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Different Diversification Approaches of Technology Firms: A Comparative Case Study in Valuation of Xiaomi and Lenovo

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Abstract. Whether diversification creates or destroys firm value remains contested. This study compares Xiaomi Group and Lenovo Group, two Hong Kong-listed technology firms, over the period 2020–2025, using twelve firm-year observations. The level of diversification is measured by the revenue share of the largest business segment (RSL), where a lower RSL indicates a higher degree of diversification. Firm valuation is measured by both Tobin's Q and the price-to-book ratio (PB). The models control for firm size, leverage, R&D intensity, and firm identity. RSL has negative coefficients in both models, indicating that greater diversification is associated with higher valuation in this sample, although none of the coefficients reach statistical significance at conventional levels. Xiaomi's mean Tobin's Q is 2.1504, compared with 1.1848 for Lenovo, and is higher in every sample year. This pattern is consistent with a valuation premium for Xiaomi's ecosystem-based diversification, though the firm dummy variable is not statistically significant and may reflect other firm-specific differences. Given the small sample size and the confounding of firm identity with diversification type, the findings are directional rather than conclusive. The study offers a within-industry comparison of ecosystem-based and weakly related diversification.

Keywords: Corporate diversification, Diversification type, Firm valuation, Tobin's Q, Technology firms

1. Introduction

Whether diversification raises or destroys firm value remains contested. A diversification discount was documented in [1], whereas others argued that diversification built on core competences creates a premium [2]. Recent research suggests that outcomes depend on internal capital allocation, financing conditions and the relatedness of businesses [3-5].

Diversification research has long moved beyond the simple question of whether diversified firms trade at a discount or a premium. The early evidence of a diversification discount was followed by work showing that the valuation effect depends on how diversification is pursued; specifically, whether it builds on core competences and related resources, and whether internal capital markets allocate funds efficiently across segments. This shift from an average effect to a contingency view means that firm-specific diversification paths matter, and that coarse diversification measures may obscure the mechanisms through which diversification affects value.

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The debate is particularly relevant to technology firms, where high research and development (R&D) spending, rapid technological change and shared platforms may connect businesses through common technology, channels and users [6, 7]. These features distinguish ecosystem-based expansion from less related diversification. Large-sample studies identify broad patterns but offer less detail on how firms' different diversification paths relate to valuation.

This study examines Xiaomi Group (01810.HK) and Lenovo Group (00992.HK) from 2020 to 2025. Xiaomi's businesses are organized around a smart ecosystem, whereas Lenovo's Intelligent Devices Group (IDG), Infrastructure Solutions Group (ISG) and Solutions and Services Group (SSG) serve different markets and customer groups. Lenovo's fiscal years are matched to Xiaomi's calendar years as FY t/(t+1). Diversification is measured by the revenue share of the largest segment (RSL). Valuation is measured by Tobin's Q, with the price-to-book ratio (PB) used as a robustness check.

2. Literature review

2.1. Conglomerate discount

Whether diversification enhances or undermines firm value is a classic debate in corporate strategy and corporate finance. The notion of a "diversification discount" was first formalized using Tobin's Q as a measure of corporate value, which showed that diversified firms had systematically lower Q values than specialized firms. The proposed mechanism is that expansion spreads resources thin, raises coordination and agency costs, and lowers investor expectations—a mechanism elaborated further in the theoretical framework. This discount effect was identified by comparing the sum of the stand-alone valuations of each segment with the firm's actual market value [8].

Research conducted after 2020 began to re-examine this conclusion. A new method that does not rely on comparable companies for a single business found that the Q values of each division of diversified firms differed significantly, and that this difference could be explained by the covariance structure within the group and by the internal capital market's ability to buffer external financing frictions. This implies that the discount is not an inherent attribute of diversification but rather a reflection of the efficiency of internal capital allocation. This efficiency has further been shown to be cyclical, while the degree of discount is highly dependent on the research design [9].

2.2. Diversification premium

Some research proposed an opposite logic based on core capabilities: when diversification is built upon the related extensions of core capabilities, enterprises can create additional value through technology sharing, brand reuse and channel collaboration, forming a diversification premium; the key to success lies in "relevance" rather than the degree of diversification.

The literature after 2020 focused on the conditions for the establishment of the premium. Whether the premium holds were found to depend on external institutions and financing environments [10]. Platform-type technological innovation was found to significantly enhance enterprise value. An analysis of small and medium-sized technology enterprises showed that the effect of R&D investment on performance has a significant lag period [7, 11].

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2.3. Diversification in technology firms

There are three differences between technology firms and traditional manufacturers in terms of diversification logic: higher R&D intensity (usually above 5% of revenue), faster technological iterations, which help to diversify and reduce risks in technological routes; and ecosystem strategies that involve deep coupling between businesses and user sharing, which is fundamentally different from financial diversification.

These characteristics have been confirmed in recent organizational and strategic research. A longitudinal case study shows that enterprises create non-generic complementarities through the mutual adaptation of product activities and ecosystem activities [6], achieving the transformation from product systems to ecosystems. It has been found that information technology could reduce coordination costs during the diversification process [12]. At the measurement level, it has been cautioned that Tobin's Q is mechanically affected by debt levels [13].

3. Theoretical framework and hypothesis development

The hypotheses of this study are derived from four core theoretical perspectives drawn from the corporate strategy and finance literatures. Among them, agency theory and managerial complexity theory provide the conceptual foundation for the diversification discount hypothesis (H1): the former posits that managerial self-interest and empire-building motivations can lead to value-destroying diversification investments, while the latter argues that managing a portfolio of unrelated businesses imposes cognitive and coordination costs that erode firm value over time. Conversely, the resource-based view and Synergy theory provide the theoretical basis for the diversification premium hypothesis (H2): the former suggests that firms leveraging unique, valuable, and difficult-to-imitate resources across business segments can create sustainable competitive advantages, while the latter contends that strategic relatedness among businesses generates complementary benefits and operational efficiencies that enhance overall firm performance.

3.1. Theoretical foundations of the discount: agency theory

Agency theory states that the interests of management and shareholders are not entirely aligned [14]. Management may, driven by the "empire-building" motivation, promote excessive diversification and invest in projects with negative net present value, thereby increasing agency costs and lowering valuation. Some researchers have noted discounted allocation efficiency in internal capital markets but have not considered the reallocation differences between internal and external markets.

3.2. Theoretical foundations of the premium: resource-based view

The resource-based view suggests that if a company possesses valuable and hard-to-replace resources, it usually enjoys a competitive advantage in the market [15]. When a company can diversify based on those resources, it can expand its technical capabilities, brand reputation and key relationships into new areas at a relatively low cost. The benefits may also depend on external and internal governance mechanisms.

3.3. Hypothesis development

Based on the above theories, this study proposes two competing hypotheses.

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H1 (diversification discount hypothesis): The higher the degree of diversification, the lower the enterprise valuation. The theoretical basis for this is Agency Theory and Managerial Complexity Theory. In terms of cases, this corresponds to Lenovo Group—its three business groups, IDG, ISG and SSG target different customer groups and sales channels, and the coordination difficulty is high, with prominent agency issues.

H2 (diversification premium hypothesis): The higher the degree of diversification, the higher the enterprise valuation. The theoretical basis for this is the resource-based view and synergy theory. In terms of cases, this corresponds to Xiaomi Group—it diversifies around the "Intelligent Ecosystem", with each business sharing technology, channels and users, and the synergy effect is significant.

4. Research design

4.1. Sample selection and variable definitions

This study selected two technology enterprises listed on the Hong Kong Stock Exchange, Xiaomi Group (01810.HK) and Lenovo Group (00992.HK), as the samples. The sample period spans 2020–2025, thereby providing a six-year window to observe changes.

The dependent variable is firm valuation, measured by Tobin's Q and PB in two separate models. There are differences between Tobin's Q and PB: Tobin's Q considers the overall value of a company's assets, whereas PB focuses on shareholders' equity [13]. The independent variable is the degree of diversification, denoted as RSL, calculated as the largest business segment's revenue divided by total revenue. A lower RSL indicates a higher degree of diversification.

Table 1 summarizes the variable definitions.

Table 1. Variable definitions

Variable	Definition
RSL	Largest business segment's revenue ÷ total group revenue × 100%; a lower RSL indicates greater diversification
Tobin's Q	(Year-end market capitalization + year-end total liabilities) ÷ year-end total assets (dependent variable, Model 1)
PB	Year-end market capitalization ÷ year-end net assets (dependent variable, Model 2)
Size	ln (year-end total assets); controls for firm size
Lev	Year-end total liabilities ÷ year-end total assets; controls for capital structure
RD	Annual R&D expenditure ÷ operating income × 100%; controls for R&D intensity
Firm	Dummy variable: Xiaomi = 1, Lenovo = 0; distinguishes the two firms

In the model, the control variables are size, leverage and R&D expenditure; Firm is a dummy variable used to control for firm fixed effects and separate the net impact of diversification types on valuation.

4.2. Model specification

This study estimates two OLS regression models. Model 1 takes Tobin's Q as the dependent variable, while Model 2 takes PB as the dependent variable.

The use of two dependent variables serves as a robustness check. The introduction of the Firm dummy variable aims to isolate the net impact of diversification type on valuation after controlling

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for the degree of diversification. Controlling for firm size, capital structure and R&D investment aims to identify the effect of the diversification strategy itself.

5. Results

5.1. Descriptive statistics

Table 2 presents the mean, standard deviation, minimum and maximum values for each variable of the two companies. From the table, notable differences between the two firms can be observed.

Table 2. Descriptive statistics

Variable	Mean	SD	Min	Max	Mean	SD	Min	Max
RSL (%)	56.0883	8.4412	40.7600	63.6300	79.7783	7.3914	70.8800	89.5600
Tobin's Q	2.1504	0.7029	1.3653	3.2855	1.1848	0.0704	1.1008	1.2898
PB	3.3413	1.4602	1.6942	5.6751	2.3964	0.5958	1.6489	3.1491
Size	12.7142	0.2627	12.4438	13.1384	10.6722	0.1541	10.5451	10.9531
Lev	0.5026	0.0256	0.4738	0.5308	0.8622	0.0247	0.8431	0.9050
RD (%)	5.7289	1.5210	3.7647	7.2383	3.2975	0.4420	2.8945	4.0447

Note. Columns 2–5 report Xiaomi Group (n = 6) and columns 6–9 report Lenovo Group (n = 6).

Xiaomi's mean RSL was 56.09%, which is 23.69 percentage points lower than Lenovo's 79.78%. Xiaomi's average Tobin's Q was 2.1504, compared with 1.1848 for Lenovo—a difference of approximately 81.5%. Xiaomi's Tobin's Q exhibits considerable variation (SD 0.7029; range 1.3653–3.2855), whereas Lenovo's remains within a narrow band of 1.1008–1.2898 (SD 0.0704), close to unity, alongside Lenovo's high leverage of 0.8622.

The difference between the two firms is also apparent in the PB model, with mean values of 3.3413 for Xiaomi and 2.3964 for Lenovo. As discussed earlier, PB reflects equity value more directly, while Tobin's Q incorporates creditors' claims as well; this distinction may amplify the observed differences given the disparity in leverage.

5.2. Regression results

Table 3. Regression results (model 1: Tobin's Q)

Variable	Coefficient	Std. Error	t	p	95% CI
Intercept	15.7359	17.0249	0.9243	0.3910	[−25.9224, 57.3943]
RSL	−0.0926	0.0545	−1.6985	0.1403	[−0.2260, 0.0408]
Size	−1.9913	1.7617	−1.1303	0.3015	[−6.3020, 2.3195]
Lev	16.8910	10.7015	1.5784	0.1656	[−9.2946, 43.0766]
RD	−0.1443	0.1848	−0.7812	0.4644	[−0.5964, 0.3078]
Firm	9.2629	5.5710	1.6627	0.1474	[−4.3690, 22.8947]

Note. n = 12; R^2 = 0.7389; adjusted R^2 = 0.5213; F = 3.3953 (p = 0.0844). * p < 0.10.

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Table 4. Regression results (model 2: PB)

Variable	Coefficient	Std. Error	t	p	95% CI
Intercept	30.3926	37.2081	0.8168	0.4452	[−60.6523, 121.4375]
RSL	−0.1906	0.1191	−1.5997	0.1608	[−0.4821, 0.1009]
Size	−4.8517	3.8503	−1.2601	0.2544	[−14.2729, 4.5696]
Lev	45.7394*	23.3883	1.9557	0.0983	[−11.4896, 102.9684]
RD	−0.1360	0.4038	−0.3368	0.7477	[−1.1241, 0.8521]
Firm	23.1148	12.1756	1.8985	0.1064	[−6.6778, 52.9074]

Note. n = 12; R^2 = 0.5633; adjusted R^2 = 0.1993; F = 1.5478 (p = 0.3032). * p < 0.10.

Table 3 reports the regression results for Model 1, where the dependent variable is Tobin's Q. The coefficient of RSL is −0.0926 (p = 0.1403). A negative coefficient indicates that a lower RSL—that is, a more diversified business portfolio—is associated with a higher firm valuation. In terms of hypothesis testing, this direction is consistent with H2 (the diversification premium hypothesis) and inconsistent with H1 (the diversification discount hypothesis). However, the p-value for RSL does not reach the 10% significance level, and the confidence interval includes zero; therefore, this result constitutes directional evidence rather than confirmation of H2. At the model level, the regression is jointly significant at the 10% level (F = 3.3953, p = 0.0844) and explains 73.9% of the variation in Tobin's Q (adjusted R^2 = 0.5213).

Table 4 reports the regression results for Model 2, where the dependent variable is PB. The coefficient of RSL is −0.1906 (p = 0.1608). The coefficient is negative, consistent with Model 1, and its absolute value is approximately twice as large as that in Model 1. However, Model 2 is also insignificant (F = 1.5478, p = 0.3032, adjusted R^2 = 0.1993), so the result is directional only. Because Model 2 employs a different dependent variable, it is best interpreted as a robustness check on Model 1 rather than as an independent test.

The firm dummy variable is positive in both models, with coefficients of 9.2629 in Model 1 (p = 0.1474) and 23.1148 in Model 2 (p = 0.1064). Although neither reaches statistical significance at the 5% level, the results suggest a higher valuation for Xiaomi than for Lenovo after controlling for diversification, size, leverage and R&D intensity. This may partly reflect differences in diversification strategy, as Xiaomi's businesses are more closely connected through its smart ecosystem, while Lenovo operates across less related customer segments. However, with only two firms, the dummy also captures other firm-specific differences and cannot be treated as a pure diversification effect. This is broadly consistent with [4] and [7].

Leverage is positive in both models but reaches significance only in the PB model (coefficient = 45.7394, p = 0.0983). Since Tobin's Q is influenced by both leverage and PB, Lenovo's high leverage (0.8622) may also pull its Tobin's Q toward unity when PB exceeds one. The positive leverage coefficient should therefore not be interpreted as evidence that debt directly increases firm value. Firm size and R&D intensity are insignificant in both models.

5.3. Annual trends and figures

Table 5 reports annual RSL, PB and Tobin's Q, and Figures 1–3 are drawn from RSL, PB and Tobin's Q.

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Table 5. Annual RSL, PB and Tobin's Q, 2020–2025

Year	Lenovo FY	Xiaomi RSL (%)	Lenovo RSL (%)	Xiaomi Tobin's Q	Lenovo Tobin's Q	Xiaomi PB	Lenovo PB
2020	FY2020/21	61.90	89.56	3.2855	1.2042	5.6751	3.1491
2021	FY2021/22	63.63	86.99	1.8493	1.1896	2.8101	2.5647
2022	FY2022/23	59.71	79.70	1.3653	1.1008	1.6942	1.6489
2023	FY2023/24	58.11	78.43	1.5870	1.2898	2.1587	2.8469
2024	FY2024/25	52.42	73.11	2.5197	1.2136	4.2381	2.4187
2025	FY2025/26	40.76	70.88	2.2956	1.1108	3.4717	1.7500

Note. The fiscal year of Lenovo ends on March 31 of the following year. For example, FY2020/21 corresponds to the period from April 2020 to March 2021.

Xiaomi's RSL fell from 61.90% in 2020 to 40.76% in 2025, a substantial decrease over the six-year period. The trend rose slightly in 2021 before declining steadily over the next four years. Xiaomi's Tobin's Q fell from 3.2855 in 2020 to a low of 1.3653 in 2022, before recovering to 2.2956 in 2025; throughout the 2020–2025 period, Xiaomi's Tobin's Q exceeded Lenovo's in every year. The PB metric exhibited a similar pattern, declining from 5.6751 to a trough of 1.6942 in 2022 before recovering to 3.4717.

Lenovo's RSL fell from 89.56% to 70.88%, a decline of 18.68 percentage points, remaining above 70% throughout the period and indicating persistently high concentration. Its Tobin's Q never left the narrow band of 1.1008–1.2898, staying close to unity, while its PB drifted down from 3.1491 to a trough of 1.6489 in 2022 before rising slightly to 1.7500 in 2025.

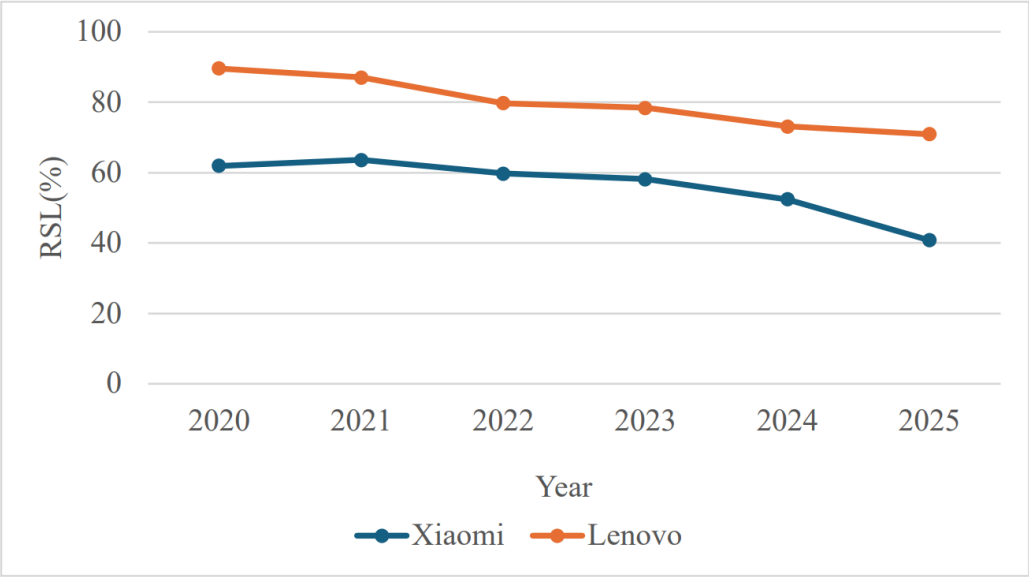


Figure 1. Comparison of RSL trends between Xiaomi and Lenovo, 2020–2025

Data from: Xiaomi and Lenovo annual reports

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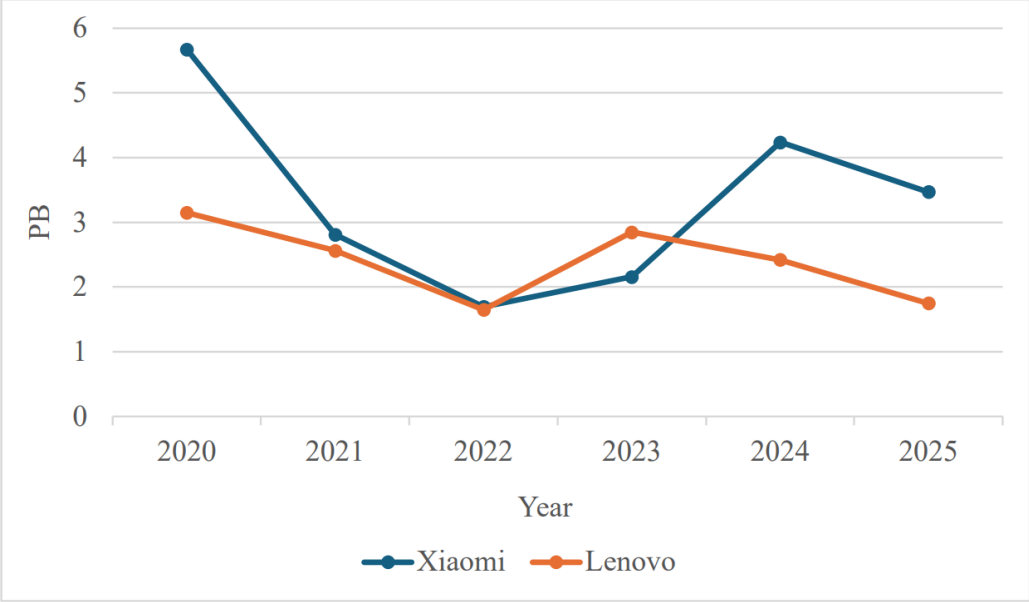


Figure 2. Comparison of PB trends between Xiaomi and Lenovo, 2020–2025

Data from: Xiaomi and Lenovo annual reports

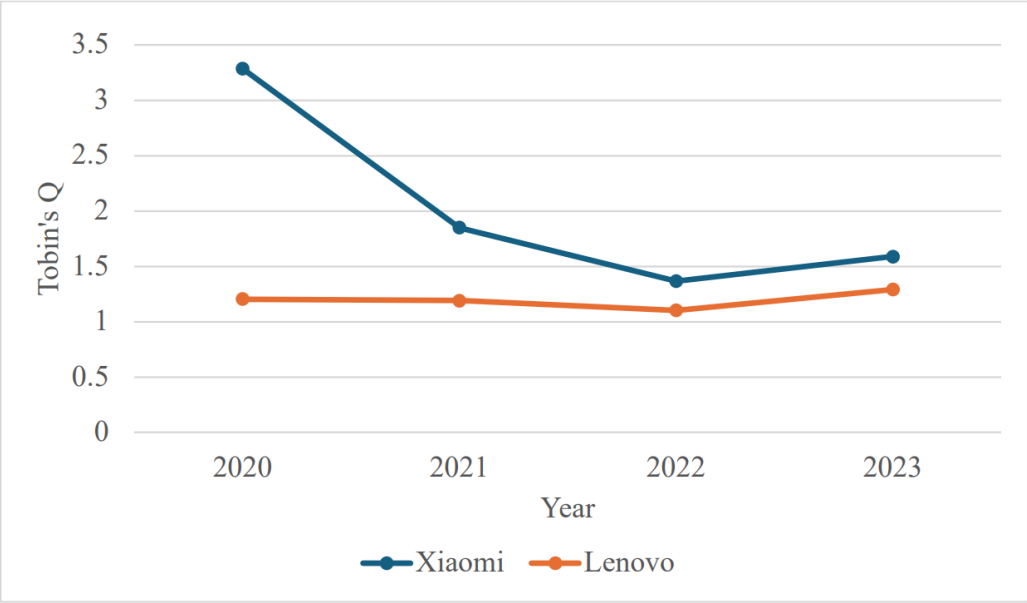


Figure 3. Comparison of Tobin's Q trends between Xiaomi and Lenovo, 2020–2025

Data from: Xiaomi and Lenovo annual reports

6. Discussion

6.1. Relationship between diversification and valuation

The RSL coefficient is negative in both specifications, indicating that greater diversification (i.e., lower RSL) is associated with higher firm valuation. This direction is consistent with H2 and inconsistent with H1. Neither coefficient is individually significant at the 10% level, and both

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confidence intervals include zero. The Tobin's Q specification is, however, jointly significant at the 10% level ($F = 3.3953$, $p = 0.0844$) with an adjusted R^2 of 0.5213, whereas the PB specification is not ($F = 1.5478$, $p = 0.3032$, adjusted $R^2 = 0.1993$). With only 12 observations and 6 degrees of freedom, the statistical power is limited; accordingly, the discussion below is confined to directional patterns.

This result does not necessarily conflict with the classic discount hypothesis. The discount has been attributed to resource dispersion and inefficient internal capital markets; using the divisional valuation approach, the level of divisional Q of diversified enterprises was found to depend on the efficiency of the internal capital market and external financing constraints, and this efficiency has further been shown to exhibit cyclical patterns [5]. The discount or premium is not a fixed attribute of diversification but depends on the industry environment, diversification path and governance mechanisms.

6.2. Xiaomi: related diversification and valuation premium

Xiaomi exhibits a pattern consistent with a valuation premium arising from related diversification. Its RSL fell from 61.90% in 2020 to 40.76% in 2025, with an acceleration after the smart electric vehicle segment was added in 2024. Smartphones, IoT and lifestyle products, internet services and automobiles all revolve around a single "smart ecosystem", sharing HyperOS, Xiaomi Home retail channels and a common user base. Diversification built on core competences has been shown to generate superior performance [2], a conclusion also supported by [4].

The valuation data confirm this logic. Xiaomi's Tobin's Q bottomed at 1.3653 in 2022 before rebounding to 2.5197 in 2024 and 2.2956 in 2025, exceeding Lenovo's in every year of the sample. Two caveats are worth noting. First, this two-case comparison cannot establish that related diversification caused the valuation recovery. Second, the effect of R&D may be lagged: Xiaomi's R&D intensity ranged from 3.76% to 7.24% over the sample period, and prior research has shown that R&D affects market value with a delay—consistent with the insignificant RD coefficient in models ($p = 0.7477$). Platform-based technological innovation has similarly been linked to higher firm value [7, 11].

6.3. Lenovo: weakly related diversification and valuation discount

Lenovo's profile is closer to the classic discount scenario: RSL decreased from 89.56% to 70.88%, a decline of 18.68 percentage points that is smaller than Xiaomi's and remained above 70% throughout, indicating that concentration remained high. Its Tobin's Q never left the narrow band of 1.10–1.29 and stayed close to unity, while PB fell from 3.1491 to 1.7500.

IDG, ISG and SSG target largely different customers and channels with limited scope for technology sharing and channel reuse—characterizing weakly related diversification. The findings suggest that the lower the correlation between businesses, the more visible the discount may become. In contrast, Lenovo's R&D intensity remained around 3% throughout the period, suggesting limited technological synergy and value creation through diversification.

6.4. Research limitations and future directions

The study has clear limitations. It uses only six years of data and compares only two companies, yielding just 12 observations. The adjusted R^2 is 0.5213, but the F test in Model 2 is not significant. Therefore, the findings are only suggestive. In addition, it remains an open question, given the

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limited sample, whether a meaningful comparison can be made between the two companies. The tests in this study do not address endogeneity; they merely describe the differences between the two technology companies. Moreover, due to differences in fiscal year definitions and changes in Lenovo's reporting scope in its 2024 annual report, some comparisons are subject to uncertainty.

Future research could employ panel data models to expand the sample to more listed technology companies, introduce entropy indices alongside RSL, and subdivide diversification into technology, market and channel dimensions to identify the causal mechanisms linking diversification to valuation.

7. Conclusion

This study examined whether the degree or type of diversification better explains the valuation difference between Xiaomi and Lenovo, two technology companies listed on the Hong Kong Stock Exchange. RSL has negative coefficients in both the Tobin's Q model (−0.0926) and the PB model (−0.1906), indicating that greater diversification is associated with higher valuation in the direction predicted by H2. The Firm dummy variable is positive in both models (9.2629 and 23.1148, respectively), suggesting that Xiaomi commands a valuation premium over Lenovo after controlling for diversification and other factors. However, none of these coefficients reaches statistical significance at the 10% level.

Xiaomi's average Tobin's Q was 2.1504 compared with 1.1848 for Lenovo, and it exceeded Lenovo's in every sample year. Xiaomi's RSL dropped by over 21 percentage points over the six-year period, while its Tobin's Q followed a U-shaped pattern, declining to a low in 2022 before recovering. These patterns are broadly consistent with the notion that ecosystem-based diversification may be associated with a valuation premium, but they do not establish a causal link between diversification type and valuation.

The findings lend support to the view that diversification can create value under certain conditions: related resource and ecosystem strategies, together with effective capital reallocation, may be important. For technology managers, this suggests evaluating opportunities to share technology, channels and users, maintaining R&D investment while allowing for delayed returns, and weighing the costs of expanding into weakly correlated businesses.

One limitation is that the valuation ratios may be influenced by differences in capital structure. Lenovo's fiscal year end differs from Xiaomi's calendar year, which means that the results cannot fully rule out endogeneity concerns. Future research could examine a larger set of technology companies in Chinese and Hong Kong markets, employ matched control designs, use segment-level measures of diversification relatedness, and apply methods that address self-selection and endogeneity.

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