PARENTING ADVANTAGE IN BUSINESS GROUPS OF EMERGING MARKETS

Anurag Mishra and M. Akbar

The concept of parenting was originally proposed by Campbell et al. (1995) in the context of conglomerates in developed economies. In contrast to the divisional structure of conglomerates in developed countries, business groups as found in most emerging consist of a network of affiliated yet independent firms. This difference in the structure of multi-business firms in developed and emerging markets solicits a revisiting the concept of parenting as originally proposed by Campbell et al. (1995). Does ‘parenting advantage’ exist in emerging markets? If so, what are the sources of ‘parenting advantage’? Given the multi-firm, multi-business group affiliated setup how does ‘parenting’ differ in emerging markets when compared to conglomerates of developed economies? How does the business group structure and associated managerial practices impact ‘parenting advantage’ of firms affiliated to a business group in emerging market? This paper examines some of these critical yet unanswered questions. The contribution made in this work is threefold. One, we redefine the concept of ‘parenting’ as relevant to business group structure found in emerging markets like India. Two, we articulate the drivers of parenting value for affiliate firms bound in a business group structure. Three, the paper discusses the nuances of parenting and its advantages in an emerging market, in contrast to its conceptualization in developed economies. Finally, extending the parenting literature to a wider context of an emerging market is an important outcome of this work.

Key Words: Business Groups, Parenting, Emerging Market, Diversified Firms, Value Drivers

INTRODUCTION

BUSINESS groups have dominated the Indian private sector since the British regime; a legacy carried and groomed post India’s independence (1947). Groups like Tata, Birla, Walchand, Thapar and Singhania are examples of Indian businesses that continue to dominate the Indian private sector post independence. In the initial years policy and quota restrictions prevented capacity expansion and entry of these groups into many areas. As a result groups entered into any business for which they could get licenses. Once a license was bid competition in that particular industry segment was foreclosed and groups turned super normal profits. The key skill for many part of the industrial history (until 1991) had been the group’s ability to manage the highly regulated environment. As a result most Indian business groups emerged as highly diversified consisting of many group affiliated firms. This peculiarity of the Indian business environment resulted in groups entrenched into some of the industry segments with little or no competition. The focus of the groups therefore on internal competitiveness and productive efficiency was illusive. In 1991, the Indian industry witnessed a ‘competitive shock’ which affected most business groups’ ‘way of conducting business in India. Suddenly the regulatory and restrictive policy regime was dismantled as industry became open to both domestic and international competition. Thereafter the market dynamics rather than the government determined the number of firms, new entrants, level of competition and competitive threats. Subsequent to the ‘competitive shock’ most Indian business groups restructured to align the strategy-structure-environment fit. Surprisingly in
spite of rife speculations that the new competitive landscape would decimate groups in the long run, evidence has been counterintuitive. Most Indian business continued to grow and flourish in the new environment. Group affiliated firms in India accounted for more than eighty percent of the private sector’s sales, profits and assets in 1993 (Khanna, 1997). Post liberalization business groups continue to dominate the Indian industry with better valuation with profitability being one of the key drivers, when compared with firms that do not belong to a group (Mishra and Akbar, 2007). This suggests that Indian business groups have evolved as a robust business form and have a major role to play in the economic growth.

In many sense business groups as a form is ever-present in an emerging market like India. Unlike groups in most countries (Goto, 1982, Strachan, 1976) firms in India belong to one group and the movement of firms between groups has been more or less absent (Khanna and Palepu, 1999a). This characteristic of Indian business groups allows us to easily identify group membership and analyse “parenting advantage”. In the section that follows immediately, we discuss the parenting literature as it exists in its current form and context of developed markets. Thereafter, we define the term “parenting advantage” in the context of business groups in emerging markets like India. The third section of the paper discusses the “drivers of parenting value” in terms of the advantage and costs of parenting. The drivers of parenting value conceptualised by the authors is summarized in Fig 1 and is an important contribution the paper makes to the business group and parenting literature. Finally, basis our definition of “parenting advantage” and “parenting value”, we discuss how the concept of parenting differs in an emerging market context. The nuances of parenting in emerging markets as opposed to its existing understanding in a developed market context is elucidated in this section and is another important contribution the paper makes to advance parenting literature.

Does “parenting advantage” exist in emerging markets? If so, what are the sources of “parenting advantage”? Given the multi-firm, multi-business group affiliated setup how does “parenting” differ in emerging markets? How does the business group structure and associated managerial practices impact “parenting advantage” of firms affiliated to a business group in emerging market. More importantly how does “parenting advantage” impact business group structure and managerial practices? These are some of the critical yet unanswered question that we have examined in this paper.

**PARENTING LITERATURE**

Campbell *et al.* (1995, 1998 and 2002) was the first to propose the concept of ‘parenting’ in multi division conglomerates in the developed economy context. The authors argue that multi-business companies aligned to a parent consists of businesses which potentially could be better off independently (Campbell *et al.* 1995). Therefore such a parent firm’s existence can be justified only if it creates value for these businesses. The authors identify corporate parent as, management layer that is neither customer facing nor profit churning as their divisional businesses. Yet there existence entails costs that manifests not only as corporate overheads but also includes the burden of reporting by strategic business units. Thus the authors bought into purview the tension between the central and divisional management proposing that parents need to justify themselves in terms of the benefit they bring to divisional businesses over and above the costs they entail. This they termed as ‘parenting advantage’ proposing that corporate strategy should add value to individual businesses. The authors suggest that a parent company should be creating more value than a competing rival parent assuming it has similar businesses in its kitty. Some of the advantages the authors identify that the parent brings are its influence on improving performance, specific skills and deeper understanding of the individual business (Campbell and Goold, 1998).

Some of the fallacies of a parent – unchecked interference, distance from customers and pursing non-existent synergies could be value destroying. As the case of spin-offs, leveraged buy outs, divestitures have shown individual businesses are better off on their own, take decisions being closer and better informed about customer and capable of collaborating with other businesses in the form of alliances and joint ventures for synergistic gains. A parent creates value when it seizes opportunity to improve divisional performance, has the requisite skills and resources, sufficient understanding of the businesses and prudent discipline of restraint from value destructive interventions.

**What does Parenting mean for diversified business groups?**

Campbell *et al.* (1995) suggested a balancing role of the corporate parent and benchmarking of parenting advantage vis-à-vis rival parents. However the structure of businesses in many emerging markets like India requires us to revisit the assumption of the definition of
parenting proposed by Campbell et al. (1995). Such a cautioned approach as we shall see helps us build on the ‘concept of parenting’ in emerging markets. In the discussion that follows we define parenting, examine the concept with respect to differences in the organisation of firms in an emerging economy vis-à-vis developed economies, drivers of parenting value, parenting advantage and costs and the composition and role of the parent. The contribution of the work is in extending the concept of parenting to the organisation of diversified business groups in emerging markets. Unlike preceding work our approach to parenting is outward oriented and as a departure from prior literature does not limit its arguments to the role of parent as managing the tension between divisional and central management as a central thesis.

Defining ‘Parenting’ in the context of Business Groups

Khanna and Palepu (2000) and La et al. (1999) find that business groups are common across many emerging markets of the world. Business groups are a collection of independent firms with legal entity under common administrative and financial control with interlocking share ownership of families in every firm. The business group characteristics vary across countries. The concept of business groups is conspicuous by its absence in the United States. Diversification takes place at a firm level and well diversified firms are called conglomerates. The typical conglomerate consists of divisions that are formed through mergers and acquisitions. In most emerging markets mergers and acquisitions are a recent phenomena and business groups diversified through the creation of new firms into new segments. Besides the interlocking between affiliate firms and secrecy of ownership information makes business groups immune to acquisition attempts. Latin American groups have intricate pyramidal holdings with close state contact. Several Indian business houses are family owned group firms with intricate cross holdings of ownership.

Granovetter (1995) defines business groups as ‘collection of firms’ bound ‘formally and or informally’ and characterised by an ‘intermediate level of binding’. His definition of business groups aptly excludes set of firms legally consolidated into a single entity and firms that are bound by short term strategic alliances. Khanna and Rivkin (2001) define business group as a collection of legally independent firms bound by ‘formal and informal’ ties and ‘acustomed to take coordinated actions’. The maze of ties that bind groups span economic, financial, social, formal, informal, ethnic, cultural and regional etc. According to Strachan (1976) groups consist of ‘diverse firms’ bound in a ‘long term association’ with each other. The author suggests that group identification cannot be bound by a single defining metric. As an example, abolishing interlocking directorates may be insufficient to impair the visibility of groups as a collection of firms. The business group defined by Leff (1978) is a collection of firms with business interest across various markets, bound by common administrative, financial control and relationship of interpersonal trust on the basis of similar personal, ethnic and commercial background.

Authors have identified different types of ties between business groups which include administrative, financial, family, ethnic, society, religion and regional ties. Group member firms rely on each other for financing, share a common brand, entrenched reputation in the market and draw on a common labour pool (Fisman and Khanna 2004). Common family ownership of groups acts as a surety for contract enforcement within group member firms (Granovetter 1995). It also signals a threat of repercussions of incomplete contract by suppliers on business prospects with other group affiliates and network of other groups. Given these inter linkages business groups are able to ensure that contracts are honoured in the face of weak legal enforcement by the state.

Given the structural differences in multi-business firms the concept of ‘parenting’ with reference to business groups in emerging markets needs to be investigated further. The concept of parenting as it applies to business groups and its difference with existing conceptualization is the central theme of this paper and has not been dealt with in prior literature. This is an important contribution we make in understanding the success of business groups in emerging markets. But first we define ‘parenting’ as a state in which business groups as a ‘collection of legally independent firms’ bound by ‘formal and informal’ ties cooperate for resources and take ‘coordinated actions’ so that cooperation is efficiently achieved for the productive deployment of resources into new opportunities repeatedly. This definition builds on existing conceptualisation of business group while extending it in terms of ‘parenting’ and the associated advantages to group affiliated firms from the ‘parenting’ state.

Thus the definition extends the interpretation of business groups in existing literature. However, it differs from the earlier definitions in one significant and unique
way. It brings in the concept of ‘cooperation’ which was first talked about by Barnard (1938) in his treatise ‘The functions of the executive’. Although Barnard’s (1938) concept of cooperation related to the enlistment of individuals, it can also be extended to explain the enlistment of a group of firms. Groups are a sociological extension of firms in societies riddled with resource constraints – financial, tangible and intangible; and exist where resources need to be mobilised mainly through cooperation. A coalition of firms in the form of a business group embodies such cooperative arrangement. Having thus defined ‘parenting’ we proceed to articulate the sources of parenting advantage in business groups from a resource perspective. Some of them being:

- Leads to cooperation for resources - pooling, sharing, leveraging and funding each others growth.
- Securing and provisioning of resources to support ‘child’ firm’s foray into new industry segments by other senior group affiliates. Cooperation in the long term helps successive entry into industries sans prior experience, whenever opportunities arise. Reliance Industry’s foray into Telecommunication sector is an example of a new industry entry even though the group had has no prior experience in operating in this segment.
- Leads to a position of competitive advantage – arising from the ability to pool and quickly deploy resources profitably to tap new industry opportunities.
- Creates scale for shared services and knowledge sharing systems within the group structure
- Use existing social and business networks, which is a positive spiral to leverage for new businesses of the group
- Allows leverage of parent reputation by member firms, creates opportunities for building cross linkages and create markets within group firms.

The definition by itself is a departure from limiting the phenomena of business groups narrowly to the ‘market inefficiency’ argument of transaction cost economics although, it does not exclude it. Through the definition we are recognising the possibility of other ‘motives’ to the existence of group structure in emerging markets primarily the benefits of ‘parenting’ that exist for group affiliated firms.

Drivers of Parenting Value in Business Groups

Having defined the concept of a parent in the context of an emerging market like India and the beneficial existence of the dominant organisation form viz. the business groups, in this section we conceptualise and discuss some of the drivers of parenting value (refer Fig 1).

Reputation

Reputation built by diversified business groups is easily leveraged by member firms to gain market access. Information asymmetry is large in most emerging markets. Hence consumers are better assured of buying contract enforcement through engagements with larger groups that have built reputation over longstanding operations. The relation with a reputed parent gives member firms an advantage which is more pronounced when either the firm is a new entrant or prepares to expand its presence in another closely associated market segments. With a century old reputation, ‘TATA’ is one of India’s most successful and well diversified business groups. The TATA Group has its presence over thirteen industries as diverse as automobiles, steel, cement, mining etc (PROWESS 2006). Its most recent diversification foray has been into the telecom and insurance sector. The group leverages its reputation acquired through centuries of trust and pioneering social development ethos long before corporate governance and social responsibility became management buzzwords. This enables group affiliated firms to leverage the TATA brand name across diverse industries effortlessly.

However both underperformance and ill repute can adversely affect the business group and its constituent members. A badly performing member firm can fuel lack of confidence amongst the shareholders of other member firms in the group. A member firm in a controversy warp can instill negative publicity to all the other firms of the group. Investors may shy away from their holdings in all other affiliate firms if any of one of the affiliate firm gets embroiled in a controversy. In the controversial graft case involving the owner of Flex Industries Limited (Mishra and Akbar, 2005a) the stock prices of all group affiliated firms were affected negatively. The shareholders divested their holdings in all other affiliate firms if any of one of the affiliate firm gets embroiled in a controversy. The poor light in which Flex Industries was seen by the market threatened to jeopardize valuation of Flex Engineering, Flex Food and FCL Technologies which were all affiliated to the parent Flex Industries.
SYNERGY

Campbell et al. (1995) suggested that a parent in a developed economy pursues an important role of identifying lateral synergies across its various businesses. Parents in business groups also perform an important role of identifying lateral synergies. However, unlike in the case of multi divisional business of developed economies, the case for a market relationship between different businesses is much stronger in business groups. As firms are separate legal entities they are driven by profitable transactions. Although membership with a parent allows for access to products and services at cheaper than market rates and without resource bottlenecks yet the case for cross subsidisation of underperforming units is weak (Meyer, 1992) and much easily exposed by individual financial reporting processes. Cross buying arrangements serve two important roles. One it immediately creates a market for firms in an otherwise underdeveloped and immature market. Secondly cross purchases also assures that raw material and intermediate goods supply is not constrained in an otherwise resource constrained and resource rationed environment. TATA Technologies is an offshoot of the information technology department of TATA motors. TATA motor’s IT department skill of technology implementations in the manufacturing sector was easily transferable to all its other industry segments. The TATA management separated the IT function into an independent firm. Today the company does all the project implementations for the entire TATA group. A substantial part of the revenue pie comes from customers external to the TATA group through external market transactions.

However, in spite of the advantage that exists for parents in a business group setting, it is not uncommon for parents to pursue non-existent synergy and build cross linkages that are bottlenecks. The Essar (Ruia) group had a well established reputation in the power, construction and shipping industry, until its foray into many unrelated diversification moves in the early and mid 1990s. Such an exposure created a liquidity crunch and the company defaulted in the Floating Rate Notes commitments to investors. Elusive synergy from its steel venture, poor project planning, delays in completion and reduced return on investment pushed the group to a crisis with many diversification moves failing to deliver the desired results. Further complex mesh of shareholdings of other group companies in Essar steel at the behest of the promoters affected the groups reputation adversely. As investors protested and financial institutions tightened there noose, the group was forced into a corporate debt restructuring program.

Cooperation for Resources

A resource constrained context has given rise to unique organisational forms and coordinating mechanisms in many developed countries. A cooperative form of organisation is atypical of an emerging economy like India. The National Dairy Development Board (NDDB) is an example of a highly successful cooperative organisation the benefits of which percolate to the lowest strata of the society. The joint family system in countries like India fosters cooperation amongst members. Business groups are family enterprises with a large part of the ownership distributed amongst close family members. Most of the affiliated firms are managed by close family aides. The role of the parent in a business group therefore is building a cooperative front of all its membership units. Such a coalition is an imperative for bidding contracts, acquiring rights and gaining market access, as bureaucratic and governmental control, information asymmetry and underdeveloped institutions impair competitive functioning. Khanna and Palepu (1997a) in their work discuss some of the peculiarities of an emerging market. In a resource constrained environment cooperation has its merits. Pooling of resources by member firms, coordinated by the central parent (managed by the owner entrepreneur) lowers the investment cost, permits joint bidding, enables quick deploy-ability and lower project turnaround times and better project management skills. The core competence of Reliance Group is its superior project management skills. The position of the group comes from its ability to coordinate resources and build superior value delivery chains across industries. Such a cooperation for resources as in business groups results in better access to markets, superior managerial skills and superior financial management. Because of the role of running a cooperative, the parent gains a higher commitment to succeed from member firms. In return for pooling of resources and information sharing member firms gain larger market access, profit sharing, shareholding in return of the services to other members and joint ownership.

However there are disadvantages of such cooperation for resources. For one, shareholding pattern may become quite complicated with cross holding of firms. This can be a disadvantage because dismembering an underperforming firm is a tedious task. Significantly, market efficiency may be compromised as member firms
are more or less immune to mergers and takeover bids. Secondly, some of the affiliate firms may be stuck with inefficient and ageing resources. Besides some of the affiliate firms may end up paying for costly managerial resource, which is a central resource in most business groups. Thirdly and most significantly, cross holdings across member firms may result in the owner manager tunneling (ferreting) of funds from profitable businesses with low owner rights to businesses where his ownership rights are dominant (Bertrand et al., 2002). Thus minority shareholders interest may be compromised with. The more distant the shareholder from the parent the more he is probable to loose out. This phenomenon is unique to a parent business group set up in most emerging market and unknown to exist in developed economies.

Opportunity Identification

At the helm of affairs in most business groups is the owner manager, the principal who coordinates the role of the parent. Typically the principal is a first or second generation entrepreneur and is adept at opportunity identification and conversion. Opportunities at the firm level are handled by the member firms. However the entrepreneur owner’s expertise lies in identifying unbound opportunities that may span new and unrelated industry segments. Being highly networked, revered and closely connected with policy forming bodies, the owner entrepreneur has an eye as well as informational edge to preempt opportunities in new industry segments. This is a very important function performed by the owner manager and expands the role of the parent well beyond prior conceptualisations. Hence in spite of the size of the business group the entrepreneurial opportunity identification domain does not diminish and as a function is not relegated to managers alone. The owner entrepreneur takes hold and control of opportunity identification and conversion, new industry entry and potential unrelated revenue streams. This is the primary reason why business groups in emerging markets like India are well diversified. Unlike diversification in developed economies which reduces share holder value, there is no evidence to prove that diversified business groups in developing economies reduce shareholder value (Khanna and Palepu 1998, Khanna and Palepu 2000, Mishra and Akbar 2005b). The positive value is orchestrated by the unique organisation of business groups which allows affiliate firms to be specialised while the central parent’s role is to create more opportunities for affiliates within and across their industry segments. Recent foray of TATA and Reliance group into a new and upcoming telecom segment demonstrates this moot point.

However even unrelated ongoing opportunity identification has its costs (Mishra and Akbar, 2005b). Excessive diversification may result in dilution of investment, lack of focus in various projects and share holder value erosion. Tapping newer opportunities might be at the cost of existing growth opportunities of other businesses. Lastly, excessive diversification increases the complexity of the organisation and therefore may result in higher costs and non existent synergies across various businesses. Founded in 1873, the Mafatlal group was a well known name in the textile, jute mills and retail business with a host of mills under its banner. In one of its most ambitious project the business group ventured into petrochemicals through creation of NOCIL in 1963. This diversification came at a huge cost. In the 1990s low investment in technology upgradation and a high growth in the power loom sector drained the group’s fledging textile business. Eventually, NOCIL became a small pie to the vision of Ambani’s scale into the petrochemical industry. The Mafatlal group failed to manage its diversified portfolio of business, even when both textile and petrochemical sectors continued to grow rapidly.

CENTRALIZED SERVICES

Many parenting roles arise because centralisation of certain functions is beneficial. Functions which can be run as services for which member firms pay and benefit from lower than market cost of such services. Certainly most member firms do not have the scale advantages of a parent to run such services cost efficiently. Most importantly the search costs and effort for identifying opportunities in the face of information asymmetry in many of the emerging markets is better relegated to the parent. Most of these services also perform an important role of aligning the member firm with a central philosophy and broader vision which are important tenets of achieving coordination and presenting a united front. It is common for parents to centralise many functions such as training and development, recruitment, legal compliance cell, financial reporting processes, liaison, etc. Since in business groups the principal is the owner manager, hence agency-principal conflict is not as severe as found in developed economies. Because of the distance in agent-principal relationship in developed economies the conflict between central and divisional managers dominates. The focus of prior literature (Campbell et al., 1995) has been on managing this tension effectively and beneficially in a conglomerate.
Being an owner the principal’s intermediary function in business groups is dominated by the value centralisation brings to the rest of the businesses. In any case individual and legally independent businesses headed by managing director reports to the board of directors and not to the centralised services. Board membership consists of the owner entrepreneur and his close aides that perform necessary function like opportunity identification, resource configuration, financial control, compliance etc. The owner-manager maintains his pecuniary interest in group companies while supporting them through economic centralised services as well as providing them reasonable independence in running their business. The TATA Administrative Services is the source of superior management talent for all the affiliate firms of the TATA group. The managerial pool it generates is a shared resource available to group firms for leveraging skills and competence across a variety of industries.

However, since many centralised services may not compete with market offerings, they are likely to drive the coordination cost upwards. This is somewhat offset by the advantages of centralising in the face of information asymmetry atypical of most emerging economies. Besides the close aides of the owner manager in the board may bleed group companies with superfluous executive compensation sans norms, monitoring and controls of good corporate governance practices. As the Flex Industries Ltd case (Mishra and Akbar 2005a) demonstrates it is quite common for family members to draw exorbitant executive compensation from affiliate firms in the role of a dummy director.

MANAGING A PORTFOLIO OF BUSINESS

Similar to a multi-division western parent, a multi firm diversified business group with a portfolio of business benefits from a reduced risk. Due to the parenting advantage business group are able to absorb the impact of industry effects that might affect some of the segments. The overall performance of a diversified business group is much more resilient to segmental disturbances in the short run. Investors in emerging economies with information asymmetry are better off loaning to a group rather than standalone firms. This is because parents of business groups have a better comprehension of the opportunities across the various industries it operates in as compared to outside investors (Ghatak and Kali, 2001). Therefore managing a portfolio of business can result in a lower cost of capital for member firms (Ferris et al., 2003), easy access to capital (Ghatak and Kali, 2001) and lesser investment sensitivity (Lensink et al., 2003).

However too large a portfolio may pose special managerial problems and drive costs up. Besides it is possible that unnoticed underperforming units may eat into the value generated from the portfolio. In a portfolio cross subsidization at the cost of profitable firm’s threat looms large even in business groups in emerging markets. Besides the aforementioned ferreting problem may increase with the portfolio size. Besides it has been established in literature that shareholders can manage a portfolio much more efficiently and profitably than a company with diverse interests.

SOCIO-POLITICAL AND ECONOMIC CLOUT

Business groups in emerging markets like India build close relationship with society and fulfill the needs and aspirations of a large employee base. Fisman and Khanna (2004) find that groups locate in lesser developed states much more profitably and foster institutional development and building in under developed areas. In return business groups have a large captive and loyal employee skill base. Because the ethos of the business groups is driven by family values, the same is also represented in its human resource management policies. Business groups are a source of employment for generations of family. Most business groups fund education of bright kith and kin of employees. Besides developing independent townships many social development programs are run for a large skilled semi-skilled as well as unskilled labour. Parenting Advantage stems from close ties with a large and needy constituency on the side of these groups. The entire mega township of Jamshedpur in India has been developed maintained and served by the TATA group. Employed over generations the affiliate companies have a dedicated and loyal employee base. Being a large constituency of the public state intervention is largely unwarranted by the city’s inhabitants. Most services being privately managed, gives the city access to uninterrupted power and water supplies and outstanding township facilities and benefits. Hindalco, the Kumar Mangalam Aditya Birla group company is one of the largest aluminum manufacturers in the country. The township of Renukoot in Uttar Pradesh, developed by the group is home to many social and development projects like adult education, scholarships for the needy, health & sanitation, forestry and environmental programmes. Its other groups companies Grasim, Indo Gulf, Indian Rayon continue to foster development programs that serve the community it works with closely.
Besides the clout of contract reinforcement in underdeveloped markets, a business group structure enables the parent to manage the complexity and cost of maintaining a relationship with archaic regulatory and compliance norms enforced by bureaucracy sharks. But sometimes such a relationship can fuel corrupt practices and stymie competition unconventionally. Many business groups have a significant influence in policy formation which can be twisted to suit the interest of the parent. All these are the costs of parenting which has to be borne by the society at large. The power of stakeholders and the ethics of operating in such a business environment have a significant bearing in controlling errant action as well as complementing reputation of business groups.

How does the Parenting Concept differ in Emerging markets?

In developed economies the parent is part of a conglomerate firm having a divisional structure of strategic business units. On the other hand business groups in emerging economies consist of multi business entities as legally independent and specialised (markets, technology and products) firms bound by a network of relations. Corporate strategy in conglomerate firms of developed economies is deliberated by the corporate headquarters in consultation with their divisional units. Thus the process of managing the tension between divisional and central managers effectively and prudently becomes important and could tilt the value balance either way (Campbell et al., 1995). The issue of cross subsidizing (Meyer et al., 1992, Scharfstein and Stein, 2000) underperforming business units is an impending threat that could undermine performance (Berger and Ofek, 1995) and remain undetected by shareholders that base their investment decisions more on aggregate financial performance for the conglomerate as a whole. Also both overinvestment (Stulz, 1990) and underinvestment (Myers, 1977) threat looms large in conglomerates and shareholders do not have enough information leeway to react to such value destroying investments.

In case of business groups each of the legally independent firms with their own independent shareholding are free to pursue the firm level strategy. The role of the parent is more in terms of monitoring progress rather than deliberating in value reducing activities. The role of the parent is usually performed by the owner manager thus debilitating the agency problems that exist in developed economies conglomerate like organisations. Being manned by an entrepreneur a business group parent is outward looking, opportunity seeking structure with close connectedness and understanding of the different, yet legally independent businesses. These close understanding exists because the owner-entrepreneur-manager has played and continues to play a significant role in the growth and development of the business groups.

**Fig 1: Value from Parenting**

<table>
<thead>
<tr>
<th>Sources of Value Creation</th>
<th>Parenting Advantage</th>
<th>Parenting Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>Can leverage reputation easily across affiliate firms.</td>
<td>Underperformance of members and ill reputation affects the entire business group</td>
</tr>
<tr>
<td>Synergy</td>
<td>Scope for exploiting synergies and building cross linkages. Immediate scale benefits – Cross purchases and buying within groups</td>
<td>Pursing non existent synergy Cross linkages as bottlenecks</td>
</tr>
<tr>
<td>Cooperation for Resources</td>
<td>Low investment sensitivity, quicker deployability, Better project management skills, access to markets, managerial skills, finances</td>
<td>Stuck with ageing and inefficient resource Costly managerial skills Tunneling funds / resources</td>
</tr>
<tr>
<td>Opportunity Identification</td>
<td>New Industry entry, opportunity conversion, revenue potential</td>
<td>Excessive diversification, Dilution of investment across multiple projects.</td>
</tr>
<tr>
<td>Centralized Services</td>
<td>Training, shared knowledge, common infrastructure</td>
<td>Costs of Coordinating diversity</td>
</tr>
<tr>
<td>Managing a Portfolio of Business</td>
<td>Risk reduction, economic fluctuations, Absorb impact of Industry effects</td>
<td>Unnoticed underperforming portfolio, Too large a portfolio to manage justifiably</td>
</tr>
<tr>
<td>Socio-political clout</td>
<td>Getting government clearances and compliances Clout in conducting business in underdeveloped markets Low cost of maintaining complex relationship with interfering and retrograde bureaucracy</td>
<td>Payoffs, Stifling competition unconventionally Influence on Policy formation</td>
</tr>
</tbody>
</table>

VISION—The Journal of Business Perspective • Vol. 11 • No. 3 • July–September 2007
an important role of a parent for all businesses into newer opportunities. Because of the depth of association of the parent with all the independent business, the parent plays a very important role of seeking out newer opportunities into new industry segments. In doing so successfully and repeatedly the parent has built a reputation which helps new firms gain access to new markets, customers, technology and finances. The role of the parent is to coordinate resources - physical, tangible, managerial etc from other group firms in order to tap new opportunities successfully and repeatedly. Mature yet independent group affiliates in turn get shareholding of newer independent firms. Thus we find in emerging markets like India independent affiliates of business groups enmeshed in deeply embedded cross holdings. While this arrangement plays a pivotal role in seizing growth opportunities through new industry expansion it also limits the bargaining power of minority shareholders and could result in problems like ferreting of funds (Bertrand et al., 2002) by the parent through a chain of cross holdings from group affiliates were its ownership rights are lesser to the parent company in which it has higher ownership rights. Besides there are problems of routing funds to the owner families of business group through unsubstantiated executive compensation.

Independent firms that are members of a business group have an invisible hand of corporate strategy that is outward and opportunity seeking, yet un-interfering with the corporate strategy of independent business units. Being entrepreneurial driven the pressure to control affiliated firms is effected through owner shareholding. Monitoring and managerial control is executed through the board of directors and the managing director who is usually a close family aide. Independent firms are free to pursue their segment strategy within the ownership control of the family. Being a close family aide the managing director receives complete support and enlisted of other family members. But many of the services (including the cost of leveraging groups reputation) of a business group parent may be profit leeching in affiliate firms. However in most emerging markets like India, reputation of the groups play a very important role in tapping new opportunities, cheap finance and markets (Khanna and Palepu 1997b, Khanna and Palepu 1999b). Because of this business group parents have the potential to add value to group firms in excess of the costs involved. So far we have delved upon a number of peculiarities of an emerging market that is conducive to the existence of a business group structure and the associated parenting benefits that accrue to affiliated firms. Parenting also has its cost and ramifications with the potential to impact the entire membership (of firms). Businesses in emerging markets should create parenting value that outweighs the costs by the parenting advantages. We have examined a number of sources of parenting advantage that can be leveraged across the group of firms favorably.

CONCLUSION

The concept of parenting proposed by Campbell et al. (1995) has a dominant internal focus. The basic premise of the advantage originates from the balancing role of central managers in order to justify their utility to divisional performance. In this paper we question the assumptions of parenting literature in the differing context of an emerging market. We have defined the concept of ‘parenting’ as it relates to the dominant business group structure found in emerging market like India. Thereafter we conceptualise and examine the drivers of ‘parenting value’ for such businesses. We discuss the advantages and costs of parenting that might exist for business groups as a network of affiliate firms. We find that in an emerging market context there are many potential sources of ‘parenting advantage’ available to a consortia of firms as compared to standalone firms. We discussed about the benefits of reputation, resource coordination opportunities, synergy, opportunity identification, business portfolio management and socio-political clout as a few of them. Parents in conglomerates live with a strong temptation of controlling divisions hence are inward looking and eventually value destroying. The concept of parenting in an emerging market we argue has significant value enhancing potential, although it also has its downside. In a large sense the value enhancing activities which we propose to exist in emerging markets is outward looking and justifies the tying of independent firms through a network of relationships. Unlike in the conglomerates of developed economies, business group parent in India maintain a strong customer and societal interface. Thus the potential to add value to affiliates is assisted both by the environment context of emerging economies as well as the dominant organisation form that of business groups. The paper fills a gap in existing literature by enhancing the understanding of parenting concept in business groups of emerging markets. The other contribution is in terms of defining ‘parenting’ in emerging market. And lastly we have identified the drivers of parenting value in emerging market context.

ENDNOTES

1. Most family business groups in India have close social ties and are well networked.
REFERENCES


PROWESS (2006), “Database on Indian Companies” provided by Centre for Monitoring of Indian Economy (CMIE), Website: www.cmie.com


Anurag Mishra (anuragmishra@iiml.ac.in)is a research scholar at IIM Lucknow in the area of strategic management. He has over seven years of industry experience mainly in business development, businesses venturing, strategy formulation and strategy implementation in India and abroad. He is currently working as an Assistant Vice President at Genpact. His research interests include knowledge strategies, competitive strategies, diversification, innovation and entrepreneurship with a focus on emerging markets.

M. Akbar (ma@iiml.ac.in) is Professor of strategic management and entrepreneurship at IIM Lucknow. He has 25 years teaching and research experience in the area of entrepreneurship and strategic management. He has published and presented over three dozen papers in various conferences and journals of repute. He actively advises and supports the small and medium enterprise association.

VISION—The Journal of Business Perspective • Vol. 11 • No. 3 • July–September 2007
Copyright of Vision (09722629) is the property of Management Development Institute and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.