

Three Essays on Business Groups and Diversification

by

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ABSTRACT

This dissertation investigates three issues related to business groups and diversification. The first essay (chapter two), following an introductory chapter that introduces the three studies, examines diversification in the banking sector at the asset, industry, and borrower levels. It analyzes monitoring and screening ability concepts, and fills a gap in the literature by introducing the quality of diversification concept. Its setting is a developed market, Japan, with a history of strong business group entities and group banks. Business groups are important economic factors in many markets around the world, particularly in emerging markets. The second essay (chapter three) focuses on the impact of operational strategy, organizational structure, and internationalization policies of business group firms on their cost of loans in an emerging market setting, Turkey. It contributes to the literature by examining the unexplored relationship of business group affiliation and cost of capital (specifically cost of debt). The third essay (chapter four) examines another key issue concerning business groups and stock markets: the impact of group affiliation on information content (proxied by stock price synchronicity). Stock prices tend to move together more in emerging markets than in developed markets (an indicator of less firm-specific information content), and eventually, stock price synchronicity is higher among firm stocks in emerging markets, in which business groups are dominant economic entities, and consequently, control major economic assets. Hence, this study contributes to the literature by directly examining business groups and their affiliated firm characteristics along with observed high synchronicity (lower firm-specific information content). The purpose of the study is to examine how business group affiliation, ownership structure and group/firm strategies are viewed by capital markets, and it aims to enable a better understanding of stock price informativeness in terms of the valuation and assessment of listed firms and markets.