Chapter 2. The Business Groups Puzzle

'The very nature of the economy is to some extent defined in terms of the kind of firms that compose it, their size, the way in which they are established and grow, their methods of doing business, and the relationships between them'
(Penrose, 1995 (1959), p. 9)

2.1. Introduction

This chapter approaches the question of what business groups are and why they have persisted. It reviews the relevant literature on business groups and their origins, as well as on the importance of finance for business development. The aim is twofold. Firstly, to note the variety of theoretical approaches to business groups, in order to provide a framework to analyse their persistence in Colombia. Secondly, to explore the ownership network constituted by the business groups by reiterating the importance of finance.

After this introduction, this chapter is divided into five sections. Section two opens with a definition of the business group and discusses how country cases have influenced broad classifications. Particular importance is given to the challenges that the growth pattern of the firm has posed to the question of ownership and control. Defining the business group has proved a challenge because of each country's specificities; as a result, dealing with the definition draws attention to the need to recognise the patterns in each case. Understanding that the variety of groups is still broad, the proposed variables of a definition are set out. Therefore, the third section proposes a typology by defining dimensions and variables, which can be extended to studies of other Latin American cases.

In the fourth section, a revision of the literature is provided to present the discussion of the origins, persistence, and financing of business groups. This is important because, despite their current importance and presence since early twentieth century, an agreement on the origins of business groups around the world has not yet been reached. Most of the approaches have focused on the importance of institutional change and family ties to promote the further growth of the business group. However, there is still the question of the role of finance in stimulating further diversification through the ownership and control of firms in a variety of industries.

The fifth section discusses the studies of Colombian business groups. There is a small number of studies published from the mid-1970s. The focus has been on the largest business groups or some of the group-affiliated firms, however, the research is growing. Section five discusses some directions on how to pursue the study of business groups in emerging economies.

2.2. Breaking the puzzle: theoretical approaches and definitions

Business groups are a common organisational structure, especially in emerging countries, but also with presence in the developed economies across different stages of their economic development. Though there is no consensus about what triggers the affiliation of firms and to what extent business groups have affected wider economic and political patterns, a point of convergence in the literature is that this organisational form has always been a major player in those countries where it has been identified (Khanna & Yafeh, 2007). Leff (1978, pp. 662, 671) acknowledged this organisational form for the first time in the late-1970s; he stated that 'groups are a pattern of industrial organisation in the developing countries (…) which is distinct from other forms of capitalist organisation. (…) The group provides an institution for mobilizing capital and higher-management personnel (and) affects rates of return to capital and the rate of capital formation'. After years of being neglected, the twenty-first century has witnessed a surge in research on business groups (Carney et al., 2011). From sociology to economics and finance, via business history and political economy, different perspectives have converged on an understanding of this phenomenon. For example, Carney (2008) and Neal and Williamson (2014), especially in the chapters by Jones (2014) and Morck and Yeung (2014), call attention to business groups as a peculiar organisational form that shows a further step on the growth of the firm.

Country case studies and theoretical papers have posited this organisational form as one that dominates private-sector industrial and service activities in many economies. However, the definition of a business group is still under scrutiny. From a methodological point of view, in-depth case studies have found common characteristics, shared across countries, despite differences in context. These characteristics have been used to theorise business groups, from the perspective of a group-affiliated individual firm to the group of firms as a whole entity. The risk of this approach has been, possibly, an oversimplification of the case study and an increasing number of descriptive studies that render the distinction between a business group and other organisational forms a somewhat grey area. Nevertheless, case studies have been linked to hypotheses on firm affiliation, diversification, and corporate governance, showing a business group is an entity worthy of study.

Theoretically, the study of the business groups has moved from a sociological perspective to an inclusion of economic elements. An identification as a hybrid form in the literature on the theory of the firm, combined with the current approach of varieties of capitalism, allowed a validation of the group as a specific organisational form. Wider theoretical contributions from different disciplines have opened space for the inclusion of both historical and comparative perspectives. The former sets the ground for a better understanding of the evolution of the group, the latter, which remains to be done, will help to refine the analysis.

The sociological literature on business groups has examined them as networks of social and economic significance (Granovetter, 2005, pp. 430-431). The studies have emphasised the groups as a source of social bonds that permeate the 'scope of relationships in which individuals and larger social units engage', to the extent of presenting patterns of specific structures of ownership and authority based on solidarity norms and codes of behaviour (Granovetter, 1994, 1998). Business groups have been studied as 'extensive vertically controlled networks' organised by elite households to exercise common ownership over several firms (Hamilton & Feenstra, 1998). This rich body of research consists largely of descriptive work from a range of different countries, discussing mainly the common ownership patterns.

Outside sociology, the economics and finance literature has conceptualised business groups as responses to market imperfections (Hamilton & Feenstra, 1998, p. 53), emphasising capital and entrepreneurial talent markets (Leff, 1979, p. 46). Business groups tend to internalise available markets (Claessens et al., 2006, p. 3). An important portion of the recent studies has focused primarily on the groups as diversified entities, mainly analysing their relationships with other industrial organisations and corporate finance questions (Khanna & Palepu, 2000a, 2000b). A number of studies have presented the groups as the perfect setting for the study of conflicts of interests between controlling and minority shareholders, prioritising the pyramidal formation. For example, La Porta et al. (1999) and Morck et al. (2005) discuss pyramidal groups and corporate finance, including a study of 'tunnelling', which is a process whereby dominant shareholders 'transfer assets or profits from peripheral to core firms in which they hold greater equity ownership (Friedman et al., 2003, p. 732). A smaller number of studies from a resource-based view perspective (Guillén, 2000; Kock & Guillén, 2014) attempt to relate groups to monopoly power and imperfect competition or as an evolutionary response to opportunities for diversification into unrelated activities.

Studies of business groups have also been common in business history, where the unit of analysis is typically a firm in the group, a single group, or a small number of groups in a single country (see for example in the case of Latin America the recent studies by Cerutti, 2015; Dalla Costa et al., 2015; Del Angel, 2016; Geymonat, 2020; Monsalve, 2014). Moreover, the Creating Emerging Markets (Jones et al., 2012) project lead by Harvard Business School, has included interviews of both owners and managers of business groups across the region. In the case of Colombia, with special emphasis on the behaviour of the largest business groups since the 1990s. Recently, a textbook on Latin American business history (Lluch et al., 2021) includes chapters on the discussion of the evolution of the business system in six Latin American countries, in which authots coincide in the importance of business groups, as well as a chapter exclusively on business groups in the region. As explained by Jones and Khanna (2006), the emphasis has been on the family business origins and evolution of these organisations. In contrast, another stream of the literature, viewed from a political economy standpoint, has examined the view of the business group as socially counterproductive rent-seekers. On that issue, Buchanan et al. (1980) argue that rent-seeking activities succeed in shifting resources for most of the cases. Moreover, Ghemawat and Khanna (1998) claim groups are primarily devices through which a handful of families, the owners of the major groups, gain control over the rents in an economy to the detriment of the majority of the population. Much of the work in both traditions is descriptive, detailing the patterns of the business group and their relationship with political power structures.

Business groups in Latin America are seen as the natural structure for the growth of the family firm (Almaraz, 2020). Complementary to the literature on business groups, the studies on family firms and entrepreneurial families, have provided other explanations for the existence and persistence of family ownership in both emerging and developed economies. For example, studies on the reasons for the persistence of family firms and their impact on development, have shown the family ownership is more prevalent in countries in which labor relations are hostile (Mueller & Philippon, 2011), there are bureaucratic and more interventionist governments (Fogel, 2006), where there is no protection for the minority shareholders (La Porta et al., 1999), or where there is inconsistency in the differentiation between family and professional management (Bertrand & Mullainathan, 2003).

2.2.1. Agreements in the literature

Four points of consensus are apparent from the literature. First, business groups are an organisational form that answers to the key innovative role of the entrepreneur by creating an organisational structure. Following the Schumpeterian types of innovation, the business groups are presented as a way of carrying out the new organisation of an industry (Schumpeter, 1934, 1939). According to Glancey and McQuaid (2000, pp. 1-38), the literature on entrepreneurship (Casson, 2003) proposes at least five sets of views on who entrepreneurs are by observing their function in the economy, their particular forms of behaviour, their characteristics, and their capacity to create a new firm, or by defining them as the owner-managers of a business.

As Baumol (1990, p. 895) states, 'the entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitutes the subject of economic analysis. He has long been recognised as the apex of the hierarchy that determines the behaviour of the firm and thereby bears a heavy responsibility for the vitality of the free enterprise society'. Reflecting on the ways in which emerging countries could overcome the 'problem of entrepreneurship' (understood since Kilby (1971) as the lack of a great number of individuals directed into business pursuits when an increase in output is need), Leff (1978, p. 46) claims that entrepreneurship 'was clearly essential for bringing the investment, innovation, and structural changes required if economic development were to be achieved'. In this regard, Leff (1979, pp. 52-53) observed in the 1970s a combination of different conditions: government policies aimed at reducing the risk and uncertainty facing potential investors, state-owned enterprises created to initiate production in activities otherwise restricted to private investment, and business groups that mobilise capital and other primary inputs in a manner that resembles a capital market within the firm. Hence, the group structure performs many 'special functions' (Leff, 1978, p. 669) by bringing the investment, innovation, and structural changes required for entrepreneurship. In this way, it has helped relax the entrepreneurial constraints faced by emerging countries.

A second widely held understanding is that business groups are an organisational form ubiquitous in 'emergent markets and even in some developed economies' (Khanna & Yafeh, 2007, p. 331) and have been present since the beginning of the nineteenth century (Colpan & Hikino, 2010, p. 47). Cases such as the *zaibatsus* and *keiretsus* in Japan, the *chaebols* in South Korea, the *grupos económicos* in Latin America, the *business houses* in India, the *quanxiqiye* in Taiwan, the *qiye jituan* in China, and the *oligarchs* in Russia have become emblematic of their nations' enterprise systems. For example, the four largest Japanese *zaibatsus* (Sumitomo, Mitsui, Mitsubishi, and Yasuda) were created during the *Meiji* period and represented the most essential examples of business groups until their dissolution in the post-war era, when the US occupation authority broke them up to form *keiretsus,* a more evolved network of firms (Fruin, 1991; Morikawa, 1992).

Amsden (1989, p. 45) highlights the fact that the business group 'form plays a particularly significant role in late-industrialising nations that started experiencing the structural transformation into modern industrial economies in the twentieth century, and especially after the Second World War'. However, business groups are not exclusive to these economies, since this hybrid form was also present in developed countries (Cassis & Cuervo-Cazurra, 2019; Colpan & Hikino, 2018c), but on a different scale (Fruin, 2008), since they were small and evolved rapidly into other organisational forms or disappeared entirely. In the nineteenth century, as explained by Jones (2000, p. 160) for the case of the British trading companies, the weakness in infrastructure and local entrepreneurship in the emerging countries meant that companies had to make investments themselves rather than rely on others to create complementary businesses. As a result, they exploited new trade opportunities using the business group structure up to 1914, when they evolved into multinationals. Another example of their ubiquity is the existence of large family-owned business groups in Sweden and Denmark, where, as described by Iversen and Larsson (2011, pp. 122-124), prominent business families held onto their economic power by diversifying and integrating their multiple portfolios into the group structure (mainly tiers of listed firms controlled by other listed firms controlled by yet other listed firms).

A third area of agreement is that business groups are structurally different from, and an alternative to, other organisational forms. While discussing the markets and hierarchies paradigm (the basis of transaction cost economics), O. Williamson (1985) introduces business groups as a hybrid form that intermediates between markets and firms. In business groups separate legally independent companies, not necessarily corporations as in the conglomerates, utilise collaborative arrangements to enhance their economic welfare. In that sense, Fruin (2008) points out the most obvious: business groups along with cartels and industrial districts are significant examples of organised cooperation in business and the growth of the firm. What distinguishes the business groups are, 'first, they are composed of legally distinct firms and, second, they seem to persist for long periods of time' (Fruin, 2008, p. 244). Each group-affiliated firm has a legal personality distinct from the individuals taking part in it, and it may or may not have limited liability; moreover, these firms vary in size from small to large. Each separate legal entity within the group is empowered to own assets, incur debts, enter into contracts, and may be taxed or sued. Hence, as explained by Davis et al. (1994), coordination in business groups relies on a complex web of mechanisms rather than unified internal control of a portfolio of firms or divisions. These mechanisms include multiple and reciprocated equity, debt, and commercial ties, and kinship affiliation between top managers.

Therefore, business groups are more than the single firm and different from both free-standing companies, defined as a foreign investor that has a headquarters in one country and a major business activity in another that does not expand on the headquarters (Wilkins & Schroter, 1998), and conglomerates, meaning a corporation that is made up of a number of different, sometimes unrelated businesses (O. Williamson, 1985); which are described respectively as the market-form and hierarchy-form. In the cases of the United States and the United Kingdom, Morck (2010, p. 605) argues that a 'corporation is a singular thing, large corporations are almost always free-standing – that is, they neither control, nor are controlled by, other listed corporations. If they have subsidiaries, these are virtually always unlisted and, except for joint ventures, fully owned'. By contrast, in most parts of the world, other organisational structures have developed. Rather than large corporations with widely-held stock, the business groups are an ownership network with controlling shareholders and group-affiliated firms that may, or may not, be listed.

Although the distinction between a business group and other forms of the large individual firm is clear cut as the latter is a multidivisional enterprise with internal divisions, it is important to note that for some streams in the literature there is still tension in the difference between business groups and conglomerates. Despite the different general environmental settings (mature industrialised economies for conglomerates and usually emerging economies for diversified business groups), both forms exhibit a diversified and unrelated product portfolio and mostly adopt the 'holding company' structure (Berg, 1969). For a few authors (Binda & Colli, 2011; Colli et al., 2016; Colpan & Hikino, 2018b), conglomerates are just the Anglo-Saxon, or developed country, version of a large business group. Yet, in most of the literature on both the theory of the firm and business groups, they are two completely different entities. While many business groups are highly diversified, unlike conglomerates each group-affiliated firm is an independent entity, and the equity stake of outside investors can vary across group firms.

As for the ownership and control, the controlling and often exclusive owners of the holding company, or equivalent, in a business group are usually the family or a specific group of individuals (e.g., regional entrepreneurs). By contrast, conglomerates are not confined to a specific owner. In fact, conglomerates have usually been publicly held (Colpan & Hikino, 2010, p. 28), while only a few group-affiliated firms are listed and they are usually more than one of largest companies within the group (Morck & Nakamura, 2007). Reflecting the difference in ownership, in conglomerates professional salaried managers carry out the basic decision making. In business groups, by contrast, family members bear this responsibility (Carney, 2008, pp. 15-18). Conglomerates own operating units as fully owned subsidiaries, so listing the shares of operating subsidiaries is irrelevant. Administrative control exercised by the holding company is often different between conglomerates and business groups. For the former, the basic mean of internal coordination remains budgetary, whilst for the later there is a variety of means that goes from financial to strategic control.

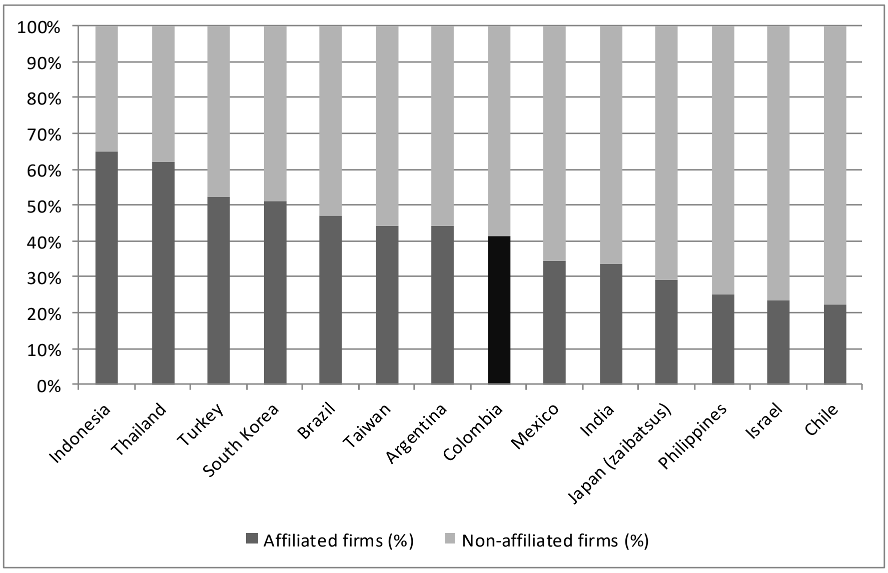
Finally, business groups around the world vary considerably, so there is no unique form of group. For instance, comparative studies have concluded that different business groups have different transactional requirements that lead, in turn, to a specific range of organisational decisions. The main surveys (Colpan & Hikino, 2010; Khanna & Yafeh, 2007) on business groups have noted this variety and the need for understanding the phenomena country by country. The number of business groups by country varies from less than 10 to more than 500; from extremely diversified to highly focused on an industry. In some groups there is considerable vertical integration and intragroup trade, while in others, there is none. The portfolio of industries shows involvement in banking and financial services for the majority of the cases, but not in all countries. Some groups are vertically controlled as pyramids, whereas others are horizontally linked through cross shareholdings.

The owners vary from traditional families to groups of regional entrepreneurs, and the extent of their involvement varies considerably across groups. Some own a great portion of the 100 largest companies in the country, while others only own one. The size of the firms within the group is not determined; often a group owns firms across the entire economic spectrum (large, medium, and small). The number of listed companies increases over time in some cases, but in others the number of listed companies is kept low. Business groups regularly accumulate political and economic influence, but the nature of their relations tends to change over time.

2.2.2. Specificities of the business group

What, then, are the specificities of the business group? The general inference is that business groups typically consist of a set of legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (for example, equity) and informal (for example, family) ties. They are neither bound merely by short-term strategic alliances nor legally consolidated into a single entity, but are owned, and often controlled, by the same owner(s) (individual, family, regional entrepreneurs). To provide clarity for the rest of this dissertation, the following paragraphs present, first, the general patterns as highlighted, and, second, the types of business groups that derive from them. It builds on the multiplicity of studies of business groups, giving some examples to illustrate the above definition and brings together the assumptions of the main streams of literature with the country case studies.

Figure 2.1.
Group affiliation in the 500 largest firms by country, 1990s



Source: Adapted from Khanna and Yafeh (2005, p. 309, table 2). The data on Colombia is from Gutiérrez et al. (2008) and Rodriguez-Satizabal (2014). Group-affiliated firms' numbers are based on the year/period for which authors have maximal coverage. Correspond to the largest firms by assets in each country. Indonesia, Israel, and South Korea's data is from 1995. Chile details are from 1996. In the case of Argentina, Brazil, India, Mexico, Philippines, Taiwan, Thailand, and Turkey, the data corresponds to 1997. Colombia data is from 1998.

As presented by Khanna and Yafeh (2007, p. 332), group-affiliated firms tend to be relatively large and economically important. A substantial number of the largest firms in the countries where business groups have been identified are group affiliated. During the mid-1990s, a particular interest in understanding business groups in emerging economies produced a sample of 13 country case studies (Indonesia, Thailand, Turkey, South Korea, Brazil, Taiwan, Argentina, México, India, Japan, Philippines, Israel and Chile). The purpose of these studies, led by researchers at economic departments and business schools, was to identify the number of groups and their main characteristics. The focus was mainly on Asian and Latin American countries, since they were regions where groups seemed to be stronger and historically persistent. From this sample, as shown in Figure 2.1., they ranged from less than a quarter of the 500 largest firms in Chile to about two-thirds in Indonesia. Overall, the pattern was that business groups tended to include a significant number of the largest firms in each country.

Furthermore, in a sample of groups compiled by Colpan and Hikino (2010, pp. 32-37, Table 2.3.) from the Fortune Global 500 in 2008, the common trend is that the largest business groups have more than two listed subsidiaries, while the number of companies within the group is more than twenty, usually private limited companies.

Business groups display activities in a wide array of industries. Investments made along lines of vertical and horizontal integration allow the group to internalise economies that would otherwise be external to the firm (Leff, 1978, p. 672). The product portfolio of groups shows a predominantly unrelated diversification. However, in some cases business groups are extremely diversified, while in others the diversification is circumscribed to specific industries.

Looking only at the sample of fifteen countries compiled in *The Handbook of Business Groups* (Asli M Colpan et al., 2010), some features can be seen: groups in Chile are far more diversified than those in South Korea, which, in turn, are more diversified than in Taiwan. Groups in Singapore are far more vertically integrated than in India, whereas the Japanese *keiretzus* are far more involved in financial services. Groups in Argentina and Mexico are focused mainly in the domestic market, while the ones from Thailand and South Africa are highly engaged with the international market. For all cases, one of the key strategies adopted for the expansion was manufacturing diversification to then expand to services. However, what is interesting is diversification levels increase and decrease according to adjustments in the economic model. For example, in the Latin American cases mentioned, the privatisation and deregulation of monopolised sectors since the mid-1980s resulted in greater diversification.

Common ownership is the pattern that stresses both the formal ties (reciprocal shareholding by members of the group, interlocking directorates, and cross-guarantees of bank loans) and informal ties (family, regional, or ethnic ties between owners and managers). Differences in who owns, manages, and controls the business group result in different approximations to the ideal type. The literature states that the most common owners of business groups are families. Family members are then often placed as executives of key firms throughout the structure and less common devices are used for control. Morck et al. (2005, p. 660) point out that although in the United States a 'family firm' is often a synonym for 'small firm', elsewhere family owned is related to 'large group of firms'. Usually wealthy families use a variety of tactics to appropriate private benefits. These include, first, the control of many businesses with limited capital investments through a set of cascading parent-affiliate relationships or 'pyramiding' (Claessens et al., 2000, pp. 93-97) where 'individuals or groups owning a majority of the stock of one corporation, which in turn holds a majority of the stock of another, a process that can be repeated a number of times, and, second, 'tunnelling', in which a majority shareholder or high-level company insider directs company assets or future business to themselves for personal gain (H. Almeida et al., 2011).

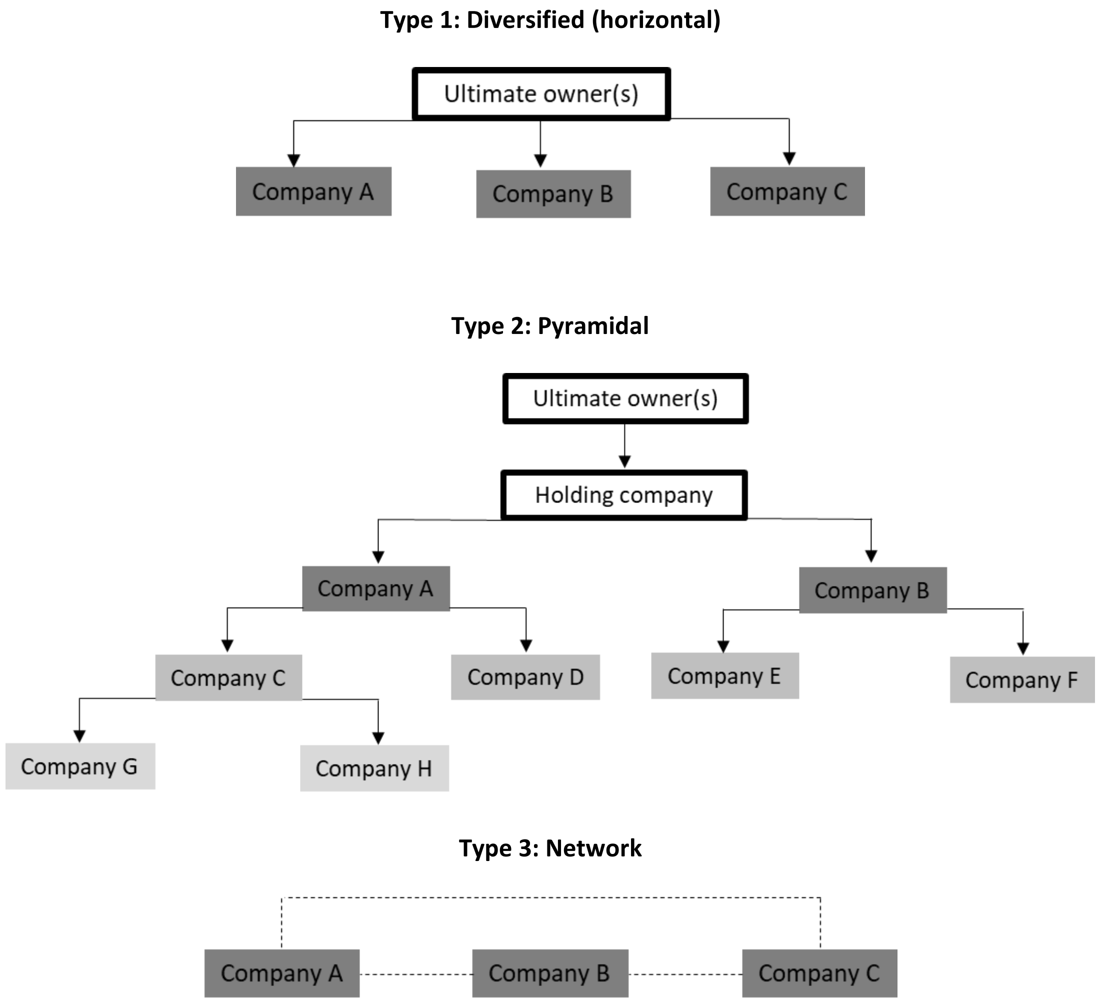
In a business group there is a combination of firms listed and non-listed in the stock market. A company can be listed and at the same time controlled by the ultimate owner. In Latin America, for example, the largest company of the group is often listed and at the same time family-controlled (Cuervo-Cazurra, 2006, p. 424). By contrast, in the Japanese *keiretsus* a listed bank acts as the parent company (Morck & Nakamura, 2005, pp. 423-425) and in the Indian houses the main company is private but some of the affiliates are listed on the stock market (Khanna & Palepu, 2000b, p. 872).

2.2.3. *Types of business groups' structure*

In diversified business groups (Type 1 in Figure 2.2), which were first identified by Leff (1978) and Granovetter (1994) and later named by Khanna (2000), an ultimate owner directly controls several (at least two) companies through majority holdings in all of them (H. V. Almeida & Wolfenzon, 2006). This, sometimes referred to as a 'horizontal group' (Douma & Schreuder, 2008, pp. 338-363), is the forerunner of the second type of business group. In the case of small groups, one of their main features is that the companies are often wholly owned by the same owner (Brioschi et al., 2002), and when not, other shareholders have very restricted rights, if any rights at all. The participants are 'people linked by relations of interpersonal trust on the basis of similar personal, ethnic, or communal background' (Leff, 1978, p. 663). The companies are mainly unlisted and there is a strong relationship between ownership and management. However, this type of group does not share a control unit: if one of the new companies (acquired or created) becomes a holding company, the group starts to follow a pyramidal structure.

In pyramidal business groups (Type 2 in Figure 2.2), an ultimate owner retains control of several (at least two) companies through majority share ownership in a holding company, which is at the top of several layers of companies (Cainelli & Iacobucci, 2007, p. 11). In general, this type of groups comprises 'large firms organised into tiers of listed firms controlled by yet other listed firms' (Morck, 2010, p. 604). As explained by (La Porta et al., 1999), 'two or more listed firms under a common controlling shareholder, presumed to be the largest block holder voting at least 20 percent', constitutes a pyramidal group. In the literature, the centre of attention is on the groups that are formed when 'one listed group-affiliated firm is a controlled subsidiary of another' (Morck et al., 2005, p. 659). Morck, Wolfenzon, and Yeung (2005, p. 660) claim that these groups proliferate in countries where the 'democratisation of ownership' is more common and the capital markets reach middle levels of development. The 'democratisation of ownership' implies a population that widely invests in shares in an improving stock market and an increasingly creates new businesses. It will mean, countries with lower barriers to entry for major industries, a middle class investing the surplus wealth in shares and the support to credit access to small and medium sized businesses. However, this has not been widely studied.

Figure 2.2.
Structure of the types of business groups



As presented in this figure, the structure only shows the basic configuration of the layers. Source: Adapted from theoretical approaches introduced mainly by Cainelli and Iacobucci (2007), Colpan and Hikino (2010), Goto (1982), Granovetter (1998), Khanna and Yafeh (2007), Leff (1978).

Country studies also show that pyramidal groups have a remarkable power to magnify large family fortunes, letting just a handful of wealthy families control the national economies and further concentrate ownership. This brings into the discussion the problem of minority shareholding, since the expropriation of minority shareholders can become a common feature of the economy where groups are present. Commonly, 'there is a large divergence between the large shareholder's control rights (often very high) and cash flow rights (typically much smaller)' (Khanna & Yafeh, 2007, p. 343). As explained by H. V. Almeida and Wolfenzon (2006, p. 2639), this is often the case when investor protection is imperfect and new businesses are added to the group. As a result, families keep extracting private profits by adding family members and well-known regional entrepreneurs as minority shareholders.

Network-type business groups (Type 3 in Figure 2.2) consist of minority shareholdings between firms that can be controlled by different ultimate owners. As Granovetter (1995, p. 96) explains, they consist of 'loose coalitions of firms in which no single firm or individual holds controlling interests'. This type is almost exclusively limited to the case of the Japanese *keiretzus*, business groups that appeared in the post-war era when the *zaibatsus* were transformed into quite different entities, with banks and trading companies placed at the core of their ownership structure. Miyajima (1994) explains this transformation and calls attention to the possibilities of further growth for the pyramidal business group. As explained by Lincoln and Shimotani (2010, p. 128), there are 'clusters of independently managed firms whose intertwined activities were reinforced by governance mechanisms such as presidents' councils, partial cross-ownership, and personnel exchanges'. Therefore, these are the groups where no single firm, organisation, or individual exercises dominant control over strategic decisions.

Table 2.1 summarises characteristics described up to now. These are the patterns to be used for classifying business groups around the world. The table gives a taxonomy of the three types of business groups and identifies the significant characteristics under the features highlighted in the previous paragraphs (set of firms, diversification, and ownership and control). It is an attempt to summarise the approaches to the definition of business groups by identifying the basic features of each type, based on the various literature mentioned in this section.

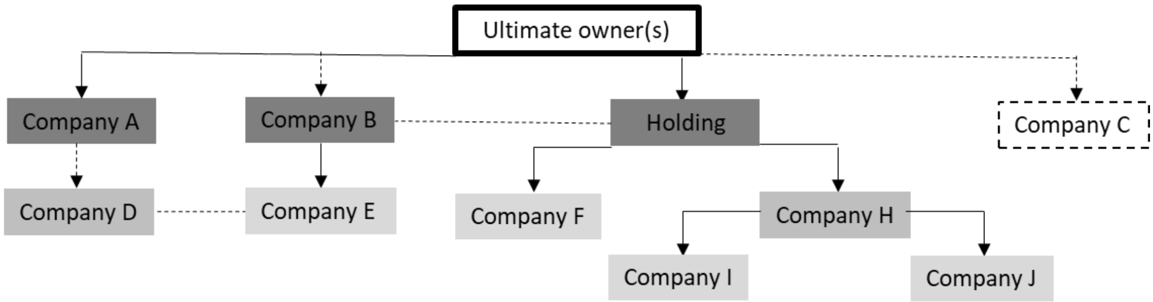
Table 2.1.
Stylised characteristics of the types of business group

Type/patterns	Type 1: Diversified business group	Type 2: Pyramidal business group	Type 3: Network-type business group
Operating units			
Number	More than two	One subsidiary, one affiliate	At least three
Legal status	Mainly general partnership, limited liability	Mainly public limited Company	Mainly public limited company
Size	Mainly small and medium	Mainly large	Mainly large
Diversification			
Product portfolio	Unrelated	Related or unrelated	Related or unrelated
Growth pattern	New companies, acquisitions 'organic growth'	Acquisitions, mergers, joint ventures (listed affiliates)	Acquisitions (proliferation of clusters)
Ownership and control			
Ultimate owner	Individual, family, regional entrepreneurs	Individual, family, regional entrepreneurs	No single ultimate owner
Intercompany relationship	Subsidiaries and affiliates	Tiered subsidiaries	Stand-alone enterprises
Capital market relationship	Mainly unlisted	Mainly listed	Mainly listed
Mechanisms	Internal capital market	Equity leverage and tunnelling	Not applicable
Control unit	None (majority cross-shareholding)	Holding company (control and cash flow rights)	Interlocking directorates (minority cross-shareholding)
Administrative control	Strategic and budgetary control	Ultimate control (shares)	Inter-firm coordination
Top management	Mostly family	Mostly family	Not applicable
Example			
	Grupos económicos (Latin America)	Wallenberg (Sweden)	*Keiretzus* (Japan)

Source: Compiled from the literature discussed in the first section of this chapter, particularly the theoretical approaches introduced by H. V. Almeida and Wolfenzon (2006), Cainelli and Iacobucci (2007), Colpan and Hikino (2010), Goto (1982), Granovetter (1995), Khanna and Yafeh (2007), La Porta et al. (1999), Leff (1978), and Morck et al. (2005).

At this point, it is important to highlight that large, diversified, often-family controlled organisations with pyramidal ownership structures, predominate in the majority of countries (see Figure 2.3). The cases of the Japanese *zaibatsus*, the South Korean *chaebols*, and the Latin American *grupos económicos* are the ones that confirm this trend and deserve more attention. From these cases, it seems that business groups have a dynamic structure that has become more complex as more firms are added (see last type in Figure 2.2). The structure does not exclusively reduce to the patterns of one or another, and more often the characteristics of the first two types co-exist. The general pattern is that during the first stage from stand-alone companies to business groups, the diversified type is commonly chosen, but the groups then evolved from the diversified to the pyramidal type. After some years of setting up new firms and acquiring companies, the groups become pyramidal. However, the evolution from one type to another is not always straight forward. Business groups can remain as Type 1 for long-periods. The case of Latin America is proof of it.

Figure 2.3.
Predominant structure of business groups



As presented in this figure, the structure only shows the basic configuration of the layers. Source: Adapted from theoretical approaches introduced mainly by Cainelli and Iacobucci (2007), Colpan and Hikino (2010), Goto (1982), Granovetter (1998), Khanna and Yafeh (2007), Leff (1978)

2.3. Towards a typology on business groups

There has been renewed interest in business groups in Latin America in recent decades, especially as they became the leaders of internationalisation in the region since the beginning of the twenty-first century (e.g. Andonova & Losada-Otálora, 2017; Bull, 2013; Bull et al., 2014; Casanova, 2009). Even though business groups have been in the eye of the hurricane in many countries due to their close relationship with politics and the state, they strengthened and grew rapidly in both size and number of business groups, contrary to what was observed in developed countries. In contrast to the 1970s, when the published works on business groups demonised their existence (e.g. Cordero, 1977; Dahse, 1979; Silva Colmenares, 1977), recent research concludes that groups are one of the largest economic actors in the region and promotes further studies to understand regional patterns .

Unlike countries, such as Japan and Korea, where dictionaries of business groups with census data on group-affiliated firms, owners, and managers are common; in Latin America, business groups register firms individually to government agencies (control agencies, chambers of commerce, taxes, customs, among others), without specifying whether they are group-affiliated. According to Iacobucci (2009), the sampling of the group-affiliated firms is essential to increase the credibility of the research and to achieve more accurate comparisons between countries. Moreover, Colpan and Hikino (2018a), Barbero and Puig (2016), and Colli and Vasta (2018) mention the need to systematically examine business groups in both emerging and developed countries.

Comparing individual firms within and between countries is already a difficult task due to the different legal and statistical systems, which determine the required methodologies according to the context of each country. An example of this is the data collected by the Successful Transgenerational Entrepreneurship Practices (STEP) Project for Family Enterprises or the Global Entrepreneurship Monitor (GEM), which have developed surveys to study family businesses and start-ups around the world. Furthermore, in the last two decades, researchers in Latin America have focused their data collection efforts on start ups and small- and medium-sized enterprises, such is the case of Donato and Barbero (2009) and Vesga Fajardo et al. (2015).

In the case of the business groups, data collection is further hindered by the need to find a general definition of what is considered a group country by country and the strong perception of an ideal structure and pattern resulting from the studies on Asian business groups (Amsden, 1989; Carney, 2008). Specifically for the case of Latin America, a more detailed work of business demography is required to identify the regional characteristics of the business groups and enter wider discussions, such as those on globalisation and deglobalisation, corporate governance, and varieties of capitalism. A demography that allows a review of firm affiliation, ownership and control networks, and economic activity with the same dimensions across countries and without increasing by too much the time required for data collection. Furthermore, in many countries in Latin America, especially Colombia, business groups started to report aggregate financial information only in 2015, six years after the Law 1314 of 2009 was issued. This law request companies to report financial statements to the control agencies following the accounting standards of the International Financial Reporting Standards (IFRS, NIIF for its Spanish acronym). Thus, the identification of affiliated-firms and groups continues to be a labour-intensive job for most researchers in Latin America, since it involves building the ownership network from company and government archives, reviewing secondary sources, using the press, and conducting interviews.

Which dimensions and variables should be considered to study business groups in emerging economies, specifically in Latin America? This section presents a typology to comparatively analyse the business groups in the region, based on the data collection done for the case of Colombia. This typology is based on the theoretical literature developed on groups (among others, Goto, 1982; Granovetter, 2005; La Porta et al., 2003; Leff, 1978; O. Williamson, 1985), some works on groups in countries of the region (e.g. Bull et al., 2014; Cedis, 1986; Cordero, 1977; Dahse, 1979; Geymonat, 2019, 2020; MAPU, 1972; Stolovich et al., 1987), and the author's own data collection. The underlying objective of this typology is to promote a future systematic collection of data on business groups across the region to understand further why entrepreneurs prefer to expand their ownership network, instead of following the model of the large corporation.This typology is not finished. There is still space to add new variables that measure issues such as internationalisation, political capabilities, profiles of the group's owners, amongst others. The dimensions and variables presented here are a result of the availability of the data and the research questions of this thesis.

Therefore, this section proposes a methodology to collect a panel data on business groups in countries with no standard records on groups by accepting two units of analysis: the group-affiliated firm and the group. As the business group is a set of independent firms, the individual firm is the first unit of analysis. The group-affiliated firm is an independent entity constituted as a unit with a legal form (limited, PLC, building society, or *comandita simple*); responsible for one or more economic activities, in one or more places; with a certain level of autonomy in decisions related to the use of resources; and that reports to control agencies and pays taxes. Detailed information by firm is not available in many countries in Latin America, much less for years before the 1990s, so it is suggested to select at least one of the variables listed in each of the dimensions to collect historical data.

The second unit of analysis is the business group as a whole. It refers to the organisational structure that, through formal and informal links, brings together a network of firms. The individual measures of the group-affiliated firms lead to the aggregate measures of the group that then allow an understanding of the dynamics and strategies taken within the ownership network and to compare them with other groups around the world and over time, especially in the face of changes in the economic model or waves of globalisation and deglobalisation.

The structure of the business group is dynamic and includes diversified (type 1), pyramidal (type 2), or network (type 3) groups (see Chapter 1). Four dimensions are suggested for characterizing the groups: 1) size, 2) foundation and consolidation years, 3) structure, ownership and control, and 4) level of diversification. The variables and measurements corresponding to each of them are presented below.

2.3.1.. Dimension 1: Size

It is important to differentiate the size of the group-affiliated firms and the groups. The economic weight of the business groups changes proportionally with the number and size of their affiliated firms. Generally, the literature has focused its attention on the largest groups and their largest affiliated-firms, with only a few exceptions, such as the study by Cainelli and Iacobucci (2007) on Italian business groups, which includes groups with exclusively micro, small, and medium-sized affiliated firms. However, the business groups in Latin America, as demonstrated in the sample used in this chapter and other studies, are not confined to either of the two extremes: only large-sized or only micro, small, and medium-sized affiliated firms. The business groups in the region tend to have affiliated companies of all sizes, which indicates the growth pattern of the structure and those processes related to the identification of new business opportunities and the entry and exit of economic activities. The size of the affiliated firms and the group allows us to analyse their growth and strategic reaction to changes in the context. As shown in Table 2.2, to measure the size of the group-affiliated firms, the number of employees, total sales, and total assets can be considered.

Table 2.2.
Variables for size

No.	Variables by level	
Level 1: Group-affiliated-Firm		
1	Total assets and/or total sales	
2	Number of employees	
Level 2: Business group		
3	Total number of group-affiliated firms	Number of group-affiliated firms must include all active units during the reference year or period.
4	Total number of group-affiliated firms by size	Number of group-affiliated firms according to size, must include all active units during the reference year or period.
5	Total assets/sales/employees in benchmark years	Number of employees/sales/assets in the group-affiliated firms, must include all active units during the reference year or period.

Source: Compiled by the author.

For the years after 1990, the classification of the size of the group-affiliated firms can be made following international parameters that classify companies as small, medium, or large if they meet at least two of the criteria indicated in Table 2.3 for number of employees, assets, or sales. However, it is important that for the years prior to 1990, new indices must be defined to classify companies as micro, small, medium, or large, since the size of the economy must be considered.

Table 2.3.
Classification of firms by employees, assets, and sales, 1990 --

Size	Number of employees	Sales (USD 000)	Assets (USD 000)
Micro	1-10	400	20
Small	11-50	2.000	50
Medium	51-200	10.000	350
Large	>200	>10.000	>350

Source: Based on author's review of firm size classification in various countries including Mercosur, Colombia, Peru, Mexico and the European Union. Although the classification varies from country to country, in Latin America the same criteria are generally used in terms of the number of employees and sales. The total assets depend on each country. In the case of Colombia this measure corresponds to a number of legal yearly minimum wages. https://www.rau.edu.uy/mercosur/faq/pre24.merco.htm, Ferraro and Gatto (1993), EuroStat (2007).

To determine the size of the groups, the total number of group-affiliated firms must be classified by size defined by sales, assets, and, where possible, the number of employees, taking into account the availability of such information in each country and period. Counting the number of group-affiliated firms allows an initial comparison within a country and between countries. For each period, the group size index can be calculated as the number of group-affiliated firms per group/total group-affiliated firms in the country. In addition, this allows the identification of the largest groups according to ownership of the companies. This measurement of size combined with other indicators may allow other characteristics of the groups to be established, such as value added, market power, and monopolies, among others.

2.3.2. Dimension 2: Foundation and consolidation

The foundation, acquisition, and dissolution or sale of the group-affiliated firms permits the identification of changes in the composition of the groups, the recognition of strategic decisions, impact of changes in the economic model, and growth patterns. The increase or decrease in the number of group-affiliates firms in the period studied here facilitates the identification of expansion and contraction strategies, the persistence of traditional industries, and the differentce between firm’s creation and acquisition.

The different role of business groups in the creation of firms has been discussed in various works (e.g. Brioschi et al., 2002; Erçek & Günçavdı, 2015; Iacobucci, 2009) and, on occasions, it has been observed that business groups increased the barriers to the entry of new companies (e.g. Bae et al., 2011; Bunkanwanicha et al., 2016; Colpan & Jones, 2016; Fernández de Guevara et al., 2000). For this reason, the record of the foundation years in terms of growth and the opening and closing of markets can result in the identification of their entry strategies and the creation or not of barriers through the ownership of firms in the same industry. It is important to note that due to the dynamism of investment within the groups, the dates of foundation and acquisition of the affiliated company must be recorded separately; in some cases this date will coincide if the group acts as founder, but in others there may have been a merger or acquisition.

As the groups react to economic crises or changes in the model by expanding or contracting their activities, it is important to also record the date of dissolution or the date of sale of the group-affiliated firms. The former is an indicator of the longevity of the group-affiliated firms created by the group. The second records changes in ownership as an indicator of entering and leaving markets.

At the group level, the year of consolidation of the group must be calculated. Following Colpan and Hikino (2010), the consolidation of the group is taken as the year (or decade) in which three companies in two different activities are under the same ownership and control. This generalisation makes it possible to identify periods of increase and decrease in the number of groups per country and to identify the longevity of the business group.

To sum up, Table 2.4 lists the variables needed to register the foundation and consolidation of the business groups and their grouo-affiliated firms.

Table 2.4.
Variables for foundation and consolidation

No.	Variables by level	
Level 1: Group-affiliated firm		
1	Foundation year	Year in which the firm was created and/or started its economic activity.
2	Acquisition by the group year	Year in which the firm was acquired by the group. It may coincide, but not necessarily, with the founding date.
3	Dissolution or divestment year	Year in which the firm was dissolved or sold.
Level 2: Business group		
4	Consolidation year	Year in which three firms in two different economic activities are under the same ownership (and control).
5	Consolidation decade	Corresponding decade of the consolidation year

Source: Compiled by the author.

2.3.3. Dimension 3: Structure, ownership, and control

The ownership of group-affiliated firms is recognised as one of the most important characteristics of the business groups. Ownership implies the creation of a legal entity in which its owners have the possibility of organising and directing employment, exercise control, and determine strategies. One of the indicators included in this dimension is the legal form of the group-affiliated firms as changes in the legal form over time show the group's adaptation to changes in commercial legislation and the growth of the individual group-affiliated companies. For example, the change from limited to public limited company may mean a reaction to a change in the commercial code or a need to increase the available capital. A second indicator in this dimension is whether the company is listed on the stock market.

Regarding the group level, the owner of the group must be identified through the shareholding in the companies. Table 2.5. presents a list of the variables that need to be considered in this dimension. The type of owner (family, group of entrepreneurs, state, foreign investors) must be classified in the first instance, and then the type of control they exercise, either through participation in management, as members of the board of directors, or others. In addition, the relationship between group-affiliated firms must be considered. Therefore, it is important to classify the structure over time. According to Claessens et al. (2000), there are three types of structure in business groups. The first the horizontal group in which an owner is a majority shareholder in several companies. This form is considered the initial stage of the groups. The second is when the groups already acquire a pyramid shape through a holding company. The third is the so-called network in which the ownership of natural persons disappears and the affiliated companies share ownership of each other.

Table 2.5.
Variables for structure, ownership and control

No.	Variables by level		
Level 1: Group Affiliated-Firm			
1	Legal form	Ownership and control	Limited, PLC, building society, *comandita simple*
2	Stock market	Ownership and control	Listed or not listed
3	Type of affiliation to the group	Structure	Holding, group-affiliated firm
4	Shareholding percentages	Ownership and control	
Level 2: Business group			
5	Ultimate owner type	Ownership and control	Family, group of entrepreneurs, state, foreign investors
6	Management type	Ownership and control	Decision-making hierarchy for strategy, finance, and production
7	Type of structure	Structure	Diversified, pyramidal, network
8	Control unit	Ownership and control	Cross-shareholding, holding, interlocking directorates

Source: Compiled by the author

2.3.4. Dimension 4: Diversification

The diversification strategy is a primary characteristic of the business groups. The expansion (or reduction) of the product portfolio and the opening (or closing) to new markets allow an understanding of its relationship with the context. Table 2.6 lists the group of variables needed to study both the portfolio and geographic diversification.

Table 2.6.
Variables for diversification

No.	**Variables by level**		
Level 1: Group-affiliated firm			
1	Industry	Product	ISIC Letter
2	Sector	Product	ISIC 2-digit code
3	Economic activity	Product	ISIC 3-digit code
4	Business activity	Product	ISIC 4-digit code
5	City	Geographical	
6	Region	Geographical	
7	Country	Geographical	
Level 2: Business group			
8	Total group-affiliated firms by industry	Product	
9	Total group-affiliated firms by economic activity	Product	
10	Total group-affiliated firms by city, region, country	Geographical	

Source: Compiled by the author

It is therefore proposed to register the four-digit ISIC code for each of the group-affiliated firms, so that the main industry, sector, and specific economic and business activity can be identified. The objective of collecting this information is to develop indicators of industrial concentration, related and unrelated diversification, and to verify the creation of production chains and internal markets for resources and capital.

Regarding the geographical strategy, recent cases have shown that the groups first carry out a geographical expansion in the domestic market and then expand internationally (e.g. Andonova & Losada-Otálora, 2017; Holmes et al., 2018; Mukherjeea et al., 2018). Identifying the location details of each of the group-affiliated firms is an indicator of the opening of new markets, its strategy and the exhaustion of the domestic market.

2.4. Solving the puzzle: a perspective on origins, persistence, and resilience

‘The choices and decisions that need to be made to achieve development are far more *germane* to the pursuit of power and prestige than to that of increased welfare’ (Hirschman, 1958/1964, p. 10); Hirschman’s statement summarises what the historical record shows: for most emergent countries, especially Latin American countries, business elites have played an important role in development. Expansion of business activities was associated with economic, social, and political changes across countries, in many cases creating highly networked and interdependent economies. Being a ‘businessman’, ‘capitalist’, or ‘industrialist’ became synonymous with financial resources and power. However, the entrepreneur as an object of study only became popular in recent years, after they became recognised as a vital part of the economic equation. Historical awareness has allowed us ‘to probe the varied nature of the entrepreneurial activity, the environments in which entrepreneurs thrived, and, perhaps most importantly, to see patterns and understand the evolution of entrepreneurship’ (Schramm, 2010, p. vii).

Entrepreneurs and firms need to gain access to three types of resources when entering an industry: inputs (labour, capital, and raw materials), technology, and market access (distribution channels and contracts) (Markides & Wiliamson, 1996). Entrepreneurs and firms that learn how to combine such resources quickly and effectively will best be able to create a business group by repeatedly entering a variety of industries. Thus, the main argument in this section is that business groups appear and persist in many emerging countries, because entrepreneurs and firms learn to combine the necessary resources – specifically, capital, which is limited by the characteristics of finance and financial markets – for entry into multiple industries.

Gerschenkron (1966, p. 322) highlights the modern entrepreneur (that is, the one born from industrialisation) as successfully finding substitutes for the prerequisites (wealth, capital and productivity), in some cases by enlarging the firms beyond their optimal size, in others by founding new organisations (including banks, as in the German case). As the business activities evolved, the size of the firms changed and need for capital expanded. The business group became an alternative organisational form created by the entrepreneurs to achieve, in principle, further diversification followed by the desired higher profits.

In most of the early industrialising economies the large enterprise experienced two historic waves of development (Morck & Steier, 2005). During the first, a diversification pattern was exhibited in the form of business group during the early phases of industrial growth (Jones & Khanna, 2006, p. 456). Those groups, as in the case of the British trading companies (Jones, 2000, pp. 67-92), were a reaction to the opportunities offered by an economy in expansion and functioned as venture capitalists in countries where capital markets were highly undeveloped. As Jones (2000, chapters 1 and 3) points out, the expansion of the first global economy provided unprecedented opportunities for entrepreneurs and firms to grow in both domestic and international markets. Companies had to make investments themselves rather than rely on others to create complementary businesses as the profitable opportunities were increasing.

As companies frequently reinvent themselves to suit the evolution of context, a second wave appeared in the form of the Chandlerian modern industrial enterprise (large, vertically-integrated, managerially directed) (Chandler, 1962, 1977), with a related product portfolio that grew into the corporate form (O. Williamson, 1985). The rise of new instruments for allocating, monitoring, and coordinating allowed the formation of more hierarchical firms (Chandler & Daems, 1979). Nevertheless, Lamoreaux et al. (2003, pp. 404-406) explain that the success and prevalence of the Chandlerian firms has been revaluated in the light of the adjustments of the twenty-first century. Country cases have shown that in emerging countries, the large business groups, among other organisational forms, appeared in the early phase of industrial development and remained as the leading business organisations up to the twenty-first century without experiencing a change of direction towards becoming multidivisional corporations.

What are the reasons for the formation of business groups? Despite heavily entrenched views on the ubiquity of business groups around the world, there is still debate on the reasons for their existence. The bulk of the literature on business groups studies the historical evolution of individual groups around the world. Groups such as Tata in India, Samsung in Korea, Mitsubishi in Japan, Arcor in Argentina, and Grupo Empresarial Antioqueño in Colombia have been studied from different perspectives. By describing the strategies taken by the owners to diversify and increase their profits, the authors have seen the origins of the business groups as the result of the entrepreneurial decision to keep growing.

However, the specific forms that the business groups take in each country vary depending not only upon the economic conditions but also the political and legal situations of their countries of origin. Added to the variety of individual cases within countries, the fragmentation of the literature on business groups is caused by the diversity of definition and the number of theoretical perspectives that have been used to examine them, as shown in the previous section. Moreover, as discussed by Achi et al. (1998), the line between their origins and their effects is blurred by the addiotional fact that business groups' adaptability to changes in the environment (economic, politic and social) is sometimes enhancing, and sometimes not

Explaining business groups' persistence and effects on development, as the majority of the studies have done, is different from understanding their origins. Studying the latter requires the identification of the group's growth process from the moment when the ultimate owner(s) of a stand-alone company acquires a second legal unit through majority share ownership (Cainelli & Iacobucci, 2007, pp. 10-14), which is 50 per cent plus one in the case of Colombia. From this genesis of the group, there is an expansion of the number of group-affiliated firms, leading to the emergence of a larger structure (relative to each country's economy), which is the stage of consolidation. In many cases, this expansion occurs in particular environments and produces an unexpected proliferation of the business groups (Colpan & Hikino, 2010, p. 31). As a result, identifying the growth process needs to, first, establish the ultimate owner. Second, assess the ownership and control relations between the group-affiliated firms. Then, detect if the acquisition of new firms is in the same or in other industries. This also requires finding the common patterns between groups in a country to identify if there are certain periods in which business groups proliferate and which of those correspond to the first stage of evolution. Once this is defined, the factors that contribute to the creation of groups must be evaluated. Hence, the analysis of groups' origins and proliferation has not been very popular in the literature, in some cases due to the lack of data, in others because of the difficulty of setting a period.

Only a few empirical studies have focused exclusively on the origins of the groups (Chung, 2001, 2006; Lee & Jin, 2009; Tsui-Auch, 2005), yet they are 'often based on small data sets and employ empirical techniques that are not fully convincing' (Khanna & Yafeh, 2007, p. 363). Other empirical studies on business groups are 'plagued by lack of data on group origin' (Khanna & Yafeh, 2007, p. 334). In these cases, most of the references to the formation, nature, or origin of the studied groups are reduced to comments on the economic policy that benefited them, making it harder to support the idea that groups do not only respond to their environment (origin) but also shape and influence it (persistence). Nevertheless, studies have agreed on the fact that many of the variables identified in the theoretical literature appear to have some relevance on the consolidation of business groups around the world. The difference across countries comes from the degree of impact of those variables. Hence, the need to explore the origin of the business groups as an exclusive matter.

In exploring the formation of business groups, the existing theoretical literature consists of no more than a handful of studies. Through theoretical lenses researchers have directed attention to different exogenous factors that shape and determine the origin and structural arrangements of business groups. Historical evidence in several countries, however, has supported the view that business groups are an answer to the economic conditions of each country. From there, among economists in particular, the emphasis has been placed on market-based explanations and the significance of exogenous factors, especially demand conditions. Similarly, the state-activism view has noticed that in some cases the state is responsible for the emergence of business groups. On the contrary, considering also endogenous factors, resource-based studies, among others, have explained business groups by looking at internal competitive resources and capabilities.

Accounting for the theoretical studies, Amsden and Hikino (1994), and later Kock and Guillén (2014), claimed that business groups diversify into several unrelated industries due to the characteristics of their capabilities. Therefore, the absence of 'technological capabilities' (research and development, technological innovation) or 'financial capabilities' to enter into more profitable markets is replaced by 'contact capabilities' (distribution channels, contracts, import licenses) with the state and foreign multinationals, followed by 'project execution capabilities' (pre-investment feasibility studies, project management) (Amsden & Hikino, 1994; Guillén, 2000, 2010; Kock & Guillén, 2014) while entering repeatedly to new industries.

Guillén (2000, p. 365) highlights that idle assets within business groups, such as 'contact capabilities', encourage further entry into new and different industries rather than a focus on one specific industry. Those capabilities become valuable, rare, and inimitable 'only under asymmetric foreign-trade and investment conditions' (p. 378), since asymmetric flows create the potential for heterogeneity in resource access and capability building by entrepreneurs. Case studies, however, have shown that this is generally not the case (Jones & Khanna, 2006, pp. 458-460).

Despite the debate on the value of these capabilities in different contexts, the 'contact and project-execution capabilities' have been widely recognised as the competitive asset that distinguishes business groups from other organisational forms. The groups developed complementary skills (Guillén, 2010, p. 745), such as obtaining licenses from the state, arranging financial packages, securing technology and know-how, building plants, hiring and training the workforce, and establishing supply and distribution channels. These skills allow them to grow and consolidate as strong players in each of the economies where they operate.

Political-economy approaches have justified the origin of the business groups as a result of state and business relations. The main argument is that governments in emerging countries have targeted a few industries and supported selected entrepreneurs, as an exercise to promote industrialisation. Hence, the government policy provided the selected companies with funds, technology, subsidies and market protection, as in the cases of South Korea (Amsden, 1989; Evans, 1995) and Italy (Amatori, 1997). A reasonable solution to the limited financial resources available to promote economic growth was to allow the government to pool capital in a few major organisations in specific businesses. This facilitated the entrepreneurs to proliferate in business and achieve a rapid growth pattern of the firms owned by them. However, this close relationship between the state and the private sector has often been associated with political rent-seeking and crony capitalism. As Schneider (2004) points out, political connections can over a period benefit business groups but may be detrimental for society.

Another group of authors led by Morck have added to the debate by arguing that political and economic influences exercised by large business groups can cause 'economic entrenchment' by distorting government policy concerning the protection of property rights and the capital markets and other economic organisations (Morck, 2005; Morck & Nakamura, 2007; Morck et al., 2005; Morck & Yeung, 2004). Although these irregularities are not unique to the business groups, this literature has argued that groups originated as a result of this close relationship between business and government. However, business-government relationships and entrenchment may not hold true at all times. Studies of Argentina (Azpiazu, 1989), Russia (Guriev & Rachinsky, 2005), and India (Khanna & Palepu, 2005) have shown that governments can harm business groups due to the risk of expropriation or the nationalisation of their businesses.

The close relationship between entrepreneurs and the state for years before the creation of the business groups in some countries has not been included in the analysis. Undeniably, there is not a unique form of relation between the private sector, politics, and the state. The historical evidence has shown that the degree and form of this relation vary across periods and societies, although its importance for the purpose of achieving higher profits remains.

Following the approach of market imperfections, a body of work has explained business groups as responses to imperfections in capital, product, labour, and other markets as well as institutions that are particularly commonplace in emerging countries. Most of the arguments rest on how business groups fill in the gaps in the economies where they exist. For instance, when product markets are not functioning well, the absence of suppliers is filled by the group that diversified into several unrelated product lines (Chung, 2001). When capital markets are weak, the configuration of a group can create an internal capital market by transferring capital inside the group to invest in new companies or to enhance existing lines of businesses (see H. Almeida et al., 2011; Khanna & Palepu, 1997). Once created, business groups not only create internal capital markets, but also labour markets where firms rotate personnel and share members of the board of directors. On the effects of legislation on corporate governance, Kali (1999) studies the formation of business networks in response to limited contract enforcement by the legal system. Adding to this literature, Maurer and Sharma (2001) discuss the origin of the business groups as a result of imperfect property rights.

2.4.1. Turbulent environments, high risk and disadvantages

As presented in the sections before, explanations for the existence and persistence of business group vary according to the theoretical approach and the context of the country in which they are embbeded. However, not all business groups activities and reactions to the environment end up in the consolidation of a strong organisational structure. Moreover, the impact of business groups in the economy is not always positive and many times questionable.

Business groups have welfare consequences. Although, there are still not many studies on the impact of business groups on inequality, the fact that they are both the major employers in emerging markets and at the same time their size allows them to have great political power is a source for discuss a disadvantage. According to Maksimovic & Philips (2002), business groups are efficient for certain situtations in which stand alone firms cannot provide society with benefits. However, as observed by Maurer & Haber (2006) and Del Angel (2015) for the case of Mexico, the effect of business groups was a large decline in the size of the credit market leading to unexpected welfare consequences.

Business groups have an impact in economic development. As a result of their political capability and their dominance in specific industries, business groups can push development. However, their relationship with economic development is not straightforward. As explained by Khanna & Yafeh (2007), business groups will be replaced or complemented by market institutions depending on the stage of development of the country. As a result, the impact of business groups will be biased to the available capital, the labour market institutions and the size of other business actors.

Business groups tend to atract foreign direct investment in turbulent environments. A general assumption in the literature is that business groups tend to bring stability in the markets via solving institutional voids. As presented by Casson and Da Silva Lopes (2013), foreign investors that perceived high risk environments will tend to implement risk management in many cases supporting their entry with local firms. In this context, business groups in turbulent environments could serve the purpose of consolidating foreinn investments. However, as seen in the case of business groups under dictatorships (Basualdo, V. et. al., 2020), the role of business groups will depend on their bargain

Finally, business groups played a role in macroeconomic crises. In the case of East Asia, Corsetti et. al. (1999) and Mitton (2002) related the crises at the end of the 1990s, to their corporate governance. The main argument is that the business groups were able to borrowes very easily and created moral hazzard problems which may have precipited the crises. As a result, business groups played a double role on the creation or control of macroeconomic crises.

To sum up, business groups are not always angels. Their impact on turbulent environments with high risk and political uncertainty, will depend on other factors. This makes the study of the impact of business groups in the economies of emerging markets an unanswered puzzle that needs further research.

2.5. The 'criollo' puzzle: studies on Colombian business groups

In terms of the Colombian literature, interest in the role of entrepreneurs and the firm only grew from the start of the 1980s. Following a small wave of studies by foreign researchers studying the Colombian case, business history was nurtured during the 1970s. As Miller (1999, pp. 2-3) explains, the role of British and American historians has been important in all Latin American countries, where they have played a pioneering role. Colombia was not an exception. The foreign researchers promoted the development of the economic and business history disciplines in Colombia (see a complete review of these works in C. Dávila, 1986, 2012b) and are still regarded as the pioneers. Building on the work of these foreign scholars, in Colombia business history became a discipline that was clearly separated from economic history (C. Dávila, 1999; C. Dávila & Rodriguez-Satizabal, 2008; Molina & Rodriguez-Satizabal, 2012). The research focus has been, in particular, on the history of regional entrepreneurship, particular entrepreneurs, and specific large companies.

The new business history literature departed from economic historians' traditional narrative of the 'non-existence' of entrepreneurs (or at least long-term investors) in Colombia during the first wave of globalisation. Whereas Ocampo (1981, pp. 104-108) described early Colombian capitalists as 'producer-speculators' who had no commitment to productive investment, the predominant view is that entrepreneurs and firms were essential pieces of Colombia's economic transformations during the twentieth century. The great businessmen were commonly held up as promoters of development and risk takers (e.g. Campuzano Hoyos, 2013; C. Dávila, 2007; Molina, 2003, 2019). The early decades of the twentieth century saw an increase number of industrialists who overcame the lack of capital sources for funding domestic enterprises as well as the inappropriate forms of production that characterised the long nineteenth century (Safford, 1976, 2002), building the basis for later manufacturing industry.

The seminal work of C. Dávila (1986) set the record straight on the origins of regional entrepreneurship, the role of immigrants in a 'non-immigrant land' in the early development of the industry, the pattern of diversification, and the close links between the entrepreneurs and the government, mainly as financiers. Following case studies, mainly biographies, found similar patterns and added new players. According to C. Dávila and Rodriguez-Satizabal (2008), the number of studies on entrepreneurs increased after the 1990s. More entrepreneurs and firms have now been studied, including regional studies (e.g. Berdugo, 2016, 2018; Molina, 1998;

Ordoñez, 1995; Quintero & Centeno, 2007) and a collection of two volumes on Colombian entrepreneurs and businesses (C. Dávila, 2003b).

Few studies on the relation between power, business elites and economic development in urban Colombia called attention to business associations (*gremios*), business groups, and a small group of multinationals that appeared in the second half of the twentieth century (Schneider, 2004; Thorp & Durand, 1997). The link between the state and the private sector became more evident when the circulation of senior business leaders as government officials, such as ministers, became normal (Rettberg, 2003; Sáenz Rovner, 1990, 2002, 2007). By the last twenty years of the century, large organisations kept control of some markets while the number of small and medium enterprises grew faster (Portafolio & Uniandes, 2005), promoted by government policies.

In the case of business groups, the unit of analysis of this research, 36 studies have been published since the mid-1970s, when a first government report found more than 300 public limited companies affiliated to business groups, mainly owned by families (SuperSociedades, 1975/1978). These studies can be found in the economic and business history literatures (Bejarano, 1994; C. Dávila & Rodriguez-Satizabal, 2008; Meisel, 2007), as well as in literature ranging from history to management studies.

As in the literature on Latin American business groups, the Colombian studies follow some trends. A great number of studies are a compendium of descriptive accounts of business groups, as in Chile, Argentina, Brazil, Mexico, Peru, and Central American countries. Fourteen are anniversary books of one firm within a group (see reference list in C. Dávila & Rodriguez-Satizabal, 2008). These books are written mainly by historians and provide a description of the foundation years, the owners, and some strategies of the firms. There is another group of studies, mainly published before the 1980s, that discusses business groups as representatives of the business elite with great power over economic and political decisions (e.g. Cerutti, 2006;

Lagos, 1961; Schneider, 2004; Strachan, 1976; Zeitlin & Ratcliff, 1988). Four of these studies were books written by two journalists based on newspaper articles and interviews (Nieto Bernal, 1997, 2003; Silva Colmenares, 1977, 2004). Both authors describe the largest groups (from 4 to 32, depending on the definition used) and qualify them as the ‘owners of the country’; a negative assumption that is still common when business groups are discuss in Colombia. Two more studies deal with the general question of the relation of business to the state from the point of view of political science (Rettberg, 2003, 2005). The author presents the reaction of the leaders of the business groups to the political crisis in the 1990s, concluding that their role was to reduce the risk of democratic instability. From the perspective of finance, one paper addresses the links between the capital market and the business groups during the 1980s, concluding that the small capital market did not make business groups stronger (J. Fernández, 1995). Two papers conclude that ownership was highly concentrated in Colombia between 1995 and 2005 because of the business groups (Gutiérrez et al., 2008; Pombo & Gutiérrez, 2011).

Recent studies focus on the strategies followed by business groups mainly after the 1990s (Barbero, 2012; De Siqueira, 2000; Fisman & Khanna, 2001; Khanna & Palepu, 2000a; Peres, 1998); in some cases, they also evaluate their ownership structure and their economic performance. Seven evaluate the strategies taken by the groups. Two authors discussed the diversification strategy of Grupo Santo Domingo: one from the mid-1960s until the 1980s, the other in the early 1990s (Ogliastri, 1990a; Sanabria, 2002). One study presents the strategies of Grupo Empresarial Antioqueño during the last three decades of the twentieth century, emphasizing that the structure was an answer to the changes in the business strategy (Acosta et al., 2003). Two papers discussed the diversification strategy during a period of economic crisis in the late-1990s (García-Molina, 2011; Murcia-Sandoval & García-Molina, 2011). Another two studies analyse the internationalisation strategies of business groups during the last three decades (Piedrahita et al., 2017; Quintana-Goyeneche, 2017). This set of studies argue that

Colombian business groups reacted to the economic environment mainly through diversification. While they conclude that they are highly diversified, none of them explore exogenous factors for their consolidation.

Some studies provide reasons for the emergence of groups. The assumptions for their origin varies between state promotion as in the case of Brazil and México (Gómez-Galvarriato, 2007; Leff, 1978; Suzingan & Villela, 1997), privatization that favoured group's ownership of previously state-owned enterprises as in Chile (Khanna & Palepu, 2000a), and family ties as in Nicaragua (Strachan, 1976). In the case of Colombia, two studies, published as chapters in compilations, include a business history approach (Álvarez, 2003; Rodriguez-Satizabal, 2014). One investigates the case of the oldest group (Grupo Empresarial Antioqueño) consolidated in the 1930s. Regional entrepreneurs consolidated larger firms in food production, cement, and insurance through a mechanism defined as creating 'firms of firms' (Álvarez, 2003), in which small companies were merged to create a large, market-dominant company, which later diversified its portfolio. The other canvases the characteristics of 18 groups between 1974 and 1998 to evaluate if their prevalence in the economy is caused by the growth of family businesses (Rodriguez-Satizabal, 2014). Both authors explain the evolution from stand-alone company to business group as being the result of families and regional entrepreneurs magnifying their fortunes through the ownership of various firms in multiple industries. Three co-authored books present the case of Fundación Social between 1984 and 2010, highlighting the evolution of its corporate governance as a result of long-term strategic decisions (J. C. Dávila et al., 2014; J. C. Dávila et al., 2010; J. C. Dávila et al., 2011b) .

In the words of one of the leaders of a major Colombian business group, 'the financial reforms with no control or legislation over the uses of credit added to the liquidity in the market, giving us [the largest firms] the chance to invest in other industries while growing in our core sector. We created groups because we did not know what else to do with the money' (Londoño, 2006, p. 2). However, there is little in the literature on whether finance and financial markets played a role in shaping the business groups in Colombia. Moreover, most of the studies have focused on the period after the mid-1980s when groups were already strong structures. Studying the business groups between 1950 and 1980 in Colombia is thus a novel approach.

First, as the business history literature has shown, since the first globalisation of 1870-1914, the Colombian business elite has been close to the state, but the government has never targeted a group of entrepreneurs as in the case of the East Asian countries. Dix (1967, pp. 411-412) points out that the Colombian elites before 1950 'had strong links with the mass population through the political parties and the economic activities and they are highly adaptable'. Between 1950 and 1980 the relation was more formal after the creation of decentralised agencies, which proliferated in all areas of the economy and enabled government institutions to be more technocratic (Urrutia, 2011). Under the umbrella of the government, the owners or executives of the largest firms in the country were brought on to the boards of these agencies, thus creating a formal relationship between the private sector and the state.

Second, the period witnessed considerable population growth, which caused the rapid urbanisation of the country, increasing the demand for employment, social services, and infrastructure. New relations between the government and the private sector appeared: the country adopted new labour legislation, the number of business associations increased and became active in politics, and the private sector was included in economic policy discussions. The 'contact capabilities' were a common pattern of the Colombian business system. Third, in contrast with other Latin American countries, an active and direct agricultural policy directed mainly to coffee growers and materialised through differential rediscounting rates, the creation of investment banks during the 1950s, and the operation of rediscounting funds administered by the Central Bank from the mid-1960s.

As Guillén (2010, p. 746) claims, until recently, scholarship on business groups has not paid enough attention to the fact that 'access to resources by entrepreneurs and firms in emerging and newly industrialised countries is very sensitive to the development path followed by each country'. Above all, this means looking at how finance affected business groups' genesis. Hence, bringing the role of finance and financial markets into the picture allows the identification of the financial capabilities of the firm, the links with the state, and the market imperfections.

Financial history in other countries suggests it is a fruitful field of inquiry for understanding the Colombian experience. The real sector responds to the configuration of the financial system. As Fohlin (2007, pp. 5-6) explains for the case of Germany, how financial systems – represented mainly by banks and the capital market – evolve and influence the real economy at the firm level helps explain why a country develops certain characteristics and practices in both corporate governance and finance. Further, banks and their institutional systems have filled pivotal roles in such important aspects of development as state formation, industrialisation, and the creation of markets (Triner, 2000, p. 1). The potential of finance to connect both markets and agents, and shape the corporate governance structure of a country through the medium of money and the creation of networks, serves in this case.

Meanwhile, as presented in the previous section, the literature dealing with the formation of the business group explains that the reason for their existence is the reaction of the firms to capital shortages and, in many cases, the structure evolved closely linked to the financial system. The high level of diversification, a feature embedded in the concept of the business group, is explained by looking at changes in their activities. Often, the business group originates through the creation of internal capital markets, which make the links among the firms stronger, diminishing the effects of asymmetric information and creating interlocking directorates. Additionally, the rationale for business groups in emerging markets is that the group ‘insulates the controlling shareholder from investors pressure and takeovers, and bestows undisputed control and economic influence with limited capital investment’ (La Porta et al., 1999, p. 513). The corporate governance issues arise and are solved while the business group evolves.

2.6. Unlocking the puzzle

The literature review conducted above offers different paths and lessons for research on the business group. This review should conclude by recalling the most important issues brought forward by scholars. First, it is clear that a business group constitutes an organisational form with its own characteristics and patterns of evolution. A business group constitutes an entity different from those that came after the growth of the individual firm. As business historians have argued, although the large business enterprise is in a sense the more sensitive unit of analysis, there is a variety of organisational forms that deserve further study.

Second, the study of country cases (or, specific business group cases) is appropriate for increasing the understanding of the nature of this organisational form. In the case of Latin America, further analysis of business groups is needed to determine if there is path dependency in their evolution. Third, due to the nature of group affiliation, the study of business groups requires a multidisciplinary approach. As a result, bringing history to the analysis of the business group helps to capture the long-term causes and effects of group-affiliation.

Fourth, the study of the origins requires a focus on the relation of business with its environment. The existence of market failures or institutional changes produces specific reactions by entrepreneurs and firms, so new organisational forms appear to be a result of their environment. Finally, when comparing business groups around the world, political economy scholars tend to maximise the effects of the state in promoting this organisational form in East Asian countries, yet such a focus is not particularly suitable for the purposes of this thesis. A focus on the role of finance, a framework based on the supply and demand of capital, should instead be applied to explain the nature of Colombia's business groups.