

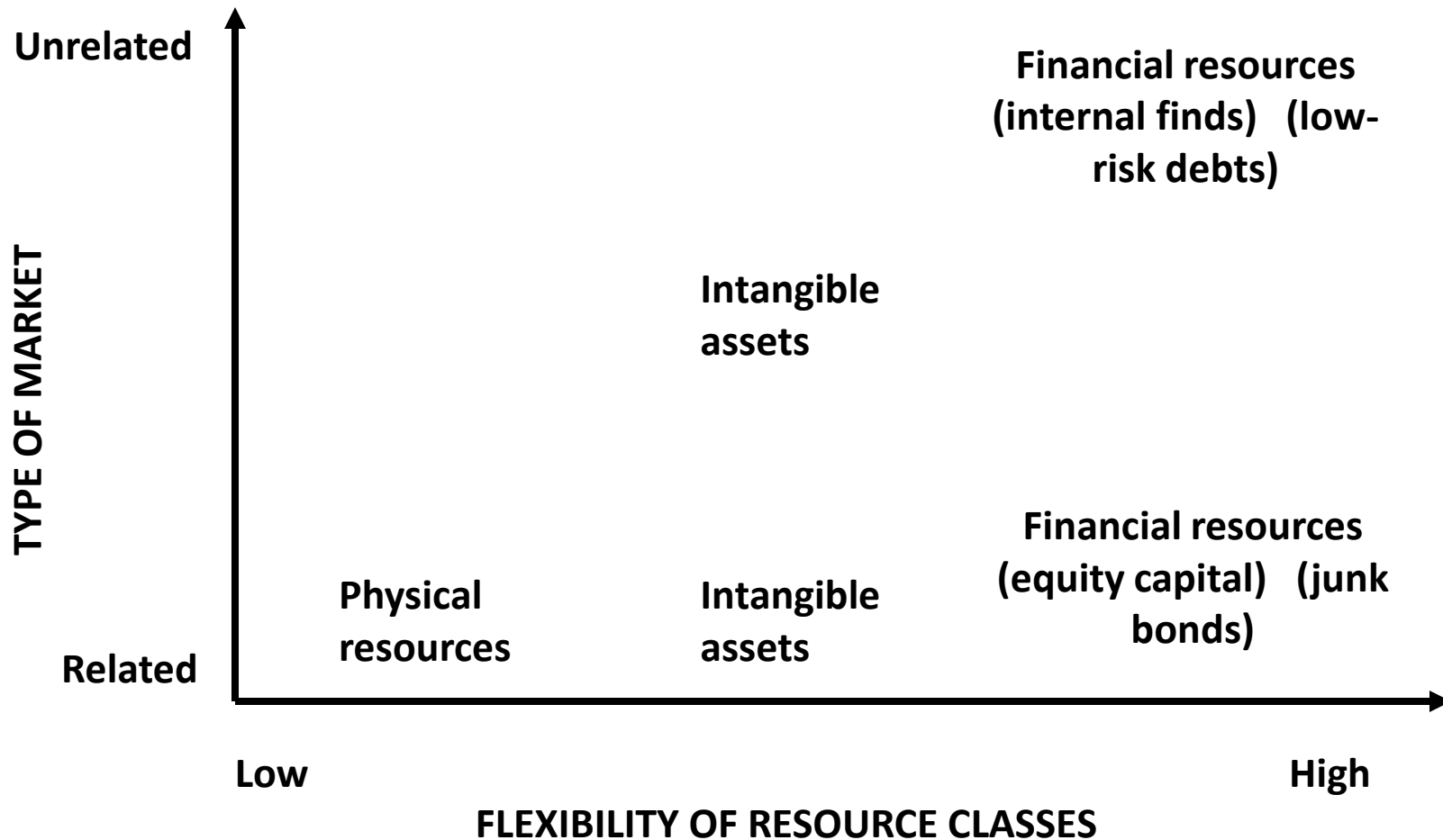
Unrelated Diversification

- Why do conglomerates exist
- Do they add value to their component businesses?
- If so, how?

- Nirma \Rightarrow Cements Business & Education
- Indo Rama Synthetics getting into the food and grocery business
- Patel Roadways already runs an offshore hedge fund, aptly named Wall Street Global Investment Opportunities Fund
- DLF Ltd, steel producer Ispat Ltd and Ahmedabad-based trading major, the Adani Group — applying for trading licenses for power

- Amrit Banaspati's its foray into language education
- ITC \Rightarrow branded apparel, IT, packaged foods and greeting cards
- Reliance Industries \Rightarrow Herbal; Life Science/ Biotech sector
- Anchor's successful entry into the toothpaste market
- Electrical cable manufacturer Nicco Corporation's Rs 15 crore investment in its bio-technology subsidiary

- Adhesive manufacturer Pidilite Industries launching a sweet snack under the Chickers brand
- footwear manufacturer Action's new healthcare facility
- Eveready \Rightarrow packaged tea under the Jago, Tez and Premium Gold brands; Poweron mosquito repellent coil and CFL lamps
- *** \Rightarrow Software in early 2000
- *** \Rightarrow Financial services in 1990's



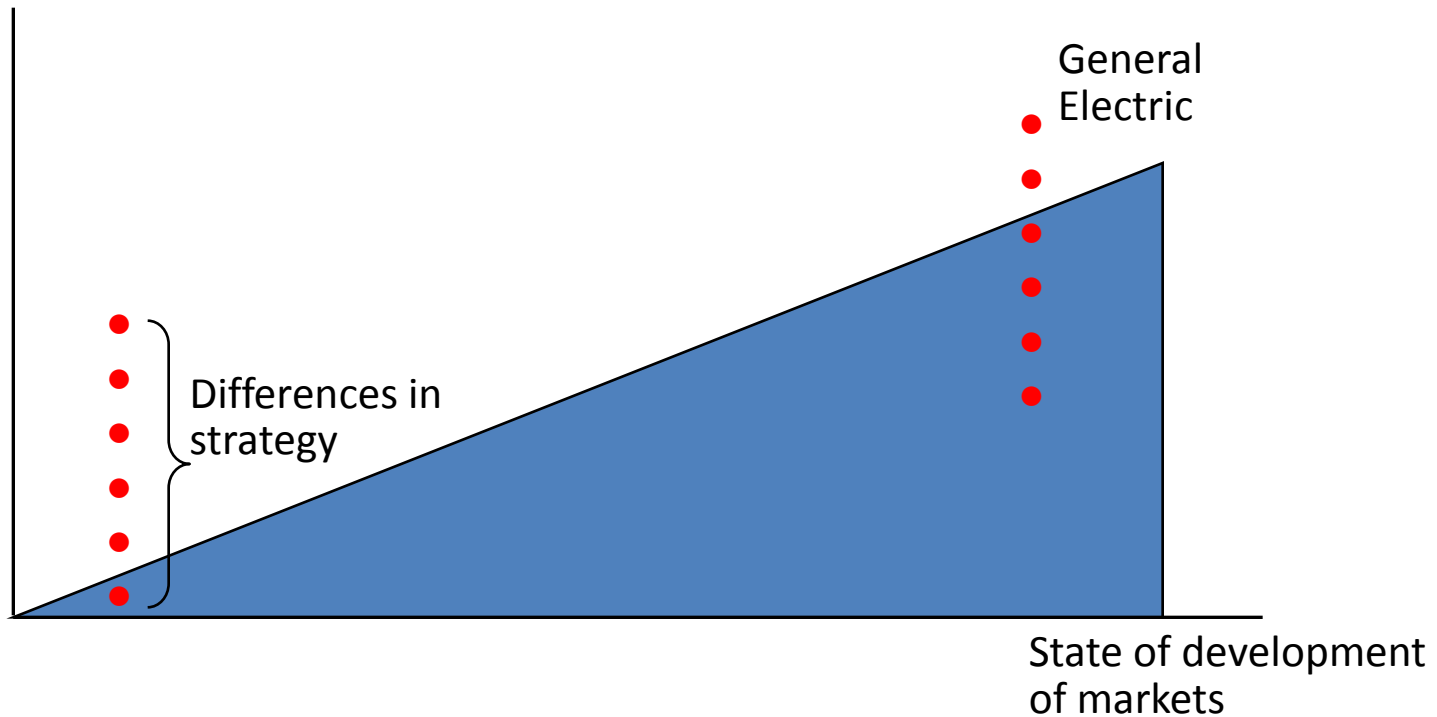
Some Facts – a Bad Picture

- The diversification discount

- Mechanisms for coordination
- Efficient market allocate resources well and investors can diversify their risks
- Empire building tendencies – failures of performance

Conglomerate Performance Context and Strategy

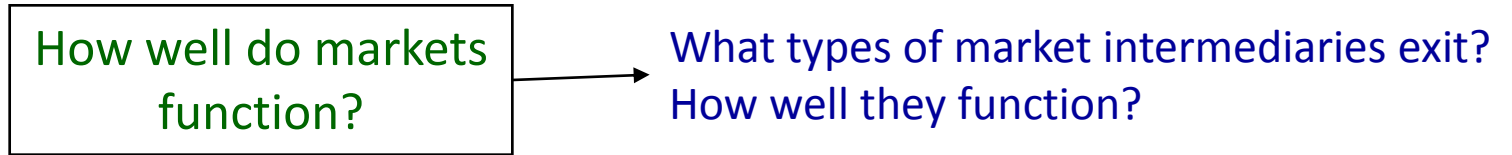
Performance



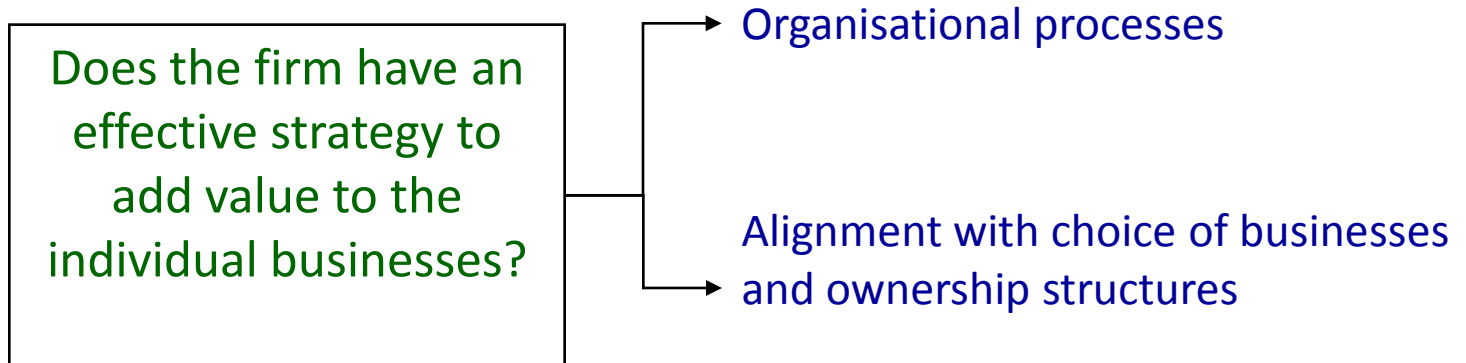
Unrelated Diversification

Can Conglomerates Add Value?

Context



Strategy



- **Beatric Corporation**
 - Internal capital market & cross subsidy
- **Private Equity Firms**
 - LBO by private equity firms
- **Business groups**
 - Group brands

Present day conglomerates

- How do firms add value in the presence of efficient markets?
 - Alignment of organisational processes with choice of businesses
 - Alignment of initiatives with each other
 - Alignment with ownership structures