

Do emerging market business groups outperform at exporting?

Business groups (BGs) are collections of legally independent multi-business entities coordinated through a central entity. They primarily operate in emerging markets, prominent examples being Samsung, Hyundai, and Tata Group. BG are widely viewed as an efficiency-enhancing organizational form that internalizes transactions across affiliates: this can increase the efficiency of resource allocation, especially in contexts where high transaction costs limit arms-length transactions through markets. Hence, with their superior access to resources, notably capital, knowledge and labour, BGs can support their affiliated firms to improve their performance. But, do their advantages extend to international markets: are they better exporters than non-affiliated firms?

What is coordination failure resolution (CFR) and why it matters?

In our study, published in the [Journal of Management Studies](#), we address this question by organizing our analysis around *coordination failures* and their role in the home (recipient) country's institutions. Coordination failures represent a specific institutional deficiency arising when both market and non-market (state) institutions are not capable of organizing the provision of the complementary assets required for successful economic development, particularly export-led development. Such a void often implies an enhanced role for the state in the form of industrial policy. We argue that BGs help to resolve this type of coordination failure by developing group-level capabilities which facilitate exporting by their affiliates but also support an export-led development strategy by the state. These capabilities, which we term CFR (coordination failure resolution) capabilities, are central to understanding the export performance of BGs in emerging markets.

We consider CFR capabilities along two broad dimensions: economic and political. We propose that emerging markets BGs develop CFR *economic* capabilities associated with exploring and exploiting new opportunities and sharing relevant information that allows them to fill coordination voids by providing complementary assets. We suggest that BGs share information regarding market opportunities for export and coordinate within the

group the provision of complementary assets, vertically and horizontally, both to produce inputs required for export and to facilitate their transportation and distribution. At the same time, we extend the idea of CFR capabilities to include *political* capabilities, which exists when an organization helps create value for the government. We suggest that BGs can assist developmental states in overcoming coordination failures, building on the intuition that “BGs possess a governance capacity that the government can make use of.” Thus, BGs that develop the CFR capabilities to coordinate their actions with those of the state can benefit both themselves and their affiliates.

So how do home country’s institutions affect BG export performance?

Our analysis shows that creating these two types of CFR capabilities provides BG members with an export advantage relative to non-affiliated firms. First, we hypothesize that there remains a positive export performance effect for BG affiliates, even after controlling for the firm-specific variables that support firm-level exporting. Next, we propose that the BG affiliate export performance advantage will be magnified as market-supporting institutions strengthen. Our final hypothesis argues that the ability of BGs to coordinate actions with the state will be higher in autocracies which are more accommodating than democracies to BGs, so the positive BG export performance advantage will erode (be enhanced) when democratic (autocratic) institutions strengthen.

We test these hypotheses across a broad range of emerging markets and institutional contexts, drawing on the World Bank Enterprise Survey (WBES) database, encompassing more than 45,000 firms in 57 countries with considerable institutional heterogeneity and augmented by country-level institutional data. We confirm that BG affiliates do have an export advantage in emerging economies. We also show that this advantage is greater as market institutions strengthen but is reduced when political institutions are more democratic. We combine these effects to propose a four quadrants framework of institutional contingency.

Reciprocal Internationalization (Strong market supporting institutions; Autocracy). BG affiliates strengthen their relative export performance through enhanced economic and political capabilities. BGs can adapt to, and benefit from, liberalized markets, while developing strong reciprocal relations with the state. For instance, Malaysian President Mahathir sought to develop stronger ‘south-south’ relationships with members of the Commonwealth. His delegation included prominent executives of YTL, a domestic BG

that, through Mahathir's sponsorship, received several infrastructure contracts in South Africa and Zimbabwe.

Political Internationalization (Weak market supporting institutions; Autocracy). BG capabilities are more likely to be political, leading to the possibility of entrenchment and rent-sharing with the autocratic government. BGs generally favour the domestic market over international markets because they lack the relevant economic capabilities to compete abroad successfully but may in some cases be active exporters to support state interests. Like Russia, where it is argued that the state supports exporting by energy companies such as Gazprom to project power across borders.

Weak Internationalization (Weak market supporting institutions; Democracy) A democratic political environment may be generally unfavourable to BGs, and weak market institutions limit their ability to expand. The relative position of BGs is weakened but possibly not eliminated, so some BG affiliates may continue to have an export advantage, but others may consider exit. In the post-apartheid democratic era in South Africa, many business groups, such as Anglo-American, Old Mutual and South African Breweries, engaged in capital flight,

Contingent Internationalization (Strong market supporting institutions; Democracy) BG affiliate performance is likely weakened as political capabilities become less valuable, but their economic capabilities may still be relevant if they can be developed and leveraged. Some BGs can take advantage of market opportunities to deploy their economic capabilities to benefit affiliated firms, such as the Korean chaebols which flourished under an autocratic regime between the 1960s and the 1980s, and some, but not all, persisted after Korea became democratic.

Implications

A key implication of our analysis is the relevance of institutional differences in evaluating the potential performance and competitive strategies of BG affiliates in emerging economies. Our proposed configurations that define the comparative institutional context may help in this regard. At the same time, our results point to the importance of mutually supportive business-state relations as a condition for BG success.

We therefore offer an understanding of the diversified BG as a potential development

agent for resolving coordination failures in emerging markets. Our results suggest that while BGs can adapt to improved market-supporting institutions, they can be partially constrained by more democratic political systems and politicized in autocratic states with weak market-supporting institutions.

- *This blog was originally posted in the [Journal of Management Studies](#).*
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