

Differences & Commonalities in 'RPG Group' Vs 'Tata Group' Cases

- Reducing 'Factor' Market Imperfections
- Existence of Internal Capital Markets
- Different Leadership Styles
- Different Shared Values ('perception for being seen as clean' Vs 'opportunistic')
- Business Groups seem eager to diversify continuously ... managers and CEOs both seem to be eager to do that

Diversification Strategy

- Diversification is a movement by a business organization into a wider field of products.
- **Objectives** - *Growth, Stability, & Flexibility*
(Ansoff, 1971)
- **Types** - *Related, Linked, & Unrelated;*
(Mintzberg & Quinn, 1998)

Questions usually faced by the head of a Organization:






- ❖ Whether diversified organizations are better performers than specialized ones?
- ❖ Whether increased product diversity leads to an increase in performance of the organization?

Explanations in Literature

- Internal capital markets
- Scope economics
- Related diversification advantages
- Portfolio diversification
- Market power view
- Top management skills
- Costs of diversified operation
- Conglomerates risk disinclination
- Business group and agency problems

Diversification Measures

Continuous

-  ✘ Eliminates need to use a cutoff
-  ✘ Provides more meaningful information
 -  ♦ Montgomery's and Palepu's 2-digit and 3-digit SIC-based measures 


Non-continuous Measures

-  ♦ Rumelt's categorization scheme 

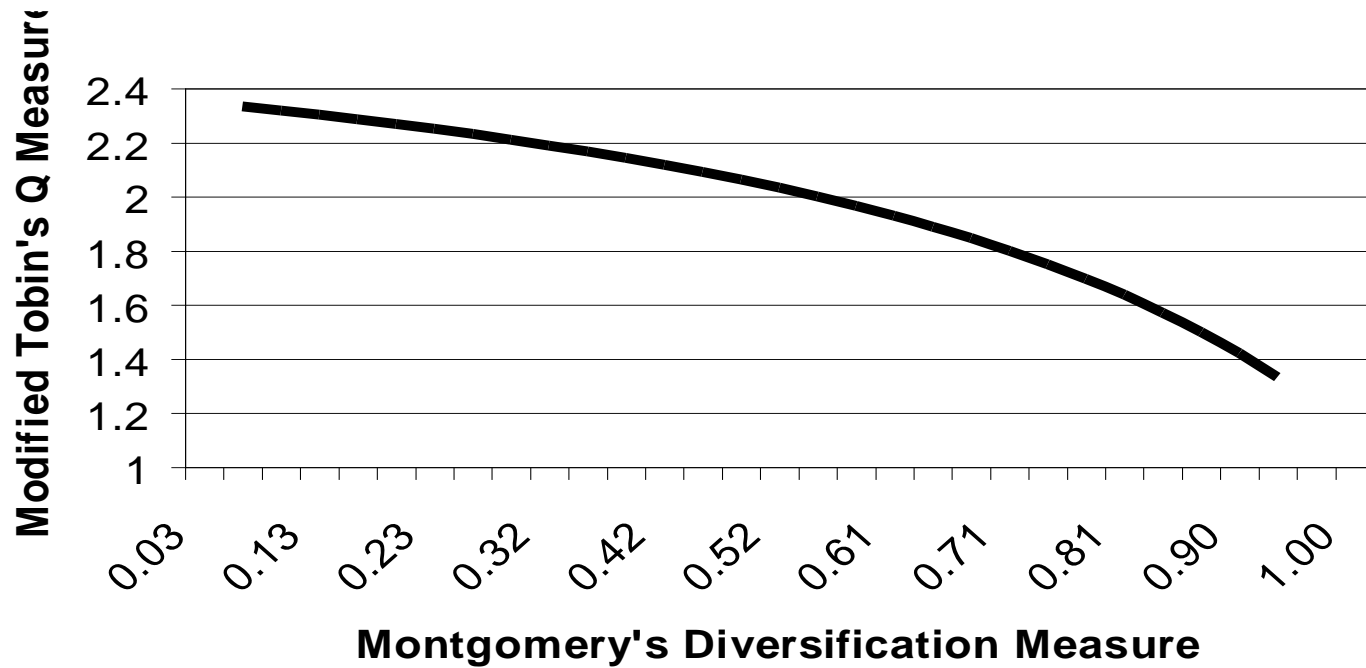
Functional Form

Performance =

f(product diversification, size,
leverage, solvency ratios,
ownership variables, international
diversification, net exports, age,
industry fixed effects)

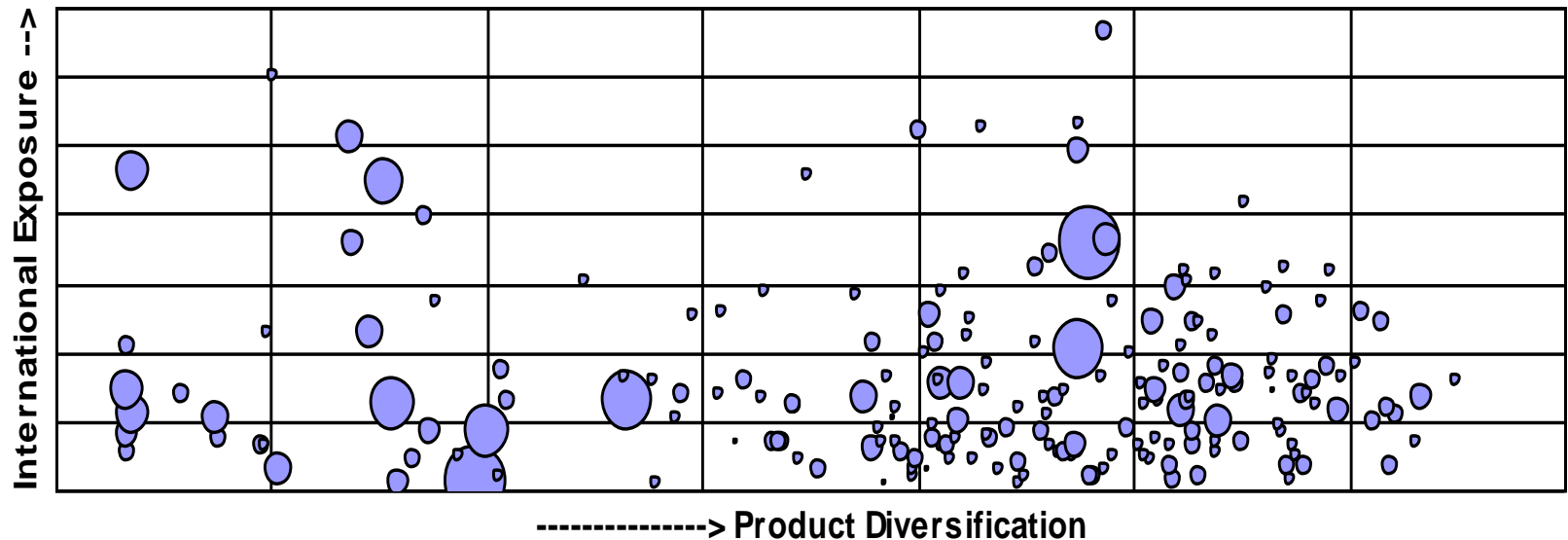
Main Results

FIGURE 2: Diversification and Performance Relationship



Main Results

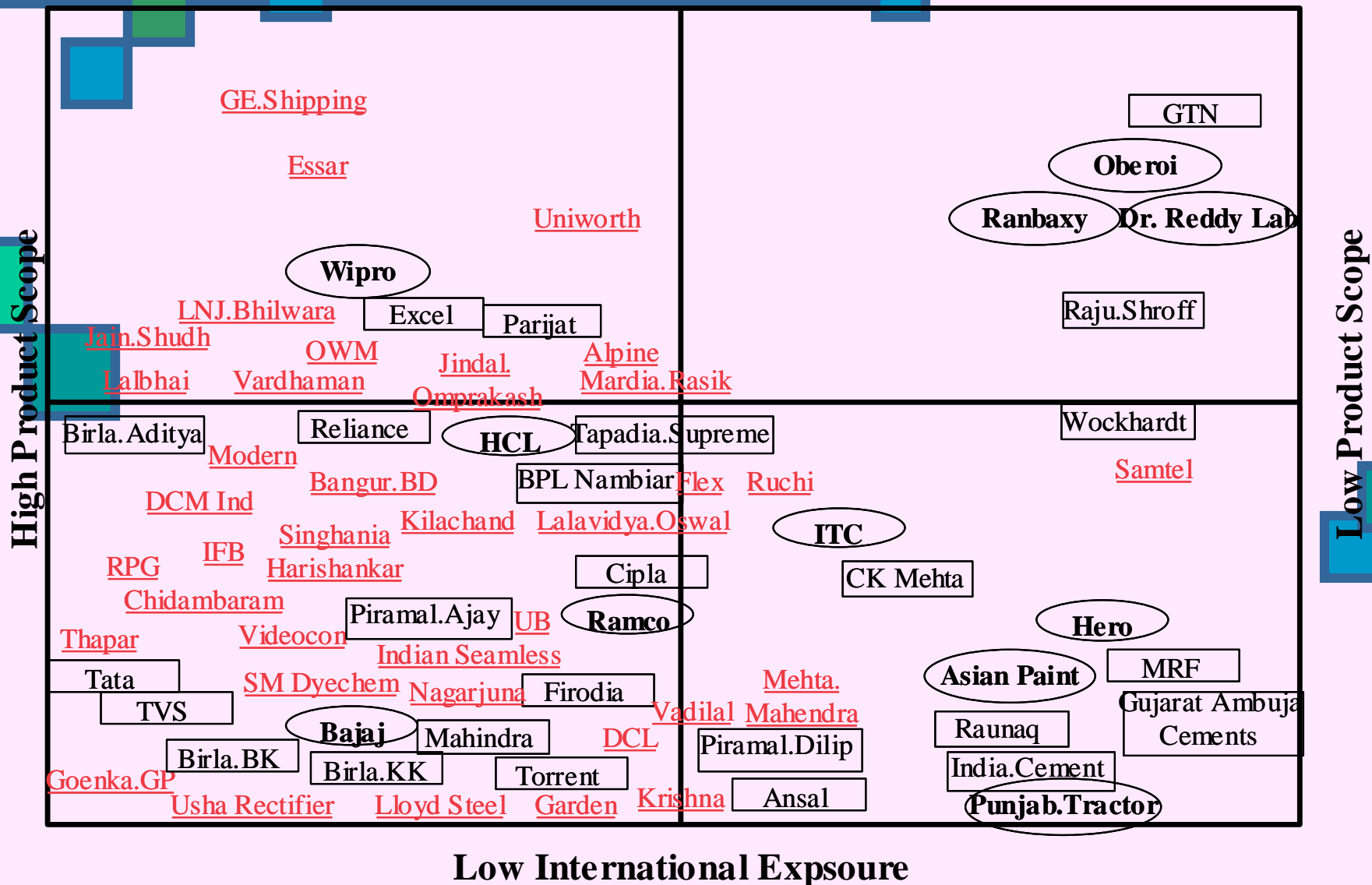
FIGURE 1: Product Diversification, International Exposure and Financial Performance of Indian Business Groups



Same Sector, Two Groups

- Videocon Vs BPL
- SM Dyechem Vs CK Mehta

Performance of Some Groups



Note: Groups in circles & bold were good performers. Groups in rectangles were average performers. Groups not covered, and underlined in red color were bad performers.

How they didn't do well

- Stretching Brands – Tata (Salt, Seeds, Shampoo, Software, and Steel)
- Changing Direction Frequently – Alpine (Soya to Metal, Chemical), Indian Seamless (Steel Tubes to Airplane)
- Lacking Success Formula in New Lines of Businesses – Videocon, GE Shipping

How they did well

- Cutting Unrelated Exposure – ITC (exit Agro-based, Financial Sectors)
- Concentrating on Core – MRF, Punjab Tractors, Ranbaxy
- Seeking External Markets – Dr. Reddy, Wipro, Ramco, Hero