Can Business Groups Survive with Institutional Development?
- Hansoge, Marisetty, Singh

Discussion by
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Summary of the paper

- Model the relative advantage and adaptation strategy of business groups when faced with higher product market competition

- Supporting empirical results
  - Business groups continue to be value enhancing in later period of the sample
  - Groups that expand into related areas in presence of higher product market competition lose value
  - Groups that have deep pockets and/or expand into unrelated areas add value
Comment: Pitch of the paper

- Paper is pitched as whether business groups can survive “Institutional development”
- This usually means legal systems, financial market development etc.
- This paper takes institutional development as product market competition laws
- Can simply pitch it as effect of higher product market competition on business groups
Link between theory and empirics

- **Diversification**
  - Modeled through cost complementarity
  - \( C = c(q_{1B} + q_{2B}) - \omega q_{1B} q_{2B} \)
  - In empirical work, this is *entropy* calculated at 5 digit NIC level: \(-\sum p_i \log(p_i)\)

- **Relatedness / Unrelatedness**
  - Related = products are substitutes …. Ok!
  - Unrelated = products are complements …. Why?
Model: some intuition

- Business Group in related industries is not viable
  - Anti competition laws hurt more when BG in in related industry
- Cournot competition: firms choose quantities
- Consider extreme relatedness … same product

Total quantity goes down
Price goes up
Profit of one in transformed industry is higher than earlier. But less than double.
Furthermore, consumers are hurt
Comments about empirics

- Include firm / group and year fixed effects
- Increase is financial firms within groups because of handing out banking licenses later in the sample?
  - Might not have been purely a group choice
  - RBI choice might reflect which groups are “good”
- Growth opportunity control: depreciation/sales
- Group liquidity measure is negative on average!
  - Total net working capital (excluding inventories) and cash flow from operations of all members
Conclusion

- Interesting study with intriguing results

- I enjoyed reading the paper, learnt a lot, and look forward to reading the next version!