A Study of the Behavioral Characteristics of Conglomerates

By

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The importance of conglomerates necessitates a study of their behavior. Eight behavioral characteristics attributed conglomerates by financial writers and analysts have been hypothesized and each hypothesis tested. Forty-three firms commonly regarded as conglomerates were used to accumulate data appropriate to the tests of the hypotheses.

The hypothesized characteristics are:

1. Conglomerates are diversified companies.
2. The diversification of conglomerates is accomplished through acquisitions.
3. Acquisitions are a continuing phenomenon.
4. Conglomerates have high earnings per share growth rate objectives.
5. Conglomerates are aggressive acquirers.
6. Conglomerates can afford to experiment with their

acquisitions. Poor selections are disposed of as going concerns more easily than components which were gained through internal expansion.

7. Management of the acquired firm is retained. Retention of management is likely to have attendant advantages.

8. Conglomerates are rather loosely structured organizationally. Larger acquisitions are made into divisions and the divisions operate nearly autonomously.

Tests of the hypotheses were as follows. Tests of the diversification hypothesis are the firms' sales mix and product variety. There are three tests for the hypothesis that diversification was achieved through acquisitions: goals of the firm, the frequency of acquisitions and the effect of earnings purchased on the total earnings of the conglomerate. The hypothesis that acquisitions are an on-going activity was tested by the frequency of acquisitions, growth rate goals of the firms and motivations basic to acquisition policy.

Four tests were made of the hypothesis that conglomerates have high growth rate goals: stated goals of the firms, growth rates achieved, emphasis on growth through acquisition rather than through internal means and the magnitude of the effect of purchased earnings

on the conglomerates' total earnings. The hypothesis that conglomerates are aggressive acquirers was tested by: the frequency of acquisitions, sell-off activity, bidding for prospective firms, movement of purchase price over time and the variety of purchase terms used. There are three tests of the ease of sell-off of acquired firms hypothesis: sell-off activity of the selected conglomerates, stated policy of the firms and retention of management of acquired firms.

The hypothesis that management of acquired firms is kept was tested by reference to the policy of the firms with respect to retaining management, contingent payments to management based on future profits and stock options offered management of firms acquired. There are five tests of the hypothesis that conglomerates are loosely structured: the number of divisions of the conglomerates, method of operating their divisions, purchase price payments contingent on future profits, the structure and function of the firms' executive management and central office functions performed for divisions.

Based on the results of the tests all the hypotheses were accepted as characteristics of conglomerates.

It was concluded that there are several significant implications for the future, assuming that conglomerates continue to behave as they have in the past. Among the implications are: 1) continued

diversification to achieve the benefits of risk reduction both by conglomerates and other firms competing for capital funds; 2) an increase in the size and number of firms acquired; 3) prices for potential candidates for take-over will likely rise. This will necessitate greater returns on investment; 4) a decline in the rate of merger failures will follow as conglomerates and other firms become more expert; 5) management efficiency and specialization will need to be increased and appropriate training methods devised; and 6) conglomerate behavior will promote a greater need for the study of what motivates management and investors.

CHAPTER I

INTRODUCTION

The number of mergers and acquisitions in American business rose sharply in the years 1966, 1967 and 1968. In 1966, 1,746 mergers were consummated[1] and in 1967, 2,975.[2] There were nearly 4,500 mergers in 1968.[3] Acquisition activity in these three years may be compared with that in three earlier periods. Between 1895 and 1904, a ten year period, there were 3,012 acquisitions.[4] In the seven year period from 1925 to 1931, 5,846 mergers and acquisitions took place,[5] and in the eleven years from 1955 to 1965 there were 5,609 acquisitions.[6]

Much of the growth in acquisition activity has been attributed

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[1] Advertising Age, XXXIX, No. 13 (March 25, 1968), 1.

[2] Ibid., XXXIX, No. 14 (April 1, 1968), 4.

[3] Ibid.

[4] U.S. Department of Commerce, Survey of Current Business, 1957-1959, "Historical Statistics of the U.S.," p. 572.

[5] Ibid.

[6] Mergers and Acquisitions, I, No. 1 (Fall, 1965), 39.

to a number of corporate acquirers whose expansionary methods do not fit the traditional pattern. Companies in this group have been given the name conglomerates or financial conglomerates. Most of the firms commonly placed in this category have been in existence less than fifteen years, and part of the reason for their increasing prominence is their rapidly growing size. For example, in the 1967 Fortune magazine's 500 largest U.S. corporations, there are thirty-three companies classified as conglomerates.[7] Three of these were not in the 1966 list, and only eleven of the thirty-three were on the 1955 list in one corporate form or another.

There are at least two reasons, then, for the increasing importance of conglomerates in the U.S. economy. One is the impact of conglomerates on the number of acquisitions and mergers. Another is the growth in the size of conglomerates, and their contribution to Gross National Product. Their importance can be measured by the attention given them by financial writers and analysts and by the interest shown in the conglomerates' equity securities by the securities markets.

Conglomerates have much significance for accountants. The growth of the conglomerate form has contributed to the beginnings of

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[7]Fortune, LXXVII, No. 7 (June 15, 1968), 206ff.

a re-evaluation of the purchase technique versus the pooling of interest technique in preparing consolidated financial statements. This is of particular importance because most financial statements read by the public are consolidated. It follows that part of the accountant's training must center on consolidation principles and procedures. Another reason for the significance of conglomerates to accountants is the consequences for income tax purposes. One such consequence is the possibility of a taxable gain or loss where securities are exchanged or in a cash transaction. A second consequence is the possibility of a required adjustment to the depreciable basis of assets involved in the transaction.

If appropriate accounting procedures or techniques are to be applied, or new ones developed, accountants and others must have an understanding of conglomerates. One aspect of a complete understanding of conglomerates is an understanding of the manner in which conglomerates act. Thus, it is a proper object of inquiry to investigate the behavioral characteristics of conglomerates.

Purpose

This dissertation will hypothesize the behavioral characteristics of conglomerates. Tests of the validity of the hypotheses will be made. As a result of the tests, the hypotheses will be accepted or rejected.

Methodology

After a study of the financial literature, the following eight hypotheses are examined and tested:

1. Conglomerates are diversified companies.
2. The diversification of conglomerates is accomplished through acquisitions.
3. Acquisitions are a continuing phenomenon.
4. Conglomerates have high earnings per share growth rate objectives.
5. Conglomerates are aggressive acquirers.
6. Conglomerates can afford to experiment with their acquisitions. Poor selections are disposed of as going concerns more easily than components which were gained through internal expansion.
7. Management of the acquired firm is retained. Retention of management is likely to have attendant advantages.
8. Conglomerates are rather loosely structured organizationally. Larger acquisitions are made into divisions, and the divisions operate nearly autonomously.

The hypotheses serve the purpose of guiding the selection of relevant data.

The data were accumulated from the study of the behavior of

forty-three companies selected because they are commonly regarded as conglomerates by financial writers and journals. These firms are taken as representative of the conglomerate category, and they are listed in Appendix I.[8]

Major Sources of Data

Among the primary sources of data are:

1. Annual reports of the selected firms. For the most part, the reports for the years 1963 to 1968 were used. Data shown as 1968 data include those of corporations with fiscal years ending in the first six months of 1969. These reports were the basic source for determining objectives of the firms and financial information.
2. Listing Statements to the New York Stock Exchange. Financial information relative to firms acquired was obtained from this source. In addition, certain qualitative information concerning factors influencing the acquisition decision was found.
3. Evaluations and analyses by brokerage firms and investment analysts. These provided fruitful sources of data about the history of the firms.

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[8]Appendices begin on p. 120.

4. Articles in financial journals and newspapers. These provided a variety of information, including supplementary data to announcements by officials of the firms.

5. Reprints of speeches made by company officers.

Other sources, such as Moody's Investor's Services and Standard and Poor's, were used mainly as secondary sources with which data independently gathered could be compared.

Limitations

Whenever a selection process is applied, limitations arise. No attempt will be made to examine every possible candidate for designation as a conglomerate for data relevant to the hypotheses. Such an undertaking is clearly unmanageable. It is necessary to choose certain companies as representative of the whole category. The forty-three companies were selected after a broad review of the literature of finance, and the firms chosen are those most frequently classified as conglomerates.

Limitations on data had a bearing on the firms selected. Data concerning acquisitions are available in sufficient detail only in the company's annual report or in the New York Stock Exchange Listing Statements. There are no comparable documents to the Listing Statements for firms listed on the American Stock Exchange.

Thus, where annual reports are not sufficiently explicit, data are not available. For this reason, firms selected are New York Stock Exchange listees only.

The lack of data poses certain limitations. While an attempt was made to gather pertinent data for every acquisition of each of the selected firms, such information is not available in every case. It is not common, for example, for firms to supply the purchase price of firms acquired in transactions where cash only is used. Occasionally, this information can be obtained, but such instances are rare. The lack of data in cash purchases is not considered critical because the bulk of acquisitions are not purely for cash, although for analytical purposes it would be useful to have the cash price.

For some transactions in stock, particularly smaller acquisitions, the purchase price cannot be determined. Data sources, as stated, are mainly Listing Statements with the New York Stock Exchange. These Listing Statements are required only when the acquisition involves the issuance of additional securities. Thus, when the purchase can be consummated with treasury shares, data need not be published unless the acquiring firm chooses.

Especially in the acquisitions of smaller firms, income data of the acquired firm are often unavailable, even though the purchase

price may be ascertained. Firms such as Teledyne, U.S. Industries and others make a practice of buying smaller firms.

Aside from the limitations on acquisition data, additional information is frequently not available. For example, some managements do not provide sales figures in a fashion conducive to determining sales by industry. Others do not publish sales mix data. In some instances estimates can be made, and where this was possible it has been done.

Some firms do not state the objectives or goals of the firm. An example of a goal which has been stated by many of the firms is the goal of a high rate of growth of earnings per share. This is relevant information for several of the hypotheses.

Certain motivations which may influence behavior are often not explicit. In these cases, it is possible to look only at the effect rather than the cause. An example may be given with respect to the motives which lead a particular company to acquire other firms. Management may not explicitly state the reasons for acquiring, but, if diversification follows, it is possible that a motive for acquiring other firms is diversification. This is not to say that each acquisition of each of the selected firms will be evaluated as to underlying motives, for such is not the intention. Rather the motives for acquiring will be evaluated only in broad perspective as they are relevant to the hypotheses.

Post-acquisition earnings data of the acquired company cannot be determined because of the reporting techniques of conglomerates. Divisional reports are not made public, and the earnings information of a particular acquired firm is not available once the merger is consummated. Thus, the effect of a single acquired firm on the acquiring firm cannot be assessed. For this reason, information concerning the influence of the acquired firm on the growth of earnings per share of the acquiring firm must be reported by the acquiring firm or the information cannot be known. These data are important to a comparison of internal versus external earnings growth. At least in large measure, internal growth in earnings comes from the expansion of earnings of previously acquired firms. Fortunately, many of the selected firms have published earnings growth data in one form or another.

Finally, although no empirical data were gathered to support or refute this conjecture, the author believes that the behavioral characteristics hypothesized here are not general characteristics of all corporations, but rather they are peculiar to conglomerates.

CHAPTER II

THE SIGNIFICANCE OF THE HYPOTHESES

In this chapter, the hypotheses set out in the previous chapter will be examined in turn. As each hypothesis is presented, selected references to financial journals and analysts will be made to demonstrate the significance of the hypothesized behavioral characteristics, and a logical defense of each hypothesis will be made. Finally, a line of reasoning will be offered to show how the hypotheses cohere as a group.

The Hypothesis That Conglomerates Are Diversified Companies

Financial writers and analysts consider diversification as a behavioral characteristic of conglomerates. One writer calls conglomerates ". . . enterprises which combine a variety of unrelated business under a single roof."[1] Ira U. Cobleigh believes that conglomerates are lineal descendants of the old business trusts except

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[1]"Rapid Growth Through Mergers," Financial World, CXXV, No. 14 (September 6, 1966), 14.

that conglomerates are in several industries.[2] He calls conglomerates "diversified multiple companies".[3] Harvey H. Segal describes a conglomerate as a ". . . group of companies which operate in separate markets and are held together by bonds of financial and administrative authority."[4] A business periodical states that a motive for acquisition is diversification.[5] Most descriptions of conglomerates contain a reference to their diversification.

Given certain assumptions about the effects of the behavior of conglomerates, it can be reasoned that conglomerates should diversify. For example, if it is assumed that a higher market price per share of a conglomerate's stock is more desirable than a lower price, per dollar of earnings, and if it is assumed that diversification has the effect of reducing business risk by spreading it, then it seems to follow that a lower capitalization rate would be applied by the market to the earnings of a diversified firm than to those of a firm which is not diversified. This will yield a higher market price for the diversified firm's shares, all other things equal.

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[2] Ira U. Cobleigh, "Conglomerate Comments," Commercial and Financial Chronicle, CCVII, No. 6790 (December 19, 1968), 4.

[3] Ibid.

[4] Harvey H. Segal, "The Urge to Merge: The Time of the Conglomerates," New York Times Magazine (October 27, 1968), p. 32.

[5] Business Week, (March 2, 1968), p.39.

The assumption that a higher price per share is more desirable than a lower price is not unrealistic for at least two reasons. First, the higher the price per share, the fewer shares that must be given to acquire another firm. Second, it seems obvious that the conglomerates' shareholders prefer that their shares have a higher price in the market than a lower one. Management holding stock options is also likely to have a preference for the higher price.

The Hypotheses That Conglomerates Achieve Diversification Through Acquisition and That Acquisitions Are a Continuing Phenomenon

These two hypotheses are conveniently treated simultaneously because once conglomerates begin to acquire for diversification, or for whatever reason, there is an incentive to continue to acquire. This will be explained below.

In financial literature it is commonly stated that diversification came about through acquisitions and that acquisitions continue. Cobleigh, quoted earlier, went on to describe conglomerates as diversified companies ". . . created through a series of acquisitions and amalgamations of companies . . . ."[6] Another financial analyst describes conglomerates as diversifying through acquiring other firms.[7] Moreover, acquiring other firms is an on-going

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[6]Cobleigh, op. cit.

[7]Joseph D'Aleo, "The Conglomerates, A Wall Street Appraisal," Mergers and Acquisitions, III, No. 3 (May-June, 1968), 53.

activity according to the same analyst. Acquisitions are routine, a part of the day-to-day operation of the company.[8] Another writer believes that continued acquisition is necessary in order to maintain high growth rates in earnings.[9]

Conglomerates may be expected to diversify through acquisition because there are several advantages to this type of diversification over diversifying by expanding internally. Among the advantages are:

1. Acquisition is quicker.
2. It may be less costly.
3. Financing may be easier.
4. There is less risk.
5. Tax considerations may be favorable.
6. Competition may be eliminated.[10]

An explanation of each of these advantages seems in order.

When an acquisition occurs, revenues are generated immediately and the desired effect of diversification is achieved at once.

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[8] Ibid.

[9] "Conglomerates--Pros and Cons," Financial World, CXXX, No. 5 (July 31, 1968), 27.

[10] J. Fred Weston and Eugene F. Brigham, Managerial Finance (2d ed.; New York: Holt, Rinehart and Winston, ©1966), pp. 636f.

When diversification is undertaken by internal means, time must be allowed for start-ups, test runs, etc. Moreover, a market is likely to exist for the acquired firm's product, while markets must be developed for products newly conceived.

Whether diversification through acquisition is less expensive than through internal means cannot be demonstrated a posteriori. The reason is that internal investment and acquisition cannot both be done to carry out an identical diversification plan. Thus, no comparison can be made. However, it can be argued a priori that under certain conditions acquisition may be cheaper. For example, in instances when share prices are depressed it is likely that buying a firm's stock is less expensive than building new facilities.

Diversification through acquisition can be financed more easily than diversification through internal means because equity securities may be used only in the former case. This conclusion requires the following assumptions. First, the firm is starting at a given size and wishes to expand and diversify. Second, equity securities are "easier" financing than raising cash. Third, the majority of internal diversification requires cash. The required assumptions are not too limiting if a firm can be imagined existing at a point in time, desiring to diversify, and lacking the required cash on hand.

Acquisitions involve less risk than internal diversification because going concerns can be sold more easily and with less chance of loss than individual components. This is true partly because the management of a going concern may accompany it, which is not likely to be the case if a plant is sold off, and partly because a market exists for going concerns. Both these points are discussed in more detail under the aggressiveness hypothesis, the ease of selling acquired firms hypothesis and the retention of management hypothesis.

Tax considerations are several. First, stock for stock exchanges generally are tax-free. Thus, no income tax consequences are likely to arise when one firm acquires another by exchanging equity securities. This, of course, is beneficial to the seller, whose gain may be deferred until the securities are sold. Under the purchase method of recording acquisitions, the buyer may acquire a stepped-up basis in assets for depreciation purposes when cash or debt are used as the medium of exchange. Second, the buyer may purchase net operating loss carry-overs because of the ability to carry losses backwards (or forwards) against the buyer's own income. Such a loss can bring immediate tax relief of about forty-eight cents per dollar of loss purchased. It is possible for the value of the loss carry-over to approximate the selling price making the acquisition extremely attractive. Third, loss carry-overs of the buyer may

enable it to pay a sizeable premium for an acquired firm's income stream which will come tax-free to the buyer because of the effect of offsetting the buyer's prior losses against the acquired firm's income. None of these tax advantages are applicable to diversification through internal expansion.

As for the elimination of competition, it appears that, in view of the current tone of anti-trust sentiment as manifest in the Ling-Temco-Vought and Jones and Laughlin Steel Company merger and the proposed merger between International Telephone and Telegraph and the American Broadcasting Company, the conglomerate would find it unfavorable to give evidence of attempting to eliminate competition, whether it expands internally or externally.

Except for the sixth factor, elimination of competition, all the factors mentioned give substantial reason to expect that conglomerates would diversify by acquisition rather than by internal means.

The rationale for the third hypothesis, that conglomerates continue to make acquisitions, is complex. This is true because it involves a determination of the motives of the conglomerate to acquire other firms.

It may be well to point out that motives are human traits,

not corporate ones. Thus, the use of the phrase "motives of the conglomerate" means motivations of the conglomerate's management. Similarly, the notion "conglomerate behavior" is intended as a manifestation of the motives of its policy makers.

One important reason for expecting conglomerates to continue to make acquisitions is so that the conglomerate can maintain high earnings per share growth rates. To generate a high growth rate is sufficient reason for beginning acquisitions. There are myriad other reasons, such as to provide diversification, to forestall failure and renew the firm's life cycle, to avoid anti-trust action, to take advantage of tax losses, to simply expand, to acquire management, to gain leverage or liquidity, to exploit an advantage or to simply build a company of the General Motors type.

Of course, motives can change. For example, a motive to acquire to take advantage of existing tax loss carry-overs will ultimately become meaningless as the losses are fully absorbed. This motive is likely to be replaced by one or several of the others.

Once the acquisition program is begun the impetus to continue to acquire is great because if the growth rate falls, the market is likely to value the firm's stock downward. This can create other problems for management who, it has been stated, prefer higher share prices to lower ones.

This hypothesis must be given a broad rather than a strict interpretation. Carried to its logical extreme, it suggests that conglomerates will continue to acquire other firms indefinitely. Obviously, this is impossible inasmuch as the number of firms available to be acquired is not infinite.

The Hypothesis That Conglomerates Have High Earnings Growth Rate Goals

Financial journals have been replete with articles, analyses and market recommendations extolling the "growth" potential of conglomerates. Conglomerates are commonly regarded as "growth" companies, and this is stated as a truism not requiring substantiation. The literature has many examples of high earnings growth rates generated by conglomerates. Earnings growth rates as high as 36 per cent compounded annually between 1961 and 1965 for Litton Industries,[11] 15 per cent for Textron in the same five year period,[12] and 14.5 per cent for FMC from 1956 to 1965[13] may be cited. Forbes has stated that conglomerates set high growth rate goals in earnings.[14]

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[11] The Magazine of Wall Street, CXIX, No. 11 (February 4, 1967), 67.

[12] Ibid., CXIX, No. 8 (December 24, 1967), 354.

[13] Ibid., CXIX No. 11 (February 4, 1967), 43.

[14] "The Multi-Companies: Conglomerate, Agglomerate and In-Between," Forbes, CIII, No. 1 (January 1, 1969), 77.

It is expected that conglomerates should strive for high growth rates in earnings per share. A theoretical example will illustrate how the growth in earnings may be generated.

To achieve some increase in earnings per share in a given time period under ceteris paribus conditions of internal growth, it is necessary only that the acquiring firm find a willing prospect with a lower price-earnings ratio. Assume an acquiring firm with a price-earnings ratio of 15 and a prospective acquired firm with a price-earnings ratio of 10. Assume, further, that the acquiring firm's earnings per share are $1.00 and the acquired firm's, $2.00. The market price of the acquiring firm's shares is $15.00 and the price of the acquired firm's is $20.00. The acquiring firm can pay up to fifteen times the earnings of the acquired firm in the acquiring firm's own shares and still increase its own earnings per share.

Assume the acquiring firm is willing to pay fourteen times the acquired firm's earnings, and that they agree to exchange common stock on that basis. This price represents a 40 per cent premium over the market price of the acquired firm. For simplicity, further assume that both acquiring firm and acquired firm have 1,000 shares of common stock outstanding. The acquiring firm will give $28,000 for the acquired firm (1,000 shares times $2.00 earnings per share times fourteen). In its own shares, the acquiring firm

must give 1,867 shares ($\frac{\$28,000}{15}$). Added to the 1,000 shares already outstanding, the acquiring firm now has 2,867 shares outstanding. Taking into account the earnings purchased from the acquired firm, the acquiring firm's total earnings rise from $1,000 ($1,000 x $1.00) to $3,000 ($1,000 + $2,000). With 2,867 shares now outstanding, the earnings per share of the acquiring firm is equal to about $1.05 per share ($\frac{\$3,000}{2,867}$). This results in an increase in earnings in this period of 5 per cent, solely as a result of the act of acquiring.

It may be seen from the example that a desired annual growth in earnings may be manipulated to a limited extent by varying the premium paid for an acquired firm. This is especially true in cases where the price-earnings ratio of the acquirer is two or three times that of the prospective acquired firm. A high growth rate can be generated while at the same time large premiums over market price can be paid to the acquired firm's shareholders.

The example presented may also demonstrate, at least implicitly, why conglomerates desire high growth rates. High growth rates in earnings are likely to create a favorable appraisal by the market of the conglomerates' shares, perhaps resulting in still a higher price-earnings ratio. The higher the price-earnings ratio of the acquiring firm, relative to that of the acquired firm, the higher the growth rate that may result.

This rationale for high growth rate goals also serves as grounds for the hypothesis that acquisitions are a continuing phenomenon for conglomerates. Under the favorable relative price-earnings ratios described above, more acquisitions yield more earnings, and so on. In addition, a cessation of acquisition activity may cause a decline in earnings growth which may be viewed unfavorably by the market, with obvious undesirable effects on the conglomerate.

Corollary to the third and fourth hypotheses, that acquisitions are a continuing phenomenon and that conglomerates have high growth rate goals, is the notion that growth rates are generated more by acquisition than by internal means. This is reasoned on grounds presented earlier, that expansion is more easily accomplished by acquiring going concerns than by internal means.

The Hypothesis That Conglomerates Are Aggressive Acquirers

The belief of financial writers and analysts that conglomerates have aggressive acquisition policies is exemplified by Joseph D'Aleo, cited earlier. He describes conglomerate acquisition behavior as offensive rather than defensive. Conglomerates acquire when the opportunity presents itself, not with a view toward seeking balance in their acquisitions.[15] One writer has described the

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[15] D'Aleo, op. cit., 53.

acquisition policy of conglomerates as "ambitious."[16] Barton M. Biggs believes that conglomerates must acquire more firms or bigger ones to avoid a decline in growth rates, and as a consequence a decline in the price-earnings ratio.[17] Biggs also suggests that competition for likely candidates for take-overs requires that conglomerates be aggressive in their acquisition policy.[18]

The rationale for the aggressiveness hypothesis is partly dependent on acceptance of the reasoning of the preceding four hypotheses, partly on the reasoning of the hypothesis that acquisitions are easily sold and partly on conditions of the market for going concerns. The chain of reasoning is as follows: given that conglomerates desire to diversify and to maintain a high growth rate in earnings, and given that both these desires are fulfilled through acquisitions, then conglomerates must pursue potential candidates. There are many conglomerates, each pursuing firms. This creates a market where demand for possible acquisitions is heavy. Such a market, where demand is heavy, is likely to promote aggressive acquisition policies inasmuch as mistakes can be easily overcome by

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[16] "What's a Conglomerate?" Business Week (August 10, 1968), p. 70.

[17] Barton M. Biggs, "Day of Reckoning?" Barron's, XLVII, No. 3 (April 3, 1967), 3.

[18] Ibid., 14.

selling off undesirable acquisitions. Thus, the conglomerate can afford to be aggressive in its acquisitions and may even experiment by buying firms conditionally,[19] knowing that they can be sold easily.

The Hypothesis That Conglomerates Sell Acquired Firms Easily

Many financial writers believe that it is characteristic behavior of conglomerates to sell firms acquired in relatively large numbers. One journal has estimated that 10 per cent of all acquisitions in 1967, 20 per cent of 1968 acquisitions and 30 per cent of those in 1969 were purchases of firms from conglomerate acquirers.[20] Other writers believe that sell-offs are numerous, and that they are a result of the failure of an acquisition. According to one analyst, conglomerates have the highest merger failure rate of all firms, 42 per cent.[21] Eamon M. Kelly has asserted that conglomerates have a high failure rate, and consequently they sell many acquired firms.[22] The main reason for the failure is that too

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[19] Edith Penrose, The Theory of the Growth of the Firm (New York: John Wiley & Sons, Inc., 1959), p. 179.

[20] Mergers and Acquisitions, III, No. 6 (November - December, 1968), 63.

[21] John Kitching, "Why Do Mergers Miscarry?" Harvard Business Review, XLV, No. 6 (November-December, 1967), 91.

[22] Eamon M. Kelly, The Profitability of Growth Through Mergers (The Pennsylvania State University, 1967), p. 65.

low a capitalization rate is applied to the expected earnings stream. In other words, Kelly believes conglomerates pay too much for their acquisitions, causing merger failures and sell-offs.

It has already been reasoned that an existing market for going concerns facilitates sell-offs of acquired firms. Conglomerates may prefer to sell whole firms on the grounds that it is less expensive than divestiture of equivalent assets in an ad hoc fashion when expansion has been internal. This reason is supported by the rationale for the seventh hypothesis, that management of the acquired firm is kept. Moreover, because a sale presupposes a buyer as well as a seller, the buyer's preference for a going concern for reasons previously stated will make going concerns more easily sold.

The Hypothesis That Management of the Acquired Firm Is Kept by the Acquiring Firm

One significant factor, cited by at least one writer in finance, in determining if a firm is to be acquired and what price is to be paid is whether the acquired firm's management will remain.[23] He believes that a firm is more valuable as a potential candidate for take-over if its management will accompany the firm. The

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[23] Mergers and Acquisitions, III, No. 1 (January-February, 1968), 80.

Magazine of Wall Street has stated that management, including that acquired by the conglomerate, may be the conglomerate's main asset,[24] and this seems to sum up the general tone of the literature with respect to the retention of management.

The reasons that conglomerates are expected to retain management of an acquired firm are several. First, a firm with management in place is more readily saleable than one whose management will not accompany its firm. The reason is related to a second reason; management familiar with the firm's operations is likely to facilitate assimilation into the conglomerate. Third, considering the degree of diversification of the conglomerate and the number of unrelated industries in which the conglomerate operates, the acquired firm's management is much more likely to understand the industry and product of the firm acquired than is the conglomerate's management. Fourth, if the firm is acquired primarily for its demonstrated earnings capability, it may disturb that capability if the management responsible for making the earnings is replaced.

The Hypothesis That Conglomerates Are Loosely Structured With Many Divisions

Those who write about conglomerates believe it is

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[24] "What's in Store Now for Conglomerates?" The Magazine of Wall Street, CXXI, No. 13 (March 16, 1968), 33.

characteristic of conglomerates that they operate acquired firms on a decentralized basis in the areas of both management and accounting.[25] Again, another journal reports that management of conglomerates is decentralized, each acquired firm operating almost independently of the management of the conglomerate.[26] Moreover, control over the acquisition is limited, and operational integration of the acquired firm is not an objective of the conglomerate.[27] There exist little or no common facilities between the acquired firm and the acquiring firm, and almost no inter-company transfers of goods take place.[28]

The rationale for this hypothesis is relatively simple and partly relies on the reasons developed under the hypotheses that acquired firms are easily divested and that management of acquired firms is kept. A firm fully integrated with its affiliates, with common accounting systems, management, facilities, etc. is much less likely to be saleable if a sale is desired, than a firm which is kept decentralized. In addition, there is a considerable degree of

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[25] A. A. Sommer, Jr., "Conglomerate Disclosure: Friend or Foe?" Journal of Accountancy, CXXIII, No. 5 (May, 1967), 64.

[26] The Magazine of Wall Street, CXXI, No. 13 (March 16, 1968), 33. op. cit.

[27] Ibid.

[28] A. A. Sommer, Jr., op. cit.

unrelatedness between the various acquired firms of one conglomerate, for example, a bank, a food service company and a steel mill. Moreover, there is a lack of familiarity of the conglomerate's management with these diverse areas. Thus, the management of the acquired firm needs a high degree of autonomy in the operation of his firm.

The number of divisions of a conglomerate is, of course, dependent on many factors, only one of which is the need for decentralization. It does not necessarily follow that decentralization requires that each acquired firm be made a division. In some instances one acquired firm may be made into several divisions, or several acquired firms may be placed in a single division. It does seem reasonable, however, that in a general sense there is a direct relationship between a desire for decentralization and creating a division for each unrelated acquisition on the grounds that divisionalization is one means of decentralization.

The Rationale for the Hypotheses as a Group

While almost all of the hypotheses have a rationale independent of the others, it is apparent that the rationale for several of the hypotheses is nearly identical. This is true because all the hypotheses set out are interrelated, that is, they are logically consistent.

To demonstrate the coherence of the hypotheses, the following line of reasoning is offered. Conglomerates acquire firms for various reasons. Two important reasons are the desire to diversify and the desire for high growth rates in earnings. Diversification is desirable because it tends to reduce risk. Other things equal, risk reduction will likely increase the price-earnings ratio by lowering the rate at which earnings are capitalized. High growth rates in earnings may have the same effect, that is, to raise the price-earnings ratio. A higher price-earnings ratio means that the firm's shares sell higher relative to those of firms with a greater risk and a lower earnings growth rate. Higher share prices of the acquiring firm are more desirable than lower prices. One reason higher prices are more desirable is that acquisition is easier when the price-earnings ratio of the acquiring firm is higher than that of the acquired firm.

New acquisitions are a means of achieving both diversification and high earnings growth rates. Often acquisitions are a better vehicle to attain these goals than internal expansion. Once a conglomerate has a reputation for high growth rates, there is a strong incentive to continue acquiring other firms, or the conglomerate's earnings growth rate may stall and its shares will likely face a downward re-evaluation by the market. This is to be avoided because the higher the conglomerate's share price, relative to its earnings, the easier it is to acquire other firms.

Because conglomerates have a strong impetus to acquire, and because the number of possible candidates is finite, there arises competition among acquiring firms for firms to acquire. This competition requires that conglomerates be aggressive in their acquisition policy. The more aggressive the conglomerates become, the more intense the competition for acquiring firms becomes. This great demand for firms, coupled with a limited supply, helps create a secondary market for firms. That is, firms acquired by conglomerates may be more easily sold to other acquiring firms.

The sale and resale of going concerns is facilitated by many factors. One important factor is that the management of the acquired firm may accompany it, bringing experience in the industry and familiarity with the internal operations of the firm. Another factor making resale easier is that acquired firms are not fully integrated into the acquiring firm. One reason for keeping acquired firms decentralized may be the possibility that a later sale may be desirable. Another reason is the lack of interrelationship between the components of the conglomerate because of its diversity.

CHAPTER III

TESTS OF THE DIVERSIFICATION, DIVERSIFICATION THROUGH ACQUISITIONS AND CONTINUITY OF ACQUISITIONS HYPOTHESES

The behavioral characteristics of conglomerates have been posited as hypotheses. The validity of the hypotheses must be tested, and the first three hypotheses will be tested in this chapter. For each hypothesis tests will be presented along with a defense of each test. Tests are made by reference to data compiled from a study of the forty-three firms selected as representative of the conglomerate category. As each test is completed, the significance of the test will be presented. Finally, once all tests of these hypotheses have been accomplished, the hypotheses will be accepted or rejected and the reasons for acceptance or rejection stated.

Tests of the Hypothesis That Conglomerates Are Diversified

There are two tests for diversification: sales mix and product variety. Sales mix means the number of industries in which the firm operates. Product variety means the number of different products (or services) of the firm. For purposes of this dissertation diversification means that no one part of the firm's business contributes

50 per cent of its sales, and that the firm does not have dependence on one product or service. Thus, if the hypothesis is to be accepted, conglomerates must have multiple products and sales spanning at least three industries.

The test of the hypothesis by reference to sales mix data may be defended on the grounds that diversification carries with it a notion of independence from the cyclical effects of an industry. Independence cannot be said to exist when one-half or more of sales are made to a particular industry.

Sales mix data of the forty-three firms are presented in Appendix II. The per cent of the companies' total sales in each industry or technology is shown. Five of the firms have not made sales mix data available, and no reliable method of estimation could be found. A limited number of the remaining firms report their sales mix in such broad terms that interpretation is difficult. For example, Gulf & Western reports 49 per cent of its sales from "manufacturing." The classification "manufacturing" does not fit an industry or a technology category, and it does not properly relate the diversity that exists, for example, between the manufacture of tobacco products and the manufacture of wire and cable or automobile parts.

There are thirty-eight companies for which data are available. Three of these have sales of 50 per cent or more in a single industry:

AMK, Indian Head and Parker-Hannifin. Of the remaining thirty-five firms, each had its sales spread between three and ten industries, with no one industry contributing a preponderance of sales dollars. Almost one-half of this group, sixteen firms, have sales in at least six industries, and seven firms have sales in eight or more industries.

This test is significant because it clearly shows the extent of diversification of the selected conglomerates through the number of industries in which the firms operate.

There is a warning, however, which must be presented here. Sales mix percentages are highly volatile and can change from period to period depending on the size and the number of acquisitions. For example, Ling-Temco-Vought's sales percentages changed greatly in 1968 from 1967 with the acquisition of control of Jones & Laughlin Steel Corporation. In 1967, 53 per cent of LTV's sales were sales of food (as a result of its acquisition of Wilson & Company). In 1968, however, that percentage declined to 29 per cent, with steel sales supplying another 29 per cent. There are other such instances which could be cited. Thus, sales mix percentages for a single year, or even a limited number of years, should not be accepted as indicating that a firm is not seeking to diversify. An indication of a firm's intention to diversify is tabulated on Page 33, "Stated Goals of the Firm." Twenty-three of the selected firms have diversification as a goal.

STATED GOALS OF THE FIRM

OBJECTIVE:	NUMBER OF FIRMS	
Growth:		
At a specified rate or dollar amount . .	26	
"Growth" but unspecified	12	
Objective of growth through acquisition	12	
Objective of internal growth	1	
To "build a company of AT&T, General Motors type"	1	52*
Diversification:		
Wants diversification.	18	
No product or program to contribute more than 10% of sales	1	
Balance between government and commercial business	2	
To build an "international business institution".	1	22
Will dispose of divisions not meeting standards.		17
Maximize profits or present worth		3
Company is not acquisition minded.		1

*Does not total 43 because of overlap in some areas.

Source: Compiled by the author from reprints of speeches by corporate executives and the annual reports of the firms.

The results of the test for product variety may be seen in Appendix II. Except for AMK, all firms in the group have many varied products and services.

The significance of this test is similar to that of the previous one. The various number of products or services supplied by the firms is indicative of their independence from one or a limited number of products.

The hypothesis that conglomerates are diversified is accepted on the grounds that more than 80 per cent of the conglomerates used to accumulate data had sales in at least three industries and many products. None of these firms had sales in one industry contributing 50 per cent or more of its total sales.

Tests of the Hypothesis That Diversification Was Achieved Primarily Through Acquisitions

Three tests have been devised for this hypothesis: 1) stated goals of the firms with respect to diversification and diversification through acquisition; 2) frequency of acquisitions; and 3) effect of earnings purchased on the total earnings of the conglomerate.

These three tests must be regarded as complementary. This is necessary because proof of the hypothesis cannot be approached directly. The direct approach would be to compare sales (or earnings)

of each acquired firm to the total sales of the conglomerate. This information, along with knowledge of the industry or technology in which the acquired firm sells and its product line, would provide support for the hypothesis. Limitations on data, however, especially with respect to the products and industry activity of each firm acquired, make this approach impossible. Thus, it is necessary to use the three tests in conjunction, according to the following line of reasoning. If it can be shown that the conglomerates have the goal of diversification and want to acquire to accomplish this goal, and if it can be demonstrated that conglomerates do, in fact, acquire many firms, and further, if it is true the firms acquired in order to give the conglomerate diversification contribute significantly to the sales (or earnings) of the conglomerate, then it seems to follow that diversification is achieved, at least in part, through acquisition. The extent of the diversification through acquisition will depend on the number of firms acquired and the effect of their sales (or earnings) on the sales (or earnings) of the conglomerate.

Reference to "Stated Goals of the Firms," Page 33, will show that twenty-two of the firms, more than 50 per cent, have diversification as a goal. Now this information can be used simultaneously with that tabulated on Pages 36 and 37, "Requirements or Criteria Stated by the Conglomerates for Their Acquisitions." One criterion

REQUIREMENTS OR CRITERIA STATED BY THE CONGLOMERATES FOR THEIR ACQUISITIONS

REQUIREMENT	NUMBER OF COMPANIES
Specified Sales Level	4
Specifications with Respect to Earnings of Firms Acquired:	
Specific as a Per Cent of Sales or in Absolute Terms	6
Unspecified Current Earnings	8
Specifications with Respect to Management:	
"Competent" Management	19
Management Who Will Remain	14
Specifications with Respect to Growth:	
A Specified Rate of Growth	4
"Potential" for Growth	12
Unspecified Present Growth	5
Specifications with Respect to Return on Investment:	
A Specified Return on Investment	6
An Unspecified Return on Investment	4
Return on Investment Specified but Not Related Directly to Acquisitions	14[a]
Specifications with Respect to Earnings of Acquirer:	
Must Be No Dilution	5
Other Requirements:	
Must Add (or Provide) Diversification	6
Restrictions, Either Qualitative or Quantitative, Imposed on Price	5
Some Specification for Synergey, Complementarity or "Fit"	11
Acquisitions Become Divisions	1
Must Occupy "Established" or "Leadership" Position Prior to Acquisition	9

REQUIREMENT	NUMBER OF COMPANIES
Must Be in a Certain Industry or Technology	6
Must Be "Right" Size	2
Must Enhance Competition	1
Must Not Threaten Antitrust Action	1
Must Be "Small" Company	1
Must Be Planned for in Advance	1
Able to Be Purchased for Cash	1
No Stated Requirements	11[a]
No Specific Plans, Just Wants Acquisitions	1
Acquisitions Made As Opportunity Arises	1

[a]Six are companies with a required rate of return on investment projects but no stated requirements for acquisitions.

Source: Compiled by author from annual reports, reprints of speeches made by company executives and articles in financial journals.

which six of the conglomerates have for their acquisitions is that they provide diversification. Two of these six are not included in the twenty-two firms which have diversification, or some aspect thereof, as a goal of the firm (see Page 33). Thus, there are twenty-four firms (twenty-two with diversification as a goal, plus the two which are not counted in the twenty-three, but which require that firms acquired provide diversification) having a stated desire to diversify.

Referring again to the data on Pages 36 and 37, six firms state that acquisitions must be in a certain industry or technology. These are Chromalloy, International Silver, Parker-Hannifin, SCM, TRW and Genesco. Both Chromalloy and International Silver originally specified that acquisitions must be in metals or metal working fields. Later, however, Chromalloy acquired a barge line and a finance company and International Silver a publishing company. Genesco was to have "concentrated in apparel and footware," but it purchased a huge variety store chain in 1964, S. H. Kress. SCM and TRW have defined areas of interest for acquisitions quite broadly. SCM has stated a preference for a "certain technology." This obviously includes firms with such diverse interests as Durkee (foods) and Glidden (Paint). TRW wants acquisitions in "proprietary product" lines. If "proprietary" has its traditional meaning for TRW, that is, products made and marketed by one with the exclusive right to do so,

then no specific industry is required. In fact, TRW is diversified and has made acquisitions in such fields as electrical components, space technology, metal casting, pumps, etc. The point of all this is that five of the six firms which apparently limited acquisitions to one industry have made significant acquisitions in widely diverse fields. The sixth firm, Parker-Hannifin, has a goal of limiting its major acquisitions to the "fluid-power components and controls" area and has done so.

There are thirteen firms remaining which either do not have diversification or diversification through acquisition as a goal, or are not one of the five firms already cited as having diversified through acquisition. The following tabulation will indicate the firm and some of its major acquisitions which have results in diversification:

Conglomerate	Certain Major Acquisitions	Field or Industry
A. J. Industries	Dristwhit Metals	Metals Fabricating
	Robert Gordon Appliance	Appliances
	Jessup Wood Products	Wood Products
Allied Products	Sterling Bolt	Industrial Fittings
	Coz Chemical	Chemicals
	General Bronze	Metals
AMK	John Morrell	Meat Packer
	Chicago Railway Equip.	Railway Equip.
Bangor Punta	Smith and Wesson	Gun Manufacture
	Jensen-Wenck	Marine Products
	Waukesha Motor Co.	Engines and Radiators

Conglomerate	Certain Major Acquisitions	Field or Industry
City Investing	Moore & McCormack	Steamship Line
	Rheem Mfg. Co.	Industrial Equip.
	Motel 6, Inc.	Motel Chain
	Home Insurance Co.	Insurance
Clark Equipment	Refrigeration Engineering	Refrigeration Components
	Chicago Malleable Steel	Steel Components
Dresser	Harbison-Walker	Refractories
	Symington-Wayne	Railroad Equip.
Eaton, Yale and Towne	American Monorail	Transportation
	E.N.V. Engineering	Engineering Service
Glen Alden	Schenley	Whiskey
	Stanley-Warner	Apparel
	List., Ind.	Motion Picture
Houdaille	Viking Pump	Industrial Pumps
	Universal Engineering	Engineering Components
Lear-Siegler	American Metal Products	Metals
	Sale Electric	Electric Components
MSL	Garrett Co.	Fasteners
	DK Manufacturing	Aerospace
	Perfecto Engineering	Stamping Presses
Republic Corporation	Strong Plastics	Plastics
	Gale and Thompson	Hydraulic Units
	Continental Graphics	Graphic Arts

This listing is, of course, incomplete. It does, however, show that these firms have made substantial acquisitions in diverse fields.

The significance of the tests of the goals of the firms with respect to diversification and diversification through acquisition is

partly dependent on the outcome of the other two tests of this hypothesis. It is important, however, that almost all of the selected conglomerates have either made significant acquisitions which resulted in diversification or had it as a goal to do so.

The second test of this hypothesis is that of the frequency and number of acquisitions by conglomerates. It has been shown, in the previous test, that conglomerates have goals of diversification and diversification through acquisition or that they have made acquisitions in diverse areas. The results of this test will show the extent to which the firms have pursued their goals.

The number of firms acquired by year for each firm is tabulated on Pages 42 to 45. The forty-three selected firms have made some 1,323 acquisitions. The number of acquisitions ranges from fewer than ten by AMK, National General and Seilon to over 100 by Teledyne. It should be pointed out that not every acquisition made by each firm is shown. Several of the acquiring firms have made purchases too small to be reported. Other purchases were made where control was not achieved, and these are not shown. Still additional firms have been acquired in purely cash transactions, and no data are available. It is believed, however, that all major and most minor acquisitions are listed. One further qualification should be made. While every effort was made to assure the accuracy of

ACQUISITION ACTIVITY
(BY YEAR ACQUIRED)

	TOTAL	1968	1967	1966	1965	1964
A. J. Industries	16	7	1			
AMK	7		2			
Allied Products	18	3	5	2	2	1
"Auto" Sprinkler	20	2	12	2	4	
Bangor Punta	23	3	7	8	2	1
Bendix	27	5	4	3	5	3
Boise Cascade	32	2	9		3	7
Chromalloy	38	13	7	2	3	2
City Investing	15	6	7			1
Clark Equipment	11	1		3	1	
Dresser	13	2	1			1
Eagle-Picher	12	2	3		1	2
Eaton, Yale & Towne	16	4	2			
FMC	33	1	1	2	2	1
Genesco	34	3	5	3	3	5
Glen Alden	15	1	3			
W. R. Grace	69	9	8	16	13	11
Gulf & Western	81	7	7	6	12	11
Houdaille	20	1	2	1	3	1
Indian Head	32	5	5	4	3	
Int'l. Silver	12	2	1	2		1
Int'l. Tel. & Tel.	49[a]	9	9	7	4	10
Walter Kidde	50	11	12	9	10	2
Lear-Siegler	43	8	3	4	3	3
Lehigh Valley	23	7	3	2	2	1
Ling-Temco-Vought	26	3[b]	5	1	1	1
Litton	70	9	12	2	3	4
MSL	23	4	1	5	2	1
Midland Ross	17		2	1	1	1
National General	9	3	1			1
N. A. Rockwell[c]	15	4	4		1	
Ogden	27	7	3	3	1	1
Parker-Hannifin	17	1	1		4	2
Republic Corp.	37	27	7		1	
SCM	13	1	5	1		
Seilon	9		1	4	2	
TRW	38	7	4	3	1	2
Teledyne	109	39	28	26	8	5
Textron	76	4	4	4	6	5
Transamerica	21[d]	6	1	1	2	3
UMC	22		1			2

1963	1962	1961	1960	1969	Prior To 1959
		2	4		2
		2			3
1	2	1			1
1	1				
	1		1	1	4
2	1	3		3	2
2	2	2	1	2	2
1					5
		1	1		7
					4
2	2	1	1	2	2
1	1	1	1	2	20
1	3	6	3	1	1
	1	1	1	1	7
5		1		1	5
9	13	6	5	4	1
		1		2	9
4	1	2	4	1	3
	1	1	2		2
3	2	3	1	1	
	1				5
4	2	3	1		12
	1		1		6
1	1	2	3	3	5
5	4	6	2	4	19
2	3	2	3		
1	2	2		2	5
2					2
1				2	3
	1			3	8
3	1		1	1	3
1		1			
		1			5
	1				
1	1	2	1	2	14
3					
5	2	5	6	9	26
2	1	3	1	1	
1	1	2	3	6	6

	TOTAL	1968	1967	1966	1965	1964
U.S. Industries	62	21	18	3	1	
White Consolidated	23	2	3	3	3	4
TOTALS	1,323	252	220	133	113	97

[a]Acquisitions from 1959 only.
[b]Includes Jones & Laughlin.
[c]Includes acquisitions of Rockwell Standard prior to 1967.
[d]Not including Occidental Life.

Source: Compiled by the Author from Listing Statements of the New York Stock Exchange, annual reports of the firms and various financial journals.

1963	1962	1961	1960	1959	Prior To 1959
	1	1	1	1	15
	2	1	2		3
61	56	66	51	56	218

annual acquisition activity, it is often difficult to determine exactly when an acquisition is consummated. Thus, there may be errors as to the year in which the firm is acquired. Both these qualifications are equally applicable to data concerning sell-off activity and earnings purchased (Appendix VIII).

Three of the forty-three firms had acquired fewer than ten companies by December, 1968. One of the three, Seilon, was in a period of transition, divesting itself of several previous acquisitions and at the same time making others. A second of the three, AMK, had purchased only two firms of size, including John Morrell and Company. AMK had been active in making tender offers for such firms as United Fruit and Great American Holding Company. National General, the third company, had made only nine acquisitions, but six of the firms acquired had pre-acquisition earnings of one million dollars each. Moreover, they were in such diverse industries as a savings and loan company, television production, a film producer and through its acquisition of Great American Holding Company, a group of fire and casualty insurance companies as well as a life insurance company.

Eight firms have made fewer than four acquisitions in the last two years: Dresser Industries, FMC, Houdaille, International Silver, Midland Ross, Parker-Hannifin, Clark Equipment and UMC.

The remaining thirty-two firms each have made twelve or more acquisitions and four or more in the last two years. The majority of all the firms, twenty-seven, have acquired twenty or more firms. Sixteen conglomerates which have acquired more than thirty firms have acquired firms at an annual average of ten per conglomerate for each of the past two years. All firms have acquired at an annual average of about three firms per conglomerate in each of the ten years beginning with 1959.

The third test of the hypothesis that diversification was achieved largely through acquisition is the test of the impact of purchased earnings on the total earnings of the acquiring firm. It has been stated that the magnitude of the effect of the sales (or earnings) of acquired firms on the sales (or earnings) of the acquiring firm is indicative that diversification is achieved in large part by acquisition. This test must be considered with the previous one, and both tests are to be evaluated in terms of the conglomerates' stated goals of diversification and diversification through acquisition.

Appendix VIII shows both average past earnings and current earnings purchased by each of the forty-three companies. Average earnings were determined by dividing the annual earnings of the acquired firms prior to their acquisition for as many years as could be determined (but at least three years) by the number of years. Current

earnings are simply the last year's earnings of the acquired firm prior to its acquisition. Current earnings are shown only in total for all acquired firms, not year-by-year. The table also shows the purchase price for each year and in total, and the times earnings paid.

By way of further explanation of Appendix VIII, A. J. Industries purchased firms in 1968 with average past earnings of $166,784, for which A. J. Industries paid $3,360,750, or 20.1 times average past earnings. Overall, A. J. Industries has purchased $729,437 in average past earnings and has paid $12,424,970 for the firms purchased. Using the earnings of the last year prior to acquisition, i.e., current earnings, A. J. Industries purchased $784,718 in earnings. At a purchase price of $12,424,970, A. J. Industries paid 15.8 times current earnings.

In Appendix IX, purchased earnings, both average past and current are plotted on the same chart with total reported earnings of each acquirer on an unpooled basis. Again using A. J. Industries as an example, by 1962 that company had purchased about $431,000 in average annual past earnings. There were no significant acquisitions until 1967 when $131,500 in average past earnings were purchased. This is $562,500 ($431,000 + $131,500) in "cumulative average earnings purchased." In 1968, acquisitions with average past yearly earnings of $166,784 were purchased. In total, A. J. Industries purchased about $729,400 in average earnings. For some

of the forty-three firms the current year's earnings of their acquisitions were significantly different from average annual past earnings. Where this situation exists, the current earnings are plotted along with average past earnings.

The use of the data in Appendices VIII and IX is subject to three qualifications, two of which were mentioned on Page 41. In addition, the number of acquisitions shown on Pages 42 to 45 and those represented by earnings in the two appendices above are not identical. This is because of limitations on earnings and/or price data, as stated in the first chapter of this dissertation. The author believes, however, that pertinent earnings and purchase price data were found for all major acquisitions.

While purchase price is not relevant to this phase and will be mentioned in detail later in connection with the discussion of the aggressiveness of conglomerates, Appendices VIII and IX do contain information on price. It is appropriate, therefore, to give details here of the techniques used to determine purchase price. Cash and debt were valued at face. Common and preferred stock were valued at the average price for thirty days preceding the acquisition. Price was determined by reference to various stock exchange listings. Not infrequently, a quotation on preferred issues used for purchases could not be obtained, ostensibly because the issue was not traded.

When the issues were convertible ones, common stock prices were used, considering the exchange ratio. There was only one instance in which a market price could not be obtained for a non-convertible preferred issue. Here, the acquisition was relatively small compared to the size and numbers of other acquisitions by the same firm, and that acquisition was excluded from Appendices VIII and IX. Deferred payments were discounted to the present using the firm's own required return on investment. Many of the firms report a required return on investment either in speeches made by executives or in articles written about the firm and printed in financial journals and newspapers. In all cases where deferred payments were used, a required return on investment has been stated.

The charts of Appendix IX were uniquely constructed in that the year-by-year earnings of each firm are cumulative, but cumulative earnings do not include the recasting of prior year's earnings due to current year poolings. Said another way, the total earnings are as originally reported by the companies. This was done to emphasize the impact of purchased earnings whether treated as a pooling of interest or as a purchase by the company. For a pooling, companies are required to restate prior year's income as if the pooling had been in effect all year, and in all prior years. This requirement holds even though the acquisition is not consummated until

" . . . at or shortly after the close of the period . . . ."[1] For acquisitions treated as purchases, of course, earnings are reported from the date of the consummation of the acquisition.

Earnings purchased also were necessarily adjusted for the per cent of ownership acquired. Thus, in the case of an acquisition where 75 per cent interest is acquired, 75 per cent of the earnings are included. Finally, earnings used were "normal" earnings insofar as was determinable. In other words, extraordinary gains and losses were excluded from earnings figures.

With all explanations and qualifications now made, it is possible to evaluate the charts of Appendix IX. No chart was made for Seilon because of losses of that firm for four of the past five years. Reference to the charts will indicate that the firms can be readily categorized initially into two groups, one on which purchased earnings had no significant effect on total earnings and a second comprised of firms on which purchased earnings had a significant effect. "Significant" here is defined as meaning that 50 per cent or more of total earnings were purchased. Purchased earnings in this context is taken as meaning either average past or current earnings. Data

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[1]American Institute of Certified Public Accountants, Opinions of the Accounting Principles Board, Opinion No. 10, Omnibus Opinion-1966 (New York: American Institute of Certified Public Accountants), ©1967, p. 144.

on Page 54 provide a summary of the information in Appendix IX.

According to the two categories mentioned, there are seven companies in the former and thirty-six in the latter. The former group consists of Clark Equipment, Eaton, Yale & Towne, International Silver, Midland Ross, North American Rockwell, Parker-Hannifin and UMC. In the latter group there is a sub-group. The firms in this sub-group show a striking correlation between total earnings and earnings purchased. These firms are: AMK, "Automatic" Sprinkler, Bangor Punta, City Investing, Glen Alden, Gulf and Western, Walter Kidde, Lear-Siegler, Lehigh Valley, Ling-Temco-Vought, MSL, SCM, Teledyne and U.S. Industries. Ten of these fourteen showed purchased earnings exceeding reported earnings in one or more years. The movement of total earnings in response to purchased earnings is also of great importance.

In every case, with respect to the fourteen firms just listed, total earnings and purchased earnings move in close concert. This phenomenon is not unique to these fourteen firms, however. A similar relationship can be seen by reference to charts for Bendix, Boise Cascade, Chromalloy, Dresser, FMC, Genesco, W. R. Grace, Indian Head, International Telephone and Telegraph, National General, Ogden, Republic, TRW, Textron, Transamerica and White Consolidated Industries. In fact, it may be instructive to make a

mental chart of total earnings of those firms after first removing each year's purchased earnings. In some cases year to year increases in purchased earnings exceed the increase in total earnings. This is true for "Automatic" Sprinkler, Bangor Punta and Glen Alden between 1966 and 1967 and 1967 and 1968; for Bendix, Dresser, Lehigh Valley, MSL and SCM in 1966; and for Gulf and Western and Lear-Siegler in 1965. Ling-Temco-Vought's purchased earnings increase far exceeded the change between 1967's earnings and 1968's. The same is true of Litton's, Ogden's, TRW's and Teledyne's.

One further comparison can be made using the data of Appendix IX. For each company the relationship between total purchased earnings and total earnings is shown in absolute terms, and the differences between the average purchased earnings, total earnings and current earnings purchased (where applicable) are emphasized.

The test of the impact of purchased earnings on total earnings has significance because it demonstrates that the earnings of most of the conglomerates are affected substantially by the earnings of firms purchased. Over 80 per cent, 36, of the firms had at least 30 per cent of their total earnings purchased from other firms. Nearly 60 per cent, 25, of the forty-three firms had 50 per cent or more purchased earnings.

IMPACT OF PURCHASED EARNINGS ON TOTAL EARNINGS*

	Number of Firms
Purchased earnings 50% or more of total earnings	25
Purchased earnings at least 30% of total earnings	36
Purchased earnings less than 30% of total earnings	7
Firms with purchased earnings exceeding reported earnings for one or more years	10
Firms where purchased earnings and total reported earnings are nearly identical (i.e., a relatively small absolute difference in either cumulative current earnings purchased or cumulative average earnings purchased and reported earnings)	13
Firms showing close correlation between purchased earnings and reported earnings	14

*Summarized from data in Appendix IX

The three tests just completed taken together support acceptance of the hypothesis that conglomerates diversify largely by acquiring other firms. In the first test of this hypothesis it was shown that twenty-four of the firms had diversification and diversification through acquisition as a goal. All of the remaining nineteen firms had purchased firms with a diversifying effect. The second test showed that all but eleven of the conglomerates had acquired twelve or more firms. The third test isolated twenty-six firms with 50 per cent of their total earnings purchased.

Tests of the Hypothesis That Acquisitions Are a Continuing Phenomenon

There are three tests of this hypothesis: 1) frequency of acquisition; 2) growth rate goals of the firms; and 3) motivations basic to acquisition policy.

It is reasonable to expect that if acquisitions are an ongoing activity for conglomerates they would acquire firms with regularity.

The data tabulated on Pages 42 through 45, "Acquisition Activity by Year," show that the selected conglomerates as a group have acquired not only with regularity but an increasing number of firms in each of the ten years from 1959 to 1968 except 1962 and 1963 when activity decreased below the 1961 level. For seventeen

of the firms, acquisition activity has increased each of the years 1966, 1967 and 1968. In cases where the numbers of acquisitions has declined in those three years, ten of the remaining twenty-six companies have increased the size of their acquisitions in terms of amount of earnings purchased. This resulted in an increase in total earnings purchased in each of the three years even though the number of firms acquired declined. FMC, Houdaille, International Silver and Midland Ross remained at about the same level of activity. Four other firms acquired more companies in 1968 than in 1967, but 1967 acquisitions had declined from the number made in 1966. One of these firms, W. R. Grace, purchased 53 per cent of Miller Brewing Company in 1966, distorting the increase in earnings purchased which would have occurred without that acquisition. In similar fashion, Walter Kidde purchased Lighting Corporation of America in 1967 which made that year an exceptionally fruitful one.

A. J. Industries, AMK, Clark Equipment, City Investing, Dresser, Eagle-Picher, National General, North American Rockwell, Republic, SCM and Seilon have not acquired firms in five or more of the ten years shown. "Automatic" Sprinkler is not included in this group because it has not been in existence all of the ten years. Of the eleven companies in this group, five have increased their acquisition activity in 1967 and 1968.

This test clearly shows that the acquisition activity of the selected conglomerates is a continuing phenomenon. This is true because of both the number and size of their acquisition on a year-by-year basis. Only eleven of the companies had gaps of five years or more of the last ten years when no firms were acquired. The majority of the firms not only acquired other companies regularly over the ten years but they increased the number of their acquisitions each year.

The goals of the firm with respect to earnings growth rate objectives will indicate whether conglomerates continue to acquire other firms. Thus, where conglomerates have an objective of acquiring other firms to grow or to maintain growth, it is to be expected that firms will be acquired frequently.

Twelve of the firms have a goal of growth through acquisitions. (See Page 33, "Stated Goals of the Firm.") Eleven of the twelve companies have specified a growth rate and have stated that acquisitions are a requirement for that rate to be achieved. Some have higher expectations for growth rates from acquisitions than from internal means (see Appendix III). In addition, sixteen firms have growth as a goal, without specifying what acquired firms will contribute to that goal, but eleven of this group state that acquisitions will play a role.

The majority (twenty-two) of the selected conglomerates were shown by this test to have either a goal of growth through acquisitions at some specified rate or a goal of growth in general with acquisitions to contribute some part.

The final test of the hypothesis that acquisitions are a continuing phenomenon is the motivations of the selected conglomerates which give them the impetus to acquire. It is expected that conglomerates will continue to acquire other firms where there are significant motives to do so.

Of course, all motivations cannot be discerned. Moreover, even if motives can be known, there is certainly no known method of determining if the motives stated are the ones which prompted a continuing acquisition policy of the conglomerates.

Stated goals of the firm will provide a means of determining some motives. Two such goals have been hypothesized as characteristic of conglomerate behavior: the desire to diversify and the desire for growth in earnings. Both of these, it has been stated, have motivated the conglomerate to acquire other firms. Other goals have had the same effect.

Data on Page 33, "Stated Goals of the Firm", are a tabulation of the stated goals of the forty-three conglomerates. No attempt

was made to imply goals which were not stated directly, to avoid the bias of the author. There are several broad statements of objective such as a desire for "bigness" or to "put together a major U.S. corporation" or to build a company like General Motors or American Telephone and Telegraph. Seven of the firms have made such statements. These have expressed a desire to maximize profits or the present worth of shareholders' interests. One firm, Eagle-Picher, says it is not acquisition minded.

Each of the forty-three firms made some statement of goals. By far the largest percentage had a goal which bears a direct relationship to growth. Over 50 per cent of the group state diversification or some variation as a goal. Parker-Hannifin would remain in a particular industry. For firms which state more than one goal, no order of priority could be determined.

Except for Eagle-Picher and Parker-Hannifin, the goals of all the firms are consistent with a continuing acquisition policy.

A study of each of the selected firms has provided data relevant to this test of the hypothesis. Several of the firms have a special motivation to acquire. One group may have begun its acquisitions in order to avoid failure.

A. J. Industries, formerly Alaska-Juneau Mining Company,

was organized in the 1890's as a gold mining company. When the gold was exhausted in 1944, the company abandoned its mining activities. Shortly thereafter, acquisitions were begun.

Bangor Punta is the result of the merger of Bangor Aroostock Railroad and Punta Alegra Sugar Company. Punta lost its sugar operations to Castro in 1960. Profits from the railroad had declined to less than $150,000 in 1962. Bangor Punta has as one of its goals growth through acquisition.

Bendix appears to have suffered from two frailties. First, the company was primarily in the aviation industry and subject to its cycles. Second, that business began a decline and profits fell substantially until 1964. Bendix's acquisitions picked up significantly in 1964.

Chromalloy began in 1957 with patent rights to a metallizing process. Until acquisitions began, the company was small and unprofitable.

Dresser's story is similar to Bendix's except that Dresser was primarily in oil and gas.

W. R. Grace suffered a severe set-back in earnings because of the volatility of its steamship operations, and it began its acquisitions in 1953.

Houdaille once manufactured automobile bumpers primarily. It began losing its market when automobile makers began making many of their own parts, including bumpers.

International Silver experienced a decline in its earnings per share from $1.48 in 1956 to $.48 in 1957. Silver sales had begun a decline in those years attributable to the decline in marriages.

Midland Ross, like Houdaille, was committed to the automobile industry and suffered when that industry began to make its own parts.

Republic Corporation was formerly Republic Pictures. The firm's operations declined until 1966 when there was a profit of only $100,000. The company began intense acquisition activity in 1967.

SCM's profits began declining in 1957 and continued until a loss was experienced in 1960. SCM's management believes a company needs to be "big" in order to survive.

Textron had its beginning in the textile industry. By 1952 it had a loss of $4 million. Textron spun off its textiles (into a company which became Indian Head) and began acquisitions.

U.S. Industries, once called Pressed Steel Car Company,

made railroad freight cars. The company was near bankruptcy when acquisitions began.

White Consolidated Industries at one time made sewing machines. From 1957 to 1962 the company suffered losses.

It was mentioned that some of these firms were single product or single industry firms. As a motivational influence, the need to diversify (perhaps to survive) and escape the cyclical effects of a single industry may have prompted the following additional companies to begin an acquisition program: AMK, "Automatic" Sprinkler, City Investing Company, Eagle-Picher, Eaton, Yale & Towne, Gulf and Western, Indian Head, International Telephone and Telegraph, Ogden, Seilon, Transamerica and UMC.

Two companies had a special incentive to diversify. Ogden and Genesco both ran into restraint of trade problems with the Justice Department. Genesco was prevented from continuing its expansion in the shoe industry and Ogden met resistance in shipbuilding and scrap metal fields.

Still another group had a special impetus to acquisitions: net operating loss carryovers which could be offset against the profits of acquired firms. Among this group are: Bangor Punta and its losses from the expropriation of its sugar properties in Cuba; Glen

Alden, which had net operating loss carryovers until 1967; Lehigh Valley had $25 million in net operating loss carryovers from losses in coal mining; MSL, which had $29 million in losses from railroad operations; National General, which had a net operating loss carry forward of $13.4 million due primarily to the operation of its subsidiary, Twentieth Century Fox; and Textron, which had large losses from its textile operations.

It is not possible to rely solely on this test of the hypothesis that acquisitions are an on-going activity for conglomerates. This is true because of the limitations on data and the difficulties of interpreting available information. It is possible, however, to conclude that the test shows the tendency of conglomerates to acquire, because of one or several motives. A goal of "bigness", for example, may provide sufficient motivation to acquire other firms until the desired degree of size is achieved.

The hypothesis that acquisitions are a continuing phenomenon is accepted based on the results of all three of the tests just completed. It was shown that conglomerates do acquire other firms regularly and that, for the most part, the number and size of acquisitions has increased in the ten years beginning in 1959. Moreover, in view of the growth rate objectives of the conglomerates, coupled with the requirement by twelve of the firms that growth comes from

acquisitions, it is concluded that acquisitions must continue in order to achieve stated goals and to preserve growth rates generated. Finally, a clear tendency to acquire other firms may be seen from motives of the conglomerates which prompt them to commence and to continue acquisition programs.

CHAPTER IV

TESTS OF THE GROWTH RATE, AGGRESSIVENESS AND EASE OF SELL-OFF HYPOTHESES

In this chapter three hypotheses will be tested in turn. These are: 1) that conglomerates have high growth rate goals and performance records; 2) that conglomerates are aggressive acquirers; and 3) that conglomerates can easily sell off firms acquired.

Tests of the Hypothesis That Conglomerates Have High Growth Rate Goals

There are four tests of this hypothesis: 1) stated goals of the firm relative to growth rates; 2) growth rates achieved by conglomerates; 3) emphasis on growth through acquisition rather than internal expansion; and 4) the extent of the effect of purchased earnings on the total earnings of the conglomerates.

This hypothesis may be tested by referring to goals of the firms relating to growth rates in earnings. It seems obvious that where conglomerates have such objectives, and state them publicly, it can be said that conglomerates have high growth rate goals.

A "high" growth rate is taken to mean a rate exceeding that

of the gross national product. In terms of current dollars, the gross national product grew at a compound annual rate of about 7.5 per cent for the period 1964-1968. A current dollar growth rate is used because earnings of the selected conglomerates are stated in current dollars.

Data relevant to the first test are presented on Page 33, "Stated Goals of the Firm." Almost 90 per cent of the firms have expressed a goal of growth. Twenty-seven of this group have expressed a specified growth rate goal or dollar amount, while twelve want to grow in earnings but do not specify a rate. The data also show that twelve of the selected conglomerates emphasize growth through acquisition and only one claims to emphasize internal growth.

Appendix III indicates the amount of growth in earnings that the twenty-seven firms have established as a target rate. Twenty of these twenty-seven have target rates of more than 10 per cent, and only two firms, Eagle-Picher and Eaton, Yale and Towne, have goals of less than 10 per cent. Every one of the twenty-seven firms with a stated growth rate goal had a goal equal to or exceeding the growth in GNP.

This test is successful in showing the heavy emphasis placed on growth by the selected conglomerates. That twenty-seven of the conglomerates would commit themselves to a high growth rate in

earnings is indicative that conglomerates have high growth rate goals. Eleven of the remaining sixteen firms have made a positive statement about growth as a goal without a commitment to a specific rate.

The second test of the hypothesis, that conglomerates have achieved high growth rates, is complementary to the first test. If conglomerates have high growth rate goals it may be expected that they will strive for achievement. It may be expected that, not infrequently, their growth rates achieved may also be high.

A comparison of the data in Appendix III, "Annual Growth Rate Goals," and Appendix IV, "Average Annual Earnings Growth Rates Achieved," is presented on Page 68. In this way performance can be measured against targets. Of the twenty-seven firms stating specific growth rate goals, nearly 80 per cent (21) either met or exceeded their goal, or were within 20 per cent of achievement.

Considering all forty-three firms, both those with and those without stated growth rate goals, thirty-seven firms achieved a larger growth rate than 7.5 per cent per year, three companies had earnings growth rates between zero and 7.5 per cent and three companies had negative rates of growth in earnings.

This test has significance because it shows that over 86 per

COMPARISON OF ANNUAL EARNINGS GROWTH RATE GOALS WITH PERFORMANCE*

	Number of Firms
Firms meeting or exceeding goal.	17
Firms with performance within 20% of goal	4
Firms with performance not within 20% of goal	6
Firms for which data are incomplete . . .	16

*Summary of data from Appendix III and Appendix IV.

EARNINGS GROWTH RATES ACHIEVED*

	Number of Firms
Firms with growth rates exceeding 10%, compounded annually.	33
Firms with growth rates equal to or exceeding growth rate in GNP of 7.5% annually for five years ending 1968 . .	37
Firms with growth rates between 0 and 7.5%	3
Firms with negative growth rates	3

*Summary of data from Appendix IV.

COMPARISON OF INTERNAL WITH EXTERNAL GROWTH RATES*

	Number of Firms
Firms with growth generated mainly through external means	4
Firms with approximately equal external and internal growth	5
Firms growing more internally than externally.	4
Firms for which data were incomplete . .	30

*Summary of data from Appendix IV.

cent of the forty-three conglomerates have achieved annual growth rates in excess of GNP.

High growth rate goals of conglomerates suggest that the firms would emphasize acquisitions to achieve the growth on the grounds presented on Pages 13 and following. Thus, conglomerates are expected to emphasize growth through acquisition.

Available data concerning the preference stated by the firm for growth through acquisition over internal growth are presented in Appendix III. Information could be obtained for only eleven of the firms. Three of the eleven stated a goal of higher growth through acquisitions than internal expansion. Four companies expressed an objective of equal growth through acquisition and internal expansion.

Growth rates achieved through acquisition and internal expansion are shown in Appendix IV and are summarized on Page 68. Only thirteen firms reported the information. Four of the thirteen attained more growth through acquisitions. Five achieved approximately equal growth through the two means. The remaining four grew more internally than externally. All the firms for which data are available showed substantial growth through acquisition.

Because of the insufficiency of data, this test cannot be relied on as grounds for accepting or rejecting the hypothesis that

conglomerates have high growth rate goals. Nor is it possible to suggest that a tendency is indicated. The firms for which information is available were spread about evenly between those desiring growth through acquisition and through internal expansion. The same is true of performance records.

The final test of this hypothesis is a test of the extent of the impact of purchased earnings on total earnings. The present test is defended on the same grounds as the previous test, that is, conglomerates are expected to rely on acquisitions for a substantial portion of their growth in earnings.

Data relevant to this test are presented in Appendix IX and Appendix VIII. A study of the charts in Appendix IX will show the dependence of the conglomerates on earnings of acquired firms for increases in total earnings. This is emphasized by the close correlation which exists between purchased earnings and total earnings and by the steady increase in purchased earnings as shown in Appendix VIII.

In almost all instances where purchased earnings failed to increase, total earnings of the conglomerate declined or increased at a much smaller rate than previously. This may be seen by comparing data in Appendix IX with those of Appendix VIII. As an example, "Automatic" Sprinkler's purchased earnings declined in 1968, as

shown in Appendix VIII. The chart for "Automatic" in Appendix IX shows that total earnings declined substantially in 1968. Similarly, Bendix purchased firms showing losses in 1968. The slope of Bendix's total earnings curve in Appendix IX clearly leveled in that year. The same effect can be observed by making the same comparison for Dresser and W. R. Grace in 1967 and for Walter Kidde and SCM for 1968. Except for Boise Cascade, Eagle-Picher, FMC, Indian Head and International Silver, each firm which had a decline in purchased earnings also experienced a decline in total earnings. The remaining firms, which had significant earnings purchased, increased purchased earnings in each of the years 1966, 1967 and 1968.

There are nine firms which show little or no dependence on purchased earnings to achieve increases in or to maintain total earnings. These firms are: Clark Equipment, FMC, Houdaille, International Silver, Midland Ross, Parker-Hannifin, Seilon, UMC and Eagle-Picher. That Boise Cascade and Indian Head were able to maintain the rate of increase in earnings despite a decline in earnings purchased is a phenomenon peculiar to 1968. Prior to that year purchased earnings and total earnings moved together for both firms. Of the remaining thirty-three firms, purchased earnings accounted for 50 per cent of total earnings for twenty-five of the firms, and 30 per cent of total earnings for eleven more.

The test shows that over 60 per cent of the selected conglomerates relied on acquisitions for 50 per cent of their total earnings. This is a clear indication that acquisitions play an important role in the growth in earnings of conglomerates.

The hypothesis that conglomerates have high growth rate goals is accepted on the grounds that three of the four tests support this position. It was shown that the twenty-seven conglomerates which have stated annual earnings growth rate goals have a goal equal to or exceeding the annual growth rate in GNP. Thirty-seven of the conglomerates out-performed the GNP earnings growth rates. Finally, the majority of the conglomerates relied on earnings purchased through acquisition for 50 per cent or more of their total earnings. Considering all the data accumulated, it seems obvious that conglomerates have high growth rate goals.

Tests of the Hypothesis That Conglomerates Are Aggressive Acquirers

The tests of this hypothesis are: 1) frequency of acquisitions; 2) sell-off activity; 3) bidding for prospective firms; 4) movement of purchase price over time; and 5) variety of purchase terms.

A firm which is an aggressive acquirer is expected to make frequent acquisitions. Of course, attempts to acquire firms may be frustrated, but sufficiently aggressive acquiring firms are expected to persevere.

Data relevant to this test have been presented in examining the hypothesis that conglomerates diversify largely by acquiring other firms and need not be repeated here. It is sufficient to repeat only that acquisition activity for the selected firms has increased every year, except one, from 1959 to 1968, and that thirty-two firms have made twelve or more acquisitions. These thirty-two purchased four or more firms in 1967 and 1968.

Because the results of this test show that the firms acquired by the majority of the selected firms are numerous and frequent, the test supports the hypothesis that conglomerates do have an aggressive acquisition policy.

The sell-off activity of the selected conglomerates is the second test of this hypothesis. The rationale for the ease of sell-off of a going concern over that of selling components constructed internally has been presented. Conglomerates are expected to experiment with acquisitions, because of a ready market for resale. Thus, the number and frequency of acquisitions resold will support the notion that conglomerates can afford to be aggressive in their acquisition policy inasmuch as acquisitions are readily sold.

A word of caution is necessary concerning sell-off data. Sell-off data are limited because the sale of a previously acquired firm may be, in some way, considered failure. This is true for two

SELL-OFF ACTIVITY BY YEAR

	TOTAL	1968	1967	1966	1965	1964	1963	1962	Prior To 1962
A. J. Industries	4		3	1					
AMK	4	1			1	1	1		
Bangor Punta	3				3				
Dresser	1	1							
Genesco	7	7							
Glen Alden	10	1			2	3	1		3
W. R. Grace	13	6	1	2		1	3		
Gulf & Western	2						2		
Houdaille	1			1		1			
Indian Head	12			1	2	1	3		5
Int'l. Silver	3		2			1			
Int'l. Tel. & Tel.	2	1		1					
Lear-Siegler	4	1						2	1
Lehigh Valley	2	1				1			
Ling-Temco-Vought	9					1	2	4	2
Litton	2	1							1
MSL	1			1					
Midland Ross	3			1			2		
National General	4	1	1	2					
N. A. Rockwell	3		1	2					
Ogden	4	1	2	1					
Republic	2	1							1
SCM	1	1							
Seilon	5	3			1	1			
TRW	4			1	1	1			1
Teledyne	2	1							1
Textron	16	1		6			2	2	5
Transamerica	2								2
UMC	6			2	1				3
U.S. Industries	8			1			2		5
TOTAL	140	29	10	23	11	11	18	8	30

Source: Compiled by the author from annual reports of the firms, Moody's Industrial Manuals and selected financial journals.

reasons. First, an acquired firm sold may suggest that the criteria for acquisitions, announced by the firm, were not met or that the acquiring firm made an error in the application of the criteria when the firm was originally purchased. Second, a sell-off may indicate that the acquiring firm could not assimilate the firm acquired, or its management or both. Thus, the listing of firms sold by the selected conglomerates should by no means be regarded as complete.

About 10 per cent of the acquisitions made by the forty-three selected firms have been sold as shown on Page 74. No year-by-year comparison would be meaningful inasmuch as firms sold were not necessarily sold in the year purchased. In fact, it is reasonable to suppose that an acquisition is kept for some time prior to its resale. Thus, the outcome of 1968 purchases, as far as disposals are concerned, is not likely to be known for some time.

Still referring to the data on Page 74, four of the selected conglomerates have sold ten or more acquisitions. Five others have disposed of between five and nine. In all, thirty companies have sold one or more of their acquisitions.

For some firms, the number of acquisitions sold is far greater than the 10 per cent sales for all firms. A. J. Industries, for example, has sold about 25 per cent of its acquisitions, as have Genesco and International Silver. Indian Head, National General and

Ling-Temco-Vought have sold one-third or more and Seilon, Glen Alden and AMK have sold more than 50 per cent of the firms they have acquired.

Because of data limitations the results of this test are not regarded as conclusive. The results, however, indicate a clear tendency on part of the conglomerates to resell their acquisitions. This, then, lends support to the belief that conglomerates can afford to be aggressive acquirers.

Evidence of bidding by the conglomerates for prospective firms will support the aggressiveness hypothesis. This constitutes the third test of this hypothesis. It is expected that companies aggressively seeking to acquire other firms will bid against other prospective acquiring firms, when this is necessary, in an attempt to consummate a merger.

Some information relative to the bidding activity of the selected conglomerates is shown on Page 77. These data are limited for two reasons. First, bidding for prospective firms is not public knowledge unless one of the parties chooses to make it so. Second, even if a bid is made public, there is no way to assure that research will disclose it. In fact, gathering such information is largely fortuitous. The author believes, however, that the data lend strong support to the hypothesis, even if they are not conclusive.

EVIDENCE OF BIDDING

BIDDERS	SUBJECT	SUCCESSFUL BIDDER OR STATUS AT DECEMBER 31, 1969
SCM & Great America	Glidden	SCM
Walter Kidde & Continental Can		
Indian Head N.A. Rockwell	Miehle-Goss-Dexter	None
Dresser, Ind. & FMC	Link-Belt	FMC
City Investing & Boise Cascade	Divco-Wayne	Boise-Cascade
City Investing Signal Oil		
White Cons. Ind. Ling-Temco	Allis-Chalmers	Unsettled
Teledyne & Williams Bros.	Edgecomb Steel	Williams
Bangor Punta & Chris Craft	Piper Aircraft	Chris Craft
Glen Alden & Lorillard	Schenley Ind.	Glen Alden
Walter Kidde, Whittaker Corp. and Colt Ind.	Crucible Steel	Colt Ind.
Bangor Punta & AMF	Harley Davidson	AMF
Textron & AMK	United Fruit	AMK
Gulf & Western & Atlantic Richfield	Sinclair Oil	Atlantic
Northwest Industries & City Investing	Home Insurance	City Investing
Litton & Ling-Temco-Vought	Great America	LTV
National General & AMK	Great American Holding Co.	National General
TRW & Gould National	Clevite	Gould
"Automatic" Sprinkler & Jim Walter Corp.	U.S. Pipe	Walter

Source: Compiled by author from selected financial journals and news articles in Wall Street Journal and the New York Times.

Available information shows that City Investing, for example, was engaged in bidding to acquire a major corporation in four instances. AMK and Bangor Punta bid against other firms for two large corporations. As many as four companies bid for Miehle-Goss-Dexter and Allis Chalmers. In addition, SCM and Great America bid for Glidden. Shortly after SCM was successful in its bid for Glidden, Great America was taken over by Ling-Temco-Vought. Gould National outbid TRW for Clevite. Even the firms selected here are not inviolable. UMC was controlled by Liquidonics as of December, 1968. A bid to take over Glen Alden was made by Rapid American.

Subject to data limitations mentioned previously, the test indicates some of the bidding activity which takes place among acquiring firms for potential candidates, and a tendency is clearly demonstrated.

The fourth test of this hypothesis is the movement of price paid for acquired firms over time. There are at least two competing influences on the price an acquiring firm is willing to pay. One of these influences will tend to drive prices up, and it has been mentioned previously: the intensity of the desire for firms to acquire and competition among acquiring firms. The second influence may mitigate the first. As acquiring firms gain in expertise, they may find means to make an offer more attractive through, for example, various

purchase options, contingent payments to be made in the future on earnings, and other means, without raising the price. Of course, there is no way to isolate the effects of either influence. Obviously, there are many other influences on purchase price which cannot be known, or which cannot be quantified even if known. The author believes that on balance the aggressiveness of conglomerates will result in rising prices for acquired firms as potential acquiring firms bid against one another.

Data in Appendix VIII have been compiled partly for this purpose. By way of explanation, information in the last column of Appendix VIII was computed by dividing average annual earnings into the price paid for firms acquired, and by dividing current annual earnings into purchase price. The latter computation was done only for the totals. Each year's average earnings purchased was divided into the total price paid for firms acquired in that year. Thus, a year-by-year comparison can be made of the "times earnings paid" for firms acquired. Where current and average annual past earnings were not materially different, no separate calculation was made for "times current earnings" purchased.

The following tabulation is a summary of the relevant data from Appendix VIII:

	Number of Firms
Price times earnings purchased increased, 1968 over 1967.	25
Steady increase in price times earnings purchased 1966-1968	14
Steady decline in price times earnings purchased 1966-1968	7
Fairly constant times earnings paid, 1963-1968	4
Overall times earnings paid, based on average past earnings, 25 times or greater . . .	11
Overall times earnings paid, based on current earnings, 25 times or greater	5
Firms paying more than the average times earnings paid by all firms in:	
1967	15
1968	10

It may be seen that twenty-five, about 60 per cent of the forty-three firms, paid a higher price relative to earnings in 1968 than they paid in 1967. More than one-half of the firms have shown a steady, if erratic, increase in times earnings paid over several years. In contrast, seven firms have shown a fairly regular decline in times earnings paid for firms acquired. There is a third group of four companies for which times earnings paid has remained nearly constant in the latest three to five years shown. The remainder of the firms, seven, have had wide fluctuations in times earnings paid from year to year, with no trend established.

The times earnings paid for acquired firms varies widely among the selected companies. Using times average annual earnings paid, nineteen firms have paid twenty times earnings, or more. Nineteen

others have paid between ten and nineteen times earnings and five have paid ten times earnings or less.

Prices paid by the selected firms may be compared with the average times earnings paid by all acquiring firms for all their acquired firms in 1967 and 1968. In 1967 the average paid for all acquired firms was eighteen times earnings and 1968, twenty-five times.[1] Of the selected conglomerates, ten paid in excess of the average in 1968 and fifteen paid more than the average in 1967.

The results of this test have only limited usefulness to the acceptance or rejection of the hypothesis that conglomerates have an aggressive acquisition policy. This is true partly because of the wide fluctuation in price paid relative to earnings over time and between firms and partly because of the unidentifiable factors influencing price. The results of the test, however, have some usefulness in that they show an established trend by the majority of the selected conglomerates to pay more for firms acquired, relative to earnings, in 1968 than in 1967.

The final test of this hypothesis is the test for the variety of purchase terms and mediums of exchange used by conglomerates to

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[1]Gilbert Burck, "The Merger Movement Rides High," Fortune, LXXIX, No. 21 (February, 1967), 79ff.

MEDIUMS OF EXCHANGE USED, ACCOUNTING TECHNIQUE SELECTED AND NUMBER OF DEFERRED PAYMENTS USED BY THE SELECTED FIRMS FOR THEIR ACQUISITIONS

	MEDIUMS OF					
		STOCK				
	CASH	COM-MON	PRE-FERRED	CONV. BONDS	CONV. PRE-FERRED	CASH & STOCK
A. J. Industries	2	7	1		1	3
AMK						
Allied Products	3	8				
"Automatic" Sprinkler	2	7	1		1	1
Bangor Punta	4	2	2	1	9	5
Bendix	5	12	2		2	
Boise Cascade	3	22	5		4	
Chromalloy	2	17	4		4	2
City Investing	1	6			1	1
Clark Equipment		7				1
Dresser		9	2		2	
Eagle-Picher	3	1	2		1	
Eaton, Yale & Towne	3	6			1	
FMC		17	2		2	
Genesco	1	23	4		2	
Glen Alden	1	1			3	3
W. R. Grace		57				12
Gulf & Western	1	3	6	1	10	7
Houdaille	5	4	1		1	
Indian Head	3	3	2		2	
International Silver	4	2			1	
International Tel. & Tel.		21	2		20	
Walter Kidde	1	30	4		10	1
Lear-Siegler		8	5		13	2
Lehigh Valley	2	6	1	1	2	1
Ling-Temco-Vought	2	4	1		3	3
Litton		27	10	2	23	11
MSL		3		2		7
Midland Ross		1	2		2	1
National General		2	1	1	1	
N. A. Rockwell	1	4	4		5	3
Ogden	4	11			1	1
Parker-Hannifin	6	2				
Republic	1	27				3
SCM		7				2
Seilon	2	3				

EXCHANGE				ACCOUNTING TECHNIQUE			
CASH & BONDS	COMMON WARRANTS	COMMON & PFD.	BONDS & STOCK	ACCOUNTED FOR AS POOLING	PURCH.	COMB.	DEFERRED PAYMENTS
				4	3		
		2		2			
1	1	1		2	1		
		2		4			1
		4		5	8		1
				6	7		
				9	3		
				15	4		
1		1	2	5	3		
				3	4		
				6	3		
				3	1		
		1		5	1		
				5	12	1	
		3		21	9		
1				2	1	2	
1				52	14		
1	1	1	1	12	5	3	1
				4	2		
				5		1	1
				3			
		20		35	1	1	
		7		25	1		
		8		19			
1		1		2	8		
4	2	1		3	3		1
		5	2	33	9	3	4
2				3	6		2
				3			
1	4		1	2	2		
				7	3	1	
		1		9	2		
				2			
	1			30	2		1
				7	1		
				1	2		

	MEDIUMS OF					
	CASH	COM-MON	PRE-FERRED	CONV. BONDS	CONV. PRE-FERRED	CASH & STOCK
TRW		7	4		8	1
Teledyne	1	65	6	1	11	2
Textron	7	6	2		4	2
Transamerica		8	1		2	
UMC		8				
U.S. Industries	1	24	11	2	13	4
White Cons.	2	1	1	1	1	5
TOTALS	73	489	89	12	166	96

Source: Compiled by the author from Listing Statements of the New York Stock Exchange.

EXCHANGE				ACCOUNTING TECHNIQUE			
				ACCOUNTED FOR AS			
CASH & BONDS	COMMON WARRANTS	COMMON & PFD.	BONDS & STOCK	POOLING	PURCH.	COMB.	DEFERRED PAYMENTS
		3		13	1		
1		6	1	69	10		
				5	5		
		1		9			
				5	2		
2		2		29	10		4
			1	1	7		
19	9	70	8	485	156	12	16

effect a take-over. It is expected behavior for a conglomerate, as an aggressive acquirer, to use various purchase terms, modes of payment and mediums of exchange in order to entice a prospective firm to accept the offer. With many other acquiring firms also seeking to acquire, it is likely that more and more variety will be used. Obviously, this behavior is complementary to the expected behavior that conglomerates will pay higher prices for acquired firms. In addition, this test has a relationship to the growth hypothesis. One motive for an aggressive acquisition policy is the desire for high growth rates. It is expected that an aggressive acquiring firm is likely to use terms of purchase and mediums of exchange which will promote the highest growth rate.

Not only is the conglomerate expected to use a wide variety of terms, but it is expected to emphasize equity securities as the medium of exchange. Moreover, the method of payment affects the accounting treatment accorded the acquired firm in consolidated statements. The accounting treatment directly affects the conglomerate's reported earnings. Because the pooling method of accounting for consolidations has a more favorable effect on earnings than does the purchase technique, it is expected that conglomerates will show a preference for the pooling method. The pooling method yields higher consolidated earnings than the purchase method because no goodwill is recognized requiring amortization under the pooling

purchase price satisfied with bonds or cash is shown as a purchase, and the portion in stock is accounted for as a pooling.

There were sixteen acquisitions made by the selected conglomerates in which deferred payments of some type were used.

This test is significant because the results show, for the most part, that selected conglomerates have used a variety of purchase terms or methods of payment. Four firms stand out as lacking in variety: AMK, which has used common and preferred in combination; Parker-Hannifin, which has used cash primarily; and Clark Equipment Company and UMC, both of which have used only common stock. Moreover, as expected, the conglomerates showed a marked preference for common stock as the method of payment and the pooling technique as the method of accounting.

The hypothesis that conglomerates have an aggressive acquisition policy appears to be acceptable. Reasons for its acceptance are several. First, data accumulated showed that the selected conglomerates have acquired many firms, that they acquire firms frequently and that their acquisition activity has increased steadily in the past several years. Second, while information was limited, that which was available demonstrated that the firms do resell some acquisitions. Data showed that over 10 per cent of all the firms acquired by the conglomerates were resold. Third, and again in face

technique; also, the basis of assets for depreciation purposes is not raised using the pooling method.

Data relative to this test are tabulated on Pages 82 to 85. The various mediums of exchange used are shown in the first ten columns. The accounting treatment accorded the acquired firms in the consolidated financial statements is shown in the next two columns. The last column shows the number of acquisitions with deferred payment terms made by the firm.

Common stock alone was used by the firms as the medium of exchange in nearly as many instances as all other mediums alone or in combination. Preferred stock convertible into common was next most widely used. Cash, as the sole medium of exchange, was used sparingly. Cash was used with stock or bonds in 115 instances. Common stock warrants were rarely used. In all, ten methods or combinations of methods of payment were used by the conglomerates. They have made use of cash, common stock, preferred stock and bonds, alone and in almost all combinations.

The pooling of interest technique was used by the conglomerates to account for their acquired firms three to one over the purchase method. In twelve instances both the pooling and purchase methods were used. This was limited to acquisitions where bonds or cash were used in conjunction with stock. That portion of the

of limited data, it is clear that conglomerates have a tendency to bid for their acquisition. Fourth, there is a tendency for the selected conglomerates to pay higher prices for firms acquired each year. Finally, it is obvious from observing data presented that the conglomerates use varied terms and methods of payment in an attempt to satisfy the desire to acquire.

Tests of the Hypothesis That Firms Acquired Are Easily Disposed Of

There are three tests of this hypothesis presented: 1) sell-off activity of the selected conglomerates; 2) policy of the firm with respect to selling firms acquired;and 3) policy of the firms with respect to retaining management of the acquired firms.

The first test of this hypothesis is the sell-off activity of the forty-three firms. That firms acquired are resold is evidence that a market exists facilitating resale. The more resales of firms that are made, the more the indication is that firms are easily sold.

All the information relevant to this test has been presented previously. Reference is made here to Page 74 where the data are summarized. The warning given earlier concerning the limitations of sell-off data is equally applicable here.

The significance of the test to the hypothesis now under consideration rests with the ability of the relevant data to show that

sell-offs occur in large number and with frequency. The author believes this is demonstrated. More than 10 per cent of acquired firms were resold, and almost 50 per cent (20) of the selected companies sold at least one acquisition in each of two of the last six years presented. Final evaluation of the efficacy of this test is reserved until the next test is completed.

The hypothesis that acquired firms are readily sold is also tested according to the stated policy of the firms with respect to selling acquisitions. If conglomerates are expected to sell firms acquired readily, they must be willing to do so. This willingness is manifest in the stated policy of the firm.

Information presented on Page 33, "Stated Goals of the Firm," shows that seventeen of the forty-three have a stated policy of selling firms acquired which do not meet criteria. Of these seventeen firms, three have not sold an acquisition. Thus, between the thirty firms which have sold at least one acquisition and the three firms which state that they would, thirty-three of the selected conglomerates would sell or have sold acquisitions.

Reference to data on Pages 36 and 37, "Requirements or Criteria Stated by Conglomerates for Their Acquisitions," shows that twenty-four firms have stated a required return on investment, and ten of these related the requirement specifically to their acquisitions.

Thus, it may be inferred that acquisitions not meeting required return on investment percentages, where stated, have been or will be sold by the acquiring firms.

Considering the results of this test with those of the test for sell-off activity, the author believes there are sufficient grounds for asserting that the tests successfully emphasize the readiness of conglomerates to sell at least some of their acquisitions. The fact that a number of acquired firms have been resold lends support to the belief that a ready resale market exists. Such a market makes additional sales easier than if no such market were available.

The final test of this hypothesis is the stated policy of the selected conglomerates toward retaining management of acquired firms. It has been argued, previously, that firms are expected to be more easily sold when management will accompany the firm than when the conglomerates must supply the management.

Data on Pages 36 and 37, "Requirements or Criteria Stated by Conglomerates for Their Acquisitions," show that thirty-three of the selected firms have some requirements with respect to management. Fourteen are explicit that management of the acquired firm must remain. Nineteen firms require "competent" management. There is no real point in requiring that acquired firms have competent management unless that management is expected to remain. Nine of

the thirty-three firms have stated both the desire for competent management and the desire that management remain, and they have been tabulated under both categories. Thus, twenty-four of the firms, more than 50 per cent of the selected conglomerates, either require competent management, or management that will stay on.

Some individual firms have made rather strong statements about their policy of retaining management. For example, Transamerica states that the primary reason for acquiring firms is to acquire management talent. Bangor Punta has a stated policy of putting management of acquired firms under a bonus agreement to assure that they will remain. International Telephone and Telegraph acquired at least one firm with a contingent payment provision conditioned on retaining management. If the management is relieved by International Telephone and Telegraph, then the management is to be paid an additional eight million dollars. The largest number of policy statements made by the firms, on any issue, have been about management.

The test results show that the conglomerates place great emphasis on retaining management of firms acquired. More than one-half of the selected firms are explicit that management is kept or imply it by requiring competent management.

The hypothesis that conglomerates can readily dispose of un-

wanted acquisitions is accepted. The fact that acquired firms are resold in large numbers relative to total firms acquired supports the view that a market exists facilitating resale. That the majority of the acquiring firms have stated a policy that acquisitions failing to meet standards will be sold is construed as meaning the firms believe they can resell firms acquired. In addition, support for the hypothesis exists because management of the firms acquired is kept when the firm is purchased, further facilitating resale.

CHAPTER V

TESTS OF THE HYPOTHESES THAT CONGLOMERATES RETAIN MANAGEMENT OF ACQUIRED FIRMS AND THE STRUCTURE OF CONGLOMERATES

The final two hypotheses will be tested in this chapter. These hypotheses are: the hypothesis that management of the acquired firm is retained by the conglomerate and the hypothesis that conglomerates are loosely structured with many divisions.

Tests of the Hypothesis That Management of Acquired Firms Is Retained

The three tests of this hypothesis are: 1) stated policy of the firm relative to the retention of management; 2) contingent payments to management of the acquired firm based on future profits; and 3) stock options offered to management of the acquired firm by the acquiring firm.

The first test and data relative thereto have been presented in a previous chapter as a test of another hypothesis. The test will not be repeated here. It is necessary only to defend the test as efficacious to the present hypothesis. In brief, when a conglomerate states it has a policy that management is kept or that

competent management is a necessary prerequisite to acquiring a firm, it seems obvious that management is kept when possible.

The test has significance because it demonstrates the importance of management of acquired firms to the acquiring firms.

The incidence of contingent payments to shareholders of the acquired firms by the acquiring firm is the second test of this hypothesis. It is expected that a desire to retain management will be demonstrated if it can be shown that conglomerates enter into contracts to make payments contingent on future profits generated by the acquired firm. The future profits are stated in cumulative terms indicating that past profits of the acquired firm are to be continued, and that it is improvement which is rewarded. It is not likely that a conglomerate would supply its own management to an acquired firm and then reward the acquired firm's shareholders for that management's performance. Moreover, it may be a difficult task for most conglomerates to supply management to firms acquired inasmuch as conglomerates have management personnel only in limited numbers.

The number of acquisitions made by each conglomerate involving payments contingent on future profits is tabulated on Page 96. Such agreements were found in 132 instances where firms were acquired by the selected firms, representing about 10 per cent of the

INCIDENCE OF CONTINGENT PAYMENTS BASED ON FUTURE PROFITS AS PART OF PURCHASE PRICE OF ACQUISITIONS

COMPANY	INCIDENCE OF OPTIONS PURCHASED OR GIVEN	NUMBER OF ACQUISITIONS INVOLVING PAYMENTS CONTINGENT ON FUTURE PROFITS
A. J. Industries		1
"Automatic" Sprinkler		1
Bangor Punta	1	
Bendix		1
Chromalloy		2
City Investing		5
FMC		2
Genesco	1	12
W. R. Grace	3	4
Gulf & Western	1	0
Indian Head		2
Internat'l. Tel. & Tel.	9	1
Walter Kidde	0	15
Lear-Siegler	1	0
Lehigh Valley	0	7
Litton	2	10
Midland Ross	2	0
MSL	2	3
National General	1	1
Ogden	1	2
Republic Corp.	0	16
SCM	1	0
Seilon	0	1
Textron	2	1
Teledyne	0	12
Transamerica	1	2
TRW	2	1
U.S. Industries	0	30
TOTALS	29	132

Source: Compiled by the author from Listing Statements of the New York Stock Exchange and annual reports of the firms.

total firms acquired by this group. Twenty-three of the forty-three conglomerates made contingent payment agreements. Six of the twenty-three made ten or more such agreements. One firm, U.S. Industries, made thirty contingent payment agreements. This is nearly 50 per cent of U.S. Industries' total acquisitions.

Considering the number of contingent payment agreements and the number of conglomerates which use this technique, the test is successful in pointing out the extent to which this technique is used to assure that management will remain. The results of this test may be considered along with the test which follows.

The final test of this hypothesis is the incidence of stock options offered management of the acquired firm. Where stock options are given it may be assumed that there is additional inducement for management to remain. Management with options to purchase the conglomerate's stock is in much better position to exercise a voice in the operation, and as a result, in the profitability of his firm if he remains than if he leaves. The profitability of the acquired firm, of course, has direct influence on the profitability of its parent.

Data shown on Page 96 show the number of stock options given by the acquiring firm to management of acquired firms. In all, twenty-nine such instances were found. In fifteen of the twenty-nine instances, the conglomerates replaced existing stock options with their own.

Comparing the data for stock options given and contingent payment agreements together, five firms which did not make contingent payment agreements gave options to management of acquired firms. This test, then, is complementary to the previous one, and showed that five firms which did not agree to pay future money to management of acquired firms did give that management stock options.

This hypothesis that management of acquired firms is kept is accepted primarily on the basis of the results of the first test. There it was shown that thirty-three of the selected conglomerates require good management -- management who will remain. The results of the other two tests support the acceptance of the hypothesis, but because of lack of data, they are not sufficient themselves to warrant acceptance.

Tests of the Hypothesis That Conglomerates Are Loosely Structured Organizationally with Many Divisions

Five tests of this hypothesis are presented: 1) number of divisions of conglomerates; 2) method of operating divisions; 3) incidence of purchase price payments contingent on future profits; 4) structure and function of the firm's executive management; and 5) central office functions performed for divisions.

Information concerning the extent of the use of divisions by the selected conglomerates will be relevant to that portion of the

hypothesis that conglomerates have many divisions. Many, in the sense used here, refers both to the absolute number of divisions and to the relative number of divisions considering the number of firms acquired.

The results of the first test of this hypothesis are shown in Appendix V, and they are summarized below:

Number of Divisions (as of 12/31/68, or fiscal years ending early in 1969)	Number of Firms
More than 100	2
50 - 99	7
25 - 49	12
10 - 24	11
Fewer than 10	5
Data not available or not estimable	6
TOTAL	43

Two of the firms do not state the number of their divisions. Four others use such vague terms as "major operations" or "operating groups," and no estimate of the number of their divisions could be made. The number was estimated for seven of the firms by reference to listings of district office locations and "managers." For one of the seven, Boise Cascade, the estimate was made by using listings of "mills, plants, and distributors."

Twenty firms have twenty-five divisions or more. Two firms have over 100. At the other extreme, nine companies have fewer than ten divisions. Of course, the number of divisions will likely change as firms are acquired or sold.

Firms do not use uniform terminology to describe their divisions. For example, International Telephone and Telegraph calls its divisions "companies." Ling-Temco-Vought has nine "major subsidiaries" which themselves have subsidiaries or divisions. Aside from possible legal implications, there seems no substantive difference between a "division," a "company" or a "subsidiary." Several of the conglomerates have foreign as well as domestic subsidiaries, but foreign subsidiaries have been excluded unless they are known to have been acquired.

Data are presented on Pages 42 to 45 giving the number of firms acquired by year, and on Page 74 giving the number of firms sold. A comparison of these two sets of data with those of Appendix V is presented in Appendix X. Of the forty-three firms, three have exactly the same number of purchased firms retained, i.e., firms purchased minus firms sold, as they have divisions. Seventeen others have firms retained nearly equal to the number of their divisions. Of the remaining twenty-three firms, only four had fewer divisions than firms retained.

Results of this test indicate that conglomerates have many divisions and that firms acquired, especially when they are large firms, become divisions. One firm, Lear-Siegler, states that acquired firms become divisions.

The next test of this hypothesis is the manner in which firms operate their divisions. The author believes that a loose organizational structure requires that divisions have autonomy. One indicator that firms do operate their divisions in the expected fashion is the stated policy of the firm.

A compilation of data concerning the policy of the firms toward operating their divisions is presented in Appendix VI. All of the companies having a stated policy concerning the operation of their divisions allow divisions some degree of autonomy. Two of the companies place a restriction on autonomy, stating that divisions are "partly" autonomous. The policy of three companies to allow "freedom and flexibility" to divisions and of four to give divisional management "full responsibility" is construed as synonymous with a policy of autonomy. Thus, there are thirty-two firms which state that divisions are operated autonomously, and two more which allow partial autonomy.

The test results show that nearly 80 per cent of the selected firms state as a policy that acquired firms are operated autonomously. The results give strong support to the hypothesis, in the author's judgment.

The third test of this hypothesis is the incidence of purchase price payments contingent on future profits. It may be expected that,

when purchase price is predicated on future earnings as well as an immediate outright payment, there is a necessary separation in record keeping and management function in order that profits of the acquired firm be computed as the basis for the contingent payment.

Data relative to this test have been presented under the retention of management hypothesis and will not be repeated here.

The significance of the test to the present hypothesis is partly contingent on the extent of data available. One hundred thirty-two instances were found of contingent payment agreements being given. This is grounds for a belief that the test is successful in indicating a tendency by conglomerates to keep divisions sufficiently separate so that divisional profits can be determined and management paid where appropriate.

The structure of the conglomerates' executive management will constitute the fourth test of this hypothesis. It may be expected that functions performed by headquarters for divisions are general rather than specific. This follows from the proposition that divisions are autonomous. Moreover, the needed services supplied by central management should be few in number. It follows that a few general services require minimum personnel and the top management group should be small. The term "general" as used here refers to advisory type functions and the word "specific" to detailed operations.

Available data relative to the number of executive management of the selected conglomerates are presented in Appendix VII. Each selected company is listed in the appendix and, where information is available, the number in the executive management group is shown in the middle column. The last column shows the functions performed for divisions as stated by the conglomerate. Twenty-eight of the firms do not report the size of the central management team. Two companies report that the executive group is "very small." Three firms give information about the number included in "headquarters staff," which presumably includes clerical and other lower-level administrative personnel, as well as top management. It was not possible to discern the composition of the figures supplied. For example, some firms have "group chairmen" as well as division heads or managers. Whether the chairmen should be counted in the executive management category is questionable. If it could be determined how many of this classification were included in each company's figures, comparability, at least, could be achieved by either including or eliminating that category for each firm.

Some of the conglomerates state a figure which includes headquarters staff and others do not. It is not possible to tell whether the figure includes clerical employees or not. Of the firms which stated the number of top management, three had fewer than eighteen.

The significance of this test of the hypothesis is impaired by lack of data. The author believes that data are so limited that the hypothesis is neither supported nor denied.

The final test of the hypothesis that conglomerates are loosely structured with many divisions is the services performed by central office for divisions. It has already been reasoned that the services are expected to be general and few in number.

Appendix VII contains available information. Sixteen firms have stated specific functions performed for divisions. City Investing states that it provides divisions with a "financial umbrella." Transamerica states only that it makes "broad policy." No statements concerning functions performed could be found for the remaining twenty-five firms.

Including City Investing, there are eleven firms which provide minimum services for divisions, such as target setting, evaluation and financial services. Four more firms also give assistance in marketing, accounting and other areas. One firm, Parker-Hannifin, supplies a more specific group of services. Eighty-four per cent of the conglomerates stating the functions they perform for their divisions provide some kind of financial service. The "planning" function is supplied by 32 per cent of the companies, and 26 per cent set goals and evaluate performance.

Data relative to this test are limited, as was the case in the previous test. There is, however, a degree of consistency among the firms for which information is available in the services they perform for their divisions. Fifteen of the firms have stated that functions performed are general in nature and few in number. Thus, the results of this test show a clear tendency in support of the hypothesis.

Considering all the results of the five tests, the hypothesis that conglomerates are loosely structured with many divisions is accepted. Lack of information had to be considered in arriving at this conclusion, but except for data concerning the number of executive management of conglomerates, the results all show a clear trend. Results of the first test show that the majority of the conglomerates have many divisions. Stated policies of the firms demonstrate that divisions are operating with near autonomy. The incidence of contingent payments found indicates a tendency by conglomerates to separate the record keeping function so that profits can be determined for acquired firms. Finally, the data available show that many of the conglomerates allow divisions freedom of detailed operation, supplying only general services.

CHAPTER VI

THE CONGLOMERATE: ITS NATURE AND IMPLICATIONS FOR THE FUTURE

Eight characteristics of conglomerates have been posited as hypotheses subject to testing. Forty-three conglomerates have been selected as representative of the group, and these firms were used to accumulate data to support or deny the hypotheses.

The first hypothesis, that conglomerates are diversified, was accepted on the grounds that conglomerates have many products, and that they operate in several industries without dependence on one product or industry.

The second hypothesis is that the diversification of conglomerates is achieved largely through acquisition. This hypothesis was accepted as a result of the data presented. It was shown that conglomerates frequently acquire other firms and in large numbers. The data also showed this activity to be partly a result of a stated desire by the conglomerate to diversify. Moreover, it was demonstrated that the earnings of firms acquired have significant effect on the earnings of the conglomerate. This was important to show the extent

of the impact of acquired firms on the diversification stated as a goal by the conglomerates.

It was concluded that the hypothesis of the continuity of acquisitions is acceptable. This was true because of the goals of the firms for diversification and growth in earnings. A desire for growth in earnings encourages continuing acquisitions. The data showed conglomerates have continued to acquire other firms and that activity has grown nearly every year from 1959 to 1968.

That conglomerates have high growth rate goals was confirmed by the stated goals of the firm and by their performance. Thus, the fourth hypothesis was accepted.

This is also true of the hypothesis that conglomerates are aggressive acquirers. Data showed limited evidence that conglomerates bid for potential firms, that they acquire frequently, that firms acquired are also sold in large numbers relative to the number of firms purchased and that conglomerates paid higher prices in recent years than in earlier years.

The conclusion was reached that firms acquired are easily sold because a ready market exists facilitating resale, because conglomerates, for the most part, have a stated policy of divesting themselves of unwanted firms and because the conglomerates keep the management of acquired firms which facilitates resale.

The seventh hypothesis, that management of firms acquired is retained, was acceptable on the grounds that the conglomerates stated retention of management as a policy, and the conglomerates pay additional sums of money to management as part of the purchase price.

The last hypothesis, that conglomerates are loosely structured with many divisions, was also accepted. The results of all data strongly supported this conclusion. It was demonstrated that the many divisions of conglomerates are operated with autonomy, especially in the area of separate financial records, and that the central office leaves operations to the divisions and performs only general functions for divisions.

The Behavioral Pattern of the Conglomerate

Viewed from a broad perspective, the demonstrated behavior of conglomerates makes possible a characterization of the conglomerate corporation as one which is actively buying other firms for diversification and earnings growth. This primary function is made possible by using good management, an appropriate organizational structure and a market, which the conglomerate helped to create, where firms can be bought and sold.

Implications for the Future

Assuming that the acceptance of the hypotheses is justified in a logical sense, they may be taken together as a theory of the behavior of conglomerates. An important function of theory is its ability to explain the conglomerate phenomenon. The author believes that this function has been accomplished in this dissertation. Another important function of theory is its usefulness in serving as a foundation to predict the future impact of conglomerate behavior. In this manner, the future importance of conglomerates can be estimated and assessed. Each of the behavioral characteristics of conglomerates which have been developed will be analyzed and possible implications enumerated.

One of the implications of the diversification characteristic of conglomerates has been mentioned previously: the effect of diversification on risk reduction. It is expected that conglomerates will continue to diversify to gain the benefits of risk reduction. For the conglomerate this means lower capitalization rates and stock prices which are higher than if there were no diversification.

Another possible effect of conglomerate diversification is the influence on other firms not considered conglomerates. It seems likely that other firms have or will find diversification even more desirable in the future in order to meet the competition of conglomerates

for capital funds. Thus, the benefits of low capitalization rates will be sought by other firms competing for both debt and equity financing.

Two additional influences of conglomerate diversification are: first, the demand for experienced management in a particular specialty or industry will probably become more intense as diversification proceeds. The reason seems obvious. The acquiring firm is not expected to have intimate knowledge of each industries' intricacies. Therefore, the acquiring firm must seek management familiar with the industry. Second, the organizational structure of the conglomerate may be expected to become even more decentralized than it now is. This is true because the more diversified the firm becomes, the less likely it is that the conglomerate's management can continue to exercise the degree of control now existing. Thus, top management will likely concentrate on fewer control measures, making the controls which remain more refined.

There is a fifth possible effect of conglomerate diversification. For investors, conglomerates perform the risk reduction function differently than investment vehicles such as mutual funds. Both conglomerates and mutual funds yield diversification and consequent risk reduction, but conglomerates exercise a degree of control over their investment not approached by mutual funds. Thus, conglomerates

have two alternatives: one, the conglomerate can alter a situation considered unsatisfactory within a firm controlled; or two, conglomerates can divest themselves of the firm completely. The other investment vehicles having diversification usually lack the degree of control required to make changes within the firm. Thus, their course of action is limited to sale of the stock. Investors seeking diversification may in the future lean more toward conglomerates which have two options rather than toward a mutual fund which has only one.

The three characteristics of conglomerates, that acquisitions are a means of diversification and of achieving high growth rate goals and that acquisitions are a continuing activity, are generally complementary because each is useful in describing conglomerate acquisition activity. There are several predictable effects of these aspects of conglomerate behavior. First, given that conglomerates are prompted by the desire for diversification and the desire for growth, they will probably increase the number and size of firms acquired despite temporary lags in acquisition activity. Second, because conglomerates are greatly dependent on acquisitions to maintain growth rates or increase them, a slackening of the rate of acquisitions, whatever the reason, is likely to cause rather wide fluctuations in the conglomerates' share prices. The reason for this is that as the growth rate in earnings falls share prices will also decline.

The decline in share prices is magnified because lower prices for the conglomerates' stock makes acquisitions less attractive than when prices are higher. Third, as was the case in the effects of the diversification characteristic, other firms will find it favorable to use acquisitions as a means to higher growth rates and diversification. Again, the share prices of the non-conglomerate firms must be competitive in terms of capitalization rates if they are to compete for equity funds. Fourth, and this effect is corollary to the previous one, acquisitions are likely to find increasing favor as a means of expansion over internal means by firms not considered as conglomerates.

Of course, all the possible implications of conglomerate acquisition policy are contingent on the attitude and action of government in the antitrust area. It may be speculated that government will show increasing reluctance to allow conglomerate mergers, and if this is true, the effects of conglomerate acquisition policy will be mitigated commensurately.

The implications of the aggressiveness of conglomerates toward their acquisition policy are closely related to those of the three characteristics just listed. This is true because the need for diversification and high growth rates in earnings not only leads to more and more acquisitions, but it promotes an aggressive acquisition

policy. That conglomerates are aggressive acquirers has many implications: the demand for firms to acquire will increase and prices may rise; alternatively, in some cases, other means will be found to entice a prospective firm; firms will find it increasingly difficult to resist a take-over by a conglomerate; conglomerates are likely to make an increasing number of mistakes in their acquisitions, but at the same time, conglomerates will probably become more expert at the acquisition function; and finally, the number of failures by small business will probably decline. Each of the implications is deserving of more detailed comment.

It has already been suggested that the demand by conglomerates for firms to acquire will probably cause an increase in the price of prospective firms. This increase in price will ultimately be felt in the stock markets. Higher prices for stock of acquired firms are also likely to force acquiring firms to find more efficient means of operating the acquired firms to avoid sacrificing return on investment. In other words, the higher the price for an investment (the acquired firm), the more the dollar amount of return (profit) is required to maintain the same rate of return.

As the prices for prospective firms rise, acquiring firms are likely to seek means of consummating the merger other than bidding up the price. Some of these other means are currently in use and

have been suggested previously: stock options to management/owners, contingent payments based on future profits in excess of agreed amounts. There are still other possibilities. Management of the acquired firms may be given more autonomy or authority. Management may be offered more security through pension plans and long term employment contracts. Sellers may be guaranteed a minimum future price for the stock of the acquiring firm given as payment.

It is possible to project that potential candidates will find it increasingly difficult to fend off take-overs by conglomerates. This is true for several reasons, two of which are higher purchase prices offered and the other inducements mentioned above. There is another reason. That is the real possibility that the acquiring firm will be able to effect economies either not apparent to present management or not possible of accomplishment by it . Thus, the conglomerate may be able to convince shareholders of prospective firms that their firm can be operated more effectively under the supervision and control of the conglomerate than could be done by present management.

The more aggressive a conglomerate is, the more firms it will acquire. This, of course, increases the chances for a larger number of merger failures. At the same time, however, conglomerates will continue to develop more expertise in consummating mergers and

in assimilating the acquired firms under the conglomerate umbrella. The intensity of acquisition activity has in the past, and will in the future, continue to foster the rise of professional experts in mergers and acquisitions. Firms can be expected to create management positions in this area. Thus, while the number of merger failures may be expected to increase, the rate of failure per acquisition will likely decline.

Finally, because of the intense need by conglomerates to acquire, it may be expected that smaller firms will experience fewer failures. Firms facing cost increases, labor problems, declining markets or incompetent management all accompanied by losses or prospects of losses are prime candidates for business failure. In the future, these firms are much more likely to find a willing corporate buyer, which can readily supply cost savings ideas, experience in dealing with labor unions, wider markets for products and superior management talent, than was possible in the past. The potential buyer may be even more willing when net operating losses are available to offset the buyer's other income and yield a tax savings.

The acceptance of the characteristic of conglomerates that they sell acquired firms easily makes it possible to project that as the number of acquisitions increases more acquired firms will be

resold further broadening the market for whole firms. A ready resale market makes mistakes easier to divest than if no such market existed. Thus, the firms may be encouraged to make unfavorable mergers, an activity which will eventually bring about a re-evaluation of the conglomerate's stock by investors. This possibility will likely require stricter standards for acquisitions and could well lead to a more scientific approach to evaluating prospective acquisitions. Operations research and capital budgeting techniques will likely be used more and more in this connection.

The characteristics of conglomerates that management of acquired firms is kept and that acquired firms are operated on a decentralized basis will have several significant implications. One implication for management is the effect on the management of a firm which finds itself a candidate for take-over. Another possible effect may be in the area of management training, that is, management will need to be more highly specialized in particular aspects of the overall management function. A third implication which can be projected is the expanded use of highly decentralized organizational structures. Finally, it is expected that there will be a pressing need for future study into what motivates management. Each of these implications needs elaboration.

It is expected that conglomerate behavior toward management

will result in a general increasing of the efficiency of management. The reason for this is that management retained will likely find more stringent requirements imposed by the conglomerate, such as the imposition of target rates of return which must be met. In addition, management retained will also find that the conglomerate has a much better refined method of evaluating its performance than did the old shareholders. Thus, management which does not meet requirements or render the standard of performance necessary will likely be removed. Of course, an alternative to removing management is for the conglomerate to sell the acquired firm along with its management, but management will find another set of standards, and ultimately mediocre management will be replaced. This, of course, promotes a higher level of proficiency among the managers who have remained.

It has already been suggested that conglomerates will influence management to become even more specialized. This is true partly because of the diversity of the conglomerate and partly because of the decentralization of its organization. Divisional management can afford to concentrate on management functions peculiar to the operations of his division and can leave other functions, such as financing and budgeting, to conglomerate headquarters. In this way, conglomerate management also can become more specialized. The changing needs for management specialties may cause a shifting

of emphasis at the management training and development levels. Not only is it possible that emphasis will change, but it is also likely that new areas of specialization will gain special importance. One such area, mentioned earlier, is acquisitions management.

The type of structural decentralization practiced by conglomerates is likely to increase in favor with other firms as well as with conglomerates. Two reasons have been given, that is, decentralization facilitates specialization and encourages greater management efficiency. Another reason to expect an expansion of the use of the decentralized organizational structure technique is that it reduces interdependence between divisions and central management, facilitating divestiture, and further reducing risk.

Finally, conglomerate behavior will cause an increasing emphasis on the need for isolating factors which motivate management. This is especially true in view of the extent of decentralization. It has already been stated that conglomerates have used various means of encouraging management of prospective firms to approve the merger and to remain afterwards, and it is expected that these means will continue to be explored and that others will no doubt be developed.

Conclusion

Conglomerates have already had great impact on securities

exchanges, capital funds markets and traditional ideas of management organization and function and corporate structure. They have accomplished this by making great use of economies of scale, risk reduction techniques and a manifest affinity of common stockholders toward earnings growth. If conglomerates continue to behave as they have in the past, their influence will continue to spread. Conglomerate behavior needs continued surveillance, for as one writer has stated fittingly:

> . . . the true role of the multi-industry corporation in the American economy will not be known for another decade. If time and trial prove that its theoretical potential for lowering risk and raising returns on corporate capital are realizable, the conglomerate format will spread further over the corporate landscape. Should these values elude capture or be offset by faults yet unseen, many of these firms will disappear in a further restructuring of corporate power.
>
> Viewed in a broader perspective, the great wave of conglomeration attests to the flexibility and adaptability of the U.S. economy in response to underlying structural changes. It demonstrates that stockholder control of corporations continues to be a vital force. Stock holders are not faceless and spineless figures depicted by theorists, and managements ignore them at their peril. No institution of a democratic society should be above challenge. Managements of great corporations need to confront the contingency of takeover bids as a stimulus to unremitting exercise of skill, resourcefulness, and imagination. The conglomerate movement has, at least, shaken the corporate Establishment.[1]

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[1] Neil H. Jacoby, "The Conglomerate Corporation," A Reprint from The Center Magazine, II, No. 4 (July, 1969).

APPENDICES

APPENDIX I

A LIST OF SELECTED "CONGLOMERATES"

A. J. Industries

Allied Products Co.

AMK Corp.

"Automatic" Sprinkler

Bangor Punta

Bendix

Boise Cascade

Chromalloy American

City Investing

Clark Equipment Co.

Dresser Industries

Eagle-Picher

Eaton, Yale & Towne

FMC Corp.

Genesco

Glen Alden

W. R. Grace

Gulf and Western

Houdaille Ind.

Indian Head

International Silver

International Tel. & Tel.

Walter Kidde

Lear-Siegler

Lehigh Valley Industries

Ling-Temco-Vought

Litton Industries

MSL Industries

Midland Ross

National General

North American Rockwell

Ogden Corp.

Parker-Hannifin

Republic Corp.

SCM Corp.

Seilon, Inc.

TRW, Inc.

Teledyne

Textron

Transamerica

UMC Ind.

U.S. Industries

White Consolidated Ind.

APPENDIX II

SALES MIX AND PRODUCT VARIETY BY COMPANY

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
A. J. Industries	a		Fire Protection Equip. Safety & Security Systems, Fluid Controls, Profit Improvement Equipment, Recreation Products.
Allied Products	a		Specialty Vehicles and Components, Industrial Fabrics, Carpeting, Fasteners, Construction Components, Chemicals, Plastics, Die Casting, Agricultural Equipment.
AMK	Meat Products	90[b]	Meat Products
	Miscellaneous	10	
"Automatic" Sprinkler	Fire Protection Equip.	30.3	Fire Systems, Fire Engines, Couplings, Fittings, Burglar Alarms, Piping Tractors, Steel Products, Industrial Equipment, Sporting Goods, Vacuum Cleaners, Ordnance.
	Fluid Controls	4.6	
	Profit Improvement	31.5	
	Electronics	9.9	
	Recreation	9.7	
	Defense	14	
Bangor Punta	Public Security	9	Boats, Jewelry, Guns, Traffic Control Systems, Munitions, Engines, Radiators, Agriculture, Synthetic Fibers, Heavy Equip., Services, Railroad Transportation.
	Leisure Time	24	
	Power Systems	3	
	Processing Equipment	14	
	Fabrics	30	
	Agriculture	10	
	Railroad Operation	6	
Bendix	Space	14	Aircraft Components, Automobile Brakes & Steering, Electrical Systems, Oceanic,
	Missiles	4	
	Aviation	34	
	Electronics	5	

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
	Oceanics	3	Semi-Conductors, Aerospace Products, Instruments.
	Automation	8	
	Automotive	24	
	Misc.	8	
Boise Cascade	Packaging	18	Pulp & Paper Products, Bags, Cans, Building Materials, Plastics, Mobile Homes, Industrial Land Development.
	Communications Paper	21	
	Building Materials	25	
	Housing	22	
	Office Supply	9	
	Misc.	5	
Chromalloy American	Metal Processing	29	Pharmaceuticals, Water Purification Equip., Transmission Equip., Bus Manufacture, River Barge Lines, Tankers, Textile Products, Clothing, Photography, Metal Products, Castings.
	Industrial Equip.	15	
	Public Transportation	22	
	Electronics	5	
	Textiles	12	
	Barge Line Operations	17	
City Investing Co.	a		Mobile Homes, Real Estate, and Home Construction, Insurance, Motels, Containers.
Clark Equipment Co.	Automobile Products	18	Automobile Components, Trucks & Trailers, Refrigeration Equip., Heavy Construction Equipment.
	Construction Machinery	28	
	Industrial Trucks	40	
	Trailers	9	
	Refrigeration Equip.	6	
Dresser Industries	Oil & Gas Production	29	Compressors, Pumps, Valves, Brick, Oil, Gas, Fire Hydrants, Meters, Piping Tools, Materials, Handling Machinery, Railroad Car Components.
	Refractories	21	
	Pumps & Engines	26	
	Industrial Specialties	25	
Eagle-Picher	Consumer Durables	29	Chemicals, Precision Instruments, Machin-
	Consumer Non-Durables	20	

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
	Agriculture	5	ery, Buildings, Plastic Coatings, Rubber, Tires, Furniture, Appliances.
	Aerospace	9	
	Capital Goods	13	
	Rubber & Plastic	12	
	Construction	10	
	Misc.	2	
Eaton, Yale & Towne	Truck & Off-Hiway Equip.	30	Appliances, Auto Parts, Bldg. Constr., Electronics, Logging, Food, Marine, Mining, Operations, Plumbing, Heating, Materials Handling.
	Materials Handling Equip.	25	
	Automotive Products	20	
	Control Systems	18	
	Locks & Hardware	7	
FMC	Commercial Machinery	37	Heavy Machinery, Chemicals, Fibers, Rayon, Fuels, Ordnance, Munitions, Wood Pulp.
	Fibers & Film	25	
	Chemicals	20	
	Defense	17	
Genesco	Clothing & Accessories	49	Manufacture & Retailing of: Footwear, Outer Garments, Underwear and Variety Store Operation and Management.
	Footwear	37	
	Materials & Misc.	14	
Glen Alden	Women's Garments	21	Textile Manufacture, Theatre Operation, Clothing Manufacture & Sales, Television Station Operation, Chemicals, Plastics, Bldg. Products, Alcoholic Products.
	Men's Clothing	27	
	Textiles	6	
	Whiskey	24	
	Motion Pictures	6	
	Construction	12	
	Aerospace & Misc.	4	
W. R. Grace	Chemicals	29	Chemicals, Agricultural Products, Food, Petroleum Products, Paper Products, Steamship Lines, Operation, Plastics, Importing.
	Agriculture Products	16	
	Food & Consumer Svc.	6	
	Oil	4	
	Paper	4	
	Steamship Line	15	
	Misc.	26	

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
Gulf & Western	Theatres & Film Rental	10	Food, Films, TV Productions, Automobile Parts, Aerospace, Cigars, Financial Services, Zinc Production, Chemicals Distribution.
	TV Production	7	
	Manufacturing	49	
	Distribution	9	
	Metals & Chemicals	8	
	Agricultural Products	5	
	Consumer Products	12	
Houdaille	Machine Tools and Industrial Products	43	Pumps, Machine Tools, Lubricating Systems, Gauges, Valves, Construction, Automobile Components.
	Construction Materials and Contracting	29	
	Auto Parts	28	
Indian Head	Specialty Textiles	50	Glass Containers, Metals, Automobile Parts, School Busses, Textiles.
	Metal Products	29	
	Containers	20	
	Information Systems	1	
International Silver	Electronics	12	Silver Products, Publishing, Bottle Caps, Containers, Steel Parts, Wire & Cable, Electronic Devices.
	Industrial Metals	34	
	Silver Products	43	
	Textbooks	11	
Walter Kidde	Transportation & Materials Handling	25	Valves, Safes, Locks, Fire Extinguishers, Lighting Equipment, Alarms, Guards, Cameras, Weaponry, Automotive Components, Cranes & Hoists, Steamship Company.
	Safety & Security	41	
	Industrial Equipment	33	
Lear-Siegler	Manufactured Industrial Products	28	Flight Control Systems, Generators, Auto Parts, Heating & Air Conditioning Equipment, Business and Technical Schools, TV & Radio, Aircraft Maintenance, Appliances.
	Consumer Products	23	
	Avionics	23	
	Power Equipment	14	
	Systems and Services	13	

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
Lehigh Valley Ind.	Electrical and Metal Working	35	Flashers & Warning Systems, Metal Casting, Marketing Services, Shoes, Textiles.
	Motivational Marketing	15	
	Footwear	35	
	Textiles	15	
Ling-Temco-Vought	Food	29	Meat, Sporting Goods, Aircraft, Wire, Carpets, Radio & Television, Stereo, Airline Operation, Automobile Rentals, Life Insurance, Banking.
	Aerospace	15	
	Wire and Cable	5	
	Electronics	6	
	Sporting Goods	3	
	Communications	4	
	Pharmaceuticals	1	
	Steel	29	
	Air Transportation	8	
Litton	Business Systems and Equipment	27	Office Machines, Dental Equipment, Foods, Text Books, Ships, Tools, Machinery, Electronics, Handling Systems.
	Defense and Marine	27	
	Industrial Equipment	29	
	Professional Services	17	
MSL Industries	Fasteners	44	Lock Washers, Screens, Sockets, Motors, Gears, Steel Products, Plastic Components, Luggage, Steel Tubing, Aerospace Products.
	Electric Motors	20	
	Steel Tubing	17	
	Plastics	10	
	Aerospace	9	
Midland Ross	Capital Goods	31	Steel, Rayon, Air Conditioning & Heating, Power Controls, Handling Equipment, Heavy Machinery, Steel Castings.
	Automobile Products	32	
	Railroad Products	11	
	Building Construction	12	
	Aerospace	7	
	Consumer Goods	7	
National General	a		Savings & Loan Association, Operation, Steel Buildings, Fruit Packing, Theatre Operation, Motion Picture Production.

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
North American Rockwell	Truck, Trailer and Bus Companies	11	Auto, Truck & Bus Parts, Radar, Gears, Space Craft, Aircraft, Missiles, Textile, Machinery, Yachts, Rocket Engines.
	Electronics	22	
	Gears and Filters	4	
	Nuclear Power	3	
	Automobile Parts	5	
	Rocket Engines	9	
	Textile Machinery	4	
	Aircraft and Missiles	15	
	Space Systems	25	
	Construction Vehicle Components	3	
Ogden	Canning and Meat Packing	10	Food, Shipbuilding, Aircraft Engines, Water Treatment, Metals, Real Estate Development, Marine Terminal Operation.
	Shipbuilding	20	
	Iron Scrap	45	
	Stevedoring	10	
	Filtration	7	
	Demolition	4	
	Hospital Equipment	8	
	Contracting	4	
Parker-Hannifin	Industrial Products	59	Fittings, Refrigeration & Air Conditioning, Valves, Couplings, Cylinders, Presses, Fuel Systems.
	Aerospace	24	
	Fluid Systems	17	
Republic Corp.	Plastics	17	Tools & Dies, Metal Plating, Book Printing, Film Processing, Plastics, Electronic Controls, Binding, Electroplating, Food Containers.
	Graphic Arts	29	
	Household Equipment	34	
	Computers	20	
SCM	Food	22	Office Machines, Copying Machines, Chemicals, Food Coatings, Appliances, Telecommunications, Data Processing.
	Paints	27	
	Office Equipment	27	
	Pulp Paper	10	
	Appliances	10	
	Misc.	4	

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
Seilon	a		Plastics, Shoes, Wire & Cable, Agricultural Equipment.
TRW	Aerospace Vehicle Components Electronic Systems Industrial Equipment	32 28 23 17	Systems Engineering, Jet Engines, Satellites & Spacecraft, Tools, Bearings, Fasteners, Pumps, Cables, Valves, Lasers.
Teledyne	Electronic Systems and Equipment Electronics Aviation Materials Technology Oceanology and Geophysics	20 16 20 33	Electronic Components, Transistors, Semi-Conductor Television, Stereo, Aircraft Controls, Cameras, Metals.
Textron	Consumer Products Aerospace Industrial Products Metal Products	24 41 21 14	Food, Silverware, Saws, Pens, Watch Bands, Zippers, Eyeglass Frames, Paper, Bearings, Cushioning, Staplers, Heavy Machinery, Helicopters, Radar Systems.
Transamerica	Life Insurance Leisure Time Manufacturing Real Estate Services Lending Property Insurance Misc.	37 30 7 4 6 4 12	Life, Casualty & Title Insurance, Financial Services, Leasing, Real Estate Development, Motion Picture Production, Airline Operations, Turbine Engines.
UMC	Automatic Vending Machines Defense Matches Printing and Ink Misc.	28 25 15 10 22	Vending Machines, Heavy Machinery, Ordnance, Pyrotechnics, Missile Launching Systems, Metals, Matches, Printing & Ink.

COMPANY	SALES MIX (%)		PRODUCT VARIETY BY MAJOR LINES
White Consolidated Industries	Machinery and Equip.	12	Heavy Machinery, Home Appliances, Presses, Food Processing Equip., Tubing, Sewing Machines.
	Valves	5	
	Sewing Machines	3	
	Industrial Supplies	2	
	Household Appliances	31	
	Freezers and Refrigeration	12	
	Machine Tools	6	
	Rolling Mills	29	

[a]Not reported.

[b]Reflects purchase of John Morrell and Company in 1967.

[c]For calendar year 1968, or fiscal years ending early in 1969.

Source: Compiled by the author from annual reports of the companies, articles in financial journals and speeches by company executives.

APPENDIX III

SPECIFIED GROWTH RATE GOALS
AS STATED BY THE FIRMS[b]

COMPANY	GROWTH RATE GOAL[a]	INTERNAL	EXTERNAL
"Automatic" Sprinkler	25-40%	Not Stated	
Bangor Punta	25	15%	10%
Bendix	10	5	5
Boise Cascade	20	Not Stated	
City Investing	15	Not Stated	
Clark Equipment Co.	14 (Simple Growth in Sales)	Not Stated	
Eagle-Picher	Equal to increase in Gross National Product	Not Stated	
Eaton, Yale & Towne	9 (Sales)	Not Stated	
Genesco	11	Not Stated	
W. R. Grace	10	Not Stated	
Gulf & Western	20	Not Stated	
Indian Head	20	10	10
International Silver	10	7	3
International Tel. & Tel.	10-15	3-5	6-10
Walter Kidde	25	10	15
Lear-Siegler	10	Not Stated	
Ling-Temco-Vought	80 (Simple)	Not Stated	
MSL	15	7 1/2	7 1/2
North American Rockwell	10	Not Stated	
Ogden	20	"More Through Acquisitions"	
Parker-Hannifin	10-15	6-10	4-9
Republic Corp.	Double Earnings in One Year	Not Stated	
SCM	15	Not Stated	
TRW	10-15	Not Stated	
Textron	15	10	5
Transamerica	10-15	Not Stated	
U.S. Industries	30	15	15

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[a]Compound Annual Rate in Earnings Per Share unless otherwise stated.

[b]Data unavailable for 16 firms.

Source: Compiled by author from reprints of speeches by company executives, articles in financial journals and annual reports of the firms.

APPENDIX IV

EARNINGS GROWTH RATES ACHIEVED

COMPANY	GROWTH RATE (%)[a]	GROWTH GENERATED: INTERNALLY	EXTERNALLY
A. J. Industries	Negative	Not Available	
Allied Products	15.8%(6 years)	Not Available	
AMK	41	Not Available	
"Automatic" Sprinkler	13.7(4 years)	42%	58%
Bangor Punta	23	50%	50%
Bendix	9.2	Not Available	
Boise Cascade	24	50%	50%
Chromalloy	25	Not Available	
City Investing Co.	52.8	Not Available	
Clark Equipment Co.	5.9	Not Available	
Dresser Industries	18	50%	50%
Eagle-Picher	19	Not Available	
Eaton, Yale & Towne	7.6	Not Available	
FMC	12.4	80%	20%
Genesco	17.3	40%	60%
Glen Alden	9(5 years to 1968)	Not Available	
W. R. Grace	4.1	Not Available	
Gulf & Western	53	50%	50%
Houdaille	11.4	66 2/3%	33 1/3%
Indian Head	12.4	Not Available	
International Silver	18(6 years)	Not Available	
International Tel. & Tel.	12.7	70%	30%
Walter Kidde	36.9	Not Available	
Lear-Siegler	15.4	Not Available	
Lehigh Valley	13(6 years)	Not Available	
Ling-Temco-Vought	36.5	Not Available	
Litton	11.9	50%	50%
MSL	26(6 years)	Not Available	
Midland Ross	8.7	Not Available	
National General	16.8(7 years)	Not Available	
North American Rockwell	Negative	Not Available	
Ogden	25.9	Not Available	
Parker-Hannifin	16	Not Available	
Republic Corp.	32	Not Available	
SCM	22.7	Not Available	
Seilon	Negative	Not Available	
TRW	16.1	66 2/3%	33 1/3%
Teledyne	54.7	37%	63%
Textron	18.8	Not Available	
Transamerica	9.6	Not Available	

COMPANY	GROWTH RATE (%)[a]	GROWTH GENERATED: INTERNALLY	EXTERNALLY
UMC	4.0(6 years)	Not Available	
U.S. Industries	57.5	36%	64%
White Consolidated Industries	93.4	Not Available	

[a]Five year compounded annual growth rate to 1967 unless otherwise specified.

Source: Forbes, CIII, No. 1 (January 1, 1969), 45. Some growth rates were computed by the author.

APPENDIX V

EXTENT OF DIVISIONALIZATION

COMPANY	NUMBER OF DIVISIONS[c]
A. J. Industries	14 Divisions & Subsidiaries
Allied Products	21
AMK	4
"Automatic" Sprinkler	26
Bangor Punta	30
Bendix	52 Divisions & Subsidiaries
Boise Cascade	36[a]
Chromalloy	45
City Investing	Not Stated
Clark Equipment Company	14 Divisions & Subsidiaries
Dresser Industries	60 Divisions & Subsidiaries
Eagle-Picher	6
Eaton, Yale & Towne	69 Divisions & Subsidiaries
FMC	39
Genesco	140 Divisions & Subsidiaries
Glen Alden	7 Divisions & Subsidiaries
W. R. Grace	39 Divisions & Subsidiaries
Gulf & Western	26[a]
Houdaille	18
Indian Head	20
International Silver	10
International Tel. & Tel.	200 "Companies"[a]
Walter Kidde	90
Lear-Siegler	51 Divisions & Subsidiaries
Lehigh Valley Industries	18 Divisions & Subsidiaries
Ling-Temco-Vought	9 Subsidiaries[b]
Litton	50[a]
MSL Industries	18
Midland Ross	19
National General	Not Stated
North American Rockwell	27 Domestic Divisions & Subsidiaries
Ogden	6 "Major Groups"
Parker-Hannifin	20
Republic Corp.	36[a]
SCM	5
Seilon	4
TRW	49 Domestic
Teledyne	8 "Operating Groups"
Textron	32
Transamerica	9 "Major Operations"

COMPANY	NUMBER OF DIVISIONS[c]
UMC	15[a]
U.S. Industries	60[a]
White Consolidated Industries	48 "Companies"

[a]Estimated.

[b]The nine subsidiaries have sixteen divisions and twenty-three subsidiaries.

[c]As of December 31, 1968 or fiscal years ending early in 1969.

Source: Compiled by the author from annual reports of the firms and articles in financial journals and newspapers.

APPENDIX VI

DEGREE OF AUTONOMY GIVEN DIVISIONS

POLICY WITH RESPECT TO DIVISION	NUMBER OF[a] COMPANIES	PERCENT OF TOTAL
Divisions Operated "Autonomously"	14	32%
Management Is "Decentralized"	17	40%
"Freedom & Flexibility "For Divisions"	3	7%
Division Management Has "Full Responsibility" or "Full Control"	4	9%
Operate Like Separate Companies	2	5%
Divisions "Partly" Autonomous	2	5%
No Stated Policy	9	21%

[a]Total does not coincide with sample size because of overlap of some areas.

Source: Compiled by author from annual reports of the firms and reprints of speeches by company executives.

APPENDIX VII

STRUCTURE AND FUNCTION OF EXECUTIVE MANAGEMENT

COMPANY	NUMBER IN EXECUTIVE MANAGEMENT GROUP	FUNCTIONS PERFORMED FOR DIVISIONS
A. J. Industries	Not Available	Not Available
Allied Products	N.A.	N.A.
AMK	N.A.	N.A.
"Automatic" Sprinkler	30	N.A.
Bangor Punta	3	1. Central Banking 2. Legal & Insurance 3. Public Relations 4. Coordination 5. Goals
Bendix	N.A.	N.A.
Boise Cascade	"Very Small"	N.A.
Chromalloy	N.A.	1. Overall Supervision 2. Coordination 3. Financial Controls
City Investing	N.A.	Provides Divisions with "Financial Umbrella"
Clark Equipment	N.A.	N.A.
Dresser	N.A.	N.A.
Eagle-Picher	40(Headquarters Staff)	1. Labor Relations 2. Personnel 3. Accounting 4. Financial Controls
Eaton, Yale & Towne	32	N.A.
FMC	N.A.	N.A.
Genesco	N.A.	1. Financing 2. General Policy 3. Planning

COMPANY	NUMBER IN EXECUTIVE MANAGEMENT GROUP	FUNCTIONS PERFORMED FOR DIVISIONS
Glen Alden	N.A.	N.A.
W. R. Grace	N.A.	1. Strategic Planning 2. Overall Policy
Gulf & Western	N.A.	1. Centralized Financing 2. Public Relations
Houdaille	N.A.	N.A.
Indian Head	N.A.	1. Financing 2. Legal 3. Planning 4. Evaluation
International Silver	26	1. Long Range Planning 2. Budgeting
International Tel. & Tel.	N.A.	N.A.
Walter Kidde	N.A.	N.A.
Lear-Siegler	25	1. Sets Targets 2. Evaluates
Lehigh Valley	N.A.	N.A.
Ling-Temco-Vought	18	1. Financial Planning 2. Legal 3. Public Relations 4. Accounting
Litton	90(Headquarters Staff)	1. Manages Capital
MSL	N.A.	1. Marketing 2. Manufacturing Services
Midland Ross	N.A.	N.A.
National General	N.A.	N.A.
North American Rockwell	N.A.	N.A.
Ogden	50	N.A.

COMPANY	NUMBER IN EXECUTIVE MANAGEMENT GROUP	FUNCTIONS PERFORMED FOR DIVISIONS
Parker-Hannifin	50(Headquarters Staff)	1. Cash Management 2. Patent Matters 3. Insurance 4. Acquisitions 5. Marketing Research 6. Information
Republic Corp.	N.A.	N.A.
SCM	N.A.	N.A.
Seilon	N.A.	N.A.
TRW	N.A.	1. Financing 2. Marketing 3. Planning
Teledyne	18	1. Coordination 2. Capital Budgeting 3. Profit Planning
Textron	"Very Small"	N.A.
Transamerica	N.A.	1. Broad Policies
UMC	N.A.	N.A.
U.S. Industries	6 Group "Chairmen"	1. Overall Objectives 2. Financial Policy 3. Financial Controls
White Consolidated	3	N.A.

Source: Compiled by author from annual reports of the firms and reprints of speeches by company executives.

APPENDIX VIII

EARNINGS PURCHASED BY YEAR FOR EACH COMPANY AND PRICE PAID FOR TOTAL EARNINGS PURCHASED

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		A. J. INDUSTRIES		
Prior to 1960	$ 42,050		$ 2,720,800	65 X
1960	193,055		1,570,625	8.1
1961	196,048		3,627,785	18.5
1967	131,500		1,145,010	8.7
1968	166,784		3,360,750	20.1
Totals	$ 729,437	$ 784,718	$12,424,970	17.0
				15.8
		AMK		
1967	$ 4,084,000	$ 6,682,000	$68,222,465	16.7
				10.2
		ALLIED PRODUCTS		
1968	$ 2,495,200	a	$63,725,000	25.5
		"AUTOMATIC" SPRINKLER		
1966	$ 446,194		$24,450,000	55.0
1967	3,858,425		137,012,137	35.5
1968	2,074,122		40,151,617	19.1
	$ 6,378,741		$201,613,754	31.6
		$ 8,961,769		22.5
		BANGOR PUNTA		
1965	$ 1,523,500		$24,873,829	16.3
1966	1,162,819		11,648,781	10.0
1967	1,836,553		30,041,738	16.4
1968	3,278,502		62,957,941	19.2
	$ 7,801,374		$129,522,289	16.6
		a		

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		BENDIX		
Prior to 1960	$ 1,181,755		$ 14,087,466	11.9
1962	7,980		1,153,723	145
1964	361,269		3,333,323	9.2
1965	1,927,376		19,898,500	10.3
1966	346,781		4,835,279	13.9
1967	18,844,900		337,018,253	17.9
1968	(357,392)		730,000	
	$ 22,312,669	a	$ 381,056,544	17.0
		BOISE CASCADE		
1962	$ 2,438,800		$ 64,000,000	26.2
1964	248,365		4,156,680	16.7
1965	5,007,850		102,856,879	20.5
1967	6,400,073		114,802,516	17.9
1968	4,103,103		116,999,960	28.5
	$ 18,198,191	a	$ 402,816,035	22.1
		CHROMALLOY		
Prior to 1967	$ 406,984		$ 6,761,210	16.6
1967	1,417,183		14,863,805	10.5
1968	4,488,838		43,406,440	9.7
	$ 6,313,005		$ 64,653,455	10.2
		$ 7,138,174		9.1
		CITY INVESTING		
1967	$ 9,679,171		$ 241,637,771	24.9
	21,426,710		583,845,874	27.2
	$ 31,105,881	$38,688,000	$ 825,783,645	21.3

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		CLARK EQUIPMENT CO.		
Prior to 1963	$ 1,107,300		$ 8,969,454	7.6
1963	921,666		11,221,072	12.2
1966	801,582		16,195,952	20.2
1968	62,896		370,441	5.9
	$ 2,893,444	a	$ 36,756,919	12.7
		DRESSER		
Prior to 1964	$ 4,194,683		$ 47,264,928	11.3
1964	1,550,200		27,730,000	17.9
1967	10,015,000		133,184,000	13.1
	4,403,200		85,738,424	19.5
	$20,163,083	a	$293,917,352	14.6
		EAGLE-PICHER		
Prior to 1964	$ 3,165,000		$ 17,900,000	5.7
1964	907,864		6,250,000	6.9
1967	389,450		3,979,132	10.2
	$ 4,462,314	a	$ 28,129,132	6.3
		EATON, YALE & TOWNE		
Prior to 1963	$ 2,953,652		$ 34,585,773	11.7
1968	4,268,000		80,279,345	18.9
	1,794,279		48,012,500	26.8
	$ 9,015,931	$ 9,973,123	$162,877,618	18.1

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		FMC		
Prior to 1963	$ 4,412,842		$ 45,793,852	10.4
1963	10,890,428		116,000,000	10.7
1965	674,115		7,146,000	10.6
1966	156,977		1,575,060	10.0
1967	9,475,000		162,658,315	17.2
1968	(57,393)		978,695	
	$25,551,969		$334,151,922	13.1
		$32,609,919		10.2
		GENESCO		
Prior to 1964	$ 3,736,724		$ 51,948,709	13.9
1964	3,312,553		71,366,825	21.5
1965	1,674,740		22,986,699	13.7
1966	1,161,493		19,772,166	17.0
1967	2,570,127		23,380,550	9.1
1968	2,880,819		65,368,004	22.7
	$15,336,456		$254,822,953	16.6
		$17,618,471		14.5
		GLEN ALDEN		
Prior to 1967	$ 3,106,000		$ 91,846,000	29.6
	13,254,200		387,004,042	29.2
	16,450,000		482,611,288	29.3
	$32,810,200		$961,461,330	29.3
		$45,713,000		21.0
		W. R. GRACE		
Prior to 1963	$ 3,659,066		$ 59,717,620	16.3
	632,034		19,895,119	31.5
	5,695,662		119,349,865	21

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		W. R. GRACE		
1965	$ 1,644,148		$ 51,286,084	31.2
1966	7,853,084		100,788,846	12.8
1967	1,930,007		13,861,639	7.2
1968	2,564,891		37,372,168	14.6
	$23,978,892		$402,271,341	16.8
		$25,677,457		15.7
		GULF & WESTERN		
1964	$ 486,327		$ 10,846,954	22.3
1965	230,200		2,964,045	12.9
1966	12,024,333		466,841,628	38.8
1967	7,471,868		123,315,511	16.5
1968	22,632,302		446,662,795	19.7
	$42,845,030		$1,050,630,933	24.5
		$65,225,048		16.1
		HOUDAILLE		
Prior to 1965	$ 304,000		$ 9,538,051	31.4
1965	501,166		9,069,500	18.1
1967	759,000		8,800,000	11.6
1968	816,100		15,487,500	19.0
	$ 2,380,266	$ 3,945,200	$ 42,895,051	18.0
				10.9
		INDIAN HEAD		
1965	$ 857,200		$ 16,500,000	19.3
1966	975,000		13,876,671	14.2
1967	2,344,133		54,548,944	23.3
1968	709,276		16,574,413	23.4
	$ 4,885,609		$101,500,028	20.8
		$ 5,924,919		17.1

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		INTERNATIONAL SILVER		
Prior to 1964	$ 702,500		$ 9,000,000	12.8
1964	463,100		10,600,000	22.9
1967	971,600		40,564,000	41.7
1968	233,754		4,433,576	19.0
	$ 2,370,954		$ 64,597,576	27.2
		a		
		INTERNATIONAL TEL. & TEL.		
Prior to 1964	$ 7,005,726		$181,257,036	25.9
1964	5,735,715		96,364,121	16.8
1965	1,062,809		56,506,834	53.2
1966	2,633,929		77,600,348	29.5
1967	14,443,335		598,950,821	41.5
1968	36,177,749		825,885,710	22.8
	$67,059,263		$1,836,564,870	27.4
		a		
		WALTER KIDDE		
1964	$ 80,697		$ 2,825,791	34.4
1965	765,120		21,654,394	28.3
1966	3,956,731		110,524,572	27.9
1967	8,273,204		131,660,118	15.9
1968	4,562,690		339,458,106	74.4
	$17,638,434		$606,122,981	34.4
		$20,845,465[b]	323,842,540[b]	15.5[b]
		LEAR-SIEGLER		
Prior to 1965	$ 4,382,800		$ 67,174,081	15.3
1965	576,908		7,773,557	13.4
1966	3,985,675		65,916,481	16.5
1967	2,074,295		28,785,513	14.0
1968	2,966,565		40,124,854	13.6
	$13,986,243		$209,774,486	15.0

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		LEHIGH VALLEY		
1966	$ 739,000		$ 7,300,000	10.0
1967	856,644		7,186,700	8.4
1968	1,509,811		13,688,984	9.1
	$ 3,105,455	a	$ 28,175,684	9.1
		LING-TEMCO-VOUGHT		
Prior to 1966	$ 8,201,500		$ 99,668,504	12.2
1966	11,312,666		212,740,000	18.8
1967	5,133,903		232,434,080	45.3
1968	35,804,663		930,318,500	26
	$60,452,732		$1,475,161,084	24.4
		$66,765,825		22.1
		LITTON		
Prior to 1964	$ 7,195,076		$135,269,310	18.8
1964	2,693,378		46,433,815	17.2
1965	1,002,767		24,155,623	24.1
1966	332,500		14,461,263	43.5
1967	10,490,841		266,056,023	25.4
1968	11,943,900		239,455,368	20.0
	$33,658,462		$725,831,402	21.6
		$36,773,189		
		MSL		
Prior to 1965	$ 2,076,262		$ 33,174,764	16.0
1965	457,666		8,995,902	19.7
1966	235,000		1,670,400	7.1
1967	76,880		2,345,000	30.5
1968	157,386		1,800,000	11.4
	$ 3,003,194		$ 47,986,066	16.0
		$ 3,852,953		12.5

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		MIDLAND ROSS		
Prior to 1965	($ 3,116,400)		$ 48,624,586	
1965	1,211,000		33,277,467	27.5
1967	978,800		9,486,517	9.7
		NATIONAL GENERAL		
Prior to 1967	$ 1,192,635		$ 27,316,497	22.9
1967	1,039,449		11,270,279	10.8
1968	12,477,900		726,447,748	58.2
	$14,709,984	a	$765,034,524	52.0
		NORTH AMERICAN ROCKWELL		
Prior to 1965	$ 1,391,650		$ 24,616,925	17.7
1965	2,709,500		45,241,412	16.7
1967	6,356,833[c]		93,336,919[c]	14.7
1968	3,353,900		53,677,500	16.0
	$13,811,883		$216,872,756	15.7
		OGDEN		
1966	$ 2,561,170		$ 20,537,141	8.0
1967	4,635,092		87,436,382	18.9
1968	5,843,672		56,999,971	9.8
	$13,039,934	$14,371,336	$164,973,494	12.7
		PARKER-HANNIFIN		
1967	$ 186,623		$ 3,100,075	16.6
	73,500		2,450,000	33.3
	$ 260,123	a	$ 5,550,075	21.3

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		REPUBLIC CORP.		
Prior to 1967	$ 92,200		$ 7,046,672	76.4
1967	730,532		9,314,625	12.8
1968	3,016,595		46,361,024	15.4
	$ 3,839,327	a	$ 62,722,321	16.3
		SCM		
Prior to 1966	$ 1,309,600		$ 15,702,503	12.0
1966	1,056,600		69,327,082	65.6
1967	11,062,500		235,013,493	21.2
1968	110,000		1,267,720	11.5
	$13,538,750	a	$321,310,798	23.7
		SEILON		
1964	$ 14,445		$ 507,493	35.1
1966	141,433		3,394,704	24
1967	39,400		209,214	5.3
	$ 195,278	a	$ 4,111,411	21
		TRW		
Prior to 1966	$ 5,941,166		$105,406,754	17.7
1966	189,800		2,000,000	10.5
1967	2,351,594		42,161,956	17.9
1968	19,583,800		434,381,102	22.2
	$28,066,360		$583,949,812	20.8
		$34,681,354		16.8

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		TELEDYNE		
1966	$ 6,359,996		$ 89,874,020	14.1
1967	8,362,298		165,137,598	19.7
1968	20,375,992		433,736,921	21.3
	$35,098,286		$688,748,539	19.6
		$39,202,978	-	17.6
		TEXTRON		
Prior to 1963	$ 7,964,500		$ 56,700,000	7.1
1963	598,833		10,000,000	16.7
1966	4,171,000		85,360,990	20.5
1967	1,446,888		38,381,413	26.5
	16,480,264		396,550,927	24.1
	$30,661,485	$31,924,036	$586,993,329	19.1
				18.4
		TRANSAMERICA		
Prior to 1967	$ 1,397,360		$ 12,774,517	9.1
1967	7,130,956		227,269,984	31.9
1968	6,339,347		217,912,055	34.4
	$14,867,663		$457,956,556	30.8
		$24,939,760		18.4
		UMC		
Prior to 1961	$ 315,362		$ 18,411,074	58.4
1961	1,081,200		20,797,500	19.2
1962	60,750		930,000	15.3
	$ 1,457,312		$ 40,138,574	27.5
	-	$ 1,583,312		25.4

YEAR	AVG. OF PAST EARNINGS OF FIRMS ACQUIRED	EARNINGS OF FIRMS ACQUIRED LAST YEAR PRIOR TO PURCH.	TOTAL PRICE PAID	TIMES EARNINGS PAID
		U.S. INDUSTRIES		
Prior to 1966	$ 2,003,336		$ 17,031,800	8.5
1966	1,065,156		9,777,623	9.2
1967	5,539,184		49,481,541	8.9
1968	14,111,003		185,746,056	13.2
	$22,718,679		$262,037,020	11.6
		$24,585,071		10.7
		WHITE CONSOLIDATED INDUSTRIES		
Prior to 1966	$ 214,585		$ 8,723,250	40.1
1966	295,219		41,534,678	140.1
1967	1,548,500		76,794,358	49.6
1968	6,372,600		112,959,017	17.7
	$ 8,430,904		$240,011,303	28.6
		$12,848,104		18.7

[a]Where average past earnings and current earnings are not materially different, current earnings are omitted.

[b]Exclusive of U.S. lines which showed a current loss of $12 million.

[c]Excludes the merger of North American Aviation and Rockwell-Standard.

Source: Compiled by the author from annual reports of the firms and Listing Statements of the New York Stock Exchange.

APPENDIX IX

IMPACT OF PURCHASED EARNINGS ON TOTAL EARNINGS[a]

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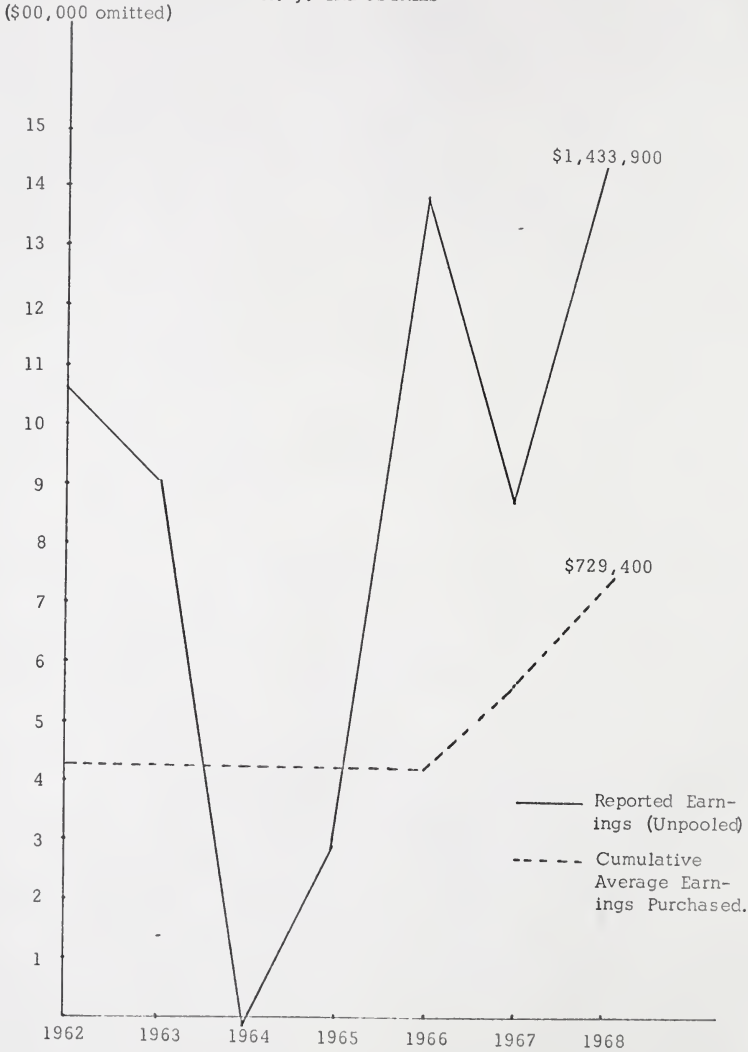
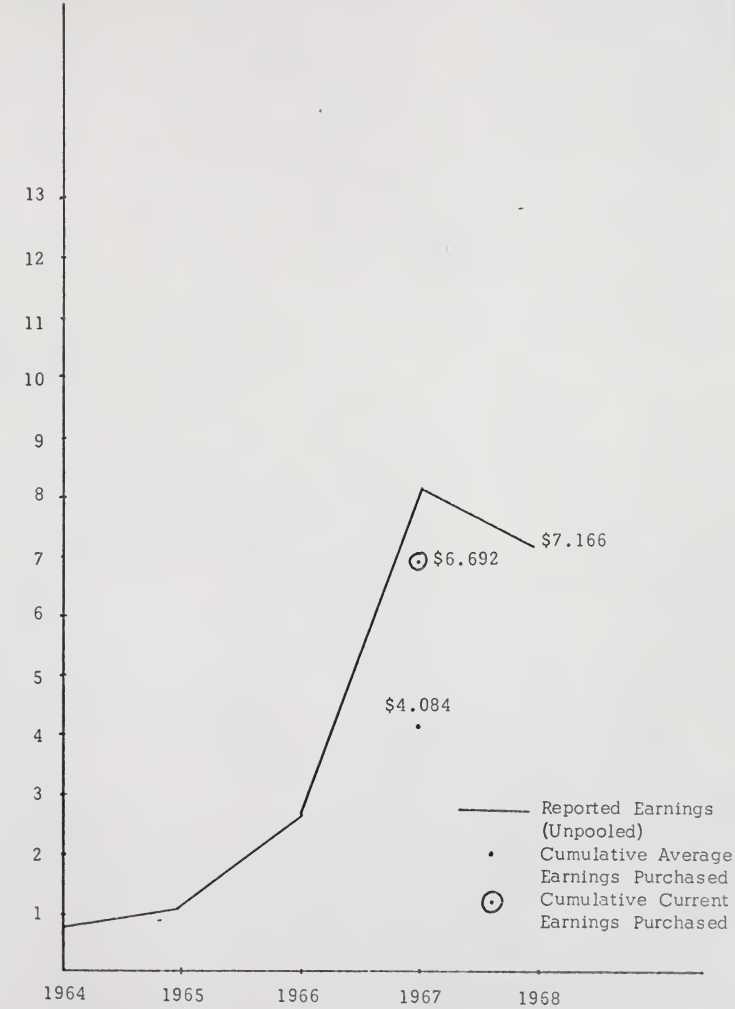
[a]For explanation of terminology, see text beginning on Page 47.

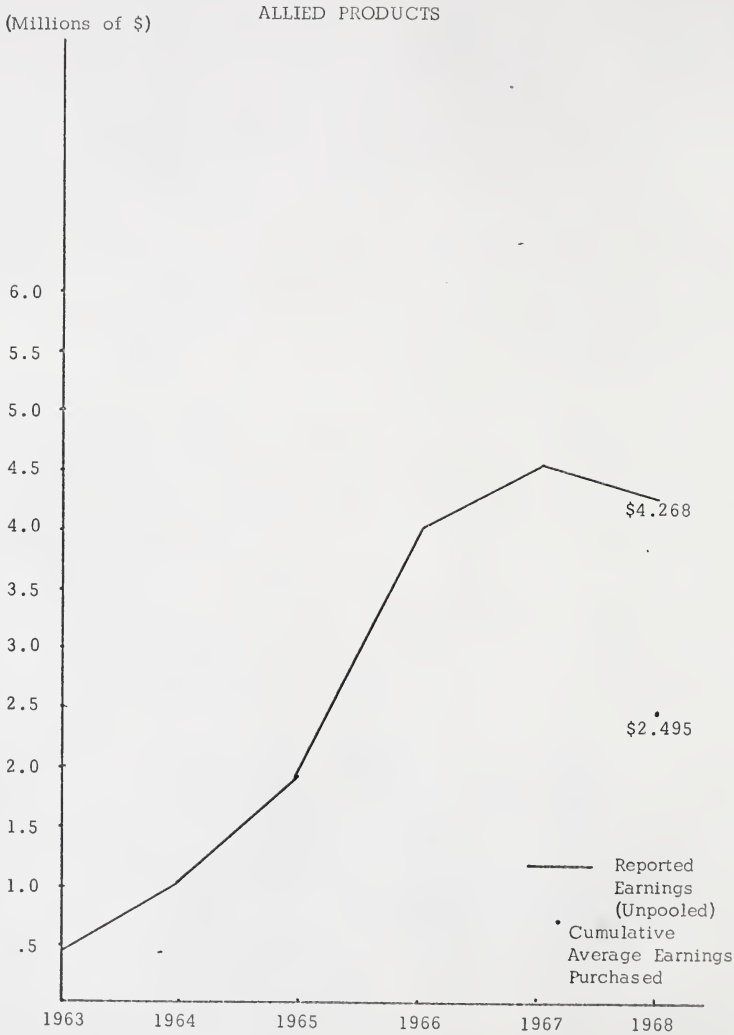
Source: Compiled by the author from annual reports of the firms.

A. J. INDUSTRIES

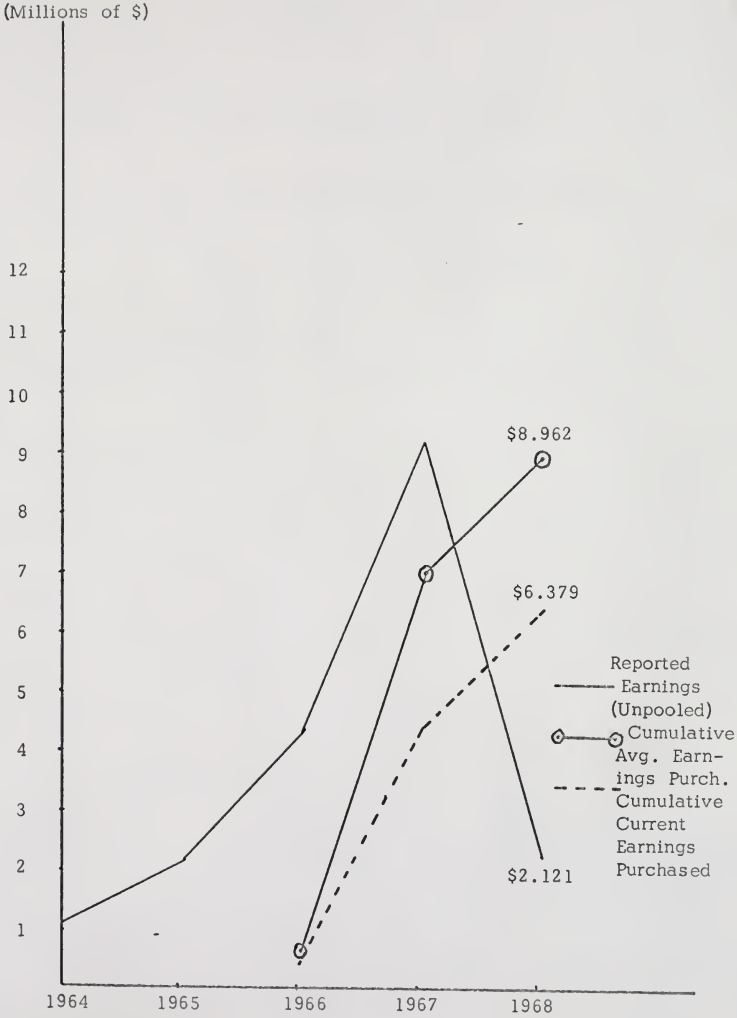


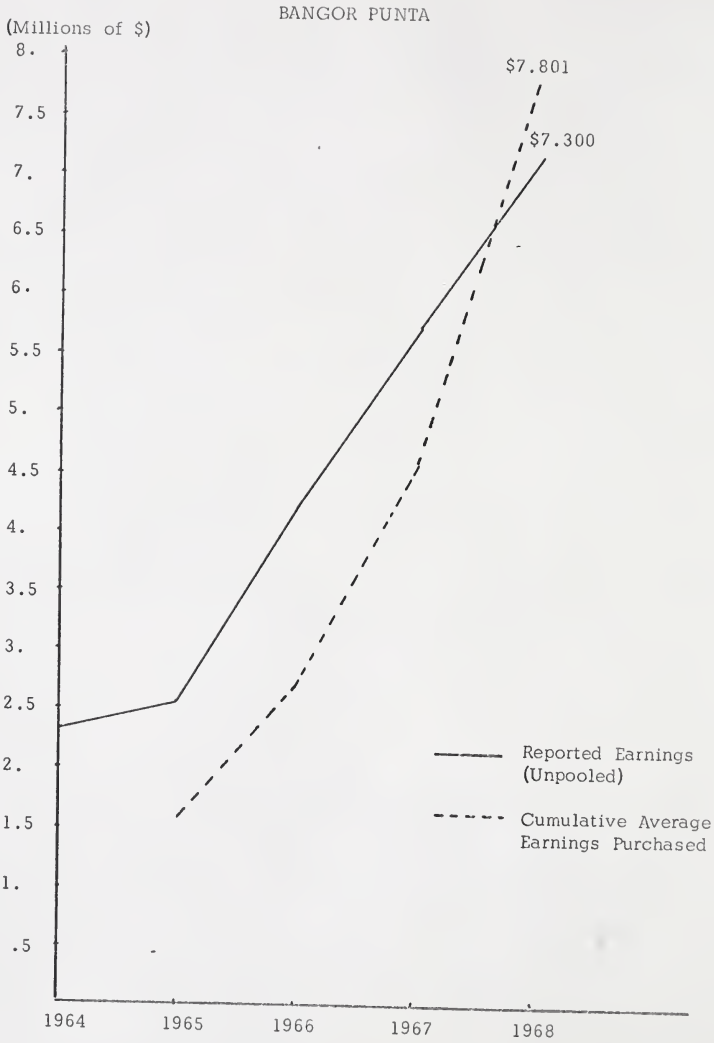
AMK


(Millions of $)
13
12
11
10
9
8
7
6
5
4
3
2
1
$7.166
$6.692
$4.084
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
Cumulative Current Earnings Purchased
1964
1965
1966
1967
1968

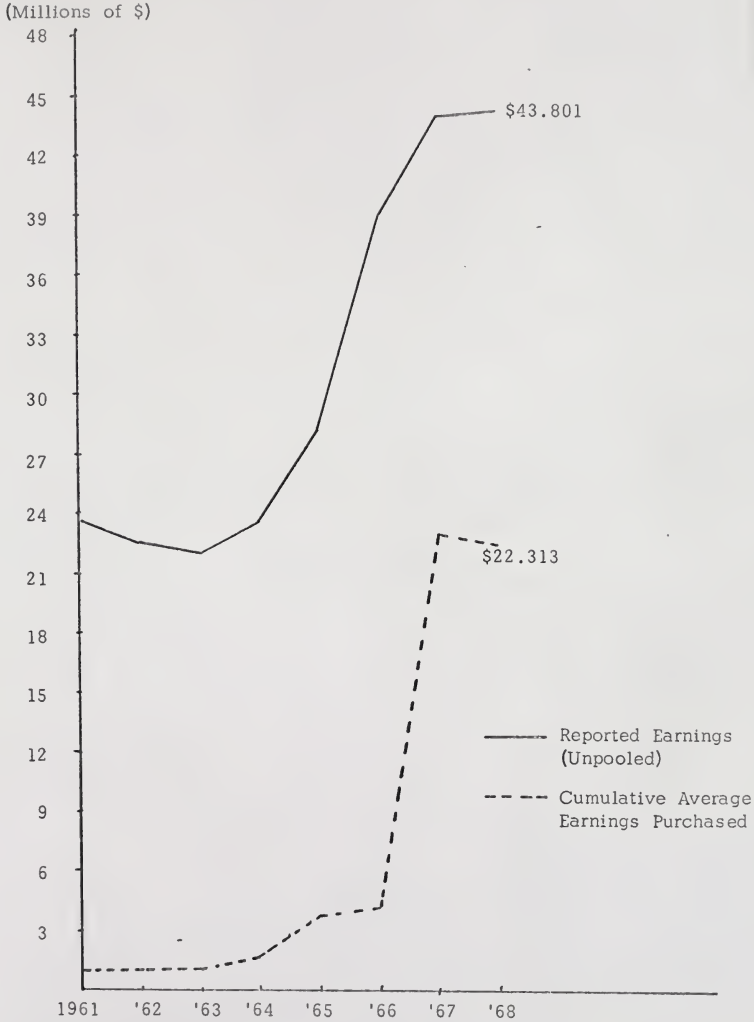

ALLIED PRODUCTS
(Millions of $)
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
.5
$4.268
$2.495
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1963
1964
1965
1966
1967
1968

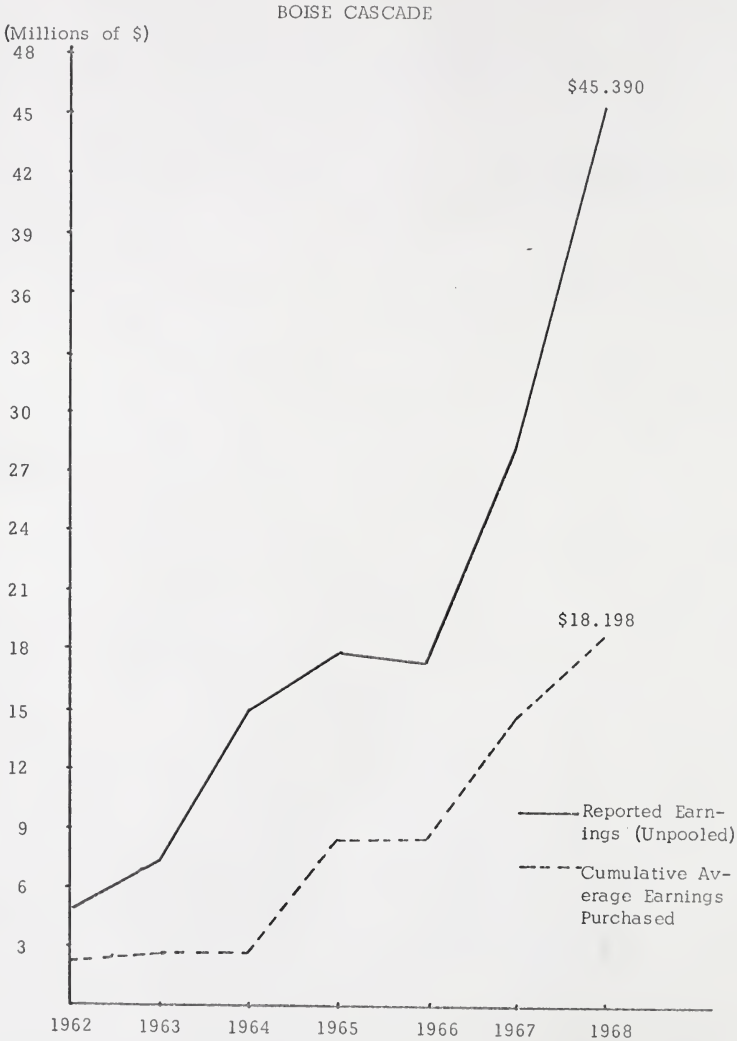
"AUTOMATIC" SPRINKLER



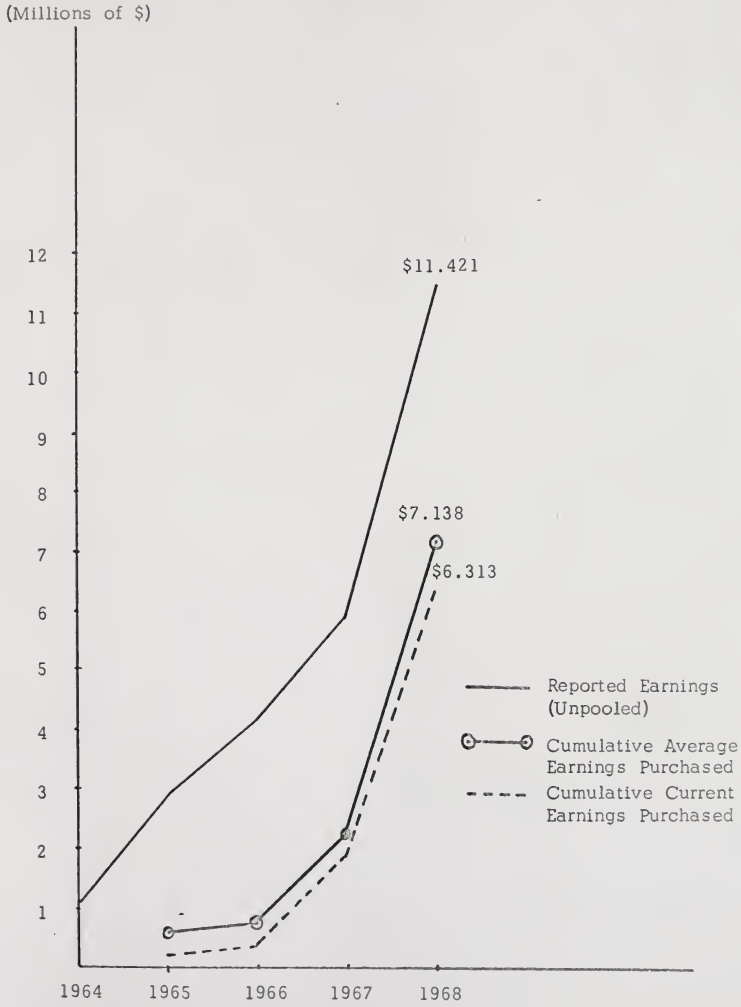

BANGOR PUNTA
(Millions of $)
8.
7.5
7.
6.5
6.
5.5
5.
4.5
4.
3.5
3.
2.5
2.
1.5
1.
.5
$7.801
$7.300
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1964
1965
1966
1967
1968

BENDIX

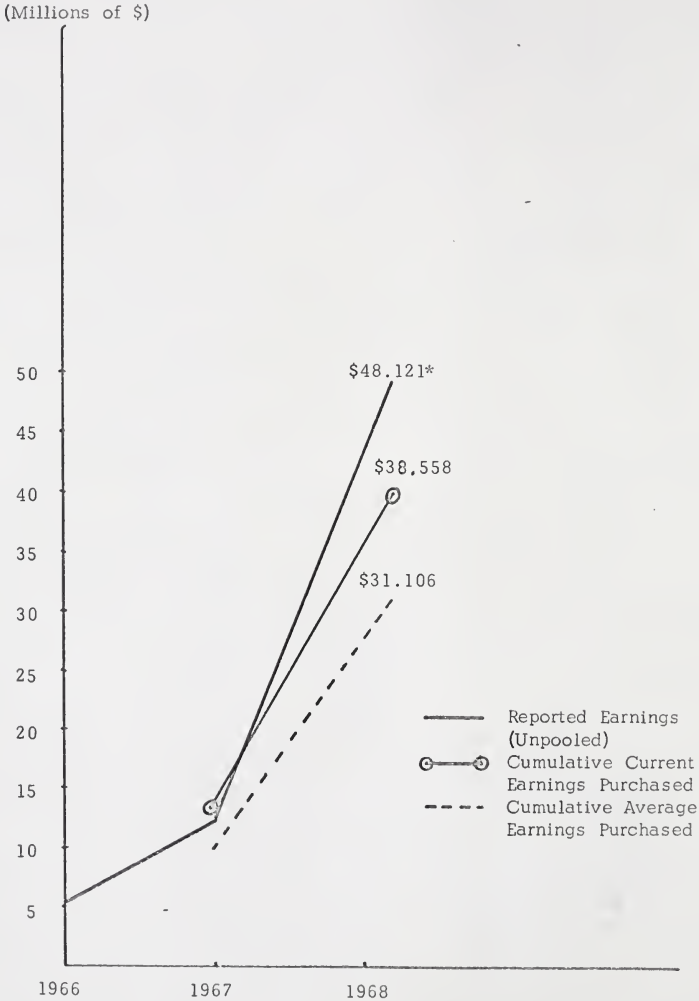

(Millions of $)
48
45
42
39
36
33
30
27
24
21
18
15
12
9
6
3
$43.801
$22.313
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1961
'62
'63
'64
'65
'66
'67
'68


BOISE CASCADE
(Millions of $)
48
45
42
39
36
33
30
27
24
21
18
15
12
9
6
3
$45.390
$18.198
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1962
1963
1964
1965
1966
1967
1968

CHROMALLOY

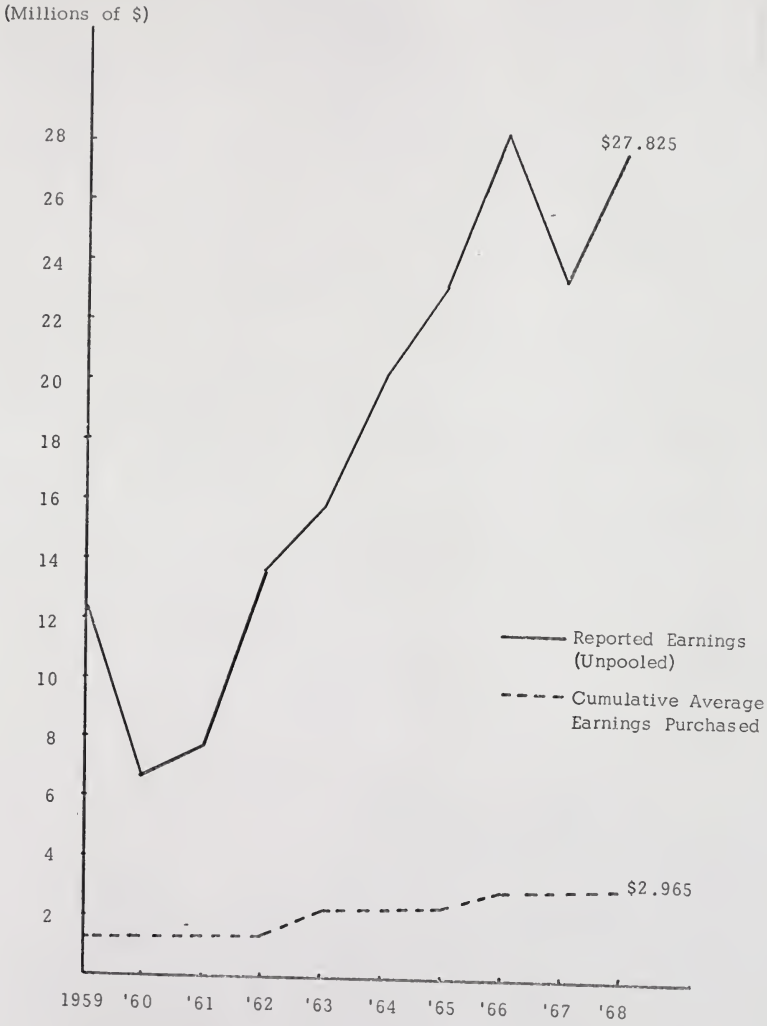

(Millions of $)
12
11
10
9
8
7
6
5
4
3
2
1
$11.421
$7.138
$6.313
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
Cumulative Current Earnings Purchased
1964
1965
1966
1967
1968

CITY INVESTING

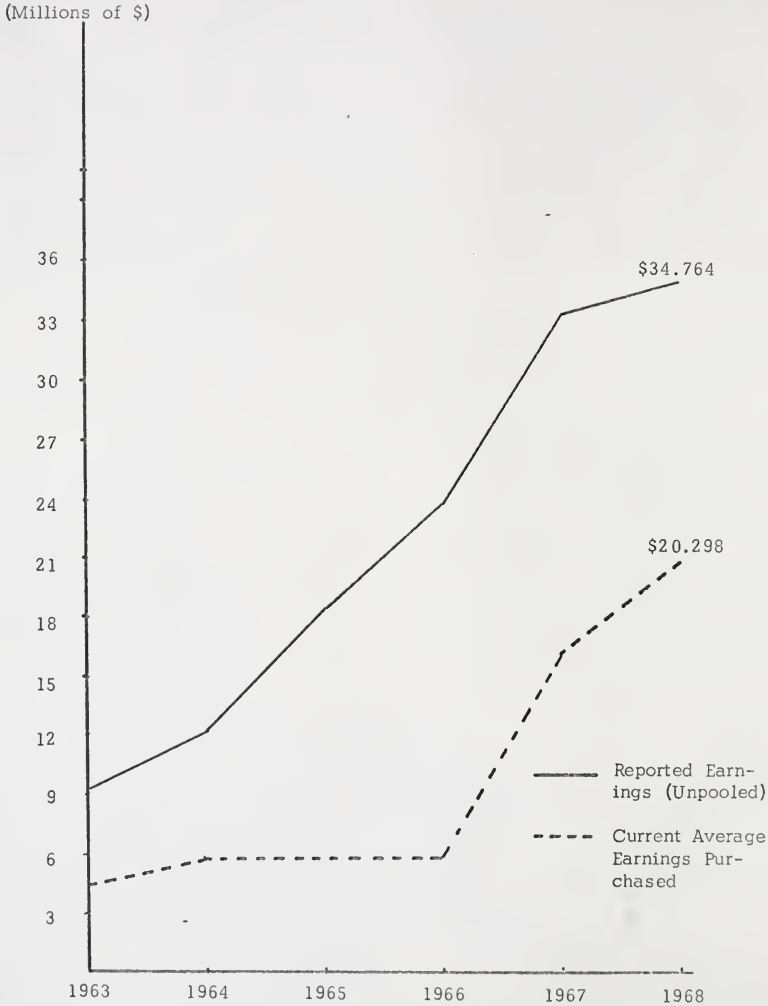


*Includes $18 million in gains on sale of investments of Home Insurance Company Pre-tax.

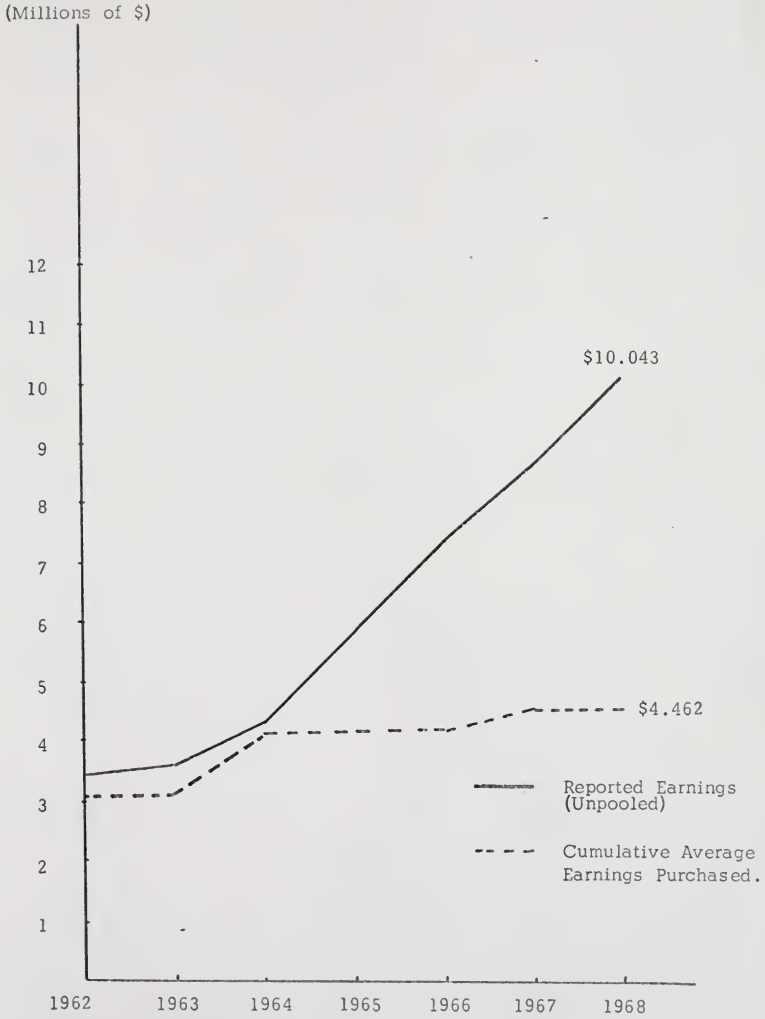
CLARK EQUIPMENT CO.



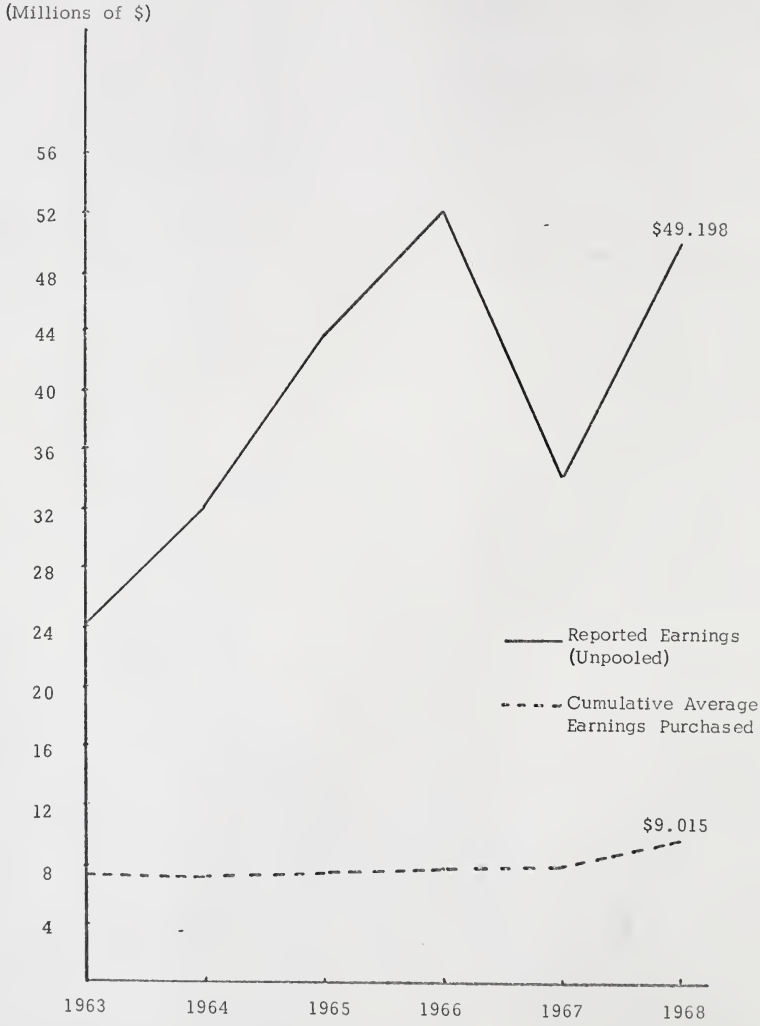
DRESSER


(Millions of $)
36
33
30
27
24
21
18
15
12
9
6
3
$34.764
$20.298
Reported Earnings (Unpooled)
Current Average Earnings Purchased
1963
1964
1965
1966
1967
1968

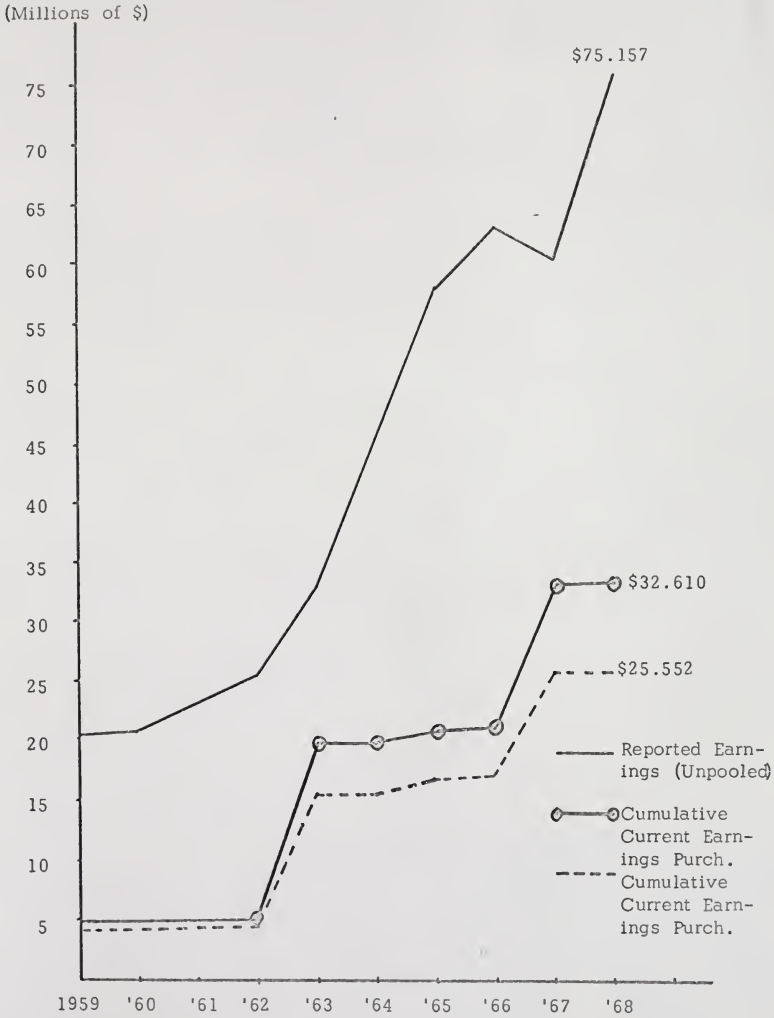
EAGLE-PICHER



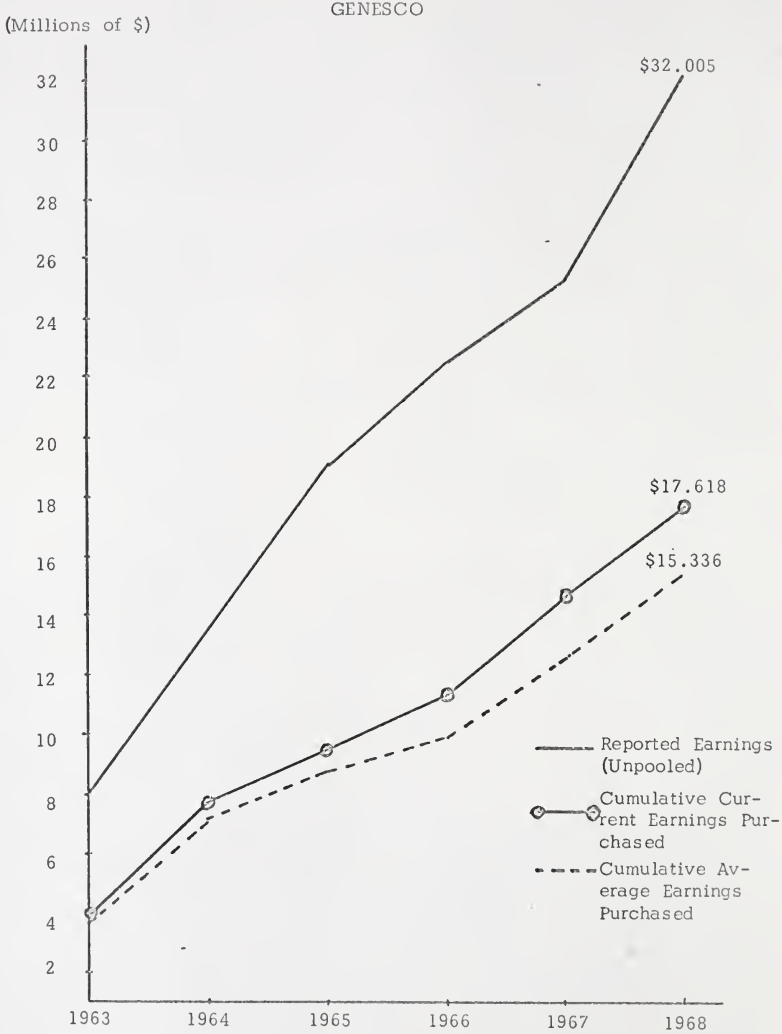
EATON, YALE & TOWNE



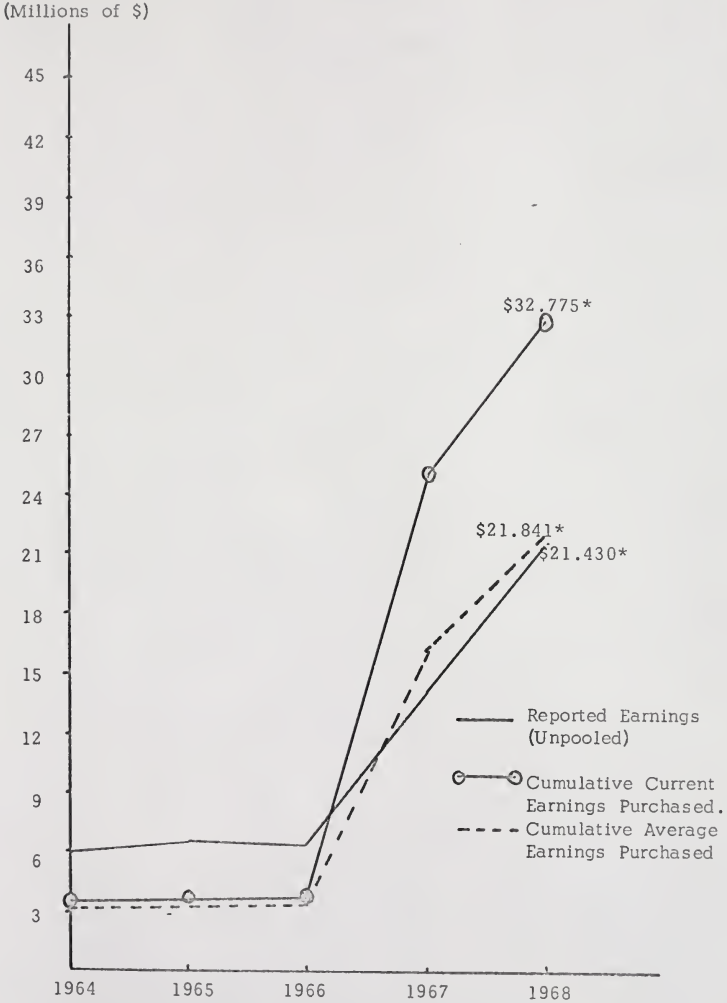
FMC


(Millions of $)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
$75.157
$32.610
$25.552
Reported Earnings (Unpooled)
Cumulative Current Earnings Purch.
Cumulative Current Earnings Purch.
1959
'60
'61
'62
'63
'64
'65
'66
'67
'68

GENESCO

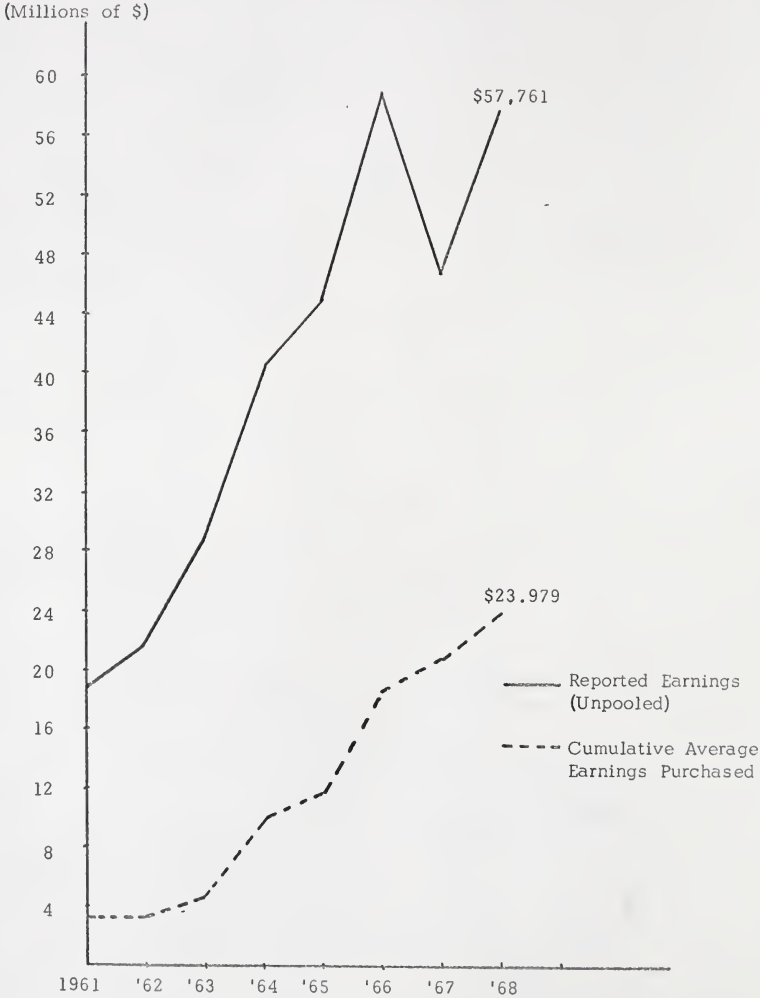

(Millions of $)
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
$32.005
$17.618
$15.336
Reported Earnings (Unpooled)
Cumulative Current Earnings Purchased
Cumulative Average Earnings Purchased
1963
1964
1965
1966
1967
1968

GLEN ALDEN

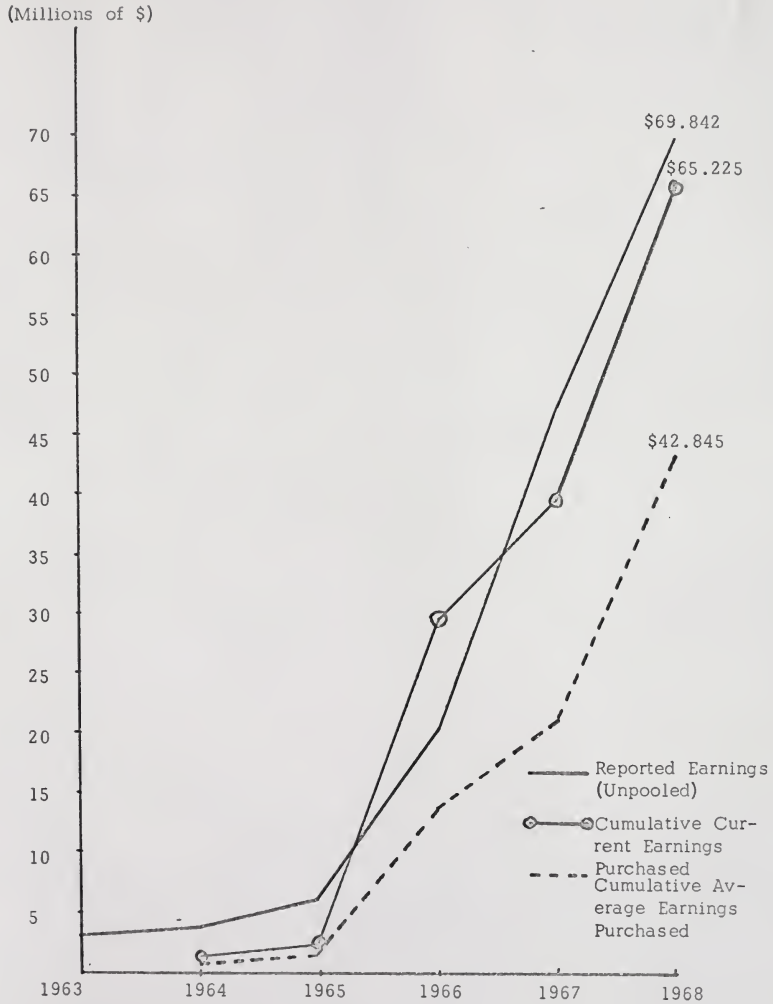


*Including Schenley for 4 months in 1968.

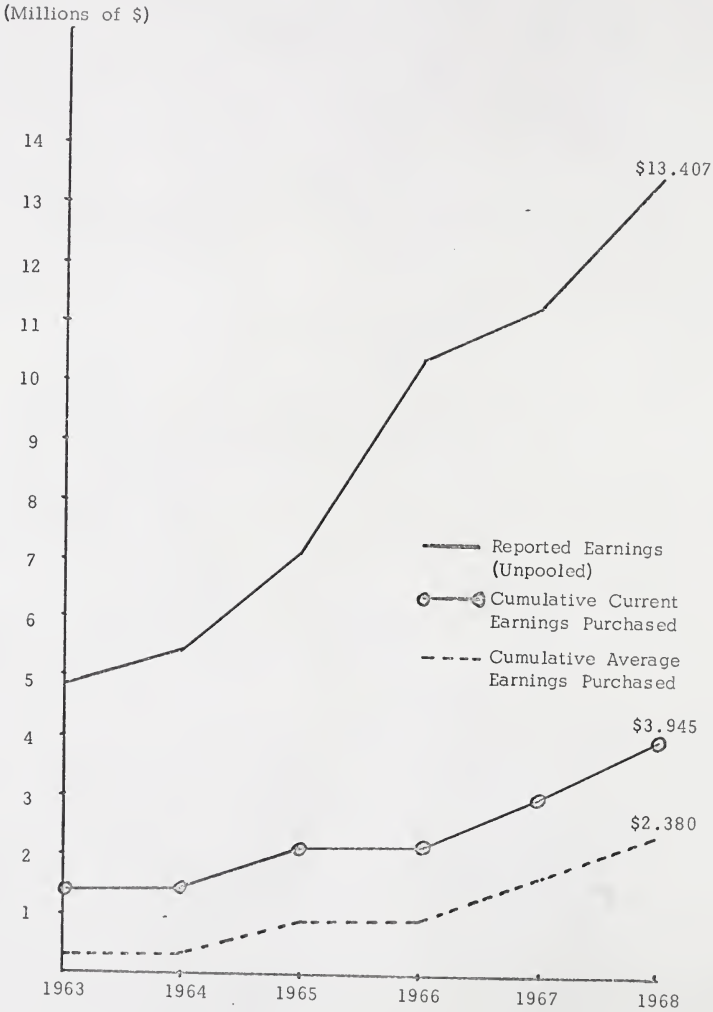
W. R. GRACE


(Millions of $)
60
56
52
48
44
40
36
32
28
24
20
16
12
8
4
$57,761
$23.979
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1961
'62
'63
'64
'65
'66
'67
'68

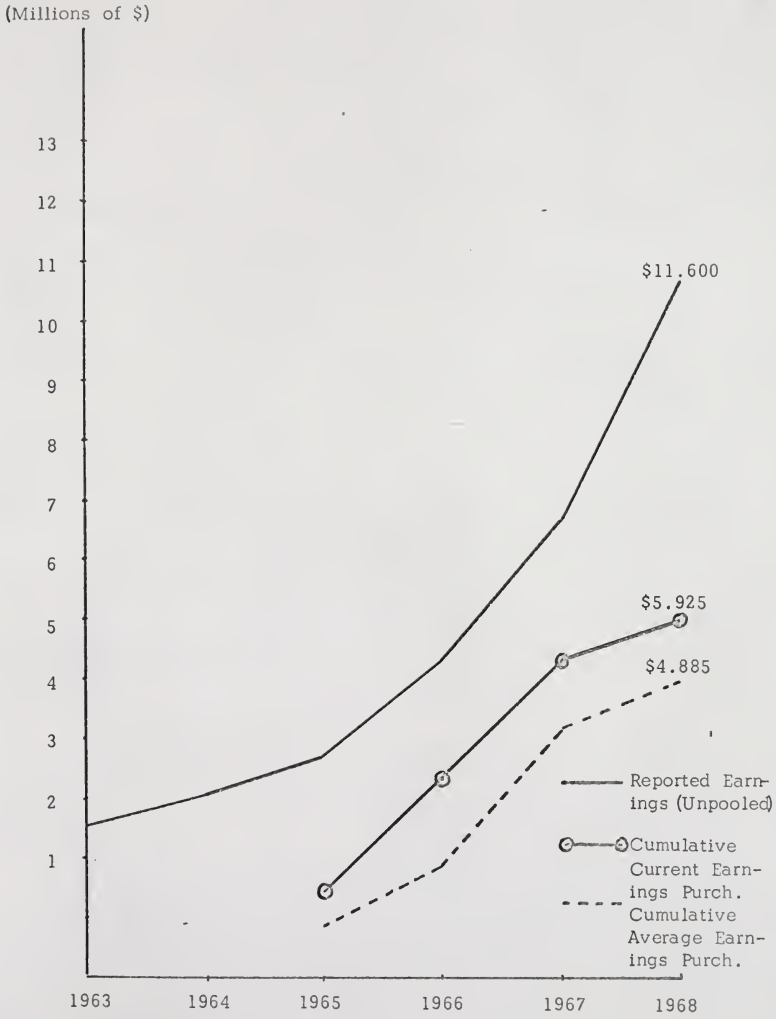
GULF & WESTERN



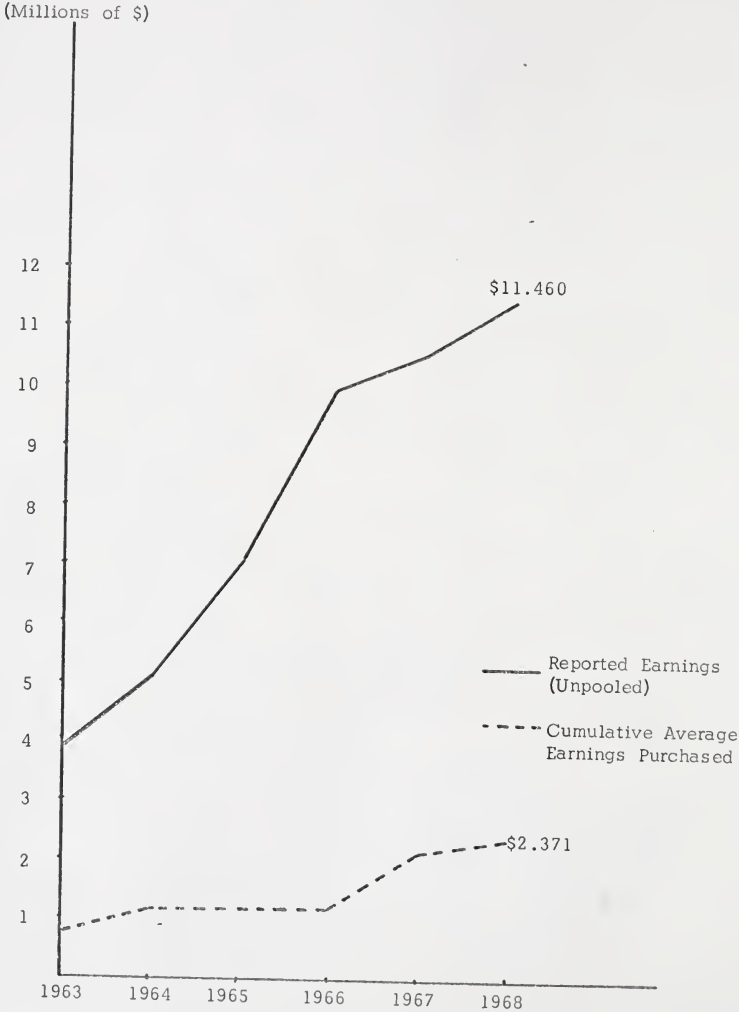
HOUDAILLE


(Millions of $)
14
13
12
11
10
9
8
7
6
5
4
3
2
1
$13.407
Reported Earnings (Unpooled)
Cumulative Current Earnings Purchased
Cumulative Average Earnings Purchased
$3.945
$2.380
1963
1964
1965
1966
1967
1968

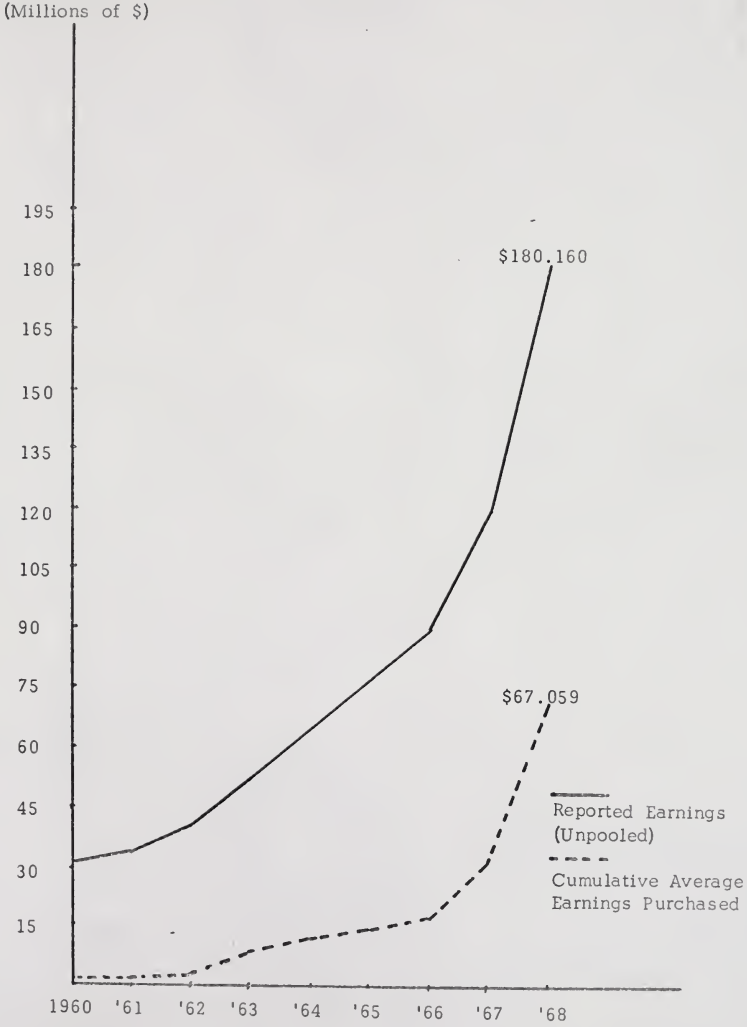
INDIAN HEAD


(Millions of $)
13
12
11
10
9
8
7
6
5
4
3
2
1
$11.600
$5.925
$4.885
Reported Earnings (Unpooled)
Cumulative Current Earnings Purch.
Cumulative Average Earnings Purch.
1963
1964
1965
1966
1967
1968

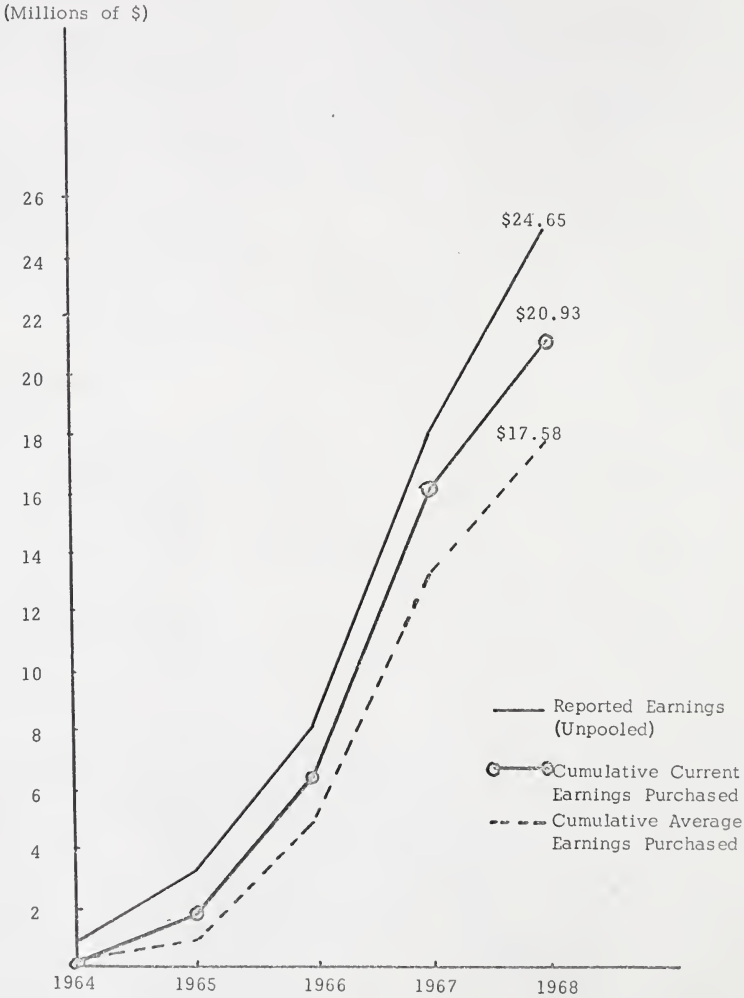
INTERNATIONAL SILVER



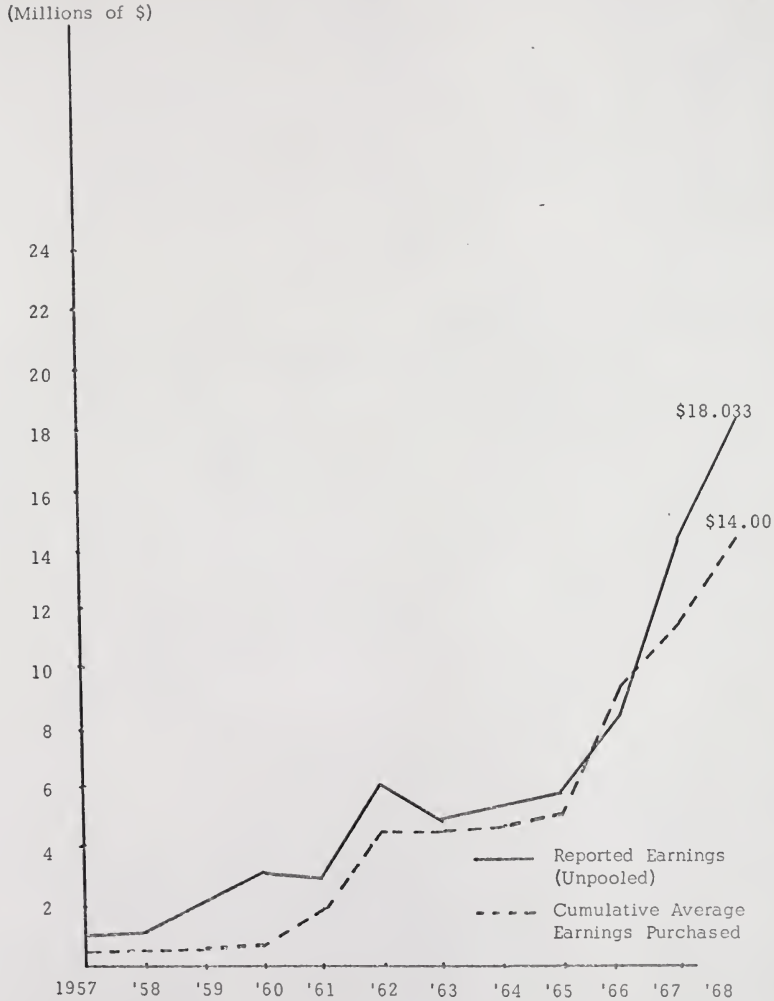
INTERNATIONAL TEL. & TEL.



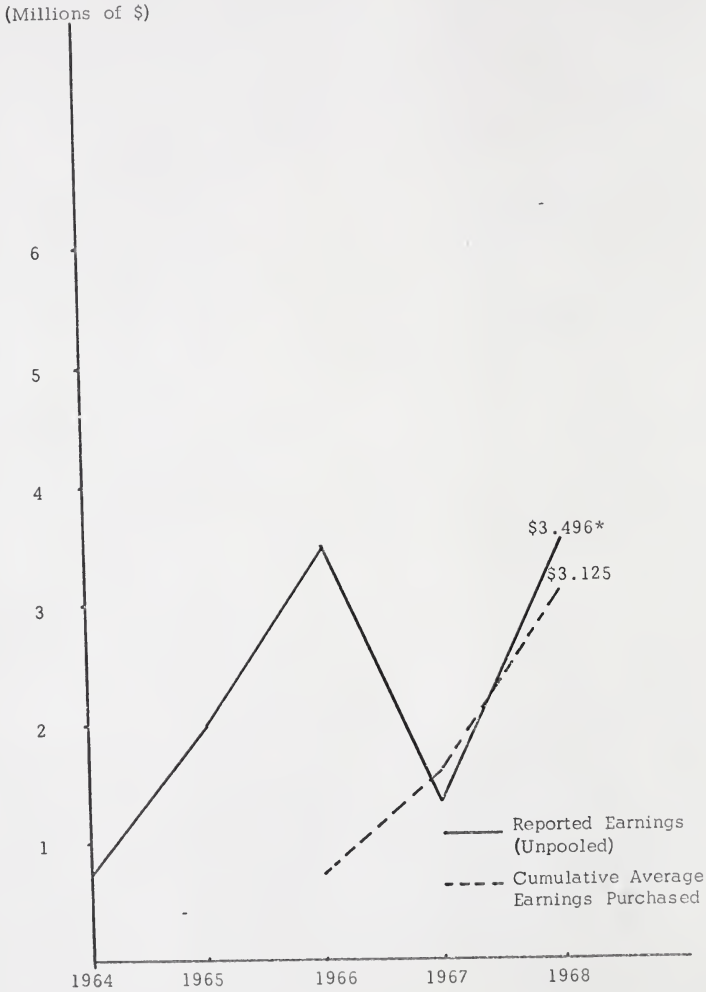
WALTER KIDDE



LEAR-SIEGLER

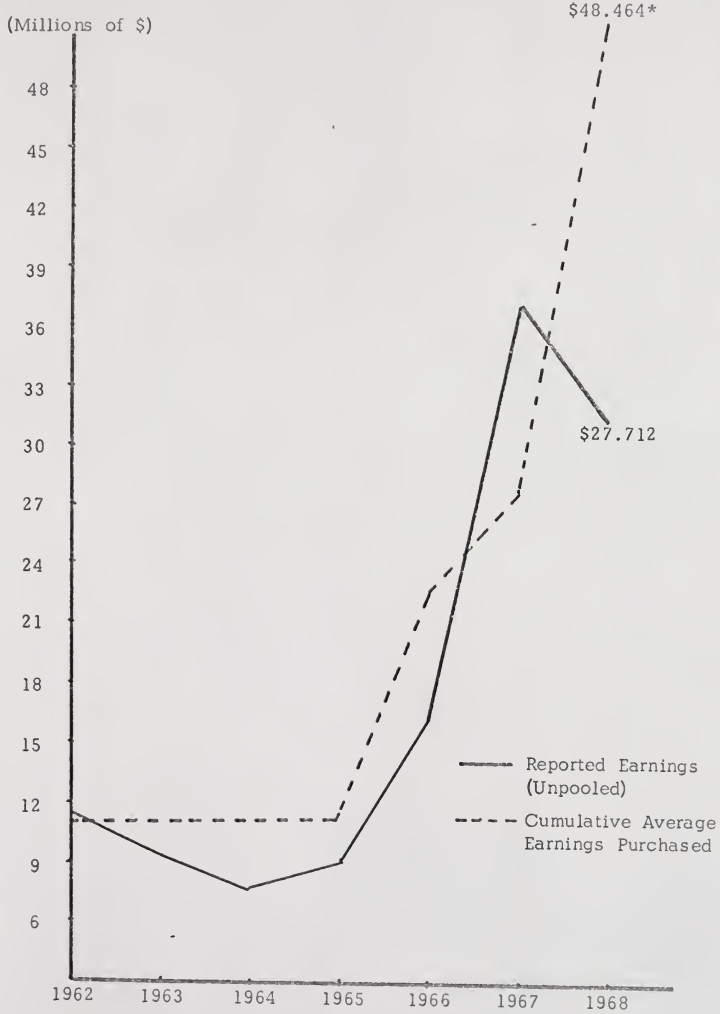


LEHIGH VALLEY



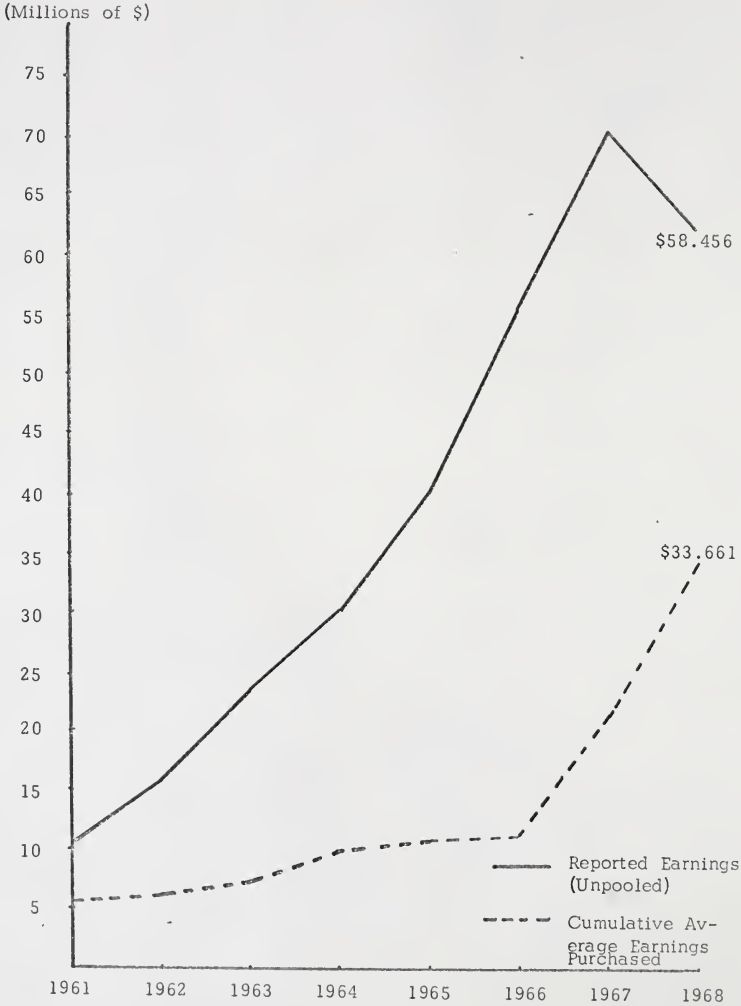
*On a fully taxed basis.

LING-TEMCO-VOUGHT

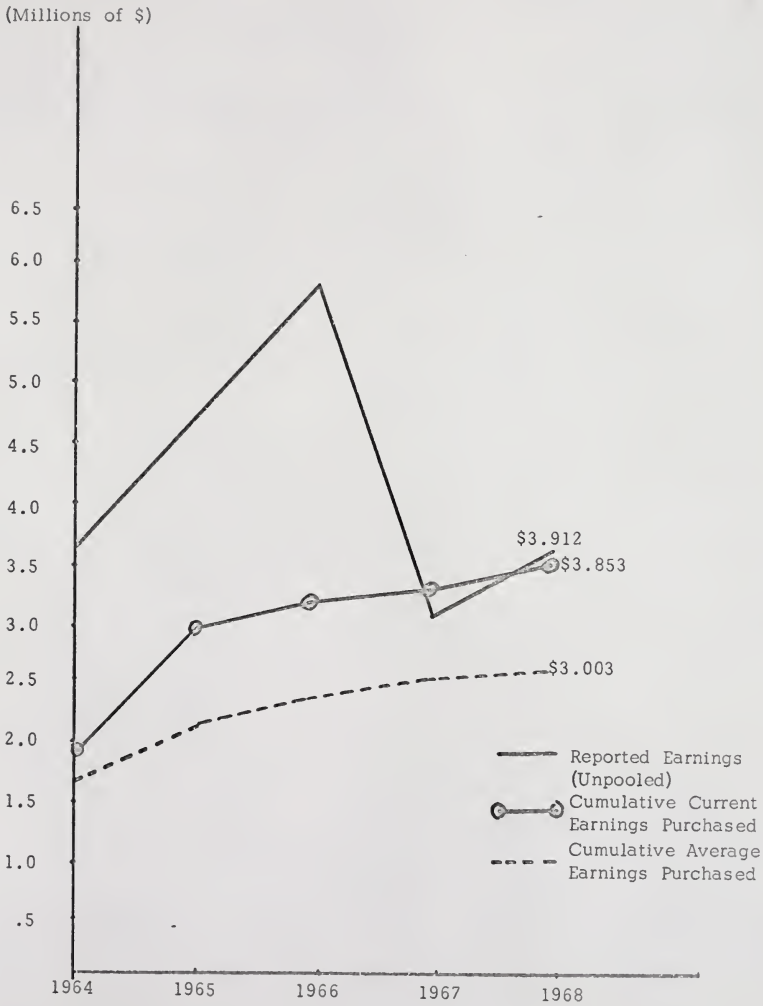


*Includes Jones & Laughlin Steel for seven months in 1968.

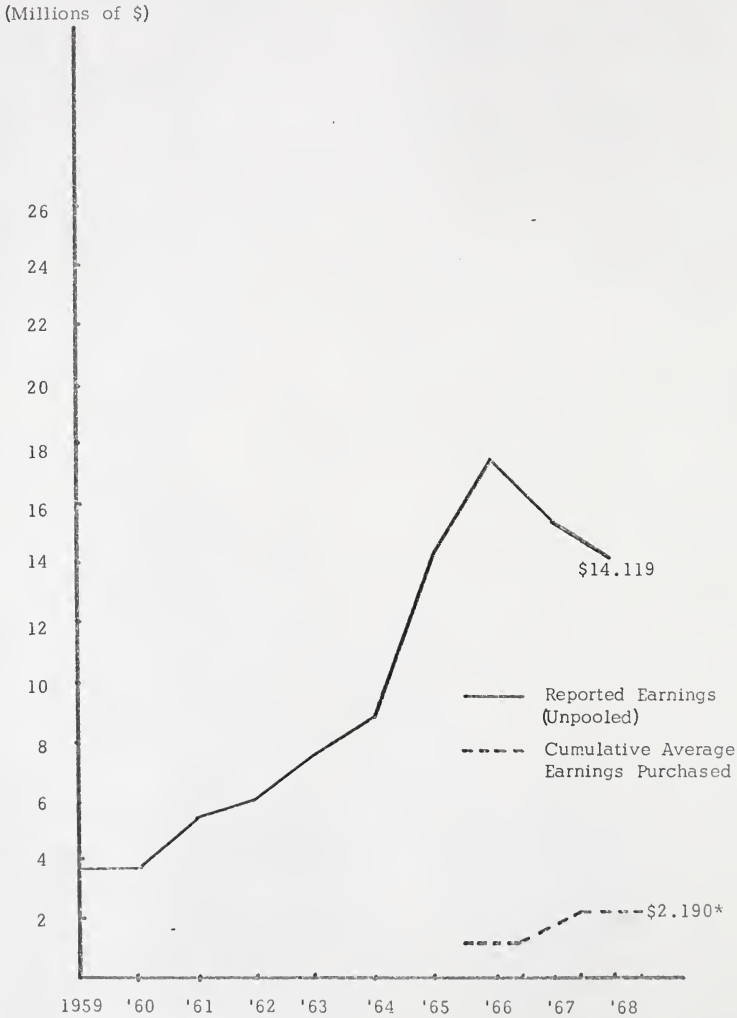
LITTON


(Millions of $)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
$58.456
$33.661
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1961
1962
1963
1964
1965
1966
1967
1968

MSL

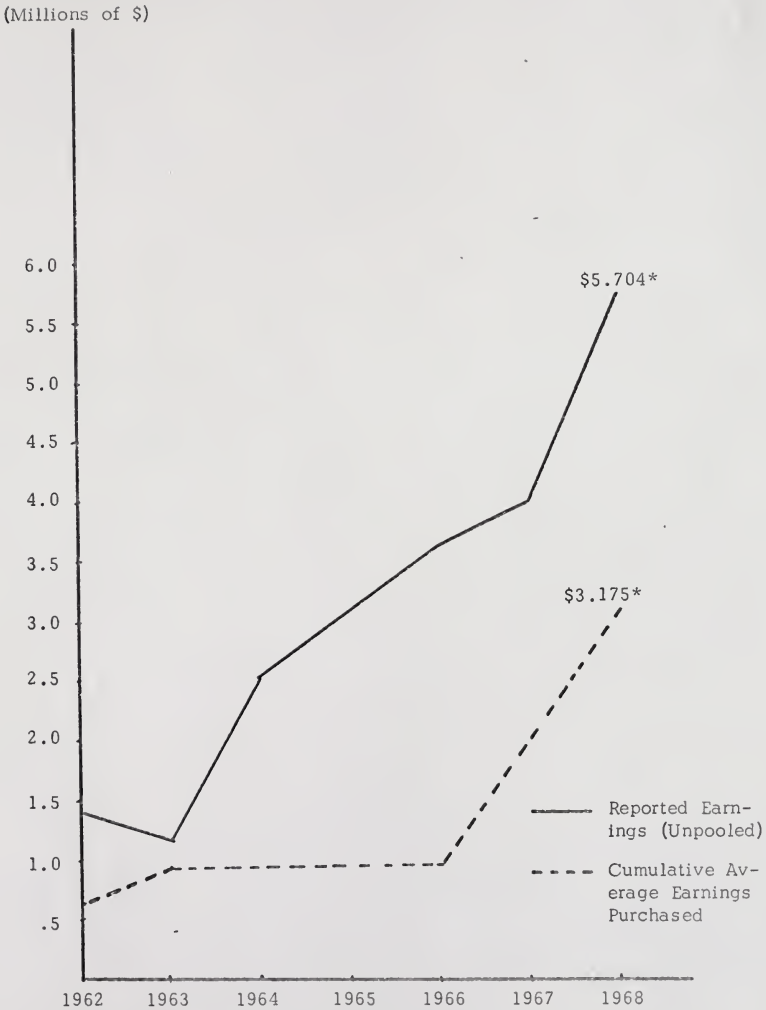

(Millions of $)
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
.5
$3.912
$3.853
$3.003
Reported Earnings (Unpooled)
Cumulative Current Earnings Purchased
Cumulative Average Earnings Purchased
1964
1965
1966
1967
1968

MIDLAND ROSS



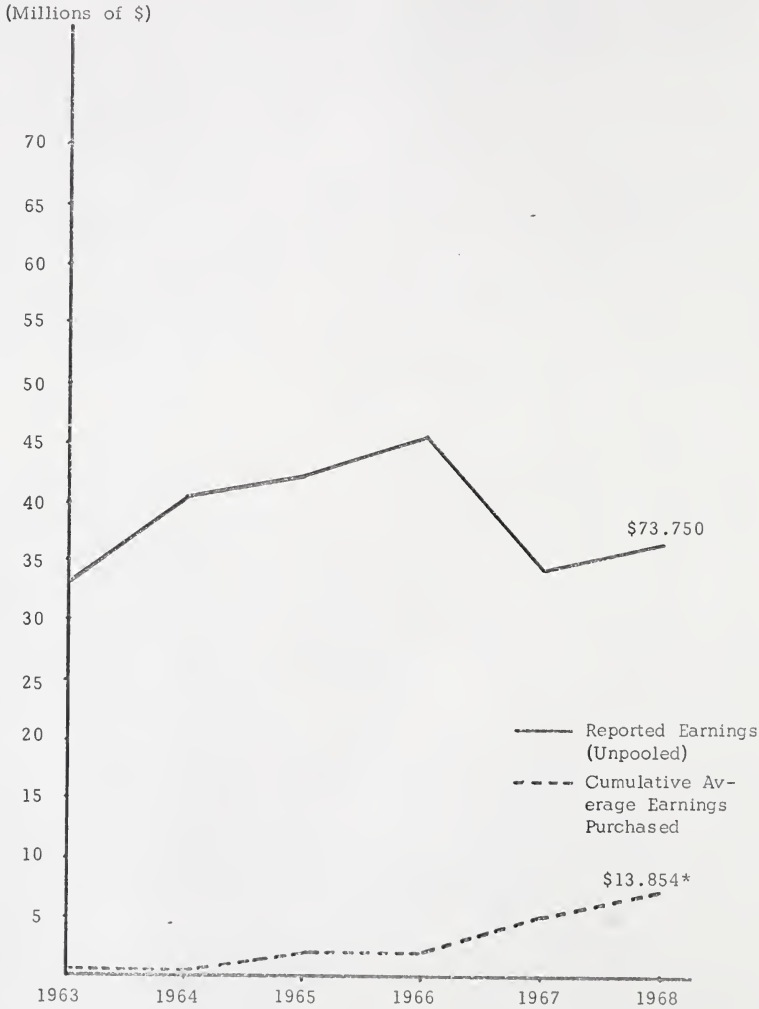
*Does not include purchased losses of $3 million prior to 1960.

NATIONAL GENERAL



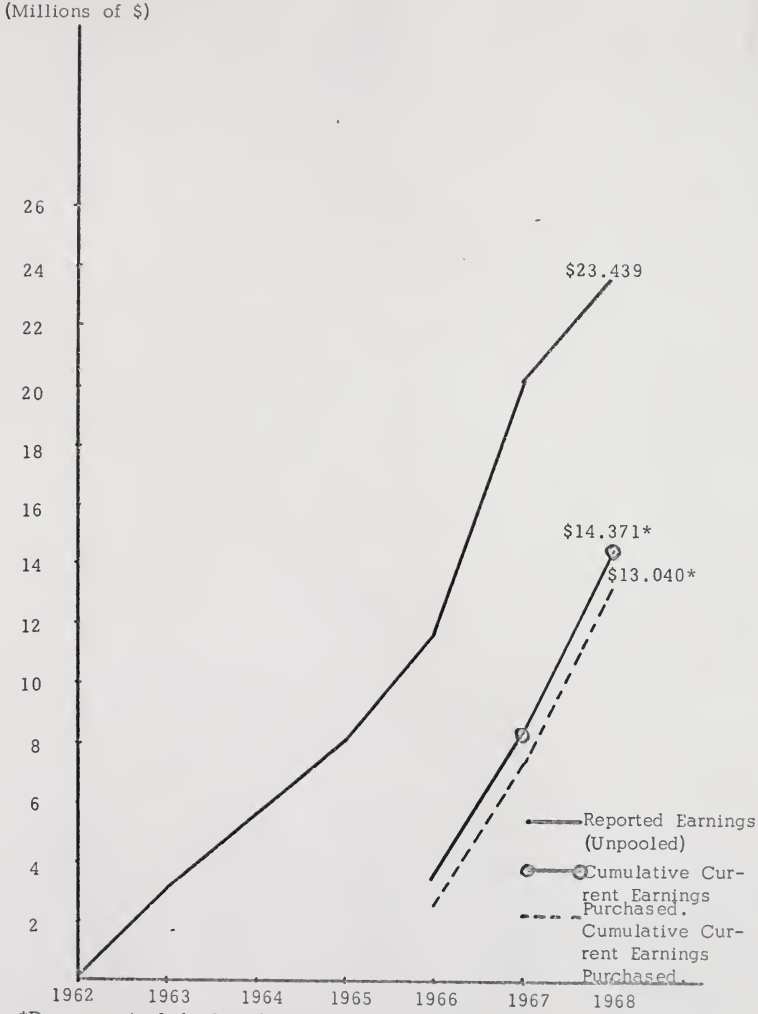
*Exclusive of the incomes of Warner Brothers, Great America Holding Co. and Columbia Savings & Loan of which are included in Reported Consolidated Net Income. Gosset & Dunlap is included to the extent of pro rata time owned.

NORTH AMERICAN ROCKWELL



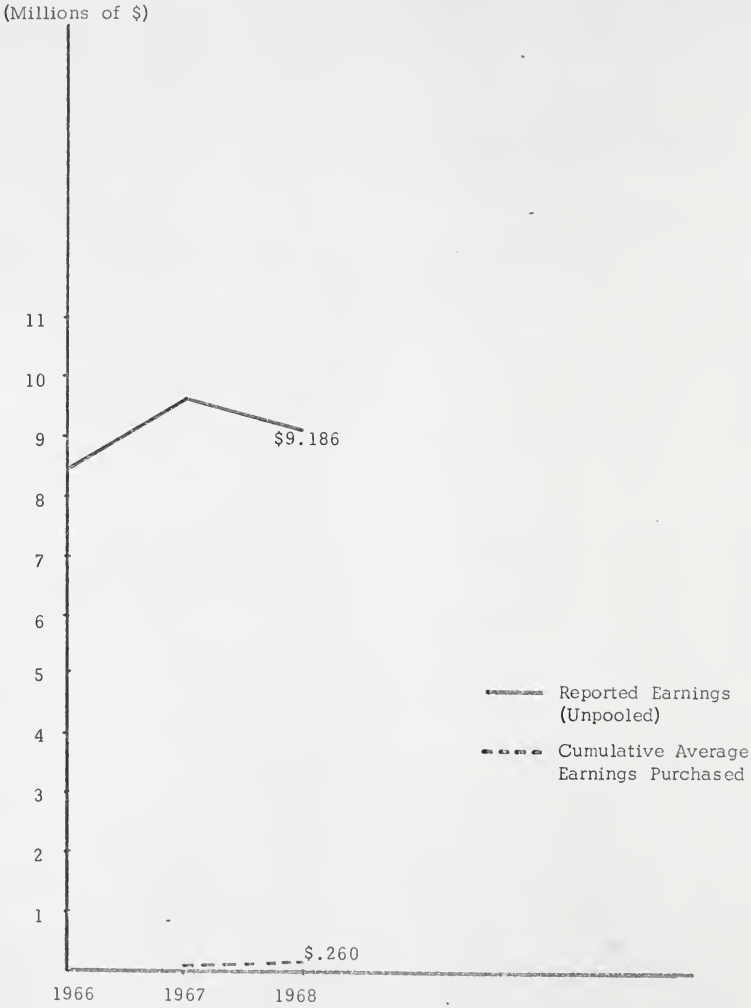
*Does not include merger of North American Aviation into Rockwell-Standard.

OGDEN

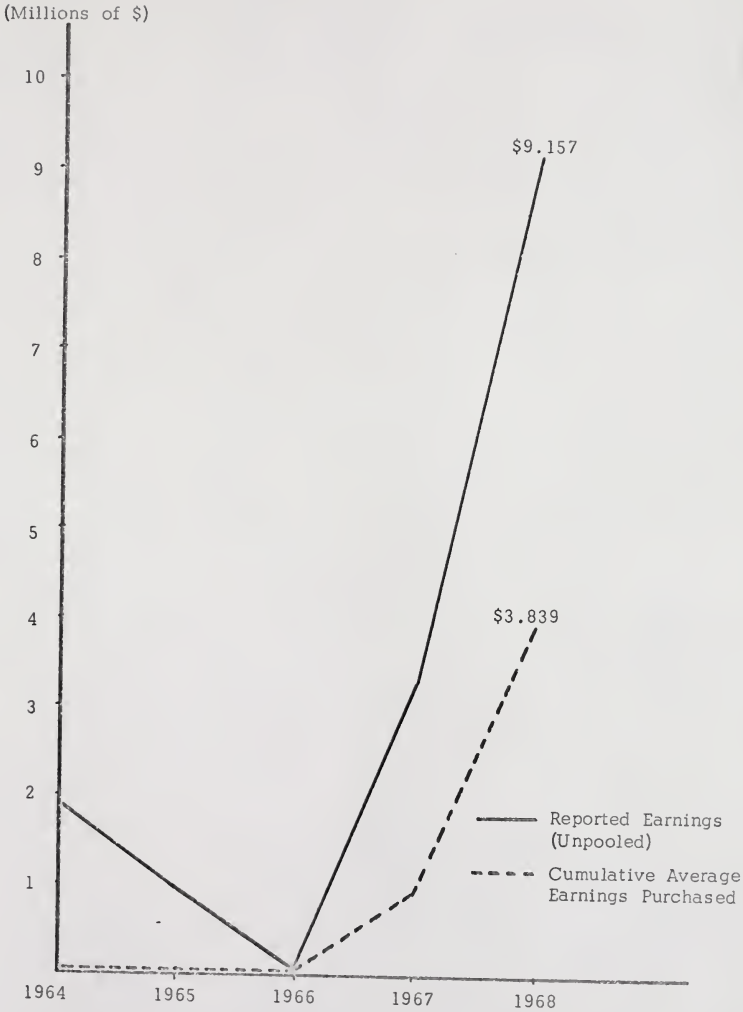


*Does not include Avondale Shipbuilding acquired in 1959.

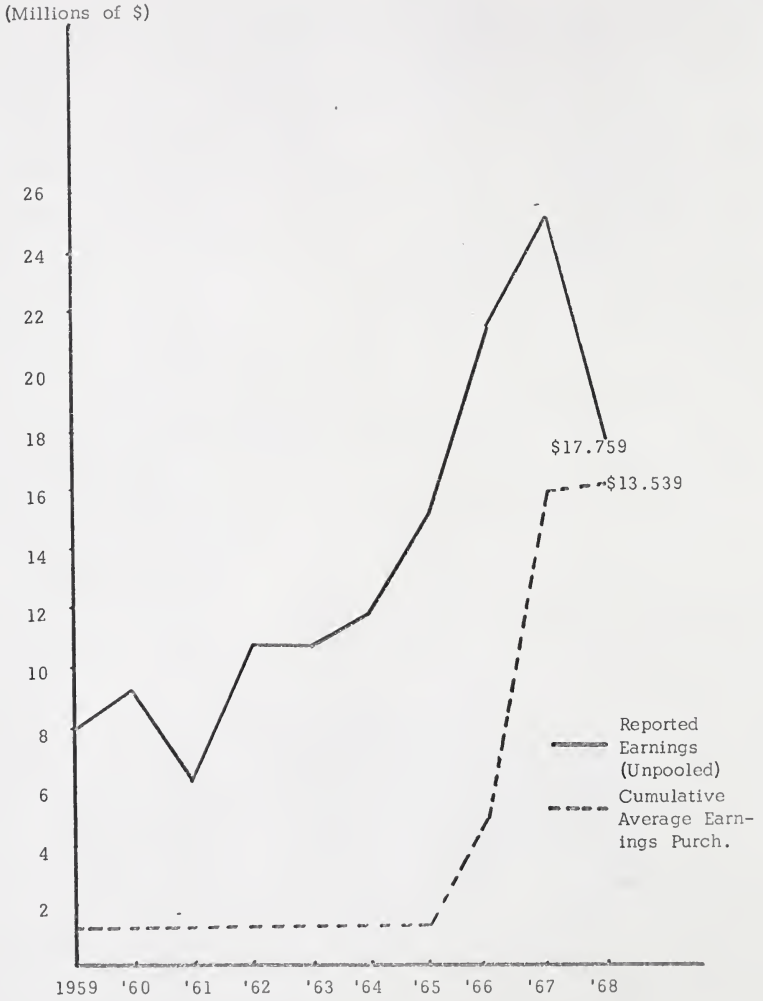
PARKER-HANNIFIN



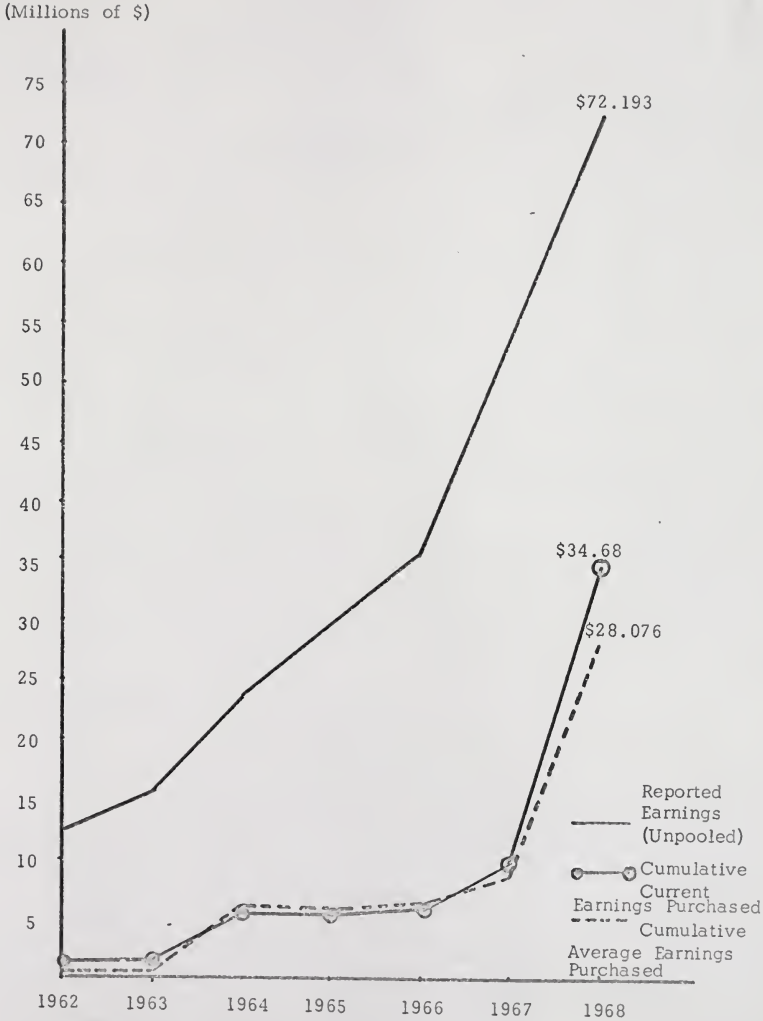
REPUBLIC CORP.



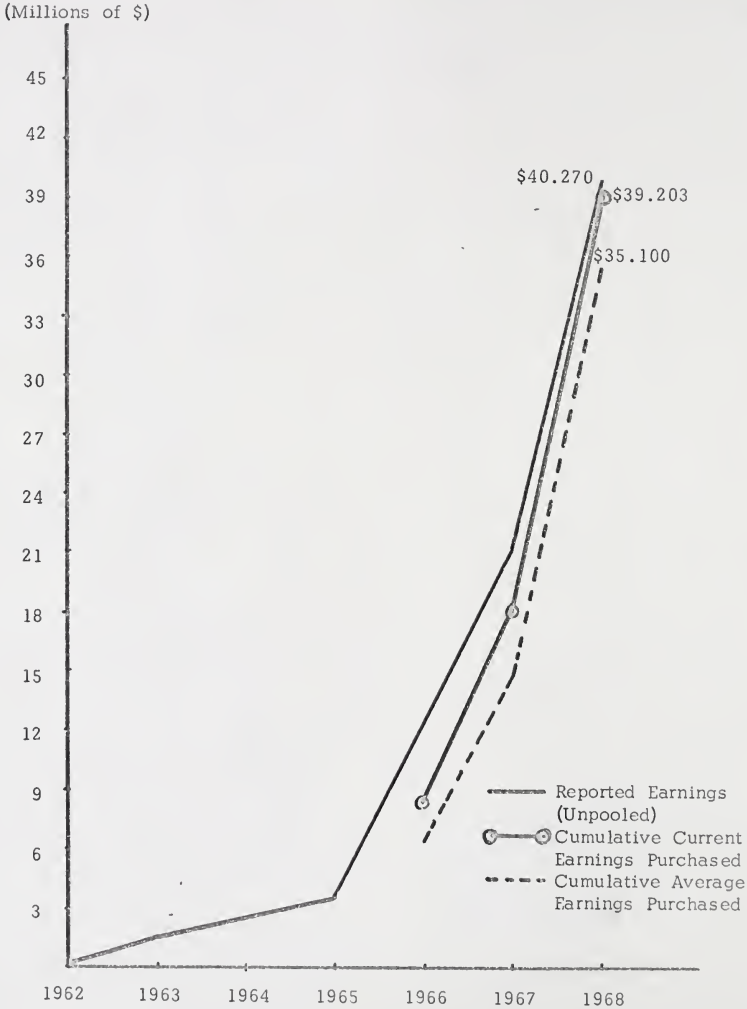
SCM


(Millions of $)
26
24
22
20
18
16
14
12
10
8
6
4
2
$17.759
$13.539
Reported Earnings (Unpooled)
Cumulative Average Earnings Purch.
1959
'60
'61
'62
'63
'64
'65
'66
'67
'68

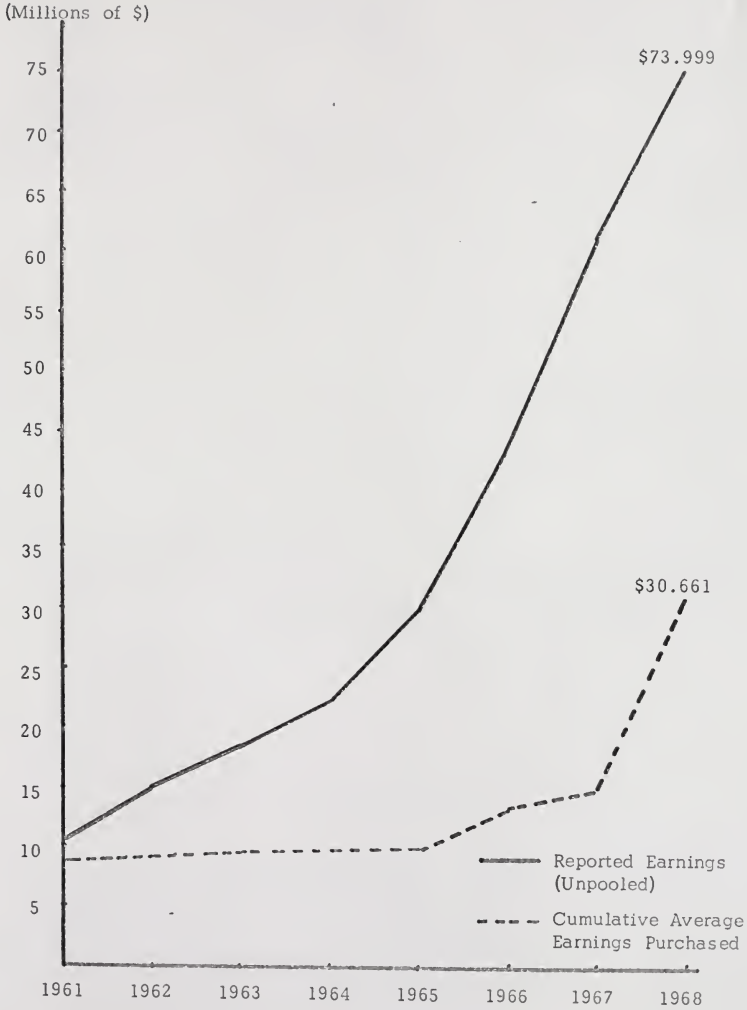
TRW


(Millions of $)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
$72.193
$34.68
$28.076
Reported Earnings (Unpooled)
Cumulative Current Earnings Purchased
Cumulative Average Earnings Purchased
1962
1963
1964
1965
1966
1967
1968

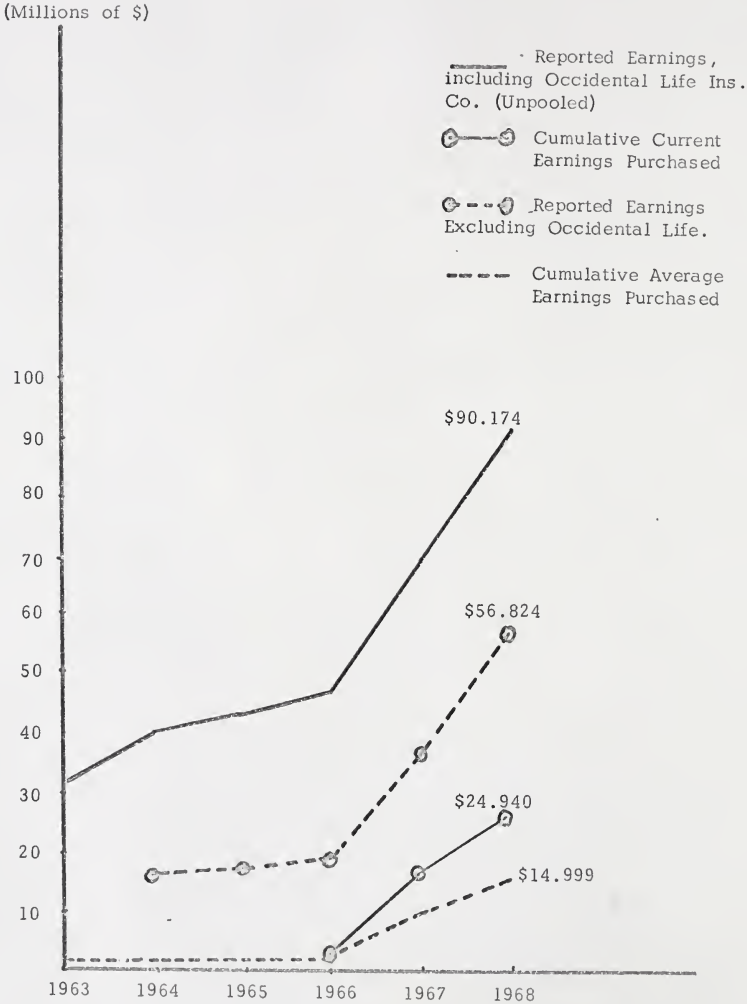
TELEDYNE


(Millions of $)
45
42
39
36
33
30
27
24
21
18
15
12
9
6
3
$40.270
$39.203
$35.100
Reported Earnings (Unpooled)
Cumulative Current Earnings Purchased
Cumulative Average Earnings Purchased
1962
1963
1964
1965
1966
1967
1968

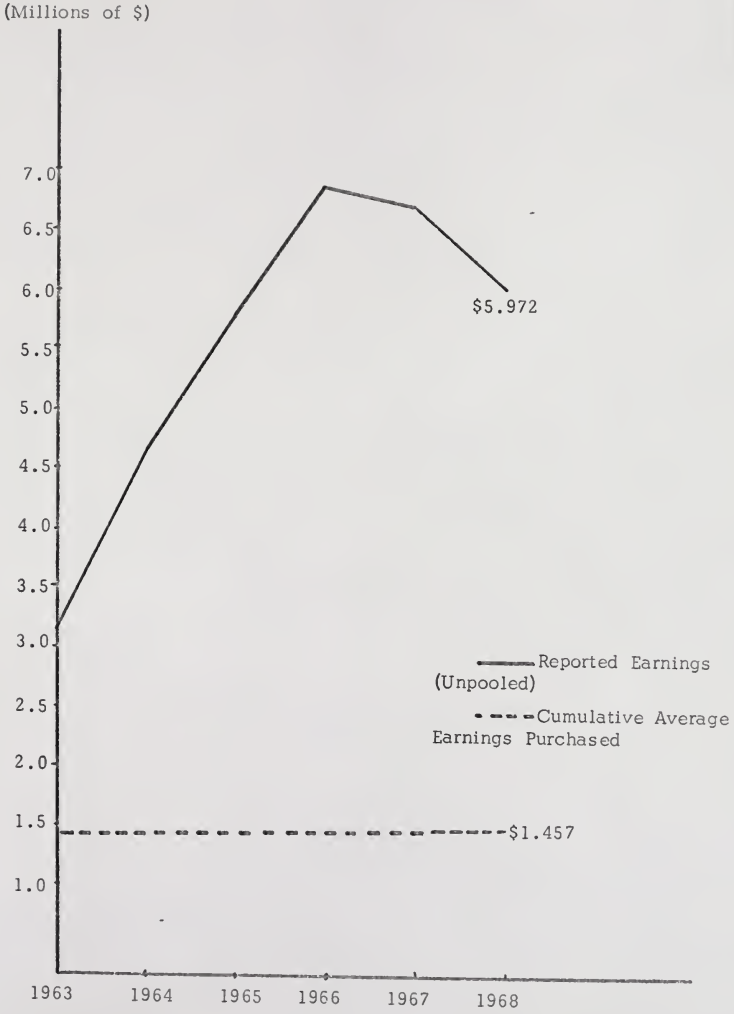
TEXTRON


(Millions of $)
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
$73.999
$30.661
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
1961
1962
1963
1964
1965
1966
1967
1968

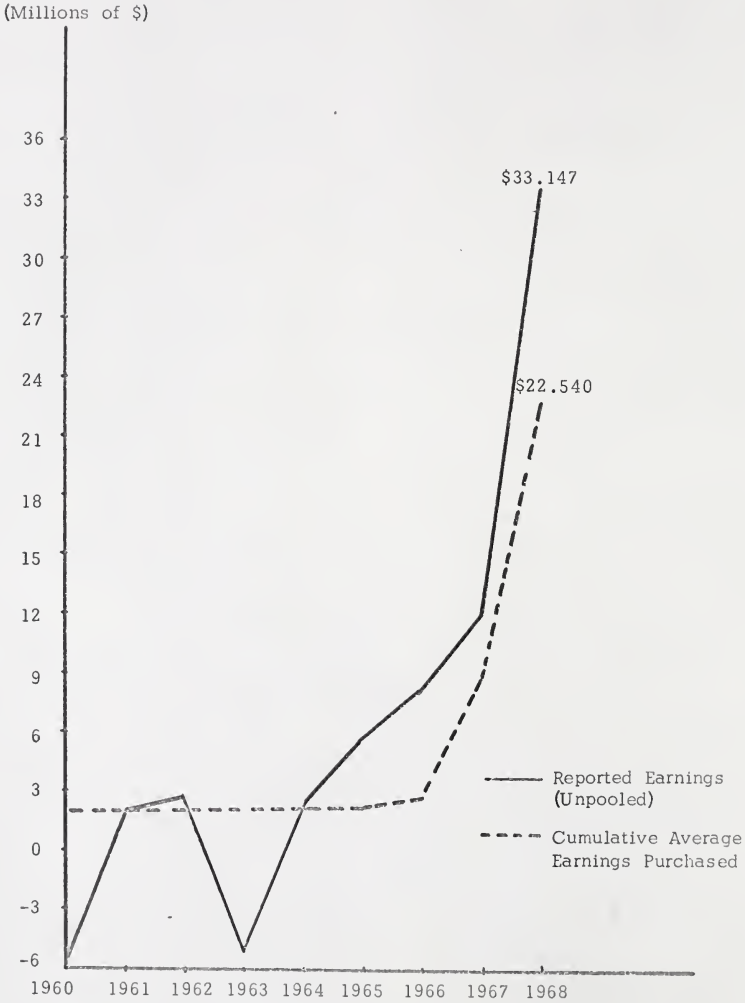
TRANSAMERICA



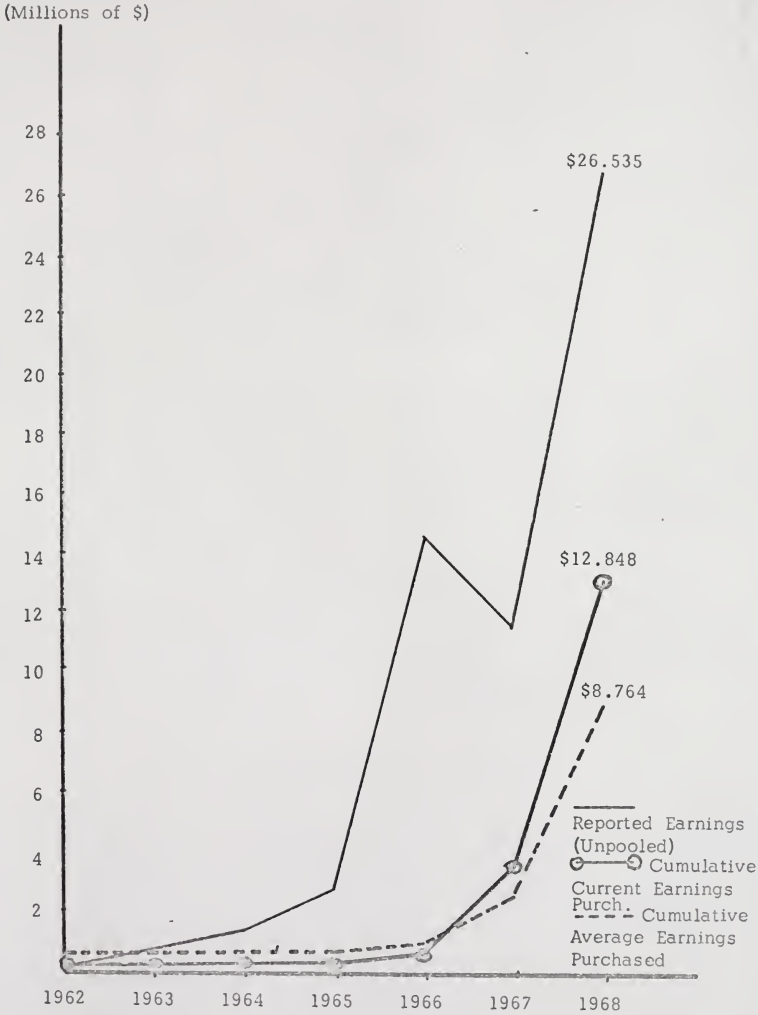
UMC


(Millions of $)
7.0
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
$5.972
Reported Earnings (Unpooled)
Cumulative Average Earnings Purchased
$1.457
1963
1964
1965
1966
1967
1968

U.S. INDUSTRIES



WHITE CONSOLIDATED INDUSTRIES



APPENDIX X

COMPARISON OF FIRMS RETAINED WITH THE NUMBER OF DIVISIONS

CONGLOMERATE	FIRMS PURCHASED[a]	FIRMS SOLD[a]	NUMBER OF DIVISIONS[a]
A. J. Industries	16	4	14
AMK	7	4	4
Allied Products	18		21
"Automatic" Sprinkler	20		26
Bangor Punta	23	3	30
Bendix	27		52
Boise Cascade	32		36
Chromalloy American	38		45
City Investing	15		N.A.
Clark Equipment	11		14
Dresser	13	1	60
Eagle-Picher	12		6
Eaton, Yale & Towne	16		69
FMC	33		39
Genesco	34	7	140
Glen Alden	15	10	7
W. R. Grace	69	13	39
Gulf & Western	81	2	26
Houdaille	20	2	18
Indian Head	32	12	20
International Silver	12	3	10
International Tel. & Tel.	49	2	200
Walter Kidde	50		90
Lear-Siegler	43	4	51
Lehigh Valley	23		18
Ling-Temco-Vought	26	9	N.A.
Litton	70	2	50
MSL	23	1	18
Midland Ross	17	3	19
National General	9	4	N.A.
North American Rockwell	15	3	27
Ogden	27	4	N.A.
Parker-Hannifin	17		20
Republic Corp.	37	2	36
SCM	13	1	5
Seilon	9	5	4
TRW	38	4	49
Teledyne	109	2	N.A.
Textron	76	16	32
Transamerica	21	2	N.A.
UMC	22	6	15

CONGLOMERATE	FIRMS PURCHASED[a]	FIRMS SOLD[a]	NUMBER OF DIVISIONS[a]
U.S. Industries	62	8	60
White Consolidated Ind.	23		48

[a]As of December 31, 1968 or fiscal years ended in early 1969.

N.A. Not Available

Source: Compiled by the author from Listing Statement of the New York Stock Exchange and annual reports of the firms.

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BIOGRAPHICAL SKETCH

Thomas D. Wood was born February 24, 1931 in Wilmington, North Carolina. He attended primary and secondary schools in Wilmington. During and after the Korean War he spent four years in the U.S. Army, after which he earned a bachelor's degree from Springhill College, Mobile, Alabama in May, 1957. The next seven years were spent in the practice of public accounting in Mobile, Alabama. In March, 1965 he entered the teaching profession and in September, 1966 began graduate work at the University of Florida. He earned a Master of Arts degree in August, 1967 and a Doctor of Philosophy degree in March, 1971.

Wood is a member of the Alabama Society of Certified Public Accountants, Alpha Sigma Nu and Beta Alpha Psi. He is married, with three children, all girls.

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Philosophy.

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Professor of Accounting

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Associate Professor of Economics

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Frederick O. Goddard
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March, 1971

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