The analysis of business groups: Some observations with reference to India

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*Surajit Mazumdar**

[**Abstract:** *This paper uses some available but not necessarily commonly known information on Indian business groups as the basis for interrogating some of the recent analysis of the business group in developing countries, analysis which seeks to explain why such groups exist and their consequences. The paper argues that much of this analysis is unsatisfactory both in terms of the questions posed and also the research methods adopted.*]

1. Introduction

There are many different strands in the literature on the institution of the *business group*, each concentrating on different groupings of countries and examining different specific questions (Smangs, 2006). One strand, on which there have been a number of contributions in recent years, focuses on business groups in developing countries or 'emerging markets'. Its key concerns are to explain the prevalence of groups in such contexts and their implications for 'economic efficiency'. A recurrent theme within it is that the business group is as an efficiency enhancing or economizing response to conditions of institutional and informational imperfections and the related high levels of entrepreneurial scarcity. A reading of this literature on developing country business groups in the light of available knowledge about such groups in India however leaves one with a great sense of dissatisfaction with the analysis on offer. This dissatisfaction relates to both the collective product of the different contributions and in varying degrees to even some individual ones.

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Firstly, let alone providing the right answers about business groups it is not even certain that the right questions are always being asked. Even the basic requirement of clarity about the institution being explained does not appear to be met in the form of a rigorous, and preferably commonly agreed upon, specification of what precisely constitutes a business group.

Secondly, there is a tendency to substitute detailed investigation of business groups, their structures and working, and their evolution over time, with a priori assumptions and unwarranted generalizations about them based on casual impressionistic observations. These then are relied on for theoretical speculation and data-based empirical analysis, whose conclusions are at the least unjustified and may even be grossly mistaken.

This paper attempts to substantiate the above two assertions, making use of available but not necessarily commonly known information on Indian business groups. But while what would be shown is the disconnect between propositions made both generally and in relation to India and the reality of Indian business groups, the conclusions consequently emerging about how business groups should or should not be studied must be considered as having a general validity. These conclusions, summarized at the end, are developed in this paper over three sections. The first raises a set of issues regarding the conceptualization of business groups. The second adds to that by explicitly highlighting how avoidable ignorance of Indian reality can distort the study of business groups by taking three examples from the literature as illustrations. The third section is a brief critical discussion of the representative contemporary functional explanation of the business group—namely that it is a response to institutional voids and entrepreneurial scarcity—which incidentally replicates what had once been a popular mode of explaining the dominance of the industrial sector in colonial India by European controlled managing agency houses.

2. Conceptualizing the Business Group

The business group has been described as a proto-concept that is understood in many different ways (Smangs, 2006). This appears to be not only applicable to the concept in general, but also to its specific developing country variant. Conceptions of business groups in developing countries typically centre around one or more of a set of features that are supposed to be associated with them. The first is that a business group has a *multi-company* character—it consists of a number of companies which are legally independent entities but whose activities are nevertheless coordinated. The second is their simultaneous engagement in a diverse set of businesses that are often unrelated to each other, which imparts to them a *conglomerate* character. A third that is sometimes derived from the previous two is that it is associated with *concentration* in ownership and control. Finally, there is the role that *social networks* based on family and other social ties, between individuals owning or controlling and managing the constituent businesses or companies of the group, play in imparting cohesion to a group. Almost all of these features were simultaneously included in Leff's early conception of the developing country business group (Leff, 1978). Later formulations however have departed from Leff in two directions.

In some cases, only some but not all these features have been considered important. For instance, Amsden and Hikino (Amsden and Hikino, 1994) took conglomerate diversification as the most important feature of the business group and did not make any reference to the multi-company form. At the other end, one even finds admission that business groups may show a variety on this count and some groups may be more focused and others diversified (Khanna and Yafeh, 2007). There is no doubt however that the conglomerate diversification is more or less universally considered one of the important features of a business group. Indeed, almost every explanation of the business group in developing countries (Leff, 1978; Amsden and Hikino, 1994; Ghemawat and Khanna, 1998, Khanna and Palepu, 2000; Guillen, 2000; Khanna and Rivkin, 2001; Jeon and Kim, 2004) is in effect an explanation of conglomerate diversification. On the other hand, the explicit connection between business groups and concentrated ownership is drawn only occasionally (Khanna and Palepu, 2005; Morck, Wolfenzon, and Yeung, 2005)

The other direction in which conceptions of the business group have moved away from Leff is through subtle shifts in the specific meaning given to a particular feature. The most important such modification relates to the meaning of the multi-company nature of the group. In Leff each business group was an individual multi-company firm. It was different from the family firm in that more than one family was typically involved, but the different companies were part of a single organizational structure. But following Granovetter (Granovetter, 1994 and 1995) there is a tendency to view business groups as collections of firms that occupy a somewhat intermediate position between the firm and the market, with cross-country variations in the degree of cohesion and independence between firms within a group. In this conception of the group as a "hybrid organizational form between the firm and the market" (Khanna and Yafeh, 2007, p. 333), the individual firm is equated with the individual company and the diversified nature of the group is a result of different firms being engaged in different business activities.

Leff had not made any particular mention of the ownership pattern of group companies and by implication therefore both narrowly and widely held companies could be part of a group. In fact he actually emphasized the role that participation of many families in a group played in pooling capital because of the limited development of separation of ownership and control. In some more recent formulations however, the multiplicity of *public* companies within it is explicitly stated as the characteristic feature of the group (Khanna and Palepu, 2000). But no conception of the business group specifies precisely how many companies must be part of it to for it to make up a group, and whether there are any intermediate categories between groups and pure stand-alone companies.

2.1 The Market, the Firm, and the Group

The first questions arising from the above—*is a multi-company group a particular form that the individual firm may assume or is it a structure founded on inter-firm coordination?* The difference between the two is not a matter of degrees of coordination. They are two qualitatively distinct things, because coordination *within* a firm is clearly different from coordination *between* firms even when both are distinguished from market coordination by a common ex ante nature. The former presumes the existence of a firm as a single entity while the latter brings different entities possessing their distinct individualities into a common structure. Indeed, if these two kinds of coordination were not different there would be no basis to talk of an intermediate domain between the firm and the market. But the possibility that a set of interrelated companies *may* occupy such an intermediate domain does not automatically mean that they always *do*, and the mere independent legal status of the different companies of a group is not sufficient basis for concluding that they are different firms rather than constituents of a single firm. Which of these is the case instead has to be determined on the basis of the origins and nature of those interrelations.

As far as India is concerned, multi-company entities have existed here since the 19th century, first in the form of European controlled managing-agency houses and then as the Indian business group. In either case, it is the conception of the group as a single business firm that fits them better with the centralization of control over a number of companies being characteristic of both. Hazari's seminal study of the Indian corporate sector described the group, and not the individual companies constituting it, as the unit of decision-making.

> *"A corporate group may be defined as consisting of units which are subject to the decision-making power of a common authority… The group functions as a single organisation, nevertheless, though each of the corporate units under its control is a separate legal entity".* (Hazari, 1966, p. 5)

Indeed, behind the set of companies constituting an Indian business group at any point of time, their structure of connections, and the evolution of the group structure over time, has always been the guiding hand of the central controlling authority of the group. Group companies either include companies the group itself has promoted, or those that it has acquired. Individual group companies can be amalgamated with each other or broken up. Formal connections may be established between companies, for example through inter-corporate investments (discussed below), and even altered. The group's assets can also be redistributed between its companies from time to time and businesses and companies may be transferred to other firms. Funds raised through one company may be routed to other companies. All such events in the history of an Indian business group generally are consequences of the unilateral strategic choices of its common controlling authority and not a product of mutual negotiation between the managements of different companies. The role of other shareholders of these companies is also usually a passive one. One of the strategic imperatives that often lies behind the structuring and restructuring of connections between group companies is actually the maintenance of control over each of them. In other words, the Indian business group is a deliberate creation of its single controlling authority and not the forging of an alliance between different such authorities.

Business groups in India do of course also break up. These however are like divisions of the family firm rather than the breakdown of a collusive arrangement between firms. They happen when the centralized control over a group becomes incompatible with the individualities of the members who constitute that controlling authority. Then the group splits into different parts, each of which may itself have a multi-company group form or may subsequently spawn one. The lines of such a division may not coincide with the lines originally dividing the group companies and restructuring of the distribution of assets between companies and even division of individual companies may precede the group break-up[1].

Divisions take place in groups whose controlling authorities are business families, mostly following a change in the generation in command. In fact, since family ties do not necessarily end with a division, something like a loose federation of the different firms, the intermediate domain case, that are its product may actually *follow* from such a division (though it cannot be said that there is strong evidence that divisions are followed by very high levels of coordination between the separated entities). However, the use of the multi-company group form has not been limited to Indian family business. Apart from the European controlled managing agency houses of the colonial era, some of whom survived till the 1970s, affiliates of foreign multinationals operating in India have also occasionally had a group character. Amongst the top 70 odd ‘groups’ identified by the Monopolies Inquiry Commission (MIC) (Government of India, 1965) and the Industrial Licensing Policy Inquiry Committee (ILPIC) (Government of India, 1969) were European controlled ones like Andrew Yule and Gillanders Arbuthnot, and those like ICI and Swedish Match which were affiliated to multinationals. Either as a result of takeover

[1] A significant illustration of this is the case of the breaking up in 1990 of DCM Ltd., a large and diversified public company listed on stock-exchanges, into four separate companies so that each faction of the controlling Shri Ram family could have their own share of what was the flagship company of the unified group.

of some of these inter-linked companies (e.g. the Andrew Yule group after the 1970s), or through deliberate creation (e.g. the Gujarat Fertilizers group), government controlled multiple-company groups have also existed in India.

The participation of a multiplicity of closely linked families in providing capital and management has thus not been an essential feature of the business group in India. The fact of divisions within them indicates this is also applicable to business family controlled groups. Before independence, and for a period after that, groups of different Indian business families did exhibit a high degree of collaboration and cohesion in their actual business operations. This emerged out of the circumstances of their origin under colonialism and the need to challenge the European dominance of capitalist enterprise. Consequently different kinds of joint-control of companies by different business families could be found in the initial period after independence. In some cases, individual companies were joint-ventures between two or more otherwise distinct groups, and Hazari created the category of outer-circle companies of a group to accommodate such cases (Hazari, 1966). In the case of a few groups, for example Soorajmull Nagarmull, more than one family constituted the single controlling entity (Government of India, 1965). The ACC group of companies was a joint example of both features, being a group by itself while being controlled jointly by four separate families—each of which also independently controlled other large groups of companies. Some family groups also had sub-groups controlled by other families but working in coordination with the main group (Hazari, 1966; Government of India, 1969).

After independence however, as the context which initially gave rise to it became more of the past, the cohesion provided by ties within and between families also came to be increasingly undermined. Internecine squabbles between collaborating families were the first expression of this. This was followed by divisions within firms controlled by single families to the extent that there is hardly any Indian business group of significance today which has not experienced one or more division. But the multi-company group form has survived through all of these developments and does not therefore represent an institution that is exclusively built around family and other social ties. In fact, it is this historical background that is responsible for something that has been noted in the literature. This is that presently the boundaries of groups are found to be extremely clear in the Indian case, which only reinforces the view that the group is a single firm.

If the group is a firm rather than a coalition of firms, as is the case in India, then the question(s) that need to be asked about that institution change from what they would be in the other case. Instead of asking why and how individual firms establish links between their activities, we have to ask why and in what circumstances are firms induced to choose a multi-company form and modify its structure and why do such firms succeed despite the obvious extra costs a multi-company structure would involve in relation to a single company one. The last group of questions has not been addressed in the literature. How can they be if the group as firm is eliminated by definition rather than a concrete examination, or explaining the group is narrowed down to explaining a particular pattern of diversification?

2.2 Diversification and the Business Group

The second major issue relating to the conceptualization of business groups concerns this feature of diversification. *Is the group a group because it involves coordination of a number of companies or because it includes a number of different businesses in its fold?* When a group is a coalition of different individual firms engaged in different businesses, a relationship between the multiple-company structure and the diversification pattern can be reasonably presumed. If however the group is a single firm, this is no longer true and the agglomeration of multiple companies into a group and conglomerate patterns of diversification do not automatically imply each other. On a purely logical plane, it is possible for a single firm to have more than one company operating in the same business, and for an individual company to have a diversified range of businesses. In other words, the only difference between a group and a stand-alone could lie in the fact that the former has a multiple-company form and the latter not—each however could be equally focused or diversified. At the two extremes one may have a structure where multiple companies under common control are all involved in the same industry and or one of an individual independent company with multiple businesses. Which of these two would be termed as a business group structure?

In the Indian case, business groups have long been known to have many companies operating in the same industry (Lokanathan, 1938; Mehta, 1952; Kothari, 1967). This was perhaps more prevalent in an earlier era in the old textile industries. The phenomenon however has not entirely disappeared by now as illustrated by the examples in Table-1.

On the other hand individually diversified stand-alone and even group companies, not necessarily family controlled, have been also present. For example, Grasim Industries is one of the many AV Birla group companies. It alone has the following business segments—Fibre and Pulp (Viscose Staple Fibre and Rayon Grade Pulp); Chemicals (Caustic Soda and Allied Chemicals); Cement; Sponge iron; Textiles (Fabrics and yarn); and Others. Similarly, the sales of ITC, which is not a family controlled company but an affiliate of the BAT group of the UK with a professional Indian management, had in the last two years the pattern shown in Table-2.

Table-1

Illustrative List of Cases of Multiple Group Companies in the Same Industry, 2005–06

Product / Industry	*Group*	*Number of Companies in the industry*	*Market Share of:*	
			Largest Single group co.	*All group cos.*
Cement	Holcim-Gujarat Ambuja	2	11.25	22.00
Cement	Birla AV	4	11.65	22.28
Aluminium Foils	Birla AV	2	37.45	42.17
Animal Feeds	Godrej	2	11.30	20.30
Axle Shafts	Kalyani	2	32.03	51.37
Beer	UB	3	39.62	77.41
Wines, Spirits and Liquors	UB	2	35.78	53.01
Ethylene Glycol	Reliance	2	45.80	74.13
Polyester Filament Yarn	Reliance	3	36.30	47.14
Linear Alkyl Benzene	Reliance	2	31.99	48.88
Polyester Staple Fibre	Reliance	2	59.36	69.35
Poly Vinyl Chloride	Reliance	2	35.04	56.68
Floor & Wall tiles	Somany Enterprises	2	10.93	18.20
Glass Hollowares	Somany Enterprises	2	28.02	40.09
PVC Pipes &Fittings	Kisan	3	5.10	12.80

Source: Derived from Centre for Monitoring the Indian Economy (CMIE), Market Size and Shares, 2007.

Table-2

Sales of ITC Ltd. 2006–07 and 2007–08 (Rs.crores)

Product	*2007*	*2008*
Cigarettes	12824.42	13815.54
Smoking Tobacco	9.09	9.74
Printed Materials	111.5	163.19
Agri Products (Unmanufactured Tobacco, Soya Extraction, Soya Oil, Soya Seeds, Rice Coffee, etc.)	2398.25	2369.28
Marine Products	72.02	53.76
Paperboards and Paper	1151.71	1255.33
Packaged Food Products	1083.42	1717.08
Hotel Sales/Income from Services	978.71	1093.48
Others (Branded Garments, Matches, Stationery Products, Personal Care products, etc.)	670.92	878.54
TOTAL	**19300.04**	**21355.94**

Source: ITC Report and Accounts 2008.

Even more notable is the fact that the extent and nature of their diversification has varied significantly across groups at any point of time and also across time in the case of individual groups. The data available from the MIC Report (Government of India, 1965) for example reveals that there were many groups in the 1960s that were mainly textile-based groups even as others were highly diversified. Groups that grew into large ones at a later point of time, like Om Prakash Jindal, Gujarat Ambuja, Ispat, Onida, and many pharmaceutical based groups like Ranbaxy have also been relatively specialised ones. The Reliance group emerged as one of India's largest groups before liberalization through a growth sequence that remained focused on a set of related industries (synthetic textiles and fibres, and petrochemicals) and it diversified into unrelated activities (power, telecom, retail, financial businesses, construction, etc.) only in the 1990s and after.

The Indian evidence thus indicates that while some multi-company firms at any point of time have a highly diversified character; it is not always true of every firm at all points of time. Therefore a choice has to be exercised regarding the axis along which a group is to be distinguished from a stand-alone—that of the number of companies or that of the number of businesses—because the two do not coincide. The assumption is nevertheless often made that they do and therefore both can be considered simultaneously essential features of business groups. If such dual criteria were to be however applied to identify groups, it could mean that some conglomerate business firms and certainly a number of multiple-company firms would have to be kept out of the set of business groups because they would strictly speaking fit only one criterion. This would also raise the question—in which category could one put such excluded firms?

The additional problem with dual criteria is that the explanations for the two features of the group are not the same. It has been mentioned earlier that every explanation of the business group is in effect an explanation of conglomerate diversification. Since entrepreneurs or business families can always achieve such diversification through a single multi-market, multi-divisional, and multi-plant company, the explanations for the extent and nature of this diversification do not explain why they choose the multiple-company form and how they distribute and redistribute their businesses between the different companies in the group. By explaining conglomerate diversification therefore, the reasons for the existence of business groups are established only if such a diversification pattern is considered their sole defining feature.

2.3 Business Groups, Concentration and the Separation of Ownership and Control

In relation to the corporation or joint-stock company, ownership has two distinct meanings. One is ownership *of* companies, which are vested in their shareholders, and the other is ownership *by* companies of corporate assets. Correspondingly concentrated ownership may describe two kinds of concentration—a) in the distribution pattern of equity ownership of companies; and b) in the distribution of corporate assets between firms. Whenever ownership is discussed in the context of principal-agent issues or the working of the market for corporate control, it is the ownership of companies that is referred to. Concentrated ownership of the second kind, aggregate concentration, is about the degree to which control over corporate assets is in a few hands. In Berle and Means description of it in relation to the US economy (Berle and Means, 1968), high levels of aggregate concentration were achieved at the expense of concentrated ownership of companies. Corporations became large by the pooling of the capital of many owners, and the consequent dispersion of the ownership of their shares leading to the separation of ownership and control of *companies.* High levels of aggregate concentration however tend to go hand in hand with the separation of ownership and control, not necessarily of companies, but of *capital*. This is different from the separation of ownership and control of companies because command by a company of an agglomeration of capital with a variety of ultimate owners does not necessarily require issue of the company's equity shares directly to these owners. It can be achieved through intermediary institutions or through other financial instruments, in which cases the owners of capital would not be acquiring ownership rights in the company to which this capital is made available.

In contrast to Leff's conception of a business group structure as one enabling the pooling of capital in a context of limited degree of separation of ownership and control of capital, the multi-company group form of the firm is actually eminently suited to providing a mechanism for reconciling the separation of ownership and control of corporate capital with concentrated ownership of companies even when equity issues are the principal instrument by which companies receive finance. In the international context, the use of this mechanism through the creation of ownership pyramids or cross-shareholding has been noted (La Porta, Lopez-de-Silanes, and Shleifer, 1999; Khanna and Palepu, 2000; Morck, Wolfenszon and Yeung, 2005). In India, the more generic expression, *inter-corporate investments,* has been used to refer to it (Hazari, 1966; Goyal, 1979; Singhania, 1980; Rao, 1985). Essentially, the mechanism allows the controlling individuals to command a much larger quantum of the equity of companies than is directly owned by them. Control by them over the management of any individual company enables them to use its resources to purchase in its name equity shares in other group companies and also to effectively exercise the ownership rights associated with these shares. Control through such means of a significant portion of the equity of the companies in which such investment is done in turn allows control over their management.

Inter-corporate investments between group companies can be easily mistaken to be reflections of the working of 'internal capital markets' within groups or as a product of groups performing the function of venture capitalists, which are important components of the idea that groups are responses to institutional voids. They however represent fictitious share capital that has no ultimate individual owners. When group companies are controlled through such investments between themselves, individual companies are both recipients of finance from other companies through issue of equity and also users of finance to acquire equity in other companies. For the group as a whole, inter-corporate investments would only be financing themselves and not the acquisition of any other assets, and would disappear if the group companies were to be consolidated into a single company[2]. It should consequently be viewed as a mechanism of control and not of allocation of capital. Since the recourse to it is only possible with a multi-company structure of the firm, one possible rationale for such a structure could lie precisely in the need or motivation of entrepreneurs or business families to maintain proprietary control over the firm and yet enable it to assume a scale impossible to achieve with their own resources by securing finances from outside.

As far as the Indian corporate sector is concerned, direct holdings by controlling families are typically very small in large companies and tend to become smaller with increase in company size. Indian business groups have therefore controlled their companies primarily through inter-corporate investments, which after independence replaced the eventually abolished managing agency system as the principal control mechanism. Additionally, the historical pattern in India has been one of private corporate sector companies being generally heavily reliant on external funds whether raised through capital issues or from financial institutions. As Figure-1 shows, the private corporate sector in India has been persistently a savings-deficit sector, with the dependence on external savings being greater in most periods of relatively high corporate investment (mid-1950s to mid-1960s and the 1980s through to the mid-1990s). It is only in the most recent phase of high corporate investment growth, since 2002–03, that the private corporate sector's own savings have financed on an average more than half its capital formation. Even in this period however, the savings-investment deficit of the sector has been increasing.

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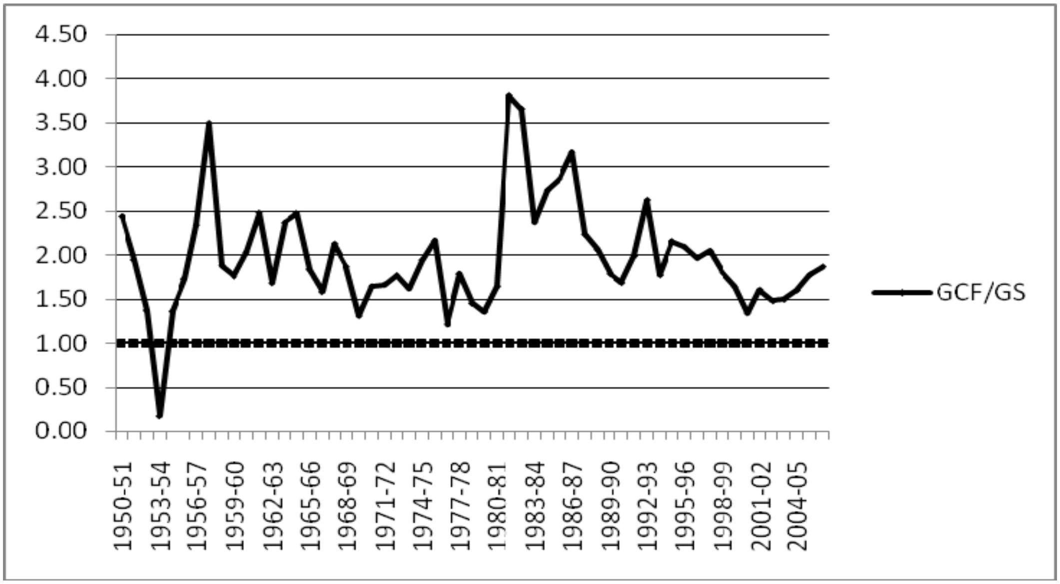
[2] The same also applies to any inter-corporate borrowing/lending between group companies where too matching liabilities and assets would be created. The implications of these is that other things being the same, the *aggregate* operating profits to assets ratio associated with the group form of the firm would be lower than if the firm assumed the form of a stand-alone company while the *aggregate* dividend and interest payout would be higher and would contribute to inflating aggregate non-operating profits. These do not appear to be normally taken into account in empirical analyses dealing with these variables.

Figure-1

Ratio of Gross Capital Formation to Gross Savings of the Private Corporate Sector in India, 1950–51 to 2005–06



Source: Central Statistical Organisation, National Accounts Statistics, 2007 and Back Series at 1999–00 prices.

The regular studies of finances of non-financial public limited companies done by the Reserve Bank of India (RBI) also throw up a picture of substantial dependence on external sources of finance, as shown for the period since the initiation of liberalization in Table-3. Of course, some part of these 'external' funds for individual companies could come from other group companies. However, it is banks and financial institutions that have been the main fillers of the financing gap for companies, accounting for over three-fourths of such funds for the last three decades and more (Reserve Bank of India, 2000 and 2007a).

Table-3

Share of External Sources in Total Sources of Funds of Non-Government Non-Financial Public Limited Companies (RBI Samples)

1991–92	**1992–93**	**1993–94**	**1994–95**	**1995–96**	**1996–97**	**1997–98**	**1998–99**	**1999–00**
71.9	73.9	71.1	71.2	63.4	64.9	65.7	62.2	59.7
2000–01	**2001–02**	**2002–03**	**2002–03**	**2003–04**	**2003–04**	**2004–05**	**2004–05**	**2005–06**
40.4	34.7	35.1	30.2	49.1	46.6	44.5	44.5	56.4

Source: Series till 2002–03, Reserve Bank of India (2005b), and the pairs of years after that from Reserve Bank of India (2005a, 2006, and 2007b).

Thus, the separation of ownership and control of capital has been quite prevalent in India. Concentrated ownership of capital, unlike what sometimes appears to be suggested (Khanna and Palepu, 2005) has not been prevalent. Aggregate concentration in the Indian private corporate sector has rather been based on the allocation process of capital through markets and intermediaries having a concentrated character. Moreover, with the controlling families of dominant groups providing such a small fraction of the capital that they control and the heavy dependence of companies on external funds, it does not make much sense to relate business group structures in India to in-house supply of capital and internal capital markets.

The other relationship drawn between the business group structure and concentration has been through a suggestion that the control by some over many companies tends to make for a higher level of aggregate concentration than would be the case if the companies were stand-alone (Morck, Wolfenszon and Yeung, 2005). This point may appear obvious but that does not make it necessarily correct. It is one thing to say that aggregate concentration expresses itself through the control by a few individuals of a number of companies and quite another thing to say that the latter is a *cause* of the former. It could be a cause only if it was the case that the different individual companies existed as independent firms before a common control was established over them. If however the group is a form of the firm, then the different companies in its fold are equivalent in nature to different parts of an independent company. Since an individual company can be larger than a collection of companies, the prevalence of the group form of the firm does not ipso facto mean that aggregate concentration is greater in comparison to a situation when stand-alone companies are prominent. Since any potential entrepreneur can create a firm of either the stand-alone company or group variety, concentration in the distribution of corporate assets between firms has no direct relationship with the form of the firm. Why capital is concentrated in a few firms is thus a different question from why these firms distribute, or do not distribute, the capital commanded between many companies. In India, the multi-company group structure has been associated with tremendous size heterogeneity even amongst groups deemed large (Government of India, 1965) and no strict correlation has existed between size and number of companies.

2.4 The Structure of Business Groups in India

So far it has been emphasized that the Indian business group is a multi-company firm but nothing has been said with regard to the nature and numbers of companies constituting a group, and their placing in relation to each other within the group structure. In reality, there has been tremendous heterogeneity amongst groups on these counts. Only some sense of this heterogeneity can be given here. It is nevertheless important to appreciate this diversity because of the difficulties it poses for the conceptualization of business groups.

A variety of different kinds of legal entities have been the objects of a common centralized control in the Indian business world. These have included companies with shares publicly traded on stock exchanges, narrowly held companies not listed on exchanges, and even partnership and proprietary firms. One dimension of variation between multi-company firms has been the numbers of each of these different kinds of entities. If we consider the MIC's identification of companies of 75 groups with assets more than Rs. 5 crores in 1964, we find that the total number of group companies ranged from a mere 4 or 5 in some cases to as many as 151 in the case of the Birla group. The number of companies in the Birla group which were reasonably large individually (i.e. with assets more than Rs. 1 crore) were 54 while the other amongst the two largest groups, Tata, had 27. On the other hand, as many as 5 groups had only one such company and another 11 had only two. In the case of the Birla group, less than 8% of its total assets were accounted for by the largest company in the group, but there were also many groups where a single company accounted for over 90% of the total group assets.

No comparable comprehensive listing of groups and their companies has been done since the 1960s. But there is sufficient evidence to suggest that the kind of variety amongst groups existing then has not disappeared subsequently. A contemporary indication is provided by the number of publicly listed companies that different groups have—which range from a single one to numbers in double digits. If the multiple public company criterion were to be strictly applied, then many of those classified as groups in the standard databases used by researchers, like Prowess of the Centre for Monitoring the Indian Economy (CMIE) would not qualify as groups. On the other hand, if a multiplicity of public companies was not insisted upon, then many Indian private companies that are not classified as group affiliated in the same databases and therefore assumed by most to be stand-alone, would become group affiliated. This would be revealed by a simple examination of the composition of what is termed as the promoter's stake (what is admitted as the part of the company's equity controlled by those who manage it) in these companies. Table-4 is based on such an investigation for a sample of Indian companies not classified as being attached to any group in the Prowess database. The sample consists of 171 such companies included in the BSE-500 index and additional stand-alone companies which had assets exceeding Rs. 500 crores in 2006–07[3]. Data on the promoters' stake and its composition for these companies was accessed from their filings of shareholding pattern with the Bombay Stock Exchange (http://www.bseindia.com).

[3] It may be noted that though there are nearly 5000 companies listed in it, the companies included in the BSE-500 account for over 93% of the transactions on the Bombay Stock-Exchange.

As the table shows, a high level of the promoter's stake is very common. More than half the sample companies also reported other companies among their controlling group of shareholders, though the proportion of such equity varies from company to company. But even amongst companies where the promoter's stake is held entirely by individuals, which too are typically large, there are cases like the three India Bulls companies where the promoter shareholders are common.

Table-4

Promoter's Share in Stand-alone Companies in India (as on 30 June 2008)

	Promoters Total Holding in Total Equity	*Promoter Group Bodies Corporate in Total Equity*	*Bodies Corporate in Total Promoter Group Equity*
More than 50%	76	11	56
More than 40%	101	17	65
More than 30%	128	34	74
More than 20%	154	55	84
More than 10%	164	71	97
More than 0%	171	111	111
0%	0	70	70

Source: Bombay Stock Exchange (http://www.bseindia.com), Shareholding Patterns.

The one thing this evidence points to is that the firm as a pure-stand alone company is relatively rare in the Indian private corporate sector. Reinforcing this is the fact such companies even if they exist do not necessarily remain so forever. The MIC as well as the ILPIC had in the 1960s identified many that the latter called *large independent companies*, which were large stand-alone companies, many of whom were larger than some of the groups they had identified (Government of India,1965 and 1969). Subsequently, because of the discovery of other companies affiliated to them or because of the floating of additional companies by their controlling authorities, these companies acquired the character of groups. Examples of such groups are Godrej, Escorts, Larsen & Toubro, Mohan Meakins, Rohit, and Chowgule.

The ubiquity of the multi-company firm however does not mean that all the companies constituting the firm play the same role. The cases discussed above point towards one kind of variant of the multi-company firm, where all the businesses of the firm are concentrated in a single company, with other companies play a peripheral role such as serving merely as holding companies for some part of the equity of that core company. This structure represents one end of the spectrum and stands closest to the stand-alone company. Other multi-company firms may however have their businesses distributed between many companies. The roles of serving as holding companies or as companies through whom business activities are undertaken may be clearly demarcated in some cases between typically narrowly held investment companies and public companies respectively. In others however, public companies may simultaneously perform both functions[4].

The structures of firms, as illustrated by the case of independent companies turning into groups, are not only variable across space but also time. An interesting example of such variations is provided by the Reliance group. Before the public listing of Reliance Industries in 1977, the group had incorporated six companies, none of which was listed on any stock exchange, and its manufacturing/processing activities were spread between four of them. After that there was a rapid proliferation in the number of companies of the group though manufacturing activities and productive assets came to be concentrated in the 1980s in what was the sole publicly listed company of the group for over a decade. Currently, the two factions of the group have about 10 companies listed on stock exchanges. Depending upon the specific definition used for a business group, one could arrive at different conclusions about when Reliance was a group and when not. Did it transform itself from a group into a stand-alone in the 1980s or did it become a group only in the late 1980s when it came to include a second public company?

Another related dimension in which we find significant variations is the pattern of inter-corporate investments between group companies, and the specifically pyramidal structure has not been known to be very prevalent in India. A set of narrowly held investment companies sharing the holding of a controlling stake in one major company is one simple form. At the other end could be an extremely complex structure of different companies of different types being connected through chains of such investments, of both linear and circular varieties, with any single company being simultaneously part of many separate chains of both types (Hazari, 1966; Singhania, 1980). In fact, at the time of their divisions, many groups have confronted difficulties in disentangling the complex web of connections between group companies. Such complexity is produced by the fact that the structure of inter-connections is not made at one time but rather evolves historically through a series of group actions spread over time.

3. Facts versus Fiction: Three Illustrative Cases

Each of the three cases from the literature referred to in this section involve conclusions being derived about Indian business groups from some data or information. For different specific reasons, which however share the common feature of reflecting inadequate familiarity with the Indian context, these conclusions cannot be arrived at in the manner they have been. The first case is of an empirical study of 'tunneling' amongst Indian business groups where the problem lies hidden behind the ingenuity and virtuosity in

[4] The Tata group is a case in point (Chalapati Rao and Guha, 2006).

the use of empirical techniques that is on display. The second example is different from the first in that the conclusion portrays the business group structure in a more favourable light. But it is arrived at through a complete misreading of the evidence that is presented. The third case is one involving the use of anecdotal evidence of the kind that is typically used to caricature the earlier planning regime or the so-called "license-permit raj". In this particular case however, the story is a bit of a myth.

3.1 Tunnelling amongst Indian Groups

In a study available in more detailed as well as concise form (Bertrand, Mehta and Mulainadhan, 2000 and 2002), a quantitative analysis was undertaken to find evidence of tunneling amongst Indian groups, to quantify its extent, and to identify its mechanism. There are many methodological issues that can be raised in relation to this study. We however focus on one fundamental one that is related to what has been discussed in the previous section. The point of course is not that siphoning out of resources from public companies by those who control them does not happen in India. The problem with Bertrand et al's method instead lies in the fact that such siphoning out may be more commonplace than they presumed.

The basic method relied on was a comparison of the responses, of group affiliated companies and stand-alones in a sample data set, to profit shocks in their own and other industries by examining the respective deviations of their actual from predicted (average industry) responses. The lower responsiveness of group affiliated companies to such profit shocks in their own industries and greater responsiveness to that in other industries was treated as the evidence of tunneling. The appropriateness of this method however rests absolutely critically on the correctness of the underlying assumption that the siphoning out of resources from public companies by controlling families at the expense of other shareholders happens in the case of group companies but *not* in stand-alones. Only then could there be differences in their responses to profit shocks. But is there any basis for this assumption? Bertrand et al did not provide one and in fact could not have because it follows from the discussion in the previous part that there is no ground for distinguishing between stand-alone and group companies as far as this aspect is concerned.

We have seen that there is no clear dividing line between groups and stand-alones and apparently stand-alone companies also have other 'group' companies to which resources could be potentially transferred. Moreover, such companies are typically narrowly held where the cash flow rights of a business family would inherently be greater than in any public company controlled by it where there are other shareholders. Since the group as a firm is a deliberate creation, there is nothing to prevent business families from creating such companies. Since the business group structure provides the *mechanism* and not the *motivation* for tunneling, no correlation should in fact be expected between the extent of siphoning out of resources from public companies by their controlling families and the number of public companies controlled by that family. If the incentive for tunneling arises from the difference between controlling and cash-flow rights, then such incentive would exist in all cases of public companies controlled by a business family or a group of individuals where there are other shareholders. If the mechanism necessary for that is a 'group' structure, it can be easily created. If laws and their enforcement cannot prevent siphoning out in case of group affiliated companies, they would not prevent them in this case either. In such circumstances, tunneling should happen in equal measure in all such public companies and evidence of tunneling and its quantification cannot be arrived at by comparing companies that are apparently either stand-alones or group affiliated.

The differential responses of these two kinds of companies to profit shocks that were Bertrand et al's results may, at least partly, be explained by the likely nature of the sample and the existence of inter-corporate investments between companies in it. Inter-corporate investments and the consequent flow of dividends between companies connected through them create a natural channel for profits of companies in different industries to reflect shocks in each other even without any tunneling activity. Significant in this regard is that the evidence of tunneling that Bertrand et al find operates entirely through the non-operating profits, in which would be included dividends received from equity holdings in other companies. Since the sample of companies in the data set used presumably included only public companies, they would have included some inter-connected companies of companies classified as group affiliated so that companies receiving dividends would be part of the sample. In the case of those classified as stand-alone on the other hand, any such potential dividend recipient companies would be private limited companies outside the sample. Only the 'group' companies would therefore show this responsiveness to profits of other companies.

3.2 Stability/Instability amongst Leading Groups

Khanna and Palepu (Khanna and Palepu, 2005) have argued that concentration in India has been accompanied by substantial instability in the concentrated owners, and therefore at least in the Indian case the fears of entrenchment appear to be unwarranted. They sought to substantiate this by pointing towards the sharp difference they found in the composition of the top 50 business groups at two points of time, 1969 and 1997. According to their examination of the data they presented, *as many as 43 of the top 50 groups in 1997 were not in the same list in 1969*. This amazing result, which is completely illusory and a gross exaggeration of the element of instability in Indian big business, is a result of an extremely casual look at the data because of which the following facts were ignored:

i) The 1969 list (which actually pertains to 1966) is from the ILPIC report. As mentioned earlier, the ILPIC had also identified large independent companies. Of the 'groups' in the top 50 in 1997, some were from amongst these, and therefore were not 'new' constituents of Indian big business

ii) Between the 1960s and the 1990s, many of the groups had split and it is one or more of their splinters that appear in the 1999 list despite the size effects of division Moreover, when groups split, their number increases so they cannot all of course remain within the top 50. Two case however are of the opposite kind—consolidation into one group in 1999 of what were treated as separate groups in the 1966 list. For these, and sometimes for other reasons, some groups simply appear under different names in the two lists though sometimes they are still so similar that it is surprising that the connections were overlooked. In other words, the 'old' dropping out from the list and the 'new' entering into it are in many cases actually the same.

iii) A more excusable omission lies in not taking into account that some groups that were large in the 1960s did get somehow overlooked when the ILPIC or the MIC finalized their list of groups and large companies. Their appearance in the 1997 list therefore does not represent the 'new' element.

Table-5 provides a mapping between the 1966 and 1997 positions of groups included in either list by Khanna and Palepu. It shows that 31 of the top 50 in 1997, and 21 of those in 1966, were 'survivors' over the interim period[5].

[5] Further, amongst those from the 1966 list that did not survive, a number were European controlled. These were subsequently Indianized and include cases like Andrew Yule which exist to this day in the public sector.

Table-5

Mapping of Groups, 1966 and 1997

Group(s)/Company in 1966	*Matching Group(s) in 1997*
Tata	Tata
ACC	
Rallis	
Birla	BK-KM Birla
	KK Birla
	CK Birla
	SK Birla
Thapar	LM Thapar
	MM Thapar
Mafatlal	Arvind Mafatlal
Walchand	Vinod Doshi
Shriram	SRF/A Bharat Ram
JK Singhania	Hari S Singhania
	Vijaypat Singhania
Goenka	RPG Enterprises
	GP Goenka
Macneill and Barry	Williamson Magor
Lalbhai	Lalbhai
TVS	TS Santhanam
Kirloskar	Kirloskar
	Kalyani
Parry	Murugappa Chettiar
Murugappa	
Mahindra	Mahindra
Bajaj	Bajaj
Simpson	Amalgamation
Wadia	Wadia
Shaw Wallace	Manu Chabria
Were large in 1966 by ILPIC criteria but overlooked when list was finalized	MAC
	UB Group
Appeared as large independent companies in ILPIC List	GE Shipping
	Godrej
	Escorts
	Hinduja

3.3 Financial Institutions, Capital Issues and the Reliance Group

> *"...Dhirubhai Ambani single-handedly mobilized small investors around the country in 1977 and listed on the Bombay and Ahmedabad stock exchanges when the dominant public financial institutions would not lend him capital."* (Khanna and Palepu, 2005, p. 301)

This story about the Reliance group is used to illustrate the importance of innovative ability to the success of business groups. The story itself has been taken by Khanna and Palepu from another apparently unimpeachable source and they cannot therefore be held responsible for the errors of fact in it[6]. Its veracity can however be easily checked by an examination of what is written in the relevant annual reports of Reliance Industries (then known as Reliance Textile Industries). What emerges from these is quite a different tale and one wonders whether the conclusions derived would be amenable to the same degree of change.

In the period before 1977, Reliance Textile Industries was a private limited company whose growth was mainly debt-financed. The outstanding debt liabilities in 1975–76 show that public sector banks and ICICI were its major creditors[7]. In fact even before Reliance Textile Industries became a public company, ICICI became a minority shareholder in it. In 1976–77 Reliance Textile Industries also made arrangements with financial institutions for term loans to finance a substantial part of its proposed expansion project. The financial commitments made by the institutions amounted to Rs. 857 lakhs, nearly 69% of the total project cost of Rs. 1,250 lakhs and nearly half of the value of the company's assets at that time, including foreign currency loans of Rs 239 lakhs. All the major public sector financial institutions— IDBI, IFCI, ICICI, UTI, LIC and GIC and its subsidiaries were involved in this arrangement. Far from being starved of funds by them, the Reliance group appears to have succeeded in securing significant support from public sector financial institutions and banks at a fairly early stage in its history.

But there is more to the story of how the public offer of the equity shares of Reliance Textiles at the end of 1977, and its subsequent listing on the Bombay and Ahmedabad Stock Exchanges in January 1978, came to be. According to the official statement by the company in its Annual Report for 1976–77, this move of listing the company was immediately prompted by the condition for the same laid down by financial institutions while granting

[6] The source cited is India Unbound: From Independence to the Global Information Age by Gurcharan Das.

[7] ICICI is presently a private sector bank. It was originally however a publicly sponsored industrial development bank which though created in the private sector, with shares held by banks, insurance companies, and international financial institutions, became effectively a government company with the nationalization of banks and insurance.

assistance for Reliance Textiles' expansion projects (which reflected the normal practice followed by these institutions that time). In order to comply with that condition of stock exchange listing, the then existing shareholders of Reliance Textile Industries offered a part of their holding for sale to the public[8]. That first public offer and the subscription to it thus *did not in fact bring any additional finance into the company* because it only amounted to a change of ownership of existing shares. Its success however may have helped reveal to the group the possibilities that existed, which they subsequently exploited successfully.

4. Business Groups as Gap Fillers: A Critical View

The theoretical antecedents of the view that business groups are responses to institutional voids lie in the theory of the firm and the Leibensteinian theory of entrepreneurship (Foss, Lando and Thomsen, 2000; Archibald, 1987; Leibenstein, 1968). The essence of this view may be outlined as follows. The successful undertaking of industrial ventures requires the identification of profitable ventures, securing finances and the necessary technical know-how, organizing all the corresponding inputs including labour and managerial talent, and successful selling of output. Entrepreneurship enters the picture when all information, techniques, inputs, and managerial talent are not available in the market through routinized market transactions. The specialized function of entrepreneurship is to fill the consequent gaps and the degree of its scarceness increases with the extent of these gaps. In developing countries these gaps are yawning because markets for information, risk, capital, labour, and products are either completely absent, ill-developed if not so, or at least highly imperfect. In such circumstances, business groups acquire prominence because they can contribute to more efficient allocation by utilizing their generic non-marketable or non-marketed strengths—like access to privileged internal information and in-house managerial talent; access to capital either from internal sources or from external sources by leveraging on the reputations gained in other activities; or being able to similarly use their existing reputations in new product markets, etc.

Like the business group, the managing agency system that emerged in colonial India was a controversial institution, with some emphasizing its virtues and others its dark side. What is however intriguing is that in a literature now mostly decades old and rarely read, the virtuous portrayal of the managing agency system and the associated phenomenon of a handful of European managing agency houses dominating the industrial sector, was also based on a strikingly similar gap-filling argument as that currently used for explaining business groups. The sample of these views presented in Table-6 would make this clear. The reason for amazement at this similarity lies in the

[8] This was preceded by some other changes in the company which have not been delineated here.

following. The economic and institutional context in which the managing agency system first emerged has changed in many important ways in the over a century long period since then, particularly in relation to the size and diversity of the industrial structure and the range and depth of supporting institutions and markets. The system itself and the European controlled managing agency houses have also long disappeared from the Indian scene. If however the explanations for the dominance of the foreign controlled managing agency firm centred house then and of the indigenous business family controlled group today are both valid, it would mean that nothing much has changed and the same institutional voids continue to characterize the Indian context of today. Alternatively, one can doubt the validity of these explanations, and there are good reasons for such scepticism.

Table-6

The Efficiency of the Managing Agency System: Some Views

Lokanathan (1938)	"The system of managing agents made it possible to administer and manage industrial ventures with a few able leaders, and thus it was possible to effect great economy in the labour of higher grade administrative staff. On the other hand the flow of British capital to Indian industry was greatly facilitated by a system which enabled control to be vested in British hands….The lack of indigenous capital and Indian industrial leadership gave the British merchants their opportunity. The available British capital seeking investment found among these British merchants just the right sort of men who could safely entrusted with it." (pp. 20–21)
	"Investors who had any money to invest in industries were willing to put their money in any enterprise promoted or backed by a reputable firm of managing agents. The imprimatur of a managing agent was found essential for the successful flotation of any public company….industrial finance was entirely provided either directly by the agents or indirectly through their guaranteeing the banks. In short, managing agents became the pivot of the whole industrial system." (pp.23–24)
Das (1938)	"The rise of the managing agents was due to the fact that that they fulfilled the role of promoters and pioneers in many of the newly established industries in India; they came into prominence because it was they and they alone who could supply a regular stream of trained and efficient managers; and they gathered power as they found that the capital market was notoriously shy, and that industry looked to them for financial aid, both direct and indirect." (p. 50)
Brimmer (1955)	"…the system evolved out of attempts to overcome two limitations on the appropriation of business opportunities then prevailing in India: (1) a shortage of entrepreneurial ability and (2) a shortage of venture capital." (p. 560)
Basu (1958)	"In the beginning of the nineteenth century, India offered plenty of opportunities to enterprising businessmen. There were, however, important

	obstacles in the way of the exploitation of these business opportunities. First, there was a shortage of entrepreneurship; secondly, there was a dearth of venture capital; and last but not the least, there was a lack of technical and particularly managerial knowhow. The managing agency system was evolved to meet this challenge." (p. 1)
	"The bone round which the "flesh and sinews of Indian industry" have grown is the system of managing agency. In a country where the banking system was neither very developed nor pervasive, where a well organised capital market did not exist and where the geographical factor of long distances from ports to the centres of production and absence of major sea ports providing access to world markets were the characteristic features, the contacts which enabled Indian trade and industry to take advantage of a rapidly expanding world trade were supplied by the managing agents. The benefits of group management and organization, of specialist and technical services which a single mill, or mine or tea garden could not afford were also secured under the system." (p. 5)
Kling (1994)*	"Thus the agency house was the only sub-system in the economy with the capital, business experience and continuity to provide the entrepreneurial and managerial talent." (p.87)

* Originally published in 1966, Journal of Asian Studies, 26(1), 37–47.

The first such reason is that both are necessarily logically incomplete for explaining what they are supposed to. The possession by particular managing agencies or business groups of generic gap filling abilities may serve as an explanation for their success in a diverse set of industries. The scarceness of this ability may also be offered as the reason for the dominant role of these agencies or groups in performing the entrepreneurial function. But as emphasized earlier, these do not imply the multiple company form characteristic of both the managing agency houses and business groups in India, and in the latter case even found amongst relatively smaller firms. Neither can the other crucial feature of the managing agency system, the contractual vesting of the responsibility of managing companies to a managing agency, be derived from the conception of entrepreneurial scarcity. A single corporation which inherently has a common management is as suitable to the use of generic entrepreneurial abilities in a wide range of activities and centralized control over large amounts of capital. In other words, there is no obvious causal connection between institutional gaps and the emergence of the specific organizational forms of the managing agency house or the business group, and no clear statement is offered on what this connection is.

The explanations of business groups or the managing agency system as responses to institutional voids also share with the theory of the firm a combination of important weaknesses. They are portrayed as efficient organizations like the firm is in the theory of the firm, and in either case it is their efficiency enhancing role that serves as the raison d'être for their existence. Both theories are however silent on how such efficient organizations spontaneously emerge from within the system to fill institutional gaps, and acquire optimal sizes and structures. Even if it is accepted that firms and business groups actually perform an efficiency enhancing function, that does not automatically explain why they exist just as the fact that a tree serves the function of providing shade does not explain its existence. These theories do not however even go up to the point of establishing that the firms or groups actually maximize efficiency. All that they say is that given a set of conditions the working of the market alone cannot be efficient and firms or groups are also 'necessary' for that purpose, from which it does not follow that the firms/groups actually in existence are the most efficient. For that to happen, it must also be the case that the process by which firms, groups or entrepreneurs get picked out to play these respective roles can sift out the most efficient ones. Neither the theory of the firm nor the theory of business groups as responses to institutional voids offers a satisfactory argument about why that should be the case.

Probing further on this question would also reveal that notwithstanding the similarities of their questions and their approach towards answering them, the two theories in combination leave us with a very ambivalent position on the relationship between the development of markets and institutions, efficiency, and aggregate concentration. Aggregate concentration as discussed earlier can be based on the separation of ownership and control of capital. Historically, it is precisely the development of markets and institutions in capitalism, and specifically of the financial system, which facilitated such separation and consequent concentration of control in a few hands. In the theory of the firm, this concentration has been explained on efficiency grounds, with large sized firms being seen as the product of the process of economizing transaction costs by the internalization of transactions (Williamson, 1981). In other words, in the theory of the firm concentration is 'efficient' and exists not despite but because of the development of markets and institutions. In contrast, in the theory of business groups, concentration is efficient because markets and institutions are underdeveloped. The level of entrepreneurial scarcity and the ability of the system to pick out the most efficient entrepreneurs and firms it would seem are therefore both independent of the extent of development of markets and institutions!

In reality, the efficiency argument of either kind basically skirts around the question of how this picking out process actually happens. They avoid recognizing that the inherent relative efficiencies of different potential entrepreneurs/firms are essentially unknowable and incomparable at the stage of the allocation of resources between them when the results of the use of resources can only follow in time from their allocation. This is a 'gap' that cannot be overcome no matter how developed markets become. They can only factor this into their working as they do when reputations and past record enter into the decision-making process of market participants. Moreover, no matter how skilful an entrepreneur or an organization might be, they cannot fill all possible gaps out of thin air and some command over resources is a precondition for even gap filling. Both of these mean that the possession of some *relative* monopoly power, based either on the prior ownership of some resources or some other competitive advantage in accessing markets, plays a critical role at every point of time in determining who or which firms are able to perform the entrepreneurial function[9]. Whether based on ownership or advantageous market access, on market or non-market factors, this monopoly power is also cumulative in nature. For example, the ownership of large amounts of capital strengthens the ability to raise capital from the market. Similarly, monopoly power in one sphere translates into monopoly power in other spheres too—monopoly in the command over resources constitute the basis for monopoly in output markets; monopoly in know-how is translatable into monopoly in product markets and the two together into monopoly power in capital markets. Thus markets may reward and reinforce rather than penalise monopoly power and nowhere would this be truer than in capital markets because the greater is the monopoly power of a firm the greater would tend to be its returns and lower the risk associated with them.

The fact that individual firms/entrepreneurs enjoy such monopoly power does not necessarily mean that they are not subject to competition. However, the extent to which command over it is concentrated would matter in determining its economic, social and political implications. This monopoly power is also something that requires constant reproduction. Some elements of this monopoly power have a generic quality—for example the ownership of financial resources or reputation based command over them—which aids in such reproduction[10]. Others like possession of product-specific technological know-how or market power are less generic in nature and therefore are more vulnerable to erosion over time. A few factors like proximity with those in positions of political and public authority may be contingent or transient in nature. Each of them would however matter in shaping the course of different firms.

Entrepreneurial ‘scarcity’ and concentration may thus be common effects of the presence of such monopoly power rather than the underdevelopment of markets, and concentration should not be expected to simply disappear with the filling of the institutional voids associated with that underdevelopment. What is the nature of the monopoly power underlying concentration in any specific context? What does it induce firms to do and what factors determine their success or failure in reproducing it? What role do the business

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9 The explanation of European dominance by recourse to the assumption that they alone possessed the necessary expertise for initiating and running industrial ventures in the early stages of industrial development has been effectively challenged on these lines, and that dominance shown to have its roots in a monopoly power related to a specifically colonial context (Bagchi, 1980 and 1994; Ray, 1985 and 1994).

10 Amsden and Hikino (1994) base their explanation for the success of conglomerate groups in late industrialization on the accumulation by them of generic abilities.

group structures play in this process? What kind of interaction takes place between business, society and the State? If business groups in developing countries are to be properly understood, these are some of the many issues worth investigating. The portrayal of business groups as efficient organizational responses to underdeveloped market conditions does not answer such questions. It only precludes their asking.

5. Conclusion

The literature on business groups in developing countries contains not one but many different conceptualizations of such groups. None however provides a clear cut and precise conception of a business group which is in tune with the reality of such groups. That they are unable to identify a set of features that can be said to be common to all groups has been illustrated here in relation to Indian groups. Multi-company structures are actually quite common in India, not as stable arrangements of coordination between different firms, but as the form that individual firms often take and retain even as they change and transform themselves over time. Yet such are the diversities amongst groups along many different dimensions that it is hard to pin down a set of stylized facts that can be used to separate business groups from non-groups. This does raise doubts about whether it is at all possible to identify anything beyond the multi-company form, which itself concretely can take many different shapes—that is common to all groups. Might it not be better to simply acknowledge the fact that there is a lack of identity between companies and firms because the multi-company structure serves some useful purposes for those who create it, try and discover what these are, and take such structures into account in studying what firms are and what they do?

The lack of correspondence between the reality of Indian groups and general conceptions about groups may of course be attributed to the specificities or peculiarities of the Indian case. That however is precisely the point that needs emphasizing, namely that not only intra-country but also inter-country differences could be associated with business groups. Speculating about the reasons for the existence of business groups in developing countries in general, without first identifying precisely what features are general and what specific, may be consequently a pointless exercise. Particularly important in this regard is the need to first establish whether groups in their specific contexts are firms or coalitions of firms because of the fundamental differences between these two multi-company structures and the questions they throw up.

The deficiencies in the conceptualization and explanations of the business group in the literature do not however simply reflect the absence or dearth of information in the hands of those attempting to comprehend this institution. That information gap is also produced by a prevalent approach that does not attach value to the essential task of putting together and sifting at least the basic relevant information on business groups and is content with proceeding from extremely superficial observations of the real world towards constructing explanatory models about it. Consequently, even information that could be reasonably easily harnessed is not always made use of as exemplified by the numerous instances of lack of correspondence between perceptions and Indian reality that have been highlighted here. That this has even led to gross errors in the study of specifically Indian groups should serve, as a warning for those attempting to study business groups anywhere in the world and as a caution for the consumers of the literature on the subject.

Finally, the analysis of business groups needs to move away from trying to explain them as efficiency enhancing responses to institutional voids. Such an approach is firstly completely a historical and static—attaching little significance to either the shifts in the environmental and institutional context of groups or the fact that these groups themselves are entities that change and get transformed over time. It also assumes, as the theory of the firm similarly does, precisely what it needs to establish—that the economic, social, and political mechanisms of developing countries and their international context work towards creating in the form of a group an efficient organizational structure and also ensure an efficient distribution of economic activity between different such groups. In the process of making these assumptions of how the system works in relation to business groups, however, it devalues the importance of an examination of its actual working. It is an objective examination of this working, unhindered by any prior conception that the historical function of business enterprises is to deliver efficiency and the proof of that lies in their success, which is necessary.

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