
PERFORMANCE IN THE CONTEMPORARY CONGLOMERATE

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ABSTRACT

The performance of conglomerates or multi-industry firms, corporations composed of unrelated businesses, presents a paradox to researchers in strategic management. On one hand, the preponderance of the empirical research, beginning with Richard Rumelt's ground-breaking study, Strategy, Structure and Economic Performance, and including dozens of follow-up papers, has found a negative relationship between unrelated diversification and firm performance. On the other hand, a number of multi-industry firms, perhaps General Electric and 3M first among them, are frequently held out as examples of the best-managed companies in the world. We fill a gap in our knowledge of contemporary conglomerates by assessing their performance over a twelve-year period. The burdens of size, complexity and bureaucracy in long-lived multi-industry firms were anticipated to result in below-average performance. Instead, our findings clearly identified a group of firms that out-performed performance referents like Business Week's Global 1000 medians, means, top-quartile measures, and the mean of the market-to-book ratio. Most surprisingly, nearly all of the successful firms were based either in the United States or in Great Britain, strongly suggesting that select organizations are able to meet and exceed the undeniable managerial demands of the conglomerate firm, rather than rely on protected or lax markets.

THE CONGLOMERATE PARADOX

The conglomerate- a corporation composed of unrelated businesses- evokes memories of decades past, a way of managing large firms which is now largely discredited. Indeed, if the conglomerate receives any attention today, it is most often held up strictly as an example of how not to arrange the holdings of large firms. The reasons for derision are legion. They begin with the massive number of studies of the relationship between diversification and performance, beginning with Rumelt (1974) and reviewed in Ramanujam and Varadarajan (1989), Hoskisson and Hitt (1990) and Datta et. al. (1991), the preponderance of which found a negative relationship between unrelated diversification and performance. Reasons also include the limited ability of top management to generate value from the relationships among divisions; the difficulty of interested observers, such as analysts and shareholders, to understand the complex operations and performance of firms; and the often destructive empire-building that has motivated the CEO's of some conglomerates. This

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list also includes companies like TI Group and 3M, whose corporate strategy emphasized innovation and organic growth. Something unexpected has been going on- and continues- with the contemporary conglomerates. A more systematic examination of their strategies offers potentially valuable insights into an under-researched area of corporate strategy. Just as clearly, then, a research agenda has also been set out.

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