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International strategy and business groups: A review and future research agenda

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A B S T R A C T

Motivated by the growth and internationalization of business groups, this paper reviews the business group literature and presents a future research agenda, highlighting their implications for international strategy. The paper identifies theoretical tensions and empirical ambiguities around three key business group features—corporate governance, internal markets, and corporate strategy—and three key outcome variables—performance, economic impact, and innovation—that have generated significant debate. We conclude with three methodological concerns relevant to these debates: generalizing business group research across countries, endogeneity in business group research, and performance measurement in business groups.

Contents

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Business group are interorganizational networks of semi-autonomous firms bound through multiplex ownership, buyer-supplier, director interlock, and/or social ties. Though business group member firms (hereafter *affiliates)* pursue mutual objectives, they retain legal independence (Khanna & Rivkin, 2001; Yiu, Bruton, & Lu, 2005). Business groups are critically important in many economies, especially in late-industrializing countries. For instance, 45 of India's 50 largest enterprises are business groups, and their affiliates have produced better stock returns than non-affiliated (hereafter *standalone*) firms (Ramachandran, Manikandan, & Pant, 2013). Business groups also help drive globalization in many countries. Overseas exports by large Korean *chaebol*, for example, accounted for about 53% of Korea's GDP in 2002 but 82% in 2012 (Pesek, 2013). Moreover, Belenzon, Berkovitz, and Rios (2013) identified over 26,000 business groups in Western European countries, suggesting that they have a strong presence in some developed economies also. Motivated by the importance, growth, and internationalization of business groups, our paper reviews the literature on them and presents a future research agenda, focusing chiefly on their implications for international strategy research.

We argue that it is important to evaluate how business groups inform international strategy research.[1] Whereas most international research focuses on standalone firms, business groups are hybrid organizational forms that "contain features of both markets and hierarchies" (Vissa, Greve, & Chen, 2010: 698): affiliates are connected more tightly to one another than to outside firms, yet they are connected more loosely than the business units in hierarchies. Business group research, in turn, offers unique theoretical and practical insights for international strategy. At the same time, the independence yet interconnectedness of the affiliates creates specific methodological challenges. Reflecting these concerns, our review identified (1) three defining and interrelated features of business groups that function differently from their analogues in standalone firms, (2) lingering questions about how business groups shape three key outcome variables, and (3) three methodological concerns for future research to address.

Specifically, three defining features of business groups are interrelated and create unique strategic challenges. First, they have complex *corporate governance structures*: although each affiliate may have its own investors, a powerful shareholder (e.g., family) with equity in several affiliates often controls the overall group. Thus, business groups have dual control systems with multiple power centers, meaning that affiliates' boards of directors represent and must balance more competing interests than in standalone firms. Second, because business groups' *internal markets* allow affiliates to exchange resources, they also may allow powerful owners to expropriate wealth from minority owners. Third, often due to historical circumstances, the *corporate strategy* of many business groups involves significant scale and scope. Historically, growth via product diversification enriched business groups' internal markets and ability to cope with market imperfections (i.e., weak factor markets and institutions) in emerging economies (Khanna & Palepu, 1997), but more recently, many have grown via international diversification also (Kim, Hoskisson, & Lee, 2015). Whether the business group form provides advantages (e.g., internal markets, branding, etc.) or disadvantages (e.g., sunk costs, inflexibility, etc.) in increasingly dynamic and innovative international markets, however, remains an open question. Therefore, although ownership structures, internal markets, and corporate strategy are not unique to business groups, they are more complex in the business group context than in others.

As these points suggest, business groups generate many opposing forces. Partly as a result, researchers apply diverse theoretical perspectives to study business groups, and there are long-standing debates about each of three key outcome variables in this literature. First, we lack answers to questions about affiliate and business group *performance*. Whereas institutional and transaction cost theories identify advantages of business groups, especially when market imperfections are greater, agency theory identifies principal–principal agency conflicts between minority and controlling owners. In turn, Carney, Gedajlovic, Heugens, van Essen, and van Oosterhout's (2011: 446, 451) meta-analyses reveal that affiliates perform worse than standalone firms, but the authors note that the effect is "small" and that there is "substantial" heterogeneity in its magnitude and direction that extant theory does not explain. Second, research on business groups' *economic impact* also is inconclusive. Often grounded in political economy perspectives, this work suggests that although business groups can support the development of country factor markets and institutions, groups also build political power and may engage in corruption. Thus, their potential as engines of economic development exists alongside their potential to manipulate the environment opportunistically. Third, their effects on *innovation* are similarly complex. Though resource-based and learning perspectives suggest that intragroup knowledge and capability sharing stimulate innovation, affiliates' independence might hinder such sharing while creating information processing and coordination costs. In turn, research also demonstrates that business groups have mixed effects on innovation (Belenzon & Berkovitz, 2010; Chon, 1996; Hundley, Jacobson, & Park, 1996; Mahmood & Mitchell, 2004). Thus, our knowledge of these important business group outcomes also remains incomplete.

[1] International strategy research addresses business activities that cross country borders. It concerns antecedents, processes, and results of decisions about (1) the geographic location of firm activities, (2) how to balance local responsiveness and global integration; (3) entry modes, entry timing, and exit; and (4) how to acquire, develop, and share resources for these efforts (e.g., Doh, Luthans, & Slocum, 2016; Hitt, Tihanyi, Miller, & Connelly, 2006; Ricart, Enright, Ghemawat, Hart, & Khanna, 2004).

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