

ABSTRACT

"Diversification" is a means of growth for the firm. Diversification can be achieved either through internal expansion, by investing in new capacity or through external expansion by mergers or takeovers. It is natural to associate such a restructuring activity by the firm with an increased growth associated with an improvement in the performance of the firm. The type of diversification can be classified as horizontal, vertical or conglomerate depending upon the industry in which the firm is operating and the industry into which it diversifies. Horizontal diversification would take place by starting new operations in an industry of close substitutes. In case of vertical diversification, the new industry has forward or backward linkages with the firm's present operations. In case of the conglomerate diversification, however, the new industry does not have any common linkages with the current operations of the firm.

In this thesis, an attempt is made to explain the reasons for diversification and then to study whether diversification indeed lead to an improvement in firm performance. As special cases, features of the conglomerate firm performance and the effect of merger on firm performance have been dealt with separately.

The main focus of this dissertation has been on the benefits of diversification, like synergy, risk-hedging and growth. In an *ex-ante* situation these could be the motives for diversification whereas in the *ex-post* analysis, these would also be the reasons for improvement in performance. The analysis in different chapters supports 'synergy' as a motive for diversification. It was mainly achieved through utilisation of the asset-base in new industries and creating capital synergies. It was seen that there exists an optimal level of diversification. In all cases, 'risk-hedging' does not seem to be a strong motive for diversification. Finally, it was seen that mergers did not lead to an increase in the profits of the firm.

Overall, it can be said that most of the diversification or merger activity amongst the Indian firms in the post-liberalisation period, has been a part of the major restructuring process to correct for the decisions taken during the pre-liberalisation, protectionist environment.