

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

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Summary of the paper

- This paper studies the effect of the Competition Act (2002) on the value of business groups using the data from 1990-2012.
- After the Act (2000), the market valuation of BGs is lower in particular in vertical groups compared with non-groups.
- BGs with deep pocket, however, are resilient.
- The paper concludes that competition destroys the value creating by business groups.

The family behind the business group



(From left) Aditya Birla, Kumar Mangalam, G.D. Birla (the founder) and B. K. Birla

Is the Competition Act, 2002 really effective?

- To prohibit the agreements or practices that restricts free trading and also the competition between two business entities
- To ban the abusive situation of the market monopoly
- To provide the opportunity to the entrepreneur for the competition in the market
- To have the international support and enforcement network across the world
- To prevent from anti-competition practices and to promote a fair and healthy competition in the market.



सत्यमेव जयते

Is the Competition Act, 2002 really effective?

- Has the law changed the business environments?
- Does India become more competitive?
- Does it affect operations of big business groups?
-
- The power of business groups in India
- Could the families lobby and get away with what they want?



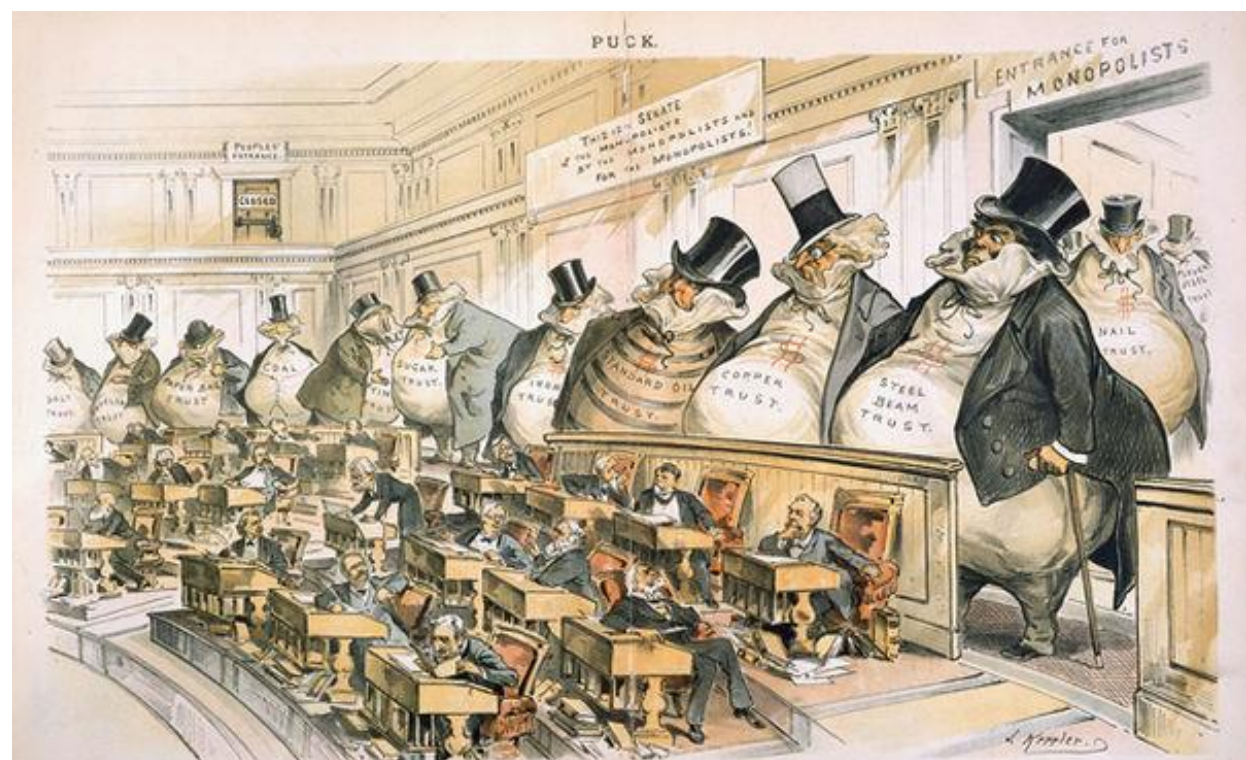
सत्यमेव जयते

Sherman Antitrust Act (1890)

In 1911 the Supreme Court ruled that Standard had violated the Sherman Act

In 1982 the Reagan administration used the Sherman Act to break up AT&T

In 1999 a coalition of 19 states and the federal Justice Department sued Microsoft.



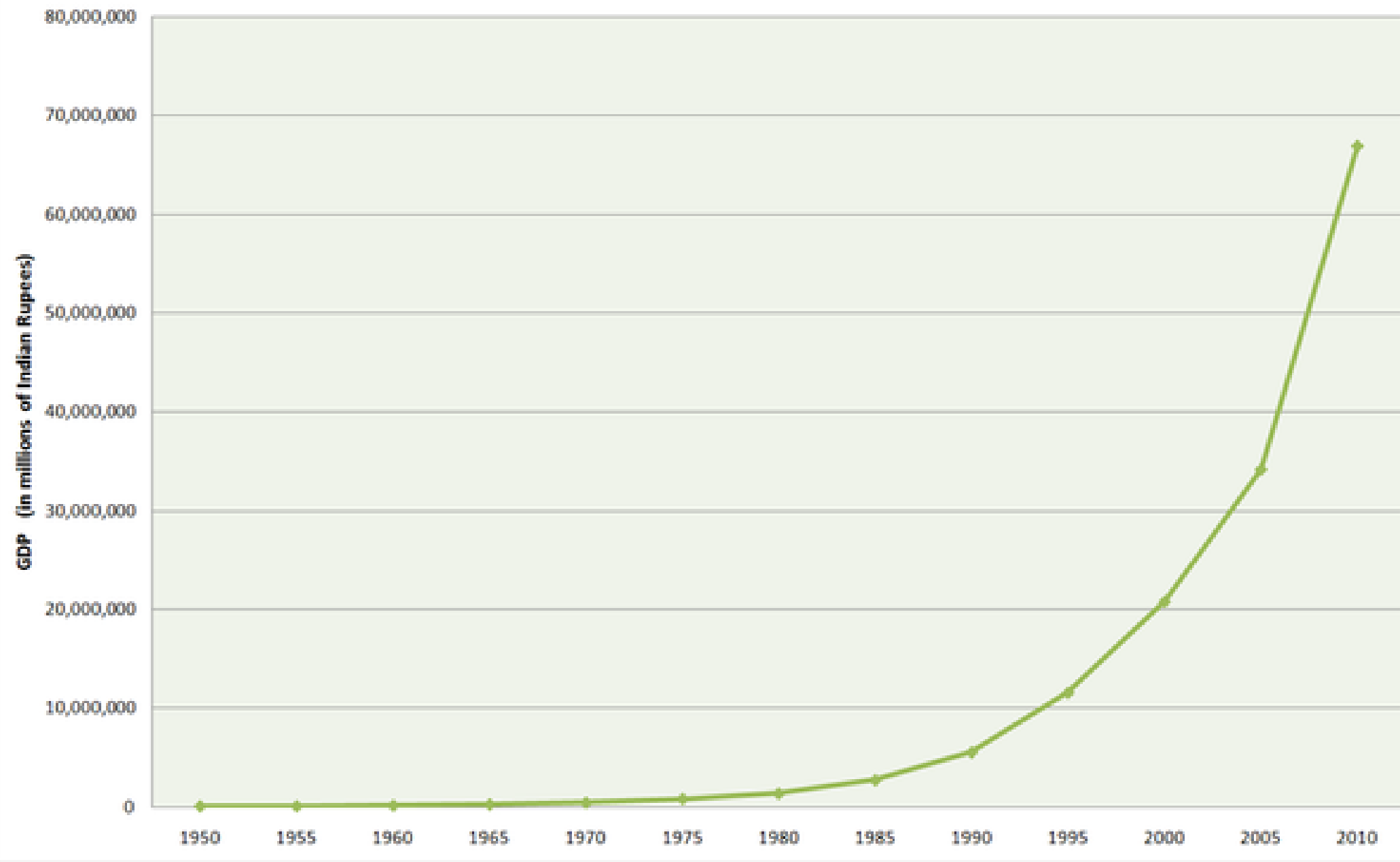
- Sherman Antitrust Act (1890): Prohibits "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce"
- The Clayton Act (1914) & the Federal Trade Commission Act (1914): Banning "unfair methods of competition" and "unfair or deceptive acts or practices."
- Japan: Banks were prohibited from holding shares for more than 5% (1985)

Liberalization (since 1991)



- **THE GOLDEN SUMMER OF 1991**
- Economic revolution
- Dismantled license raj
- Free import controls
- Opened country to foreign investment
- Privatised banking, airlines, power, petroleum, telecom, postal sectors
- Tax rates came down
- Set up Foreign Investment Proposal Board

India - Gross Domestic Product



- Has India changed?
 - in terms of institutions & business landscape







500px.com/photo/62325167



Bengaluru International Airport, Bangalore

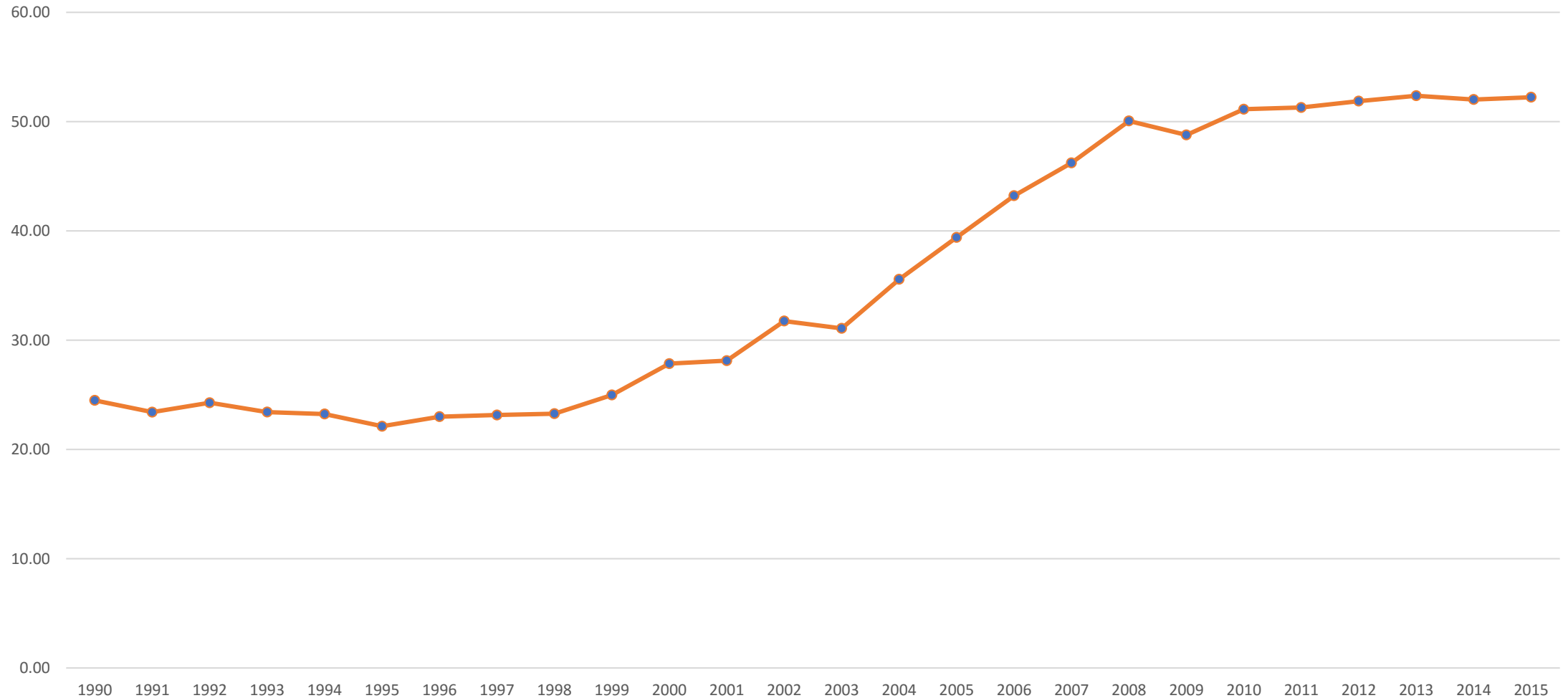
Mobile/ Internet Economy



India has more than 243 mil internet users (2014), more than the US and second only to China

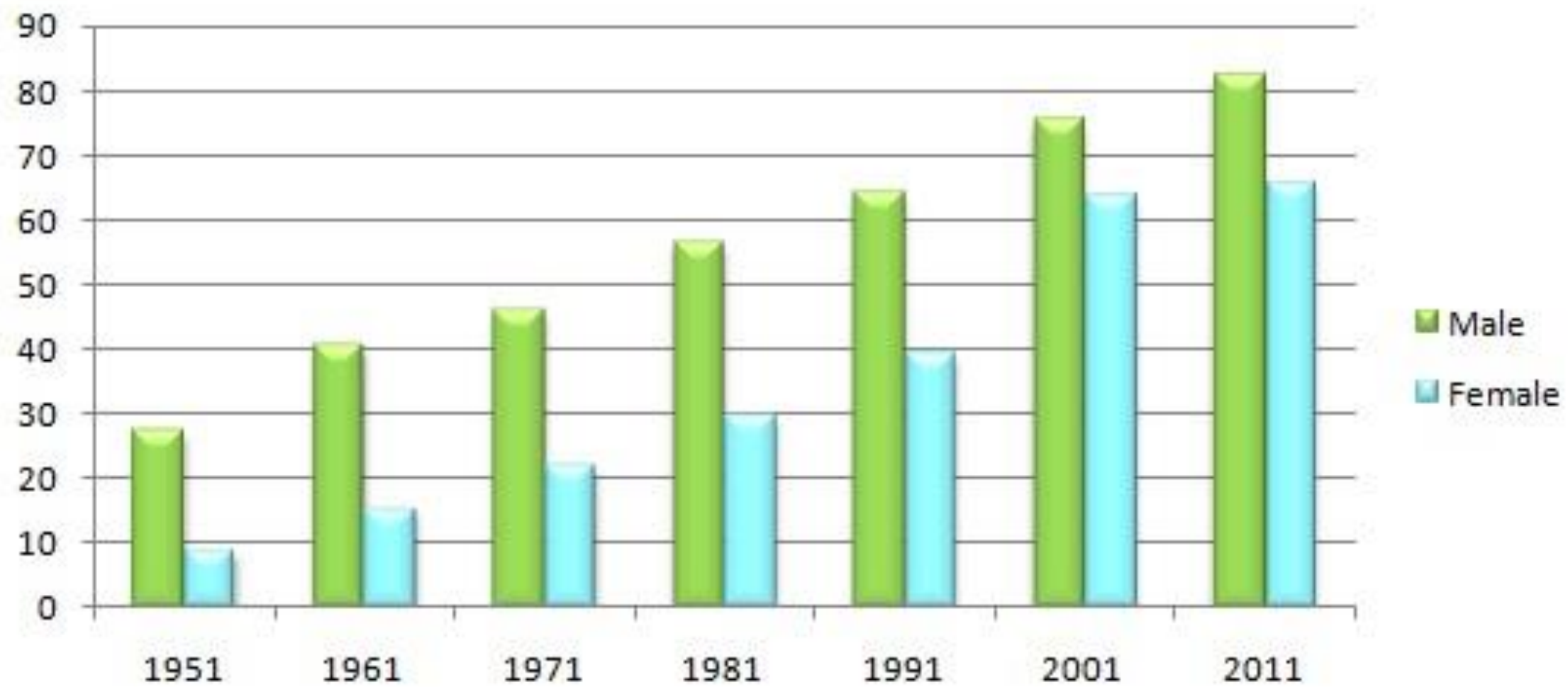
Credit to Private Sector/GDP (%)

Domestic Credit to Private Sector/GDP

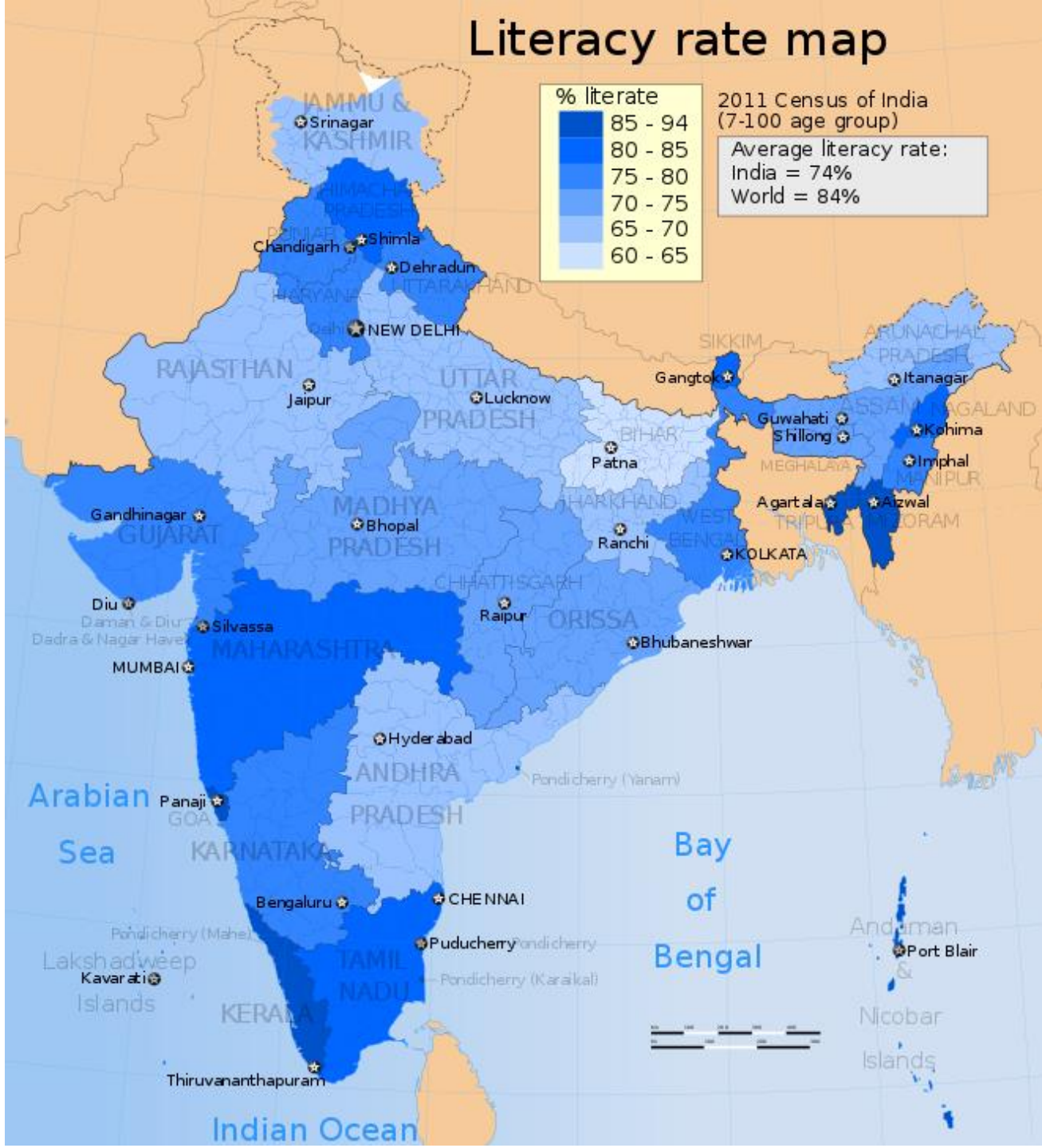


<http://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?page=6>

Literacy Rate in India : 1951-2011



Literacy rate map



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India, Ranked 79, Less Corrupt Than Its Neighbours Except Bhutan, Says Transparency International

But slips by three ranks compared to last year but shares the position with China

INDIA'S TOP 20 BUSINESS GROUPS BY ASSETS

1951		1990		2016	
Rank	Business group	Rank	Business group	Rank	Business group
1	Tata	1	Tata (excl ACC)*	1	Tata
2	Birla	2	Birla	2	Mukesh Ambani
3	Martin Bum	3	Ambani	3	Birla AV
4	Sahu Jain	4	JK Singhanian	4	Anil Ambani
5	Bird Heilgers	5	Thapar	5	Vedanta
6	Andrew Yule	6	Mafatlal	6	Bharti
7	Shriram	7	Bajaj	7	L&T
8	Mafatlal	8	Modi	8	Adani
9	Kasturbhai Lalbhai	9	MA Chidambaram	9	HDFC
10	JK Singhanian	10	TVS	10	Mahindra
11	Walchand	11	Shriram	11	ICICI
12	Thapar	12	UB	12	OP Jindal
13	Bangur	13	Bangur	13	JSW GROUP
14	Khatau	14	Kirloskar	14	Jaypee Group
15	Indra Singh	15	Walchand	15	Infosys
16	Seshayee	16	Mahindra	16	Wipro
17	Ramakrishna	17	Goenka	17	DLF
18	Kirloskar	18	Nanda (Escorts)	18	Axis Bank
19	Mahindra	19	Lalbhai	19	GMR
20	Shapoorji	20	Ruia (Essar)	20	Rahul Bajaj

*Sources for data for 1990 and 1951 are RK Hazari's The Structure of the Corporate Private Sector: A Study of Concentration, Ownership and Control, Gita Piram al's Big business and entrepreneurship in Seminar, August 2003 "; 2016 figures based on data from Capitaline database. Financial figures have been adjusted for listed subsidiaries of key group companies. For bank and financial companies networth has been taken into consideration instead of total assets

- Business groups as an organizational form persisted.
- High turnover in BGs.
- Most of the old money did not last
 - Tata
 - Ambani
 - Birla
 - Bajaj

The Hypotheses: Why business groups?

- **The rent seeking hypothesis**
 - Business groups excel at doing deals with politicians and attain their position through political connections
- **The entrepreneurial ability in handling the licensing restrictions hypothesis**
 - The families that could absorb the huge fixed cost of retaining the bureaucratic expertise needed to navigate the maze persist as business groups.
- **The institutional gap hypothesis**
 - Business groups persist because they bridge institutional voids created by dysfunctional capital, labor, and product markets, and weak institutions.
- **The genuine entrepreneurship hypothesis**
 - Individuals with entrepreneurial and innovative skills to compensate for their relative lack of political influence prosper and persist as business groups.

Interesting results from the paper

- Business groups outperform non groups.
- Older firms have lower firm value.

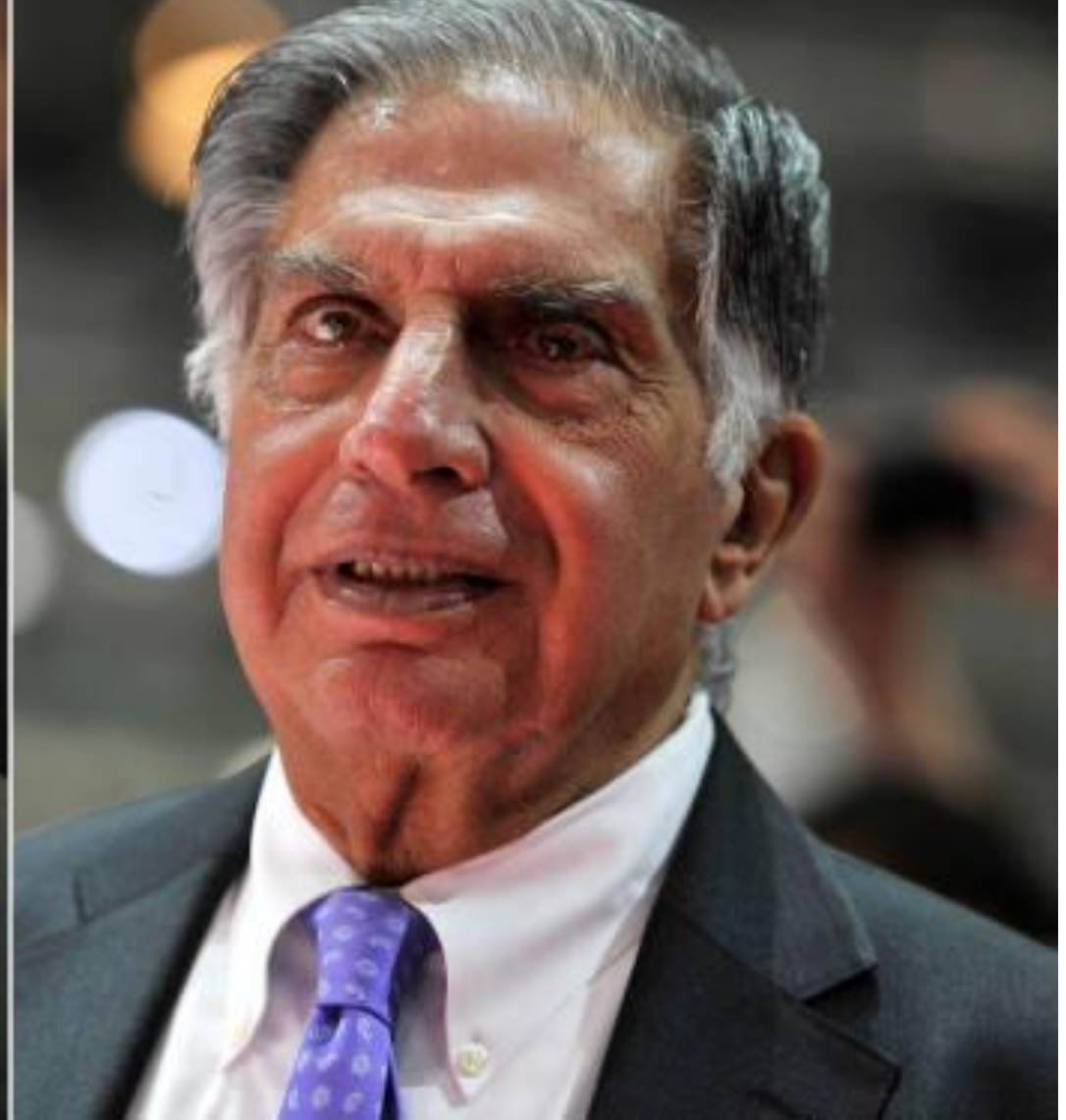
The founder effect



Founder of
Wipro



Could it be that it is due to succession failure?



Cyrus Mistry v Ratan Tata

Birla group patriarch, BK Birla: still active at 89

- “I would like to leave when I’m 90,” but my grandson (Kumar Mangalam Birla) insisted that I should go on.”
- BK Birla has interacted with shareholders and attended each and every AGM of Kesoram since 1937.
- He reached “Birla Building” at 9.00 am in the morning and is at work till 3.30 pm in the afternoon.

Interview in 2009



Kumar Mangalam Birla (left) and his grandfather, B K Birla, hold 57% in Pilani Investment (the group’s holding company)

The idiot son problem?

- Niraj Bajaj: Chairman and MD of Mukand, steel products firm
- Kushagra Bajaj, MD of Bajaj Hindusthan
- Rajiv Bajaj and Sanjiv Bajaj: MD and executive director of Bajaj Auto.
- Shishir Bajaj and his son Kushagra Bajaj, MD of sugar maker Bajaj Hindustan & Bajaj Consumer Care.



The Bajaj group

How does succession affect business groups?



Succession in 2005: Equal Distribution of Reliance Group's Worth

How does succession affect business groups?

Ownership: How was the distribution of family shares affect the group structure?

The control: Who are chosen as the new leader(s)?

- How often were the groups split?
- Does family size matter?
- Would horizontal and vertical groups plan succession differently?

Do cultures/ norms/ religions affect succession planning and the group structure?

