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Diversification Strategies of Large Business Groups in the Philippines

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This paper describes the diversification strategies of 11 major Philippine business groups. First, it reviews the benefits and drawbacks of related and unrelated diversification from the literature. Then, it describes the forms of diversification being pursued by some of the large Philippine business groups. The paper ends with possible explanations for the patterns of diversification observed in these Philippine business groups and identifies directions for future research.

Keywords: related diversification, unrelated diversification, Philippine business groups

1 Introduction

This paper will describe the recent diversification strategies of 11 business groups in the Philippines. There are various definitions of business groups but in this paper, these are clusters of legally distinct firms with a managerial relationship, usually by virtue of common ownership.

The focus on business groups rather than on individual firms has to do with the way that business firms in the Philippines are organized and managed. Businesses that are controlled and managed by essentially the same set of principal owners are often organized as separate corporations, not as separate divisions within the same firm, as is often the case in American corporations like General Electric, Procter and Gamble, or General Motors (Echanis, 2009). Moreover, studies on emerging markets have pointed out that business groups often occupy dominant positions in the business landscape in markets like India, Korea, Indonesia, Thailand, and the Philippines (Khanna & Palepu, 1997; Khanna & Yafeh, 2007).

The 11 business groups selected for this paper are the following: (1) The Ayala Group; (2) The Lopez Group; (3) The Gokongwei Group; (4) The Metro Pacific Group; (5) The San Miguel Group; (6) The Aboitiz Group; (7) The DM Consunji Group; (8) The Jollibee Group; (9) The Sy Group; (10) The Ty Group; and (11) The Andrew Tan Group.

Although the above do not comprise the entire set of large business groups in the Philippines, they encompass most of the largest business groups operating in the Philippines and are all listed in the Philippine Stock Exchange (PSE), with each having a market capitalization of at least PhP 100 billion.[1] Furthermore, these firms represent a heterogeneous grouping in terms of the core businesses from which the group has diversified, as well as the business areas that they appear to currently target entry into.

The data for the paper is drawn principally from the quarterly financial statements and other disclosures submitted by the firms in the groups to the PSE, as well as from other published and unpublished sources ("Top 15000 Corporations", 2012; Locsin, 2011).

The paper is organized as follows. Section 2 reviews theories explaining the diversification behavior of firms, and the benefits and drawbacks of related and unrelated diversification. Section 3 describes the forms of diversification being pursued by some of the large Philippine business groups. Finally, section 4 provides possible explanations for the patterns of diversification observed in these Philippine business groups and identifies directions for future research.

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[1] Other business groups not included in this paper are the Concepcions (RFM), the del Rosarios (Phinma), the Lucio Tan group (LT Group), the Razon group (ICTSI), the Villars (Vista Land), and the Yuchengcos (RCBC and House of Investments).

2 A Review of the Benefits and Pitfalls of Diversification

Numerous studies in the strategy literature have looked into the directions in which firms diversify. Two polar forms of diversification described in this literature are: (1) diversification into unrelated businesses, also sometimes referred to as 'conglomerate diversification', and (2) related diversification, that is to say expansion into businesses related to the original business and is also sometimes referred to as 'concentric diversification' (Markides, 1995, 1997; Markides & Williamson, 1994, 1996). Examples of the latter are strategies for vertical, horizontal, or territorial diversification.

Several theories explain the diversification behavior of firms: agency theory, maximization of wealth in the financial economics literature, the efficient view, the resource-based view and transaction cost economics, and the financial synergies hypothesis.

A number of writers beginning with Rumelt (1974) suggest that unrelated diversification leads to lower economic performance or to higher risk or both (Rumelt, 1982; Montgomery & Singh, 1984; Lubatkin & O'Neill, 1987; Barton, 1988; Goold & Luchs, 1993; Montgomery, 1994; Wiersema & Bowen, 2008). In general, the reasoning seems to be that unrelated diversification does not convey the benefits of synergies in technology, logistics, products, markets and others, among the businesses in the group which related diversification may. Other researchers use agency theory to explain the negative effect of unrelated diversification on firm performance (Lang & Stulz, 1994; Berger & Ofek, 1995; Aggarwal & Samwick, 2003). These diversification benefits are sometimes referred to in the literature as 'economies of scope' (Collis & Montgomery, 1987, 1995).

In the financial economics literature, the issue of diversification is generally a question of whether diversification per se—whether related or unrelated—adds value to a firm (Martin & Sayrak, 2003; Berger & Ofek, 1995; Comment & Jarrel, 1995). Based on studies done mainly in the United States, there is a general presumption that markets penalize diversified companies through a lower valuation of their stock or the so called 'diversification discount' (Villalonga, 2004a, 2004b; Khanna & Yafeh, 2007), while Berger and Ofek (1995) reported a 13 to 15% average value loss from diversification. To support the resource-based view, Silverman's (1999) results seem to suggest that the firm's technological resource base significantly influences its diversification decisions. A firm enters markets where it can leverage its existing technological resources and where its existing resource base is strongest (Silverman, 1999; Collis & Montgomery, 1995), a view that supports related diversification.

The subject continues to attract interest because highly diversified business groups appear to be the norm outside the United States and Europe, particularly in emerging markets (Khanna & Yafeh, 2007). It is not clear from recent studies of business groups in emerging markets that these are necessarily welfare-reducing as had previously been theorized (Henisz & Zelner, 2010; Khanna & Yafeh, 2007; Khanna & Palepu, 2006; Palich, Cardinal, & Miller, 2000).

In a study of 229 Italian firms, La Rocca and Stagliano (2012) found that unrelated diversification positively affects firm performance that they argue to be consistent with the efficient view of corporate diversification. In this perspective, information asymmetry problems are lesser in diversified firms than in focused firms (Thomas, 2002; Myers & Majluf, 1984). Still another explanation for unrelated diversification is the financial synergies hypothesis, "which states that firms diversify to benefit from the economies of an internal capital market and an internal labour market, to obtain tax benefits, and to reduce business risk (coinsurance argument)" (La Rocca & Stagliano, 2012, p. 76; Lewellen, 1971).

Another group of recent writers argue that firms in Asia and other emerging markets are well advised to preempt local market opportunities against potential multinational and local competitors through aggressive diversification, whether related or otherwise (Khanna & Palepu, 2006; Williamson, 1997; Khanna & Palepu, 1997; Dawar & Frost, 1999). The general argument cited for this is that institutional weaknesses in these markets convey strong advantages to business groups in terms of access to capital and managerial resources, dealing with government regulations, and/or building credible brands. First mover positions are also said to provide more long lasting advantages in markets with weak legal, financial, and regulatory infrastructures (Williamson, 1997).

As the debate on diversification and on the use of this strategy in emerging markets is far from settled (Henisz & Zelner, 2010; Khanna & Yafeh, 2007; Ybanez, 2007), this paper hopes to shed light on the forms of diversification being pursued by some of the large business groups, which currently

dominate the business landscape in the Philippines. Towards the end, the paper will offer some possible explanations for the patterns of diversification observed in these groups.

3 Diversification Strategies of Philippine Business Groups

The diversification strategies of the business groups in this paper will be described one group at a time.

3.1 The Ayala Group

Founded in 1834, the Ayala Corporation (Ayala) is the oldest and one of the largest holding companies in the Philippines, with assets in excess of PhP 196 billion in 2007. Its main affiliates are Ayala Land (ALI), Bank of the Philippine Islands (BPI), Globe Telecommunications (Globe), and Manila Water Company—all of which are listed in the Philippine Stock Exchange (PSE). In addition to these, Ayala also controls Integrated Micro-electronics, Inc (IMI), an Electronics Manufacturing Services (EMS) company that exports electronics products, printed circuit boards, and computer peripherals to Japan, the US, Europe, and Asia.

Ayala also owns a significant interest both in the Philippine automotive industry, being the local joint venture partner of Japan-based companies Honda Motors and Isuzu Motors, and in hotel operations (Koike, 1993). Previously, it also owned the food company, Purefoods, but divested from this business by selling the same to San Miguel Corporation in 2001.

Commenting on this divestment and on the dynamics Ayala's diversification strategy, Ayala CEO Jaime Augusto Zobel made the following remarks in 2002:

> We need to be much more active in how we manage our portfolio… In a fast changing world, we will need to be prepared to constantly change our strategic stake in each of our existing businesses – bring in new partners, build regional and even global alliances, (and) merge business with others. We need to be more open minded about how businesses evolve, more focused on value creation, and more prepared to forfeit control where doing so is best for the business. ("Ayala Corporation Announces," 2002).

Besides completely divesting from Purefoods, Ayala has also recently sold significant portions of its stock holdings in Globe, ALI, BPI, and even Ayala Corporation itself. In an interview with Bloomberg in late 2007, Jaime August Zobel identified two areas that represent the new diversification targets of Ayala: Business Process Outsourcing (BPO) and international property development.

With respect to the first, Ayala's CEO cited the attractive growth prospects in this sector, where revenues from the call center component alone were forecast to exceed US$ 5 billion by 2010 (Alava, 2006). In late 2008, Ayala Corp. made a successful tender offer of US$ 9 per share for all remaining outstanding shares of E-telecare Global Solutions, a call center company listed in the PSE. Ayala already owned a substantial ownership interest in this company prior to the tender offer. Ayala has also made significant investments in Livelt Solutions, its holding company for BPOs. Its other thrusts in the BPO arena are through ALI, its property development arm, which has announced plans to open more IT parks similar to the one at the University of the Philippines in Quezon City.

With respect to property development in the international arena, Ayala organized the ARCH Capital as a joint venture vehicle with other investors in Asia. In 2010, Ayala entered the renewable energy business through its wholly owned subsidiary, Michigan Power Inc. Michigan started to explore opportunities in solar energy with its joint venture with Mitsubishi, in run-of-the-river hydropower with its joint venture with Sta. Clara Power, and in wind power with the purchase of 50% stake of Northwind farm in Ilocos Norte in March 2011 (Loyola, 2011). Ayala is targeting a generating capacity of 1,000 MW from both renewable and traditional forms of energy sources by 2015.

In 2011, Ayala surprised the business public by winning the bid for the construction of the Daang Hari highway project and by announcing that it will explore opportunities in the power and infrastructure sectors. Since then, it has gone into a joint venture with TransAsia in a power project, has won a bid to construct highway infrastructure, and is reportedly organizing a joint venture with the Metro Pacific group to bid for the expansion and operation the mass rail transport system of

Metro Manila ("Ayala Land mulls", 2011; Dumlao, 2011b; De la Fuente, 2012a). Ayala had hitherto ignored these sectors even when several of its diversified counterpart business groups were aggressively positioning in these sectors since a decade earlier.

3.2 The Lopez Group

The Lopez family's flagship enterprise was the Manila Electric Company (Meralco), which it had acquired from its American owners in 1961 (Aragon, 1997). Meralco Securities Corporation (MSC), later renamed First Philippine Holdings (FPH), was organized as the holding company of the Lopez business interests in the 1960s (Aragon, 1997). The Lopezes focused on expanding Meralco's generating capacity in this decade. They also undertook limited backward integration by organizing the Philippine Electric Company (Philec), which is in the business of manufacturing and servicing of power transformers (Aragon, 1997). The Lopezes also invested in a lubricating oil refinery, Philippine Petroleum Corporation, and in an oil pipeline, First Philippine Industrial Corporation (Aragon, 1997). Other Lopez interests during this period were in media (e.g., ABS-CBN and the Chronicle), as well as the Philippine Engineering and Construction Corporation.

During the martial law regime of President Marcos, the power generation assets of the Lopezes were taken over by the government and Meralco became purely a power distribution utility. The severe economic crisis that was triggered by the assassination of Senator Benigno Aquino in 1983 led to the sale or liquidation of a number of the First Philippine Holdings subsidiaries and affiliates including its interests in Shell Philippines.

With the advent of the Aquino presidency, Meralco and other assets taken over by the cronies of Marcos were restored to the Lopez family. This paved the way for the renewed expansion and diversification of the Lopez business interests that continues up to the present.

The more notable areas of diversification by the Lopez group in the post-Martial Law period of 1986-2000 were in the following sectors: (1) Entertainment (e.g., ABS-CBN, Sky Cable, Star Records); (2) Telecommunications (e.g., Bayantel); (3) Water Distribution (e.g., Maynilad); (4) Real Estate Development (e.g., Rockwell Land Corporation); and (5) Transport (e.g., Manila North Tollways Corporation).

These businesses were controlled through Benpres, which was organized in 1993 as the new holding company (now renamed Lopez Holdings). The venture into water distribution was not successful and the Lopez interest in Maynilad was liquidated. Bayantel also met with serious difficulties in the highly competitive telecommunications business. Until today, Bayantel has not developed into a full wireless and landline operator as have its rivals PLDT/Smart and Globe, and has, like the water venture, been written off the books of Lopez Holdings.

In the last decade, the Lopez's diversification thrusts seem to have refocused again in the energy and power sector. First Philippine Holdings has become the main holding company for the Lopez interests in the power sector that includes, apart from Meralco, Philec and First Gen Corporation (First Gen). The latter holds the Lopez' power generation assets in San Lorenzo and Sta. Rita in Batangas, as well as the hydroelectric power plants in Pantabangan and Bukidnon. First Gen's wholly owned subsidiary Red Vulcan, in turn, holds the controlling interest in the privatized geothermal steam producer, Energy Development Corporation (EDC).

The Lopez aggressive acquisition of power assets in the Philippines, particularly EDC, was funded through a large amount of debt. In September 2008, for instance, First Gen's balance sheet showed total liabilities at US$ 2.6 billion compared to only US$ 0.938 billion in September 2007. First Philippine Holding's total liabilities also ballooned from PhP 71 billion in September 2007 to PhP 163 billion in 2008.

Coming at the heels of the global financial crisis, concerns were raised in the industry as to the capacity of the Lopezes to refinance the huge debt load. The stock prices of both First Gen and First Philippine Holdings fell more precipitously than the Phisix in 2008. In 2010, the Lopezes sold their controlling interest in Meralco to the Metro Pacific group, a move widely viewed as a reaction to a takeover bid by the San Miguel Corporation. Since then, the Lopezes appear to have paid for or successfully restructured the financial obligations of both those companies and their stock prices have recovered significantly.

3.3 The Gokongwei Group

The Gokongwei group (Gokongwei) may be considered as historically the most aggressive diversifier among the business groups discussed in this paper. Indeed, it may be said that the Gokongwei group entered nearly all the notable business areas seen in Philippines since the 1950s.

The corporate form of the Gokongwei businesses started in the 1950s when the Universal Corn Products was organized to process corn into cornstarch. The need to utilize the byproducts of this business later led Gokongwei into the poultry and swine businesses, Robina Farms, including Robichem Laboratories for the farms' veterinary needs.[2]

Having discovered the value of branding his products to mitigate price competition, Gokongwei broadened his offerings beyond cornstarch by launching a coffee product (e.g., Presto Coffee and Blend 45) and Presto Ice Cream under his Consolidated Food Corporation (CFC) in the early sixties. In 1966, Universal Robina Corporation (URC) was organized to sell flour, snack items, ice cream and other food products.

In the 1970s, Gokongwei bought Continental Flour Milling. This was followed by acquisition of three sugar mills and refineries to form URC Sugar in late 1980s. Up to this point, Gokongwei's diversification thrust could be characterized as 'related diversification' within the broad food sector.

Subsequent diversifications went outside the food field. Robina Textile Mills was organized in the 1970s and Litton Mills, a manufacturer of denims and other textiles, was acquired shortly thereafter.

In the 1980s, Gokongwei organized the Robinson Land Corporation. With RLC, the group entered the supermarket and department store businesses, the hotel business (e.g., Ramada Inn, Crowne Plaza Hotel), and the housing business. This decade also saw Gokongwei in electronics manufacturing (e.g., Mark Electronics Corp. and Cambridge Electronic Corp.) producing printed circuit boards. Both of these manufacturing ventures were subsequently discontinued.

During the 1990s, Gokongwei increasingly expanded into major unrelated fields under JG Summit Holdings, which was organized in 1990. In 1992, Gokongwei entered the power generation business as a partner of the Lopezes in First Philippine Power Corporation. Digital Telecommunications Philippines (Digitel) was acquired shortly after. In 1994, JG Summit Petrochemical Corporation was organized to manufacture polyethylene and polypropylene for plastic packaging materials. In 1996, Cebu Pacific started competing in the domestic airline business.

The year 2000 saw further expansion and diversification in another domain–foreign markets. Gokongwei established manufacturing subsidiaries in Indonesia, Hongkong, Thailand, Singapore, Malaysia, China, and Vietnam to produce and distribute his food brands. In 2010, foreign operations contributed over 28% of JG Summit's total revenues.[3]

The foregoing account does not fully reflect the breadth of Gokongwei's business interests in the Philippines. He is also known to have bought substantial, though minority, interests in such other large Philippine firms as Far East Bank and Trust Company (FEBTC, now part of BPI), Philippine Commercial and Industrial Bank (PCIB, now part of Banco de Oro), San Miguel Corporation, PLDT, and Philex Mining.

The continued success of the Gokongwei group in running such a large and diverse group of enterprises is remarkable. While it is true that some businesses have been closed down (e.g., electronics manufacturing and Litton Mills) and others are not yet clearly profitable (e.g., the Petrochemical and Digitel), Gokongwei's businesses as a whole appear to be in sound financial health and to have strong competitive positions in their fields. In 2011, the group appeared to be refocusing some of their business when they ceded majority control of Digitel to PLDT and announced the revival of a US$ 800 million naptha cracker project, an upstream venture to their packaged foods businesses (Dumlao, 2012b). During the JG Summit stockholders meeting held in June 2012, president and chief operating officer Lance Gokongwei announced that the petrochemical business would become the fourth leg of the conglomerate, after its food (e.g., Universal Robina), property (e.g., Robinsons Land), and airline (e.g., Cebu Pacific) core businesses (Dumlao, 2012b). Further, its two growth businesses would be in banking (e.g., Robinsons Savings Bank) and infrastructure (Dumlao, 2012b).

[2] URC Company History. http://www2.urc.com.ph/company_history.html

[3] JG Summit Holdings Inc. 2010 Annual Report, Note 6 Segment Information, p. 133.

3.4 The Metro Pacific Group

Metro Pacific is the investment arm in the Philippines of First Pacific of Hong Kong, owned by the Salim group of Indonesia and managed by Manuel V. Pangilinan. Before the 1997 financial crisis, it went into an extensive unrelated diversification through acquisitions strategy in the Philippines. Its acquisitions included, but were not limited to, the following: (1) Telecommunications (e.g., Smart); (2) Packaging (e.g., Steniel); (3) Shipping (e.g., Negros Navigation); (4) Confectionery (e.g., Goya Products); (5) Banking (e.g., PDCP); and (6) Drug Distribution (e.g., Marsman). Of all these acquisitions, it can be argued that only Smart turned out to be a real success.

One of its larger diversification projects during this period was the successful bid for the Fort Bonifacio land from the government. The acquisition and development of the Fort Bonifacio land turned out to be ill-timed because of the Asian crisis in 1997. Nearly all of the First Pacific's acquisitions, including its interest in Fort Bonifacio, have been divested or are in the process of being so. Metro Pacific itself had to be recapitalized to be able to resume its investment activities in the Philippines after the 1997 crisis.

The post Asian crisis story of First Pacific is the acquisition of majority control of Philippine Long Distance Company (PLDT) and the subsequent successful turn-around of the company, including its heavily indebted subsidiary Piltel. While PLDT remains to be at the center of First Pacific's activities in the Philippines, Metro Pacific itself is again active in the acquisition/diversification sphere. Following rehabilitation, the sole money-making activity for Metro Pacific had been its real estate operations in Davao, namely Landco. Since 2006, however, it teamed up with DMCI to acquire Maynilad from the government. Simultaneously, Metro Pacific surprised everyone by making significant investments in the hospital business, taking over Makati Medical Center and the largest hospital in Davao. It is currently operating another Manila-based hospital, the Cardinal Santos Hospital, under a management contract. By December 2012, Metro Pacific controlled seven premium hospitals with a total bed capacity of approximately 2,000 beds (Dumlao, 2012c). It has publicly announced that it will continue to acquire more Philippine hospitals in the years to come.

Metro Pacific is pursuing larger deals in other fields. It acquired the controlling interest in the Manila North Tollways Corporation from the Lopezes, built road infrastructure in Metro Manila, and submitted an unsolicited proposal to the government to take over and manage the Light Railway Transit system. At roughly the same time, it acquired a controlling interest in Meralco, the largest power distributor in the Philippines, from the Lopez group.

Pursuing unrelated diversification even further, the group entered the mining industry. First Pacific acquired the controlling interest in Philex Mining, the largest mining company in the Philippines. In 2011, it acquired a significant stake in Lepanto Consolidated, which owns one of the richer gold claims in the Philippines, and entered into a joint venture with Manila Mining for the joint development of the latter's Silangan property in Mindanao. Manila Mining's Silangan property adjoins Philex Mining's own mining claims in Surigao. Recent developments include Metro Pacific's announcement of its intent to bid for the Light Rail Transit System (LRT) in joint venture with the Ayala group, as well as other projects in the governments Public Private Partnership (PPP) program.

In summary, Metro Pacific's expansion/diversification thrusts after the Asian crisis in 1997 are in the following unrelated areas: (1) Water Utility (e.g., Maynilad); (2) Health Care Services (e.g., Makati Medical Center); (3) Power Distribution (e.g., Meralco); (4) Mining (e.g., Philex); and (5) Public Infrastructure Constructions and Operations (e.g., Manila North Tollways).

3.5 The San Miguel Group

For the longest time, the San Miguel Corporation (San Miguel) was the model of the focused or 'related' diversifier in the Philippines. To broaden its beer and soft drink businesses, it acquired La Tondena Distillers (later renamed Ginebra), the largest selling hard liquor brand in the Philippines. Beyond the beer and the beverage businesses, the company integrated backwards by entering into the bottle-making as well as other packaging materials businesses. Then, it went beyond its beverage businesses by diversifying further in the food line, adding ice cream, milk and dairy, and processed meat products. The acquisition of Purefoods from Ayala in 2001 further broadened its food line to include flour. Its largest and most publicized strategic move was, however, the acquisition in 2000 of National Foods, the largest dairy company in Australia. The acquisition, though considered a very costly one, was well within its historical thrust as a diversified food and beverage company.

For its beer business, it aggressively pursued territorial diversification in the 1990s. It established breweries in China, Vietnam, Thailand, and Indonesia and expanded its operations in Hong Kong. It also acquired the Australian beer brewer J Boag and Son. The beer line was said to be San Miguel's spearhead for the entry of its other food lines into foreign markets in the region (Alley & Stanley, 1993).

Until the new millennium, San Miguel hewed closely to its decades-old posture of diversifying within the food and beverage fields. Beginning in 2007, however, San Miguel's diversification efforts took a different direction. In the second half of 2007, it was one of the principal contenders for the acquisition of Energy Development Corporation (EDC), the government's largest geothermal steam producer. San Miguel sold its interest in the newly acquired National Foods in 2007 to its partner Kirin of Japan for AUD$ 2.8 billion, reportedly in order to participate in the bidding for EDC. It lost the bidding contest to the Lopez group.

In an email to BusinessWorld, San Miguel President and Chief Operating Officer Ramon Ang explains San Miguel's unrelated diversification:

> We always like to take the long view, particularly when it comes to growth. The work has been done in our traditional businesses – the food and beverage sectors – has enabled us to deliver results. But we were also getting to a point where growth in revenues and profits was becoming limited and slower. We needed to participate in other higher-margin, higher-growth industries to help drive our earnings growth, and it made strategic sense to venture into industries such as power, fuel and oil because returns were so much greater. (Chua Co, 2011, p. 30).

Thereafter, San Miguel made the business headlines with two other large diversification moves outside the food and beverage field. It purchased the GSIS's and SSS's interests in Meralco in a bid to acquire a controlling interest in the Philippines' largest power retailer (Galang & Delios, 2009; Dumlao, 2012e). In addition, it acquired the controlling interest in Petron Corporation, the largest oil refiner and distributor in the Philippines (Galang & Delios, 2009). Its interest in the power distribution and energy field was said to diversify into biofuel production (e.g., ethanol) in the future. In a corporate disclosure, San Miguel also revealed that it signed a Memorandum of Understanding (MOU) with Qatar Telecoms to revive Liberty Telecoms in the Philippines. Finally, it bid for and acquired a number of power generating plants from the government's National Power Corporation (NAPOCOR) to now become the largest power producer in the country.[4]

To finance all these acquisitions, San Miguel issued various debt and debt-like instruments to local and international investors (Dumlao, 2012f). This increased its debt from PhP 197 billion in 2009 to over PhP 563 billion in 2010 and increased the company's debt to equity ratio from less than 1:1 in 2009 to more than 2:1 in 2010. This massive borrowing led to a downgrade by Standard & Poor's of San Miguel's debt in early 2011 ("S&P Cuts SMC Debt", 2011). The various ratings downgrades and negative analyst reactions since it began its diversification program indicates how controversial the move of San Miguel outside of its traditional field is regarded by analysts and the financial community.

The company, however, appears undeterred by it. Its most recent headline-making moves include: its 2007 acquisition of a banking firm Bank of Commerce; the 2010 acquisition of three coal mining assets in Mindanao; the 2011 acquisition by Petron of the refinery business of Esso Malaysia Berhad for US$ 610 million, and 100% of ExxonMobil Malaysia and Exxon Mobil Borneo; its 2012 acquisition of the Philippine Airlines; and most recently, its announced intent to bid for the projects under the Aquino government's Public Private Partnership infrastructure program (Technistock, 2012g; "San Miguel Buys," 2011). Its entry into infrastructure businesses includes the upgrading of the Boracay Airport, the construction of the Tarlac-Pangasinan-La Union Expressway (TPLEX), the initiation of the MRT-7 project, and its recent acquisitions of stakes in the firm operating the South Luzon Expressway and Skyway system. Controlling 58% equity interest in Bank of Commerce was later sold to CIMB Bank Berhad of Malaysia in May 2012 (Dumlao, 2012d).

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[4] As of this writing, SMC has an installed generating capacity of about 3,000 MW with three more facilities planned to generate another 2,400 MW (Remo, 2012). Major plants are the 1,294-MW Sual coal-fired power plant, the 1,200-MW Ilijan combined cycle power station in Batangas, and the 345-MW San Roque hydroelectric power plant in Pangasinan (Flores, 2012).

Since the new millennium, the new management of San Miguel Corporation has entered the following unrelated businesses[5] outside its traditional food and beverage businesses: (1) Telecommunications (e.g., Liberty Telecoms); (2) Banking (e.g., Bank of Commerce); (3) Electricity generation and distribution (e.g., SMC Global Power Holdings, San Miguel Energy, Meralco); (4) Oil refining and distribution (e.g., Petron Corporation); (5) Mining (e.g., Daguma Agro Minerals, Bonanza Energy Resources, Sultan Energy); (6) Air Transport (e.g., Philippine Airlines); and (7) Public infrastructure construction and management (e.g., Universal LRT, TransAire, TPLEX).

Quoting Bloomberg, Lucas (2012) reports that the San Miguel Group has spent US$ 4.8 billion since 2007 for its aggressive acquisitions away from its traditional businesses and into such vital sectors and industries above. This amount excludes the US$ 500 million to fund the 49%-stake and management control of Philippine Airlines (Lucas, 2012). The company's officials are targeting revenues of about PhP 1 trillion for the San Miguel group by 2013 (Dumlao, 2012a).

It remains unseen how successful the company will be in these new fields, where its expertise in consumer product marketing and distribution cannot be brought to bear. Similarly, it remains to be seen how the addition of these highly capital intensive businesses will impact on the competitiveness of its traditional product lines, which continue to face vigorous competition in the various markets it has entered in the region.

3.6 The DM Consunji Group

The DM Consunji Company (DMCI), founded in 1954,[6] built its reputation in the Philippines as a construction company that specialized in commercial and high-rise buildings in the main financial and business centers in the country. In 1997, it purchased the ownership interest of an Austrian company to acquire majority control and management of the Semirara Coal Company (SCC), which had been given the right to develop and mine the sub-bituminous coal deposits in Semirara island. This marked the company's diversification outside the construction business. DMCI also has mining operations for nickel, chromite, and iron laterite in Zambales through another company founded in 2007, DMCI Mining Corporation. DMCI Mining has since acquired 5.3% in copper-producer Atlas Consolidated Mining (Morales, 2012) and 37.7% in Toledo Mining (Technistock, 2013b).

In 2006, it made its second major diversification when it partnered with the Manuel Pangilinan's Metro Pacific Investments to bid for and manage Maynilad, a water distribution company that the Lopez group divested because of serious operating losses. The joint venture with Metro Pacific proved to be a successful one and profits from the venture have contributed significantly to the profits of DMCI in recent years.

The latest diversification of the DMCI group is into the power generation business through the acquisition by SCC of NAPOCOR's Calaca power companies located in Batangas. The Calaca power plants are coal-fired, and SCC's acquisition of these plants cements its position as the supplier of the plants' coal requirements. SCC is currently rehabilitating and expanding the capacity of the Calaca plants, and SCC has also developed an industrial park in Batangas to host future companies whose power requirements would be serviced from SCC's upgraded Calaca power plants.

Unlike many of the companies that have diversified in recent years, DMCI's diversification strategy appears to have a common thread – its expertise in the engineering/construction field. Its foray into the residential real estate market (DMCI Homes) is obviously a natural extension of its expertise in commercial building construction. This expertise likewise appears to have been an important factor in rehabilitating and expanding the Maynilad water utility's operations in Metro Manila. The same can be said in the turnaround and expansion of the coal mining operations of SCC and the rehabilitation and operation of the Calaca power plants.

3.7 The Jollibee Group

The Jollibee Food Company (JFC) was founded in 1978 by Tony Tan Caktiong and grew rapidly to become the largest chain of fast food restaurants (also known as quick service restaurants) in the Philippines. Its growth story in the three decades of expansion involved broadening its food and restaurant brands by acquiring its domestic competitors, and later, by expanding to overseas

[5] http://www.sanmiguel.com.ph/businesses/
[6] http://www.dmciholdings.com/our_businesses.php?pid=16

markets. From selling only a few staple fast food items under the Jollibee brand, it has acquired the following formerly independent food brands in the Philippines: (1) Chow King; (2) Greenwich; (3) Red Ribbon; and (4) Mang Inasal. It also acquired Deli France, but later divested this from its operations. In March 2012, it is reported to have a total of 2,004 outlets throughout the Philippines and 509 stores abroad (Technistock, 2012d).

The company diversified abroad beginning in the 1990s, first to China and the United States. It diversified abroad by opening its own brand stores (e.g., Jollibee, Chow King, Greenwich, and Red Ribbon), and also by acquiring and/or partnering with established store brands in these countries. In China it acquired Yonghe King (267 stores), Hong Zhuang Yuan (52 stores), and San Pin Wang (35 stores) (Technistock, 2012d). Other international acquisitions are the joint venture, SuperFoods, with the Viet Thai company in Vietnam, and the Ninja Bar and Bistro stores in the United States. The tie-up with Viet Thai Company gives it a foothold in the restaurant market in Vietnam and Hong Kong.

JFC is a Philippine business group that has remained focused in the fast food industry and sees its growth trajectory to be in exporting its restaurant chains to foreign countries.

3.8 The Aboitiz Group

The Aboitiz group of companies (Aboitiz) started in 1920 as the Aboitiz Compania Incorporada in Cebu. After World War II, the company grew into a diversified enterprise with interests in power generation and distribution, shipping, food manufacturing, real estate, and banking and insurance, among others. The following are the Aboitiz companies involved in various industries: (1) Power Generation and Distribution (e.g., Aboitiz Power, Davao Light and Power); (2) Banking and Insurance (e.g., Union Bank, City Savings); (3) Food Manufacturing (e.g., Pilmico Foods, Pilmico Animal Nutrition); (4) Real estate (e.g., AboitizLand, Cebu Industrial Park Developers, Mactan Export Zone 2); and (5) Construction and shipbuilding (e.g., Aboitiz Construction Group, Metaphil).

In 1998, Aboitiz Power Company (AP) was incorporated as a holding company of the Aboitiz group's power generation and distribution assets. In 2003, in preparation for the growth in the Philippine power industry, its power distribution assets were placed under Aboitiz Equity Ventures (AEV) and AP became a holding company solely of the power generation assets of the group. AEV serves as the holding company for its power, banking and food manufacturing businesses.

AP grew in the aftermath of the privatization of the government's power generation assets since 2005. Its current portfolio of power generation assets include hydroelectric and thermal plants, the latter based on geothermal power as well as coal (De la Fuente, 2012a). Its power generation assets are located from the northern to the southernmost parts of the country.

Perhaps to refocus its business and also to finance its aggressive acquisition of NAPOCOR's power assets, it sold its shipping and logistics assets, Aboitiz Transport System, to Negros Navigation Company (NENACO) in December 2010. Also during the same year, Union Bank was rumored to be for sale to the Bank of the Philippine Islands.

The Aboitiz group since its early beginnings had been a highly diversified but regional business. At this stage in its history, its focus as a business appears to have shifted to power generation and concomitant with this, it has become national in geographic scope. In November 2011, Aboitiz announced the transfer of the headquarters of AEV and AP from Cebu to Manila. AEV president and chief executive officer Erramon Aboitiz said:

> With the acquisitions in the past few years, over 70% of our profits come from businesses in Luzon. We have transformed ourselves from a regional company to a national enterprise, having to transact more with stakeholders based in the capital. Our main market and customers for electricity are in Luzon (Dagooc, 2011, p. B5).

3.9 The Sy Group

Another large conglomerate in the Philippines is SM Investments Corporation (SMIC), a holding company founded by Henry Sy, Sr. in 1960. In 1948, Shoemart (SM) started as a shoe manufacturer and a shoe store in Carriedo, Manila. The business expanded from being a shoe store to a department store, SM Department Store, which was scaled up into shopping malls and supermarkets. In 1978, Sy bought a lot at the northern end of EDSA in Quezon City. In 1985, he started his first mall, SM City North EDSA, even when the country was experiencing political and economic turmoil after the

assassination of Sen. Benigno Aquino in 1983. Its shopping mall business has since expanded to China before operating in other Asian countries (De la Fuente, 2012b).

To date, the Sy group has the following five core businesses in its portfolio:[7] (1) Retail Merchandising (e.g., SM Department Stores, SM Supermarket, SM Hypermarket, Makro, and SaveMore Stores); (2) Shopping Mall Development (e.g., SM Prime Holdings); (3) Financial Services (e.g., Banco de Oro Unibank and China Banking Corporation); (4) Real Estate Development and Tourism (e.g., SM Land, Inc., SM Development Corporation, Costa Del Hamilo, Inc., and Highlands Prime, Inc.); and (5) Hotels and Convention (e.g., SM Hotels, SMX Convention Specialists, Hotel Specialists).

The foray into the banking sector started with the acquisition of Banco de Oro in 1976. The bank is now headed by Teresita Sy-Coson, the eldest daughter of Henry Sy, Sr. After several acquisitions of small banks, the smaller Banco de Oro took over Equitable PCI Bank, then the third largest bank in 2006, for PhP 41.3 billion. As of June 2011, Bangko Sentral ng Pilipinas has listed Banco de Oro as the nation's biggest bank in terms of total assets, with total assets of PhP 1,009.7 billion. BDO has also entered the life insurance business in a joint venture with Generali Philippines. Meanwhile, China Bank—headed by Hans Sy, son of Henry Sy, Sr.—is a commercial bank mainly patronized by Chinese-Filipino customers.

At first glance, the Sy group seems to be related diversifiers by leveraging its strengths in retail businesses to property development and tourism businesses. The banking businesses that might appear to be unrelated are complementary: BDO is known to provide consumer credits to SM customers, and the selling of SMDC condominiums are financed with loans from China Bank. In 2011, SMIC's revenues amounted to PhP 200.7 billion, with a net income of PhP 21.2 billion (Technistock, 2012f).

More recently, the Sy group ventured into mining by purchasing 17.6% of Atlas Consolidated Mining and Development Corp. controlled by the Ramoses. In May 2012, SMIC exercised the conversion option when it purchased BDO's PhP 5.3 billion convertible loan between Atlas and BDO increasing SMIC's ownership of Atlas from 17.6% to 28.4% of total outstanding shares (Despuez, 2012).

3.10 The Ty Group

In 1962, George S. K. Ty started the Metropolitan Bank & Trust Co. with a branch in Binondo with Don Emilio Abello, Don Pio Pedrosa, and Placido Mapa, Sr. George Ty wanted to become a banker after the family-owned Wellington Flour Mills experienced financial problems in the 1950s (Yu, 2007). In 2007 the Philippine businesses of the Ty family were gathered under one holding company, the GT Capital Holdings, which was listed in the Philippine Stock Market in April 2012. GT Capital holds interests in the following businesses:[8] (1) Banking (e.g., Metrobank, PS Bank, First Metro Investment); (2) Real Estate Development (e.g., Federal Land); (3) Power Generation (e.g., Global Business Power Corporation); (4) Automotive (e.g., Toyota Motor Philippines, Inc.); and (5) Life Insurance (e.g., Philippine AXA Life Insurance Corporation).

Metropolitan Bank and Trust Company or Metrobank is the second largest universal bank in the Philippines in terms of total assets. In December 2011, Metrobank posted consolidated assets worth PhP 958.4 billion, or 8.0% higher than in 2010, with a consolidated net income of PhP 11.0 bìllion, a 31.9% increase over 2010 (Technistock, 2012e). Other financial service companies of the Ty family are Philippine Savings Bank, the thrift bank of Metrobank, and First Metro Investment Corporation, the investment banking arm of the Metrobank group.

Yu (2007) claims that Toyota Motor Philippines is the only locally controlled (51%) Toyota subsidiary in the world (i.e., all others are majority owned by Toyota Japan). It is a joint venture with Mitsui Corporation of Japan in 1988. It has been consistently number one in automotive sales in the country. George Ty revealed in an interview why and how he ventured into automotive sales:

> They found me... Toyota insisted that it had to be Metrobank. I do not know anything about car manufacturing, but they brought us to Toyota City (in Aichi, Japan), showed us their facilities and assured us that they would support us. When I asked Dr. (Shoichiro) Toyoda (at that time president, now honorary chairman, of Toyota)

[7] http://sminvestments.com/smic/?p=248
[8] http://www.gtcapital.com.ph/

> why, all he answered was that 'when Toyota is looking for a partner...if we find the right partner, then we're already 50 percent successful'. (Yu, 2007, p. 4)

Another joint venture is the life insurance business with Axa Group of Europe, a company positioning itself to be a global leader in life insurance (Flores, 2009). On having joint ventures, George Ty opined:

> In other business, I prefer to own majority shares but let others, like the world leaders Toyota or Axa, manage our joint venture businesses. I don't want to do business if the people I'm partnering or dealing with will not make money, because then it will not last. I want other people to make money out of me, so I have this 'live and let live' outlook in life (Flores, 2009, p. F4).

Federal Land's development projects include the Metropolitan Park in Pasay, the Central Business District of Makati, the Binondo projects, as well as in the eastern part of Metro Manila. Global Business Power's two brand new coal-fired plants in the Visayas with a total capacity of 410 MW were commissioned in March 2011 (Technistock, 2012c).

Other businesses of the Ty family are in hotel (e.g., Marco Polo in Cebu City) and travel industries (e.g., First Metro Travel and Thomas Cook Philippines). The Manila Doctors Hospital and the Manila Tytana Colleges are under Metrobank Foundation umbrella and the Ty family considers these institutions not as businesses but as gifts to the Philippine society (Flores, 2009).

3.11 The Andrew Tan Group

The business interests of Andrew Tan are consolidated into the holding company, the Alliance Global Group, Inc. (AGI) which was incorporated on 12 October 1993 and listed in the Philippine Stock Exchange on 19 April 1999. AGI is now into the following businesses:[9] (1) Real Estate (e.g., Megaworld Corporation, Travellers International Hotel Group, Inc., Empire East Land Holdings Inc. and Suntrust Properties Inc.); (2) Quick Service Restaurants (e.g., McDonald's franchise in the Philippines through the Golden Arches Development Corporation and Golden Arches Realty Corporation); and (3) Food and Beverage (e.g., Emperador Distillers, Inc., Alliance Global Brands).

In 2011, AGI earned full year revenues of PhP 66.1 billion, translating into a net profit of PhP 14.7 billion. Compared to 2010, the revenues were up 49% and net profit was up 55% (Technistock, 2012a).

The flagship company, Megaworld Corporation (Megaworld), contributed 40% of total revenues (Technistock, 2012a). Megaworld is a considered the No. 1 condominium developer in the Philippines by property consultants CB Richard Ellis Philippines and Colliers International and a leader in the call centers and BPO (business process outsourcing) businesses in the Philippines (Samaniego, 2012; Flores, 2008). Andrew Tan developed the site of a former textile mill in Libis, Quezon City into Eastwood City—a commercial, office, shopping, entertainment and residential complex. The Eastwood City CyberPark is the country's first IT park (Quimpo-Espino, 2008).

From condominium residences and BPO businesses, Andrew Tan's real estate development has expanded into tourism, hotel and leisure (casinos) development. Tan developed urban renewal mega projects in Metro Manila such as the City Place complex in Binondo, Manila; the 25-hectare Newport City complex beside the Villamor Golf Course in August 2009; the Manhattan Garden City complex at the Araneta Center, Quezon City; and the 50-hectare McKinley Hill new township in Fort Bonifacio (Flores, 2008).

Lopez (2012) reported that in the first half of 2011, AGI acquired three new subsidiaries: Global-Estate Resorts (GERI), formerly Fil-Estate Land, Suntrust Properties (SPI), and Empire East Landholdings (ELI). GERI will develop Boracay Newcoast in Boracay for PhP 15 billion and Twin Lakes near Metro Tagaytay for PhP 5 billion (Dumlao, 2011a). Boracay Newcoast will be built on a land area that is 14% of the island-resort, while Twin Lakes will become a 1,149-hectare community for medical and educational tourism destination (Dumlao, 2011a). SPI will build socialized or mass housing developments in Cavite and Laguna while ELI will develop multi-cluster condominium projects and multi-phase subdivision in Metro Manila and Laguna (Lopez, 2012).

Travellers International Hotel Group, Inc., a joint venture between Genting Group of Malaysia and AGI, operates Resorts World Manila, which currently houses Maxims Tower, positioned as the Philippines' first six-star luxury hotel, and Marriott Hotel Manila (Lopez, 2012).

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[9] http://allianceglobalinc.com/BusinessInterests.aspx

Emperador Distillers produces Emperador, Generoso and Emperador Light brandies, and a line of flavored alcoholic beverages called The Bar. The homegrown brand, Emperador Brandy, has become the world's largest-selling brandy in terms of total number of bottles sold in 2006 according to Drinks International, a UK-based publication (Flores, 2008). Tan's firm sold 7.2 million nine-liter cases of brandy in 2006 (Flores, 2008) and 31 million cases in 2012. In May 2012, Emperador Distillers, purchased the Laguna production plant facility from Diageo Philippines to boost Emperador's production capacity and competitiveness in the Philippines and abroad starting with the Thailand and China markets (Technistock, 2012b). In January 2013 Emperador acquired Bodega San Bruno S.A. based in Jerez, the brandy-producing region of Spain, to start its international expansion into Europe (Technistock, 2013a).

4 Summary and Conclusions

This paper shows that the strategies employed by the 11 business groups in this study encompass both polar forms of diversification described earlier. Table 1 summarizes the diversification strategies of the large Philippine business groups.

Table 1. Diversification Strategies of Large Philippine Business Groups

Related Diversification	Unrelated diversification	Both related and unrelated
The Jollibee Food Group	The Ayala Group	The Lopez Group
The Sy Group[10]	The Metro Pacific Group	The Gokongwei Group
	The Aboitiz Group	The San Miguel Group
	The Andrew Tan Group	The DM Consunji Group
		The Ty Group

The groups that pursued related diversification, notably the San Miguel group and the Gokongwei group, used horizontal and international diversification, as well as vertical integration in their early years. Jollibee is the only company in the sample that has not ventured outside its original business in the fast food sector, but has pursued growth opportunities in expanding its outlets to other countries instead. The DMCI group, though it has diversified into what appears to be unrelated business sectors, has apparently chosen these fields with a view for leveraging the group's engineering and construction expertise.

As these business groups acquire or enter new businesses, some of their businesses are divested. Four business groups—San Miguel, Lopez, Gokongwei and Metro Pacific—appeared to have had more divestments than the other seven groups. At the other end of the spectrum, four groups—DM Consunji, Henry Sy, George Ty and Andrew Tan—have grown by entering new businesses with little or no divestments.

The cases of the San Miguel, Lopez, Gokongwei, Sy and Ty groups further show that business groups that hewed to related diversification in the early stages of their growth later went into unrelated diversification. San Miguel was into food and beverage and allied businesses before it went into unrelated diversification. The Lopez group also diversified into electrical manufacturing and the oil pipeline business, both fields related to the core business of electricity distribution, before diversifying into unrelated fields. The Sy group focused on its retail and real estate development before going into the financial services. Meanwhile, the Ty group was in the banking business first before diversifying to real estate, power generation and automotive sales.

By contrast, the Ayala Corporation, Metro Pacific, Aboitiz, and Andrew Tan groups were unrelated diversifiers from the start. Based on recent acquisitions and press announcements, the present strategic posture of 10 of the 11 business groups may be characterized as that of unrelated diversification. The trend tends to support the argument in recent strategy literature: that unrelated diversification seems to be a preferred strategy in today's emerging markets.

[10] Although the Sy Group appears to have ventured into unrelated diversification through Banco de Oro, China Bank and Atlas Mining, the group is still classified under related diversification. The two banks have supported its retail and real estate businesses. The entry into Atlas Mining arose from a conversion of loan to equity and its 28% ownership of Atlas Mining is insufficient to exercise management control.

What might be the specific explanations for the preponderance of unrelated diversification among firms in the Philippines? There appears to be three complementary explanations.

The first explanation is the major changes in the government's policy environment in the Philippines. These changes include: (1) the deregulation of the 1990s; (2) privatization in the late 1990s-2000s; and (3) the Public Private Partnership (PPP) program of President Benigno Simeon Aquino.

The deregulation of the Philippine telecommunication (telecoms) and airline industries in the early 1990s unleashed a flurry of investments into these sectors among the Philippine business groups. This period marked the entry of the Ayala, the Lopez, and the Metro Pacific groups, among others, into the Philippine telecoms industry. A late entrant into the telecoms industry is the Gokongwei group, which then sold its telecoms subsidiary to PLDT in 2011.

The deregulation of the telecoms industry was followed by the privatization of the government water utility businesses for Metro Manila in the late 1990s. The Ayala group and the Lopez group were the winning bidders for the water utility business that was divided into the east and west zone (though the west zone is now owned jointly by the Metro Pacific and the Consunji groups).

The restructuring and privatization of the Philippine power sector in 2001 followed privatization of water utilities, after the enactment of the Electric Power Industry Reform Act (EPIRA). This led to the successful bidding out of the power generation and transmission assets of the National Power Corporation to the Lopez, Aboitiz, San Miguel, and DM Consunji groups, among others.

The privatizations during the 1990s are being carried through and expanded under the PPP program of the present Aquino government. Included in this program are the Metropolitan railway system, the expressway toll businesses in Metro Manila and Luzon, and the construction, rehabilitation, and maintenance of shipping ports and airports in various parts of the country. These projects have received formal expressions of interest to bid and invest from many of the business groups described in this paper, notably, San Miguel, Metro Pacific, Ayala, Aboitiz, and DM Consunji. The bidding of the contracts for these sectors, which is currently being finalized by the government, will comprise a major component in the investment and diversification agendas of many of the members of the above business groups in this country in the near and medium term.

A second explanation is the growth of the Philippine capital and financial markets since the end of Martial Law in the early 1980s. Such growth encouraged and enabled the large business groups in the Philippines to list their firms in the stock market and gain access to unprecedented amounts of capital from both local and foreign funds providers. The deregulation in the 1990s was accompanied by the reentry of the Philippines into the foreign debt markets after the country defaulted on its foreign debts in 1983, easing the access to capital markets. The new business ventures of the business groups in the decades since the 1990s are all capital-intensive businesses that would be difficult for small, unlisted firms to finance. Moreover, the willingness of many these groups to partner with one another on a project basis enhance their capacity to finance big-ticket infrastructure projects under the government's privatization and PPP programs (De la Fuente, 2012a; Venzon, 2012).

A third and final explanation to the patterns of diversification observed in these business groups may have to do with the strategic competencies that these groups currently possess. When such strategic competencies were lacking, the business groups went into joint ventures with foreign partners like the case of the Ayala and Ty groups in automotive sales, or the Ayala, Ty, and Sy groups for their bancassurance businesses (e.g., BPI-Philam, Metrobank-Axa, BDO-Generali). In power generation and water distribution industries, the business groups had foreign partners to obtain valuable technological resource base (e.g., Marubeni Corp. and Tokyo Electric Power Corp. for San Miguel Global Power, Marubeni Corp. for Maynilad of DMCI and Metro Pacific, and British United Utilities, the U.S. company Bechtel, and Japanese Mitsubishi for Manila Water of the Ayalas). For the most part, the investments of these 11 business groups are mainly in service industries, and hardly any are in the manufacturing sector.[11] This development contrasts with South Korea and Taiwan, for example, where diversifications into heavy manufacturing industries and electronics were very prominent.

[11] Except for the limited investments by the Ayala and Lopez groups in electronics manufacturing, the only other notable manufacturing investments in the group are in light manufacturing, i.e., in the food and beverage businesses of San Miguel, Andrew Tan group and the Gokongwei group.

What is there about service industries that seem to make them easier for Philippine groups to enter as compared to manufacturing, for instance? For one, service industries tend to be fragmented industries (e.g., real estate, banking, water distribution, construction, power generation and distribution, and transportation) and, thus, can put local firms on a less unequal competitive footing against a potential foreign multinational competitor. Service industries typically do not require large investments in proprietary technologies, unlike in manufacturing where advanced product and process technologies are proprietary assets that convey a long-lived competitive advantage (Kunio, 1988). By staying in domestic service industries, Philippine business groups suffer no competitive disadvantage vis-a-vis established multinational brands that they would if they ventured into many fields in manufacturing such as consumer electronics, automobiles, and so on. In addition, most of the industries which the business groups in this study entered (e.g., power, water distribution, telecoms, air transport, rail and toll road operations), are regulated industries where local firms may enjoy important advantages (e.g., advantages in dealing with regulatory authorities) vis-a-vis foreign rivals.

A common explanation cited in the strategy literature for firms diversifying into unrelated fields is declining growth opportunities in the firms' traditional lines of business. While this may explain unrelated diversification for many of the firms in this study within the Philippines, it does not explain why only a few of the groups in this study expanded their traditional businesses into the larger Asian region. Of the 11 groups in this study, only San Miguel Corporation, Jollibee, Universal Robina (Gokongwei), and more recently, Emperador Distillers (AGI) and SM Prime Holdings, have expanded their traditional lines of business outside the Philippines. In all these businesses—the first four are in food and beverage manufacturing and distribution and the fifth is in retailing)—possessing proprietary technologies is not crucial for success.

On the whole, the diversification patterns observed among the business groups in this paper appear to conform to the directions indicated in recent strategy literature: (1) large business groups tend to pursue unrelated or less focused forms of diversification in newly developing countries (Williamson, 1997; Khanna & Yafeh, 2007); (2) firms will tend to adopt strategies which fit the institutional context (e.g., government policies, regulations and incentives) in their environment (Peng, Sun, Pinkham, & Chen, 2009); and (3) firms will tend to enter industries where their capabilities and resources are most suited, and will avoid those where they are not (Collis & Montgomery, 1995).

Ramanujam and Varadarajan (1989) identified and discussed conceptual and methodological problems in corporate diversification research when they suggested a more multidisciplinary perspective on diversification. Other researchers might investigate the diversification-performance relationship among Philippine business groups, similar to studies by La Roca and Stagliano (2012) and Palich et al. (2000). The key challenge for such a study is access and creation of the data series with enough observations needed for the empirical study. Finally, it is also helpful to document, evaluate, and explain the international diversification performance of Philippine business groups. These kinds of studies would surely contribute to the diversification literature in an emerging economy like the Philippines.

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