

# ["business is thus the combination of these three](https://assignbuster.com/business-is-thus-the-combination-of-these-three/)

“ Businessanalysts like to argue that conglomerates will become less prevalent as marketsdevelop, but conglomerates are also driven by families’ desire to provideopportunities for their offspring. Business analysts point to the logic of themarket to explain mergers and acquisitions, but an equally powerful reason maybe family affinity.”  (The Economist, 2015)  Business groups(BGs) are powerful economic and political actors in many emerging economies. They are becoming increasingly important for the global economy. (TheEconomist, 2011, 2014) Business groups have recently emerged as a distincttheme in the literature. Part of the increased interest in business groupsarises from the internationalization of developing country firms and theirability to compete against, and even acquire, developed-countryfirms.

Researchers refer to these diversified sets of firms as business groups, andview them as a new organizational form that requires an explanation.(Cuervo-Cazurra, 2006) At one timestate-owned enterprises with a focus on specific industries emerged andflourished as another prominent variety of large enterprises, but theireconomic presence has been in relative decline in many economies, especially sincethe 1980s. The business group organization has been the pre-eminent form oflarge enterprises, especially in emerging markets, since the early decades ofthe twentieth century.

Business groups, by contrast, have remained a core ofthe large enterprise sector with their characteristic wide and unrelatedproduct portfolio, often combined with the “ pyramidal” structure ofownership. Moreover, usually families have kept their ownership and control ofbusiness groups. It is thus thecombination of these three factors that has attracted scholarly and popularattention: unrelated product portfolio, pyramidal ownership structure, andfamily ownership and control.(Colpan, 2010) Despite themultiplicity of studies of business groups, there is no accepted definition ofbusiness group in the literature. (Khanna andYafeh, 2015) Manyof the sociology-based definitions of business group are quite broad, highlightingthe multiple relationships that tie firms in a business group together. Thisprovides richness in the relationships analyzed.

(Cuervo-Cazurra, 2006) For example, Leffdefines a business group as ” a group of companies that does business indifferent markets under a common administrative or financial control ” and thatare “ linked by relations of interpersonal trust, on the basis of a similarpersonal, ethnic or commercial background.(Nh, 1978) Granovetterreviews previous studies of business groups and provides an all – encompassingdefinition of a business groups as ” a collection of firms bound together insome formal and/or informal ways.(Smelser, 2005) More recently, Yiu, Burton, and Lu define business groups as ” a collection of legally independentfirms that are bound by economic (such as ownership, financial, and commercial)and social (such as family, kinship, and friendship) ties.

“(Yiu, 2005) Economic-baseddefinitions of business groups are generally narrower. They highlightdiversification as the hallmark of business groups, providing a sharper distinctionfrom other networks of firms. Additionally, many of these economic-based definitionsalso discuss family ownership as the second separating characteristic.(Cuervo-Cazurra, 2006) For instance, Changand Hong denote business groups as ” a collection of formally independent firmsunder single common administrative and financial control , that are owned andcontrolled by certain families”.(Chang, 2002) Fismanspecifies the business groups as a ” diverse set of businesses , ofteninitiated by a single family , and bound together by equity cross-ownership andcommon board membership.(Fisman, 2004) Ghemawat andKhanna explain the term of business groups as ” an organizational formcharacterized by diversification across a wide range of businesses, partialfinancial interlocks among them, and, in many cases, familial control.

(Ghemawat, 1998) Therefore, tolimit the determination of term, Cuervo- Cazurra proposes to distinguishbusiness groups from other types of firm networks based on the relationshipamong firms and narrows down the definition of a business group to a set oflegally-separate firms with stable relationships operating in multiplestrategically- unrelated activities and under common ownership and control.(Cuervo-Cazurra, 2006)  Collections offirms with stable relationships, or firm networks, are an organizational formthat falls in between the market and hierarchy extremes. Firm networks are notmarkets because the relationships among firms are stable and long-term. At thesame time , firm networks are not hierarchies because the firms that composethe network are legally separate entities that can enter into contractsindependently of one another.(Holmstrom and Tirole, 1989) Figure 1 : Separating business groups from other firm networks A network ofsuppliers is a collection of legally separate firms that have stablerelationships as well as formal and informal exchanges among personnel, andthat share knowledge in order to reduce opportunism and facilitate innovation.(Takeishi, 2002) In a network ofsuppliers of a leading firm , such as the Toyota network , sub-suppliersprovide leading suppliers with parts , who , in turn , provide the leading firmwith systems to assemble into a complete product.(Dyer and Nobeoka, 2000)