Review Essay

Business Groups in the West: Origins, Evolution, and Resilience. *Edited by Asli M. Colpan* and *Takashi Hikino*. Oxford: Oxford University Press, 2018. xxi + 563 pp. Figures, tables, references, index. Cloth, $115.00. ISBN: 978-0-19-871797-3.

Reviewed by Mira Wilkins

This is an important book. For business historians writing about the late nineteenth century to the present, it offers a kaleidoscope of ways to study the history of the forms and organizational structures of modern big business. Its handle for doing so is the business group. The book is a sequel to Asli Colpan, Takashi Hikino, and James Lincoln's edited, pathbreaking Oxford University Press volume published in 2010 and entitled *The Oxford Handbook of Business Groups*. The latter opened up new horizons.[1]

Hikino was for many years a researcher for Alfred Chandler at Harvard Business School. He is well versed in Chandler's scholarship on the modern corporation. Chandler's *Scale and Scope* (1990) compared the contours of U.S., British, and German business history.[2] Chandler had considered adding to that volume a segment on Japanese business history. He did not.

Hikino may have influenced Chandler in the omission of Japan. Neither the pre–World War II Japanese zaibatsu nor the post–World War II Japanese keiretsu structures fit into Chandler's paradigms. So, too, at MIT, in the late 1980s and 1990s, Alice Amsden was writing on Korean chaebols.[3] The chaebols also did not lodge comfortably into Chandler's analysis of the rise of the administrative organization of

[1] Asli Colpan, Takashi Hikino, and James R. Lincoln, eds., *The Oxford Handbook of Business Groups* (Oxford, 2010).

[2] Alfred D. Chandler, with the assistance of Takashi Hikino, *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, MA, 1990). Chandler not only put Hikino on the title page but also wrote in the acknowledgments, "without Takashi Hikino, it [the book] could not have been written" (p. vii).

[3] See, for example, Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, 1989). In the index of this volume there is an entry, "Chaebol (diversified business groups in Korea)."

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modern industrial enterprises. Chandler's research became the point of departure for Hikino's thinking.

After Hikino left Harvard Business School to return to Japan in the late 1990s, he was joined at Kyoto University by Asli Colpan, who had been researching Turkish business history and who also did not see the Turkish narrative meshing into Chandler's story of the emergence of professional management and multidivisional structures. Hikino, Colpan, and Lincoln (an expert on Japanese business history), joined by a number of additional contributors, assembled the collection of articles in the 2010 Oxford University Press volume exploring the history of business groups. *The Oxford Handbook* argued that the role of business groups was especially important in less developed nations, emerging nations, and for the late developers. Thus, while *The Oxford Handbook* had a chapter by Geoffrey Jones on British trading companies and business groups, the fundamental thrust was on business groups in developing countries; Japan was included as a late developer (late relative to the United Kingdom with its first industrial revolution and late relative to much of western Europe and the United States).[4]

As Hikino and Colpan (and the sizable group of business historians who joined them) considered business groups and struggled to define exactly what was meant by the term, they agreed that in the West, in industrialized nations—the focus of Chandler's work—the business group had a role that should be explored. Hence the genesis of the volume under review edited by Colpan and Hikino. (Lincoln was not an editor but contributed, with Matthew Sargent, one of the initial four introductory framework chapters).

Business Groups in the West is divided into two sections. The first part, "Concepts and Arguments," sets forth the aims of the book and the definitions of business groups. Part 2, entitled "National Experiences of Business Groups," presents capsule business histories of twelve countries in the West, attempting to identify business groups and, in most cases, giving brief histories of specific individual groups.

In the first part, Colpan and Hikino (henceforth C & H) describe their goals as editors, arguing that the business group is a significant "variety of modern big business" and provides an alternative to the historical analysis of Chandler (p. 5). How to define a business group hovers over all the contributions to this volume. C & H find no easy response in their search for a definition and refer to "definitional ambiguity" (p. 8). C & H write that "business groups are broadly defined as the collections of *legally* independent companies bound together by formal and/or

[4] And Geoff Jones's work on British trading companies indicated their role in emerging nations, as did his contribution to *Business Groups in the West*.

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informal ties" (italics in original). And, they add, "even cartel arrangements . . . can well be included in the broad business group classifications. . . . Business groups can come in different and distinct varieties" (p. 8). C & H argue for a definition that involves "*diversified business groups* . . . defined as the collections of legally independent enterprises, linked through equity ties and other economic means, which have a central unit at the helm that controls the affiliated enterprises in (technology- or market-wise) *unrelated* industries" (italics in original) (p. 6). They provide a table on "stylized characteristics of comparable corporate organization models" and then more specifically on "stylized characteristics of diversified business groups," including conventional varieties (family, state-owned, bank-centered) and contemporary varieties (conglomerates and private equity firms) (pp. 12, 18). When the reader gets to the second part on national studies, there is a further amplification of C & H's framework.

James Lincoln and Matthew Sargent in their introductory chapter prefer to view business groups in terms of networks (and network theory). They believe that the literature suffers from "a lack of close attention to problems of group internal structure." Some groups are vertical, or "pyramidal," and others are "horizontal," or "network-type" (p. 95). Although Lincoln and Sargent apologize for the potential for confusion in the double use of the phrase "network-type," their defense of a network-type analysis is clear and helpful. Vertically structured groups (pyramidal) have a central unit, a holding company, or a family at the apex, with equity interests in the layers of companies below. By contrast, horizontally linked groups are decentralized. These network arrangements are characterized by cross-shareholdings and interlocking directors (the Japanese keiretsu is an example). In a convincing manner, Lincoln and Sargent explain the characteristics of the horizontal network-type structures and the presence of nonfamily groups, as well as banks and trading-company-centered networks. With the horizontal groups, there is a lower level of equity in the cross-shareholdings than in the vertical groups, and the nature of intra company (within the group) transactions differs. The network-type relationships are "multiplex." The authors explain how network analysis of groups proceeds and how the networks identified should be interpreted. They discuss symmetry and reciprocities in relationships. (Pyramids have unidirectional chains of equity while network-types often have reciprocity in the cross shareholding). They show how networks can be mapped and defined but warn of the dangers of schematic interpretations. And, they note that control (in terms of equity voting rights) is not identical with "general strategic and financial dependence in an interorganizational network," offering as an example a case where a particular

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study's coding definitions (in the late 1990s) demonstrated, inaccurately as careful research revealed, that Mitsui financial institutions controlled Toyota Motor Corporation. Management and voting rights, issues of control, are key to network studies (p. 109).

Throughout, the book's editors and contributors deal with modern "big business," businesses that have impact. What do they mean by "big business," a colleague asked me. They do not introduce any specific measure: it can be revenues, turnover, sales, assets, market valuation, number of facilities (plants, research and development units, retailing outlets, etc.), employment, geographical span, or significance in creating economic change. There are no specific cutoffs defining what is big, albeit often there are references to lists of industrials or lists of the Fortune 500 companies. There is an implicit recognition that what was big in 1900 is bound to be different from what was big in 2000.

The book's editors, Colpan and Hikino (and the contributors) are conscious of the fact that they are business historians and that there are changes through time that must be incorporated in their analysis. In the book's introductory chapters, C & H (and Lincoln and Sargent) try to put their definitions of business groups in the historical context of industrialization and its spread in the West, a context familiar to economic historians. First, there are the "historical front runners" in Western Europe: Britain, Belgium, the Netherlands, Germany, and France. Then come the "catch up nations" in Western Europe: Sweden, Italy, Spain, and Portugal. And in a third category are the "Western offshoots": the United States, Australia, and Canada. One misses Switzerland and Luxembourg in the first group, but the twelve chosen countries present a definite, sensible, and viable rationale for proceeding. Their choice shows a wide variety in the prominent types of business groups. I would have liked to have seen a concluding chapter, indicating what the historical sequencing actually has told us (across countries) on the use of business groups. Readers must draw their own conclusions. This roster of a dozen nations in the West is the basis for the country-specific chapters that constitute part 2 of the book, "The National Experiences of Business Groups."

Each contributor to the national chapters fusses with definitions and the appropriate groups to study. They consider business groups that had their origins centuries ago and have grown through mergers and acquisitions as successive management teams have undertaken strategy changes. Some might be considered a firm in one period and a business group in another, with the categories shifting back and forth over the decades! Some business groups were short lived, lasting less than a decade before failing or being absorbed by other firms. Mergers and acquisitions often resulted in minority interests, subsequent divestments of companies (or divisions) that were not part of the acquirer's strategy (or that antitrust regulators found to be anticompetitive).[5]

The authors of the national chapters had a difficult task before them. In very short chapters, they had to scrutinize major changes. They had to make selections on what they designated as groups. Each country chapter has a starred note at its start, explaining what definition the author(s) adopted. While there are differences, the general preference of most authors is to consider business groups as unrelated diversified hierarchal firms (the C & H approach rather than that of Lincoln and Sargent). The roles of family firms, bank-centered ones, and (to a far lesser extent) state-owned firms are discussed, all three parts of C & H's classification. From one country to the next, the chapters reveal substantial variations in business groups relative to the national business history story line.

Implicit in all the chapters is the subject of ownership and control and what control means in terms of management. There is a recognition of the presence of numerous family firms in the West, but little space is devoted to exploring the implications for professional management. The discussions of bank-centered groups is flawed by the limited archival information on banks' customers and clients. Wherein lies the line between monitoring financial performance and providing operating management in bank-centered groups? As for state-run groups, there remains room for a deeper study of how the notion of groups enriches the discussion. The chapters on Italy and Spain are the exception, where some of these questions on state-owned, state-run enterprises are addressed. Throughout, the short national chapters offer little opportunity for the authors to delve into managerial structures as distinct from corporate structures.

I found myself continually frustrated with the notion of when a firm is part of a group and what constitutes the group. The use of the phrase "legally independent" firms, as I will show below, did not solve the problem, since large firms are usually clusters of separate legal entities. In the past, I had tried to define a firm and made selections, so I find myself sympathetic with the problems of the struggle for definition; yet, as I read this volume, I was troubled with when the use of the word "group" was appropriate and when the term "firm" was the right one and if it matters.[6] Yes, it has to matter for this volume, since this

[5] In terms of competition policy, what was unacceptable in the United States from the 1890s forward was accepted in the European countries studied in this book until well beyond World War II, when there was major rethinking of antitrust.

[6] In 1986, I published an article in which I explored the question of what constituted a firm. I did not contrast the firm with a business group, but a number of the structures that I included in what was a firm fit what in this volume would seem to be placed in the category of business

is a book about business groups. The distinctions between a single firm versus a group is particularly ambiguous when the authors deal with conglomerate structures; it is equally problematic when the topic is family firms. Lincoln and Sargent seem to make the distinction between firms and groups in their network analysis, but does C & H's unrelated diversified business group stand out as truly different from a single firm? I was not convinced. Most important, I missed in this volume a chapter on multinational enterprise. Multinationals are ubiquitous in this book, but there is no attempt to consider systematically multinational groups. (They are dealt with solely in the national chapters).

One of the difficulties with the book under review is that following Chandler, its subject is "industrials." Chandler did look at railroads in *The Visible Hand* and in *Strategy and Structure* (subtitled *Chapters in the History of Industrial Enterprise)* had as one of his case studies Sears Roebuck, but Chandler's principal interest was in "the management and growth of modern industrial enterprise."[7] Chandler dealt with public utilities, electrical and communications utilities, only in passing; he consistently downplayed the role of financial services, of banks. *Business Groups in the West* considers trading firms and the units that they generated as groups. While manufacturing firms are in the orbit of trading firms, the trading firm as such is not an "industrial."

I have to admit that it is a major feat to cover in a single chapter national business histories and pull out business groups from all sectors within the national economies. Chapters covering the late nineteenth to the twenty-first centuries mean abbreviated explanations. One candidate for a business group designation is Sofina. The chapter on Belgian business groups briefly mentions Sofina (it was incorporated in Brussels), and so does Harm Schröter in the German chapter. We covered Sofina at length (and with great difficulties) in our book on global electrification.[8] After reading this material, I wondered whether we should have added more on the role of banks. Yet, as noted earlier, bank archives are very sparing on customers, and neither the book under review nor my colleagues in writing on global electrification have had the appropriate access to bank archives to discuss Sofina, a firm that seems to this author as fitting at least one of the definitions

groups. Mira Wilkins, "Defining a Firm," in *Multinationals: Theory and History*, ed. Peter Hertner and Geoffrey Jones (Aldershot, 1986), 80–95.

[7] Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA, 1977) and Alfred D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, MA, 1962).

[8] William Hausman, Peter Hertner, and Mira Wilkins, *Global Electrification: Multinational Enterprise and International Finance in the History of Light and Power, 1878–2007* (Cambridge, U.K., 2008).

given of a business group. Sofina was a significant international public utility holding company. It is not properly handled in *Business Groups in the West* because of the lack of a chapter on multinational enterprise and because of the concentration on industrialization.

Business Groups in the West has useful material on conglomerates: Hanson Trust, BAT, and Pearson (U.K.); Edper Bronfman (Canada); Textron, Gulf & Western, and W. R. Grace & Co. (U.S.); Bond Corp. and Hooker Corp. (Australia); and, should we include as a conglomerate, those firms in the Wallenberg group (Sweden). Here again, a concluding chapter would be desirable, summing up what these firms have in common (timing, success, failure) and the responses to their global experiences along with what the introduction of the term "business group" as distinct from the discussion of "firm" or "multinational firm" adds to our insights.

Every one of the national chapters in the second part deals with global companies, but as noted there is no chapter in part 1 or in part 2 that looks at the organization of the multinational enterprise and the generalized relationships between business groups and multinational businesses. Such a chapter on multinational business firms and multinational business groups might help the reader make better sense of the national experiences. The case of Sofina (noted above) would be and should be thought through in more detail. Having a chapter on multinational business firms and business groups would help clarify some of the vagueness (and problems with the definitions).

As I was reviewing this volume, I came across a story in the *New York Times* that captured a major reservation that emerged in my thinking about the concepts and arguments related to the business group put forth in part 1 and part 2 of this volume. Had there been a chapter on multinational enterprise in the book, it would have become clear that the typical multinational from the late nineteenth century onward is in fact made up of a cluster of legally independent companies. (This is true of domestic companies but far more germane to international business.) The cluster of legally independent companies is far from distinctive to the "business group." Let me give an example of the importance of this. The recent story in the *New York Times* considered the American-headquartered Chevron's liabilities in Ecuador. In 2001, Chevron had acquired Texaco (another prominent U.S. oil company); villagers in Ecuador claimed that between 1962 and 1992, Texaco had created environmental damage (water and soil pollution) and that Chevron as the new owner of Texaco should be required to pay cleanup costs. The villagers got a $9.5 billion injunction to that effect in Ecuador in 2011. Since Texaco was long out of Ecuador and Chevron had no assets in Ecuador, the villagers sought recourse from

Chevron by targeting its assets in the United States, Canada, Brazil, and Argentina. In 2017, in Canada, the Court of Appeal for Ontario ruled that Chevron Canada was a legally separate entity, and its assets could not be taken over by those who were trying to enforce the 2011 Ecuadorian judgment. On April 4, 2018, Canada's highest court turned down a request to review the 2017 lower court decision.[9] The story provides an illustration of one of the reasons (to limit liability) multinationals set up corporations abroad as they engage in international business. (That the global business of Chevron consists of hundreds of legal entities does not distinguish a business firm from a business group.)

Most students of multinational enterprise would consider Chevron as a multinational business and its "legally independent companies" as standard in doing business. It would in most narratives logically be considered a single business, not a group. C & H's insistence on legally separate units in their definition is not by itself enough to define a business group. Would C & H argue that Chevron was involved in related businesses and thus its entities did not constitute a group since the group must involve diversified unrelated entities? Yet, over its history Chevron moved in and out of unrelated industries.

I should add here that limiting liability is far from the only reason for a business (domestic or international) to have legally separate firms. Other reasons include laws in the jurisdiction of operations, tax issues, the presence of other shareholders in the affiliated companies, ways to raise additional funds, convenience (can be separately listed on an exchange), ability to spin off, and many other considerations. With mergers and acquisitions, companies often acquire other firms with share transactions resulting in loose ties for a short period between acquirer and acquired.

Two business firms, Royal Dutch Shell and Unilever, with (for many years) joint headquarters in the United Kingdom and the Netherlands, are sometimes thought of as firms and other times as groups. (Some authors use the terms "firm" and "group" interchangeably in the case of these giant enterprises). They are not included in Geoffrey Jones's chapter on U.K. business groups, while they are included as business groups in Ferry de Goey and Abe de Jong's chapter on the Netherlands.

Over and over again, as I read the chapters in part 2, I puzzled over what was a single (albeit complex) firm and what was a group. This bothered me, as noted, when I discussed conglomerates. It bothers me more generally. Some authors in this volume use the term "stand alone" firm (in contrast to "group"). Is the phrase "stand alone" appropriate in a book about large-scale, complex businesses of the late nineteenth, twentieth, and early twenty-first centuries?

[9] "Court Dismisses Claim by Ecuador vs Chevron," *New York Times,* 6 Apr. 2019.

I found myself interested and ultimately frustrated as chapter writers tried to sort out what was a business group. I was happy with Flick, Hanson, and Pearson, along with Wallenberg, as business groups (drawing on my prior reading of their histories), while I was unhappy with the historical materials on many other selected business groups, since I wanted to know not only the ownership story but the internal management story and how it had changed over the years. Litton Industries, not mentioned, is a wonderful example of a U.S. conglomerate; Tex Thornton, groomed in the latest business school managerial approaches, thought firms did not have to develop through vertical, horizontal, and related growth. A person well trained at a leading business school could provide management for any industry. In the discussion of bank-centered business groups, I missed a more complete discussion of what kind of management the banks provided. Pre–World War I bank consortiums involving numerous European banks, especially in the Near East, are omitted. Indeed, on banking groups before World War I, C & H (and some of the other authors) should have taken a look at Rondo Cameron and V. I. Bovykin's edited volume, *International Banking, 1870–1914*.[10] Harm Schröter introduces his reader to the controversies between the Gerschenkron approach and the newer material in an excellent discussion of German bank groups. He concludes that "the role of large [German] universal banks has been overestimated" (p. 117).

An added concern of mine is about where state-directed enterprise fits. State-directed enterprise is introduced by C & H as part of the typology of business groups. Yet, many of the chapters (by nation) where state-owned activities (at least for certain defined years) had critical roles seem to neglect discussing the management of such groups. I was never sure how government-owned businesses/groups fit into the narrative and analysis of business groups. Moreover, very often the foreign or domestic state has a minority interest in the firm. What has actually been the effect of the sizable, albeit not majority, influence of a state (foreign or domestic) on management?

Criticisms and concerns notwithstanding, I believe this is an important book. For me, as a longtime student of business history (on a global scale), the book served as a worthy review of business history fragments that I had been studying; it provided a fresh way of looking at quasi-familiar historical data. I found myself realizing that by following the engagement in what often seems to me the ill-defined concept of business groups, I was asking new questions of my own materials. I was

[10] Rondo Cameron and V. I. Bovykin, eds., *International Banking 1870–1914* (Oxford, 1991).

gaining new insights on global business history. As I thought about the absence in this book of a broad-brush treatment of sectors, I wondered whether the cases of business groups were more important in certain principal sectors than in others. Was diversification across the board, or did it tend to be concentrated in particular firms that while doing business in unrelated sectors were different according to the once or still dominant sector of the particular firm (group)? Had the coverage pulled out more on publishing, media and entertainment industries, or nonindustrial sectors, would there have been a richer treatment of business groups in the West? And, then there were other applications. I read in the *New York Times* a story about the domain of the best-selling fiction writer E. L. James and started to think about this recent (post-2011) business and wondered whether it might be counted as a business group.[11] It got me past my disquiet over the confusion on "industrial" enterprise and business that is far more than a discussion of manufacturing.

C & H's edited volume presses us to ask, is there a most efficient, a best way, to organize big business? How and by whom is that best way achieved? By looking closely at single product, dominant product, related and unrelated diversification, full and minority ownership, family direction, state-owned businesses, and bank-centered firms, this book demonstrates that efficiency can be short lived, period (and business leader) specific, and, the book convincingly argues, not confined to specific forms of business. Does this mean a rejection of Chandler's argument that structure must follow strategy for successful business enterprise? Hardly. What it does is demonstrate a variety of business forms with variations and complexities in the emergence of modern big business.

Indeed, too many of us have taken for granted the complications in types of business organizations through time and have not sought to look carefully at the structure of ownership and control and the meaning of control. Exercises in typology often seem to obscure big questions. Yet, seeking to define types and structures of business enterprise through time in different national settings has real value. I am not comfortable with the way the book handles the single firm/enterprise versus the group. I think this requires more disciplined thinking on the tightness and the looseness of business relationships; on the nature of ownership and control; on the meaning of control; on large firms with hundreds of legally distinct business units; and on professional management in family, state-owned and controlled, and bank-centered firms. There is more needed on contracts and on licensing and franchising and where

[11] Alexandra Alter, "E.L. James, Now Tied to Fame," *New York Times*, 13 Apr. 2019.

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that fits into the notion of business groups. The role of banks in the operations of customer/client firms requires far more study. Did banks in some/many (and what kinds of) cases act in an entrepreneurial role, not delegating management but being actively involved in running the enterprises in which they provided financial assistance? I was sorry that more authors did not pick up on Lincoln and Sargent's suggestions on networks of firms. As stated earlier, while it is often difficult to define the firm, much less the group, this does not mean we should not try to do so. I disagree with C & H on the relationship between their research agenda and Chandler's. I strongly believe the research and ideas presented in this volume on the nature of the business group complement rather than serve as an alternative to Chandler's approach. The contributions in this volume open up the path to interpret past (and future) research in new ways. They make us realize how vital it is to do research in business archives as we seek to weigh the role of different forms of business endeavors through time. The book clears the way for a vast amount of future research in business history, research that can help us better understand the growth of big business on a global basis and the growth of modern enterprises in their numerous facets, not necessarily based on industry, not necessarily in the manufacturing sphere.

The book is germane in thinking about policy issues: competition policy, tax policy, national security policy, transparency, privacy, and social welfare. How much regulation is required and why is that regulation needed? To repeat my earlier question, does it matter whether we are talking about firms or groups? If the definition includes influence and control, definitions take on new relevance.

Mira Wilkins is professor of economics, emeritus, at Florida International University. She is currently working on the third volume of her history of foreign investment in the United States, which will cover the years 1945 to 2012. She gave the keynote address, with the title "Multinationals," at the Business History Conference meetings held in Cartagena, Colombia, in March 2019. At the XVIII World Economic History Congress, held in Boston/Cambridge, Massachusetts in August 2018, she chaired and organized (with Teresa da Silva Lopes) a session on Multinationals and the Transformation of the World Economy, At both the BHC and the WEHC, she emphasized the significant and global impact of multinational enterprise from the late nineteenth century to the present.

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