

ABSTRACT

How do business groups add value? This question has engaged scholars researching the phenomenon. Till date, the value adding potential of diversified business groups has largely been attributed to institutional voids caused by imperfect institutions in their operating environment, typically emerging economies. The extant understanding is that business groups add value by playing the role played by well-developed market institutions in advanced economies of the world viz., efficient allocation of scarce resources that includes financial and human capital, adjudicate contractual disputes between parties fairly etc. Consequently, the expectation was that in emerging economies, as they embraced pro-market reforms and set up advanced market like institutions, business groups as an organizational form will decline.

However this has not happened. Across the world, business groups have persisted despite adoption of market-oriented, institutional-voids-eliminating reforms by many emerging economies.

In this dissertation, we move towards understanding persistence of business groups by unpacking the benefits business groups afford their affiliates due to their unique features – *diversity, form and ownership*. We argue that these characteristic features, individually and collectively, enable business groups to add value to their affiliates by providing them with access to greater set of opportunities. We claim that access to diverse business portfolio and its attendant resource base, by the virtue of being a member of the business group, affords affiliates privileged access to opportunities not available to non-group firms. Similarly, we suggest that the multi-entity organizational form mitigates some of the internal governance costs associated with diversity, and broadens the entrepreneurial judgment of the business group personnel, thus enabling effective sensing and seizing of opportunities by affiliates.

Further, we present the core owner of the business group as playing the vital role in integrating the diverse resource uses and capabilities spread across multiple affiliate firms within the group, through both direct influence and by creating a shared group context. Finally, we argue that these unique features of business groups enables affiliate firms to garner a greater share of the opportunities that typically accompany market-oriented reforms. We investigate our predictions on a sample of Indian group and non-group firms during the time period 1994-2010 and find support for our thesis.

The central aspiration (and we believe the contribution) of this dissertation is to change the course of extant conversation on business groups; move it beyond the current discourse that views them as organizational anomalies. We present the business group as a distinctive and stable organizational form, in which the diverse businesses are organized as independent legal entities and tied together under a shared ownership and administrative context. More importantly, we position the business group organizational form as a potential alternative to the traditional multi-divisional form. This, we believe, has significant implications not only for those who study and manage business groups, but also for the researchers and managers of large diversified organizations across the world, including developed economies.