

## TESTS OF THE EFFICIENCY PERFORMANCE OF CONGLOMERATE FIRMS

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First published: September 1971

<https://doi.org/10.1111/j.1540-6261.1971.tb00928.x>

Citations: 116

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# TESTS OF THE EFFICIENCY PERFORMANCE OF CONGLOMERATE FIRMS

J. FRED WESTON AND SURENDA K. MANSINGHKA\*

MANY ASPECTS of conglomerate firms have now been studied. The literature on portfolio theory is relevant for appraising diversification aspects of conglomerate firm performance.<sup>1</sup> Other aspects of the economic theory of conglomerates have been treated in various papers.<sup>2</sup> A comprehensive analysis of legal aspects has been made.<sup>3</sup> Business motivations for conglomerate diversifications have been described.<sup>4</sup> The conglomerate merger movement has also received considerable scrutiny with regard to its public policy effects.<sup>5</sup> Most empirical work tests aspects of the effects of mergers generally.<sup>6</sup> Only three statistical studies of conglomerate performance have been published.<sup>7</sup>

Professor Samuel R. Reid's studies include data evaluating a sample of conglomerate firms for the decade ending in 1961. He utilized three measures he characterized as reflecting the interests of managers and three reflecting the interests of stockholders. Professor Reid concluded that more actively merging firms and firms that diversified to a greater extent in their merging activity scored higher on the criteria related to managers' interests and lower on criteria related to stockholders' interests.<sup>8</sup>

Lorie and Halpern studied the performance of 117 mergers taken from the Federal Trade Commission listing for 1954-1967 of all mergers in manufactur-

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1. See Fama (12), Higgins (19a), Lewellen (23a), Lintner (24), Markowitz (26), Sharpe (36), and Tobin (39).

2. A useful sample would include Gort (14, 15), Mueller (27), Narver (29, 30), Reid (34), Stone (38), Udell (41), Weston (43, 45), Weston & Peltzman (42) and 32 papers in the Spring 1970 Edition of the *St. John's Law Review* (35).

3. Some of the relevant papers are Asch (4), Bicks (6), Blair (7), Bock (8, 9), Day (11), Pat-terson & Patterson (31), Turner (40) and 18 items in (35).

4. Various aspects are treated in Ansoff (1, 2), Berg (5), Weston (44) and in a number of management journal articles.

5. See especially the discussion in Studies by the Staff of the Cabinet Committee on Price Stability (10), pp. 69-81; see also (13) with the introductory statements by Senator Philip A. Hart of Michigan and by members of the Federal Trade Commission.

6. Gort and Hogarty (16), Heiden (19), Hogarty (20), Kelly (22).

7. The 1171-page special edition of the *St. John's Law Review* on conglomerate mergers contains no article with empirical data on the comparative performance of conglomerate firms (35). Two empirical articles in the volume deal with other aspects of performance. The S. E. Boyle paper analyzes the pre-merger growth and profitability characteristics of acquired companies. The paper by T. F. Hogarty reviews earlier historical studies of the success of mergers generally.

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