

# Why There? Decomposing the Choice of Target Industry

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How do diversifying firms choose their target industries? We explore target-industry choice empirically by focusing on the relative importance of target-market characteristics and the focal firm's resources and capabilities. We avoid some key restrictions in earlier work by using a measure of relatedness that is highly general and flexible, using population-level data, and including measures of resource strength in addition to resource relevance. We find that the match between the acquiring and target firm's resources and capabilities is a much stronger predictor of diversifying entry than the attractiveness of the target market per se.



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