The Coase Question Revisited

In a well-known and extremely influential 1937 article entitled "The Nature of the Firm," economist Ronald Coase began a quiet revolution in economic theory by asking an innocuous question that might have occurred to others but had not previously been submitted to systematic examination: Why do firms exist? Coase wondered why, if as competitive market theory suggested, the price system perfectly coordinated the provision of goods and services, we would have units called firms and individuals called managers, who supplied still more coordination.1 His now-famous answer, greatly elaborated by Oliver Williamson in a series of works spelling out his "markets and hierarchies" research program (1975, 1985), was that firms existed because in the presence of transaction costs, the price system could not in fact provide all the coordination required for atomized individuals to transact business anew for each project and enterprise, across a "market" boundary. In Coase's words, there were "costs of using the pricing mechanism. What the prices are have to be discovered. There are negotiations to be undertaken, contracts have to be drawn up, inspections have to be made, arrangements... to settle disputes... It was the avoidance of the costs of carrying out transactions through the market that could explain the existence of the firm in which the allocation of factors came about as a result of administrative decisions" (1991, p. 7).

Coase's question was pathbreaking because it recognized that among the fictions of abstract classical economics, the one depicting economic agents as always acting alone rather than in cooperation with others in a defined social unit was especially intolerable, and had to be overcome if a powerful theory of economic organization were to be constructed. I have suggested the inclusion of a chapter on business groups in this Handbook because I believe that there is a second question, parallel to Coase's 1937 question, that is of at least equal significance but has not previously been given systematic examination. This question is similar to Coase's, but takes firms rather than individuals as the object of inquiry, asking why it is that in every known capitalist economy, firms do not conduct business as isolated units, but rather form cooperative relations with other firms, with legal and social boundaries of variable clarity around such relations. In no case do we observe an economy made up of atomized firms doing business at arm's length with other firms across a market boundary.

In drawing this analogy between the original and the second Coasian question, I imply that the business group is to firm as firm is to individual economic agent. This obvious oversimplification is meant to cut through a series of issues usually discussed separately that I believe belong together. And I want to draw back immediately from the implication that the questions Why do firms exist? and Why do business groups exist? are in fact appropriate as the orienting questions for studying the social organization of the economy: The difficulty is that such "why" questions are syntactically disposed to teleological or functionalist answers—that firms exist in order to reduce transaction costs, for example. In the case of firms, it is urgent to add the "how" question: How is it that in circumstances where profits could be made from the formation of a firm, actors are in fact able to construct one? Once this question is posed, we are alerted to the fact that the assembling of economic elements into a firm is a formidable act of organization; it is a good example of the Schumpeterian definition of entrepreneurship, which involves pulling together previously unconnected elements for an economic purpose (Schumpeter [1926] 1979). Historically, the discipline of economics has been weak on theories and empirical accounts of entrepreneurship (cf. Blaug 1986), exactly because of a bias to the assumption that profitable activities automatically take place, as summed up in the aphorism that "you will not find dollar bills lying in the street." But in fact, empirical studies make
clear that there are many circumstances where it would profit actors to construct firms, but social structural difficulties—even the absence of trust in the relevant social group—make this difficult or impossible (see Granovetter 1992).

For business groups, where the task of construction is even larger than that of making firms, the “how” question must also be asked: What makes possible the agglomeration of firms into some more-or-less coherent social structure, and what determines the kind of structure that results? This rarely addressed “how” question is logically prior to the “why” question, which has in fact been answered in a variety of literatures suggesting why firms might want to connect with one another. Four such answers are: (1) “resource dependence,” the argument that firms are rarely self-sufficient and will typically form alliances or connections with other firms upon which they regularly depend for resources (Pfeffer and Salancik 1978); (2) the need for “strategic alliances” among firms, a need said to derive from the changing nature of markets and of consumer demand; (3) the need asserted by Marxist analysts for coalitions of capitalists to form against other societal interests, or of one sector of capitalist firms (typically finance) against others (Mintz and Schwartz 1985); (4) the desire of firms to extract “rents” from the economy or the government through coalitions, over and above those which could be gotten in a properly competitive economy (Olson 1982).

Like the transaction cost account of why firms exist, all these answers focus on what motivates economic actors to establish a linkage, or on how their economic outcomes will be improved by such linkage. But knowing such motives does not illuminate the likelihood nor explain the occurrence of such linkages; to achieve an understanding of the scale at which economic cooperation occurs requires us to move beyond the comparative statics of economic environments in equilibrium to consideration of how economic actors construct their alliances, and this task requires a serious examination of how actors mobilize resources through networks of contacts.

Two more interesting questions arise about linkages among firms. First, what is the structure of all such connections in a given economy, as it would appear from an “aerial” view? It is mainly from such an aerial perspective, rarely taken, that business groups would come into sharp focus. And this raises the most perplexing question of all, which is how, at the level of national economies, this level has received so little attention for so long.

**The Problem of Business Groups**

- Before tackling some of these questions, I will clarify further what I mean by *business groups*. A business group is a collection of firms bound together in some formal and/or informal ways. I mean to define the concept as referring to an “intermediate” level of binding—excluding, on the one hand, a set of firms bound merely by short-term strategic alliances and, on the other, a set of firms legally consolidated into a single one.

  The definition is necessarily somewhat arbitrary. Conglomerate firms, in which a single firm has diversified into many industries by acquiring controlling shares, are a marginal case. Strachan makes an important distinction by noting that in the 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” (1976, p. 20).

Most American conglomerates fit the first description, 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. Indeed, Davis, Dickmann, and Tinsley (1992) chronicle the 1980s wave of “deconglomeration” in the United States, arguing that American-style conglomerates are inherently unstable, as they eliminate the identity of the core firm as a sovereign actor, opening the way for shareholders and raiders to disassemble the parts. Other conglomerates, however, such as the Korean chaebol, are quite stable and fit the profile of a business group because they are the outcome of investments by a single family or small number of allied families who, once having acquired the component companies, keep them together as a coherent group among which personnel and resources may be shifted as needed (Steers, Yoo, and Ungson 1989). Yet the individual companies continue to keep some separate identity.

Holding companies and trusts are also marginal cases, and here I wish to include them in the definition of business groups where their constituent firms keep their own management and iden-
Business Groups

Stable cartels might also be profitably classified as business groups. On the whole I would exclude trade associations on the grounds that their activity has to do less with operations and more with negotiating and affecting the institutional and governance arrangements under which their industry proceeds.1

Finally, many business groups are stable but quite loose coalitions of firms that have no legal status and in which no single firm or individual holds controlling interests in the other firms. Some Latin American groups and Japanese intermarket groups (such as Mitsubishi) fit this description. Although mutual stockholding and frequent meetings of top executives serve to bind such groups together, they are the most loosely bound of the collections of firms I discuss here.

This is all to say that I want to include under the heading of business groups sets of firms that are integrated neither completely nor barely at all; many such groups operate in the middle range of coalitions and federations—forms that some business historians such as Alfred Chandler (1977, 1990) have treated as transitional and unstable, at least in capital-intensive industries, where, in his accounts, they must give way to the greater efficiency of large, integrated firms. It is in this middle range of organization among firms that I believe a theoretical treatment is most needed and least available.

So defined, the business group is a widespread phenomenon, known in many countries under various names: the old zaibatsu and their modern successors, the keiretsu, in Japan; the chaebol in Korea; the grupos económicos in Latin America; the “twenty-two families” of Pakistan; and so on. Though there are some analyses of such groups in particular countries and regions, they have received far less attention than one might expect, given their economic significance, and there has been even less sustained analysis of the phenomenon as a whole, or realization of its centrality to modern capitalism.

Before passing to the main discussion of business groups, it is worth pausing to inquire why the level of analysis they involve has been virtually invisible in the literature on industrial organization. For many countries, authors discussing the economy mention in passing how crucial these groups are for their own particular country, then move on to their main interest. These main interests are always at some level below or above that of the business group. Below lie concerns about entrepreneurship, management of individual firms, or labor relations. Above are the many treatments of how national economic policy is formulated, how foreign direct investment is managed, what the relation is between business elites and government officials, and to what extent the new economic liberalism of many countries will lead to privatization, “shock therapy,” or other movement toward “free markets.”

At the middle level of studying what formal and informal structures connect firms in the economy, however, there is remarkably little attention, even in countries where business groups are known to dominate the economy. In one important study of Thai business groups, for example, Phipatseritham and Yoshihara refer to the most comprehensive study of Thai business groups, commenting that this work “sells for a few thousand dollars, and only a small number of copies are available and difficult to obtain” (1983, p. 14). Even for Mexico, which is almost the type-case of a country dominated by business groups, the literature is extremely sparse, with almost the entire published corpus being on the Monterrey group because of its dominance by a series of colorful families (see the references in Camp 1989, p. 290).

Only for East Asia is this situation different—here there are many excellent studies of keiretsu, chaebol, and Taiwanese business groups. These have been followed with great interest because of the immense success of these Asian economies, and the consequent search for characteristics that distinguish their brand of capitalism from ours, and on the supposition that this would explain the so-called Asian miracle. Thus there was a time, perhaps not past its peak, when the American business press tirelessly trumpeted the need for American firms to learn how to form alliances like the Japanese keiretsu if they were to compete in the world economy.

But such accounts are reminiscent of the studies of a (now-notorious) turn-of-the-century Italian criminologist, Cesare Lombroso, who linked criminal behavior to the facial features of prison inmates he observed but neglected to check the distribution of these features in the general population. (They turned out, of course, to be about as frequent there as in prisons.) Those who link
business groups to efficient economic outcomes build a severe selection bias on the dependent variable into their argument by studying only the successful cases. In fact, because business groups are so widespread, they can be found in highly inefficient as well as highly efficient economic systems; this has been obscured by the lack of any general account.

Why then have we found it so hard to see this level of analysis? One reason is that in some settings, although participants are well aware of its importance, it is relatively invisible to others. Thus, Encaoua and Jacquemin, in their study of 319 important business groups in France, defined by the direct or indirect holding of a majority of stock by a parent company in a series of other companies, noted that these groups “have no legal existence and are not identified in official censuses. Each subsidiary maintains its legal autonomy and keeps separate accounts. It is therefore not surprising that there have been very few quantitative studies of this phenomenon” (1982, p. 26). Here the point is that official data collection procedures take as a given that the firm is the proper unit of analysis, and by collecting data with this bias, reinforce this assumption. The point has been made quite generally that preconceptions about the economy shape data collection that then support these preconceptions, as in Reddy’s study of the French textile industry in the eighteenth and nineteenth centuries (1984).

But in many countries, business groups are quite visible. Harry Strachan, for example, whose book *Family and Other Business Groups in Economic Development* is one of the best sources in English for groups in Latin America, comments that in his fieldwork in Nicaragua, “there have been around 20 to 30 social or semi-social occasions at which I was introduced to a businessman by one of his close friends. At some point in the conversation which followed, I have smiled the smile of an insider and asked ‘And what group do you belong to?’ The replies, often with the same smile, have been direct, ‘Oh, I don’t belong to any group’, or ‘I suppose I am a member of the Banco Nicaragüense Group’, or in cases indirect and evasive. Never, however, has that question drawn a blank stare and the reply ‘What do you mean by group?’” And survey respondents had no doubt which firms belonged to which group, even though groups were informal coalitions without legal standing (1976, pp. 26–29).

Why then have analysts made so little of what is so transparent to so many participants? On the economics side, an obvious comment is that the neoclassical theory of the firm has had little to say about such matters; indeed, until Coase asked his famous 1937 question, it had scarcely wondered why firms existed—and even this query had to await Williamson’s 1975 book on markets and hierarchies for a thorough account.

Sociologists, however, have also contributed little to this subject, for two reasons: (1) until recently they hardly studied business at all; and (2) in general, like economists, they concentrate their theories and empirical work at either quite micro or quite macro levels, giving short shrift to the difficult and unsettled meso level that provides the crucial link between the two. Thus, in the history of organization theory, most theories have concerned the functioning of single organizations, with interactions and linkages among organizations coming into play only since the late 1960s. Thus, I believe that the complexity of this middle level, and the paucity of concepts available to deal with it, explains why critics of the standard theory of the firm, such as Chandler (1977, 1990) and the early Williamson (1975), assumed the instability of organizational forms between markets and hierarchies.

**PREVIOUS INTERPRETATIONS AND NEW DIRECTIONS**

A small theoretical literature on business groups does exist, though it is a peripheral subject in the study of industrial organization. In this section, I review this existing literature and suggest in what theoretical and empirical directions future research should move.

In the first and probably still the best general treatment, Harry Strachan defines a business group as a “long-term association of a great diversity of firms and the men who own and manage these firms” (1976, p. 2). He suggests that three characteristics distinguish them from other types of associations: (1) the great diversity of enterprises in a group; (2) pluralism—the groups consist of a coalition of several wealthy businessmen and families; and (3) an atmosphere of loyalty and trust “normally associated with family or kinship groups. A group member’s relation to other group members is characterized by a higher standard of fair dealings and disclosure than that which generally is found in arm’s length commerce” (1976, p. 3).

Economists who have studied business groups
have generally interpreted them in one or another functionalist way, as responses to economic problems. Leff, for example, suggests that the “group pattern of industrial organization is readily understood as a microeconomic response to well-known conditions of market failure in the less developed countries” (1978, p. 666), especially imperfect markets in capital and intermediate products. The general story here is that business groups take up the slack in less developed countries that lack well-functioning capital markets (Leff 1976; also see Leff 1979a).

If this interpretation were correct, it would be difficult to explain the persistence of business groups in advanced capitalist economics such as those of Japan, Korea, and Western Europe. One position that attempts to address this contradiction is that such groups are “vestigial” and will therefore soon fade away. This position is approximated by Chandler, who argues that “only the formation of a central administrative or corporate office can permit the [business] group as a whole to become more than the sum of its parts” (1982, p. 4), so that business groups, if they are to become efficient, must eventually move toward the multidivisional form. Thus, the “most important single event in the history of an industrial group is when those who guide its destinies shift from attempting to achieve market control through contractual cooperation to achieve it through administrative efficiency” (1982, p. 23), by which he means merger into a single, consolidated firm. But this prediction has become less tenable with the staying power of business groups, which show no signs of the amalgamation Chandler projects.4

An alternative argument, consistent with the New Institutional Economics, is that one should expect to see such groups arise in situations where they provide some type of economic advantage. Caves’s general summary of this literature is that business groups “apparently represent responses to transaction costs and agency problems” (1989, p. 1230). Thus, Encaoua and Jacquemin suggest that the existence of the 319 French industrial groups they study should be interpreted as the Chandlerian outcome of a “search for an efficient organizational adaptation” to characteristics of particular industries (1982, p. 32); they conclude that these groups, though consisting of legally independent firms, are really approximations of the American multidivisional form, with some “peculiarities due mainly to national characteristics inherited from history” (1982, p. 32).

Goto recognizes the importance of business groups in “highly industrialized countries like Sweden, West Germany, France and Japan” (1982, p. 53). He discusses how firms may reduce the costs of the transactions they must accomplish, suggesting that by forming or joining a business group, a firm “can economize on the transaction costs that it would have incurred through the market, and at the same time, it can avoid the scale diseconomies or control loss which would have occurred if it had expanded internally and performed that transaction within the firm. If the net benefit of forming or joining a group exceeds that of implementing transactions within the firm or through the market, the firm has the incentive to form or to join a group” (1982, p. 61). In particular, he believes that firms may “secure intermediate goods with lower cost and less uncertainty by joining or forming groups rather than by procuring them through the market or integrating vertically” (1982, p. 63), and that this explains the predominance of business groups in Japan following the Second World War (1982, pp. 64–69).

It is not accidental that this type of functionalist interpretation has been developed especially for the context of Japan, whose economy has generally been perceived by Western observers as extremely successful and efficient.5 This success has spurred rethinking by both economists and popular writers about the possibility that the traditional model of Western capitalism—indecent and independent firms operating across a market interface—may be less efficient than cooperative capitalism as exemplified by the Japanese. Ironically, an older convergence theory stipulating that modernization meant approximating the Western model has begun to give way to a reversed convergence argument, in which Asian models are seen as the measure of modernity and efficiency.6

As I have argued above, however, the relation between cooperative capitalism, business groups, and economic efficiency is far more complex than these simple accounts suggest, and as the study of business groups in broadly unsuccessful economies advances, it will become harder (though it is never impossible) to sustain optimistic functionalist accounts of the kind quoted here.

What then should our agenda be in order to gain a deeper understanding of business groups? I suggest that a preliminary task should be to discuss under what circumstances federations of firms are viable, and continue to operate as federations rather than merging into a single entity.
This is important because many, though not all, business groups have the character of federations. By understanding the conditions of their viability, we will achieve some insight into where such business groups are found and how preponderant they are.

This important insight in itself, however, does not tell us much about the nature of business groups and exactly how they function. This requires that we examine the empirical literature on business groups and decide what are the main dimensions along which they vary. Having done so, we need to investigate the relations among these dimensions and the implications for economic and social outcomes.

THE PRELIMINARY TASK: FIRM SIZE AND CONDITIONS FOR FEDERATION

Whether a federation of firms is viable depends on a number of factors. The one I will most closely analyze draws on the substantial literature addressing what determines the size of firms, since whether a federation collapses into a single large firm depends in part precisely on whatever factors lead to larger rather than smaller firms.

The most popular arguments about firm size are what I will call contingency arguments, in which I include any assertions that there is an optimal size for a firm given specified features of its environment, including its technology, its market demand, and its transactions with other economic actors. Such an approach need not logically argue that firms will always be at this optimal size, only that they would do better, by some specific measure(s), if they were. Two contingency approaches well known to sociologists are those of economic historian Alfred D. Chandler and economist Oliver Williamson.

In three books (1962, 1977, 1990), Chandler has argued that under certain conditions, it has paid firms, especially in manufacturing, to become large, diversified, and professionally managed. The conditions are a technology and market demand affording substantial economies of scale and/or scope, where scope refers to making different products in the same production unit. Because these economies pertained also to distribution, firms needed not only to invest in new production facilities, but to integrate forward into distribution and backward into purchasing (1990, p. 28). Chandler argues that in industries where "owing to their technology, the optimal size of plant was small, where mass distribution did not require specialized skills and facilities, and where the coordination of flows was a relatively simple task—manufacturers had much less incentive to make the three-pronged investment in production, distribution and management. In the more labor-intensive industries . . . the large integrated firm had few competitive advantages" (1990, p. 45). Subsequent to integration, many firms discover that the most efficient organizational form to cope with the diseconomies of the large scale they have adopted is what he calls the multidivisional form, in which a general office is responsible for overall planning and coordination, and a series of profit centers, usually defined by product line but sometimes by region (as with large retailers such as Sears), operate with substantial autonomy.7

Chandler does not argue that firms always end up at optimal scale or form, but suggests that when they do not, it is the result of the failure of managers to see the situation clearly or of the operation of incentives other than profit maximizing, and is therefore predictive of a declining firm or economy; he gives no general account of such failure but makes specific arguments for particular settings. He asserts, for example, that "in Britain a large and stable income for the family was more of an incentive than the long-term growth of the firm. . . . Thus British entrepreneurs lost out in many of the most dynamic new industries of the Second Industrial Revolution" (1990, pp. 390–91).8

Chandler’s argument implies instability for organizational forms such as the federations and loose coalitions that characterize many business groups. In particular, he argues for Great Britain that such federations were wholly inadequate to the economic situation they faced, and for efficiency’s sake had to give way to large, integrated firms.

Oliver Williamson (1975, 1985) gives a more abstract account, based less on technology and consumer demand and more on the nature of transactions firms must engage in. He suggests that transactions that are uncertain in outcome, recur frequently, and require substantial transaction-specific investments of, for example, money, time, or energy not easily transferred to other uses are more likely to lead to hierarchically organized firms and vertical integration. Those which are straightforward, one-time, and require no particular investment—such as the one-time purchase of standard equipment—will be more likely to
occur between independent firms, that is, across a market interface. This is said to be so because the combination of bounded rationality and opportunism makes complex transactions difficult to manage between separate independent firms. Although Williamson's 1975 account pays little attention to organizational forms between markets and hierarchies, his later work is at great pains to set out conditions under which such intermediate forms may be viable (cf. Williamson 1985, 1991).

The Chandler and Williamson accounts are at variance with standard economic argument, and it may thus not be surprising that they have met some skepticism from those quarters. Much of Chandler's argument is premised, for example, on his casual assertions about the "minimum efficient scale" of operations for firms in particular industries. But in a detailed review of the literature and concepts surrounding these issues, Scherer and Ross show the many ambiguities surrounding the idea of minimum efficient scale, summarize considerable empirical evidence that efficiency in an industry is similar over a wide range of firm sizes, and tentatively conclude that "actual concentration in U.S. manufacturing industry appears to be considerably higher than the imperatives of scale economies require" (1990, p. 141). They note that empirical studies are equivocal as to the economic success of the multi-divisional form (1990, p. 105 n. 17), and point out that one of the main exemplars of this form described by Chandler, General Motors, has faced difficulties at least since the 1940s that may be associated with rigidities of organizational form (1990, pp. 105–6).

Indeed, one line of argument takes its point of departure precisely from these rigidities and suggests that under modern conditions, there may be substantial advantage in small, flexible firms bound together with similar firms in networks of cooperation that characterize some business groups. Although the surprising stability and predominance of small business units had been noted before (cf. Granovetter 1984), the most comprehensive explanation of this phenomenon was presented by Piore and Sabel's sweeping treatment of industrial history in The Second Industrial Divide (1984). They argued that mass production as a stable industrial form may have been a temporary interlude, brought on by a series of economic and political conditions that have now changed in a way that favors "flexible specialization."

Their argument is comparable to those of Chandler and Williamson in stressing contin-


gency, and is also reminiscent of the work of Joan Woodward ([1965] 1980), who asserted that small, flexible, nonhierarchical organizations are especially well suited for making products as units or small batches: Piore and Sabel claim that only under conditions where consumers will accept highly uniform goods can we expect to see the large, integrated industrial units celebrated by Chandler. Such acceptance is not guaranteed but historically situated, as in early nineteenth-century America, where "an affluent yeomanry—whose ancestral diversity of tastes had been erased by transplantation to the New World—was willing and able to purchase the crude standard products that early special-purpose machine tools turned out" (Piore and Sabel 1984, p. 41). The modern world, in their view, now faces a saturation of mass production markets: "By the late 1960s, domestic consumption of the goods that had led the postwar expansion had begun to reach its limits" (p. 184), and consumers, for a variety of reasons, began to crave highly differentiated products that could only with difficulty be made by the mass-production behemoths that dominated the previous scene, but for which networks of cooperating small units, as in the "Third Italy's" textile industry, provide just the needed flexibility (1984, chaps. 8–11).

The arguments about firm size and federation thus far summarized focus on the ability of units of different size to accommodate themselves to variations in technology, consumer demand, and market structure. But in most countries, the size of firms is a subject that has emotional and symbolic as well as rational and businesslike significance. In Japan, where the size of firms is strongly correlated with their economic and political power, a key indicator of prestige for individuals is working for a large core firm. This immense prestige differential by firm size may be one factor that has inhibited popular support for measures against large companies.

One such measure is legislation governing the permitted level of interchange between organizations and specifying under what circumstances merger is permitted. The impact of legislation is often unanticipated; thus, the Sherman Antitrust Act in the United States, though originally framed as part of a campaign against bigness, can be argued to have led to a merger wave because it forbade most coordination mechanisms among firms short of merger (Fleishstein 1990, chap. 2); similarly, the Celler-Kefauver Act of 1949, intended to prevent concentration within particular
markets, ended up encouraging conglomerate mergers because these did not fall within the purview of its logic (Fleigstein 1990).

Though some scholars treat legislative differences among countries as inscrutably linked to historical common law and differences in national culture (e.g., Chandler 1977, 1992), 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 units in competitive markets. But one study indicates that support had to be mobilized for such legislation, as it is in social movements. Sanders (1986) shows that most successful attempts to produce antitrust activity by the government resulted from regional conflicts, in which one region felt especially aggrieved by the economic power of large firms centered in others. Before the 1930s, antitrust was the policy of the nonindustrial states Sanders calls “peripheral,” as indicated by support from legislators in Congress. The general resentment of bigness as an Eastern establishment plot against the heartland was especially captured by the Populists, and is reflected in William Jennings Bryan’s 1896 “cross of gold” speech, initiating his unsuccessful bid for the presidency. By the 1970s, Sanders suggests, the tables had turned, and antitrust was supported by the old industrial states against the oil and gas behemoths of the emerging Sunbelt regions. In both cases, to the extent that cooperation among independent firms was legislatively discouraged, this outcome resulted from the ability of certain regions to mobilize support in a system of political institutions where a disciplined region can dominate the legislative process through careful building of alliances in the legislative branch, highly unlikely in most other democratic parliamentary systems (Sanders 1986, pp. 213–14).

More generally, it has been common in different periods and places for the size of firms to acquire symbolic value that elicits strong political action. In the United States, from the late 1930s to the passage of the Celler-Kefauver Antitrust Act in 1950, there was considerable discussion of the evils of bigness in the economic sphere. The Roosevelt-appointed Temporary National Economic Commission in the late 1930s argued strongly that large firms had too much control and threatened basic democratic institutions. By the late 1940s, the “issue of ‘bigness’ was firmly on the political agenda” (Fleigstein 1990, p. 167), and Harry Truman and his allies campaigned against it, identifying it with the evils of fascism and communism.

At times, the emphasis shifts away from the evils of the large to the virtues of the small. The symbolic imagery here relies on the idea that “small is beautiful” (Schumacher 1973) and that we should strive for “appropriate technology” (Lovins 1977). Democratic theorists in the 1960s stressed the salutary political implications of radical decentralization, and some of this flavor persists in the more analytical work by Piore and Sabel and their colleagues and students, on networks of flexible small producers. Smallness is of interest, however, only to those with communitarian aims; under some circumstances, it can become the program of businesses as well. Their purpose, however, is not to restore democracy or local decision making, but to restore lumbering giant firms to profitability. Thus, the initial interest in “downsizing” of firms has been accompanied by rhetorical flourish such as the quest to be “lean and mean” and to accomplish the process of “rightsizing.” Vonk’s recent empirical study (1992) of thirty-one large American corporations indicates that their reductions in work force do not appear to be tailored to any calculation of the marginal costs of labor in production or to targeting particularly expensive parts of the labor process; instead, the cuts seem to be carried out in similar ways across large numbers of firms in quite different circumstances, suggesting a process of imitation or “institutional isomorphism” (DiMaggio and Powell 1983), in which firms adopt practices that become standard in their reference group, so as not to appear backward or out of touch (see Meyer and Rowan 1977). Similarly, Fleigstein argues that once a strategy takes hold in the organizational field surrounding a firm, that strategy becomes highly legitimate and likely to be pursued; he suggests that vertical integration, diversification, and the move to product-unrelated (i.e., “conglomerate”) mergers were all affected by having become dominant strategies that appeared successful for some leading actors and were therefore adopted by followers with much less careful analysis than by the first movers (1990).

But it is not only analysts such as Chandler and Williamson who favor bigness in firms; at times, especially those of perceived national economic decline, there have been clearly identifiable social movements in favor of a large scale. Thus, a severe
economic downturn in Britain in the early 1920s led to a strong emphasis on the need to increase the average firm size, an emphasis that came to be part of the "rationalization" movement. Leslie Hannah notes that the "implication of rationality in the term 'rationalization' emphasized that industry could conform to ideas and values whose proponents were growing in confidence and strength in contemporary society, and in particular to the growing awareness of, and faith in, things scientific at the level of popular philosophy. Businessmen and statesmen accepted the common popular theme that advances in science and technology were giving men a growing control over the natural environment and pleaded for a greater recognition that the methods of scientific inquiry could solve social and economic difficulties also" (Hannah 1983, p. 32). By the 1930s, these ideas were a staple of discussion in many circles, and a "program of merger, interfirm agreements and 'scientific' management (in short of 'rationalization') thus became the common currency not only of a metropolitan elite of intellectuals . . . but also of businessmen who like to picture themselves as successful and hard-headed" (p. 34). In the 1960s, a similar view again gained currency, and the "vogue for restructuring", a term now widely used to denote mergers and the concentration of output in fewer firms, was popularized and was strongly reminiscent of the rationalization movement of the 1920s, both in the arguments used and in the oversimplifications to which its less intelligent advocates succumbed (p. 147). Both Hannah and Figstein indicate that despite the vogue for increasing size, the evidence does not support any particular advantages for it (Hannah 1983, pp. 153-56; Figstein 1990, chap. 8). Scherer and Ross suggest that "statistical evidence supporting the hypothesis that profitability and efficiency increase following mergers is at best weak. Indeed, the weight of the evidence points in the opposite direction" (1990, p. 174).

The use of such highly charged terms as rationalization and restructuring should signal that much of the content that will follow is symbolic, as emphasized by scholars of the "institutional" school of organizations. Whatever the symbolism and its aims, there seems to be good evidence that the choice between federation and consolidation is affected not only by economic contingencies, but also by symbolic discussions that are best analyzed as involving resource mobilization in social movements.

**Business Groups: Dimensions of Variation**

That conditions are met under which federations of firms may be stable provides an important necessary condition for their existence but does not help predict their form or functioning. Business groups in fact come in a wide variety of types, so much so that a more refined analysis may ultimately conclude that is too crude to lump them all into a single analytic category. I do so here as a first cut into the immense middle ground, which has been so little analyzed, between individual firms and the macroeconomic and macropolitical environment.

I begin by identifying what appear to me from my reading of the literature to be the primary dimensions along which business groups vary. Along the way, and especially at the end, I will venture some guesses about how these dimensions relate to one another and to a more general theoretical framework.

**Ownership Relations**

What perhaps strikes one most forcefully upon first immersion in the literature on business groups is the immense variation in the organization of firm ownership. By hypothesis, all business groups consist of firms that have independent legal existence. But in some groups, every firm is owned directly or indirectly, in the sense of a controlling interest being held, by a single individual or family, or a set of related families. This is typical of South Korean chaebol such as Hyundai, where twenty of the twenty-four component firms are at least half owned by the founder, Chung Ju-Yung, and his family, or indirectly owned through other companies that the family controls (Steers, Shin, and Ungson 1989, p. 37). This centralized ownership may be associated with highly recognizable groups such as Hyundai, Lucky-Goldstar, Samsung, and Daewoo in Korea, but also with larger numbers of smaller groups such as the 319 French groups studied by Encaaua and Jacquemin (1982), which had much lower public profiles and no presence in official statistical accounts. Common ownership, therefore, does not necessarily provide legal identity to the business group, though it links the firms in a strong indirect manner.

Ownership may be directly held, organized indirectly through a series of companies that hold...
the stock of other companies at successive levels, or through one or more holding companies that are typically not operating companies at all but are formed exclusively for the purpose of holding the stock of other companies; Mexican business groups, for example, are organized via holding companies (Camp 1989, pp. 174–92). It is not unusual for cross-stockholding arrangements to become extremely complex, involving whole series of nominee and trustee companies supported by dense networks of interlocking directorships, as for Chinese business groups in Singapore (Kiong 1991, pp. 188–89).

In the United States, the holding company was specifically sanctioned by state laws beginning with New Jersey in 1889 (see Chandler 1977, p. 319; Fligstein 1990, p. 58). Before 1889, a special act of a state legislature was necessary any time a company wanted to hold the property of another company. Historically, the extent of central control exerted over firms by holding companies owning their stock has been extremely variable.

Wherever businesses are organized as joint-stock companies, some variant of the holding company is feasible as a device for organizing a formal federation of firms, typically in a single industry, that formalizes cooperation but stops short of full integration. Chandler offers the example of the British holding company Imperial Tobacco, formed at the turn of the twentieth century, which was Britain’s largest industrial enterprise by the late 1940s. It began as a federation of sixteen firms whose structure was, according to one executive, “not unlike that of the Thirteen States of America, who, when the Federal Constitution was first adopted, gave the central government as little authority as possible and retained as much as they could in their own hands” (Chandler 1990, p. 247). This federative quality remained in place until the 1960s, with each firm doing its own advertising and competing with one another “for market share decorously through the years” (p. 248). Chandler suggests that such arrangements, typical in this period, were intended to preserve the personal management of British firms by the families of their original owners, against the possibility of (what he considers the more efficient form of) fully integrated firms run by professional managers trained in engineering or business.

An interesting variant on these themes is a holdover from British colonialism—the “managing agency system,” which dominated Indian business groups until the government abolished the system in 1969 (Encarnation 1989, p. 45). In this system, each participating firm signs “a management contract with a managing agency which runs the companies” (Strachan 1976, p. 40). This is quite different from the “central office” of Chandler’s ideal-type multidivisional form, in that the agency is under contract to manage independent companies; it is also different in principle from a holding company, which holds the stock of group firms. Encarnation indicates, however, that in practice, “equity ownership among companies became linked, and sophisticated systems of interlocking directorates maintained operational control over a large number of companies” (1989, p. 45).

At the other extreme, many groups have no ownership links. Typical of this situation are the networks of small to very small textile firms that have evolved elaborate systems of cooperation and division of labor in the so-called Third Italy (e.g., Lazerson 1988). There appears to be a correlation between the size of firms in business groups and their ownership relations, since firms too small to be organized as joint-stock companies, usually single proprietorships, are more likely to be organized as coalitions of the owners, avoiding complex ownership arrangements across firm lines.

An intermediate case in which stockholding is mostly confined within business groups but is comparatively symmetrical, so that ownership is dispersed rather than concentrated, is the Japanese pattern in which no new firm is founded to hold stock but members of a group hold one another’s stock. Gerlach points out that such “crossholdings” do not serve narrow economic rationality; rather, their purpose is, in the phrase of Japanese businessmen, to “keep each other warm”: “Share crossholdings among group companies create a structure of mutually signified relationships, as well as serve as a means of protecting managers from hostile outsiders” (1992, pp. 76–77), since the large blocks of shares mutually held are rarely traded and are thus removed from public trading where they could be manipulated for the purpose of takeovers and buyouts, as in American financial markets.

**Principles or Axes of Solidarity for Business Groups**

What distinguishes business groups from collections of firms united by, for example, common financial origins, as in American conglomerates, is
the existence of social solidarity and social structure among component firms. It thus becomes of interest to what extent the underpinning or principles of such solidarity are clearly identifiable, by such factors as region, political party, ethnicity, kinship, or religion.

Leff suggests that members of business groups are generally “linked by relations of interpersonal trust, on the basis of a similar personal, ethnic or communal background” (1978, p. 663). Perhaps the most basic such element is kinship. Arguments about the role of family in economic life have progressed from the midcentury “modernization theory” view that the economy could not grow until such diffuse principles as kinship were separated and differentiated from economic activity, to a recognition that families brought certain advantages to firms that made them more viable under some circumstances (e.g., Ben-Porath 1980). Because the comparative advantage of families in economic life rested on strong trust, however, and because it was assumed that this trust did not guarantee technical or managerial expertise, this vote of confidence in the role of families in the economy was limited.

Yet, as Wong indicates, it is “not hard to find exceptions to the generalization that family firms are limited in scale and tend to be impermanent” (1985, p. 62). Close scrutiny of the way business groups are integrated amply confirms this comment. In many settings, large groups are thoroughly dominated by one or two families. In the Korean chaebol, this is not only a matter of family ownership but also of management. Steers et al. (1989) indicate that in the top twenty chaebols, 1 percent of the executive officers were family members, and that core managerial positions in nearly all the companies belonged to family members” (pp. 37-38). It is often asserted that in large companies or groups, the family is bound to be the control because there are just so many members to go around, but this underestimates how effective families can be at placing their members strategically. In one chaebol, Lucky-Goldstar, the absolute number of family members per company may be small but the power of these members is quite strong” (Steers et al. 1989, p. 38).

Alfred Chandler, among others, has suggested that keeping family members in key managerial positions is a recipe for failure, since expanding firms, especially in technologically complex capital-intensive industries, desperately need professional management to coordinate economies of scale and scope (Chandler 1977, 1990). But this argument assumes the inability of families to produce technically sophisticated management. Kim (1991) observes that while the “share of professional managers in the chaebol has increased in recent years, the more important trend is the professionalization of family members. The sons and sons-in-law of the chaebol owners are educated as professional managers; often they are sent to the United States to earn MBAs from prominent business schools” (pp. 276-77; see Kiong 1991, p. 189, for a similar observation on Chinese business groups in Singapore).

In countries with businesspersons of an ethnic minority, this ethnic status is often a source of solidarity within business groups, supplementing that of pure kinship, since it binds the members of the central family to other key employees. Whether it is Chinese in Thailand (Phipatseritham and Yoshihara 1983), Palestinians in Honduras (Gonzalez 1992), Lithuanians in Brazil (Evans 1979, p. 108), Pakistanis in Manchester (Werbner 1984), or Indians in East Africa (Marris and Somers 1971), ethnicity provides an axis of differentiation along which members can build trust.

Region and ethnicity may intersect to create geographically bounded solidarities of the kind referred to as “ethnic enclaves,” such as Cubans in Miami (Portes and Manning 1986). Some groups, such as those linking small apparel firms in Italy, are quite localized, so that geographic contiguity and the resulting networks of personal contact help to integrate the units. Ties of formal organization or political party may serve equally well; all that is needed is some cognitive hook which actors may hold on to in order to construct trust relations at higher intensity than with those outside the category.

A significant axis of solidarity is foreign status for individuals who mediate significant capital flows from abroad. This can be illustrated, for example, by the pattern that Evans (1979) calls “dependent development.” In Brazil, nearly all the major business groups formed after World War II were foreign (p. 110). Because Brazilian-based groups remain strong in finance and in their links to the state, foreign-based groups “with partners embedded in the local social structure have a special competitive advantage over those which lack such partners” (p. 162). In a noncolonial context, where access to local resources and political favors is crucial, this division of labor cements what Evans calls the “triple alliance” among Brazil’s government, local elites, and foreign capital; it
also produces a model of the economy more complex than early versions of "dependency theory," in which foreign domination was complete and unchallenged. Evans suggests that the pattern of dependent development is especially pertinent for Brazil, Mexico, Argentina, Venezuela, Colombia, Philippines, and India (p. 295).

In a purely functional sense, the axis or principle of solidarity for a business group is irrelevant, so long as it enables mutual trust to proceed and the group to continue in existence. But in order to analyze the future course of events for particular business groups, one must know what glue holds them together before one can guess what events and trends will act as solvents. Thus, business groups bound by ethnicity, especially if immigrant ethnicity, are always vulnerable to periods of jingoistic enthusiasm and corresponding demands that the economy be returned to control of indigenous actors; in such cases, we may expect to see a trend toward alliance of groups to powerful factions in the government or military (for Chinese groups in Thailand, see Skinner 1957, pp. 349-50, 360-62; for Indonesia, see Coppell 1983; Robison 1986). Those bound by foreign capital are affected by trade balances, international currency movements, and the growth of protectionism. Regionally based groups may rise or fall in their influence as their region is more or less central in the national government. And this is true a fortiori for groups based on political party.

In part because of these vulnerabilities, leading actors in business groups normally try to avoid relying on a single axis of solidarity. One of the reasons Indian business houses (the local term for groups) have been such a persistently powerful force in the economy is precisely their multiple bases of solidarity; Encarnation notes that in "each of these houses, strong social ties of family, caste, religion, language, ethnicity and region reinforced financial and organizational linkages among affiliated enterprises" (1989, p. 45). In addition to seeking more such axes, it is common for these actors to try to formalize relations that have been supported mainly by informal sanctions; this may be the origin of some holding companies, as in Nicaragua (Strachan 1976, pp. 10, 17), and a reason for the persistence of India's "managing agency" system.

Another mechanism for binding firms together, which may be found in conjunction with any or all of the above, is the interlocking directorate, in which group companies have common members on their boards of directors who may help coordinate group activities. Of all the types of solidarity described, interlocking directorates have been the subject of the largest literature (see, e.g., Mintz and Schwartz 1985; Stokman, Ziegler, and Scott 1985; Scott 1987). Much of this literature is quantitatively sophisticated, but in part because there is so little hard information on exactly what corporate directors do, the exact role of interlocks remains in dispute. Strachan warns against taking interlocks as a fundamental definitional feature of business groups, noting that "membership on the board of directors is far from synonymous with inclusion in the group," and that even a firm ban on interlocks "would not destroy nor even seriously impair the important group relations and patterns" (1976, p. 18).

Authority Structure: Vertical versus Horizontal

Another fundamental way business groups vary is in the extent to which they are organized by a set of hierarchical authority relations of the sort that Max Weber called imperative control. As a first approximation, business groups may be divided into those which are strongly coordinated in this way and those which are composed of more or less equal partners. The feudal component of Weber's term *Herrschaft* is partially reflected, for example, in the Korean chaebol, which Biggart describes as an example of "institutionalized, patrimonialism." For each such group, one family owns all the firms and rules autocratically; Biggart indicates that "consensus is neither sought nor desired" (1991, p. 2). Steers, Shin, and Ungson (1989, p. 47) indicate that "Korean CEOs are seldom challenged, however politely; their decisions are absolute."

The feudal metaphor is less appropriate to describe the general lack of mutual obligation in the vertical relationships. There is thus little in the way of lifetime employment in Korea (compared to Japan), and employees may well be fired arbitrarily upon an assessment that they have not met desired goals (Biggart 1991, p. 34). Each chaebol was built by an entrepreneur who came to regard it as his own sphere of authority. There is some variation in the degree of professional management, but typically the chairman appoints sons, brothers, and sons-in-law to top positions in the firms. Perhaps on account of this strongly authoritarian pattern, rivalries among chaebol are "deep and even acrimonious.... The familialism of modern South Korea often entwines with regionalism.
and clan rivalries between the chaebol; indeed, it is difficult to separate rivalries on these two dimensions because each clan is associated with a region, and within a region, with a town or city” (Biggart 1991, pp. 2, 28). The competition is so bitter that members of one group will not buy from the other, even if it is the cheapest source, and an American firm that does business with one will not be able to do so with its rivals (Biggart 1991, p. 30). Group feeling is so intense that, according to Amsden, one of the two major automakers “does not allow anyone driving the other’s car to enter its parking lot” (1989, p. 130).

In some other countries, the components of business groups are on much more equal footing. In Japan, firms within a group, though legally independent, are coordinated in a variety of ways, such as mutual stockholding, president’s councils—in which firm’s leaders meet periodically, trading companies that serve an explicit coordination role especially for but not limited to primary goods (cf. Yoshino and Lifson 1986)—and financial organizations, mainly banks, which serve as financial anchors within, especially, the intermarket groups. O’Ri, Biggart, and Hamilton suggest that while “there are clearly more important and more influential firms within enterprise groups, the decision-making unit is the group, and command is exercised not by fiat but by consensus. Decisions are made considering what is best for the collectivity, not simply for individual firms, however powerful” (1991, p. 387).16

The literature on “flexible specialization,” in its special concern with the evolution away from dominant large firms in an industrial sector to networks of small producers, also is highly oriented to the issue of power structure among related firms. Many proponents of this industrial path are ideologically committed to the proposition that the egalitarian association of large numbers of small producers is inherently more democratic and desirable than the imperceptible control of large firms in a corporatist model of economic and political governance.

The horizontal/vertical dimension refers to governance within a business group. The case of Japan already indicates that this dimension need not characterize all the business groups in a country, as both horizontally and vertically oriented groups may coexist. In this respect, the overall picture of business groups within a country shows itself as a special case of all social structures and institutional spheres, since a standard element of institutional analysis is to sort out the distribution of horizontal and vertical relationships. An interesting subsidiary question then arises: To what extent is the existing set of business groups mutually exclusive as opposed to overlapping in membership? In Japan, for example, there are firms that participate in more than one group, and some are simultaneously in horizontal and vertical groups. Overlap among groups would be quite uncommon in Korea, and relatively less common in most Latin American countries. The extent and nature of overlap is important in business networks as in any other networks, and bears heavily on the extent to which cooperation can be produced over large sectors of the economy, without the intervention of government. Causal direction is not asserted here; cooperation is both cause and effect of overlap. This may help explain why in matters of industrial policy, the Japanese government, though highly active, plays more of an advisory role than does the Korean government, which guides the economy more firmly.

This hierarchical dimension is related to the historical issue of how a business group was formed. In his history of American management, Alfred Chandler has commented that the “modern industrial enterprise followed two different paths to [large] size. Some small single-unit firms moved directly into building their own national and global marketing networks and extensive purchasing organizations and obtaining their own sources of raw materials and transportation facilities. For others, mergers came first. A number of small, single-unit family or individually owned firms merged to form a large national enterprise” (1977, p. 286).

A similar distinction can be made concerning the origins of business groups. At one end of the spectrum are groups that originated in a single firm that grew powerful by setting up, investing in, or making arrangements with other firms legally unaffiliated but informally connected to them. In such cases it is clear which person or family is the founder of the business group (which then often—though not always—bears the family name). A case in point is the Mitsubishi group in Japan, originating in a shipping company founded in 1873 by the entrepreneur Iwasaki Yataro. Once established as the dominant force in Japanese shipping, Mitsubishi made substantial investments in mining, electrical engineering, dairy farming, real estate, and banking, becoming by the First World War one of the two largest zaibatsu (Wray 1984).
By contrast, some business groups are founded over a period of time as the outcome of alliances among a set of leading families, each seeking to extend the reach of its investments and activities. Many Latin American groups seem to have originated in this way, though the few existing historical accounts are sketchy. Srachan recounts the origins of the powerful Banco Nicaragüense group in the early 1950s: "Pluralistic composition was a deliberate objective. . . . an effort was made to bring into the promoting group wealthy businessmen from the different geographical areas of Nicaragua, from different sectors of the economy, from different political factions, and from different families. To avoid the disproportionate influence within the group of any one faction, the promoters agreed to adopt a policy of limiting the ownership interest of any single person or family to no more than 10 percent" (1976, pp. 15-16). It is my guess that this process was unusually self-conscious, that alliances which form business groups are more typically spread over time, and that the groups grow by accretion. That one should need to guess, however, suggests the paucity of literature on the growth and evolution of business groups.

In general, groups originating from a single focal firm are likely to be more vertically oriented, at least at the outset, whereas those formed from a coalition of roughly equal parties will have a much more horizontal character. But whether groups maintain their original configuration of vertical and horizontal ties depends on how this configuration meshes with the rest of their institutional environments over long periods of time, and so must be considered problematic and thus deserving of closer investigation.

**Business Groups and Moral Economy**

Another important dimension of how business groups function can be framed around the concept of moral economy, first developed by the English historian E. P. Thompson in a landmark 1971 paper, "The Moral Economy of the English Crowd in the Eighteenth Century." In this paper, Thompson describes the collective action of eighteenth-century villagers to affect the price of grain. It was economically rational for those growing or marketing grain or bread to seek the best possible price, but local populations took violent exception to this action if it meant a high price in bad times or that grain or bread would be sent outside the area to maximize profit.

Thompson shows that violent corrective action was common in eighteenth-century England, and emphasizes that it was orderly and organized rather than spasmodic or nonrational. But the part of his argument that has led to the most controversy is the claim that such action was animating not merely by hunger or desperation, but also in large degree by a conception on the part of villagers of what minimal moral standards must be met by local economic processes—what he called the "moral economy" of the crowd—and that conception that it was "unnatural" "that any man should profit from the necessities of others and . . . that in time of dearth, prices of 'necessities should remain at a customary level, even though there might be less all around" (1971, p. 132).

Thompson notes that violence was of course triggered off by soaring prices, by malpractice among dealers, or by hunger. But these grievances operated within a popular consensus as to what were legitimate and what were illegitimate practices in marketing, milling, baking, etc. This in its turn was grounded upon a consistent traditional view of social norms and obligations, of the proper economic functions of several parties within the community, which taken together, can be said to constitute the moral economy of the poor. An outrage to these moral assumptions, quite as much as actual deprivation, was the usual occasion for direct action. (1971, pp. 78-79)

The issue of whether, when, and to what extent economic action is the subject of general social agreements about what moral standards it must meet has, after Thompson's contribution, come to be known as the problem of moral economy. Although even the briefest reflection easily confirms that modern economic transactions are bound by normative restrictions (so that it is virtually never permitted to sell babies, bodily organs, or political favors, and only sometimes blood—see Walzer 1983; Tittmuss 1971), the debate over moral economy has been conducted in an acrimonious way, with one side insisting on the wide importance of the concept and the other on its unimportance (see, for example, the sharply contrasting views of Scott 1976 and Popkin 1979 on the moral economy or lack thereof of Southeast Asian peasants during the twentieth century).

For business groups, my intention here is to make moral economy a variable, by asking for given groups to what extent their operations presuppose a moral community in which trustworthy behavior can be expected, normative standards
understood, and opportunism foregone. I suggest, for example, that cartels, an organizational form that is highly vulnerable to cheating on the part of even a few members, and where comprehensive monitoring is normally too expensive to pay off, are unlikely to succeed unless their members partake of some moral economy. This is contrary to the usual analysis based entirely on economic or legal incentives. Chandler, for example, argues that cartels were bound to fail in the United States because they could not be supported by legal action, and became largely illegal with the Sherman Act of 1890 and subsequent judicial interpretations of that act.

But his own account indicates that most cartels had failed in the United States well before the Sherman Act, and that a main cause for this failure was the presence of renegade speculators like Jay Gould, who were outside the social and moral community formed by other cartel members, and who therefore felt free to abrogate pooling and other agreements. These actions forced businesses to a larger scale of integration than would have been necessary had these agreements been maintained (Chandler 1977, chaps. 4–5). Similarly, it was a Silesian prince whose actions sank the Rhine-Westphalian Pig-Iron cartel in 1908, perhaps because he was not socially accountable to elites in a different region (Maschke 1969, pp. 236, 245). Some German cartels, on the other hand, survived even in the face of economic disincentives (Peters 1989). I suggest that the key here is to understand the social structure of the two different situations that facilitated a moral community in one but not the other. This issue goes beyond material incentives and requires a distinctly sociological analysis.

More generally, among business groups the world over, there are clear demarcations in the extent to which members see themselves as part of a moral economy. Descriptions of groups such as the Korean chaebol, for example, give the impression that action is not oriented to any set of normative standards or mutual obligation, but rather to profit maximization by the exercise of relatively unopposed power from the top. It does not follow that hierarchically organized groups never participate in a moral economy. Indeed, much of the development of the idea has stressed noblesse oblige—the obligations assumed to go with a powerful position in many social systems, including but hardly limited to feudalism (cf. esp. Scott 1976). This appears to be characteristic of Japanese vertical business groups, about which Orró, Hamilton, and Suzuki comment that “domination is not embedded in or legitimized by the right to command. Rather, control is most of all ... a matter of adhesion to one’s own duties as prescribed by role positions. No single firm, however powerful, is exempt from duties; top financial institutions and industrial firms are bound by role expectations as much as the smallest subcontracting firm in the organizational hierarchy” (1989, p. 565). For Nicaragua, Strachan indicates that many of his interviewees “signaled ‘loyalty and trust’ as the main characteristics of a group... This group characteristic of mutual trust helps distinguish business groups from other associations, such as the Nicaraguan Chambers of Commerce and Industry” (1976, p. 16).

The concept of moral economy presents troublesome measurement difficulties, but most observers agree that its elements are extremely important for group functioning. Strachan comments, for example, that mutual trust is “an essential ingredient if the group is to achieve the close coordination of economic activity which results in a meaningful concentration of economic power” (1976, p. 16). Particularly vexing is the need to separate out the idea of moral economy from behavioral indicators that are consistent with a purely economic-incentive driven account. That is, most economic theories of trust and solidarity argue that people act in a trustworthy way, or object to the action of others, when this is in their economic self-interest. Concerns about how a bad reputation may affect future business, for example, may go far toward ensuring action that appears to meet moral standards, but is not actually motivated by adherence to those standards. In situations where economic action attributed to shared normative beliefs is also consistent with the economic self-interest of actors, even in the presence of expressions of the beliefs in question, rational choice theorists and economists believe that it is more parsimonious to omit actors’ ideas about proper action as a causal variable, on the grounds that the behavior would have occurred in any case. In effect, they make use of William James’s aphorism that “a difference isn’t a difference unless it makes a difference.” If we have little way of partitioning the variance between the causal efficacy of ideas and of interests in situations where they overlap, but there are indeed circumstances where the existence of a moral economy should make a difference—where actors should behave in ways that could not be predicted by knowledge of their economic and material
incentives alone, if they in fact share beliefs about the proper conduct of economic affairs. The demonstration that this does in fact occur would be strong evidence for the value of this concept, and would help us see where it has its main significance.

Finance, Capital, and the Role of Banks in Business Groups

Patterns of ownership, of solidarity, of authority, and of the extent of moral economy all have to do with the internal structure of business groups. In addition to these, we need to know a great deal about how such groups operate in their economic environment. In this section I will discuss briefly the way business groups relate to the mobilization of capital, and in the next, where they stand in relation to the state.

Economists' interpretations of business groups, as indicated earlier, often cast them as functional substitutes for capital markets. While this is too narrow a view in general, it is true that many well-defined business groups have the acquisition, distribution, and investment of capital as one of their main activities. In the "natural history" of business groups, those which begin with no affiliation to financial institutions usually form or acquire a bank early on, in order to assist in accumulating capital for group members from a wide variety of outside sources (Leff 1978, p. 664).

In a study of banks in early American history, for example, Lamoreaux notes that since the 1600s, "New England merchants had operated through complex kinship-based financial alliances. It was inevitable that, with the multiplication of bank charters in the early nineteenth century, these alliances would seek to further their own interests through banks. Major kinship groups ... each controlled several banks in their respective cities" (1986, p. 652). The original organization of business groups by kinship had the disadvantage that "sources of capital accumulation were restricted mainly to members of the kinship group, making it difficult to raise the sums necessary for financing large-scale industrial enterprises. . . . Banks tapped the savings of the surrounding communities and thereby expanded the capital resources available to the groups" (p. 653). In early nineteenth-century New England, then, banks "did not operate primarily as public-service institutions. Their main purpose was to serve as the financial arms of the extended kinship groups that dominated the economy" (p. 659).

Lamoreaux highlights the role of banks in allowing business groups to overcome the limitations inherent in kinship-based firms: "Without banks, kinship groups would have been forced to depend largely on their own resources to finance investment. This . . . would have restricted ventures of any size and importance to the most well-endowed groups. The multiplication of banks in the first half of the nineteenth century enabled families lacking adequate resources of their own to compete in the industrial arena, which in turn gave the economy its particular vitality" (p. 666).

This statement can serve as a commentary on why most business groups internalize banking functions early in their history.

Even in the mid-twentieth century, when American business groups were more difficult to identify clearly than those in many countries, banks and insurance companies (which serve similar financial functions) remained quite central in the economic structure. Mintz and Schwartz found that of the twenty American corporations with the most director interlocks in 1962, seventeen were financials (1985, p. 150). Banks are especially central in interlock networks of regional firms. The "dense interchanges [of directors] among regional companies . . . reflect long-term business relationships among local elites, one expression of which is board interlocks. . . . Every serious study of a major metropolitan area has discovered tight interlock networks with banks as the central nodes" (pp. 195, 196). It is interesting that whereas in many countries business groups cut across regions, the most clear-cut American cases seem to be mainly regionally defined. This must have to do in part with the size of the United States and the sheer number of substantial cities, each with its own regional identity, at least as much as with the alleged individualism of national character and restraints of antitrust legislation. Certainly there is little pressure for regionalization of business in a small, homogeneous country like Japan. There is a great need for more attention to the role of space in structuring business relations, and the mechanisms by which this structuring occurs.

Business Groups and the State

Because business groups are more powerful actors than single firms and can translate their oligopoly power into political capital (cf. Leff 1979b), the nature of the relation between such groups and the state must be considered. This
relation is of concern not only in understanding problems of power and public policy, however, but is often central in sorting out why business groups exhibit the form, characteristics, and behavior that they do.

There is no theoretical reason why business groups might not evolve largely independent of state influence, or at least with an identity quite distinct from and at times in conflict with that of political elites, as in Mexico (Camp 1989). On the other hand, it is common for states to be so enmeshed in the world of business groups that key actors within the state themselves form their own firms and business groups, which function by and large similarly to others, though of course with much better political connections, like the Somoza group in pre-Sandinista Nicaragua (Strachan 1976, chap. 2) and the groups dominated by the Suharto family in Indonesia (Robison 1986, chap. 10). Groups may also be dominated by fractions of the state apparatus, as are the military-owned business groups of Indonesia (Robison 1986, chap. 8).

The general orientation of the state toward economic development and business interests is likely to shape the structure of business groups. In the United States, even the somewhat inconsistent enforcement of antitrust laws has discouraged routinized cooperation among sets of firms (Fligstein 1990). An attitude of general encouragement and coordination, on the other hand, by the state has facilitated Japan's extensive systems of cooperation.

Evans suggests arranging states in less developed countries on a continuum from what he calls "predatory" to "developmental," the former mainly concerned to extract resources from the economy for its own purposes, and the latter committed to supporting economic development. A fully predatory state such as Zaire, described by Evans as "kleptopatrimonial" (1989, 576), is unlikely to permit any serious economic development, as it undercuts the possibility of systematic capital accumulation. States with weak patrimonial overtones but with less single-minded devotion to extraction, however, may foster weak but nonnegligible business groups. This appears to fit the situation of Indonesia during Sukarno's rule, from 1949 to 1965. During this period, business groups were organized around state-granted monopolies embodied in exclusive import licenses, foreign-exchange credits, government contracts, and state-bank credit. (White 1974) gives a similar account of the origins of business groups in Pakistan.) What distinguished this situation from one of pure rent seeking on the part of business from public funds was the active participation of government and military officials and party officers in setting up business groups of their own—what Robison calls "politicaleconomic empires"—to take advantage of their obvious ability to secure government favors. The weakness of nonpolitical groups in such a setting lies in their inability to subsist without government support, and indeed, after the fall of Sukarno and other patrons, "many of the most prominent indigenous business groups also collapsed" (1986, p. 91).

The case of Korea under Syngman Rhee, from 1948 to 1960, is similar in that a few favored business leaders and groups received enormous benefits from the government, derived especially from the large amounts of foreign aid directed to South Korea during this period. Many firms received large "loans" on which they paid neither interest nor principal (Amsden 1989, p. 39). The state was a relatively weak partner in these arrangements, and although economic growth was strong for a time, by the end of the 1950s the economy was deeply depressed (p. 40).

One outcome of patrimonial states with large to bestow seems to be that business groups emerge that are substantial and centralized, in order to take systematic advantage of the situation in a way that would be more difficult for smaller firms or groups. Robison suggests that in Indonesia, the persistent need to gain protection from generals has pushed business groups in the direction of becoming large conglomerates "clustered around centers of politicaleconomic power" (1986, p. 267), especially for the important Chinese-owned groups in the Suharto period; these had special need of political protection on account of being always subject to popular discontent based on resentment of an ethnic minority dominating the economy.

In the Korean case, when Syngman Rhee was overthrown in 1961 in a military coup by General Park Chung Hee, one of the government's first official actions was to arrest the now-millionaire businessmen who had profited so extravagantly under Rhee and threaten them with expropriation of their assets. Having placed them in this desperate situation, Park was then able to pardon them on the condition that they participate in a major push toward economic development. General Park favored long-range planning and large enterprises, and from his position of strength, presided...
over the expansion of the chaebol that now dominate the economy. In this situation, weak and dependent business interests, brought to their knees by the fall of their previous patron, had little choice but to follow the policies prescribed by the military regime, which provided most of the funding but, unlike in the earlier period, demanded strong economic performance (Jones and Sakong 1980). This is another case where many of the groups’ characteristics—large size, diversification, especially into heavy industry, and highly centralized leadership—were either mandated by the state or were necessary in order to cope with its demands.

Orrù suggests that after the Second World War, the French government embarked on a program similar to that of General Park, to “nurture the growth of large, internationally-competitive conglomerates” (1993, p. 9). As a result, “family-owned business networks and densely networked public and private holding companies are the dominant organizational forms in the French economy” (p. 15), which historically had been dominated by small to medium-sized firms and moderate-sized holding companies.

**Discussion**

The six dimensions along which I have suggested business groups vary are somewhat independent of one another, in ways that require theoretical elaboration. The strong empirical correlations among dimensions that we might expect to see often elude us; for example, centralized ownership of group firms does not predict well to a clear vertical authority structure, because this correlation depends upon the historical context in which the ownership was established. For the Korean chaebol, the vesting of large sums by government in single entrepreneurs to control numerous firms facilitated an authoritarian structure. But for many British groups of the early to mid-twentieth century—like British Tobacco, which controlled the stock of sixteen firms—centralized ownership by the holding company reflected an agreement to concentrate some functions while preserving maximum independence for the families controlling component firms (Chandler 1990, pp. 247–48). Where ownership is dispersed or symmetric, however, it does seem safe to suppose that authority will be weak and ties mostly horizontal.

The existence of strong moral economy in a business group mostly likely follows from a substantial level of internal solidarity and cohesion that must include strong horizontal ties and may or may not be accompanied by strong vertical coordination; existing studies barely scratch the surface of this difficult question. Most business groups do display some level of moral economy, however, and it may well be that the inability to generate such a normative structure will leave its mark mainly in the absence of business groups where one might otherwise expect them. In much of Southeast Asia, for example, this may explain why leading business groups tend to be Chinese rather than indigenous, since overseas Chinese social organization has the cohesion that escapes local business (cf. Geertz 1963; Granovetter 1992; Kiong 1991; Robison 1986). As Robison (1986) notes for Indonesia, this pattern has the important political consequence that the most powerful business interests, which in other settings might become the core of a politically autonomous middle class, are fundamentally dependent on the government for protection against recurrent xenophobia and are unable to unite with indigenous business, which sees them as ethnic competitors.

The role of the state is important in shaping ownership, authority structure, and relation of groups to financial institutions. It appears that states play especially strong coordinating roles where business groups are largely in competition with or simply separated from one another, so that there is little opportunity for any sense of the national interest to emerge vis-à-vis that of particular groups. Korea is a type-case of such strong coordination, and it may be, correspondingly, that the lower level of direction provided by government in Japan has to do with the greater ability of Japanese groups to link up with one another and negotiate common problems, compared to those in Korea.

There is of course no guarantee, outside optimistic functionalist accounts, that the correct level of coordination will be supplied either by government or business groups. But where this occurs we may expect to see better economic outcomes. I have already suggested that selection bias has confused us into thinking that interfirm cooperation within East Asian business groups leads automatically to economic success. But in world-historical perspective, such cooperation is common, while economic success is not. This points to a need for a theoretical argument that
addresses not only the internal characteristics of business groups, but how these mesh with their institutional context, and attempts to specify what institutional combinations work best. When states and business groups taken together provide a degree of coordination that balances private, sectoral, and national interests, aggregate economic performance as well as distribu-

Notes

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tion conference, where the authors of papers for this Handbook gave one another large doses of excellent advice.
1. See Coase 1991 for an account of how this question occurred to him.
2. I believe that this is typically a reasonable account of what trade associations do. But under some circumstances, they may become involved in day-to-day operations and thus take on somewhat of the character of a business group; see, e.g., Herrigel 1993.
4. In a later article, Chandler suggests that “the Japanese experience illustrates ... a convergence in the type of enterprise and system of capitalism used by all advanced industrial economies for the production and distribution of goods” (1984, p. 156). But few detailed studies of Japanese industrial organization would appear to support such a claim. See, e.g., Gerlach 1992.
6. For a scholarly account of reversed convergence ideas in the area of labor relations and worker commitment to firms, see Lincoln and Kalleberg 1990, and my review of this book (Granovetter 1990).
7. For a persuasive argument that Chandler’s account does not logically imply the need for divisions defined by region, see Stinchcombe 1990, chap. 4.
8. The causes of British failure, and whether the British did in fact fail in any meaningful way, given the conditions they faced, is a favorite topic of economic historians, though Chandler gives little hint of the depth of controversy. For arguments against the “failure” hypothesis, and some vigorous debate, see McCloskey 1981; a recent set of essays is Elbaum and Lazonick 1986. A similar argument about family values leading to an inappropriately small size for many French firms, and thereby inhibiting economic growth, was made in 1951 by David Landes, but has subse-
sequently been embarrassed by the remarkable growth of the French economy since that period; several analysts have suggested that the small size of firms was actually quite appropriate under the circumstances. See Levy-Leboyer 1976; Nye 1987; and Adams 1989.
9. For an extended discussion of Williamson’s “markets and hierarchies program,” as presented in his writings before 1985, see Granovetter 1985.
10. It is worth mentioning that Sears, Roebuck, making up with General Motors two of the four cases discussed in Chandler’s classic 1963 treatment of the advantages of the multidivisional form, has also been widely criticized for its cumbersome organizational structure and slow response to problems, leading to increasingly lackluster performance.
11. But their full argument differs sharply from that of other contingency theorists in the loose coupling they see...
between external conditions and organizational form, mediated by the actions of political institutions and by complex strategies of decision makers trying to find their way among constraints, and to reshape those constraints. This distance from contingency theory is even clearer in the recent paper by Sabel and Zeitlin (forthcoming) than in the Sabel and Piore volume.

12. Fliedner points out that the "language of the Sherman Act caused the Justice Department to focus on conspiracies in restraint of trade. Thus, actions that took place between firms were much easier to prosecute than actions involving only one firm" (1990, p. 94).

13. This is already less precise than it sounds, since the phrase "controlling interest" has itself become an emotive term, and there can be serious differences among analysts as to what proportion of stock must be held before control is ascertained. This is the issue that has for so long divided American analysts into "managerialists," who argue that stock is so widely dispersed that managers control most large firms, and "elite" theorists, who assert that although leading families may control only 2-5 percent of stock, this is typically the largest block and therefore can be used to exercise control (e.g., Zeitlin 1974).


15. "Imperialist control" is one of Talcott Parson's renderings of Weber's term Herrschaft, which he more typically translates as "authority," as in the "types of legitimate authority." Guenther Roth, in his translation of the same passages, prefers "domination." See the discussion in Parsons's translation of Weber (Parsons 1947, p. 152 n. 83) and in that by Roth and Wittich (Weber [1922] 1978, p. 68 n. 31). Roth, in this latter discussion, points out that the term Herrschaft historically originates in the medieval period, as well as upon their position in the social hierarchy, as well as upon their particular agreements with subordinates (cf. Bloch [1939–40] 1961). All of these elements capture part of what I mean to convey here.

16. Such a sweeping generalization naturally must be treated with caution. It applies more readily to the large, bank-centered intermarket groups than to the vertically organized, single-industry keiretsu, and better to the various groups than to others. It is usually thought, for example, that the relatively new (late-nineteenth-century origin) Mitsubishi group is much more hierarchically organized than the much older Mitsui group (dating to 1615), known for its "individualism" (see Gerlach 1992, pp. 87–88).

17. Of course it is problematic whether one should accept the pursuit of self-interest as some sort of fundamental null hypothesis, which is the claim that implicitly underlies the assumption of parsimony here. For some analysts it would be equally plausible that people are unlikely in general to pursue self-interest and that the null hypothesis should be the pursuit of shared normative principles. Since this chapter is not a general treatise on social theory, I do not feel obliged to do more than note this fundamental disagreement.

18. My ambitions here do not extend to coverage of the long-running debate on how influential financial institutions at the dominion of the economy. An account of this literature is given in Mintz and Schwartz 1985, chap. 2. For the argument that "a handful of immense banks, concentrating within their coffers the bulk of the assets and deposits of the entire banking system and providing much of the loans and credits for industry, are the decisive units in the circulation of capital in contemporary capitalist economics," see Sorel and Zeitlin 1987.

19. But see Adams, who suggests that the policy of supporting large, integrated firms lost popularity by the late 1970s, on account of concerns about rigidity "at a time when adaptability was considered essential" (1989, p. 54).

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