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## NEW VENTURES CREATION AND DIVERSIFICATION STRATEGIES OF FAMILY BUSINESS GROUPS IN INDIA (INTERACTIVE PAPER)

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## INTERACTIVE PAPER

### NEW VENTURES CREATION AND DIVERSIFICATION STRATEGIES OF FAMILY BUSINESS GROUPS IN INDIA

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#### Principal Topic

Does ownership structure affect the decision to establish new ventures (NVs) to diversify? Scholars examining this question in the context of family firms have provided strong evidence to demonstrate the linkages (Denis et al., 1999) and found that since family firms are risk averse, take a long-term view to preserve family wealth (Zellweger et al., 2007), are not only less diversified (Gomez-Mejia et al., 2010), but also fail to create adequate value. Though the importance of NVs in family firms is well documented (Zahra, 2010), there has been no specific attempt to examine the linkage between family firms and their decision to establish NVs to pursue diversification.

This study aims to fill this gap by exploring the NV creation strategies adopted by Indian family business groups during their evolution. Indian stock market is dominated by family business groups that constitute more than 60 percent of the total market capitalization. Understanding the evolution process of these groups and their success/failure strategies can throw light on the future direction of family entrepreneurship in emerging economies.

#### Method

We use data sourced from *Prowess* for the period 1992- 2008 of all family business groups in India that created more than two NVs. During this period, India as an economy also evolved from license raj era into a more open economy. Using this sample we analyse time series diversification strategies adopted by the 109 family business groups over 16 years. We compute measures of diversification using Herfindhal index, entropy, and related and unrelated diversification and relate these measures to the wealth creation (groups market capitalization over time) of each group over time.

#### Results and Implications

In our regression model, after controlling for various group characteristics such as group size, industries and age, we show that there is cross sectional variation among family groups in their NV creation strategy. Family groups that create NVs in the unrelated areas compared to the exiting venture/s generally succeed when the economy is relatively underdeveloped (first phase of liberalization in India). However, those family groups that depart from their strategy by starting NVs in the related businesses compared to the existing venture/s succeed. We show that in the long run those family groups, which exercise dynamic diversification behaviour by adjusting NV creation with the changing economic conditions succeed.

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