CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS

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7.1 INTRODUCTION

The chief aim of the study was to analyse the progress made and financial efficiency achieved by the Corporate groups in the Indian private sector, especially, on adopting various modes of diversification strategies, with special reference to the selected ten top business houses during 1980s. A further probe was made into the financial factors making or breaking the flagship company of Corporate groups; the role of various modes of diversification strategies in enabling a company to achieve the status of flagship in the group; and the impact of flagship on the stock market of other companies in the corporate groups. Finally, since, diversification has become a common strategy in the Indian private sector, a further analysis has been made to determine the relationship between business diversification and financial performance of the portfolio. The study was based on secondary data. The data collected were regrouped to suit the analytical form and to draw inferences. Financial management techniques like
financial ratios and measures of portfolio performance, and other quantitative techniques like averages, percentages, annual compound growth rates, correlation analysis, regression analysis, t-test and F-test were employed as found necessary. Therefore, this chapter has been assigned to recapitulate the key findings and conclusions of the study and to make suitable suggestions.

7.2. FINDINGS

7.2.1 Modes of Diversification Strategies Adopted by the Selected Ten Top Business Houses

i) Of the ten groups, 2 of them, Birla and Tata have adopted all the modes of diversification strategies, viz., SBF, RD, DUD, RUD and UUD. Mafatlal has adopted all except UUD. J.K.Singhania group has only SBF and RUD. In case of Thapar too, there are only two categories, namely, SBF and UUD. On the other hand, Bangur has adopted all but DUD. In case of Shriram, there are three categories, namely, SBF, DUD and UUD.
While Modi has adopted all but RUD, the Bajaj has adopted all but RD. Thus, all the 10 groups have the SBF, while only 6 of them have the RD and RUD. Whereas, 7 of them have the DUD and UUD.

ii) Out of a total of 113 companies chosen from the selected ten top business houses, 43 remain to be SBF; 21 are RD; 19 are DUD; 10 are RUD; and the remaining 20 are UUD.

7.2.2 Progress of the Selected Ten Top Business Houses Under Various Modes of Diversification Strategies

i) On an absolute basis within each business house, the annual compound growth rate reveals that, in case of 3 groups, namely, Birla, Kirloskar, and Modi, the DUD have outperformed the others. While in another 3 groups, namely, J.K.Singhania, Shriram, and Bajaj, the SBF have placed on record the highest growth. Whereas, for 2 other groups, namely, Tata and Mafatlal, the RUD were relatively the highest performers. However, for Thapar group the UUD have registered the highest growth. In case of Bangur group RD were the best performers.
ii) On a relative basis between the business houses, it has been found that the Bajaj group has registered the highest growth rate in all the three categories of SBF, DUD and UUD with 26.75%, 22.63% and 23.33% respectively. While in case of RD and RUD the top performers were the Bangur group with 18.21% and the Tata group with 21.42% respectively.

iii) On a relative basis between various modes of diversification strategies, irrespective of the business houses, only DUD have registered the highest annual compound growth rate in 5 out of 8 growth indicators, namely, productive capital, net worth, gross profit, operating surplus, and equity dividends, with 22.57%, 20.34%, 19.24%, 18.67% and 16.85% respectively.

7.2.3 Financial Efficiency Under Different Modes of Diversification Strategies

7.2.3.1 Liquidity

i) On a relative basis between various modes of
diversification strategies during 1979-80 through 1989-90, the liquidity position of only DUD was little satisfactory, as represented by at least 2 groups, namely, Kirloskar in terms of quick ratio, inventory to working capital ratio, working capital to total assets ratio, and the Bajaj group in terms of current ratio.

ii) On an average during 1980s, out of 113 companies, only 1 company remaining as SBF has maintained the liquidity position in a highly satisfactory manner, by complying with the respective rules of thumb under all the four liquidity ratios employed.

7.2.3.2 Profitability

i) When profitability aspect is considered on a relative basis various modes of diversification strategies during 1979-80 through 1989-90, generally, the DUD have outperformed the other categories as
reflected through all the four indicators of profitability. Especially, in terms of overall profitability indicated by the return on investment, only DUD of all the seven groups have consistently posted a positive ratio by reaching a high of 54.60% from a minimum of just 0.61%, on the whole irrespective of the business groups.

ii) On the average during 1980s, out of 113 companies, totally 90 of them have maintained a sound profitability in terms of all the four indicators employed. Generally, the Birla group companies have outperformed the others, and especially, the companies of DUD have topped in respect of net operating cash flow to both the sales and assets, by reaching a high of 161.82% and 18.73% respectively. While in terms of return on investment and common equity, though companies of SBF were top performers with 24.48% and 261.01% respectively, the companies of DUD belonging to Birla group have ranked immediately next with 20.41% and 147.91% respectively.
7.2.3.3 Activity

i) As regards the efficient utilisation of assets in generating sales, on a relative basis between various modes of diversification strategies during 1979-80 through 1989-90, the fixed assets turnover ratio indicates that UUD were the highest performers with 84.45 times, while the working capital turnover ratio indicates that RUD were the top performers with 141.79 times.

ii) On an average during 1980s, out of 113 companies, totally 83 have made an efficient utilisation of assets in generating sales, as indicated by a positive ratio in terms of both the indicators. However, in terms of fixed assets turnover ratio alone, the highest was recorded under RD category with 62.41 times, while in terms of working capital turnover ratio UUD was the highest performer with 121.67 times.

7.2.3.4 Leverage

i) As regards the long term solvency of the selected ten top business houses, judged in terms of
leverage ratios, it has been found on a relative basis between various modes of diversification strategies during 1979-80 through 1989-90 that, the SBF, RD and DUD have generally employed a high debt, while it was normal in case of RUD and UUD. However, the degree of financial leverage indicates that the business groups were making a favourable financial leverage to the extent the debt employed. Further, the debt servicing ability was also quite satisfactory.

ii) On an average during 1980s, out of 113 companies, 97 of them have performed well regarding the capital mix and consequently the long term solvency.

7.2.3.5 Valuation

i) As regards the capital market performance during 1979-80 through 1989-90, it has been found that, on a relative basis between various modes of diversification strategies, in terms of P/E ratio the performance was somewhat better under all the modes of
diversification strategies, since during 1980s, though the ratio had remained zero in one or more of the years for 3 groups in case of SBF and RUD, for 2 groups in case of DUD and UUD, and for only 1 group in case of RD, however, had reached a high of 205.19 times under RUD, 159.94 times under SBF, 155.98 times under DUD, 80.65 times under UUD, and 55.21 times under RD irrespective of the business houses. On the other hand, in terms of total yield ratio, the capital market performance was unsatisfactory, since, the total yield offered was remaining negative in most of the years under all the forms of diversification strategies. In terms of market value to book value ratio, irrespective of the business houses, the performance was little better only in case of DUD, since, the ratio remained below 1 only in 7 out of 11 years of study under DUD as against in 9 years under SBF, and in all the 11 years under RD, RUD, and UUD, indicating a failure in contributing to the net wealth of the society.

ii) On an average during 1980s, out of 113 companies, totally 63 companies have not performed well in respect of their equity shares as indicated by all the three valuation ratios.
7.2.3.6 **Summary Results of Financial Efficiency**

To sum up, as regards the financial efficiency, among various modes of diversification strategies, the DUD were better, which is also evident from and in conformity with its achievement of the highest growth rate.

7.2.4 **Identification of Financial Factors Breaking the Flagship Company of a Corporate Group**

The financial factors identified as breaking the flagship company of a corporate group were -

i) The excessive holding of current liabilities in proportion to that of current assets, as indicated by the current ratio of even below 1 against the norm of 2 times; the quick ratio of even below .50 against the norm of 1 time, and the working capital to total assets ratio remaining negative in case of both J.K. Synthetics and Modi Industries, all reflecting a low liquidity.
ii) Profit earning capacity generally remaining low, especially, making a negative return on common equity of, say, -33.57% on an average during 1980s, as was experienced by Modi Industries.

ii) Poor working capital management, especially, in utilising the working capital to make adequate sales, as indicated by a negative working capital turnover ratio of, say, -24.73 times on an average during 1980s, as was experienced by J.K.Synthetics.

iv) Finally, detracting from the net wealth of the society as revealed by Modi Industries in particular, whose market value to book value ratio remained below 1 on an average during 1980s.

7.2.5 The Impact of Flagship Company on the Stock Market of others in the Corporate Group

i) As regards the role of diversification strategy in enabling a company to hold the status of flagship in the corporate group, it has been found that,
out of the selected 10 top business houses, mostly companies of only RD or UUD attain the status of flagship in the group, since, for 3 of them the flagship company is a Related Diversifier, while in another 3 groups, the flagship is an Unrestricted Unrelated Diversifier. However, in 2 other groups the flagship company is a Single Business Firm. Of the remaining 2 groups, for one it falls under Dominant Unrelated Diversifier, and for the other under Restricted Unrelated Diversifier.

ii) As regards the impact of flagship company on the stock market of others in the group, it has been found that, in case of 3 of the selected 10 top business houses, namely, Mafatlal, J.K.Singhania, and Kirloskar, the flagship company being a DUD, RUD, and SBF respectively, does not significantly influence the stock market of others in their group. This is because, during 1980s, though there existed a positive correlation between the return on security of the flagship and that of the same of the remaining 8 companies in Mafatlal group, 5 companies in case of J.K.Singhania and Kirloskar groups, however the results of correlation were not
statistically significant. Whereas, in case of the remaining majority of 7 groups, the flagship company has significantly influenced 19% of the rest in Birla group, 13% of the rest in Tata group, 14% of the rest in Thapar Group, whereas, 67% of the rest in Bangur group, 33% of the rest in Shriram group, 25% of the rest in each Modi and Bajaj groups. Therefore, the hypothesis, "Flagship company does not influence the stock market of other companies in the corporate group" does not hold good.

7.2.6 Performance of the Portfolio of Individual Stock Relative to the Market Portfolio

Based on market measure, as regards the individual firm performance analysed through the individual stock performance relative to the market portfolio in terms of Sharpe, Treynor, and Jensen indices, it has been found that, between Non-Conglomerates comprising of SBF and RD, and the Conglomerates in the form of DUD, RUD and UUD, the Non-Conglomerates were better performers over the Conglomerates. Because, during 1980s, the number of
companies performing well on their individual stock by making a return in excess of the risk-free rate and also relative to the market portfolio was at the highest of 40% in case of SBF and 38% in case of RD. However, among the Conglomerates, the DUD were better performers over the RUD and UUD, since, 37% of the DUD have performed well on their individual stock as against just 20% of the companies in case of RUD and UUD.

7.2.7 Relationship Between Business Diversification and Financial Performance

From the analysis of the relationship between financial performance and the degree of business diversification, it has been found that there was an inverse relation between financial performance and four modes of diversification strategies, viz., SBF, RD, RUD and UUD. However, it was statistically significant at 5% level only in case of SBF. On the otherhand, there was a linear relation between financial performance and DUD,
which however, was not statistically significant. Further, it has been found that there was an inverse relation between financial performance and the non-Conglomerates, which was also statistically significant at 5% level, while there was a linear relation between financial performance and Conglomerates, which, however, was not statistically significant.

Therefore, it has been inferred that among the Corporate groups of the Indian private sector, the diversified firms were better performers over non-diversified Single Business Firms. Further, among the diversified firms, Unrelated diversifiers were better performers over related diversifiers, which also agrees with the conclusion reached by Allen Michel and Israel Shaked. However, in the Indian private sector, within Conglomerates, the DUD were generating superior risk-return profiles, when compared to RUD and UUD, which was also evident under account based measures of performance.
7.3 SUGGESTIONS

Irrespective of the diversification strategies, the following suggestions have been made to increase the financial efficiency of the top business houses.

1. To Improve Liquidity

The study reveals that generally the liquidity position was not good under all the modes of diversification strategies, but for the two groups under DUD alone. Therefore these Corporate groups should reduce the excessive holding of current liabilities in proportion to the current assets.

2. To Improve profitability

It has been found that the return on common equity was not encouraging under all the modes of diversification strategies. Hence, the corporate groups should pay a meticulous attention to increase the EAIT, in order to retain the confidence of investors.
3. To Improve the Total Yield

The study also reveals that the yield was not encouraging in respect of all the selected business houses under all the modes of diversification strategies. In fact, out of the selected 113 companies, only 55 of them had consistently declared dividend on equity capital during 1980s. Therefore, to improve the owners' economic welfare, the profitability in terms of EAIT should be improved.

4. To Retain the Status of Flagship of the Corporate Group

It has been found that the poor liquidity and low profitability were the two main financial factors for the break of once flagships. Hence, the practice of holding an excessive level of current liabilities should be given up, and the working capital should be effectively utilised in turning out sales, which in turn would improve the profitability further.
5. To Adopt the Best Form of Diversification Strategy

Since the study reveals that among the unrelated diversifiers, the DUD have outperformed the RUD and UUD in respect of growth, profitability and portfolio performance, it is suggested that the Dominant Unrelated Diversification is the best suited strategy to adopt for the business houses in the Indian private sector.

7.4 CONCLUSION

It is observed from this study that even among the top business houses in the Indian private sector, irrespective of the diversification strategies, the liquidity position was not sound. However, majority of the growth indicators, ROI and the portfolio performance reveal that DUD were the highest performers among Corporate groups. This finding of the researcher also agrees with that of George Paul² (1985). Therefore, the researcher suggests that both the corporate groups and the investing public, especially, while choosing the
stock of the companies of corporate groups, could rely more on Dominant Unrelated Diversifiers. Besides, she is also pleased to suggest the following areas for further scope of research, since strategies are both plans for the future and patterns from the past.

1. The Organisation structure and management policies of the DUD in comparison with the other forms of diversification strategies adopted among the corporate groups in the Indian private sector.

2. The role of Government's fiscal and regulatory policies and the factors other than financial variables for the success of DUD both among the individual giants and among the corporate groups in India.

REFERENCES
