

## Original Article

## Political strategy and the growth of business groups

*Estratégia política e crescimento dos grupos empresariais*Marina Amado Bahia Gama<sup>a,\*</sup>, Rodrigo Bandeira-de-Mello<sup>a,b</sup>, Juliano Danilo Spuldaro<sup>c</sup><sup>a</sup> Fundação Getulio Vargas, São Paulo, SP, Brazil<sup>b</sup> Merrimack College, Girard School of Business, North Andover, United States<sup>c</sup> Universidade do Oeste de Santa Catarina, Joaçaba, SC, Brazil

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**Abstract**

How do companies and government interactions affect business groups' decisions on growth? So far, empirical evidence is based on qualitative data that do not explain how political strategies affect the expansion or diversification of business groups. Our main contribution is to discuss the conditions that affect their growth. To do this, we conducted an in-depth field study in six business groups, and examined 17 growth decisions. Four categories (origin of growth, historical relationships, business group's scope and use of specific political strategies) emerged from the analysis, based on interviews with managers and on 480 secondary data sources. We further applied the qualitative comparative method to test our categories as conditions for growth. We found that a historical relationship between the group and the government is a necessary but insufficient condition for growth through diversification. To foresee diversification, historical relationship must be aligned with government's political interest, or with the use of one or a combination of specific political tactics. We found no set of variables that can fully explain growth through expansion.

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**Keywords:** Business groups; Political strategy; Diversification

**Resumo**

Como as interações entre as firmas e governo afetam as decisões de crescimento dos *business groups*? Evidências empíricas existentes não explicam como as estratégias políticas afetam a expansão ou diversificação dos *business groups*. A principal contribuição é discutir as condições que afetam o crescimento dos *business groups*. Para responder isso foi realizado um estudo de campo em profundidade em seis grupos empresariais e foi analisado 17 exemplos de crescimento desses seis *business groups*. Quatro categorias emergiram a partir das entrevistas com diretores e presidentes e 480 fontes de dados secundários (categorias: origem de crescimento, relacionamento histórico, escopo do *business group* e estratégia política específica). Foi aplicado o método QCA para testar as categorias como sendo condições para o crescimento. Descobrimos que ter uma relação histórica entre o grupo empresarial e o governo é uma condição necessária, mas não suficiente para o crescimento grupo empresarial por meio da diversificação. Para prever a diversificação, a relação histórica deve ser somada com o interesse político governamental ou com o uso de um ou uma combinação de táticas políticas específicas da firma. Não foi encontrado nenhum conjunto de variáveis que possa explicar plenamente o crescimento via expansão.

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**Palavras-chave:** Grupos empresariais; Estratégia política; Diversificação

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## Introduction

A business group is an organizational model in which a set of legally independent firms are held together through a stable relationship, operating strategically in different sectors and under common control and ownership (Colpan & Hikino, 2010; Cuervo-Cazurra, 2006; Khanna & Yafeh, 2007). Authors that tried to explain why organizations grow as a group have approached the topic from several theoretical perspectives (Yiu, Lu, Bruton, & Hoskisson, 2007). The mainstream theory – based on transaction costs (Williamson, 1975, 1981) – argues that growth is necessary to expand groups' internal markets, and consequently, to reduce their transaction costs. However, the political economy approach (Aoki, 2001; Khanna & Fisman, 2004; Schneider, 2009; Yiu et al., 2007) offers another explanation for growth. According to this perspective, business groups diversify and expand as a result of their use by governments for promoting public policies. Therefore, the business group option is a strategic fit to government requirements (Yiu et al., 2007), and a means to open or expand new sectors and markets that serve both parties.

However, explanations proposed to date under the political perspective have largely overlooked the conditions that underlie the growth of different types of business groups (Schneider, 2009). Explanations that consider the business group to be an economic tool per se (Khanna & Fisman, 2004) focus on the state's actions and their impact on group performance. As a result, there is still a limited number of studies on business groups that provide empirical evidence as to the role played by corporate political strategies in achieving diversification and expansion, among other conditions.

We contribute to this issue by showing that in the majority of diversification cases, business groups have a historical relationship with the government. However, this condition is insufficient; if business groups want to diversify, they need to use one or a combination of the following political tactics: long-term cooperation contracts, lobbying, personal relationships, joint venture with a state-owned firm, or a shareholding agreement with the government. On the other hand, when a business group has a historical relationship with the government, which wants to develop a specific sector, it provides stimulus and support to the group, to encourage and enable diversification, without the need of a specific political tactics. Therefore, we propose the following research question: How do companies and government interactions affect the growth decisions of business groups?

There are two dimensions of growth: (i) expansion – opening of new plants, launching of new products and engaging in internationalization (Ansoff, 1965; Donato & Rosa, 2005; Kumar, Gaur, & Pattnaik, 2012); and (ii) diversification – entering or exiting new economic sectors or industries (Ansoff, 1965). Our analysis is oriented to diversification because it is the main feature of business groups (Yiu et al., 2007), while expansions are considered as counterfactual.

We tracked 17 examples of business groups' growth in order to report how it occurred, how relationships between government and groups were formed, and how eventual corporate political

strategies were used, regarding these growth events. Our empirical strategy was to perform an in-depth qualitative research, by conducting 16 interviews with top-level managers, from six intentionally chosen Brazilian business groups and also with industry experts. Additionally, we went through hundreds of secondary sources to deal with such a sensitive issue, as suggested by Rama (2011), including news media, business groups' annual reports, government data available in official sites, and books about business groups' history and their directors' careers. From these sources, we created a description of each event, codified all data and compiled them using the software ATLAS.ti, to build empirical oriented categories that could represent the conditions that underlay the growth of business groups. Finally, we applied Qualitative Comparative Analysis – QCA (Ragin, 1987) to our categories, in order to assess multiple conjunctural causations, vis-à-vis a case-sensitive approach (Fiss, 2011; Rihoux, 2006; Rihoux, Álamos-Concha, Bol, Marx, & Rezsöhazy, 2013).

## Literature review

### *The growth of business groups*

A business group organizational format is defined as a group of formally independent firms that operate in multiple sectors, which may or may not be related, and are under the common control of a family or people who have personal, trust-based relationships with each other (Chang & Hong, 2000; Colpan & Hikino, 2010; Granovetter, 1994; Khanna & Yafeh, 2007; Leff, 1978). Such groups are present in several countries and receive different names: “*chaebol*” in South Korea, “*Keiretsu*” in Japan, “*economic groups*” in Latin America, “*the twenty two families*” (Granovetter, 1994) in Pakistan, “*oligarchs*” in Russia, and “*QiyеJituan*” (Lee & Kang, 2010) in China.

Although business groups once dominated the companies' landscape of North America (Kandel, Kosenko, Morck, & Yafeh, 2013), nowadays they are increasingly present in emerging countries, especially in response to market failures typical of such economies (Khanna & Palepu, 1997), and because of the high levels of state intervention (Musacchio & Lazzarini, 2014).

There are six possible perspectives to address this subject. The mainstream theory is the Transaction Cost Economics (Williamson, 1981); the others are Sociology (Granovetter, 1994), Resourced-Based View (Guillén, 2000), Agency Theory (Yiu et al., 2013), Network Theory (Granovetter, 1983) and the Political Strategy Perspective. We include this last one because historically political issues had a strong influence on business groups' development, not only in Brazil but in South Korea, Italy, China and India (Aldrichi & Postali, 2010; Bresser-Pereira, 2009; Mukhopadhyay & Chakraborty, 2017).

Few groups were large and diversified when founded. Growth through expansion and diversification was and still is the fundamental business group strategy (Bhatia & Thakur, 2017; Hernández-Trasobaresa & Galve-Górriz, 2017; Khanna & Yafeh, 2005; Schneider, 2009). Political and policy issues mostly explain the distinct sizes of business groups in different

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