

Indian companies with more connections make more money

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Indian companies at the core of connected business groups are more profitable, according to research by HEC Paris Business School.

The study, conducted by Professor Dalhia Mani, looked at shareholding ties between 40,000 private and public companies, and the major shareholders of these companies.

The paper found that 42% of firms had no shareholding ties to other firms, 20% of firms formed isolated clusters – business groups with ties within the group but none outside, 24% of firms had one or few shareholding ties to other firms in the network, and 14% of firms had multiple ties.

Such large-scale economy-wide studies of corporate ownership provide insights into a company's place in the economy, and whether the position of the firm in this network has any influence on their profitability.

Professor Mani says, "When looking at business relationships, especially in non-Western countries, there is a perception that there is some weird stuff going on, and the complex mix of family ties, community ties, business ties, and dense ownership ties connecting firms adds to that perception. But is this systematic entrenchment and control by certain groups or a by-product of certain historical features?"

"For instance, large diversified groups with complex ownership ties like multinational Tata Group were formed in an era when the access to external capital markets was weak, and so they had to rely on investment from other business groups. We see the remnants of that when we observe business groups that have multiple ties.

"It is a matter of taking a step back and looking not just at firm-level ties, but rather the larger economy-wide network."

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