

IIM Trichy Research Seminar Series

Central to the academic life is the spirit of enquiry, conversation and debate. The primary intention of the IIM Trichy Research Seminar Series is to nurture this spirit amongst the Fellow Program (FP) community. This initiative was conceptualized by and is administered by the FP students.



Session 14

Date: 27nd January 2020, Venue: CR013, Time: 2:30 PM

Product Market Development and Business Group Affiliation Value: Evidence from an Emerging Market


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Category: Work in Progress

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Abstract

In this paper, we attempt to understand whether business group affiliation continues to create value with improvements in institutional environment, especially with increased product market competition. This question comes at a time when there is growing awareness that business groups dominate product markets even in developed economies (Boutin et al., 2013) and their existence is not limited to poor institutional environments (Khanna and Palepu, 2000). We exploit an exogenous regulation in India that aims to penalize anti-competitive practices of complex business structures akin to business groups. Using around 36,500 firm year observations, spanning 23 years, we find that business group affiliation value diminishes with improvements in product market environment. The effect is more significant for business groups that diversify through vertical integration. However, business groups with deep pockets continue to sustain value creation, indicating their aggressive strategies that restrict new entrants (Boutin et al., 2013).

<u>Broad Theme of Discussion</u>	<u>The Inquisitives</u>
<ul style="list-style-type: none"> • Writing “India” rather than “Emerging Markets” in the title, pros and cons <ul style="list-style-type: none"> • Definition of horizontal relationship in competition Act • Classification of environment as high/low competition • Rationale behind considering 2 or 4-digit NIC code from Prowess database <ul style="list-style-type: none"> • Lag year(s) between the passing of the act and its actual applicability • Comparing results of the study to other emerging markets 	 <p style="text-align: right;"><i>Sumit (Finance and Accounting)</i></p>
<ul style="list-style-type: none"> • Implicit or explicit contracts • Loss of value for a business group in horizontal or vertical integration <ul style="list-style-type: none"> • Grouping BG affiliated firms based on source of input <ul style="list-style-type: none"> • OEM identification in 4-digit NIC code • Considering M&As in the integration value calculation • WinsORIZATION leading to removal of relevant datapoint(s) 	 <p style="text-align: right;"><i>Vimal (ISA)</i></p>
<ul style="list-style-type: none"> • Consideration of the firm affiliated to a BG with a crucial supplier outside the BG • BG related transactions and the role of Competition commission of India <ul style="list-style-type: none"> • Institutional theory and Institutional void theory 	 <p style="text-align: right;"><i>Rahul (OB & HRM)</i></p>
<ul style="list-style-type: none"> • Increase or decrease in value post horizontal integration 	 <p style="text-align: right;"><i>Narendra (Finance and Accounting)</i></p>
<ul style="list-style-type: none"> • Calculation of the ratio of Kaplan and Zingales Index (KZI) to Whited and Wu Index (WWI) for each firm and group level 	 <p style="text-align: right;"><i>Goutam (Economics)</i></p>