Organizational Persistency: A Comparison of Business Groups in China, Japan and Sweden

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Abstract

The existence of business groups has to be discussed in a systematic and comparative way. This article analyses business groups in three countries: China, Japan, and Sweden. For this study, we proposed assumptions to explain the existence of business groups, and then analysed them separately using empirical evidence drawn from the sample groups. Our first observation is that business groups emerge at times of institutional instability and grow best in nations with cooperative capitalism and an export-oriented economy. Secondly, business groups use a diversification strategy at the group level, in order to share risks and reduce costs at the firm level. In addition, corporate groups and financial groups are two distinct types of business groups, demonstrating different features in terms of corporate governance. Thirdly, business groups reduce problems associated with high management costs and risk when many industries are held together in a single large-sized enterprise. When it comes to internal markets, there seem to be national differences in intra-firm behaviour and the ways in which national governments mobilise business groups to reach certain economic and social goals.

This article contributes to the existing literature by considering both institutions and capitalistic modes of thinking when studying the business group as an organisational entity separate from that of independent firms. Indeed, the distinction between corporate and financial groups is new to the literature. Finally, the evidence we collected from various continents can provide insight into how different institutional, economic, and cultural contexts shape the emergence and development of business groups.

Keywords

Business groups, institutional instability, diversification, cooperative capitalism, China, Japan, Sweden

JEL Code: N80, M20

1. Introduction

Business groups have long been present in developed economies, and more recently they have become a dominant form of business organisation in emerging economies (Ghemawat and Khanna, 1998; Khanna and Palepu, 2000). The existing literature on business groups covers topics such as diversification, corporate governance, rent-seeking, and monopoly power. The literature, however, leaves many interesting questions unanswered. One such question relates to the reasons why groups develop in the first place. Khanna and Yafeh (2007) claim that the literature on the formation of business groups only consists of a handful of models, calling for more sophisticated empirical analyses of the origins of business groups.

The variety of causes and consequences suggests that business groups should be studied in relation to national-based institutional factors (Schneider, 2009). Thus, this article analyses the existence of various types of business groups in three different economies, providing a view as to why and how business groups solve economic problems, and how the specific national context of the group affects its substance and performance.

For testing our assumptions, we used a triangulation process whereby qualitative methods were combined, in order to increase the credibility of the analysis. The ambition to conduct in-depth case studies ruled out the possibility of using a large sample of countries. To compensate for the bias of existing literature that has presented comparative studies of either European or Asian business groups, we have chosen to look at economies across continents: China, Japan, and Sweden. Since these are all coordinated market economies, however, our results will be less valid for liberal market economies, such as the UK and the US.

Sweden underwent industrialisation in the 1870s, and since the 1920s, business groups have played a vital role in its economy. The majority of the groups are family-owned and have diversified portfolios of industries. The Chinese economy has experienced industrialisation only in the last thirty years. However, when it comes to late industrialised economies, Chinese business groups are among the largest in terms of total assets. The majority of Chinese business groups have pyramidal ownership structures in which the Chinese government is the absolute controlling power. In contrast to Swedish business groups, Chinese groups are not as diversified in terms of product portfolios and have distinct ways of developing their organisational structures and business strategies.

Japan is positioned between these two extremes. Before the Second World War, Japanese business groups (*zaibatsu*) had pyramidal ownership structures with families acting as the controlling powers. Following the war, two types of business groups emerged. The financial groups, or horizontal *keiretsus*, were diversified and organised around financial institutions, while corporate groups, also known as vertical *keiretsus*, were characterised by focused product strategies and pyramidal controlling mechanisms.

Table 1. A comparison of the characteristics of China, Japan, and Sweden.

	Industrialisation	National economy	Market system	Government–Business relations
China	1980s-	Large, developing	Immature	Strong (direct control)
Japan	After the Second World War	Large, developed	Mature	Strong (cooperative)
Sweden	Late 19th Century	Small, developed	Mature	Rather weak

There are many definitions of a business group, which reflect various research interests. Following Colpan and Hikino (2010), we define business groups as ‘clusters of coordinate activities carried out by interlinked but legally independent enterprises’. According to this definition, a business group should be a series of legally independent enterprises coordinated by an administrative entity or family (dynasty) by means of capital investment, goods circulation, interlocking directorates, personal appointment, and information sharing. This means that enterprises operating under a single umbrella but lacking any real coordination mechanisms are excluded from this study. Using such a broad definition enables us to make comparisons across economies in search of generalisations, even though each economy may have its specific types of business groups. The business groups selected are the largest ones in each of the economies, which may make our observations less valid for other types of business groups in the countries studied. On the other hand, our selected groups represent a substantial part of the total assets and employees in each of the respective business economies.

Section 2 deals with theories as to why business groups exist, and section 3 is a test of those theories, using empirical evidence drawn from the business groups in the three countries. Our results are summarised in section 4.

2. Theoretical background

2.1 Capitalistic modes, backwardness, and institutional instability

Chandler labels modes of capitalism as being ‘competitive capitalism’ in the United States, ‘personal capitalism’ in Britain and, ‘cooperative capitalism’ in Germany. The Chandlerian view looks at ‘stages of development’, suggesting that Germany and the UK have failed to make the transition to the most effective and preferable stage. Many have problematised this view, pointing to the fact that nations have been economically successful without following this track (Hannah, 1976 and 1980; Ullenhag, 1993). Thus, it seems that nations have found alternative ways to make up for their missing prerequisites, for example by exploiting external economies rather than the internal ones referred to by Chandler. Besides, the doomed family firm has not been entirely wiped out as an effective form of governance, not even in large firms and not even in the US (Colli and Fernandez Perez, 2013). Family ownership is also common among business groups.

Evidently, business groups allow for a generation of scale and scope economies across firms diversified by product markets and unified by their needs for capital or shared input factors. The process of the endogenous substitution of hierarchies for markets has gone from the early English case of small firms and markets, to the technologically intensive production of large firms serving large homogeneous markets, to patterns of coordination above the firm level that have both transaction costs and scale and scope advantages (business groups, cartels, etc.). All of these can endogenously emerge as firms seek to protect themselves from the market.

One major feature of cooperative capitalism is the significant role played by the universal bank in the national economy (Teece, 1993). Such universal banks sit on the boards of directors of large corporations, resulting in the high frequency of interlocking directorates (Zysman, 1983; Ottosson, 1993). Many scholars have also labelled the capitalistic mode in Japan and Sweden as cooperative capitalism (Granovetter, 1995; Yamamura, 2003; Campbell and Pedersen, 2007; Sjögren, 1991). Studies have shown that both the strategic coordination of labour relations and corporate governance is stronger on average in Japan and Sweden than in liberal economies, such as in the UK and the US (e.g. Hall and Soskice, 2001). The studies above underline the fact that there are differences between countries depending on whether they are dominated by stakeholder or shareholder systems. There are also empirical studies showing the differences between the bank-oriented financial system in Japan, Sweden, and the continent of Europe, and the market-based system in the UK and the US, although further internationalisation has made these dichotomies less definitive (e.g. Rybczynski, 1984; Kishida and Sjögren, 2009).

In order to study business groups in an institutional setting, we need to make distinctions of a national variety. Strachan (1976) makes such a distinction by suggesting that, in a typical conglomerate, a 'common parent owns the subsidiaries but generally few operational or personal ties exist among the sister subsidiaries. On the other hand, within business groups, there are generally personal and operational ties among all the firms' (Strachan, 1976, p.20). Granovetter (1993) points out that most American conglomerates fit the first description, and do so in part because component companies are acquired and divested mainly on financial grounds, so that the set is likely to be reshuffled as financial outcomes dictate. He further argues:

Historical investigations of legislation usually reveal a more complex picture. In the United States, where some forms of cooperation among firms that are legal elsewhere are prohibited, this outcome is often taken as a measure of American *cultural exceptionalism, a rugged individualism leading to a preference for small unite in competitive markets.*

Whitley (1990) claims that 'the horizontal co-ordination of strategies and activities across industrial sectors vary considerably between bank-based Japanese business groups and the relatively independent and discrete Anglo-Saxon corporations operating in an impersonal and fairly remote market environment.' There is, for example, more networking between firms in Japan. This networking includes the exchange of personnel, competencies, and information. Granovetter (1993) even asserts that the traditional model of Western capitalism—independent firms operating across a market interface—may be less efficient than the cooperative capitalism exemplified in Japan.

Based on these notions, we may expect that business groups are more likely to exist in a cooperative capitalist environment than in a competitive one, since hierarchy seems to be more acceptable in a cooperative capitalist economy. Furthermore, there is more recognition for both family firms (dynasties) and large administrative entities when encapsulated within a business group, for example. Since Japan and Sweden are both regarded as examples of cooperative capitalist economies, we might expect that business groups should play a dominant role in their national economies. China, though not viewed as a typical exemplar of cooperative capitalism, is institutionally positioned closer to Japan and Sweden than to Anglo-Saxon countries. Hence, the above prediction may also apply to the Chinese case. Notably, in all three economies the state has played an active role from time to time in trying to revitalise the economy.

Instability explains

The Gershenkronian thesis states that the experiences and outcomes of a country undergoing industrialisation depend upon its degree of economic backwardness in relation to England as the prime mover. Since backwards countries need to find substitutes for missing prerequisites, both the state and large universal banks play an active role in supporting industry and entrepreneurship. In other words, the ‘backwards’ country needs more institutional help in organising its newly emerging industry. This thesis has been empirically tested on various countries, with positive results (Cameron, 1967). The Gerschenkronian thesis, however, has been challenged in a study that emphasises the impact of the politics behind the rise of universal banks and the supply-side of the economy. However, the empirical test conducted in the study only gave partial support to this alternative hypothesis (Forsyth and Verdier, 2003).

China, Japan, and Sweden were not backwards when their first business groups emerged. The first business groups in China were established between the late 1980s and mid-1990s. During this period of time, China’s GDP per capita grew rapidly, and in 1995, the GDP per capita was five times more than it was in 1985. To say that Chinese business groups emerged due to economic backwardness does not seem to be correct, nor does it seem correct in the case of either Japanese or Swedish business groups.

Besides backwardness, there might be other institutional explanations for the rise of business groups, including the radical institutional instability brought about by war, recession, or revolution. During such critical times, national governments have extremely high incentives to stimulate the economy. Business groups can do a lot in helping governments to restructure the economy and realise quick economic recovery. For example, Morck (2010) advocates the role of business groups in the ‘big push’ of emerging economies. In an emerging economy, business groups can help to rapidly industrialise the country. Thus, forming business groups in emerging economies is an effective way to catch up to the developed world. With regard to Japan during the Meiji period, Morck argues that diversified and pyramidal business groups were private mechanisms for coordinating and financing ‘big push’ growth. More specifically, the industrially diversified pyramidal structure common to business groups throughout the world allowed a controlling shareholder to stem hold-up problems and coordinate growth across diverse, yet complementary, industries, fostering rapid growth financed by public equity (Morck and Nakamura, 2007). Besides Morck, there are scholars who emphasise the importance of business groups when countries are undergoing market-oriented institutional reform (Keister, 1998; Luo and Chung, 2005; Kim et al., 2010). Studying two leading business groups in India, Ghemawat and Khanna (1998) point out that business groups exist due to 'competitive shocks'—events associated with a dramatic increase in domestic competitive intensity caused by a government's economic policies. Though not mentioned directly, many scholars have described the fact that business groups are necessary to help the economy recover after a period of war (Chang and Hong, 2000 for Korea; Shimotani, 1997 for Japan).

Based on these arguments, we will conduct precise tests on China, Japan, and Sweden, investigating the time when business groups began to rise in each respective country. We will present evidence of the logic guiding the governments' decisions to promote or facilitate the development of business groups.

2.2 Diversification on the group level

Product-diversified and family-owned business groups with pyramidal ownership and listed subsidiaries are at the core of the business groups in late-industrialising economies (Colpan et.al., 2010). Diversification, as a key characteristic, relates to the term 'economies of scope'; firms lower their average costs by producing two or more products (Chandler, 1990). Many products are based on the recurrent use of proprietary know-how or on immaterial assets, such as marketing strategies, patents, and the company's reputation (Teece, 1982; Ghemawat and Khanna, 1998). In this sense, the term 'economies of scope' refers to a situation whereby the firm lowers its cost of factor consumption mainly by reducing the quantity of factor usage. Ghemawat and Khanna (1998) point out that even business groups coalesce around general resources that derive their value from basic economic conditions, such as the informational imperfections in the capital and labour markets, and the scarcity of entrepreneurial talent. By reducing the consumption of factors such as capital, labour, and entrepreneurship, the strategy of diversification can be economical. On the group level, the rationale behind a strategy of diversification is that the sharing of intangible assets will reduce the cost of diversification. At the same time, unrelated diversification strategies can hardly benefit from economies of scope in this sense, since few assets can be shared among unrelated businesses.

Economies of scale refer to the cost advantages that an enterprise obtains due to expansion (Sullivan and Sheffrin, 2003). Research on business groups argues that groups with certain structural characteristics may protect firms from competition and allow them to take advantages of economies of scale (Hamilton, 1991; Leff, 1978, 1979). Economies of scale may allow firms (and business groups) to overcome problems associated with an inefficient product market, engage in research and development, and contend more effectively with foreign competitors (Aoki, 1982; Granovetter, 1995). Research on Chinese and South Korean business groups particularly emphasises the role of economies of scale (Li, 1995; Keister, 1998; Chang and Choi, 1988).

There are many studies regarding the relationship between diversification and the performance of a firm. The majority of these studies suggest that a certain degree of diversification at the firm level correlates positively with the growth of the firm, while too much diversification, especially unrelated diversification, may harm the firm's performance (Stulz, 1990; Meyer et. al., 1992). Khanna and Palepu (2000) suggest that business groups can adopt diversification strategies while at the same time keeping member companies focused on their core businesses. This simultaneous diversification at the group level and specification at the firm level can benefit member companies. Using the example of publicly listed companies in India, Khanna and Palepu (2000b) further demonstrate that a diversification strategy at the group level can contribute to the increased value of member companies. However, other studies indicate that the relationship between group level diversification and affiliated firm performance is not straightforward. Hoskinsson et al. (2005) highlight the bureaucratic and other costs of managing widely diversified business groups. Carney et al. (2011) point out that the evident scope of many business groups can be better described as the cost of doing business in their institutional contexts, rather than the source of a competitive advantage in its own right. Some scholars predict that only those affiliated with the most diversified business groups will benefit from diversification at the group level (Khanna and Palepu, 2000). We will examine this issue of the economics of scale and scope by studying the structure and performance of business groups in China, Japan, and Sweden.

2.3 Between the market and independent enterprise

Institutional economists argue that the company is a substitute for the market system (Coase, 1937; Williamson, 1985; North, 1990). Specifically, in the argument of Oliver Williamson (1985), firms exist because (managerial) ‘hierarchies’ are often cheaper ways of achieving certain outcomes than relying on markets. Hierarchies are adopted when they (rather than markets) minimise the ‘governance costs’ of particular sets of business operations. Following Coase (1937), these costs can be categorised as ‘transaction costs’ if they arise between firms and ‘management costs’ if they occur within firms. These arguments point to the fact that though a firm can solve the problem of transaction costs incurred in an imperfect market, it will not expand unchecked, since management costs will also increase proportionally. Therefore, a business group can serve as a compromise between the transaction costs caused by the market system and the management costs brought about by the internal operation of an independent firm. By creating or joining a group, a firm can minimise the large transaction costs incurred in the market, while avoiding the scale diseconomies or losses that might occur with internal expansion (Goto, 1982).

Another strand of literature examines market imperfection, market failure, and associated transaction costs in developing economies (Leff, 1976, 1978; Ghemawat and Khanna, 1998). Scholars tend to believe that business groups arise in order to solve the problem of transaction costs through the internalisation of market transactions. However, as non-market forms of coordination, both independent firms and business groups are organisational solutions to the problems of transaction costs and imperfect markets. As a result, the minimisation of transaction costs does not seem to offer a sufficient explanation for the existence of business groups. Goto (1982) suggests that business groups have three organisational advantages over independent enterprises. Firstly, by integrating vertically, and thereby internalising the intermediate market of goods, business groups can reduce the uncertainty and the costs associated with transactions through the market. However, it is impossible to implement transactions between various phases of production within the integrated firm without incurring some cost. Although there have been innovations in the management of large firms (e.g. the multidivisional structure), the coordination of vertical stages of production still provides obstacles and can be costly.

Secondly, there are drawbacks for a multidivisional firm in terms of the allocation of capital:

The divisionalized firm is able to assign cash flows to only a fairly narrow range of alternatives at any one point in time. Even if the firm is actively acquiring new activities and divesting itself of old, its range of choice is circumscribed in relation to that which general investors, who are interested in owning and trading securities rather than managing real assets, have access to (Goto, 1982 p. 63).

Thirdly, if an investment opportunity seems to be risky, as in the case of a newly created business, firms that belong to the same business group may invest jointly or establish a new firm together, thus spreading the risk between group members. Independent firms cannot externalise this kind of risk as effectively as business groups.

These theories suggest that business groups arise as a compromise between transaction costs in the market and management costs within a single enterprise. Therefore, we would expect to find internal markets within business groups, indicating that entrepreneurs incrementally and deliberately choose to create business groups rather than single large enterprises.

3. Empirical Findings

3.1 Cooperative capitalism and institutional instability

Japan should be labelled a country with cooperative capitalism (Windolf and Beyer, 1996). The prominent role the main bank plays in the six zaibatsu is widely recognised. The main bank of each financial group provides financial support to member companies and coordinates the activities of member companies. This situation is similar in Sweden’s financial business groups where the investment bank of each business group plays the role of the main bank in Japan. Although it has not typically been viewed as an example of cooperative capitalism, China has more similarities to Japan and Sweden than to Anglo-Saxon countries in terms of its institutional conditions. As a result, the three countries in our sample can all be considered to be countries with cooperative capitalism.

Chandler observes that the different priorities guiding competition and cooperation in the United States and Germany are related to the export orientation of German firms and the American concentration on the domestic market (Windolf and Beyer, 1996). The domestic market in the US has been large enough that efficient mass production and marketing strategies have generally been sufficient to guarantee corporate success, and therefore firms have usually limited their focus to this market. However, in export-oriented countries like Germany, companies have been forced to compete for the survival in the world market. As Windolf and Beyer (1996) note, ‘(German) cartels were internally cooperative and externally aggressive’. Notably, the three countries studied here are as export-oriented as Germany. Both Japan and Sweden are countries with small domestic markets; every product launched has to be made for the sake of export. The same goes for most of the industrial firms, i.e. they have to be export-oriented, in order to survive. Although it has a huge domestic market, China kicks up its economy through export. For example, the foreign sales of the Haier Group of China account for about two-thirds of its total sales, and for Lenovo Group this figure is about 60%.

In their meta-analysis, Carney et al. (2011) calculated the percentage of firms affiliated with business groups. The figure for China and Japan was 66% and 41% respectively. This means that about 66% of all Chinese firms are affiliated with business groups. These figures illustrate the significance of business groups in these two countries. In the case of Sweden, in 1998 the Wallenberg sphere alone controlled fourteen companies amounting to 42% of the market capitalisation of the Stockholm Stock Exchange. Ten years later, in 2008, these figures had decreased to eleven companies representing 22% of the market capitalisation (Henrekson and Jakobson, 2008, p. 55-57). This is also strong evidence of the dominant role played by business groups in Sweden.

Concerning their capitalistic modes, we can conclude that in Japan and Sweden cooperative capitalism prevails and is still supported by the export orientation of the economy and its various institutions (see below). Indeed, statistics show that business groups in all three countries play a significant role in the national economy, while in countries with competitive capitalism, large business groups hardly exist. This observation has led us to investigate the institutional and economic backgrounds of countries where business groups are active, i.e. the issue of backwardness and institutional instability.

The emergence and growth of business groups in China happened in the 1980s when the country was turning its attention to economic construction and overcoming the massive turmoil of political revolution. Japanese *zaibatsu* formed after the famous Meiji Restoration, embracing rapid growth during the military buildup of the 1930s and 1940s. Sweden's two largest business groups were structured in the interwar years as a result of the Deflation Crisis in 1920–21, the Great Depression, and the Kreuger Crash in 1932. Roughly speaking, business groups emerged in China in the 1980s, in Japan in the 1930s, and in Sweden in the 1920s.

We then turn our attention to the GDP per capita and its growth rate for the three countries during the time period when business groups began to emerge.

Table 2: GDP per capita and its growth rate in China, Japan, and Sweden at the time of the emergence of business groups.

China (RMB)			Japan (Yen)			Sweden (Swedish Krona)		
1985	857.82		1930	217.44		1919	1887.33	
1986	963.19	12.3%	1931	215.91	-0.7%	1920	2076.41	10.0%
1987	1112.38	15.5%	1932	230.26	6.6%	1921	1584.97	-23.7%
1988	1365.50	22.8%	1933	247.85	7.6%	1922	1368.03	-13.7%

1989	1519.00	11.2%	1934	246.53	-0.5%	1923	1300.93	-4.9%
1990	1644.00	8.2%	1935	249.91	1.4%	1924	1340.22	3.0%
1991	1892.76	15.1%	1936	264.74	5.9%	1925	1360.13	1.5%
1992	2311.09	22.1%	1937	275.56	4.1%	1926	1385.87	1.9%
1993	2998.36	29.7%	1938	292.13	6.0%	1927	1394.52	0.6%
1994	4044.00	34.9%	1939	336.33	15.1%	1928	1439.48	3.2%

Data source: For China, data collected from the Statistical Year Book published annually by the National Bureau of Statistics of China. For Japan, data collected from the book “Long-term Economic Statistics of Japan”. For Sweden, GDP per capita by expenditure in purchasers' prices (SEK) collected from the website of Historia.se. GDP per capita data is all in nominal form.

In Sweden, the main feature of the time when business groups emerged was slow economic growth, marked by the Deflation Crisis in the early 1920s and the Great Depression in the early 1930s. Like Sweden, Japan was already industrialised when their business groups began to flourish. Their appearance was linked to a strong war economy in the 1930s. When business groups began to emerge in China, the country outperformed the majority of other countries in terms of the growth rate of GDP per capita. These country-specific observations indicate that none of the three countries were backwards when business groups began to emerge. Rather, they all experienced serious institutional instabilities during that period of time. One possible explanation for this phenomenon is that during periods of institutional instability—like war, recession and ideological shifts—national governments are eager to stimulate their economies. It seems that business groups, as powerful economic entities, are utilised by the governments to help them realise certain economic goals. Below, we provide nationally based evidence to support this statement.

China: using state-controlled business groups as try-out fields for economic reforms and role models for private business groups

During the long Cultural Revolution, the Chinese economy stagnated and was almost on the verge of collapse. After the reform and opening-up in 1978, the Chinese government was eager to catch up to developed countries. In order to meet this goal, the government restructured its state-owned enterprises into one or two business groups in each industry, in an attempt to rejuvenate the industry. Because of state ownership, the government was more willing to use state-controlled business groups as its experimental field for reform policies, so as to prevent possible social unrest. State-controlled business groups served the strategic needs of the country by importing and exporting, investing abroad, and merging with or acquiring foreign companies. We conclude that the Chinese government established business groups, in order to fulfil its need to rebuild its economic system in a short period of time.

Wu Bang Guo, former chairman of National People's Congress Standing Committee and also a former member of the Standing Committee of the Political Bureau of the CPC Central Committee, has explicitly expressed the Chinese central government's view on business groups. In a paper published in one of China's top academic business journals, he states, 'We should select some large scale state-owned enterprises and business groups to try some reforms in areas such as domestic investment and financing, corporate governance and investment abroad. And then we can draw lessons from those try-outs' (Wu, 2001, p. 2). He continues, noting the importance of promoting the further development of large-scale, state-controlled enterprises and business groups:

State ownership should be dominant in industries that are critical for the whole economy so as to support, guide and drive the development of economy and society. State-owned companies should also play a key role in helping the state to regulate the economy. To meet this end, we should establish some large scale state-owned enterprises and business groups with international competitiveness. We can enhance the competitiveness and power of state-owned companies by taking advantage of their ability in capital operation, resource allocation, technological innovation and market exploitation. (Wu, 2001, p.2)

The fact that there is a Communist Party Branch in each of the state-controlled business groups provides additional evidence of this economic rationale for business groups. The secretary of the Party Branch is often the most influential individual in the group. One of the reasons for this special practice is that the state wishes to control the business groups effectively and to secure this control over the long term.

The intention of the Chinese government to regulate the economy by creating business groups is realised in the dominant role played by state-controlled business groups. Though the number of state-controlled business groups only accounts for 44% of the total number of groups, their asset share and employment share are disproportionate—87% and 76 %, respectively (see table 3).

Table 3. Distribution of business groups in terms of the control type of the parent company in 2008.

	Number	Assets (billion yuan)	Revenue (billion yuan)	Profit (billion yuan)	Employment (1,000 person)
State-controlled	1293(44%)	35752.5(87%)	21306.9(78%)	1138.175(78%	25052.8(76%)
Collective-controlled	317(11%)	1215.4(3%)	1273.8(5%)	65.859(4%)	1550.7(5%)
Private-controlled	1290(43%)	3766.9(9%)	4244.8(16%)	227.974(16%)	5842.9(18%)
HMT-controlled	29(1%)	104.3(0.3%)	94.4(0.2%)	9.213(0.6%)	153.6(0.4%)
Foreign-controlled	42(1%)	292.1(0.7%)	267.2(0.8%)	17.114(1.4%)	250.0(0.6%)

HMT-controlled: Hong Kong-, Macao-, and Taiwan-controlled.

Source: China's National Statistics Bureau, 1998, China's large business groups in 2008, China Statistics Press: Beijing.

Japan: relying on business groups to revitalise the economy by forming close government-enterprise relationships

Historically, the Japanese government has always had a close relationship with private business. Before the Second World War, the Japanese government provided shelter and policy support for the *zaibatsu*, while at the same time they relied on the *zaibatsu*'s support for launching state policies. During the post-war economic crises, the state had to revitalise its economy. Thus, the *zaibatsu* quickly expanded into heavy and chemical industries, in order to meet the various demands of the Japanese economy. They also provided substantial financial support to the government's military operations (Morikawa, 1992).

Beginning around 1910, the prewar *zaibatsu* took on pyramidal structures, such that, through chains of cascading equity ties, a small number of families acquired control over large segments of the Japanese economy. The most prominent prewar *zaibatsu* were Mitsubishi, Mitsui, and Sumitomo. Originating as integrated firms, they grew rapidly following the Meiji Restoration and expanded further with the military buildup during the 1930s and 1940s (Lincoln and Shimotani, 2009). Just after the Second World War, the Supreme Command of the Allied Powers under General Douglas Mac-Arthur decided to dissolve the three big *zaibatsu* by widely redistributing their stocks. Family owners of the *zaibatsu* were purged from their businesses, and the stocks they held were redistributed to the public.

In the post-war period, the Japanese government formulated new regulations, in order to develop a more effective industrial structure. These regulations offered preferential policies, such as low interest rates and tax breaks, to the enterprises and business groups that had invested in fixed assets and carried out M&A in key industries, such as steel and machinery. The re-emergence of the *zaibatsu*, as well as the formation of corporate groups, received strong support from the governments. For example, the merger of Dai-Ichi Bank and Nippon Kangyo Bank in 1971 was made possible by the approval of the Ministry of Finance. Indeed, the Ministry of Economy, Trade and Industry of Japan was active in utilising the business groups to regulate the economy. In practice, the ministry listened to the requests of the business groups during various hearings before any policy-making. After further consultation and collaboration, the policies were then formulated and carried out by the business groups.

We can conclude that Japan represents a type of business group wherein governments have close relationships with the enterprises and have formed interest groups (see also Aoki, 1996). These symbiotic relationships are the result of path dependency and still affect the policy mindset of the government in relation to business groups.

Sweden: focusing on business groups to meet social and economic needs with various types of policies

Business groups in Sweden have developed in a bottom-up way, and the government has exerted less control on at least the private business groups than in China or Japan. The two largest Swedish business groups, the Handelsbanken sphere and the Wallenberg sphere, got their structure in the interwar years, as the result of the Deflation Crisis in 1920-21, the Great Depression, and the Kreuger Crash in 1932. They are both private groups with a clear similarity to the *zaibatsu*—a certain owner (family, private foundation) controls the key holdings of the group. Research on Swedish business groups has concentrated on principles of ownership and their role in industrial renewal and economic growth (e.g. Glete, 1987; Glete 1994 and Lindgren, 1994).

In 1920-21, the hyped war economy and its inflation boom led to a deflationary crisis in Sweden. Demand decreased sharply and stocks in trade were saturated with unmarketable goods. Repayments on loans were suspended, and collateral shares were transferred to banks as protection for credit claims. In the mid-1920s, about 75% of all credits in the large companies' sector were granted to enterprises more or less owned by the bank. The adequacy of bank ownership in industry was discussed at length, but it was not until after the collapse of the Kreuger Group in 1932 that the banks' industrial holdings were restricted. Once their industrial holdings were restricted, banks sold their shares to allied investment companies, some of them invented for the purpose of taking care of industrial shares, as opposed to floating them on the market. This guaranteed a continuous tight grip of large firms and consolidated the banks' 'spheres' of ownership, or business groups, which thereafter became typical for the Swedish business system (Sjögren, 2005; Partnoy, 2009).

In the mid-1980s, a neo-liberal wave swept over the industrialised world, and even the Social Democratic Party began to protect the existence of private business groups. In the late 1990s, the government defended the system of dual voting rights in the EU community, crucial for the business groups' control over ownership in multinational firms. Hand-in-hand Prime Minster Göran Persson and Director Marcus Wallenberg travelled to Brussels to argue to prolong the system. In addition, the government allowed certain family members of large business groups exceptions from income tax laws, in order to give these wealthy owners incentives to stay in Sweden (Sjögren, 2012).

Evidently, the development of Swedish business groups is closely related to a certain system of governance and characterised by a symbiotic relationship between commercial banking (the German type of corporate finance) and non-financial business. The key elements of the system were ownership control of multinational firms (often based on dual voting shares), long-term credit relationships, and personal networks (interlocking directorates). This stakeholder system originated from the industrial breakthrough of the late 19th century and was further embedded during the interwar years as a result of the two crises. In the early post-war period, the business groups continued to play a central role in the transformation and rationalisation of firms. Notably, family ownership was not limited to small firms or traditionally strong family industries such as shipping and trade, but continued to be vital within large industries such as engineering, forestry, and pharmaceutical industries. However, the dominance of business groups has also been criticised for hampering entrepreneurship and innovation among small- and medium-sized firms (Henrekson, 1996; Högfeldt, 2005). Thus, paradoxically, the flourishing of business groups in Sweden during the golden age (the 1950s and 1960s) might have been a cause of the less successful industrial renewal during the 1970s and 1980s. Since the 1990s, many private equity companies have been established and the venture capital market has grown substantially, challenging the power of the traditional business groups.

To conclude, since the 1930s, the market for corporate control in Sweden has been dominated by two private business groups—the Wallenberg sphere and the Handelsbanken sphere. Although they are still ranked as number one and two, measured in terms of total market capitalisation on the Stockholm Stock Exchange, new controlling blocks have emerged, most of them linked to families as long-term, active owners. There are also other types of owners that are neither listed nor family-owned, for example government enterprises and cooperatives.

Our data from the three countries suggest that the government in China has had the relatively strongest control on its business groups, giving the groups a functional role in the regulation of the economy. In Japan, although it does not have ownership control of its business groups, the government did direct some of its policy making towards the groups, in order to speed up the revitalisation of the economy before and after the Second World War. Compared to its Asian counterparts, the Swedish government has directed the lowest number of policies towards private business groups. However, during the 1970s and 1980s the labour movement had a strong desire to break the monopoly of private ownership control in Swedish society. In the 1990s, the traditional form of liberal and symbiotic relationships between the government and the two largest private business groups was re-established.

The three countries in our study were actually not backwards when business groups began to emerge. Instead, business groups emerged during or after times of institutional instability. For China, it was the economic reform and opening-up; for Japan, it was following the Meiji Restoration during a military buildup; for Sweden it was during the long economic crisis in the interwar period. This observation rejects the Gerschenkronian thesis, but gives support to our proposition of institutional instability. Our findings suggest that large business groups play a significant role in the revitalisation of an economy, as the result of a rational and symbiotic collaboration between business and the state.

3.2 Diversified groups

We calculated the number of industries within which business groups operate in the three countries. Japanese financial groups have the widest industry scope with an average number of 16 industries, while Chinese business groups have the narrowest industry scope with the average number of 3.7 (Table 4). In the appendix, we provide detailed information about the industries the business groups operate in. All sectors were statistically measured at the two-digit level.

Table 4. Number of various industries within each business group in China, Japan, and Sweden.

China	Sinopec Group	China Mobile	China Railway Group	China Life Insurance	DongFeng Motor
	5	1	6	1	4
	China Southern Power Grid	BAOSTEEL Group	Jiangsu Shagang Group	Lenovo Group	Haier Group
	3	6	4	4	3
Japan	Mitsubishi Group	Sumitomo Group	Mitsui Group	Dai-ichi Kangyo Group	Fuyo Group
	19	12	16	17	15
	Sanwa Group	Toyota	Hitachi		
	17	5	5		
Sweden	Wallenberg Sphere	Handelsbanken Sphere			
	11	10			

Source: Iinformation on involved industries was drawn from the websites of the individual groups, Simotani, M (2006). "The age of holding company", Yuhikaku Publishing, pp 41-43, as well as Fristedt, D, Sundin A., Sundqvist, S (2003) "Ägarna och Makten i Sveriges Börsföretag". The Japanese and Swedish industry span data is for 2003, and the Chinese data is for 2011.

Compared to Swedish business groups and Japanese financial groups, Chinese business groups operate in limited sectors, regardless of whether they are state-owned or privately controlled. They concentrate on their core industry, such as construction, in the case of China Railway Group, and household appliances, in the case of Haier Group. This is also the case with Japanese corporate groups; they concentrate on a core business and diversify to related upstream and downstream industries. Furthermore, we found evidence that affiliated firms make profits from economies of scale. Let us give an example. The core business of the Baosteel Group is the production of steel. This category of industry typically benefits from economies of scale. About 70% of the group's subsidiaries operate within the core business category of steel production. The majority of its remaining subsidiaries are positioned along the industry chain to include steel processing and trade. In the Toyota Group, which also operates in an industry that enjoys economies of scale, about 70% of its subsidiaries are involved in auto or auto parts manufacturing. The remaining 30% belong to related industries like raw materials, R&D related to auto technology, and auto sales and trade.

On the contrary, a Japanese financial group such as Mitsubishi has a wide range of industry categories, but does not seem to use economies of scale at the group level. First of all, it is hard to identify the core business of this financial group. Second of all, the affiliated companies operate in unrelated industries like finance, automobile, chemicals, and food. However, this diversity should not rule out the possibility that the group enjoys economies of scale at the firm level. For example, one of Mitsubishi's affiliated companies, Mitsubishi Motor, was the fifth biggest auto manufacturer in Japan in 2009 and the fifteenth largest in the world in terms of output volume. The company itself is actually enjoying economies of scale. This situation also holds true for the two business groups in Sweden. The affiliated companies within the Wallenberg sphere are quite diversified in terms of their industry categories. ABB, Ericsson, and Electrolux operate in the industries of power and automation, telecommunications, and home appliances, respectively. However, each of these is a world-famous brand in its industry. As a result, we could say that Japanese corporate groups and Chinese business groups benefit from economies of scale at the *group level*, while financial groups in Japan and Sweden benefit from economies of scale at the *firm level*.

A related issue is the extent to which business groups are diversified and thereby benefit from economics of scope on a group level. As for Japan, in their study of business groups in East Asia, Claessens et al. (1999) find that group-affiliated firms are on average associated with diversification discounts. The discounts seem to be attributable to diversified firms in the most developed East Asian economies, i.e. Japan and South Korea. Chakrabarti et al. (2007) point to similar findings. In the

Swedish case, Doukas et al. (2001) find that diversifying acquisitions leads to a negative market reaction and the deterioration of the performance of the bidder. Performance gains in each of the three years following the acquisition occur only when bidders expand their core business, rather than when they diversify in peripheral lines of business. In their study of European countries, Wan and Hoskisson (2003) show evidence that diversification is negatively related to performance in more economically and institutionally munificent environments, such as Sweden, but positively related to performance in less munificent environments.

In this study, evidence suggests that industrially focused business groups, like those in China and corporate groups in Japan, enjoy group level economies of scale. Financial groups in Japan and Sweden, which are industrially diversified, only enjoy economies of scale at the firm level. Consequently, these groups do not apply economies of scope at the group level. This observation underlines the fact that in countries with mature institutional systems, markets are more efficient in carrying out transactions. Secondly, the presence of diversified business groups in advanced economies, such as Japan and Sweden, could be viewed as a result of path dependency, the origins of which go back to a distinctive period of positive institutions.

3.3 A compromise between transaction cost and management cost

Enterprise is a form of organisation that substitutes for the market when there is market failure or the transaction costs are too high. However, when an enterprise increases in size, the costs of internal management also grow. Hence, there is a limit to the size of an enterprise. This limitation creates the opportunity for business groups, solving the problem of both market failure and unacceptably high management costs. In our empirical tests, we will first check whether internal markets exist for business groups in the three countries, as a way of determining whether business groups exist as a substitute for the market or to lower transaction costs. Then, we will use China’s Lenovo Group as an example to illustrate the logic behind having a business group rather than a large-scale single enterprise in terms of internal management costs. To analyse the internal interactions within the business groups in the three countries, we focus on the internal financial market, as well as on the internal flow of information and mechanism of coordination.

3.3.1 Internal financial markets within business groups

China: the role of financial companies. In the late 1980s, financial markets in China were unable to distribute funds efficiently, leaving many firms without necessary capital. Firms that were members of the same business group had access to additional financing through the group's financial company (*caiwu gongsi*). China established its first business group's financial company in 1987—the Financial Company of Dongfeng Motor. Subsequently, many state-controlled business groups followed suit. The number of financial companies for business groups grew from 8 in 1987 (with total assets of 1.6 billion RMB) to 75 in 2003 (with total assets of 513.5 billion RMB). These financial companies mainly serve the following needs of the business groups: 1) They raise external capital for the group through inter-financial company lending and the rediscounting of bills. They can also help member firms to apply for loans from commercial banks. 2) They serve as internal banks. Financial companies can absorb idle capital from its member firms and grant loans to those in need of capital. They can also provide services such as buyer's credit, installment, and financial leasing in line with the member firm's business. 3) They provide financial market information.

However, for state-controlled business groups in China, external financial resources are easily accessible, since the four big commercial banks are also state-controlled. The stock market also favours state-controlled business groups based on the belief that the Chinese government will not let them go bankrupt. As a result, the internal financial market of the group is relatively marginalised and does not play an important role in the financing of state-controlled business groups.

Japan: the role of commercial banks and financial companies. The two types of Japanese business groups have different features related to their internal financing. Financial groups rely mainly on commercial banks, while corporate groups tend to exploit their own financial companies. During the golden age when industrial companies needed large amounts of capital to invest in the undeveloped stock market, Japanese commercial banks supplied large amounts of credit to their member companies. These city-based commercial banks used the inter-bank market to get their money from the household savings placed in the many province banks. Business groups supported this process, since the inter-firm trading within the groups was paid through bank accounts in the same main bank, and the main banks did not need high reserves or guarantees. This situation made it possible for the main banks to offer generous lending policies. In addition, the main banks often organised big financial consortiums that included government financial institutions, in order to finance large industrial projects. General trading companies in the business groups also gave credit to member companies.

Japanese corporate groups have two main methods of internal financing. The first is to secure financing from trust banks—the main shareholders of the corporate groups. Financial institutions owned 35.4% of the shares in Toyota in 2010 and 49% of the shares in Hitachi in 2011. Corporate groups can resort to the trust banks for financing if they encounter difficulties or wish to expand. Japan's trust banks have traditionally provided long-term capital for corporate groups and the member companies of the *zaibatsu*. The second way is to secure financing from within-group financial companies. Toyota and Hitachi both have their own financial companies: Toyota Financial Services Corporation and Hitachi Capital Corporation, respectively. These within-group financial companies seem to be similar to the financial companies of Chinese business groups. However, the Japanese companies are different in that they serve both their member companies and their clients at the same time; the financial companies of Chinese business groups exist primarily to meet the financial needs of member companies. This difference may be partially explained by the industry categories of the groups. While Chinese business groups are involved in industries such as oil, metal, construction, and telecommunications, the two Japanese corporate groups are involved with durable consumer goods. Therefore, for the Japanese groups, providing clients with financial services, such as installment and leasing, is vital for gaining market share.

Sweden: the role of commercial banks and investment companies. Swedish business groups do not have the same capital-saving functions as Japanese groups. The inter-firm trading within the groups is limited by their relatively narrow industrial structures. Furthermore, unlike Japan, Sweden does not have a general trading company. Instead, in the golden age, capital was supplied in part by both commercial banks and investment companies, and the latter held shares, but also traded on the securities market. Since then, these two entities have channelled money and risk capital to member companies from their bank deposits, trading in business and venture capital investments. However, during the golden age, Swedish business groups also suffered from a shortage of risk capital, since the credit market was heavily regulated by the state. As member companies became more international and export-oriented, they needed liquidity and long-term credits, and so the basis of deposits had to be enlarged. This situation forced Stockholm Enskilda Bank, the main bank of the Wallenberg sphere, to merge with Skandinaviska Banken and form Skandinaviska Enskilda Banken in 1972. In Japan, such mergers between main banks did not occur until the end of the 1990s. Corporate taxes and the structure of private savings are other reasons for the observed differences between the two countries. After the Swedish banking crisis in the early 1990s, investment companies took on a more prominent role, spurred on by a high rate of M&A. The integration and global expansion of capital markets gave investment companies access to a wide range of financial sources. Throughout the long boom that followed the telecom crisis of 2001–2, the role of investment companies continued to be strong, but they have since been challenged for corporate control by new private equity funds.

3.3.2 Internal information flow and coordination

China: shareholding-based information flow and coordination. There is relatively little spontaneous information flow and coordination between member companies of a Chinese business group, due to the special hierarchical shareholding structure in which the holding company (also known as the parent company) has absolute control over its subsidiary companies (also known as the child companies). In our sample business groups, the parent company's share of ownership in its child company ranges from 60 to 100% of the voting stock. The parent company has firm control over its grandchild companies through direct investment or investment made by its child companies. The consequence is that the holding company has a substantial impact on the group's operation and decision-making processes. The basic shareholding structure of the seven state-controlled Chinese business groups is one where the holding company controls a corporation, often a public one. This control ranges from 67 to 100% of the voting stock. The holding company or the corporation further controls other subsidiaries in the business group. Since it is relatively easy for state-controlled business groups to receive loans from commercial banks, this kind of practice is effective (Cull and Xu, 2000).

On the other hand, the hierarchical control of privately controlled business groups in China is relatively weak; the holding company's control of its corporations ranges from 20 to 75% of the voting stock. At the same time, Business groups often have joint ventures with foreign companies, due to the capital constraints of private business groups and the fact that private groups are more willing to regard foreign business groups as role models. Under this shareholding structure, member companies may cooperate on projects or establish joint companies under the arrangement of the holding company (Pan and Wu, 2005).

Japan: presidents' meeting, appointments of presidents, and coordination of information. Since member companies of Japanese financial groups do not have dominant ownership, the presidents of member companies have organised *the presidents' meetings,* in order to gather and exchange information. This type of meeting functions as an arena where member companies' activities and businesses are coordinated. Presidents from member companies have relatively equal positions, though this circumstance seems to have negatively affected the efforts to coordinate business activities due to conflicts between representatives (Sjögren and Kishida, 2009).

Since the six financial groups have horizontal organisational structures, in theory, the president of each member company has an equal say in the strategy of the group. As a result, the presidents' meeting is an effective way to exchange information. Japanese corporate groups, however, have vertical structures. As common practice, the presidents of the subsidiaries often come from the parent company, which constitutes the main mechanism for the flow of information and coordination in corporate groups. Due to their influence over the management teams of subsidiaries, the parent company collects and shares information among its member companies. This practice enables the parent company to launch specific strategies either in individual subsidiaries or at the group level (Sjögren and Kishida, 2009). From this perspective, the mechanisms of information flow and coordination in Japanese corporate groups resemble those in Chinese business groups.

Sweden: multiple-director-based information flow and coordination. In Swedish business groups, the exchange of information and coordination of business activities have been handled by various personal networks, based on a 'multiple director system' that includes a bank, certain investment companies, and the member companies (Collin, 1997; Ottosson, 1993). Swedish business groups do not have an arrangement, like the Japanese presidents' meetings, to bring together all of the presidents of member companies. Instead, multiple directors from banks and investment companies attend the board meetings of member companies and gather information about these companies. This information is then exchanged by the directors at the board meetings of the banks and investment companies; this procedure has a significant impact on the decision-making process of the entire business group.

Relatively few multiple directors and board members are engaged in the decision-making process of a business through board meetings and informal discussions. Therefore, it is "easy" for them to coordinate member companies. In the Wallenberg sphere, family members serve on the boards of the bank, the investment companies, and the core companies of the sphere, acting as representatives of one of the largest owners (Lindgren, 1994). Thus, their personal characters have substantial influence on the business of the member companies (Perlinge and Sjögren, 2012).

Finally, we will illustrate the rationale of using a business group to solve the problem of transactions as opposed to using a single large-sized enterprise. In 2005, the Lenovo Group of China purchased the PC division of IBM. They could have either merged into one single company or kept IBM independent, becoming the largest shareholder of IBM. The first choice would have induced huge costs during the merger process. Even after the merger process, the large new company would have had to bear the increase of internal management costs, since a single big company typically has the problems of too much hierarchy and staff redundancy. As a result, Lenovo chose the second option of M&A, integrating IBM into the whole group as an independent company. This simple example illustrates why business groups are more effective in solving the problem of transaction costs than single companies. As the company increases in size, its internal management costs will soar. This tendency is also the reason why the size of a company cannot possibly increase without limit.

The existence of internal markets in the three countries confirms the hypothesis that business groups exist because of market failure and high transaction costs. The role played by business groups in compensating for market failure and high transaction costs indicates that there should be a negative relationship between the significance of the business group and the maturity of market (Khanna and Palepu, 2000; Khanna and Yafeh, 2007). If so, then the internal financing and internal coordination of business groups would be the weakest in Sweden and the strongest in China. However, according to our data, this does not seem to be the case. Even though Chinese business groups can easily access external capital and their internal exchange of information is mainly carried out through administrative order, leading to the under-performance of their internal markets, there may be other reasons for this contradictory phenomenon. One possible reason is a gap between emerging and transitional economies and advanced economies, in terms of their principles of corporate governance. China has long been engaged in the central planning of its economy, wherein firms have almost no decision-making power. As a result, there has been no experience of having well-functioning internal markets, and this situation is likely to continue hampering the development of modern enterprise in China..

We can conclude that firms in more advanced economies, such as Japan and Sweden, have certain institutional advantages over firms in emerging and transitional economies. Since it often costs more to merge two independent enterprises into a single company than to form a business group, it makes sense to choose a business group over a single large-sized enterprise when attempting to solve the problem of market failure. In addition, management cost and risk are often higher in super-sized enterprises. The existence of business groups appears to be the result of a structural process whereby new companies are integrated while staying legally independent.

4. Conclusion

This article analysed business groups in three countries: China, Japan and Sweden. We used three assumptions to explain the existence of business groups, and analysed each of these proposals separately using empirical evidence drawn from selected business groups in each country. The differences between groups stress the importance of examining business groups in terms of their historical institutional backgrounds, rather than making universal predictions based on dichotomies such as state-led or market-driven. Thus, our results suggest a combination of general (standard) patterns and historical complexities; the organisational persistency of business groups embraces national-based variations. In addition, since each group has its own historical complexity, each case makes a small contribution to our list of explanatory factors and characteristics. Our results are summarised in Table 5.

Table 5. Characteristics of business groups in China, Japan, and Sweden.

		China	**Japan**	**Sweden**
Capitalistic mode, backwardness, and	*Type of capitalism*	Cooperative	Cooperative	Cooperative
	Market value of BG	Significant, nationally and internationally	Significant, nationally and internationally	Significant, nationally and internationally

institutional instability	*Type of institutional instability*	Economic reform	Social reform and war	Economic crisis
	BG's role in times of institutional instability	Revitalising national economy in a rapid way	Supporting the revitalisation of the economy and reshaping the economic structure	Stabilising the economy, fulfilling economic and social (high employment) needs
Diversification	*Economies of scale*	Economies of scale at the group level	Economies of scale at the group level for corporate groups and at the firm level for financial groups	Economies of scale at the firm level
	Economies of scope	BGs are focused in terms of industry category	Corporate groups are focused. Financial groups do not use economies of scope at the group level	Financial groups do not use economies of scope at the group level
Transaction cost and management cost	*Internal finance*	Weak	Strong	Strong
	Information flow	Weak and hierarchical	Equal exchange / hierarchical	Conducted by multiple directors

Firstly, business groups emerge in times of institutional instability and develop in nations with cooperative capitalism and export-orientation. Secondly, business groups use a strategy of diversification at the group level, in order to share risks and reduce costs at the firm level. Corporate groups and financial groups are two distinct types of business groups with different features in terms of corporate governance. Thirdly, business groups untangle problems when management costs and risks are considered to be too high to conduct industrial activities within a single large-sized enterprise. The traditional explanation of transaction cost is only half of the whole story; business groups do not exist only to solve the problem of market failure, but also to scale down internal management costs associated with a single large-sized enterprise.

We have also shown that business groups differ from each other in terms of the substance of their various internal markets and the ways in which national governments mobilise business groups to reach certain economic and social goals. However, at the same time, all groups use various mechanisms of governance to tighten control over the entities and take advantage of integrated resources, for example through the exchange of information, transactions (financial and non-financial), and personnel. In this respect, every business group is a nexus of treaties, comprised of social networks based on competencies and interpersonal trust.

All three countries studied attempted to revitalise their economies in times of institutional instability and become highly competitive on the world market through the creation of vital and long-lasting business groups, whether in the first half the 20th century or much later. In addition, once the groups were established, the economies seemed to function similarly, regardless of their location. As long as the groups add value to an export-oriented economy, they are guaranteed support from the state and will therefore persist. In fact, history has shown that the business group is a highly persistent organisational form that contributes substantially to the endurance of the welfare economy.

Notes:

1. The selection of ten Chinese business groups is based on their ranking in the Fortune 500 for 2011 (see appendix). However, we have made some adjustments. First, since China National Petroleum is carrying out almost the same business as the SINOPEC group, we have only included the latter as the representative of the energy sector. This is also true for China Railway Construction and China Railway Group. We have excluded all banking groups from our sample as they are atypical business groups. Since we could not find enough information about State Grid, we have replaced it with China South Power Grid, which operates similar business. When it comes to the private-controlled business groups, we have replaced Huawei Technologies with Haier Group, since the former doesn't provide information necessary for our study. Although the Haier Group is not included in the Fortune 500 list, it is a well-known home appliance brand.
2. The selection of two Japanese corporate groups is based on group size as well as industrial category. According to Shimotani, the top five corporate groups in Japan in 1995 are Tokyo Electric Power, NTT, Toyota, Hitachi and Mitsubishi Co. However, the first two corporate groups are operating in utility and telecommunication industries and provide exclusively service to the public. They have few competitors and special relationships to the government, which make them less relevant. Toyota and Hitachi have been chosen instead.

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