ADEX547 · SPECIAL TOPICS IN ORGANIZATION & STRATEGY

Corporate Strategy *Foundations*

Week 1 — Corporate-level strategy vs Business Level Strategy

Does owning multiple businesses together create value, or destroy it?

WEEK 1

By the end of today, you will be able to do six things

1 Distinguish the two strategies

Separate corporate-level from business-level strategy, and state Porter's value test for the parent.

2 Master the theory

Apply Rumelt, Porter, Prahalad & Hamel, Chandler, Williamson, Ansoff, Goold & Campbell and BCG.

3 Explain U-form vs M-form

Say why the multidivisional form beats the unitary form once a firm diversifies.

4 Weigh the discount debate

Judge the diversification-discount evidence and compute a holding discount from NAV.

5 Treat allocation as strategy

Frame corporate strategy as a disciplined capital-allocation and M&A problem.

6 Apply it to the three cases

Position Koç, Sabancı and THY against every framework and judge each portfolio.

SESSION MAP

Theory goes first, so every case that follows can be read through it

1
The distinction
Corporate vs business strategy; the value-loss question

2
Theory first
Eight foundational frameworks, one diagram each

3
The debate & the discipline
Diversification discount, capital allocation, M&A

4
Turkey
Koç · Sabancı · THY against every framework

5
Global & synthesis
Break-ups, decision frameworks, when to hold vs focus

PART 1

Corporate strategy is not business strategy

The value-loss question — and why owning good businesses can still destroy value.

THE DISTINCTION

Corporate strategy asks which businesses to own; business strategy asks how one wins

	CORPORATE STRATEGY	BUSINESS STRATEGY
Advantage	Ownership advantage in the market for businesses & capital	Competitive advantage in a single product market
What is decided	Which businesses should the firm own, enter, or exit?	How does this one business beat its rivals?
Who owns it	The corporate centre / holding-company board	The business-unit management team
Key test	Does the parent add more value than the best alternative owner?	Does the business have a defensible cost / differentiation edge?
In this reader	Should Koç keep or sell Arçelik's white-goods JV?	How does Arçelik compete against Whirlpool in Europe?

Porter (1987): *a diversified firm subtracts value even when every unit is profitable — unless the parent beats the best alternative owner.*

WHY IT MATTERS

Family holdings defend diversification on grounds a single-country textbook never prices in

The conglomerate defence: a group supplies internally what thin markets fail to provide.

1

Weak capital markets

A group's internal capital market routes around thin external financing (Khanna & Palepu).

2

Weak manager markets

The group builds its own management pipeline and rotates proven talent across firms.

3

Weak contract enforcement

Group reputation substitutes for missing courts, credit bureaus and certification.

The 2026 test. The same structure that destroys value in a mature market can create it in a thin one. Turkish markets have deepened — so Koç and Sabancı now sit exactly at the test case for the argument.

THE QUESTION THAT MOTIVATES THE SESSION

Does the market punish a diversified firm relative to the sum of its focused parts?

DISCOUNT

Diversified firms trade below a sum-of-the-parts valuation: coordination cost, agency cost, and a “socialist” internal capital market that cross-subsidises weak units.

PREMIUM

A disciplined parent can add value: an efficient internal capital market, shared competence, and — in an emerging market — institutions the firm supplies internally.

The whole session is a tool-kit for answering this — *for a specific parent and a specific business.*

PART 2

Theoretical foundations

Eight lenses on one question — taught first, applied to every case after.

THE THEORY MAP

These frameworks are not rivals — each catches a different failure mode of diversification

RUMELT (1974)

Diversification typology

WHAT IT TELLS YOU

Related diversification beats both single-business focus and unrelated sprawl.

THE TEST IT IMPLIES

Is there a real skill shared across these businesses?

PORTER (1987)

Three essential tests

WHAT IT TELLS YOU

Value is created only if a new business clears all three tests.

THE TEST IT IMPLIES

Attractive? Cost of entry recouped? Both better-off?

PRAHALAD & HAMEL

Core competence

WHAT IT TELLS YOU

Compete on a few deep competences that span many products.

THE TEST IT IMPLIES

Does the centre grow a shared competence, or just hold units?

CHANDLER (1962)

Structure follows strategy

WHAT IT TELLS YOU

Scope needs the M-form; the org form must follow the strategy.

THE TEST IT IMPLIES

Does our structure match the diversification we've taken on?

WILLIAMSON (1975)

Transaction costs

WHAT IT TELLS YOU

Internalise the transactions that markets govern badly.

THE TEST IT IMPLIES

Is the asset specific and frequent enough to bring in-house?

ANSOFF (1957)

Growth-vector matrix

WHAT IT TELLS YOU

Growth = products × markets; risk rises toward new × new.

THE TEST IT IMPLIES

Which quadrant is this move — and have we the capability?

GOOLD & CAMPBELL

Corporate parenting

WHAT IT TELLS YOU

A centre adds value only as a business's best possible parent.

THE TEST IT IMPLIES

Are we the best owner of this unit — or a value trap?

BCG (HENDERSON)

Growth-share matrix

WHAT IT TELLS YOU

Manage cash across the portfolio, not each unit's profit alone.

THE TEST IT IMPLIES

Do cash cows fund stars — and are dogs harvested?

Diversification is not bad — diversification without a shared, transferable core skill is bad

Single	Dominant	Related-constrained	Related-linked	Unrelated
≥95% one business	70–95% one core	Shared core skill	Chained relatedness	No shared resource
Coca-Cola	THY (airline)	LVMH	Koç / Sabancı*	Conglomerate

less related → more related → unrelated

The durable finding. *Related diversifiers outperform BOTH single-business firms and unrelated conglomerates.* **Koç & Sabancı sit on the related-linked / unrelated boundary; THY is the cleanest dominant-business case in the reader.*

FRAMEWORK 2 · PORTER (1987)

A diversification move must pass all three tests — failing any one is enough to reject it

1

Attractiveness test

Is the industry structurally attractive, or can it be made so?

Worked: *AWS entered a large, scale-advantaged industry — passes decisively.*

2

Cost-of-entry test

Does the price capitalise all future profit, leaving nothing for the buyer?

Worked: *Competitive bidding drives price to the value of all synergies — Roll's winner's curse.*

3

Better-off test

Will the business, and the rest of the portfolio, be better off?

Worked: *Disney + Pixar: distribution & parks extracted more value than Pixar alone.*

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FRAMEWORK 3 · PRAHALAD & HAMEL (1990)

Manage a portfolio of competences, not just a portfolio of businesses

End-product business units

Leaves & fruit

Core products

Trunk & limbs

Core competences

Root system

Competence gives access to many markets, adds real customer benefit, and is hard to imitate.

Honda — engines & powertrains across cars, bikes, generators, mowers

Canon — optics & imaging across cameras, copiers, printers

Koç — industrial operations, financing access & energy-transition engineering across Ford Otosan, Arçelik, Tüpraş

Warning: a firm organised strictly around today's business units under-invests in the shared competence whose payoff lands in a different unit years later — the capital-allocation problem to come.

FRAMEWORK 4 · CHANDLER (1962)

Structure follows strategy — and when strategy turns to focus, the M-form runs in reverse

STEP 1

Strategy shifts

Single-product → multi-product / multi-region

STEP 2

Old structure strains

Functional hierarchy can't cope; a performance penalty appears

STEP 3

Structure adapts

Autonomous divisions + a small HQ judging financial results

The 2020s twist. When strategy shifts again — toward focus — even the M-form becomes a mismatch. The GE, DowDuPont, J&J and Honeywell break-ups are Chandler running in reverse: full legal separation into independent public companies.

FRAMEWORK 5A · WILLIAMSON (1975)

Make or buy? Four forces push a transaction out of the market and into the firm

1 Asset specificity

Investment tied to one relationship, hard to redeploy → internalise

2 Frequency

The more often the transaction recurs, the more hierarchy pays

3 Bounded rationality

No contract can cover every future contingency

4 Opportunism

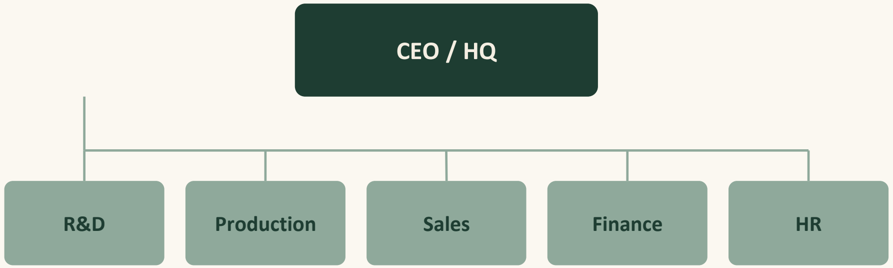
A counterparty may exploit the gaps → govern by fiat, not renegotiation

Worked — Tüpraş → Opet (both Koç-affiliated): a relationship-specific fuel-logistics investment costly to redeploy to another counterparty — favouring common ownership over an arm's-length contract.

FRAMEWORK 5B · WILLIAMSON — THE KEY STRUCTURAL DISTINCTION

The U-form runs one of each function for the whole firm; the M-form is a lean capital market over divisions

U-FORM — unitary / functional



One sales dept, one production dept — each serves the WHOLE firm. No product-level P&L.

Breaks down as the firm diversifies: every decision escalates to a centre with no product accountability.

M-FORM — multidivisional

Separates strategy from operations · divisional accountability · an internal capital market · contains problems inside one division.

Turkish groups are strictly H-form, but run on the M-form's core logic: a lean centre over independent businesses

Koç Holding	**M-form / holding (H-form)**	Lean centre allocates capital across Ford Otosan, Arçelik, Tüpraş, Yapı Kredi
Sabancı Holding	**M-form / holding (H-form)**	Centre over Akbank, Enerjisa, Brisa — five Strategic Business Units
Türk Hava Yolları	**Single-business (U-form-like)**	Flight ops, network and revenue coordinated centrally as functions

Why M-form beats U-form for a diversified firm: *it separates strategic from operating decisions, creates divisional accountability, runs an internal capital market, and contains a shock inside one division instead of spreading it.*

FRAMEWORK 6 · ANSOFF (1957, 1965)

Name the quadrant before approving any growth move — risk rises toward the diversification corner

	EXISTING products	NEW products
EXISTING markets	**Market penetration** *Lowest risk* THY - more frequency on existing Gulf & European routes	**Product development** *Moderate* New products into existing markets
NEW markets	**Market development** *Moderate* Arcelik - white goods into India, Pakistan, Bangladesh	**Diversification** *Highest risk* SabanciDx - new products, new markets

Reading the matrix

- Diversification (new × new) is riskiest — it demands new capability in both dimensions at once.
- Ansoff later split related from unrelated diversification — directly analogous to Rumelt.
- Use it as a discipline-forcing checklist for every growth move.
- *THY penetrates · Arçelik develops markets · SabancıDx diversifies into digital.*

FRAMEWORK 7 · GOOLD & CAMPBELL

For THIS business, is our centre the best possible parent? Three centre styles fit different portfolios

Style	Centre's role	Planning	Fin. control	Best fit / risk
Financial Control	Tough financial targets; minimal strategy involvement	Low	High	Unrelated, mature businesses; risks under-investing in long bets
Strategic Planning	Centre co-authors long-term strategy across businesses	High	Low–mod.	Related businesses where the centre adds expertise; risks slow cycles
Strategic Control	Reviews & challenges plans; holds units to milestones	Moderate	Moderate	Mixed portfolios — the common style at Koç & Sabancı

Heartland test: *plot each business on fit-with-skills × fit-with-resources. Heartland stays; alien territory is the clearest divestiture candidate — however profitable today.*

FRAMEWORK 7 · APPLIED

The heartland test: a business stays only if the parent both fits and adds value

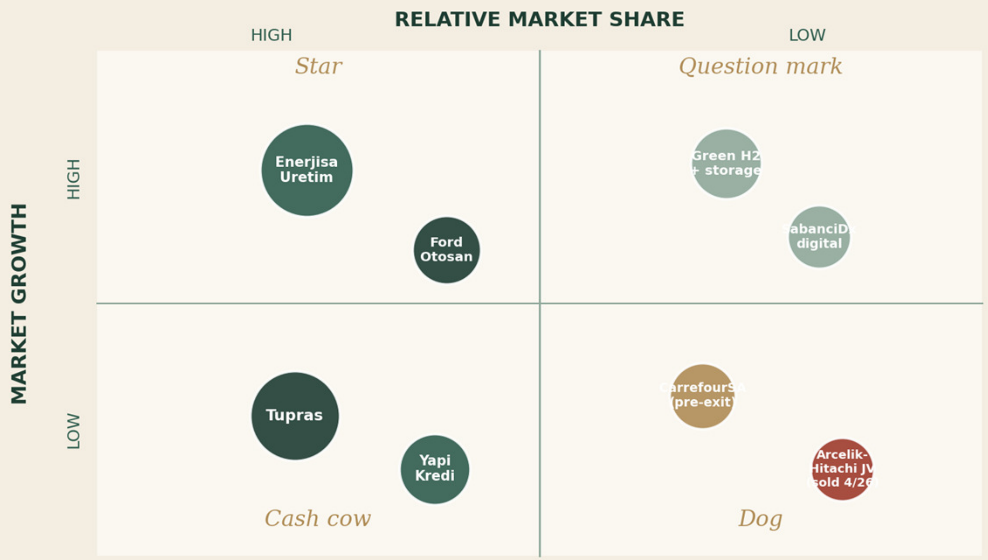
FIT WITH PARENT'S RESOURCES →	Low	High
High	**BALLAST** Tüpraş — safe cash cow, limited upside from parenting	**HEARTLAND** Ford Otosan — fit on both axes; the centre keeps and invests
Low	**ALIEN TERRITORY** CarrefourSA & Arçelik-Hitachi JV — no fit; the exit candidates	**VALUE TRAP** Tempting fit-with-skills, poor resource fit — destroys value

Low — FIT WITH PARENT'S SKILLS → — *High*

How to read it

- Heartland stays and gets capital.
- Ballast is held but rarely improved by the centre.
- Value traps look attractive but the parent misfits — the dangerous quadrant.
- Alien territory is the clearest divestiture candidate — however profitable today.

Cash flow, not profit: cash cows fund stars and selected question marks; dogs are harvested



Watch the limits

- Share proxies advantage imperfectly; growth proxies attractiveness imperfectly.
- It ignores synergies — the very thing parenting theory centres on.
- Used alone it has driven firms to dump “dogs” that were stable cash generators.

THEORY CAPSTONE

The eight lenses do not compete — each names a different way diversification can destroy value

Rumelt

What it argues
Related diversification, built on a shared, transferable core skill, beats both single-business focus and unrelated conglomerates.

Failure mode
Unrelated scope with no shared skill — ITT's hundreds of unlinked subsidiaries

Porter

What it argues
A diversification move creates value only if it passes all three tests: attractiveness, cost-of-entry, and better-off.

Failure mode
A move that fails one of the three tests — overpaying past all synergies

Prahalad & Hamel

What it argues
Compete as a portfolio of core competences, not just a portfolio of businesses; a competence opens many markets.

Failure mode
Fragmenting a core competence across siloed units that never share it

Chandler

What it argues
Structure follows strategy — a diversified strategy requires the multidivisional (M-form) structure to run it.

Failure mode
Keeping a functional U-form long after diversifying into many businesses

Williamson

What it argues
Put each transaction where it is cheapest — internalise it when assets are specific, frequent and uncertain; otherwise use the market.

Failure mode
Buying in the market a transaction that should be internalised (or vice-versa)

Ansoff

What it argues
Growth options rise in risk from market penetration to diversification — name the quadrant before you move.

Failure mode
Leaping to the new × new diversification corner without new capability

Goold & Campbell

What it argues
A corporate parent earns its keep only where it genuinely fits the business — the parenting-advantage / heartland test.

Failure mode
A parent that misfits the business it owns — the classic value trap

BCG

What it argues
Manage the portfolio as one cash system: cash cows fund stars and selected question marks; dogs are harvested.

Failure mode
Milking a star or funding a dog — cash flowing the wrong way

A rigorous analysis runs all eight — then converges them on the one capital-allocation decision.

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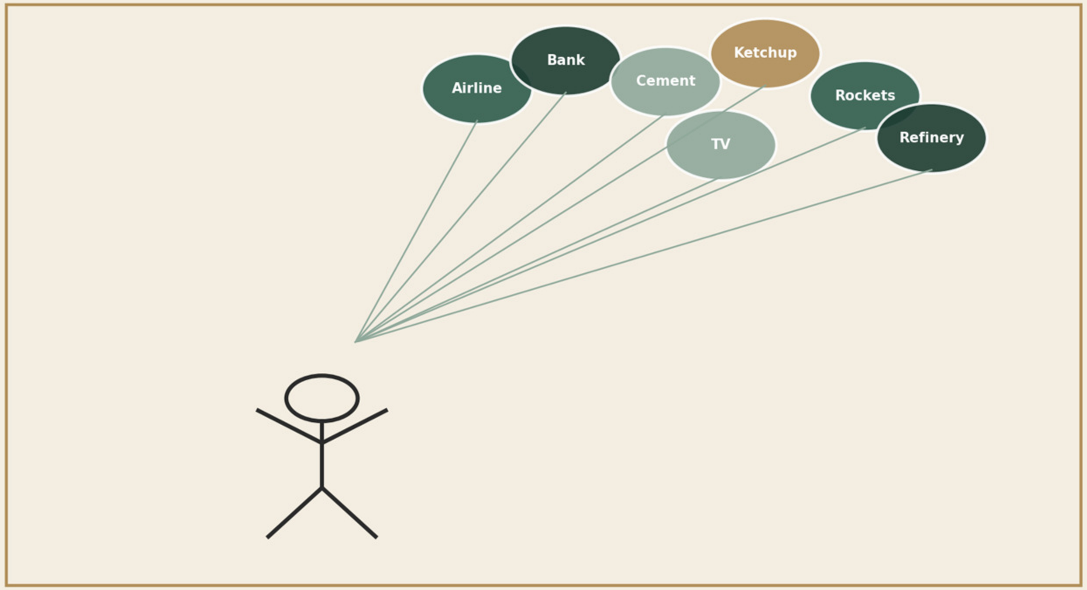
A LIGHT INTERLUDE

The conglomerate that owned everything



"Diversified? I prefer to think of it as never having to choose a hobby."

THE MARQUEE DEBATE

The diversification discount — and its premium critique

Does diversification destroy value on average? Two literatures, one unresolved argument.

THE DEBATE

The market does not price diversification itself — it prices whether the centre reallocates capital

THE DISCOUNT CASE

- Berger & Ofek (1995): diversified US firms trade at a 13–15% discount to sum-of-the-parts.
- Lang & Stulz (1994): lower Tobin's Q; the gap widens with segment count.
- Rajan–Servaes–Zingales / Scharfstein–Stein: a “socialist” internal capital market cross-subsidises weak divisions.

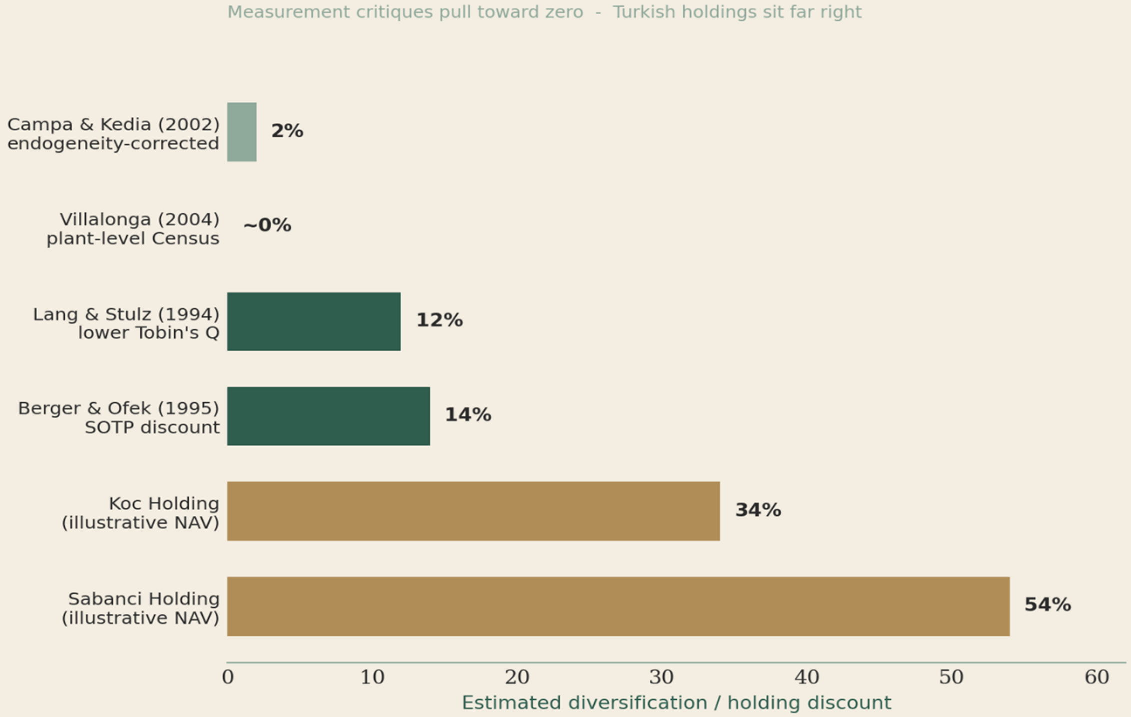
THE PREMIUM / MEASUREMENT CRITIQUE

- Villalonga (2004): with plant-level Census data the discount shrinks or reverses.
- Campa & Kedia (2002): the decision to diversify is endogenous — struggling firms self-select.
- Berkshire Hathaway trades at a premium — a live counter-example.

The synthesis: *the market prices whether the centre is a demonstrably active, disciplined re-allocator of capital — or a passive holder of businesses better off apart.*

THE EVIDENCE

Measurement critiques pull the estimate toward zero — but the Turkish holdings sit far to the right



How to read it

- Green bars: the classic US discount estimates.
- Sage bars: the critiques that shrink it to near zero.
- Brass bars: illustrative Turkish holding discounts — far larger than the US average.

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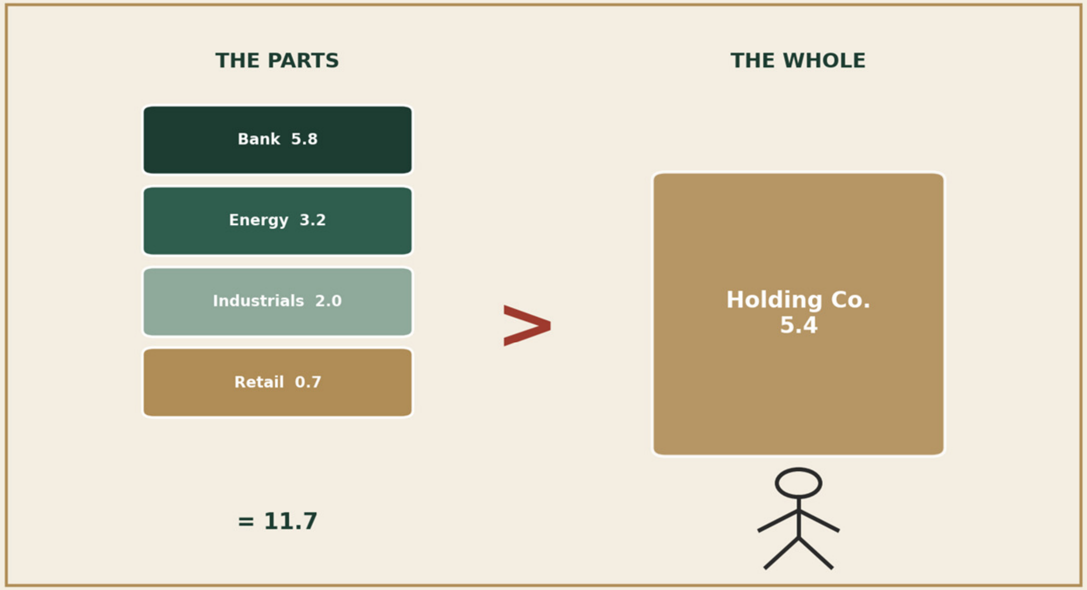
A LIGHT INTERLUDE

The diversification discount, illustrated



The market keeps insisting the parts are worth more than the whole. The market is often right.

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THE INTELLECTUAL CENTRE

Capital allocation is corporate strategy

Not the org chart — the allocation of capital is the single node where every framework converges into one choice.

THE DECISION NODE

Every framework feeds one decision — and out of it flow the five uses of capital

McKinsey: top-quintile re-allocators earn materially higher TSR — regardless of how diversified they are.

THE CENTRAL DISCIPLINE

A centre has five uses for its cash — the ranking discipline predicts value better than the mix of businesses

1	**Reinvest in existing operations**	Maintenance & growth capex in businesses that already clear the cost of capital.
2	**Fund organic growth / capability**	R&D, new product lines, new geographies — build rather than buy.
3	**Pursue M&A**	Buy capability, position or scale — subject to a premium & integration test.
4	**Strengthen the balance sheet**	Pay down debt when the cost of financial distress is high or credit is tightening.
5	**Return cash to shareholders**	Dividends & buybacks — the default when nothing clears the hurdle rate.

The ranking is a teaching device — the correct sequence is contingent on the cost of capital, the return in each business, and the state of credit markets. The discipline that is not contingent: one common hurdle-rate test.

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EFFICIENT OR SOCIALIST?

The test is observable: does capital flow with each unit's actual ROIC — or with its size and its manager's influence?

EFFICIENT INTERNAL MARKET

Beats external markets when information asymmetry is high or external capital is dear (Williamson, Stein). The parent enforces a genuine hurdle rate and routes cash to the highest-return use.

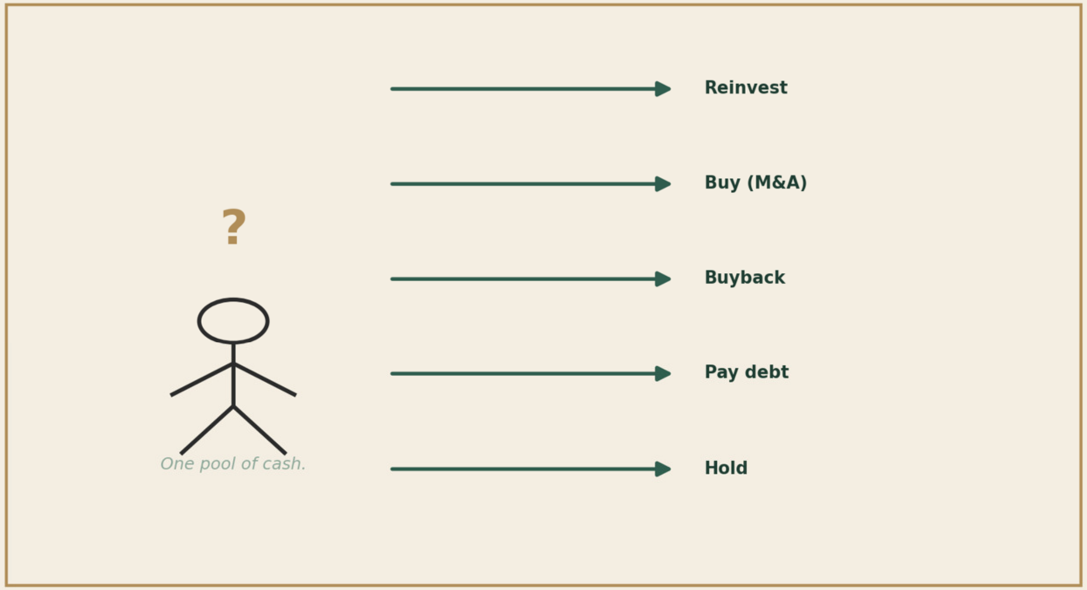
“SOCIALIST” INTERNAL MARKET

The centre smooths cash across politically powerful divisions, spreading capital more evenly than an NPV ranking would justify. Managers rent-seek to influence the allocation (Scharfstein & Stein).

This is where M&A enters. Use #3 of capital is buying capability or scale — and the same hurdle-rate discipline is what separates a value-creating deal from empire-building. The next two slides put M&A on trial.

A LIGHT INTERLUDE

The capital-allocation decision, from the inside



Corporate strategy, honestly: five doors, one wallet, one hurdle rate nobody enforces.

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M&A ON TRIAL

Targets capture most of the announced value; acquirers roughly break even

+20–30%
Target premium captured at announcement

≈ 0%
Acquirer abnormal return, on average

60–70%
Large deals failing to earn back cost of capital in 3–5 yrs

Two robust patterns across decades of studies

Financing & fit both matter

Cash-financed, related, reasonable-premium deals beat stock-financed, unrelated, high-premium deals (Andrade, Mitchell & Stafford).

Integration is where value dies

Most value destruction is in the 12–24 months after close — combining systems, cultures and reporting lines — not at pricing.

WHY BOARDS KEEP DOING DEALS

Four rationales — and how each one actually holds up against the empirical record

Motive	What proponents argue	What the evidence usually shows
Synergy / fit	Combined firm worth more than the two apart	True for a minority of deals; most miss announced synergy targets
Empire-building (Jensen)	Managers may prefer running a bigger firm	Bigger, stock-financed, high-premium deals show the weakest returns
Diversify for stability	Spreads risk across unrelated businesses	Shareholders can diversify far more cheaply themselves
Hubris (Roll)	We can extract more value than the market sees	The winner is the bidder who most overestimated the target

PART 6

Corporate strategy in the real world, 2026

A record, megadeal-driven M&A wave — and a matching wave of break-ups.

JULY 2026

The defining feature of the M&A market is its shape, not its size

$2.6–2.8T

H1 2026 announced M&A (+30–41% YoY) — a record half-year

~$4T

Full-year 2026 run-rate — 2nd highest ever

48%

Share of value from deals over $5B (was 26% in 2024)

−13%

Deal COUNT vs 2025 — a sharply K-shaped market

Value climbs, count falls

Megadeal value rises while deal count falls — driven by AI-infrastructure, energy and industrials consolidation (PwC).

Bigger deals, higher risk

Megadeals carry the longest integration timelines and the heaviest regulatory scrutiny — raising, not lowering, average execution risk (Bain).

Note for class: even the market's size is a modelling choice — $2.6T (Bain/EY) vs $2.8T (LSEG/Dealogic).

THE 2026 MEGADEALS

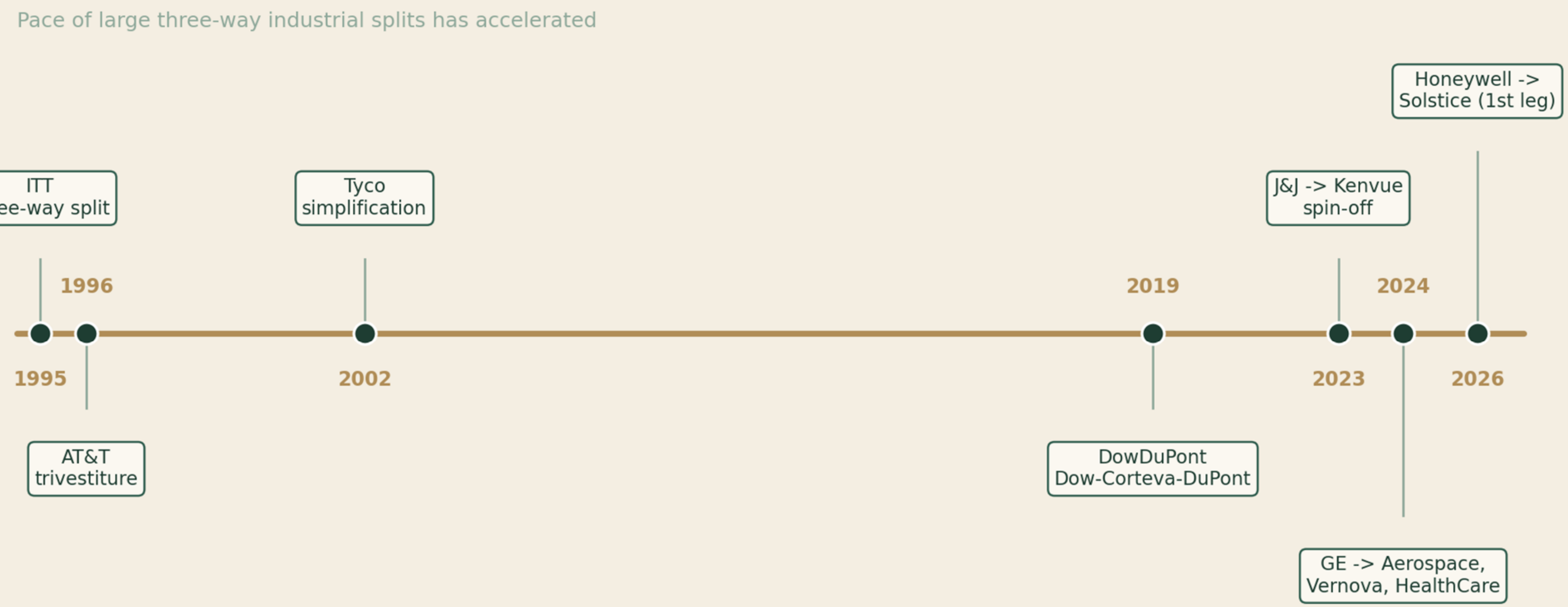
Four deals defining the wave — and a live test of the financing-and-relatedness evidence

Deal	Sector	Value	Strategic logic
NextEra Energy — Dominion	Utilities / Energy	~$67B	Largest US utility buys the utility powering the largest US data-centre market — a direct AI-electricity bet
McCormick — Unilever Foods	Consumer / Food	~$45B EV	Flavour & packaged-food consolidation; Unilever keeps focusing on beauty & personal care
KONE — TK Elevator	Industrials	€29.4B / ~$34.4B	Creates the world's largest elevator maker; faces extended antitrust review
Sysco — Jetro Restaurant Depot	Food distribution	~$29B	US foodservice-distribution consolidation; cash-and-stock structure

Test in class: *using Andrade–Mitchell–Stafford on financing method and relatedness, which of these is most likely to reward the acquirer's shareholders?*

THE REVERSE WAVE

As deals grow larger, the pace of large three-way industrial break-ups has accelerated



Chandler in reverse: once strategy shifts toward focus, even the M-form becomes a mismatch — and full legal separation is the structural answer.

GLOBAL PORTFOLIO MANAGEMENT

Every corporate centre is always choosing among three moves on its portfolio

GROW

Add or double down

Buy capability or scale, or invest organically — when a business passes all three Porter gates.

NextEra–Dominion · Disney–Marvel · Amazon → AWS

PRUNE

Trim the edges

Exit a peripheral geography or a maturing position and redeploy — active reallocation, not retreat.

Koç → Arçelik-Hitachi JV · Sabancı → Akçansa, CarrefourSA

SEPARATE

Break it up

Full legal separation when the centre no longer improves a business and the discount persists.

GE · DowDuPont · J&J–Kenvue · Honeywell

PART 7

Turkey — Koç · Sabancı · THY

Three structures, one set of frameworks, real 2026 numbers: two diversified holdings and one focused airline.

WHY THESE THREE

A clean natural experiment: hold the country and currency constant, vary corporate scope

Koç Holding	Sabancı Holding	Türk Hava Yolları
Related-linked / unrelated	**Related-linked, narrowing**	**Single / dominant business**
Multi-segment holding: automotive, energy, durables, finance	Five SBUs: banking, energy, materials, digital, retail	One integrated airline — the contrast case

Institutional-void origins. Koç (1963) and Sabancı (1967) diversified when Turkish capital, manager and contract-enforcement markets were thin — the group supplied all three internally. As markets deepen, Khanna & Palepu predict the rationale weakens. THY — never a group — is the counterfactual: a focused Turkish firm accessing global capital, talent and suppliers on its own.

One page of hard numbers before the frameworks — two holdings and one airline, side by side

Dimension	Koç Holding (KCHOL)	Sabancı Holding (SAHOL)	Türk Hava Yolları (THYAO)
Core business scope	Automotive, energy, consumer durables, finance	Banking, energy, materials, digital, retail (5 SBUs)	Scheduled air transport — passenger & cargo (one business)
Ownership structure	Koç family ~63.4% capital / ~55.6% vote	Sabancı family & linked entities; ~53% free float	Türkiye Wealth Fund (TVF) ~49.1% (state); rest free float
FY2025 revenue	~$64.3B (combined)	~TRY 189B (broadly flat YoY)	$24.1B (+6.3%); 92.6M passengers (record)
Q1 2026 revenue	~$16.6B	~TRY 403B	~$6.0B (Q1); capacity discipline on ME routes
Market cap (mid-2026)	~$11.2B	~$4.4B	~$9.8–10.1B
2025–26 key move	Tofaş–Stellantis distribution; ~$3.7B commitment	Akçansa (~$1.1B) & CarrefourSA full exits	Up to 225 Boeing aircraft (~$30B list); 2033 centennial plan

Figures compiled from investor-relations disclosures, KAP filings and FY2025/Q1 2026 materials; FY2025 lira figures are TAS 29 (inflation-accounting) adjusted.

CASE · KOÇ HOLDING

Selective exits inside an active internal capital market

~$64.3B	~$11.2B	~63.4% / 55.6%	Related-linked
FY2025 revenue	Market cap	Family control	Rumelt type

The 2026 moves

- 21 Apr 2026 — Arçelik sells its 60% of the Arçelik-Hitachi Asia-Pacific JV to Hitachi for up to $261M ($205M upfront + $56M over 3 yrs): a textbook refocusing move on the thinnest geography.
- Tüpraş — ~2.1% share transfer to institutions: float & liquidity management, not a strategic exit.
- Tofaş–Stellantis Türkiye distribution deal — the ~$3.7B investment commitment continues.

Read it as... *An active internal capital market: exit a peripheral position, manage a mature core asset's float, keep investing in energy & EV priorities — disciplined pruning, or a core harder to defend than its history suggests?*

A full retail exit and the “Zaimler framing”

~TRY 189B	~$4.4B	~53%	~$9.8B
FY2025 revenue	Market cap	Free float	NAV

The 2026 moves

- 17 Apr 2026 — Carrefour & Sabancı sell their combined 89.28% of CarrefourSA (Sabancı's 57.12%) to A101's operator; CarrefourSA valued ~$325M. A COMPLETE exit from organised food retail.
- Follows the 2025 sale of 39.72% of Akçansa (cement) to Heidelberg Materials for ~$1.1B.
- CEO Kıvanç Zaimler: “We're not selling, we're strengthening our portfolio.” — redeploying toward energy (Enerjisa) and technology.

Read it as… *Strengthening — or hollowing out? Two full exits from mature, cash-generative businesses with no equally-sized redeployment yet. Apply the heartland matrix to what remains.*

CASE · TÜRK HAVA YOLLARI

Single-business discipline as the contrast case

$24.1B (+6.3%)	92.6M	~$9.8–10.1B	~49.1%
FY2025 revenue	Passengers	Market cap	TVF ownership

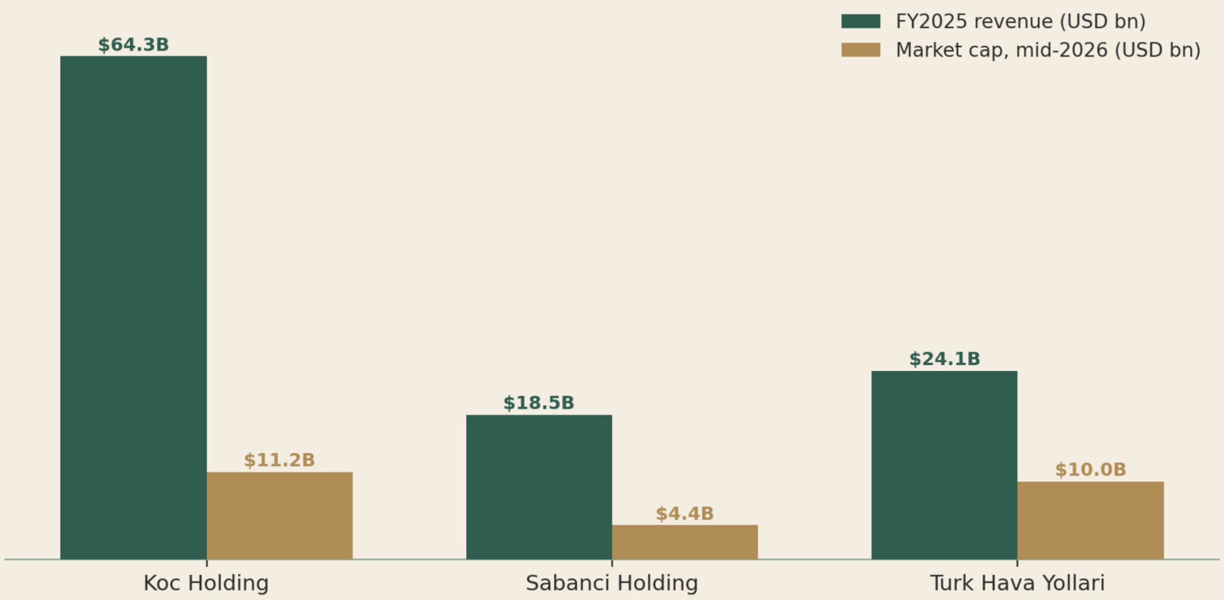
The 2026 moves

- A single integrated airline absorbing a geopolitical shock through capacity discipline, not portfolio diversification.
- Phased Middle-East network restoration in mid-2026 (Abu Dhabi, Dammam, Kuwait, Bahrain) alongside a forward order of up to 225 Boeing aircraft (~$30B list).
- 2033 centennial ambition: 800+ aircraft, 100M passengers, ~$50B revenue.

Read it as... *No corporate-parenting question to answer at all — THY's 2026 challenge is entirely business-level: network, capacity, fleet. The Boeing order is the reader's single largest, most testable cost-of-entry bet.*

THE NUMBERS

The gap between revenue and market cap previews the holding discount to come



Note: Sabanci revenue shown as an illustrative USD-scaled proxy (reported ~TRY 189 bn, TAS 29-adjusted).

Reading the bars

- Koç: enormous combined revenue, modest market cap — the classic holding gap.
- THY: revenue and market cap are close — a focused firm, no sum-of-the-parts to discount.
- Sabancı's small market cap against its NAV is the largest gap of the three.

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Turkish holding discounts run far above the US average — six structural reasons why

1 Weak minority-shareholder protection

Governance discount: minority investors price in limited legal protection.

2 Pyramids & cross-ownership

Layered control structures and thin segment disclosure cut transparency.

3 Low free float & liquidity

Small floats and limited trading depth depress the traded price.

4 High cost of capital

TL macro and currency risk raise the discount rate on future cash flows.

5 Value never crystallised

Family keeps control; the market assumes NAV will not be unlocked.

6 Tax leakage / friction

Dividends and transfers can be taxed again at the holding layer.

Net effect: *the holding trades well below NAV — Koç ~34%, Sabancı ~50%+, vs the ~13–15% US average.*

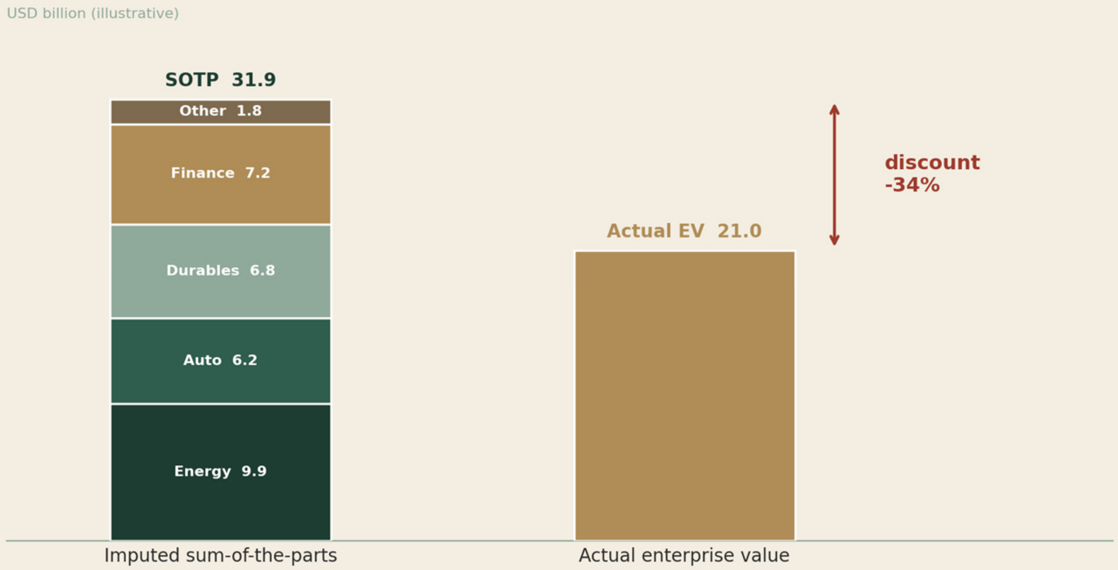
APPLYING THE THEORY

Porter's three tests, applied to the standing decision to hold each portfolio's current scope

Porter test	Koç Holding	Sabancı Holding	Türk Hava Yolları
Attractiveness	Mixed: autos cyclical, refining attractive, banking regulated	Mixed→improving: banking & energy attractive; cement/retail less so	Attractive & improving: Istanbul hub in a competitive industry
Cost of entry	Applies to Tofaş–Stellantis (~$3.7B) & Ford Otosan capex	Runs in reverse: does the sale price capture foregone profit?	The Boeing order (~$30B list) — the biggest, most exposed bet
Better-off	Passes selectively; strong for Ford Otosan, weaker elsewhere	Re-tested in real time — the divestitures ARE the test	N/A in the conglomerate sense; is TVF a better owner than private?

fuller ball = the test is passed more strongly. Koç passes unevenly across a wide scope · Sabancı's tests are being applied live · THY sidesteps corporate scope for one enormous capital bet.

Illustrative application to Koç Holding — a sum-of-the-parts discount

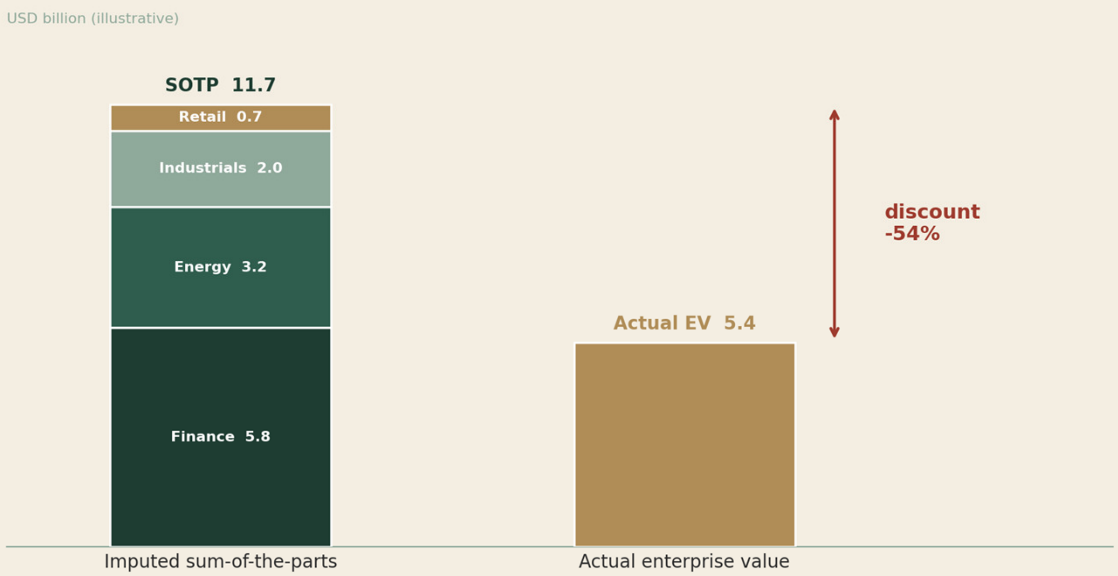


The method, step by step

- For each segment, take a pure-play peer's median EV/Sales multiple.
- Multiply by Koç's own segment sales to impute a stand-alone value.
- Energy 18.0×0.55 = 9.9 · Auto 9.5×0.65 = 6.2 · Durables 8.0×0.85 = 6.8 · Finance 6.5×1.10 = 7.2 · Other 3.0×0.60 = 1.8.
- Imputed sum-of-the-parts = 31.9 vs actual EV ~21.0.

Discount ≈ 1 – e^(ln 21.0/31.9) ≈ 34% — larger than Berger & Ofek's 13–15% US average, in a Turkish setting. Illustrative teaching figures.

Illustrative application to Sabancı Holding — the same method, a wider gap



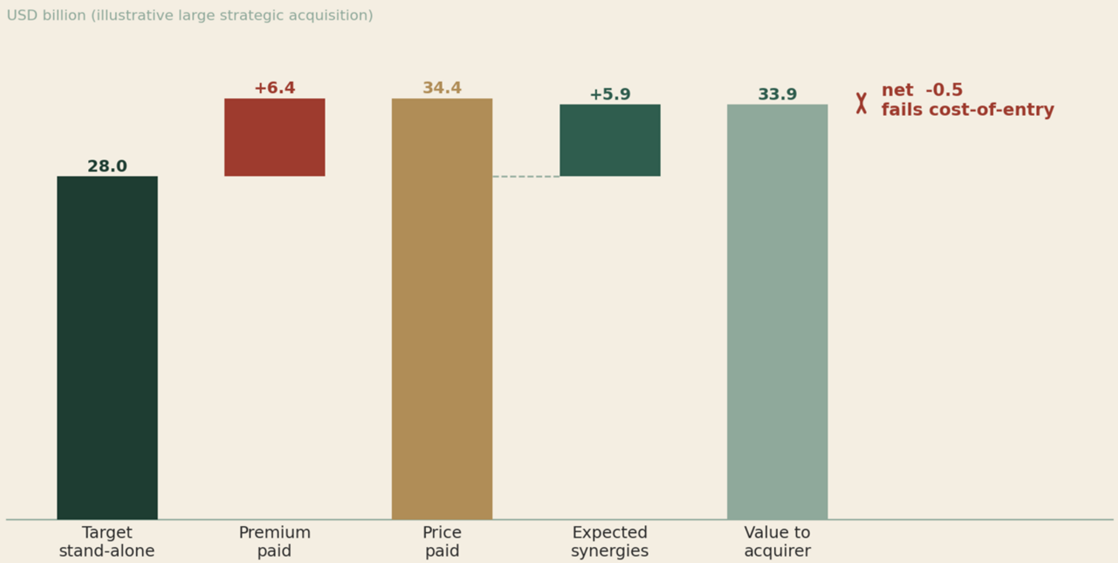
The method, step by step

- Finance 5.0×1.15 = 5.8 · Energy 3.5×0.90 = 3.2 · Industrials 2.8×0.70 = 2.0 · Retail 1.2×0.55 = 0.7.
- Imputed sum-of-the-parts = 11.7 vs actual EV ~5.4.
- One large, easily-valued banking stake anchors the NAV while smaller, lower-multiple segments widen the gap.
- That mix is exactly why Sabancı's discount runs larger than Koç's.

Discount ≈ 1 − e^(ln 5.4/11.7) ≈ 54% — among the largest gaps in the reader. Illustrative teaching figures.

WORKED NUMERICAL EXAMPLE (C)

The cost-of-entry test with numbers — a deal that fails by a small margin



The arithmetic

- Target stand-alone value: 28.0
- Price paid: 34.4 → premium of 6.4 (~23%)
- Cost synergies 4.1 + revenue synergies 1.8 = 5.9
- Net to acquirer = 5.9 − 6.4 = −0.5

On management's own synergy estimates the premium narrowly fails the test — exactly when advocates lean on the most speculative line, revenue synergies. Treat it with skepticism.

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ONE-PAGE SYNTHESIS

Three companies, one set of frameworks — the payoff grid for the Turkey block

Framework	Koç	Sabancı	THY
Rumelt typology	Related-linked / unrelated	Related-linked, narrowing	Single / dominant — cleanest
BCG position	Balanced cows & stars	Bank cash cow anchors NAV	One business — no matrix
Ansoff quadrant	Market development	Diversification (digital)	Market penetration
Parenting fit	Passes selectively, wide set	Passes; re-tested via exits	N/A; TVF-ownership fit instead
Diversification discount	Present (Berger-Ofek)	Present & large (~50–55%)	None — no parts to discount
Institutional-voids relevance	Rationale narrowing	Rationale narrowing	Tests if institutions deepened

Does the argument still justify Koç and Sabancı's scope in 2026?

THE PREDICTION

Khanna & Palepu predict the group structure adds value where capital, labour and product markets are thin — and that as those markets deepen, the benefit shrinks and the plain discount reasserts itself.

THE MIRROR TEST — THY

THY accesses global capital (lease & export-credit finance), a global labour market (pilots, engineers) and world-class suppliers (Boeing) — with no holding-company parent supplying any of it. Evidence that Turkish institutions have deepened enough for a focused firm to compete alone.

The implication: *Koç's and Sabancı's 2026 divestitures can be read as a rational response to genuinely deepening institutions — not merely an imported fashion for "focus."*

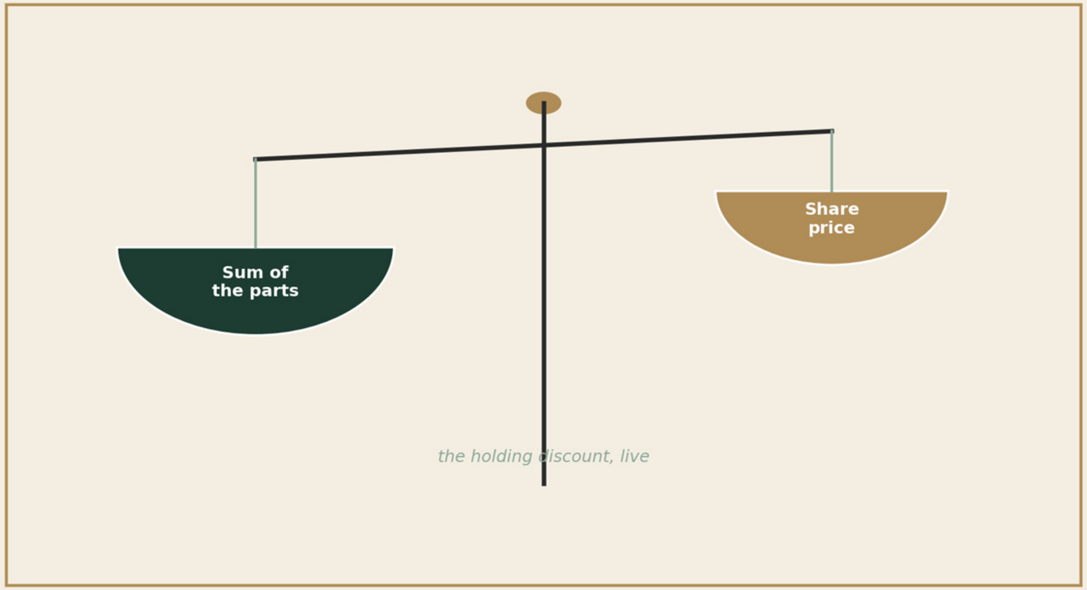
Applying all five lenses to Koç's major subsidiaries — a template you can replicate for any group

Subsidiary	Parenting fit	VRIN / resource	Rumelt	BCG / cash role	Discount / voids test
Arçelik	Near heartland; JV exit trims a peripheral geography	Group finance & brand halo — Valuable & Rare	Dominant / related-constrained	Star / question mark — growth-hungry, competitive white-goods	Separately listed — testable vs Whirlpool, Electrolux
Ford Otosan	Genuine two-parent fit (Koç + Ford)	Gov't relations hard to replicate — VRIN	Related-linked	Star — high growth + strong share, funds itself	JV is the make-vs-buy-vs-JV middle case
Tüpraş	Capital-allocation lens, not operating synergy	Scale & sole-refiner position	Unrelated to the core	Cash cow — funds the group, float managed 2026	Cash cow funding the group; float managed 2026
Yapı Kredi	Financial-services-supporting-industry link	Relationship-based lending in-group	Related-linked	Cash cow / star — banking earnings anchor	The clearest institutional-voids mechanism

Because THY has one business, this five-lens template collapses to a single question: does TVF ownership add or subtract value?

A LIGHT INTERLUDE

The holding discount, weighed



"We are not selling - we are strengthening the portfolio," said every holding on the light side of the scale.

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SYNTHESIS

Same national market, same course — but two fundamentally different management jobs

HOLDING / M-FORM CENTRE

- Job = capital allocation across businesses
- Runs an internal capital market on a hurdle rate
- Sets targets & reviews boards; delegates operations
- Value test = parenting fit for each unit
- Key risk = becoming a passive holder → the discount

Koç · Sabancı (H-form: separate legal entities)

SINGLE-BUSINESS / U-FORM

- Job = compete and win in one product market
- Coordinates functions centrally (ops, network, revenue)
- Decisions integrated, not delegated to divisions
- Value test = defensible cost / differentiation edge
- Key risk = one sector's shock hits the whole firm

THY (one integrated airline)

THE GOVERNING QUESTION

When to hold — and when to focus: the six tests that decide

ADOPT A HOLDING / M-FORM WHEN…

- Businesses pass the parenting-fit test — a real heartland
- Resources are VRIN in each target business
- A shared, transferable core competence exists
- Institutional voids make the internal market genuinely cheaper
- The centre re-allocates capital actively on a hurdle rate

FOCUS / SEPARATE WHEN…

- Units fall in “alien territory” — no fit on either axis
- A persistent diversification discount with no offset
- Rumelt classification is unrelated with no shared skill
- Institutions have deepened — the void rationale has lapsed
- The centre adds cost & bureaucracy, not value

The tests that govern it: parenting fit · resource (VRIN) fit · Rumelt classification · the diversification discount · institutional voids · relevance.

APPENDIX

Global conglomerates in practice

Eight vignettes across nine decades — then the comparative tools. Each case runs the same frameworks.

GLOBAL VIGNETTE · GENERAL ELECTRIC

The Welch conglomerate, and the 2021–2024 three-way break-up

Rumelt: Unrelated / related-linked

Background

Under Jack Welch (1981–2001) GE spanned jet engines, power, medical imaging, GE Capital and NBC; market cap rose ~30×. 2008 exposed GE Capital's fragility, and a decade of simplification followed.

Strategic decision

Nov 2021: the board splits GE into three public companies. GE HealthCare separated Jan 2023; GE Vernova (energy) and GE Aerospace completed the split Apr 2024.

Outcome

Within 12–18 months each successor traded well above the pre-break price. GE Aerospace re-rated toward a pure-play multiple once investors stopped pricing energy & healthcare risk alongside it.

Discuss: *Would GE's three businesses in 2015 have been heartland or alien territory to the corporate centre — and had your answer changed by 2024?*

The enduring conglomerate that trades at a premium, not a discount

Rumelt: Unrelated (conglomerate)

Background

From a failing textile mill, Buffett (from 1965) built a vast portfolio: insurance (GEICO, Gen Re), rail (BNSF), energy, industrials and consumer brands, plus large minority equity stakes.

Strategic decision

The purest surviving unrelated-conglomerate model: a tiny HQ, near-total subsidiary autonomy, and capital allocation concentrated in Buffett — with insurance float as the low-cost capital engine.

Outcome

Berkshire has traded at a premium to a simple sum-of-the-parts for much of its history — the standard counter-example to the discount, attributed to Buffett's demonstrated allocation skill.

Discuss: *How much of the premium is the structure versus the arguably non-replicable skill of its allocators — and what happens once Buffett steps back?*

Buying great IP, then extracting more value than the studios could alone

Rumelt: Related-constrained

Background

Disney entered the 2000s with an underperforming animation studio and a global distribution, licensing, parks and (later) streaming infrastructure looking for premium content.

Strategic decision

Pixar (2006, ~$7.4B), Marvel (2009, ~$4B) and Lucasfilm (2012, ~$4.05B) — acquiring proven creative IP, not cost synergies, to run through Disney's distribution machine.

Outcome

Among the most successful media acquisitions ever: the MCU alone generated tens of billions in box office, and the franchises anchored theme-park expansion — the clearest better-off test working as intended.

Discuss: *Disney paid full prices. Using the cost-of-entry test, what had to be true for those prices to still leave value for Disney's shareholders?*

GLOBAL VIGNETTE · AMAZON

AWS — a new product, in a new market, built on an internal capability

Rumelt: Related-linked → unrelated

Background

Amazon grew from an online bookseller through low-risk product- and market-development moves, all on one competence: large-scale e-commerce logistics, search and relentless operational metrics.

Strategic decision

In 2006 it launched AWS — repackaging the infrastructure built to run its own retail at extreme scale, and selling it to enterprise & developer customers with no prior Amazon relationship: pure Ansoff diversification.

Outcome

Within a decade AWS became the dominant cloud provider and Amazon's largest source of operating profit — a diversification spun out of an internal capability that outgrew the core that spawned it.

Discuss: *What specific competence made AWS a lower-risk bet than the raw Ansoff diversification quadrant would suggest?*

The 1995 break-up of a Cold War-era unrelated conglomerate

Rumelt: Unrelated (conglomerate)

Background

Under Harold Geneen (1959–77) ITT grew into hundreds of subsidiaries — telecoms, Sheraton hotels, Hartford insurance, auto parts, defence electronics — a paradigmatic unrelated conglomerate.

Strategic decision

By 1995, under Rand Araskog, the board judged the breadth a persistent discount with no parenting advantage, and split ITT three ways: hospitality, insurance (The Hartford) and industrial.

Outcome

Each successor pursued a coherent, industry-specific strategy and was valued against relevant peers — an early, influential data point for the diversification-discount case, a quarter-century before GE.

Discuss: *ITT's metrics-driven central control was a triumph in the 1970s and a liability by the 1990s. What changed — the businesses, the capital markets, or management practice?*

Merge in 2017 in order to split three ways in 2019

Rumelt: Related-linked

Background

Dow and DuPont, two of the oldest US chemicals firms, each spanned materials science, specialty chemicals and agriculture — under activist pressure (Trian, Third Point) to re-sort along cleaner lines.

Strategic decision

They merged in Aug 2017 as an explicitly transitional holding company, structured from day one to separate into three focused firms organised by agriculture, materials and specialty products.

Outcome

The 2019 split produced Dow, Corteva and DuPont — one of the clearest cases of merging in order to re-sort assets into more focused successors than direct asset sales would have allowed.

Discuss: *Under Porter's better-off test, was the 2015–17 merger itself value-creating, or merely a tax-efficient mechanism for a re-sorting achievable without ever merging?*

The 2023 Kenvue spin-off — a tax-efficient separation template

Rumelt: Related-linked → focus

Background

J&J spanned pharmaceuticals, medical devices and consumer health (Tylenol, Band-Aid, Listerine, Neutrogena) — segments with very different growth, capital-intensity and investor bases.

Strategic decision

In 2023 J&J executed a two-stage split: Kenvue's IPO in May (~$4.2B raised, J&J retaining ~90%), then a full exit via an August exchange offer of its remaining ~80.1% stake.

Outcome

Kenvue now trades against consumer-staples peers while J&J presents a focused pharma-and-devices case — though Kenvue inherited talc-litigation risk without the former parent's backstop.

Discuss: *Why choose the two-stage IPO-then-exchange-offer over a simple pro-rata spin-off — and what does the inherited litigation say about using separation to isolate risk?*

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GLOBAL VIGNETTE · HONEYWELL

The 2025–2026 three-way split — a live, unresolved case

Rumelt: Related-linked

Background

Honeywell entered the 2020s spanning aerospace, building automation, and specialty materials & chemicals — drawing activist scrutiny (Elliott) on the same grounds as GE and DowDuPont.

Strategic decision

It announced a three-way separation; the specialty-materials leg, Solstice Advanced Materials, was announced first (Oct 2024) and spun off Oct 2025. The Aerospace/Automation split is targeted for 2H 2026.

Outcome

Solstice's early trading and sell-side commentary track the same focus-premium pattern seen at GE — but with one leg done and two pending, this is a live case, paired deliberately with Koç and Sabancı.

Discuss: *Does the sequencing of a multi-way break-up matter strategically, or is it mainly a function of which business is easiest to carve out first?*

EIGHT MORE, ON ONE SPECTRUM

From clearest premium to clearest discount — where does each diversified company sit?

LVMH

Premium · related-constrained

One luxury resource base; trades above single-brand peers

Why

One craftsmanship & brand-building competence transfers across ~75 maisons — the group is worth more than the brands standalone.

Reliance

Market-validated segments

Meta & Google stakes validated Jio's stand-alone value

Why

Outside investors (Meta, Google, KKR) bought into Jio and Retail at high standalone valuations — the segments are visibly not hidden.

Alphabet

Discount avoided by scale

“Other Bets” burn is a rounding error against search cash

Why

Search & ads are so large and cash-rich that the loss-making Other Bets are immaterial — no discount on the whole.

Siemens

Proactive simplification

Sequential spin-offs (Healthineers, Energy, Gamesa)

Why

Management spun off Healthineers, Energy and Gamesa pre-emptively — shrinking the discount before the market could impose it.

Meta · Reality Labs

Unresolved live test

$45–60B cumulative loss — optionality or escalation?

Why

A ~$45–60B cumulative Reality Labs loss is a bet the market hasn't yet judged visionary optionality or value destruction.

Tata Group

Persistent discount

TCS alone worth more than the rest of the group combined

Why

TCS alone exceeds the whole listed group's value; cross-holdings and many weak units drag the sum down.

Samsung

Governance discount

Chaebol cross-shareholding reads as entrenchment

Why

Circular cross-shareholdings and family control entrench management and dilute minorities — the classic 'Korea discount'.

3M

Discount + liability overhang

Solventum spin-off amid PFAS & earplug litigation

Why

Massive PFAS and earplug litigation liabilities overhang the value; the Solventum spin-off tries to release trapped worth.

clearest premium ⟷ *clearest discount*

COMPARATIVE TABLE · 11.1

Major global conglomerates: sectors, strategy type, and recent portfolio action

Company	Primary sectors	Rumelt type	Recent portfolio action (2015–2026)
General Electric	Aerospace, energy, healthcare, finance	Unrelated / related-linked	Three-way split into GE Aerospace, Vernova, HealthCare (2023–24)
Berkshire Hathaway	Insurance, rail, energy, industrials	Unrelated (conglomerate)	No separation; ongoing acquisition; Abel/Jain succession
Walt Disney	Media, parks, streaming, products	Related-constrained	IP-driven M&A (Pixar, Marvel, Lucasfilm); Disney+ build-out
Honeywell	Aerospace, automation, materials	Related-linked	Three-way split; Solstice spun Oct 2025, rest pending 2H26
DowDuPont	Chemicals, agriculture, materials	Related-linked	Merge-then-split into Dow, Corteva, DuPont (2017→2019)

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DECISION FRAMEWORK · 11.2

Should we diversify? Porter's three tests as sequential gates — a NO at any gate rejects the move

Gate 1 · Attractiveness

Is the industry structurally attractive, or can it be made so?

NO → do not enter, at any price

Gate 2 · Cost of entry

Does entry leave positive NPV after capitalising all synergies?

NO → renegotiate, or walk

Gate 3 · Better-off

Are the business AND the portfolio better off inside this parent?

NO → JV, minority stake, or nothing

Gate 4 (practitioner add-on): a post-close synergy-realisation review at 12 and 24 months — because most value is destroyed in integration, not at pricing. The same three gates run in reverse decide when to SEPARATE.

TIMELINE · 11.3

Major conglomerate break-ups, 1995–2026 — the pace accelerates, the mechanisms multiply

Year	Company	Break-up / structural event	What they did / why
1995	**ITT Corporation**	Three-way split into ITT (hospitality), ITT Hartford (insurance), ITT Industries	Unwound an unfocused Cold-War conglomerate so each unit is valued on its own logic
1996	**AT&T Corp.**	Trivestiture into AT&T, Lucent Technologies, and NCR	Separated equipment (Lucent) from services as the technologies diverged
2002	**Tyco International**	Multi-year portfolio simplification after the Kozlowski-era scandal	Shed unrelated sprawl to restore governance and refocus the group
2019	**DowDuPont**	Completed three-way split into Dow, Corteva, and DuPont	Merged then re-sorted into cleaner pure-plays under activist pressure
2023	**Johnson & Johnson**	Kenvue consumer-health separation via IPO-plus-exchange-offer	Spun slow-growth consumer health away from pharma and devices
2024	**General Electric**	Final split into GE Aerospace and GE Vernova (HealthCare separated 2023)	Ended the century-old conglomerate so each business re-rates to a pure-play multiple
2025–26	**Honeywell**	Solstice materials spun Oct 2025; Aerospace/Automation split pending 2H26	Activist-driven three-way split, still in progress

Mechanisms have diversified too: pure spin-offs (GE, Honeywell), IPO-plus-exchange-offer split-offs (Kenvue), and merge-then-split sequences (DowDuPont) are all board-tested structures.

COME READY TO ARGUE

Six questions that turn today's frameworks into a defensible position

1

Plot Koç's subsidiaries (Arçelik, Tüpraş, Ford Otosan, Yapı Kredi) on the heartland matrix. Does the 2026 Arçelik-Hitachi exit match your placement?

2

Is Sabancı's exit programme strengthening the portfolio, or hollowing out the conglomerate? Use the diversification-discount evidence.

3

Sabancı's implied discount (~50–55%) is larger than Koç's. Give one portfolio-composition and one governance explanation.

4

Is THY's Boeing order a purer cost-of-entry test than any Koç or Sabancı decision — or harder to apply without an internal capital market?

5

Which 2026 megadeal (NextEra, McCormick, KONE, Sysco) is most likely to reward the acquirer's shareholders, and why?

6

Does the institutional-voids logic still justify Koç and Sabancı's scope in 2026 — and what evidence would change your answer?

KEY TAKEAWAYS

One page to self-test: can you explain each box before the next session?

Corporate ≠ business

Ownership advantage vs competitive advantage — two different jobs.

Eight lenses, one question

Rumelt, Porter, Prahalad-Hamel, Chandler, Williamson, Ansoff, Goold-Campbell, BCG.

The discount is about discipline

The market prices active re-allocation, not diversification itself.

Capital allocation is the centre

One decision node, one hurdle rate, five uses of capital.

M&A on trial

Targets win; acquirers break even; integration is where value dies.

Turkey, live

Koç & Sabancı must prove parenting; THY is the focused counterfactual.

THE ONE THING TO REMEMBER

The market does not price diversification.

It prices discipline.

A diversified parent earns its keep only as an active, disciplined re-allocator of capital that is the best available owner of each business it holds.

Come to Session 1 ready to argue

1. Sabancı's CEO calls the CarrefourSA & Akçansa exits "strengthening the portfolio." Is it strengthening — or hollowing out?
2. Does Khanna & Palepu's institutional-voids logic still justify Koç and Sabancı's scope in 2026 — and what evidence would change your answer?

ASSIGNMENTS & EXPECTATIONS

Before next session: what's due, and how to work

GRADED · GROUP · 15%

GW1 — Corporate Portfolio & Capital-Allocation Diagnostic

Due: start of Session 3

Apply this week's frameworks (Rumelt type, parenting fit, BCG, diversification-discount estimate, Porter's three tests) to diagnose one assigned holding's portfolio and recommend keep / grow / prune / separate for each major business, with a capital-allocation view.

PREP · GROUP · UNGRADED

Investment Committee Simulation — prep

Due: before Session 2

Come prepared to argue a buy / hold / exit case for an assigned business as an investment-committee member.

Working groups & expectations

- Groups of 3–4 students; each member owns one framework lens.
- One integrated deck / memo per group — not stitched individual parts.
- Cite primary sources (KAP filings, IR releases, 10-Ks) for any figure.

HOW TO WORK

Do's and don'ts: a defensible thesis beats a described company

DO

- Pick a defensible thesis and use the frameworks as evidence.
- Compute an actual discount number and stress-test the peer set.
- Tie every recommendation to capital allocation.

DON'T

- Describe the company without a recommendation.
- Treat the frameworks as a checklist to recite.
- Quote a discount figure without stating your method.
- Hand in four separate mini-analyses stapled together.

SOURCES & FURTHER READING

Corporate Strategy Foundations — Week 1

Theory

Rumelt (1974, 1982); Porter (1987); Prahalad & Hamel (1990)

Chandler (1962); Williamson (1975); Ansoff (1957, 1965)

Goold & Campbell (1994); Henderson / BCG (1970); Barney (1991)

Berger & Ofek (1995); Lang & Stulz (1994); Villalonga (2004)

Campa & Kedia (2002); Khanna & Palepu (1997, 2000)

2026 data & cases

PwC & Bain 2026 mid-year M&A outlooks; CNBC, Forbes, Benzinga deal coverage

Koç, Sabancı & THY investor-relations, KAP filings, FY2025 / Q1 2026 reports

Bloomberg, Daily Sabah, Hürriyet on the 2026 Arçelik & CarrefourSA exits

GE, Berkshire, Disney, Amazon, ITT, DowDuPont, J&J/Kenvue, Honeywell filings

Illustrative financial figures are teaching estimates; verify against primary filings before citing in graded work.