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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.
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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

Table 1 Multi-industry firms

Company name	Home country	"Multi-industry firm" in Global 1000	Total sales ($mil.)	Total assets ($mil.)	Market value ($mil.)
CSR	Australia	1988—1997	5932	4663	3703
Pacific Dunlop	Australia	1988—1994	4760	4653	3578
General de Belgique	Belgium	1988—1998	160 901	NA	12 112
Groupe Bruxelles Lambert	Belgium	1988—1995, 1997—2000	5629	NA	5846
Tractabel	Belgium	1988—1997	18 824	9779	6130
B.A.T. Industries	Great Britain	1992—1998	83 440	24 175	27 951
BET	Great Britain	1988—1992	3266	4888	1951
BTR	Great Britain	1988—1998	12 524	13 194	10 915
Grand Metropolitan	Great Britain	1988—1994	14 144	12 266	13 956
Hanson Trust	Great Britain	1988—1996	36 617	17 328	14 987
Pearson	Great Britain	1988—1993	3356	2554	3745
Siebe	Great Britain	1992—1996	4034	3325	6193
TI Group	Great Britain	1992—1998	2275	3050	4614
Tomkins	Great Britain	1992—1998	5119	7483	6809
Canadian Pacific	Canada	1988—2000	13 566	7590	7616
Imasco	Canada	1992—1999	34 890	5813	9899
Compagnie de Navigation Mixte	France	1990—1995	8936	NA	3001
Suez Lyonnaise des Eaux	France	1991—1995, 1998	79 101	31 828	21 544
Citic Pacific	Hong Kong	1995—2000	8780	3391	10 600
Hutchison Whampoa	Hong Kong	1988—2000	48 206	7115	49 244
Jardine Matheson Holdings	Hong Kong/Singapore	1990—1997	14 285	11 605	5018
Jardine Strategic Holdings	Hong Kong/Singapore	1992—1997	9501	NA	3886
Swire Pacific	Hong Kong	1988—2000	11 596	2164	8963
Montedison	Italy	1991—1992, 1994—1999	17 242	13 395	4891
Sime Darby	Malaysia	1988—1994	2822	2730	3950
Compagnie Financiere Richemont	Switzerland	1994—2000	10 417	6887	12 935
AlliedSignal	U.S.	1988—1999	15 560	15 128	32 090
Berkshire Hathaway	U.S.	1990—1998, 2000	131 416	24 028	89 131
Dover	U.S.	1995—2000	4132	4446	9440
General Electric	U.S.	1988—2000	405 200	111 630	520 247
ITT	U.S.	1988—1995	100 854	23 620	11 822
Loews	U.S.	1988—2000	69 464	15 906	6986
Minnesota Mining and Manufacturing (3M)	U.S.	1988—2000	13 896	15 659	34 055
Paramount Communications	U.S.	1989—1994	7054	4265	5165
Rockwell International	U.S.	1988—1996	12 505	12 981	12 691
Tenneco	U.S.	1988—1998	8332	7220	7061
Textron	U.S.	1988—2000	13 721	11 579	9333
TRW	U.S.	1988—1996	5890	10 172	6155
Tyco International	U.S.	1990—1991, 1995—2000	32 362	22 497	79 441
Preussag	[West] Germany	1990—2000	7829	16 667	5858
Viag	[West] Germany	1988—1996	28 217	27 690	10 230

(Source: Business Week Global 1000, 1988—2000) Size data refer to companies' most recent year as a multi-industry firm.

founding entrepreneurs (which was the case at Loews). Whatever the scenario, the narrow opportunities for value additions and the costs of the practice cause poor performance to be strongly associated with the portfolio strategy. Our findings concur with Rumelt's (1974) work and the Porter article previously mentioned, confirming that the passive portfolio strategy contributes little to our understanding of successful corporate strategy, past its avoidance.

2.2. Propagation strategy

The propagation strategy relies upon the work of corporate entrepreneurs to develop its new products and businesses. Headquarters supports this organic growth by providing strong project support and oversight, and by the creation of a culture that breeds risk-taking and forgives the inevitable failures. Over time, the portfolios of propagating firms are filled with sets of ventures resting on a broad

Table 2 Conglomerate strategy archetypes

	Propagation strategy	Restructuring strategy	Accretion strategy	Mixed strategy	Portfolio strategy
Primary activity	The successful creation of new products and, especially, new businesses	The improvement, reconfiguration, and sale of business assets	The build-up of mass in selected industries, resulting in market power and superior costs profiles	The combination of the aforementioned strategies	The construction of a diversified portfolio of businesses
Predominant growth mode	Corporate Entrepreneurship	Acquisitions	Acquisitions	Acquisitions or mixed	Acquisitions
Role of HQ	Project approval and support; human resource and research formation	Identification of takeover targets and the aims of transformation; deal negotiation; oversight of resource flows and financial goal-setting	Identification of takeover targets and the aims of transformation; deal negotiation; oversight of resource flows and financial goal-setting	Formulation and implementation of the contributing conglomerate strategies	Identification of attractive investments; deal negotiation (as applicable)
Typical portfolio of Businesses	Clusters of self-devised businesses, broadly linked by markets and underlying technology; very slow churn of the portfolio	Broad collection of businesses with generally low to medium technology intensity; very high churn rate of the portfolio	Focused collection of businesses, with generally low to medium technology intensity; high rate of disposals after acquisitions, but marked by divisional stability	Broad assortment of businesses often with the full array of technology intensities; varied churn rates	Broad assortment of businesses, with investments ranging from partial to full equity ownership
Vulnerabilities	Cost containment; Slow time to market; Slow growth profile	High sensitivity to price paid and savings projected; often ungainly portfolios with rationalization dependent on market vagaries for divestiture; difficulty maintaining growth profiles in large firms	High sensitivity to price paid and savings projected; difficulty maintaining growth profiles in large firms	Strategy implementation often requires broad and expensive resource base; implementation is complex and often difficult to understand	Portfolio management is more efficiently accomplished by individual investors; extremely narrow basis for organizational value creation; must consistently "out-guess" the market
Examples	3M	Hanson Trust; BTR	TI Group; Tyco International	General Electric	Loews

platform of research and development expertise. If successful, the central efforts in corporate entrepreneurship can provide solid barriers to competitors and good profits. However, the process takes time and money. Headquarters must strike a tricky balance by containing costs without destroying worthy projects and by speeding time-to-market without expensively rushing duds to unwilling customers. In general terms, the propagation strategy grows more slowly than strategies making use of acquisitions, but also requires less frequent rationalization of the portfolio.

2.3. Restructuring and accretion strategies

Restructuring strategies and accretion strategies exhibit similarities, but are clearly differentiated in their value-producing actions and the portfolios they produce. Similarities begin with the heavy use of acquisitions, and include required skills at the head office in target identification, due diligence, and negotiation. Growth profiles are also comparably steep for the two strategies, with pressure building to increase either the pace or proportion of acquisitions as firms grow larger. But, here end the similarities between the two strategies. The restructuring strategy is aimed at returning focus and efficiency to takeover targets, in a wide cross-section of industries. The accretion strategy, by comparison, seeks out targets in a limited number of industries, each imbued with a fragmented structure and opportunities for building international linkages. Acquisitions are carefully chosen by accretion strategists as a means for building product-line breadth and for increasing manufacturing and/or marketing efficiencies.

Table 3 The relationship among the businesses

	Propagation strategy	Restructuring strategy	Accretion strategy	Mixed strategy
• Structure	• A simple structure, ensuring divisional presence of technology platforms	• A simple, industry-based structure	• After rationalization, businesses apportioned simply in product groupings (brand name or industry)	• A simple formal structure, arranged mainly by industry and geography
• Activities sharing	• A focused set of shared services (environmental and information technology, human resources, etc.) led by R and D	• Few connections exploited among the businesses	• Clear separation of divisions, with very few shared activities	• Relatively few shared activities among divisions
• Other shared resources	• Strong culture invoked, across divisions	• Strong culture invoked, across divisions	• Strong culture invoked, across divisions	• Strong culture invoked, across divisions
	• Brand sharing across divisions • Active sharing of management talent	• Active sharing of management talent	• Active sharing of management talent	• Brand sharing across divisions • Active sharing of management talent

In short, therefore, the accretion strategy generates value by knitting together clusters of businesses exhibiting a particular profile, while the restructuring strategy pursues profits through the transformation of business assets and by their eventual sale. The portfolios of the restructuring firm are typically more diverse and are subject to many more alterations than those connected to the accretion strategy.

2.4. Mixed strategy

In using the mixed conglomerate strategy, corporate leadership combines strategies to help broaden organizational competencies and the potential for stable growth. One noteworthy fact is that comparatively few of the conglomerates we studied pursued "pure" versions of the archetypes. The mixed strategy was present in many permutations in the companies we examined, making general statements about the strategy difficult to express; however, a few characteristics were in evidence. In all cases, the mixed strategy required higher investments in people and supporting resources, and involved more challenging oversight. The mixed strategy was found in some of the largest firms and those with the longest commitment to the conglomerate form, like General Electric and AlliedSignal. Our findings also found agreement with the groundbreaking work of Goold and Campbell (1987): In top-performing firms, headquarters became adept at exerting the correct type of control over the individual businesses in the portfolio. For example, in more staid industrial businesses, financial means of control would be utilized. Conversely, in new or higher-growth businesses (especially in carefully chosen technology-based industries), broader strategic planning or strategic controls would be applied (For more background on all the conglomerate strategies, please refer to Section 2.8, entitled, "Conglomerate Strategies in Action." The descriptions found there also aid in understanding how the strategies were successfully implemented.).

3. Contingency and control from the corporate level

How did management meet the challenge of conglomeration? Successful strategy implementation was contingent on achieving widespread cohesion between headquarters and the businesses. The primary concerns were the establishment of dedicated resources at headquarters and a focused, well-defined means of interaction with the portfolio. The value-adding interaction was primarily vertical, with headquarters acting in important supporting roles.

Implementation can only be fully understood through a systematic examination of the three dimensions of corporate strategy. The strategic archetypes were implemented through attentive, syncopated control over the relationships among the businesses, the influence of headquarters, and the management of the portfolio of businesses. Through these means, the corporate archetypes were both defined and came to generate value. Tables 3—5 lay out the four major corporate strategies as they directed the relationships among the businesses, the influence of headquarters, and the contents of the corporate portfolio.

To help understand the relationships among the businesses, we include an examination of corpo-

Table 4 The influence of headquarters

	Propagation strategy	Restructuring strategy	Accretion strategy	Mixed strategy
• Resources at HQ	• Wide range of resources at HQ, attuned to strategic emphases, like goal setting, project direction, and resource control	• Small headquarters, with emphasis on M and A support and financial oversight	• Small headquarters, with key resources invested in M and A support, financial and management oversight	• Highly controlled set of resources at HQ, with key resources invested in M and A support, financial and management oversight
• Coordination and Control	• Multiple, project-oriented mechanisms for joining organizational levels	• Highly decentralized businesses; control exerted through goal-setting, remuneration, culture, and auditing; direct management only by exception	• Decentralized businesses (subject to merger with acquisitions), with main control mechanisms being goal-setting, remuneration, and auditing; direct management only by exception	• High level of autonomy at the businesses, with HQ overseeing goal-setting and mission creation, culture (through HRM), and M and A activities; direct management only by exception

rate structure, the presence of activities sharing and/or skills transfer, and the possible occurrence of other types of sharing or co-ordination (like common brand usage, human resources transfers, etc.). The influence of headquarters is examined through a look at the resources or competencies resident at headquarters and through an investigation of the means of control and co-ordination commonly exerted from there. Portfolio management focuses on the criteria deciding the content of the portfolio, the primary means by which it was built, and the nature of divestiture and restructuring.

4. The relationships among the businesses

4.1. Structure

Structure in the top-performing firms followed strategy, reflecting another of the key tenets of strategic management. In the case of 3M, the multi-divisional structure is predicated on maintaining access to technological expertise, a natural corollary of a propagation strategy. At Hanson Trust, BTR, TI Group, and General Electric, by comparison, the restructuring, accretion, and

Table 5 Portfolio management

	Propagation strategy	Restructuring strategy	Accretion strategy	Mixed strategy
• Portfolio content	• Widely diverse businesses in consumer, industrial, and international markets	• Extremely wide diversification; portfolio composed of groups of restructured assets	• Wide diversification, but tightly controlled by industry type and by the application of rigorous acquisition criteria	• Often extremely wide diversification, but tightly controlled by industry type and by the application of rigorous acquisition criteria
• Portfolio growth	• Internally created businesses, through R and D; mostly niche entities predicated on unique designs and technology	• Acquisitions the primary tool for building the portfolio	• All aspects of M and A internally controlled; organic growth can also be sought	• Balance of acquisitions and organic growth
• Divestiture and restructuring	• Presence of self-developed businesses and constant innovation within business units complicate the divestiture and restructuring processes	• Maintenance of size and growth profile (especially in large firms) and culture issues hamper the divestiture process	• Maintenance of size and growth profile (especially in large firms) and culture issues hamper the divestiture process	• Maintenance of size and growth profile (especially in large firms) and culture issues hamper the divestiture process
		• Restructuring can be impeded by the extreme separation of the businesses (if activities sharing or skills transfer are being pursued)	• Restructuring can be impeded by the extreme separation of the businesses (if activities sharing or skills transfer are being pursued)	• Restructuring can be impeded by the extreme separation of the businesses (if activities sharing or skills transfer are being pursued)

mixed strategies demanded simple divisional structures in which the complex tasks of fostering organic growth and rationalizing mergers and acquisitions can be made independently.

4.2. Activities sharing or skills transfer

The divisional structure at the firms was also closely matched to efforts in activities sharing and skills transfer. At 3M, the heavy use of cross-functional teams to undertake new product research required placing needed resources within each division, to the greatest extent possible. Moreover, creating the large number of line extensions and adapting existing products to new markets put the onus on 3M's management to engage in advanced skills and information transfer. Across divisions, operations at TI Group and General Electric, and especially at Hanson Trust and BTR, were kept much more separated. The corporate center housed key skills for building the depth and breadth of the individual divisions through acquisitions, while the businesses were largely responsible for their own operations. With few exceptions, the business units offered little opportunity for activities sharing, because of substantial differences in their capabilities and operations. All of the firms, however, focused intensely on developing top managers, making use of job rotation and other common training procedures, and on growing a strong culture open to change, innovation, and process improvement.

4.3. Other sharing/co-ordination

Indeed, in more general terms, human resource policies were adapted to support the basic premises for adding value. At 3M, policies were developed to encourage entrepreneurial risk-taking and to develop needed skills. An aggressive culture was developed at BTR that heavily rewarded successful risk-taking, driving away those who produced repeated failures or who could not work well under such conditions. At TI Group and General Electric, human resource policies were fashioned to achieve two different outcomes. Policies were designed to develop top management talent into fully seasoned managers. A major part of the training was to rotate managers through a number of different jobs. As well, the prominent use of innovation and organic growth at G.E. and, to a lesser extent, at TI Group put pressure on management to develop a culture that supported risk-taking and experimentation. Human resource policies were shaped to give incentives to successful risk takers and to develop skills throughout the firm in a targeted manner, and to a high degree of sophistication. In firms with so little that could be shared, organizational culture was actively shaped to provide a means of implementing strategy, recognizing and realizing opportunities, lending an identity to work and engendering the meaning of the organization.

5. The influence of headquarters

5.1. Resources and competencies

In top-performing firms, the intrusions of headquarters into the activities of the businesses were strictly controlled. Goal setting was front-and-center for corporate leaders, notably for connecting universal goals with the mission of the firm. Corporate management usually placed financial goals at the forefront of discussions, but closely connected them with the strategic goals intended to generate value. The example of 3M was perhaps most clear in illustrating the manner in which meeting financial goals was used to prove the worthiness of the company's strategy, but this characteristic can be found at all of the top-performing firms. The prominence of measuring financial outcomes is common to publicly held firms, but its aggressive use at the conglomerates probably best reflects the complexity of their operations and the difficulty in tracking and understanding their parts.

Headquarters also contained key shared resources, again dictated by the needs of the individual strategies. At 3M, key corporate resources included the finances and infrastructure to support the entire product development cycle, from pure science to product launch and beyond. At Hanson Trust and BTR, the key corporate tasks needing support were acquisitions, restructuring, and mergers. Headquarters thus functioned as an investment bank. After restructuring, strong financial and strategic oversights were exercised. At TI Group and General Electric, the demands of their strategies resulted in larger resource formations at headquarters, with competencies set up to support both the innovation and acquisition processes, and the wide-ranging development of management. In one prominent example, Jack Welch at G.E. declared the last task most important, devoting the greatest proportion of his time and effort to it.

5.2. Means of control/co-ordination

All of the top-performing firms accentuated the creation of a particular type of work mode and culture. As stated, 3M made long and extensive use of cross-functional, team-based projects. The multiple technological and skills platforms at 3M placed unique demands on entrepreneurs to cross bounda-

ries. Creative solutions to customers' needs drew from resources throughout the organization. The culture at 3M was therefore influenced by headquarters to be supportive, without encumbering entrepreneurs in a thicket of red tape before their ideas could be realized. Success was celebrated in multiple ways at 3M, while the debilitating effects of failure were largely eliminated. At Hanson Trust and BTR, a successful attempt was made to establish a strong, no-nonsense culture predicated on aggressive cost reduction and margin maintenance. At the same time, prominent efforts were made at BTR to cut across divisions and unite employees in charitable work of a varied nature. A strong culture was therefore created. At both TI Group and General Electric, the fundamental changes underway during the 1980s included a number of activities bent on inciting cultural transformation. At TI Group, headquarters was even moved from Birmingham to London in a calculated effort to reset the orientation of the firm. Simultaneously, remuneration and training were strengthened at both firms so that top recruits could be landed and retained. Power was also heavily decentralized, allowing managers more freedom to pursue ideas.

6. Portfolio management

6.1. Criteria for portfolio content

In terms of their strategies, all of the companies clearly communicated a vision for their portfolios that included a set of inter-linked goals, outcomes, and activities. One of the over-riding differences between the top performers and the lower performers was the depth to which corporate strategy was communicated. Strategic directions and their expected outcomes at 3M, BTR, Hanson Trust, TI Group, and G.E. were much more readily available, as was the case at the vast majority of the top performers, through company documents, its leadership, and through sources outside the company.

The over-riding logic of the corporate strategies utilized was clear and simple, designed with a long time horizon in mind. Two mechanisms were available for linking environment and organization: firms were developed to innovate and open new markets, and/or to carefully identify and act in specific industries. Firms pursuing mixed strategies sometimes chose to combine the two mechanisms.

The businesses within each division were related by common brand name, as at TI Group during the latter part of the focus period, or by industry or end markets, as was the case at 3M, Hanson Trust, BTR, and G.E. throughout the period. However, even deeper associations were in evidence within the divisions of the top-performing firms. The businesses were also connected by common developmental processes and technologies, in the example of 3M and the early histories of BTR and G.E., or were linked by similar fragmented industry structures in the businesses, as found at TI Group. Except for Hanson Trust and BTR, the businesses making up the portfolios were most often number one or two in their respective industries. In the main, the businesses offered unique products that either did not face strong, direct competition or were supported by vigorous service functions or high switching costs. Each of the top-performers expanded the international reach of their portfolios, to some degree. The efforts at G.E. and, especially, at 3M were longstanding, extending back decades into the companies' histories. But, TI Group also made great strides in opening its portfolio to global trade, making particularly effective use of its acquisitions to reach new markets and broaden its center of gravity.

6.2. Building the portfolio

The portfolio of businesses was also grown in ways that both supported and defined the corporate strategies at the top-performing conglomerates. At 3M, growth was accomplished through the creation of new businesses, a process that demanded a flatness of organization and a group- and project-based system of oversight and planning that skillfully brought managerial experience and entrepreneurial genius together. Acquisitions were used very sparingly. Of the remaining firms, only Hanson Trust and BTR made nearly sole use of acquisitions. Management at TI Group utilized a balanced approach to growth, making use of strategic, "bolt-on" acquisitions. These acquisitions were highly disciplined, bringing complementary skills and/or product lines into the portfolio. The belief was that the acquisitions were another method of achieving organic growth. The actions at G.E. were comparable to those at TI Group, but greater use was made of larger acquisitions, depending upon the overall intent for the group of businesses.

In outcomes that agree broadly with the insightful 2001 work of Joseph Bower, headquarters in the top firms clearly linked the strategic intent of their acquisitions with the demands of integration that followed. Moreover, the types of acquisitions, their strategic intent, and the skills of managing the processes of acquisition and integration were closely co-ordinated and controlled by headquarters in the top-performing firms. In all cases, companies undertook sophisticated analyses of their acquisition targets, making heavy use of

"friendly" takeovers so as to increase the flow of information, compact the time of the operation, ease the forthcoming merger and/or restructuring, and retain core management.

Three types of mergers and acquisitions were emphasized. Even 3M, which completed only a handful of acquisitions during the focus period, utilized the same basic practices of the much more intensive acquirers, Hanson Trust, BTR, TI Group, and G.E. The firms successfully undertook well-planned examples of acquisitions as line extensions (in all of the firms), as research and development (BTR, TI Group, and G.E.), and as a method to achieve geographic consolidation in a fragmented industry (Hanson Trust, BTR, TI Group, and G.E.).

6.3. Divestiture and restructuring

The impression should not be conveyed, however, that strategy implementation was always smooth and that continuous challenges did not exist. Of all the concerns of headquarters, divestiture seemed to be subject, even in the top-performing firms, to the most ad hoc strategizing; reaction rather than anticipation. Hanson Trust and G.E. were the most active in divestment. Hanson notably sold off a parcel of units in 1995, before being broken into four pieces the following year. As well, General Electric was very active, especially early in Jack Welch's tenure. The simple dictum that the businesses be number one or two in their respective industries also provided a clear rationale for selling assets. However, even at G.E., divestitures were also completed that were driven by broader strategic and financial concerns, with the controversial sale of the industry-leading small appliances unit serving as a prime example. In most cases, asset sales at all the firms we examined were the results of rationalizing acquisitions, comparatively late moves to restructure the portfolio, or were examples of failed acquisitions.

Indeed, many of the only managerial regrets expressed by the leaders we studied concerned failed takeovers that ended in loss-making divestitures. Many forget the purchase of investment bank Kidder Peabody early in Jack Welch's tenure. However, he did not forget, simply labelling the acquisition "my biggest mistake." The reason for the mistake, according to Welch, began with a lack of due diligence, but also included a misplaced belief in the organization's ability to overcome any challenges in merging operations. At BTR, the problems seemed the most acute. Corporate management did not systematically and deeply cull its portfolio across time and became emotionally attached to some of the member businesses, which allowed the collection to become increasingly inchoate. Part of the resistance can probably be explained by BTR's central efforts at building a strong culture, which is often incompatible with large-scale divestiture.

The decision to sell key assets was often influenced by the most culturally sensitive issues. As an example, one need look no further than 3M, which, throughout the 1990s, was concerned with their increasingly troubled and strategically mismatched data storage division. In time, cost leadership in a freestanding company, later called "Imation," was found to be the solution. However, headquarters spent years and millions of dollars trying to contain costs and defend a premium position in an industry whose products were inevitably being turned into commodities. At G.E., the heavy negative reaction to the sale of the small appliances unit was largely attributable to the perception of many organizational members that the unit was an integral part of the organization's history and profile (Broader confirmation and explanation of many of the points developed in this short section, as well as managerial options for developing a more proactive divestiture strategy, can be found in the article by Dranikoff, Koller, and Schneider (2002).).

Organizational crisis or malaise was another feature of the histories of all the firms we studied. BTR's crisis played out through the period. As suggested, the company persisted with a corporate strategy and a group of businesses that gradually became out of step with the economy at large. In reaction, plans were expressed and launched to first create an "international manufacturing and engineering company," and then a "leading global engineering company." Nonetheless, the elements of strong cultural inertia, management resistance, and the immense scale of desired change worked against implementation, and patience quickly wore thin in the markets for debt and warrants that kept the company afloat. A highly decentralized and diversified firm simply could not garner the time and money necessary to become a smaller, focused firm, whose businesses needed to work closely together.

TI Group also experienced enormous external pressures and nearly succumbed to them in the middle 1980s. As a result, a formerly widely diversified portfolio was retrenched in short order, and highly disciplined methods were implemented to stabilize and sustain growth.

Even General Electric, in many ways the quintessential conglomerate, experienced a lengthy phase widely described as "profitless growth." The elements of the transformation eventually led by Jack Welch are famous and celebrated, and will not be repeated here. However, implicit in Welch's actions and their forcefulness was an overriding belief that the company was operating on borrowed time.

7. Managing the new conglomerate

7.1. A viable form?

In light of the hostile external opinions and the internal difficulties of managing such widespread, complex operations, does the conglomerate form make sense? After all, capital markets, industry analysts, and the results of a range of research appear to come down overwhelmingly against the practice. Yet, the answer to the question of the conglomerate appears to be a highly qualified "yes." The supportable reasons for becoming widely diversified are few in number, including only the superior ability to grow new businesses and/or to transform assets or industries. A variety of resources, abilities, and actions must be combined along the three dimensions described in a mutually enhancing and strategically focused manner. The barriers to successfully developing and integrating the many elements required in mastering unrelated diversification may appear daunting, but the demanding requirements do, once mastered, offer some protection from imitation.

The key tasks for management begin with the clear establishment, communication, and implementation of the means by which the corporate level will add value to the underlying businesses. The method for adding value must orient the top-performing firm's assets and activities, through headquarters, with the external environment, and include opportunities that extend far into the foreseeable future. In the successful firms, changes in the environment, especially relevant industry conditions, were either actively led or were continuously monitored and worked into the strategy, as warranted.

Achieving "fit" cannot be reduced to a reactive posture, no matter how nimble. All of the firms we studied actively influenced their environments. For example, the restructuring strategies of BTR, Hanson Trust, and others were vigorous actors in Great Britain's industrial transformation throughout the 1970s and 1980s. Indeed, the British restructurers were so successful that the pool of viable candidate firms was vastly reduced by the end of the focus period. TI Group and General Electric, in a variety of industries, also actively built up scale and increased their level of international integration. Rather than react to industry concentration and globalization, a far more accurate statement is that a number of firms like TI Group and G.E. enacted those changes through powerful strategies that also secured their benefits (The book by Weick (1979) provides a discussion of enactment by organizations, while the article of Smircich and Stubbart (1985) applies the concept to strategic management.). 3M's innovations may provide the clearest examples of a strategy that creates, rather than simply reacts to, the changing features of the business landscape. Entire industries, like data storage, medical diagnostic equipment, and whole areas of business support, have been established or profoundly shaped by 3M's efforts.

The insights provided by our group of conglomerates did not run in only one direction, however. The strengths of the individual strategies also suggested points of weakness. For example, the propagation strategy of 3M seems open to problems with cost containment and speed-to-market. As well, the growth trajectory associated with internal business creation cannot compare favorably with acquisition-led or -dominated strategies. The accretion strategy, especially as practiced by companies like Tyco International, exposed the firm to the nearly crushing pressures of maintaining growth and a no-holds-barred lifestyle which proved difficult to control, and ultimately resulted in criminal charges against its former top management. Rapidly rising numbers of acquisitions were required simply to maintain the historically high rate of expansion. The same problems with sustaining growth were also seen in the restructuring strategy. Hanson Trust and BTR both became wildly diverse while pursuing and improving under-managed assets. Moreover, the criteria and process for divestiture were neither clearly defined nor consistently applied for a sustained period at either firm. As could reasonably be inferred, a positive relationship exists between the rate of growth and the need to define the strategy for pruning the portfolio. The benefits of balancing acquisitions and organic growth are illustrated through the strategies of both TI Group and G.E. At the same time, however, the breadth of diversity seemed to demand a wider base for corporate-led value-added. The demands placed on managers were also exceptionally broad and exacting. Indeed, the wide expanse of General Electric's businesses incited its model of the "internal economy," demanding that key initiatives and vectors for change were implemented in the businesses in anticipation of their general economic effects. Little room existed for error.

7.2. Do recent events contribute any new insights?

One more bit of knowledge about managing conglomerates has emerged during the past few years. The recent histories of our companies (after we acknowledge the shorter period under consideration and, therefore, the scarcer data) provide some

evidence that the more robust abilities to weather challenges and determine fates pass to firms that skillfully mix their corporate strategies. For example, the sustained top performance at 3M demonstrates the viability of the propagation strategy. But, the selection of Jay McNerney (a former G.E. executive), the movement toward greater efficiency (after recent lackluster performance), and the recent limited use of acquisitions are all strongly connected to a profitable blending of the forms of conglomerate strategy. The restructuring strategy at BTR and Hanson Trust undeniably supported a long sustained period of top performance and returns to shareholders. Yet, the practice seems to require closely controlled levels of growth and well-developed criteria for maintaining the portfolio. Alternatively, some kind of secondary value-creating activity may also be utilized, like internationalizing the businesses and/or building scale in a fragmented industry. Of course, the developments and results at both Smiths Group (the outcome of TI Group's merger in 2000 with Smiths Industries) and General Electric offer the strongest statement for the efficacy of balanced growth and the mixed corporate strategy, respectively. The stories of AlliedSignal (now Honeywell), Dover, and relative newcomers like Danaher are also worthy of close analysis.

8. Answering the demands of the conglomerate form

The corporate strategies of today's conglomerates offer some clear directions to managers. The key issues to remember in making corporate strategy in widely diversified firms are to maintain a tight focus and to communicate the plans for the firm as often and effectively as possible. Following that, implementation rests on the effective integration of the three dimensions of corporate strategy (see Table 6).

The effects of entrepreneurial vision at headquarters will be felt through the choice of areas for innovation, the guidance of their requisite skills development, and/or the identification of industries for transformation, each providing numerous target opportunities and strong prospects for a sustained strategy. In all cases, sizeable investments will be required. As well, a steely discipline must be maintained. Broad product-market diversity in the top-performing conglomerates belies the presence of a simple, coordinated system for adding value that emanates from headquarters.

However, a final point should not be lost. Multi-industry firms do offer far more complex subjects than single-industry or narrowly diversified companies, with mixed strategies only adding to the complexity. The critical attention paid by corporate leaders at the top-performing firms to financial returns is an explicit acknowledgement of the difficulty of understanding their strategies and organizations. The shareholders of extremely diversified firms clearly require larger rewards for the added demands of owning them. Our analysis has shown that the expectations were met successfully over decades in many of the firms, through a finite number of closely controlled strategies that coordinated environmental effects, the activities of headquarters, and the contents and concerns of the portfolio.

Table 6 Managing the top-performing conglomerate

Formulating strategy	
Definition	• Define a compelling, economically viable system for generating value in the businesses.
Strategic premise	• Transform underused or under-performing assets and/or create new products or businesses better than competitors.
Activities focus	• Tightly focus and extensively communicate the types of businesses to be transformed and/or the nature of the build-up of technologies and skills supporting innovation.
Managing implementation	
Focus	• Facilitate a program of value creation for headquarters by developing resources and policies there that are integrated and supportive of it.
Relationship among the businesses	• Establish a simple structure that facilitates the inclusion of acquisitions and/or the sharing of knowledge, production, and people. • Tightly control the search for savings from blending businesses. • Connect the flow of knowledge, top management personnel, money, and technology as part of the same process of value generation.
The interaction of HQ and the Portfolio	• Fix the primary interaction within the organization as vertical, between the businesses and headquarters. The well-contained stock of resources and skills at headquarters must nevertheless be deep and a real source of competitive advantage.
Portfolio content management	• Define the parameters for entry, growth, and exit as an explicit part of the overall corporate strategy.

9. Conglomerate strategies in action

To understand the strategies in greater depth, a brief reminder of some recent history is useful. We should recall that firms faced three major trends in the industrialized world throughout the period from 1987 to 1999. First, international barriers to trade and investment fell. Second, the focus period contained large increases in international competition and, in some industries, rising consolidation. Connected to the changes, public policy underwent transformation, with a major facet being liberal oversight of mergers and acquisitions. Indeed, mergers and acquisitions took place within an increasingly international and inter-connected market for corporate control. Finally, inflation fell throughout the examination period, in a general movement in all of the major industrialized economies.

Box 1
The propagation strategy at 3M

Parts of the 3M story are already widely understood. A group of thirty or so technology platforms, most entirely self-constructed, underpinned all of what 3M produced. Through its innovations, 3M's holdings generated revenues that were geographically dispersed and involved products distributed to a varied cross-section of end-users, including both consumer and industrial customers of nearly all types. As well, the businesses included sizeable inflows from less cyclical businesses, like medical technology, and from steady revenue sources, like customer service contracts. The lion's share of 3M's revenues emanated from branded products earning high margins from their unique status and quality.

The propagation strategy practiced by corporate management at 3M fit quite well with the environmental conditions faced by the firm. First, the reduction in international trade barriers facilitated the globalization process, in which the company had been heavily involved since the end of World War II. Second, niche strategies partially insulated 3M from rising industry competitiveness. The company's unique products were difficult to "knock off" in a number of examples, owing to the singularity of the designs and the patents that surrounded many of them. Third, industry consolidation affected the firm less heavily because of the niche positions it held and the large scale to which the products could be produced and distributed. 3M also worked closely with its customers, developing solutions to problems for which customers were often willing to pay extra. On balance, the downward trend in inflation had less effect on 3M. The firm was one of the most admired in American business, maintaining leading positions in a number of prized industries throughout the focus period.

Box 2
The restructuring strategy at Hanson Trust and BTR

The first golden age of the acquisitive conglomerate occurred during the 1960s, centered mainly in the United States. Factors both external and internal to firms helped spur the creation of conglomerates. The phenomenon can be linked, in part, to strong anti-trust enforcement and to the new prevalence of "general management" skills being taught in leading business schools.

The more recent period we studied included the second heyday of the conglomerate. This time, the phenomenon was based mainly in Great Britain (but involved sizeable investments elsewhere, especially in America) and emerged again after a protracted time of heavy government intervention and stultified competition. The conditions were set for companies aiming at restructuring a large number of under-managed and under-valued assets.

Two leading lights, Hanson Trust and BTR, dominated the period. Seizing the many available opportunities, both companies racked up decades of revenues and profit growth. Hanson Trust exceeded the returns of Great Britain's top 100 firms by a whopping 368 percent during the 1980s. Performance at BTR was comparable to that at Hanson Trust, with the company routinely counted and awarded among Britain's best-managed firms, well into the 1990s.

Neither Hanson Trust nor BTR remained in restructuring mode through the balance of the decade. Indeed, neither firm was even remotely similar. Hanson Trust broke itself into four pieces in 1996, leaving the Hanson name associated only with the building materials division. The firm did continue its acquisitive ways, however, growing to be included again on the Global 1000 list in 1999. In 1998, BTR fell further, merging from the inferior position with the British engi-

neering firm, Siebe, and eventually forming a new company, Invensys. Management had been heavily pressured by outside stakeholders who lost confidence after an intended retrenchment and strategic reorientation took up a protracted parcel of time.

What had changed? Forces emanating from both inside and outside the firms conspired against them. Internally, the large size of both firms caused managers to undertake either an increasing number of smaller acquisitions or to identify larger and larger targets, merely to maintain historical rates of growth. Simultaneously, divestiture was not pursued as spiritedly as it could have been, especially at BTR. Leadership transition also became an issue for both firms. The restructuring strategy is not, as its detractors have described it, the simple stripping of assets, but is an entrepreneurial action at its core. The results are new combinations of assets that generate greater value more efficiently. Little wonder should therefore surround the fact that both firms were controlled by some of the most talented entrepreneurs of their generation: James Hanson and Gordon White at Hanson-Trust, and David Nicholson, Owen Green, and Norman Ireland at BTR. However, by the middle of the 1990s, time had caught up with both groups and viable management succession had not been well worked out.

External pressures also mounted. Competing restructuring firms appeared on the scene. Companies like Tomkins, Wassall, and TT Group squeezed Hanson Trust and BTR, raising prices for targets and eliminating some availability. As well, the strategy gradually came out of phase with some key trends. Neither Hanson Trust nor BTR had been especially aggressive in seeking to internationalize its businesses, thus largely missing out on significant opportunities. The corporate level was also not active in building scale in many of the industries in which its businesses participated. As well, in many cases, corporate management continued to press its industrial businesses to gain margin increases on a short-term basis. The action persisted, despite the fact that many supplier relationships were being developed into long-term relational contracts that relied on much closer working relationships, higher knowledge intensity and joint innovation, and intense communication. In short, the businesses were falling behind by staying the same; at the end of the period under study, many competitors were much larger, designing, producing, and selling their products on a worldwide basis.

In the face of the many changes, does the restructuring strategy remain viable? The fact is that the restructuring strategy was not designed to respond to many of the trends just described. Do the gaps dictate that restructuring be subsumed into accretion or some combination of the other archetypes? The short answer is, not necessarily. Undeniably, restructuring can result in confusing diversity in the portfolio. Moreover, when fully implemented, the restructuring strategy does not allow a conventional interpretation of phrases like "core businesses" or "stick to your knitting." Instead, the strategy entails the process of transformation, beginning with an acquisition and ending in a sale. Sentiments against perceived unrelated diversification and a lack of understanding of the strategy probably contribute to the fact that the most prominent firms practicing the restructuring strategy, companies like Kohlberg Kravis Roberts and Co. (KKR) and the Carlyle Group, are privately held at the present time.

Box 3
The accretion strategy at TI Group

The portfolio at TI Group, another British conglomerate, was a broad collection of engineering-based manufacturing businesses, such as specialized engineering, seals, and tubes. Over time, increasingly commanding positions were developed in the fragmented industries served by the divisions. Each carried a separate, branded identity and included many successful niche products.

TI Group's corporate strategy used portfolio techniques on a number of dimensions to offset the limitations and risks of the niche strategy. Examples included the John Crane Group, which provided seal designs for multiple industrial uses, Bundy group, which supplied specialized tubing to the refrigeration and automobile industries, and the Dowty Group, an extremely varied producer of aerospace applications. Firstly, by their nature, niche products are often constrained with regard to growth and the overall size of the markets to which they appeal. Also, a supplier often encounters a monopsony or oligopsony position if only a single buyer or a handful of large customers use its niche products. In either

case, the bargaining power of the customer can be extremely high. Headquarters' decision to hold a portfolio of niche positions, therefore, lessened the risks of individual customer bargaining power and opened the growth potential of the corporate entity to much higher levels. Secondly, the geographic diversity of TI Group's holdings offered less exposure to the fortunes of any single market and raised the ceiling on growth. Thirdly, the company operated three and then four divisions, each exhibiting a diverse cross-section of engineering activities that, in turn, held a remarkable portfolio of niche products. In this way, the portfolio was nested, by virtue of having a "portfolio of portfolios," all with strong positions at the business level. Lastly, the businesses were grown using two distinct means, acquisition and organic growth, that were fitted together to offer a more balanced approach to enlarging the firm.

The actions of corporate management were again closely integrated to take advantage of opportunities extant in the greater environment. The intention of corporate management was to introduce its niche products on an international scale in times of market liberalization, expanding the scope of the opportunities offered by each innovation. As well, relationships between suppliers like TI Group and its largely global customers were more closely structured. In the long term, TI Group's management actively integrated into its strategy the relational contracts that had become the norm in relevant industries, especially automobiles and aerospace.

The company built depth in its product lines and augmented production scale simultaneously. Important examples included the absorption of Dowty's polymer engineering businesses into John Crane in 1992 and the large-scale break-up of the EIS acquisition in 1998. John Crane received the fluid technologies businesses, while Dowty was integrated with the aero-structure units (named "Hamble"). Acquisitions and innovation were carefully undertaken. Customers valued both the flexibility and capabilities represented in increased product and service depth. At the same time, the expanded scale of production brought on by internationalization and by the larger purchases of growing customers led to lower costs of production. Companies like TI Group mated their strategies with the demands brought on by increased consolidation in their customers, while also leading the trend through their own acquisitions. Thus, TI Group successfully blended aspects of the propagation strategy, through its research efforts and organic growth, with the predominant efforts of its accretion strategy.

Box 4
The mixed corporate strategy at General Electric

The mixing of strategies reached its zenith with General Electric. The businesses at General Electric were the broadest and most varied of the successful conglomerates, and perhaps the best known. The divisions run the gamut, from financial services and broadcasting to turbines, plastics, and medical products. The twelve businesses were famously required to be number one or two in their respective industries, have achievable plans for gaining those positions, or be sold. At the same time, Jack Welch and his top managers identified and linked key environmental change drivers (globalization; the internet and e-business; the growth of services; and the search for increased product quality, through 6-Sigma) to his own plans for every one of their businesses.

The old model of the conglomerate, the "internalized capital market," described how corporate managers made use of the superior reporting information of their divisions, compared with the lower efficiencies of the financial system of the 1970s. In effect, under Welch, top management upped the ante, creating an "internalized economy" in which the salient features of the changing environment were identified and internalized more quickly and efficiently than in the overall economic system.

Rather than simply focusing on the flow of money and maximizing return on investment, which certainly remained important, headquarters at G.E. also emphasized the movement of people, the efforts in sharing knowledge, and in training workers of all stripes. Headquarters oversaw a vast organizational economy, controlled the development and flow of all key resources, maintained sustainable growth through restructuring, accretion, and propagation, and interjected across the board to stimulate development that matched leading trends before they were universally adopted outside the organization. In the process, the idea of "fit" was being employed at G.E. at a much more demanding level.

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