Journal of Business Research 67 (2014) 900–907

Contents lists available at ScienceDirect

Journal of Business Research

Institutional environment and Business Groups' resilience in Brazil

Wlamir Gonçalves Xavier [a,b,*], Rodrigo Bandeira-de-Mello [a], Rosilene Marcon [c]

[a] EAESP/FGV Rua Itapeva 474 São Paulo, SP 01332-000, Brazil
[b] UNISUL Rua Trajano 219 Florianópolis, SC 88010-010, Brazil
[c] UNIVALI Rua João Coan, 400 Biguaçu, SC 88160-000, Brazil

ARTICLE INFO

Article history:
Received 1 June 2012
Received in revised form 1 April 2013
Accepted 1 May 2013
Available online 25 July 2013

Keywords:
Business Groups
Institutional environment
Political connections
Political economy

ABSTRACT

This article combines the institutional theory and political economy approaches to test hypotheses about how transitions in institutional environments affect the performance of Business Groups. Its primary hypothesis is that the different types of political connections established by Business Groups have moderating effects on this relationship. A sample of 1709 observations, from 317 distinct groups operating in Brazil between 2001 and 2009, was used in unobserved effects panel data models, which included the moderating effects of political connections. Our findings suggest that the institutional environment significantly affects Business Groups' performance and that this effect is moderated by political connections, when assessed in terms of the local or federal government as a minor shareholder of the Business Group. The moderating effects of political connections assessed through campaign donations were not conclusive.

© 2013 Elsevier Inc. All rights reserved.

1. Introduction

Business Groups (BGs) can be defined as a set of legally independent firms that come together through formal and informal associations and act coordinately (Khanna & Rivkin, 2001). BGs have a pivotal role in several developed and emerging economies (Ghemawat & Khanna, 1998; Khanna & Yafeh, 2007). Although they do not prevail in developed economies, countries like Sweden (Collin, 1998), Israel (Maman, 2002), and Japan (Aoki, 1990) host BGs that are economically relevant. BGs are responsible for a significant share of the Gross Domestic Product (GDP) and are often comprised by the country's largest private companies (Casanova, 2009; Ghosh, 2010). Several theories explain how BGs emerge: the institutional theory (Khanna & Palepu, 2000a; Leff, 1978), political economy (Schneider, 2008; Schneider & Soskice, 2009), Sociology (Granovetter, 1994) and the Resource-based View (Guillén, 2000). All of these theories use mechanisms, sometimes complementary, to explain the presence of BGs in emerging economies.

In emerging countries, the relevance of BGs is clear; their affiliates enjoy prestige and benefit from easier access to a wide range of limited resources, such as low interest credit and specialized work force. As large and diverse groups, BGs are also able to generate business in bulk, which enables them to reduce costs and boost revenue. On the other hand, in developed countries anti-trust legislation and other regulatory mechanisms limit BG expansion, and management costs outweigh gains in scale and scope. Moreover, BG governance usually involves blockholding, family control and diversification (Schneider, 2008). Hence, while investors tend to dismiss BG affiliated firms' bonds in mature markets, these firms usually trade at a premium in some emerging countries (Khanna & Yafeh, 2007).

During the past three decades, several emerging economies have conducted pro-market reforms aimed at further integration with other nations. The consequences of this movement include opening of domestic markets and introduction of common financial intermediation mechanisms. This economic liberalization limited protectionist governments' actions and exposed domestic firms to international competition.

This article focuses on the behavior and performance of emerging markets BGs in this new institutional environment. Anecdotal data suggests that BGs took advantage of new market opportunities, instead of allowing smaller localized firms to dominate the industry. In the beginning of the 2000s, the Carso Group became the largest private group in Mexico and Latin America; the Tata Group, from India, consolidated a worldwide acquisition strategy that included Jaguar and Land Rover; the Brazilian oil Company PETROBRÁS expanded internationally and currently has over 200 subsidiaries in several industries. This resilient behavior in emerging economies is intriguing, for even when there is no longer a market failure—or any alleged reason for BGs to exist, the relevance of these groups endures. This article presents and tests a theoretical explanation for this, based on complementary theories, which may lead to further lines of research. This paper analyzes the effects of institutional environment changes on the performance of BGs in an emerging economy.

Our main contribution is proposing an alternative approach to BG evolution, which focuses both on the institutional theory and political economy. The first provides a better explanation for how these groups

* Corresponding author at: UNISUL Rua Trajano 219 Florianópolis, SC 88010-010, Brazil. Tel.: +55 48 9909 9537.
E-mail addresses: wlamir.xavier@unisul.br (W.G. Xavier), rodrigo.bandeirademello@fgv.br (R. Bandeira-de-Mello), rmarcon@univali.br (R. Marcon).

0148-2963/$ – see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.jbusres.2013.07.009

are established, their initial arrangements, and how they outperform other firms. The latter may explain BG resilience and the role played by governments.

2. Business Groups' theories

Several terms are used to refer to BGs: "chaebol" in Korea, "keiretsu" in Japan, "business houses" in India, and "grupos" in Latin America. Although widespread, BGs show different patterns in each country and their patterns and behavior cannot be generalized (Khanna & Rivkin, 2001).

The working definition of BG for the purpose of this article is based on ownership structure. The empirical approach of this study defines a BG as a set of legally independent and diverse firms operating coordinately under centralized control. A similar criterion was adopted by other empirical studies, such as Guillén (2000) and Khanna and Palepu (2000a). Though not comprehensive, this definition clearly states BGs' boundaries, which cannot be assessed when informal ties, such as family relationships, are included in the definition of BG affiliation. Our definition excludes diverse conglomerates that are controlled centrally by a corporation, as well as socially connected firms (such as Japanese keiretsu), which have no centralized control.

Nevertheless, there is no single definition for BGs; a general approach is to consider BG affiliation as an association granted by direct ownership or any informal tie, such as family relationships, ethnic or religious kinship, or any kind of affinity. Conglomerates are not regarded as BGs mainly because affiliate firms are legally independent in the latter.

A broad definition of BG that synthesizes several studies, proposed by Khanna and Rivkin (2001), defines it as 'a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action'. This definition is so broad that it encompasses any alliances, joint ventures and oligopolies; thus, blurring the concept.

Other definitions of BG can be found in countries' legislations. In the 1990s a financial crisis in Chile led to specific laws on BGs, for their influence was regarded not only as significant, but also as harmful. The Chilean legislator defined the concept of BG based on ownership structure, debit structure and responsibilities, and interlocking (among shareholders, managers or board members). Chilean law also included informal ties, such as family relations or any other kind of kinship in the definition of BGs.

The Chinese legislator, on the other hand, limits BGs to associations with clearly defined ownership structures. There is also a size limitation, for the group must have annual sales over 100 million Yuan (about 15.6 million US dollars). This narrow definition aims to pinpoint a few companies to benefit from government incentives. Indeed, Chinese BGs flourished over time, whereas the Chilean ones have experienced limited or no growth.

The reasons for BG creation are disputed in the literature; the institutional theory, sociology, the Resource Based View and political economy try to explain it from different perspectives. Each perspective also explains why BG relevance varies from country to country. This section reviews the assumptions and logic of these approaches.

The institutional theory is based on the concept of Transaction Cost Economy (Coase, 1937; Williamson, 1979, 1998). According to Leff (1978), market imperfections and entrepreneurship, to some extent, are the drivers of BG creation. This line of thinking views BGs as markets' response or alternatives to misallocated production (Leff, 1978), as well as to imperfections that are not limited to capital markets, but also include labor and product markets (Khanna & Palepu, 2000a). Capital market limitations are central to this line of research, since one of the main features of BGs is their ability to create efficient internal capital markets for its affiliates. As a result, such firms may be less affected by imperfections faced by all other competitors, securing attractive positions, from an Organizational Industry perspective.

In this approach, BGs act as market failures internalization mechanisms. BGs' affiliate firms are able to obtain resources that are otherwise not available, scarce or highly priced in the market—e.g. capital, labor, raw materials, knowledge and technology. Furthermore, affiliate firms may use their BG's reputation to access new markets and to even internationalize their activities (Guillén, 2000).

Another line of thought, i.e. political economy, portrays BGs as rent seekers that eventually may be even socially harmful (Ghemawat & Khanna, 1998). The government uses power structures, such as legislation and fiscal policy to accomplish its objectives, and these measures can affect business performance unevenly in an industry. Particularly in late economic development countries, policy-makers foster new industries by encouraging some firms to lead the process, and their incentives include resource and capital allocation. In this context, BGs emerge as the chosen tools for economic development, that is, they function as governments' private sector agents, whose compensation include tax benefits, low interest capital and protectionist legislation that grants them privileged access to the internal market and raw materials. An example of protectionist legislation is seen in Sweden, where the parliament imposed severe restrictions on foreign ownership of its national BGs (Högfeldt, 2004). The main underlying aspect of the political economy perspective is State activity.

Schneider (2009) suggests a typology that includes portfolio, organic and policy-induced BGs. The political economy approach focuses on policy-induced groups, which are led by government incentives and directives. Such category also includes BGs that arise in dictatorship scenarios, where political leaders determine the structure of groups by directly distributing concessions to family, friends and political supporters. Government-created rents are the determining factor for this type of BG, in spite of market logic.

Such government generosity may also derive from direct political activity. Hillman and Hitt (1999) mention relational (long-term) and transactional (short-term) approaches as general means of influencing governmental behavior towards firms. Proactive initiatives include informing government officials of the impact of their decisions on the market, lobbying and campaign contributions. Strong political connections may induce the government to opportunistically amend policies in order to favor allies, sometimes at the expense of society. The work of Fisman (2001) describes this phenomenon in Indonesia, where groups benefit from political liaisons and are granted State-approved monopolies.

There are trade-offs to be analyzed in these theories—i.e. risks and costs coexist, as better performance is pursued through BG affiliation. One of these costs is related to coordinating mechanisms needed to manage diversified firms, but also to enforce a common behavior and secure the ties that sustain the BG. Country context plays an important role, as competitiveness varies between countries, so do the failures of their markets. As a result, economy dynamics may lead to important conclusions and be more elucidative than a steady state analysis.

3. Market reforms

According to all above-mentioned theories, BG ought not to endure as relevant economic players. As time passes, emergent countries tend to mitigate market failures and mimic developed countries institutions, where BG affiliation benefits are not so relevant. In fact, since the 1990's market oriented reforms occurred in several emerging economies, which also created pressure for reforms in corporate governance and presumably lead to the stabilization of institutions (Carney & Gedajlovic, 2002). Nevertheless, anecdotal data show resilience of BG in spite of decline (Granovetter, 1994; Schneider, 2009).

In this paper we consider institutions as the rules of the game that shape economic transactions in an economy (North, 1990), and we

Download English Version:

https://daneshyari.com/en/article/1017836

Download Persian Version:

https://daneshyari.com/article/1017836

Daneshyari.com