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Insights from the new conglomerates

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Abstract Managers must reconsider their preconceptions about conglomerates, or multi-industry firms as they are now often called, because today's examples have much to teach us about successful corporate strategy. We examined the strategies of the largest conglomerates that have, for a sustained period, practiced the form. Four archetypes are available to managers for adding value to a broad portfolio of businesses. In top-performing firms, the bewildering diversity of end products can blind the casual observer to the intense focus of headquarters and the tight cohesion among the head office, the businesses, and the environment.

1. Investigating the conglomerate

The conglomerate, when it is not being completely ignored in the business and academic presses, is derided as an artifact of old thinking. Because of the high costs of organization, the rationale declares, the widely diversified, multi-industry firm is doomed to destroy value for shareholders. Yet, any organization that has been able to master the undeniable challenges of managing such disparate operations offers the chance to uncover insights about what works (and what does not) in corporate strategy. We identified four successful conglomerate archetypes.

In undertaking our analysis, we found that a simple framework facilitated understanding the corporate strategies and the manner in which they were put into action. Corporate strategy is practiced along three dimensions. First, headquarters functions to influence the structure of, and the horizontal relationships within, the portfolio of businesses, including the creation of practices, rules, and regulations. Secondly, headquarters often houses common resources, such as legal and tax advice or merger—and—acquisition expertise, that are shared by the businesses in a vertical relationship. Finally, managing the changing contents of the portfolio forms the third dimension of corporate strategy. The key activities of head office include acquisitions, the internal creation of new businesses, restructuring, and divestiture.

We discovered that each of the sustainable conglomerate strategies was aimed at different

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value-adding goals and achieved cohesion along the three dimensions in different ways. Moreover, firms were configured to reach into their environments through contrasting means, seizing disparate opportunities. One of the central identities of strategic management is plainly in evidence among top-performing conglomerates: a "fit" is achieved between the corporate level and its businesses, as well as between the organization and its environment. However, the real story is how the cohesion was achieved, through the archetypes devised by managers to marry organization with opportunities. We were anxious to find out what corporate managers could possibly be doing to add value to such disparate sets of businesses.

The sources and profile of our data were closely controlled in two ways. First, we examined the list of widely diversified companies, called "multi-industry firms," contained in the Business Week Global 1000. The Global 1000 list was published in identical form from 1988 to 2000, representing the previous fiscal years. The group of companies reflects the assessments of conglomerates common to both practitioners and academics, with all firms exhibiting high business diversity and low levels of relatedness in the portfolio. Our focus group includes some of the world's largest companies, as measured by market capitalization. Second, we chose to look only at companies that were classified as multi-industry firms for five or more years, because of the costs of business diversity and the lack of opportunities for synergies. The use of the group allowed us to isolate entities with a sustained commitment to unrelated diversification. As well, we could eliminate the possibility that companies enjoyed short periods of high performance before the costs of bureaucracy set in.

Exactly 100 multi-industry firms appeared on the Global 1000 list between 1988 and 2000. However, 59 of the firms did not remain as multi-industry firms for at least five continuous years, leaving 41 companies for examination. Of these, most of the firms were long-lived conglomerates. Only four firms occupied the list for the minimum five years, while 24 firms remained for eight or more years and seven were there for all 13. The group represents home bases in eleven different countries; however, our focus was trained most consistently on firms based in the United States and Great Britain, because they face the most vigorous competitive landscape and markets for corporate control. Table 1 presents the set of conglomerates, called "multi-industry firms," found in the Global 1000.

2. Corporate strategies and business environment

Five basic types of corporate strategies were identified in the firms we studied, with four of them linked to at least the possibility of sustained high performance. The five strategies included the *propagation strategy*, which, as the name implies, is directed to supporting the creation of new products and businesses. *Restructuring strategies* guide the purchase and rationalization of under-performing firms, sometimes regardless of industry (See Michael Porter's (1987) article for a description of restructuring, as well as a discussion of skills transfer and activities sharing as the basis of successful corporate strategy.). The *accretion strategy* is aimed at building mass, and often an international presence, in selected fragmented industries. Mixed strategies were also identified, successfully combining propagation, accretion, and restructuring strategies, as well as subsets of the available archetypes. Finally, the *portfolio strategy* involves the purchase, possession, and divestiture of businesses as long-term investments (sometimes, as at Loews, after short periods of restructuring or accretion). Table 2 outlines the general characteristics of the five conglomerate strategies, which are more fully examined below.

2.1. Portfolio strategy

The portfolio strategy, the unpromising member of the group, will be described and disposed of first. The portfolio strategy makes primary reliance on the risk-reducing properties of holding a portfolio of businesses. The strategy, however, seeks benefits that can be more cheaply gained by individual investors, who do not have to pay premiums for acquisitions and who do not bear the costs of organization. Ownership can be partial or full, with the former only making more plain the financial orientation of the strategy. Indeed, many of the firms practicing the portfolio strategy either in its pure form or as the predominant part of a restructuring or accretion strategy contained large banking or insurance divisions. This was especially the case in the less competitive, highly regulated markets in Europe during the 1980s and early 1990s. As well, examples can be found in firms with a controlling group of shares held by the family of the