

Can Business Groups Survive with
Institutional Development?
- Hansoge, Marisetty, Singh

Discussion by
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Summary of the paper

- Model the relative advantage and adaptation strategy of business groups when faced with higher product market competition
- Supporting empirical results
 - Business groups continue to be value enhancing in later period of the sample
 - Groups that expand into related areas in presence of higher product market competition lose value
 - Groups that have deep pockets and/or expand into unrelated areas add value

Comment: Pitch of the paper

- Paper is pitched as whether business groups can survive “Institutional development”
- This usually means legal systems, financial market development etc.
- This paper takes institutional development as *product market competition laws*
- Can simply pitch it as effect of higher product market competition on business groups

Link between theory and empirics

■ *Diversification*

- Modeled through cost complementarity

- $C = c(q_{1B} + q_{2B}) - \omega q_{1B} q_{2B}$

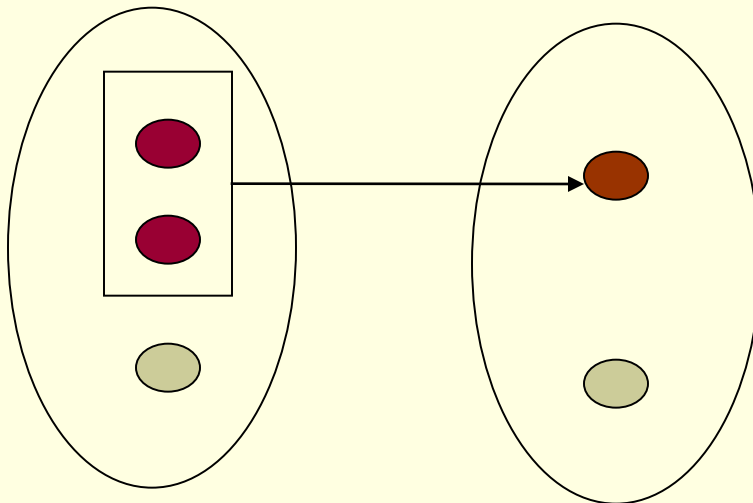
- In empirical work, this is *entropy* calculated at 5 digit NIC level: $-\sum p_i \log(p_i)$

■ *Relatedness / Unrelatedness*

- Related = products are substitutes Ok!
- Unrelated = products are complements ... Why?

Model: some intuition

- Business Group in related industries is not viable
 - Anti competition laws hurt more when BG in in related industry
- Cournot competition: firms choose quantities
- Consider extreme relatedness ... same product



Total quantity goes down

Price goes up

Profit of one in transformed industry is higher than earlier. But less than double.

Furthermore, consumers are hurt

Comments about empirics

- Include firm / group and year fixed effects
- Increase in financial firms within groups because of handing out banking licenses later in the sample?
 - Might not have been purely a group choice
 - RBI choice might reflect which groups are “good”
- Growth opportunity control: depreciation/sales
- Group liquidity measure is negative on average!
 - Total net working capital (excluding inventories) and cash flow from operations of all members

Conclusion

- Interesting study with intriguing results
- I enjoyed reading the paper, learnt a lot, and look forward to reading the next version!