Why business groups (think Samsung or Tata Group) have an export advantage in emerging markets

With their superior access to capital, knowledge and labour, business groups offer many advantages to their affiliated firms. ***Daniel Shapiro, Saul Estrin, Michael Carney*** *and* ***Zhixiang (Steven) Liang*** *write that these advantages extend to international markets, as group members are better exporters than non-affiliated firms. They also show that business group advantages are greater as market institutions strengthen and reduced when political institutions are more democratic.*

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. Business groups are widely viewed as an efficiency-enhancing organisational form that internalises transactions across affiliates. This can increase the efficiency of resource allocation, especially in contexts where high transaction costs limit arms-length transactions through markets. With their superior access to resources, notably capital, knowledge and labour, business groups 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?

Coordination failures

In our study, we address this question by organising our analysis around *coordination failures* and their role in the home (recipient) country's institutions. Coordination failures represent a specific institutional deficiency arising when neither market nor non-market (state) institutions are capable of organising 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 business groups 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 business groups in emerging markets.

We consider CFR capabilities along two broad dimensions: economic and political. We propose that emerging markets business groups 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 business groups 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 organisation helps create value for the government. We suggest that business groups 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, business groups that develop the CFR capabilities to coordinate their actions with those of the state can benefit both themselves and their affiliates.

Business group export performance

Our analysis shows that creating these two types of CFR capabilities provides business group members with an export advantage relative to non-affiliated firms. First, we hypothesise that there remains a positive export performance effect for business group 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 business groups to coordinate actions with the state will be higher in autocracies which are more accommodating than democracies to business groups, 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 business group 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 internationalisation (Strong market supporting institutions; autocracy)***.***

Business group affiliates strengthen their relative export performance through enhanced economic and political capabilities. Business groups can adapt to, and benefit from, liberalised 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 business group that, through Mahathir’s sponsorship, received several infrastructure contracts in South Africa and Zimbabwe.

Political internationalisation (Weak market supporting institutions; autocracy).

Business group 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 internationalisation (Weak market supporting institutions; democracy)

A democratic political environment may be generally unfavourable to business groups, and weak market institutions limit their ability to expand. The relative position of BGs is weakened but possibly not eliminated, so some 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 internationalisation (Strong market supporting institutions; democracy)

Business group 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 business group 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 business group success.

We therefore offer an understanding of the diversified business group 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 politicised in autocratic states with weak market-supporting institutions.

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