

THREE

THE RISE AND FALL OF THE BUSINESS GROUPS

The general orientation of the state toward economic development and business may shape the structure of business groups.

(Granovetter 1995, 122)

THE RISE of large, diversified business groups in newly industrialized countries has captured the imagination of academics, journalists, and policymakers. In this chapter, I argue that the proliferation of business groups is best approached from a resource-based perspective, that is, by looking at the distinctive capabilities, strengths, and weaknesses of this form of organization under different development circumstances. Business groups appear in newly industrialized countries because entrepreneurs and firms learn the capability to combine the necessary domestic and foreign resources for repeated industry entry. Combining domestic and foreign resources requires entrepreneurs to establish networks of relationships with relevant actors. Such a capability, however, can be developed and maintained as a valuable and rare skill only under asymmetric foreign trade and investment conditions with the rest of the world, that is, when the development path is either nationalist-modernizing or pragmatic-populist. Such asymmetries allow diversified business groups to thrive at the expense of foreign multinationals and local small and medium firms. The quantitative and qualitative historical evidence presented in this chapter comes from a variety of newly industrialized countries and from the three countries under intensive comparative study—Argentina, South Korea, and Spain. It shows that the proliferation of business groups increases with asymmetry in foreign trade and investment.

Business Groups in Newly Industrialized Countries

Institutional theory aspires to understand the existence of various organizational forms in terms of economic, sociological, and political variables (Scott 1992, 150–79). One of the most puzzling questions confronting the field concerns the great diversity of organizations engendered by economic development. The relative proliferation of family firms, business groups, state-owned enterprises, subsidiaries of foreign multinationals, and worker-owned cooperatives, among other organizational forms, exhibits significant differences across