Preface

Socio-economic, cultural, and political forces operating in the economy largely shape the institution of business groups. Since these forces are likely to be unique in different contexts, the nature of diversification strategies pursued by them is also likely to be distinct. Historically, the origins of entrepreneurship started in India in the 1860’s – when the first cotton mills came up in Mumbai. Till date, Indian business groups, as an institution, have survived colonialism, partition and liberalisation. They have remained at the forefront of economic activity, al-through. It represents India’s largest institution, symbolizing size, scale, scope and opportunities.

Indian business groups are perhaps India’s most engendered institution as well. And after surviving many a trials and tribulations, it is now faced with one of the toughest challenges from global competition. For, however glorious it’s past, Indian business groups are confronted by a disturbingly uncertain future. Will it be able to face the challenges of economic liberalisation? Will it reign over the economy, or be perpetuated? After all, only seven of the first fifty business groups in 1947 were even in business by the turn of this century, and that the thirty two of the country’s largest business groups in 1969 are no longer among the top fifty today (Business Today, January 1997). Globally, less than 10% of the Fortune 500 companies as first published in 1955, still exist as on 2005 (Govindarajan and Trimble, 2006). The lesson is clear: top companies and business groups have high mortality rates as well.

In the wake of economic liberalisation, the one of the critical challenges encountered by business groups involves pursuing an appropriate diversification strategy. Accustomed to competing in protected environment, the notion of competing for the customer’s attention and patronage represents a different paradigm altogether. As a result, transition can be truly traumatic. Business groups unable to transform have to watch their business disintegrate. The challenge to survival is to adapt and become competitive globally, if not at least locally. The more demanding decision, which a handful of groups are beginning to take, is to stay and compete on equal terms with global competition, penetrating into the market place. That, in turn, is forcing genres of strategic choices that Indian business groups have not pursued extensively in the protected past. It involves forging alliances and joint ventures with global
competitors; developing distinctive competencies; upgrading quality and cost competitiveness to transcend national boundaries.

The result, but inevitably, is a complete transformation. It demands a process of rigorous and analytical exploration of the environment, opportunities, and internal capabilities, which played a relatively negligible role in guiding the choice of diversification strategy in the past. In an open economy, every emerging field represents an opportunity for growth to business groups. But earlier access to the protected environment was a significant criterion for success. Today an entire portfolio of skills and capabilities are essential for survival. To conduct a self audit; to take a conscious decision of investing in harvesting those skills; and to accept that diversification strategies are all about trade-offs, requires a level of strategic thinking that business groups are just beginning to attain. And the background caused by the trade-off of these compulsions coupled with the social ethos surrounding the exit of unprofitable businesses is revolving business groups through an enormous change of mindset and attitudes.

Despite such intrinsic differences, business groups have been able to cohabit with the dynamics of the competitive and dynamic environment. The critical issue earlier was to stay together, which offered the route to controlling various individual firms and creating wealth. Through this motivation, business groups used bloodlines to build structures and perpetuate dynastic leadership. Only when family unity was threatened was the business also threatened as a result. Much the stronger force, however, was the family tradition of building, and passing on wealth to the heirs, which was almost a compulsion. Coupled with this vector was the other, materialistic, convention of seeking a safety net for the heir, which provided an additional impetus for creating a subsidiary business.

The outcome of these forces: the interests of the family became indistinguishable from those of its businesses. Today, however, the disintegration of these bonds is one of the noticeable change inducing forces impacting a business group. Part of the impetus came from new societal structures such as growth of the nuclear family, triumph of individualism, and the need for instant gratification. The divergent ambitions of succeeding generations, as well as personality clashes, are throwing strong challenges to stability. Some equally critical compulsions are being imposed from outside; all of them threatening the age-old benefits and
rationale that drove the group. Under the combined effect of these internal and external forces, a radically different future is emerging for business groups.

As the families consolidated their business, it created partnerships between its members involving financial stakes. This enabled the group to retain strategic control over its diversified businesses. This structure did not disturb the patriarch’s line of authority; it also left enough room for other members to air their personal ambitions. Importantly, the pursuit of these goals did not lead to the creation of completely new firms. Instead, it only led to complex networks with cross-holdings meant to ensure financial participation of its different members. Most family members were directors in almost every variety of business without hardly any technical background. As a result, the switch to the board managed structure, from the erstwhile managing agency structure in 1969, saw only superficial changes. The boards of family businesses thus comprised promoter-directors drawn from the family; a few managers with long and deep relationships with the family; friends of the family portraying as professionals, non-executive directors; and institutional directors. However, the maze of multi-layered firms, with substantial cross-holdings and intermediate investment companies persisted, so did the centrally controlled structure of the group.

However, since liberalisation, the rationale for these forms has almost disappeared. Equally important are the new considerations that are dictating the structure of business groups. They are beginning to consolidate their fractured holdings in order to keep off takeover attempts in the emerging market for corporate control. Moreover, as the new strategic imperatives, business groups are being compelled to take on new structures in response: substituting centralization with a confederate configuration; flattening hierarchical pyramids; and replacing family management with professional management. That the Indian business groups must follow these paths of transformation is by now an accepted fact. It is the path, and not the end result that is important in today’s emerging context. Unfortunately, merely embarking on these changes may not alone lead to performance. The extent of progress already made is a crucial indicator of the chances of a group surviving and creating value in the new liberalised era.