



A New Raison d'Être for the Conglomerate?

Contemporary conglomerates have a unique advantage: the combined problem-solving power of their diverse organisations.

In poverty-stricken rural India, lack of access to clean drinking water is a serious problem. It affects an estimated 99 million Indians, causing 37.7 million incidences of water-borne diseases every year. In 2009, the Tata Group introduced its answer to the crisis, the Tata Swach (“clean” in Hindi), known at the time as the world’s most affordable water purifier. The Swach initially retailed for Rs. 999 (USD \$15), half the cost of its cheapest competitor. Notably, the device’s award-winning technology and design resulted from years of collaboration between three vastly different companies within the Tata Group: software maker Tata Consultancy Services, watchmaker Titan, and Tata Chemicals.

This is an instance of the possible innovation advantage that a conglomerate - a collection of highly diverse businesses within a corporate structure - can enjoy, relative to less diverse organisations. The increasing democratisation of corporate innovation is the platform on which this advantage could be built. By “democratisation”, I mean the recognition that innovation is not restricted to R&D departments and that it can come from anywhere in the hierarchy as well as from outside the company’s boundaries.

Add to this the power of diversity. In 2007, Scott Page of the University of Michigan wrote **a path-breaking account of the role of diversity** (not in

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how we look on the outside, but what Page calls “cognitive diversity”) in helping solve problems. This combination of concepts delivers a potentially powerful advantage for diverse conglomerates. Their diversity creates the larger pool of unique potential solutions and solution fragments, while the common corporate umbrella creates the organisational context in which people are willing to contribute these solutions, as well as the processes for selection and integration of solutions. Neither a collection of free-standing diverse firms, nor a corporation comprised of highly coherent businesses may be able to replicate this combination.

The durability of the diversified conglomerate

This may help clarify why conglomerates are the dinosaurs that refuse to die. As a recent issue of **The Economist observed**, they seem to be alive and well in many parts of the world, all theoretical predictions about their vanishing in mature markets notwithstanding. Traditional business thinking held that the diversified conglomerate was a workable model when the HQ could manage an *internal capital market* more effectively than the external capital market at allocating budgets in order to produce successful business solutions. Indeed, researchers have argued that, due to this effect, the relative value of conglomerates is **higher during periods of**

economic downturn such as 2008, when access to external capital is constrained. But under normal business conditions, it is less clear how they can possess any advantage relative to, say, a fund manager who selects a portfolio of diversified businesses, since they lack obvious synergies between businesses.

Diversity, cohesion and collaboration

The argument I outlined here may provide an answer: perhaps a conglomerate could be thought of as an internal *intellectual capital* market, where a diverse internal community of problem-solvers can collaborate with much less friction and more organisational support than they would otherwise encounter if they were in different unconnected firms. Ideally, the conglomerate's unique mix of diversity and cohesion may serve as a stimulant for innovation.

The implication of this hypothesis is that conglomerates may be able to unleash value, not by forcing collaboration across their internal boundaries, since operational synergies may be limited, but encouraging elective participation in collaborative problem-solving. Many conglomerates are already doing this via internal crowdsourcing and collaborative innovation platforms. On the Tata Group's internal innovation platform, which allows individuals from any company in the group to work together on business problems, more than 40 percent of the posted problems have drawn responses from outside the original posting company. For instance, a Tata jewellery company managed to **slash the drying process** for its gold powder from 16 hours to one hour, based on a method suggested by a manager at Tata Housing.

New frontier for innovation

Soliciting external contributions through crowdsourcing and co-creation platforms can be helpful too, especially as a benchmarking tool for internal crowdsourcing campaigns. However, **as my colleague Henning Piezunka has written**, trying to obtain actionable information from outside the organization carries significant trade-offs which may not exist to the same extent internally. For conglomerates, a better strategy may be to home in on what I have defined as their innovation advantage: diverse teams with a common understanding of the parent company's values, brand, and culture. This is the new frontier for corporate Chief Innovation Officers to explore.

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