ABSTRACT

Business group is a set of companies which are owned and/or controlled by a common entity and are connected to each other through either economic or social ties. Business groups are present in many parts of the world and play an important role in the Indian economy as well. Affiliated companies of Indian business groups accounted for three quarters of the total assets and net sales for the recent year.

Many potential benefits from the business group parent that accrue to the affiliated companies in a business group are studied in the literature. Reduction in transaction costs and agency costs, compensation of institutional deficiencies are some of the benefits discussed in the literature. There are other reasons like historical and political reasons that help business groups. Many of the benefits are said to be contextual. Similarly, there are certain costs associated with the business group affiliated companies in being affiliated to their group parent. In the light of these affiliation benefits and costs, one interesting question that arises is whether the net effect of business group affiliation is beneficial or not. An extension of this objective is whether the effect of affiliation on the performance changes as the institutional context changes h56 0 gcs me instit2(ss g co)-7.6(m)77tSTRACT r not. An e3 i Rs wec023Tw2(srTDe1 T96

four different sub-periods. This is also performed using different sub-samples based on group characteristics. Secondly, to determine the importance of different factors on the performance of business group affiliated companies, variance in the performance of business group affiliated companies is examined to estimate the contribution of different effects from above mentioned sources. This is also performed in case of different sub-samples based on group characteristics and sub-periods.

Context for this work is set in India for the reasons that there are number of business groups as well as unaffiliated companies. India has also undergone policy reforms in the recent past. These presented an ideal setting for inquiring questions emanating from above objectives. Data from secondary database Prowess from Centre for Monitoring Indian Economy (CMIE) Pvt. Limited is used in this study. Data of recent twelve-year period, financial year 1995-96 to financial year 2006-07, is used. Companies in the database are categorized into three different heads that of business group affiliated, unaffiliated and thirdly 'other' categories. Universe level dataset consisting of 42,757 observations belonging to 5,597 companies is constructed by applying different criteria drawn from the literature.

From the universe level dataset, sample for business group affiliated and unaffiliated companies was drawn on the condition that the company occurs for all twelve years of the study period. This is done so to have the

Results from our study indicate that larger groups grown faster than smaller ones. When compared, it is unaffiliated companies that have grown faster than affiliated during the study period. When comparison of mean performances of affiliated and unaffiliated over four sub-periods are performed, performance advantage in general has shifted from affiliated to unaffiliated over years. Our study has also found that when age, size, industry are controlled, group affiliated companies have performed significantly poorer in comparison to unaffiliated companies during latter three sub-periods. During the first sub-period, performance of group affiliated appears better but this could not be established with significance. Thus, transition in the effect of group affiliation has happened during our study period. As the institutional context evolved during post-liberalization period, effect of business group affiliation has changed from being beneficial in the beginning of the period to a liability by the end of the period.

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