	-0.0212	0.00315	0.181
	(0.137)	(0.142)	(0.149)	(0.208)
AVA	-4.904***	-4.873***	-4.266**	-3.966*
	(1.659)	(1.739)	(1.767)	(2.152)
Highly covarying*AVA	7.419***	7.364***	6.699***	5.246*
	(2.134)	(2.210)	(2.233)	(2.839)
Constant	1.545***	1.462***	1.447***	1.977***
	(0.234)	(0.242)	(0.250)	(0.343)
Observations	4,309	4,098	3,888	2,152
R-squared	0.565	0.569	0.556	0.620

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

The table displays the results of the replication of Model 4 in Table 3 for different cutoffs for high covarying and low covarying subsamples. Model 1 in this table is exactly Model 4 in Table 3, which is run on whole sample. Models 2, 3, and 4 are related to three additional tests that remove the central 10%, 20%, and 50% of firms — retaining only those in the bottom and top 45th, 40th, and 25th percentiles of FSIE–Conformity Covariance, respectively.

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[2] The references that are missing here can be found in the Reference section of the manuscript.