PREFACE

Over the past few years diversification has become a feature of corporate strategy in Trinidad. Usually the companies have diversified into fields which are related to its main line of business, but diversification into a totally new area is not uncommon, especially if the new venture has been traditionally viewed as highly profitable.

However, balanced against the profit motivation is the fact that wherever a company adopts a strategy which takes it away from its normal theatre of operation, this is a high risk attached to this strategy. The fact that the company is not successful in its new venture in no way impugns the competence of the company in its main line of business. On the contrary it should serve to emphasise that different methods of approach are required for different ventures.

This report discusses an attempt at diversification which went wrong, and identifies a number of aspects of the approach adopted which may have contributed to the problems encountered.

Briefly, the firm involved decided to invest some of its available cash in house building. This is an industry with a well established, and high level of demand. Conventional construction techniques seem unable to build houses fast enough, and industrialised techniques have been introduced in many countries with varying degrees of success.

The firm involved, a major industrial conglomerate, approached its diversification decision by establishing a subsidiary company and taking out a licence on a tried and tested 'industrialised' house construction process. The subsidiary company was then used to carry out the whole construction process that had been acquired.

The basic approach so far described has a lot to recommend it. The use of a subsidiary company to undertake the construction rather than an outside contractor, was in recognition of the boom conditions in the construction industry. By keeping absolute control ever the 'contractors' in this way the parent firm was ensuring that maximum effort would be exerted on this project and not spread over a number of interests, as would have been likely with a normal contractor.

Equally, the construction industry is currently making excess profits on some projects, and internalising all aspects of the project ensured that any profits earned would accrue to the parent firm.

Finally it should be noted that this one ill advised venture threatened not only the subsidiary organisation involved directly with the project itself, but the stability and economic viability of the parent company as well.

This report is based on an actual sequence of events, and should only be quoted with the author's permission.