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DIVERSIFIED BUSINESS GROUPS IN THE WEST: HISTORY AND THEORY[1]

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1. INTRODUCTION

This paper aims to amplify the analytical scope of management research on the evolutionary dynamics of large business enterprises in different market and institutional settings. It does so by incorporating historical perspectives on the varied developmental patterns that the corporate organization model of diversified business groups has exhibited in the economies of Western Europe, North America and Oceania from the late nineteenth century to the present. In examining the evolutionary dynamics of diversified business groups in those economies, we attempt to propose an alternate theoretical interpretation of the long-term development of large business enterprises in different economic settings.

At the outset, we review and reexamine the influential thesis on the historical primacy of the multidivisional enterprise as the most efficient and effective variety of modern large enterprises associated to the work of Alfred Chandler (1962, 1977, 1990). In doing so we attempt to lay the groundwork for reassessing the contributions of the diversified business group as an alternative model of modern large enterprises and ultimately for coming up with a more balanced and encompassing interpretation of the role that the different models of corporate business organizations have played in the process of modern economic growth. In the Chandlerian interpretation it is ultimately the large industrial firms which are coined as "multidivisional enterprises" with related product portfolio, representing "scale and scope," that are strategically managed by salaried senior executives that play the central role in a nation's dynamic economy. By contrast, diversified business groups can be understood as positioning themselves at the opposite end of ownership, strategy and structure. Often they are owned and controlled by the concentrated shareholders in the form of business families, financial institutions or the state. As such, many groups have been controlled at the headquarters level by the majority shareholders, not by salaried non-owning executives as

Chandler observed in multidivisional enterprises. Strategically, then, diversified business groups exhibit unrelated product portfolios, not related ones with product-market links to each other. Further, they have their operating units in the form of legally-independent subsidiaries, some of which can even be publicly-listed. In case of multidivisional firms, operating units are often organized as internal divisions.

At a more focused level on diversified business groups *per se*, then, we in effect reexamine the influential "institutional voids" hypothesis proposed by Tarun Khanna and colleagues (1997, 2007) in their research on diversified business groups in emerging markets. Those works emphasize the critical significance of the immaturity of markets and market institutions, which gives advantages to established firms that are equipped with free cash flow in intra-group capital markets to exploit product-market opportunities. Logically, then, as market institutions get matured as a consequence of economic development, diversified business groups complete their positive role of "paragons" and start functioning as "parasites" to become an obstacle and thus harm the viability of national economies. As a result, diversified business groups should complete their historic role to exit from the marketplace all together or to switch their basic strategic orientation in terms of product portfolio to be more focused and to resemble the multidivisional firm.

The historical development of diversified business groups in today's developed economies will present an appropriate testing ground for these two theories, one on the primacy of multidivisional firms in competitive economies and the other on the immaturity of market institutions in emerging markets. While the Chandlerian enterprise model may reflect a significant aspect of the corporate development pattern in the U.S. economy, the resilience and even resurgence of the new as well as conventional varieties of business groups in some developed economies has asked scholars to reexamine and reinterpret the evolution of large multi-business enterprises from fresh and broader perspectives. This continuing resilience of the group model also suggests that diversified business group does not simply fade away as the market and institutional environments becomes more developed. These empirical realities signifies the need to look beyond the theoretical arguments of institutional void-filling as the major function played by the business groups that have occupied the most prominent place of business group literature to date. They suggest the significance of looking at the concrete examples of Western nations to explore the origins, evolution and resilience of diversified business groups in contrasting market and institutional settings. This examination will make it possible to reassess both the interpretations of corporate evolution proposed by Alfred Chandler that were built on the experiences of the U.S. economy and the economic development theories of diversified business groups that were based on the experiences of contemporary developing economies.

With a historiographical examination as a starting point, this paper examines the historical origins, evolutionary paths and long-term resilience of diversified business groups in contemporary developed economies of the West. Ultimately, the central goal of this paper is to come up with a new theoretical understanding of diversified business groups and other comparable models of corporate organizations by broadening the analytical perspectives of the earlier approaches in terms of longitudinal and geographical scope. To reach such an end, in Section 2 we begin our analysis by reviewing the historical context of the development of diversified business groups in the U.S. economy to reveal their standing within the Chandlerian analyses. We then examine the empirical regularities in the historical evolution of diversified business groups in different Western nations from the late 19th century to the present day in Sections 3-5. The following section, Section 6, puts forward a theoretical analysis on the critical factors that have led to the divergent developmental patterns across different economies. Section 7 concludes the paper with the synthesis and implications of our findings.

2. DIVERSIFIED BUSINESS GROUPS WITHIN THE CHANDLERIAN FRAMEWORK[2]

Ever since the publication of *Strategy and Structure* in 1962, the historical research on the evolution of large enterprises in the modern market economy has been dominated by a single paradigm: The Chandlerian perspective that emphasizes the primacy of the industrial enterprise of the U.S. variety in which salaried professional management adopts the growth strategy of *related diversification* and the administrative structure of *multidivisional organization*. Despite criticism that Chandler's interpretation of firm evolution across different economies over time has faced (Fligstein, 1985; Freeland, 1996; Lamoreaux et al., 2002), the primacy of the Chandlerian large enterprises has remained intact in the academic discipline of management.

In order to reassess Chandler's thesis on the primacy of multidivisional firms adopting the strategy of related diversification among the varieties of modern business enterprises, it is critical to recall the historical background of the time when Chandler originally formulated his ideas of corporate growth in the 1950s and 1960s: the supremacy of the United States was firmly established in the global political and economic scene, and U.S. large firms stood in the center of that dominance. After all, in the early 1960s, more than 300 out of 500 of the largest industrial enterprises in the global economy were those with U.S. headquarters (Chandler and Hikino, 1997). Chandler's championing of product diversification strategy committed by U.S. large industrial enterprises, complemented by Raymond Vernon's (1966) "product cycle" model of their multinationalization conduct, eventually represented the core mechanism of the U.S. hegemony of the post-World War II global economy. Within this context, we now examine the standing of diversified business groups in the Chandlerian thesis.

[2] The definition and coverage of diversified business groups include conventional types such as family-owned, state-owned and bank-centered groups, as well as contemporary types such as conglomerates and private equity firms. For details see Colpan and Hikino, Chapter 1, 2017.

2.1. Diversified Business Groups in the Chandlerian Historical Interpretation

Long before the large modern industrial enterprises with an organized managerial hierarchy became firmly established as the representative and most effective model of big business in the U.S. in the 1920s and became the most emulated model around the world especially after the World War II, the US economy had in fact possessed its own varieties of business groups. These can broadly be classified into three basic types, general merchants as a historical predecessor of modern business groups; financial groups with diversified industry portfolio; and investment holding companies that were often organized in a single industry sector. First, the *general* merchants dealt with diversified products and industries especially in international markets that played the influential role in the initial phase of industrialization of the U.S. economy up to the 1840s. Second, the financial groups got organized around investment banks, or "money trusts" (the largest of which was the Morgan group), around the turn of the 19th century. And, third, the industrial holding companies, mostly had their origins in trusts and turned into holding companies after trust arrangements were outlawed by the Sherman Antitrust Act of 1890.

Chandler in his *Visible Hand* (1977) was categorically dismissive of all of these business groups. For business groups formed around general merchants, Chandler argued: "The general merchant dominated the economy and …was an exporter, wholesaler, importer, retailer, ship owner, banker, and insurer. … (They) still relied entirely on commercial practices and procedures invented and perfected centuries earlier by British, Dutch, and Italian merchants" (Chandler, 1977). Hence, according to Chandler, because of their "traditional" administrative styles, these diversified entities could not nurture competitive resources and capabilities in facing expanding domestic markets. He was also critical of the two other types of U.S. business groups before World War II, financial groups organized around investment banks and groups with holding companies overlooking industrial companies. For the financial groups, he claimed, they did not have the adequate product-related resources and capabilities to control the strategic decision-making of constituent industrial enterprises. The holding companies, he argued, were “loose” organizations that were bound together for legal reasons without administrative unity or coordination. In the end, those groups began to be challenged as early as in the 1910s but more decisively within the policy framework of the New Deal in the 1930s on political, legal and economic grounds (Morck et al, Kandel et al, 2013 Chandler, 1977, 1982). At around the same time, another challenge came from the specialized and vertically integrated firm, diminishing the role of diversified business groups in the US economy.

In fact, the financial groups organized around banks played complementary roles to the original function of multidivisional firms in meeting their capital needs for investing in large-scale production facilities to achieve economies of scale. Then, those banks customarily monitored the efficient and effective conduct of those industrial enterprises in order to assure their productive operation and ultimately functioned even as a financial rescuer when those enterprises faced unsolvable financial difficulties (Hikino and Bucheli, this volume). However these contributions of banking institutions to the viability of U.S. economic institutions remain marginalized in the Chandlerian interpretation. As the early experiences of the United States with the corporate model of diversified business groups ended abruptly in the 1930s, the Chandlerian enterprises that became related-diversified in strategy and multidivisional in structure had since come to be hailed across the industries and nations as the most effective and efficient combination of strategy and structure regardless of the varieties of market settings and the differences in economic maturity. Broadly accepting the theoretical assumption of an eventual convergence on such a single model of large industrial enterprises, then, American consulting companies pressed the rest of the world to emulate this variety of the U.S. model (Whittington et.al, 1999).

2.2. Challenges to the Chandlerian Paradigm

A turning point for the dominance of the Chandlerian paradigm came from the global competitive dynamics of big business that eventually pushed the diversified business groups into the center of attention. The shift in international dynamics in large enterprise landscape started pressing the reinterpretation of the primacy of Chandlerian multidivisional enterprises, as they actually struggled against the upcoming firms originating in late-industrializing economies such as Japan, South Korea, Taiwan and then China that started their modern economic growth in the twentieth century, especially in the decades since World War II (Hikino and Amsden, 1994). Those firms at the core of competitive dynamics in those late-industrializing nations critically differentiated themselves from the Chandlerian enterprises in all the three aspects that Chandler emphasized as the primary reasons for competitive capabilities. First, the ownership usually remained with the entrepreneurial family (or sometimes the state) that controlled and often managed their business empire. Second, those firms employed the strategy of unrelated diversification for their long-run growth. Third, in response to that diversification conduct, they adopted the overall group structure with legally independent subsidiaries. For each of these three characteristics, business groups remained different from the Chandlerian multidivisional enterprises.

Interestingly, within the Chandlerian framework, none of the three characteristics of diversified business groups provide an overall positive connotation. First, family ownership and control eventually deter the development of salaried and professional management that stands as the core of competitive dynamics of modern industrial enterprises. Second, product domains should have been related, it has been argued in strategy literature, so that an enterprise exploits the benefits of accumulated intra-organizational knowledge that can be transferred to related product categories, ensuring in the lower-than-market level of production cost. Unrelated diversification, by contrast, has been suggested to encounter the "conglomerate discount" problem, i.e. the market value of the entire group as a whole is lower than that of the sum of the individual operating companies. Third, unrelated business portfolio and group structure hinder the inter-business transfer of accumulated knowledge that remains the core of the competitive advantages of large industrial enterprises. The allegedly limited and often *unsystematic* administrative arrangements of legally-independent firms lack the coordination mechanism committed by the headquarters which should function as an instrument for such transfer of knowledge assets across operating units. Relying on these negative connotations of business groups in general, although acknowledging the rise of diversified business groups as global players, the supporters of the Chandlerian argument suggested that it was the environment of immature markets and institutions that supported the growth of such groups in developing economies. Time will come for their demise, the supporters continued to insist, as markets get mature.

While dynamic diversified business groups have successfully remained as the core business organization in many late-industrializing nations, comparable entities with wide and unrelated product portfolio were designated to lead a checkered life in contemporary developed economies. While in some of the European nations business groups survived the many market and institutional changes their economies have seen and stayed intact forms of business enterprises in their economies (eg, Sweden and Italy), in others they overall became destined to be marginalized yet individually stayed resilient as a business organization (eg. Spain and Belgium).[3] Furthermore, the United States itself saw the rise, fall and resurgence of the noble varieties of diversified business groups such as conglomerates and then private equity firms.

Chandler remained dismissive of these enterprises as well. He was especially critical of acquisitive conglomerates like Harold Geneen's ITT and Charles Bluhdorn's Gulf + Western that started burgeoning in the U.S. economy in the 1960s which exhibited the characteristic conduct of *unrelated* diversification, in contrast to the historical development of *diversified* industrial enterprises such as DuPont and General Electric that adopted the strategy model of

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[3] The organizational design of multidivisional firms had spread into Europe in the post-WWII era and especially during the 1960s, whose advance was promoted by American consulting firms, business schools and global successes of the American enterprise (Mayer and Whittington, 1996).

related diversification. Overall, Chandler claimed that the style of administrative coordination based on the financial and budgetary means only does not suit well for modern industrial enterprises in competitive economic settings. He also stayed critical of the European business groups, especially of their historical prototype of holding companies such as Calico Printers' Association and Associated Portland Cement in Britain, but also of old family-controlled large enterprises in general such as Cadburys (Chandler 1990), although he did not specifically investigate the concrete cases of European firms at the group level, as his interest remained mainly on individual industrial enterprises strategically administered by salaried senior executives.

Chandler's interpretation could possibly be justified for the central role of multidivisional enterprises which prospered in the market and institutional contexts of the U.S. economy in the early to mid-20th century. Yet, he was too much assertive on his managerial theses on ownership (scattered shareholding), strategy (related diversification) and structure (multidivisional structure) to discount the role of diversified business groups all together and to ignore the influential forces outside the internal managerial dynamics of the *industrial* enterprise. As we now turn to our own examination of the evolutionary dynamics of diversified business groups in different Western nations over time that have altogether been marginalized in the Chandlerian interpretation, we argue that diversified business groups worked well not only in early economic growth, but have long lived to remain as an effective and dynamic form of large business enterprises in several developed economies in spite of hostile attitudes since the 1980s that institutional investors adopted against their diversified product portfolio. We in particular examine the factors behind the rise, growth and decline of diversified business groups in different nations to complement the Chandlerian story to come up with a more balanced and comprehensive picture of the dynamic evolution of modern corporate economy.

3. THE HISTORICAL RISE OF DIVERSIFIED BUSINESS GROUPS, FROM THE LATE 19TH CENTURY TO THE 1910S

Diversified business groups rose to play critical roles in early industrializing economies since the Second Industrial Revolution.[4] By early-industrializing economies, we in this context mean those nations that experienced the initial phase of industrialization drive by the late nineteenth to early twentieth centuries when the economic impact of the Second Industrial Revolution engulfed the whole industrial economy across nations. We argue that the key factors to comprehend the historical *rise* of diversified business groups in such economies are two-fold. First, the prime factor is related to the characteristic nature of available internal resources and capabilities of business organizations in individual economies: The industrial enterprises in "early mover" economies that had industrialized by the late nineteenth to early twentieth centuries typically embodied proprietary know-how that was technology-intensive and product-centered. These industrial enterprises often became the first in their respective nations to systematically nurture technological capabilities by establishing research & development facilities and commercialized new products and processes through exploiting their accumulated capabilities later in the twentieth century (Chandler and Hikino, 1997). Second, banking institutions became gradually yet systematically involved in the debt and/or equity financing of industrial enterprises in the process of the Second Industrial Revolution. That technological advancement and ultimately whole corporate development continuously required industrial enterprises to commit huge amount of financial resources to invest in order to keep up with the ever increasing minimum optimal scale. Only with that investment the relevant firms could sustainably keep the status of a stable oligopolistic player. As the amount of capital requirements became too massive for individual firms to internally

[4] The cases of Spain and Portugal are different from other nations discussed in this volume in that they correspond more with the area of acute backwardness starting their industrial growth after the 1950s. While primarily state-owned business group INI that created (or participated in) industrial enterprises was the primary actor that industrialization process in Spain, it was the family controlled groups (some of which were centered around banks) that created industrial companies were the central actor in Portugal.

finance or to rely on the network of owning entrepreneurs and families, banking institutions became the indispensable part of the modern business game for large industrial enterprises. Those relationships between industrial enterprises and banking institutions became the basis of the formation of diversified business groups. The case of Sweden illustrates this point in a telling manner.

Experiencing its rapid industrialization between 1870 and 1913, Sweden saw its first wave of innovations during this period that led to the establishment of enterprises specialized in manufacturing and engineering, including Atlas Copco founded in 1873, L.M. Ericsson in 1876, ASEA in 1883 and others. These family-controlled firms were originally financed principally by retained earnings, trade credits and short-term credit notes (Hogfeldt, 2007). Later, especially after around 1900, the bank loans and house bank connections became important as the demand for capital increased, and it was in 1911 these connections got boosted when commercial banks were allowed to own shares in industrial companies (Hogfeldt, 2007; Larsson and Petersson, this volume). The diversified business groups in Sweden had their origins therefore predominantly after that year when banks started to invest in industrial companies, and especially in the 1920s, when the deflation crisis in the country caused the transfer of corporate shares to the banks (which were their original creditors) (Larsson and Petersson, this volume).[5] The prominent business groups of the Wallenbergs (organized around Stockholms Enskilda Bank that the family controlled) and the Handelsbanken thus came to the full existence in the 1920s as they became the controlling owners of many industrial

[5] There were also a number of family-owned business groups that to some extent were diversified into to unrelated areas before the 1930s, such as Johnson group in trading, shipping and steel production, and Söderberg in trade of iron and steel and investment. Relative to these groups, however, the bank-centered groups were much more diversified and had more employees - especially after the 1920s crisis. The banking groups had therefore played more central roles in the economy (Larsson and Petersson, this volume).

companies. The business groups (and the banks as their apex) mainly served a reorganizing and revitalizing function for established yet financially-troubled industrial companies.

The experiences of other nations illustrate a strikingly similar pattern: It was product-specialized firms that had historically played a central role for industrialization processes at the earlier stages, and in the later phases banks entered as a rescuer and reorganizer of those firms when they experienced financial troubles to eventually form bank-centered diversified groups. In this context the banks that would stand at the center of the diversified business groups mostly started organizing them passively for protecting their financial interest, rather than forming the groups actively as a part of their grand growth scheme. This argument nicely fits with the recent work that has shown the universal banking being only developed into significance after the first push of industrialization in the Continental European economies (Fohlin, 2007). Several illustrating examples can be cited.

In Germany, it was the self-standing and self-financed product-specialized industrial enterprise that originally carried the industrialization processes up to the 1880s, while banking institutions and bank-centered groups came to play the major role at the later stages of German industrialization. The latter got formed as banks aimed to achieve control and security by investing in their customers (Fohlin, 2007; Schroter, this volume).[6] In Belgium, bank-centered groups only began to be formed when banks reluctantly had to accept the shares of product-specialized companies in exchange for their debts following economic crises in the economy in the mid-19th century that depressed the performance of the borrower industrial enterprises (Daems, 1977). Even Italy, the country known mostly for its contemporary family-owned business groups, had its own share of diversified business groups by the 1910s as bank-centered groups, which had been formed when banks progressively increased their shareholdings in their

[6] Despite that industrial companies tried to ward off the intervention of bank, banks achieved to succeed in their policy of controlling their invested companies to a substantial amount until World War I (Schroter, this volume).

most important clients. This was especially so, once the banks had to take over distressed firms and eventually became the controlling shareholders of industrial companies (Colli and Vasta, this volume). The U.S. economy, interestingly, had its own share of bank-centered groups when the major investment banks such as Morgan started owning the substantial proportion of the shares of large corporations in diverse industries. It is important to note however that the instrumental means by which these bank-centered groups operated in controlling various industrial enterprises, extending from financial control to involving into more strategic issues, have not been uniform in different economies or even within one nation.

Britain and two of its former Anglo-Saxon colonies chose to adopt a different development model thanks to the relative absence of banking institutions that engaged in long-term industrial financing. In Britain, the “First Industrial Nation,” product-specialized companies pulled the country’s early industrialization processes, while bank-centered business groups were not formed to play any major economic role. The British banks differed from the abovementioned national cases as they did not take any large shares in industrial firms, while providing mostly short-term financing and, to a lesser extent, eventual long-term loans through rolled-over credits (Jones, this volume; Fohlin, 2007). Even when the capital demand increased with the coming of the Second Industrial Revolution, in Britain it was mainly the “re-invested profits, stock market issues, private placements with stockbrokers and insurance companies, and family” (rather than banks) that provided the necessary financing (Jones, this volume). On the other hand, however, British enterprises formed business groups in developing economies, especially colonial territories or post-colonial countries, exploiting the underdeveloped product markets in those economies with the support of capital markets in London.

The Australian and Canadian cases shows a similar pattern to Britain in regards to the absence of bank-centered groups during the late 19th to early 20th centuries. This was mostly due to the British heritage in those two former colonies that led to banks to remain as minor players in industrial finance (Ville, this volume, Naylor, 2006).[7] However, the two economies also depart from each other in the type of large enterprises that became prominent in this time period. With the Australian economy lacking breadth, product-specialized companies exploited growth opportunities in the dominant resource industries, while belated manufacturing expansion from the interwar years fell largely under the control of American multinationals. Local companies, in a relatively small and remote market with a developing but regionalized stock market, struggled to compete or build business groups. Experiencing its rapid industrial growth (from the mid-1890s to World War I), in Canada, business groups organized around entrepreneurs appeared as the British capital flooded to finance such expansion. The largest of the business groups, Aitken group for instance got formed as Max Aitken borrowed money in London, used his investment bank to organize the take-over of several small independent firms in Canada to end up in a widely-diversified business group (Morck and Tian, this volume).

4. THE TRANSFORMATION OF BUSINESS GROUPS IN THE INTERWAR PERIOD

The interwar period, especially from the mid-1920s to the mid-1930s, serves as a significant turning point in the long-term evolution of diversified business groups in the Western economies. Thanks to the inflationary period in Europe in the 1920s followed by the recessionary economic condition of the Great Depression, many banks became burdened with non-performing assets in terms of credits given to and shares invested in failing industrial enterprises. While this general background has been similar across many nations, different political and regulatory responses became the key factor for the transformation, or in some cases the demise, of diversified business groups that were especially centred around banks. We

[7] Ville (this volume) argues that Australian banks remained as minor players in industrial finance before the Second World War, as they got tarnished by the financial collapse of the 1890s and that the British influence might have provided a blueprint for how the relationships between banking institutions and industrial enterprises should be arranged. Naylor (2006) suggests that the banking system in Canada developed as an imitation of and through regulation of London.

see three patterns in particular. First, as seen in the experiences of the US economy, newly formulated policies signed the eventual end of the business groups which were specifically targeted as one of the main causes of the structural troubles in the economy. Second, some nations preferred to limit the banks' control over the industrial enterprises (as, for instance, evidenced in Sweden and Belgium), rather than categorically banning those groups altogether. They came up with policies that would transform the structure of business groups from being bank-centered to other forms (as is discussed below in details). Third, in several nations the government itself directly entered into business domains as the "reorganizer" of failing large enterprises and banks. We discuss each of the three characteristic cases below.

The U.S. economy marks the representative case in our sample that responded to its business groups in the severest way. While the Great Depression brought the so-called New Deal reforms in general, two specific outcomes were noteworthy in the contextual environment for business groups. First, the Glass-Steagall Act passed in 1933 separated commercial banking from investment banking, which had a critical impact on bank-centered business groups. Concerns about business groups included their extensive acquisitions, over-capitalization, reduced competition, accounting frauds and political corruption (Kandel et al., 2013). Second, the collapse of the United Corporation, the apex holding company of the vast Insull group, in 1931 instigated federal regulators to particularly target inter-corporate dividend tax by enacting the Public Utility Holding Company Act of 1935. Taxing capital transfers between subsidiaries and the holding company that controlled them was designed to deter the group structure in which the apex organization often exercised the eventual control of hierarchical chains of subsidiaries operating in related yet diverse industries. President Franklin Roosevelt and his close economic advisors were specifically critical of business groups, suggesting they deterred competition: "Close financial control … through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units" (Roosevelt, 1942 in Morck and Nakamura, 2003: 12-13). As a result, the regulatory developments in the 1930s in particular led to the demise of the financial as well as industrial business groups.

Sweden also tried to restrain a long-term control of banks over large industrial enterprises. The rights of the banks to own and trade shares became curtailed in 1933, which had to be realized in the consecutive five years. However, the Swedish government did not introduce an outright ban to the formation of groups, which led to the opportunistic behavior of bank-centered groups in transforming themselves into other forms. Holding companies that were linked to the banks were established, and those companies were technically owned by the bank-controlled foundations, pension funds and influential bank shareholders to make sure that the control of the holding companies remained with the banks and their owners. Dual-class shares with differentiated voting rights were used as a critical mechanism to retain the control over these companies. In what would become Sweden's largest business group, for instance, the Wallenberg family had significant ownership stakes in both the bank and holding companies, and the family eventually controlled the operating enterprises in diverse industries through its holding companies. Investor and Providentia were originally designated to be the centre of such mechanism of control, but the family later on placed Investor as the ultimate control apex (Larsson and Petersson, this volume). A similar structural change was seen in some other nations, for instance, in Belgium, in which the government forced the dissolution of bank-centred groups in 1934/35, but they reorganized themselves into the diversified business groups centred around holding companies, rather than dissolving in a straightforward fashion (Becht, this volume; Daems, 1977).

A third variety was the case in which the government directly intervened in the business activities in the process of the Great Depression. In the case of Italy, for example, the government saw the solution in the bailout of nation's three largest banks which had been burdened with heavy non-performing credits to as well as the depressed stockholdings in industrial firms in diverse economic sectors. The state holding company, *Istituto per la*

Ricostruzione Industriale (IRI), was founded in 1933 to rescue the failing banks and protect their industrial interests. As the banks later got prohibited from acting as shareholders in industrial companies in 1936, the equity stakes, majority or minority, that the banks had owned in industrial companies became a part of IRI's assets. Although IRI was originally set up as a temporary measure, it turned to be a permanent state-owned business group with equity stakes in large enterprises in diverse industries (Colli and Vasta, this volume; Aganin and Volpin, 2005). Germany also saw the rise of state-owned business groups in the interwar period. In the case of Germany, however, state-owned enterprises that had been originally established along industry lines were grouped together and reorganized under different holding companies. Groups like Preussag, Veba, and Viag were established in the 1920s and became active in diverse business activities (Schroter, this volume).

5. THE RISE, FALL AND RESURGENCE OF DIVERSIFIED BUSINESS GROUPS, THE 1950S TO THE PRESENT

5.1. The rise of diversified business groups, the 1950s to the 1970s

A new tidal wave of the formation of diversified business groups in Western economies had its roots primarily in the conglomeration drive that started in the United States in the early 1950s and got accelerated in the 1960s and 1970s (Didrichsen, 1972).[8] This was in particular due to the economic and institutional conditions at the time including the antitrust legislation of the Celler-Kefauver Act in 1950 against horizontal expansion as well as the inadequate external sources of growth capital for small firms, low interest rates for corporate loans and abundant free cash flows for established firms (Collis et al, this volume; Anand and Jayanti, 2005). As a result U.S. firms, particularly those that faced declining markets in their original businesses, began moving into unrelated businesses in a massive manner (Didrichsen, 1972). Many acquisitive conglomerates like Charles Bluhdorn's Gulf & Western and Harold Geneen's ITT

[8] Didrichsen (1972) argues that the conglomerate diversification began about in 1953 in the US.

developed in the U.S. economy. British economy also observed the rise of conglomerate firms since the 1960s. Conglomerates that were established specifically for acquisitions and sell-offs such as Hanson Trust appeared in this decade. Capital and financial markets were more than supportive of such unrelated diversified growth. In fact, the liberalization of capital and financial markets was a critical turning point that enabled the new and larger sources of capital increase and corporate borrowing for acquisitions and thus the more robust activities of corporate takeovers, ultimately establishing the "Market for Corporate Control" (Jensen and Ruback, 1983; Ville, this volume).

With strong regulations to deter the formation of pyramidal groups (or the multi-layered hierarchy of holding partial equity stakes in other firms) in place in the United States and later in Great Britain, investment or operating holding companies in those two nations typically held the 100% ownership stake in their operating companies. In other Western countries, however, this was usually not the case, and the conventional type of business group structures, especially with pyramidal ownership of their operating subsidiaries that were often publicly-listed, began to emerge since the 1970s. Italy and Australia are two appropriate examples to illustrate this case.

Italy, after having experienced with state-owned business groups from the 1930s, witnessed another major undertaking of diversified business groups in the 1970s. This time it was the family-owned companies that enlarged their industry boundaries with active acquisitions and via pyramidal ownership structures. Fiat, for instance, aggressively started shifting its product domain out of its core business of automobiles and into such unrelated fields as distribution, insurance, synthetic fibres and food in this decade. Colli and Vasta (this volume) call this process of diversification the "Italian" version of the conglomeration wave occurring at the international level. In the Italian case, the abolishment of double-taxation laws, a critical obstacle for the pyramidal group, from the late 1970s and a rapid effervescence of the stock market easing access to financial resources through listing subsidiaries assisted the unrelated growth into diversified business groups with pyramidal ownership arrangement (Colli and Vasta, this volume).

The development path of large enterprises in Australia was also disturbed by the discontinuity of the 1970s and 1980s, when the nation saw the initial building of diversified business groups in the country on a large scale (Ville, this volume). The major groups representing this new development included Adelaide Steamship Company (Adsteam), Elders IXL, and Bond Corporation. American thinking on business strategies and structures that got infused into the country through U.S. multinationals was one reason why Australia experienced such a wave of unrelated diversification mostly through acquisitions in this period. Other reasons that assisted the rapid formation of diversified business groups were the competition policy from the 1960s that was designed to counter collusive arrangements within an industry, the deregulation of Australian capital and financial markets and a more active corporate takeover market since the early 1980s (Ville, this volume). Interestingly, the unrelated diversification took the form of partially-owned enterprises through pyramidal arrangements, as was the case of Italy and other nations, rather than wholly-owned subsidiaries as was in the United States and Great Britain. According to Ville (this volume), this feature of the partial ownership of subsidiaries in Australia was due to the fact that controlling positions through partially-owned stakes (tied together via pyramidal and cross-shareholding structures) in such acquisitions brought rapid growth and were preferable to slower organic growth resulting from financing full ownership.

5.2. The fall of diversified business groups, the 1980s and afterwards

The fall of diversified business groups including conglomerate firms occurred in two waves since the 1980s. First, weaknesses in competitive capabilities became the primary causes for the overall decline of business groups. Then, pressures from capital markets under the so-called "conglomerate discount" drive, began to further break down many of the diversified groups.

The narrative across the nations shows many similar patterns along these lines.

In the case of the United States, many of the original conglomerates first came under pressure thanks to their financial underperformance after the early 1980s (Collis et al, this volume). One critical factor for this poor outcome was the lack of necessary competitive capabilities possessed by the corporate headquarters to manage the many diverse operations that were carried out by subsidiaries in unrelated product markets. Small number of executives at the head office became overloaded in the decision-making related to a huge number of acquisitions and subsequent sell-offs. The role of the headquarters unit was typically to allocate capital at market interest rates to subsidiaries asking for investments and in that sense acting like a “poorly functioning bank lending capital without adequate due diligence or adequate oversight” and also cross-subsidizing the ones suffering from declining profitability with the cash flows of the well-performing ones (Anand and Jayanti, 2005: 6). Tax hikes and interest rates in the economy also overburdened the enterprises that had originally grown by borrowing massive debts at low interest rates (Sobel, 1984).

Similarly, business groups in other nations that have grown suddenly and aggressively through acquisitions illustrate a comparable story. In Australia, for instance, groups that developed in the 1970s shared a similar destiny with that of US groups. In diversifying into many diverse businesses within a decade period, group management underestimated the administrative tasks and overrated their own capabilities to effectively manage a large number of unrelated businesses organized in intricate pyramidal structures. Increasing indebtedness to fund their rapid growth added up to the insoluble problems for these groups (Ville, this volume). Ville also argues that the entrepreneurs at the helm of these groups “proved to be impatient and extreme risk takers, whose moral compasses were misdirected and whose business judgements were often far from sound … and (they) destroyed more wealth than they created”. As a result, many of the groups got dissolved or simply collapsed all together within a short time period of two decades.

In the case of other nations, even where groups grew in less rushed ways, the competitive capabilities of many of the diversified groups became challenged. For instance, in the case of Spain, increased product market competition resulted from pro-market reforms since the 1980s (and the establishment of European single market in 1993) exposed further challenging environment to the groups that had been operating in a relatively protected market setting. Faced with foreign competitors that were larger in size and more sophisticated in technology, many Spanish family-owned groups reacted by selling off their operating companies to foreign multinationals that offered attractive prices. Even the groups organized around banks began unloading their industrial holdings in the 1980s to concentrate on achieving global size in their banking operations (Cuervo-Cazurra, this volume). State-owned groups took their own turn in decline as they began to be privatized due to their unpopularity in the global fever of pro-market reforms that preached liberalization, deregulation and privatization as the three major pillars (See for instance, Schroter, this volume and Cuervo-Cazurra, this volume).[9] It is somewhat ironical that some of the operating firms within these state-owned groups have been purchased by established private enterprises to form new diversified groups.[10]

Once the fate of many earlier diversified business groups were set, capital markets this time took their turn to unravel the remaining business groups. Capital market liberalization taking place in the world since the 1980s made sure that not only domestic but also international, especially institutional, shareholders pressured diversified business groups to narrow product lines into where each group enjoyed the highest competitive position in the product market. In this environment "conglomerate discount" became a buzzword for the undoing of many diversified business enterprises.

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[10] See for instance the case of Benetton/Edizione group that expanded from textiles into retail distribution and in motorways through the acquisition of former state-owned enterprises (Colli and Vasta, this volume).

Faced with the increased pressure, even established business groups like the Swedish Wallenberg group had to scale down their operations or even exit from some of their investments. Purchasing large blocks of shares in the publicly-listed group-affiliated companies, institutional investors put pressures on the Wallenberg group for higher yields to challenge the group's long-term investment and development strategies. In some cases, hostile take-over bids in operating companies controlled by minority holdings by the family, resulted in the selloff of such companies. This led to the concentration of the Wallenberg group into fewer companies, in which they held larger shares (Larsson and Petersson, this volume).

In other cases, such hostile take-over bids brought the total demise of the business groups. A striking case is that of Societe Generale de Belgique (Belgium's largest business group, and one of the largest enterprises in that nation, since its establishment in 1822) that became the target of the Italian de Benedetti group in 1988. Societe Generale, whose stocks were publicly-traded and widely-held (having only about 10% of its shares in the hands of stable owners by the 1980s) controlled directly or indirectly approximately 1,300 companies around the world at the time. It got caught unprepared with the Italian bid. The case ended as the French Suez Lyonnaise des Eaux group was brought in as a white knight to counter de bid, but the French firm later sold off Societe Generale's diverse businesses to focus on its own energy-related business (Becht, this volume; Lambrecht, 2002). Other Belgian groups (with the sole major exception of Groupe Frere-Bourgeois) followed the destiny of Societe Generale to end in dissolution with operating subsidiaries sold to overseas enterprises.

In some of these cases business groups were in fact inefficient and ineffective and thus seriously underperforming, while in others such an argument is not entirely justified. Jones (this volume), for instance, argues that several of the British conglomerates like Hanson Trust, BTR and Grand Metropolitan were actually performing well, and their overall demise owes more to the unfashionability of unrelated diversified enterprises and management fads regarding that particular strategy. Unrelated diversified product portfolio came to become loathed particularly by institutional investors, which caused those enterprises' share prices to decline and the cost of capital to increase. All of these shifts challenged the diversified groups that had particularly relied on the growth strategy of acquisitions based on loans with low interest rates.

5.3. Resurgence of diversified business groups, the 1980s and thereafter

The above section put forward that many diversified business groups ended up in failure or outright restructuring (for instance, by focusing on a smaller number of competitive business lines) since the 1980s. However, this does not mean that all business groups categorically declined. Indeed, several of the older and more established business groups stayed essentially resilient despite all the economic and institutional challenges they faced (We will turn into the key factors behind the robustness and continuity of those groups in the next section). What is more, even when the environment was overall hostile to the model of diversified business groups, we observe the emergence of new varieties of diversified business groups. Below we examine some of the major cases of these new business group formations.

First, following the break-down of many of the diversified business groups, the new forms of diversified business groups with critical differences in investment horizon and principles were born. Leveraged buyout association (LBO, later renamed as private equity), popularized in the United States in the 1980s, was the most important one among those new varieties of diversified business groups. Those firms customarily bought a non-core business from diversified enterprises, leveraged it up with debt and aimed to improve profitability by cost cutting and other means to ultimately target an IPO or sell-off to strategic or financial buyers. These firms had originally built in their core capabilities in the way they organize financial transactions, but over time also attempted to build an industry or operational expertise, or specialized in particular forms of investing (Collis et al, this volume). This form got vitalized with new intellectual support of Michael Jensen, who proposed on the Wall Street

Journal that “companies should return free cash flow to shareholders rather than retain it inside the firm where it would be dissipated in uneconomic diversification or managerial perks and self-aggrandizement …(and) investors rather than corporations should make diversification decisions”. (Collis et al, this volume). In 2015, actually private equity comprised approximately 15% of non-financial corporate assets in the U.S. economy, while the same number for conglomerates stood approximately at 3% (Collis et al, this volume). While other economies have broadly followed this trend initiated by the United States, that market remained as the dominating center and its firms by far the largest in terms of total fundraising (for 2016, see Private Equity International).

Second, taking the opportunities in newly-emerging business segments especially related to information technology, in which older business groups, or established enterprises in general, for that matter, possessed no capabilities or little interest for entry, new business groups still developed from the 1980s onwards. Sweden’s Stenbeck (Kinnevik) group is such a case in point. Founded in 1936 by Stenbeck, Klingspor and von Horn families as an investment company with its industrial base in forestry, pulp and paper businesses, the enterprise entered into diverse businesses including telecommunications, media, e-commerce and microfinance since the 1980s. Although much smaller in size compared to the two largest groups of Wallenberg and Handelsbanken in Sweden, the group expanded itself into diverse businesses especially in the last three decades (Larsson and Petersson, this volume). In a similar context, the new group of companies, for instance around Google/Alphabet and Facebook, in the United States can also be regarded as a new variety of diversified business groups which have been rapidly extending their product reach into various newly-emerging industries (Schneider et al, this volume).

Last, the change of investment ideology, particularly following the relative decline in the influence of the U.S. model, encouraged the formation of diversified business groups in some nations. In Germany, for instance, Schroter (this volume) argues that a new trend emerged to diversify into unrelated businesses and to create diversified business groups in that country following the "collapse of (the U.S) model's influence after the 2008 (financial crisis)". This renewed expansion path has been taken especially by family firms, mostly privately-held, although some being public as well. Overall, however, those newly-established diversified groups stayed small in size compared to the largest German enterprises.

6. WHAT EXPLAINS THE VARIED EVOLUTIONARY DYNAMICS OF DIVERSIFIED BUSINESS GROUPS OVER TIME?

We have explored the dynamics of diversified business groups in a longitudinal and comparative context to comprehend the differences as well as similarities of the business groups in distinct phases of modern economic growth. Figure 1 gives a concise presentation of the changing patterns of the role and significance that the different varieties of diversified business groups exhibited in different nations which have been examined above. Overall, it illustrates the prominence of bank-centered business groups from the late nineteenth century to the 1930s and state-owned groups from the 1920s to the late 1980s. Family-owned groups became significant especially since the 1950s, yet, we detect the significant inter-country variations especially for this variety of business groups. Conglomerate firms remained important from the 1960s to the 1980s in a few Anglo-Saxon economies. Although not illustrated in the figure, private equity firms quickly became one of the most active players in the capital markets since the 1980s. Diversified business groups as a whole, thus, occupied significant positions from the early twentieth century to the 1990s (See Appendix for a detailed summary on the rationales for the rise and fall of business groups in different time periods).

Figure 1 comes to here

We now attempt to pin down the basic factors that influence and drive the formation and development of diversified business groups and then explore the reasons why they evolved dissimilarly in different national economies. While the exogenous factors that impact the evolution of corporate models can theoretically be either economic forces or non-economic influences, research on diversified business groups has been strongly influenced by the economics-based perspective adopted by Khanna and colleagues (1997, 2007) who singled out the level of economic development and the maturity of market institutions as the most significant explanatory variable. Especially, they argued, with product markets often working poorly in emerging economies, which potentially provide profit-making opportunities to entrants, established firms take up those opportunities by utilizing internal capital markets to become diversified business groups. As long as external capital market institutions customarily remain underdeveloped in those economies, by contrast, the entrepreneurs of start-up firms cannot secure adequate capital to materialize the production and supply of goods and services for those product markets. The "institutional voids", particularly in capital but also in product and labor markets, plays the critical role, while exogenous factors beyond immature and imperfect markets and institutions remain marginal in the whole story.

Once the perspective is broadened to comprehend the characteristics of business organizations in general, on the other hand, the current orientation of international scholarship tends to emphasize categorical dissimilarities in broader non-economic as well as economic institutional factors in the different groups of national economies over time. As is typically observed in the "Varieties of Capitalism" literature, institutional approaches focus on the rigidity and continuity of such exogenous forces as legal framework, regulatory orientations, labor organizations, family goals and societal norms, which ahistorically condition the behavior of business organizations (See Schneider et al, this volume). We argue that, first, those institutional settings are often instable and actually transform themselves; as such they do not necessarily function as a binding precondition for the economic behavior of diversified business groups. Second, those business groups have not universally taken those institutions as the controlling might that would force the groups to passively take an adopting response.

Rather, business groups have often successfully reacted to the changing institutional settings to survive and grow by flexibly shifting their behavior in ownership arrangements, strategic orientations and structural accommodations. They even attempted to change the institutional environment to make it more instrumental and friendly to their business conduct in the marketplace.

Business Groups as a Reorganizing versus Generating Device: In the abovementioned process, we observed close interactions between environmental settings in terms of market forces, economic and non-economic institutions and the reactive and proactive behavior taken by individual business groups. This relates to *how* different business groups have been formed and impacted the national economy in which they involved. Based on the individual cases compiled in the national chapters in our forthcoming and earlier work (see Colpan and Hikino, 2017; 2010), we propose that individual diversified business groups have followed distinctive growth models depending on the time-specific historical context of relevant national settings, non-economic as well as economic, in which they were originally formed.

Specifically, many of the diversified business groups predominantly rose to serve as a *reorganizing device* of large industrial enterprises in those relevant national economies that experienced their initial industrialization processes before the end of the Second Industrial Revolution till the 1920s. “Reorganizing” in this context means that the prime actor of productive viability remained with independent operating enterprises in respective industries, which would later be reorganized into diversified business groups by the reactive involvement of mostly banks, the state and families. The effectiveness of industrial enterprises should be a necessary condition for the economic viability of nations, as Chandler repeatedly claimed. Yet, the contributions made by banking and other institutions at the center of group formation as a complementary instrument should be adequately acknowledged in this context.

Examples to this type of group formation will be the cases of the United States, Sweden, Germany and Italy.

In contrast, in those economies that industrialized relatively late after the 1920s, but especially since World War II, that is, national economies that started their industrialization under the precondition of acute backwardness in the Gerschenkronian sense, the diversified business groups became primarily a *generating device* of large industrial enterprises. "Generating" in this context means that it was a central agent, mostly an entrepreneur or a family, which created operating enterprises in several industries (Colpan and Hikino, 2010). The cases of contemporary emerging market business groups fit in here, as well as the cases of Portugal and Spain. These historical regularities suggest that the evolutionary experiences of diversified business groups fundamentally differ between those in earlier industrializing economies and the later developing economies (Figure 2 shows these different dynamics in the formation of diversified business groups in early and later industrialization).

<u>Figure 2 comes here</u>

Factors to Shape the Evolution of Diversified Business Groups: We now examine the common threads in understanding the dissimilar evolutionary patterns of diversified business groups in the nations of Western Europe, North America and Oceania to understand why different corporate organizations developed in individual national economies at a given time period. In this sense, our theoretical arguments are based on an inductive approach driving upon the historical and empirical analyses in the previous sections.

Our arguments below highlight the underlying universal factors that have long shaped the evolution of diversified business groups. They, however, resonate with the primary factors that have tipped to become central causal inferences that affected the group organization model in each of the historical period examined above: The early rise of the diversified business group had to do more with relative economic backwardness and the timing of industrialization. Politics, political institutions and regulatory frameworks, while surely important in different time periods, had their most direct and critical impact on business groups in the interwar period. The rising wave of diversified business groups since the 1960s in the characteristic form of "conglomeration," first in the United States and then followed by other nations, and the fall from the 1980s, then, resonances closely with the changing attitudes adopted by the investors, as their characteristic shifts for and then against the strategic conduct of unrelated diversification got elevated to the level of management fads and got transplanted into several nations. The resilience and in part resurgence of various varieties of diversified business groups after the 1980s, on the other hand, had most to do with endogenous factors within the firm itself. While these environmental and organizational forces have certainly been constantly interacting with each other, we separate them based on their primarily exogenous or endogenous characters to the firm in general. We then examine them individually to understand their functioning to shape the dissimilar fortunes of business groups in different nations over time.

6.1. Exogenous Factors:

The literature on diversified business groups that has extensively been developed based on the experiences of such business organizations in late-industrializing economies predominantly deals with missing markets and economic institutional voids. Those arguments suggest that diversified business groups appear because of a variety of market and institutional immaturities for which those groups can play the role of a substitute, which theoretically implies that this particular corporate model of business organizations should disappear as the markets and institutions develop to become more mature and well-functioning in relevant nations. The historical developments of early-industrializing economies, and especially their experiences with business groups (which are summarized above), show that this hypothetical argument is not quite supported in case of earlier developments of industrialization, which suggest that we need to look beyond the theoretical underpinnings of market immaturity and institutional void-filling. This is not to say that the development of markets and market institutions did not matter. Naturally their developments remain critically important. In reality, however, the process of national markets to mature and their institutions to progress is not a simple and straightforward shift but complicated and dynamic processes. What we propose here is that we need to incorporate larger forces in terms of the historical context and also the functioning of non-economic as well as economic institutions within that. Those forces, directly or sometimes indirectly through their effects on market efficiency and effectiveness, at times functioned as negative and even destructive forces, while at other times they ironically created a positive and favorable environment in which diversified business groups could further expand or rejuvenate.

Historical context as a precondition

Given the basic shift in production scale and thus capital requirements, international intra-industry competition changed fundamentally since the Second Industrial Revolution. Above all, for individual national economies, the initial timing of industrialization drive and the genesis of various institutions that emerged in connection to that economic shift apparently played a crucial role in designating particular assignments to specific agents to fulfill. In the classic Gerschenkron thesis, as the first country to start industrialization, Great Britain did not need to develop banks that committed to long-term industrial financing for domestic enterprises, as internal funds (without external financing from banks or other institutions) within industrial firms that were customarily owned and managed by business families were adequate enough for those enterprises to finance additional investment for their growth. After all, the demand for capital infusion from outside investors or lenders remained marginal in the early stages of British industrialization, as the national economy embarked upon the original drive toward industrial economy in the historical context of the

First Industrial Revolution of the late eighteenth century Banks thus did not commit to long-term industrial financing within the domestic economy, which later on created an institutional rigidity that would be called as the Macmillan gap (Collins, 1991), as the capital requirements to finance the massive fixed investments especially in several industries that experienced the technological and structural changes of the Second Industrial Revolution. Instead, the equity and bond markets were mostly perceived as the source of long-term finance for enterprises that engaged in overseas, especially colonial, ventures (Jones, this volume). For the countries that started industrialization later at the time of, or even after, the Second Industrial Revolution, since capital requirements substantially increased for the optimal size of production facilities to realize economies of scale, while the internal funds in reserve within industrial firms remained insufficient, banks had to fulfill the capital demand on the part of industrial firms. This is the mechanism of capital provision by banks that Gerschenkron identified as the consequence of "relative backwardness" of relevant national economies (especially Germany in his classification), although he did not quite comprehend the critical significance of the universal setting of the Second Industrial Revolution that substantially raised the minimum optimal size of production facilities and thus, regardless of their level of economic development, increased the capital requirements to achieve that size across the national economies.

The historical context of the Second Industrial Revolution in the late nineteenth to the early twentieth centuries, whose influence changed the basic nature of industrial competition on the global scale, and the progress (or struggle) of industrialization drive at the different historical timing and pace for individual national economies, thus, actually made a critical difference in terms of the relationship between industrial enterprises and banking and financial institutions. It is exactly at this conjuncture that the structural legacy of industrial financing mattered most for the different evolutionary paths of diversified business groups. Strong and developed capital providers (such as large universal banks) – in the absence of government regulations to prohibit them from committing to long-term industrial investments- took over weak and distressed industrial firms to form bank-centered business groups. The upshot was that the dominant variety of diversified business groups with adequate size that were observed in several of early industrializing economies since the Second Industrial Revolution was actually the bank-centered ones. Banks could be seen here as functioning akin to venture capitalists fulfilling the institutional voids in industrial financing and then, whenever necessary, played the role of investors in distressed debt for those companies.

Nonetheless, the formation of such groups in most cases was not automatic or straightforward, whereas banks in a few countries like Germany and the United States formed their groups actively and willingly. Indeed, the emergence of business groups often came reluctantly as a result of exogenous economic shocks and resulting financial troubles on the part of industrial enterprises when banks were left obliged to take over those distressed firms, as in Sweden, Belgium and Italy, that would eventually end up in the formation of bank-centered groups.

What is more, the timing of industrialization possibly also mattered for the initial obscurity of diversified business groups that encompass industrial companies in different business sectors. Since those industrial enterprises in the late nineteenth to early twentieth centuries became typically embodying proprietary know-how, for competitive reasons, they focused on nurturing that know-how and product-specific capabilities that they possessed, rather than reinvesting the income earned into unrelated product categories. Such product-specific capabilities plausibly functioned to deter them from entering into unknown business terrains and to form diversified business groups around themselves, because expected marginal return would remain higher with those investments in product and industry domains in which they can utilize proprietary resources and capabilities and thus should possess competitive advantages.

Politics, political institutions and regulatory frameworks

While economic backwardness is likely not independent of politics and political institutions, different governmental policies and regulatory regimes played further roles to influence, or at times determine, the fate of business groups in different nations. An immense and early impact came in the way how different governments and their regulators chose varieties of policies in different countries to stand face to face with the strong banks with large industrial interests in the 1930s. Some nations like the United States chose to eventually ban the formation of those groups. Some others like Sweden and Belgium tend to be less strict by accepting the opportunistic behavior of bank-centered groups in reorganizing themselves into other forms. A few like Italy, on the other hand, were more intrusive or active in having the government taking over distressed industrial firms and forming state-owned business groups.

Beyond those regulations that directly targeted and were in some ways detrimental to the prevailing business group organization, government policies also often indirectly affected the formation and operation of business groups. A good example was the Celler-Kefauver Act of 1950 that actually led to the formation of new types of business groups in the United States That Act, which amended the loophole of Clayton Act of 1914 by giving legal foundations to the government to intervene into anti-competitive vertical mergers, eventually became instrumental to support the "conglomerate" wave of the U.S. firms of the 1960s and 1970s (Hitt et al., 2007). Another example may be the trade protections that governments provided in the early 20th century Italy, followed by procurement during the inter war period, and accompanied with lax corporate governance regulations that assisted the growth of business groups in the country (Schneider et al, this volume; Colli and Vasta, this volume).

Government attitudes toward policy intervention into market processes actually function in dynamic and complicated ways to influence the ways how diversified business groups exercise their conduct in terms of strategic behavior and ownership structure. Since the 1980s, pro-market reforms that got initiated by the U.S. government and followed by the U.K. and other major nations lifted restrictive regulations and privatized many state-owned enterprises. Given the more competitive market settings that consequentially emerged both in financial and capital markets as well as product ones, diversified business groups had to face two major challenges. First, with all of regulatory distortion and protective umbrellas theoretically lifted, the competitive forces of open markets now confronted each one of the product domains in which subsidiaries within diversified business groups operated. Second, as will be discussed in more detail in the following section, they started coming under the strong pressure from the capital market to readjust their product portfolio to concentrate onto the categories where they possess competitive advantages to enjoy the higher-than-average rate of return. These shifts, and especially the latter one that specifically targeted the business group organization as a whole, had critical impact on the way how diversified business groups conducted their businesses.

Nonetheless, these broad policy and regulatory involvements were not unilateral, or these government interventions have not necessarily got abolished all together in practice despite pro-market reforms since the 1980s (Vietor, 1994). In many ways the government policies and regulations were actually shaped by the political advantages of influential business groups in reinforcing those institutions that favor the groups (Schneider et al, this volume). Such political advantages on the other hand likely depended on the relative power of governments and their dependence on business groups. Government power has been relatively high and dependence to business groups low in the United States, for instance, as opposed to Sweden where cooperation between business groups and the government has long been frequent and dense.[11] Evident most from the case of Sweden, the major business groups have long interacted with the political sphere in protecting their own interests. For instance, they worked closely with the political organs to affect the institutional set-up including tax

[11] We thank to Ben Schneider for pointing this relationship between the state and business

regulations and the system of differentiated voting rights of shareholders in facing the challenges stemming from the European Union. Having been considered as long-term, trustable and responsible owners within the Swedish society, large business groups utilized the resources of their social acceptance that contributed to their long-term prevalence in that economy (Larsson and Petersson, this volume).

The idiosyncrasy of capital markets and management fads

We actually observe the changing investor attitudes and management fads and fever playing decisive roles in shaping business group behavior particularly after the 1950s. In this regard a common thread across several nations examined in this volume is the rise of diversified business groups in many nations following the conglomeration fever in the United States starting in early 1950s and accelerating in the 1960s and 1970s. The following conglomerate drive on the international scale in the 1970s and 1980s seems to owe as much to temporal management fads and their transplantation across nations as to the liberalized capital and financial markets (and at the same time the lack of venture capital providers to finance start-ups in product markets with profit-making opportunities and the abundance of established large firms with access to those resources within their own companies or in capital and financial markets outside). Those fads that appeared and new ideas that developed in a national economy, and also the transplantations of such fads and ideas across nations, functioned as crucial factors to shape group structure.[12] The formation of diversified business groups, both widely-held and family-owned, seems to have occurred following a swift change in support of diversification drive in this time period simultaneously in several countries. In the case of Italy and Australia, in particular, we see many large diversified business groups abruptly coming out from earlier specialized enterprises in the 1970s and 1980s. Given the eventual absence of institutional

12 See for instance, Zorn et al, 2004 for the impact of management fads on the US firm. In Colpan and Hikino (eds.), 2017, in particular by Jones and Cuervo-Cazurra, refer to the impact of such fads in owner ideology.

investors, especially activist ones, firms were relatively insulated from strong investor preferences for narrow or focused product portfolio and jumped on the bandwagon of conglomeration often in forming diversified business group structures in pyramidal arrangements (outside the United States) in the 1960s and 1970s (Zorn et al, 2004).

Likewise, once the fate of original conglomerates ended in financial misery, then capital market players, especially institutional investors that had risen by that time, started to be preoccupied with the idea of "conglomerate discount" since the 1980s. Those institutional investors that have begun investing not only domestically but internationally as well came to frame a new investor-oriented understanding of the firm that should focus on lines of business where individual firms held core competence and thus enjoyed competitive advantages that yielded high profitability. They have thus forced many diversified business groups to disband and concentrate, including the ones whose performances were in reality respectable, by shunning investment in diversified business groups and thus lowering firm value, eventually forcing those groups to change their portfolios (Zorn et al, 2004). The more "impatient" and especially "activist" investors and takeover firms in the competitive capital markets of Anglo-Saxon economies have been directly hostile to the diversified business groups and pushed for the eventual dissolution of many of the diversified groups in those nations.

6.2. Endogenous factors:

What we have argued above shall not be taken as implying that environmental differences automatically determine a "one-fits-all" corporate model to be effective in one particular economy at a specific time. What we actually suggest is that one also needs to systematically look at the endogenous factors inside the group organization, from its ownership structure and owner ideology to underpinnings in resources, capabilities and administrative mechanisms to understand the prevalence and effectiveness of the group organization within individual nations. As discussed above, outside investors in this context can also have an endogenous aspect once the potential investors actually become the shareholders of a firm and affect its behavior and structure, for instance, by demanding management in diversified business groups to focus their product portfolio and thus force those groups to change their strategic nature. What we argue below is that those factors that are beyond purely exogenous in character have over time become to play relatively more significant roles for the long-term resilience of various business group organizations.

Ownership structure and shareholder ideology

Setting aside the political economy arguments on the existence of concentrated ownership in some nations, but not in others (see Schneider et al, this volume), ownership structure and the investment ideology of those owners have played critical roles in the diverse evolution of business groups. Foremost, the concentrated owners, often in the form of families or the government, are generally argued to have long-term horizon as their investment principles. This difference in time horizon results from the inclination that such owners are willing to forego short-term profits in order to obtain larger gains in the long-term (Schneider et al, this volume). It can also be because those owners prefer to pursue other goals like firm stability, political power and social prestige, which usually come with large corporate size, rather than profits that often fluctuate for exogenous macroeconomic reasons. For those concentrated owners, in particular, product and industry diversification can function as an effective means to achieve their preferred goals. For instance, in the case of Spain, state-owned business groups including SEPI (State Society of Industrial Participations), which was founded in 1995 after its predecessors of INI and INH were abolished, long kept its highly diversified business portfolio with the goal of securing employment and providing public services besides maximizing profitability (Cuervo-Cazurra, this volume).

Having concentrated ownership in families or the government particularly in Continental European countries, therefore, have possibly been an important factor to keep several business groups in place. Supporting this argument, Table 1 shows that many of the diversified business groups in the Western economies had in fact concentrated ownership especially in families. The table shows that the dominance of family ownership among the largest diversified business groups is actually observed even in mature economies, while the family ownership of diversified business groups has long become a norm in emerging markets.

Despite that concentrated ownership has mostly become a necessary condition, it is however unlikely that it is a sufficient condition for the resilience of business groups in competitive market settings. As has been argued above, with the escalated competition from increasingly globalized capital but also product markets particularly since the 1980s, many groups, regardless of their concentrated ownership structure, have begun to be challenged for their viability. Several of such instances are examined in this volume, such as several family-owned groups being forced to narrow down their product portfolios or even being sold to foreign enterprises (See for instance Larsson and Petersson, this volume and Cuervo-Cazurra, this volume). At this conjuncture, we argue below that the intra-group resources, capabilities and administrative processes inside the business organization becomes a vital factor.

Table 1 comes to here

Resources, capabilities and administrative mechanisms

The dynamic resources, capabilities and administrative mechanisms that groups developed to proact and react to the market and institutional developments became the decisive factors in shaping the diverse fortunes of business groups in the context of maturing and competitive market environments. In such settings, it is fair to suggest that the conventional characteristics of generic capabilities, unrelated diversification and loose, limited and unsystematic administrative control mechanisms that have been usually associated with business groups would be seriously challenged (Kock and Guillen, 2001; Hikino and Amsden, 1994). In this environment, the systematic integration of product-transcending resources and capabilities at the headquarters level and the product-related know-how at the operating company level became a necessary and sufficient condition for the survival and growth of diversified business groups.

At the level of operating companies, needless to say, the affiliated firms had to establish the product-related capability to survive and grow in their own product and industry domain in an increasingly competitive market environment. The corporate office of these affiliated firms controlled the functional operation through the administrative means of strategic planning or strategic control. In this context, the operating companies often came close to a small Chandlerian multidivisional enterprise with related product portfolio. At the level of headquarters unit (often organized as a holding company), however, the business group enterprise showed more characteristic differences that separated it from the Chandlerian multidivisional firm. The group headquarters usually needed to establish the industry-transcending capabilities to nurture and exploit in a variety of businesses it controlled. These resources and capabilities were often of financial characteristics (such as planning, budgeting and resource allocation) but also could be functional ones like human resources (including personnel training and transfer, performance management and incentive mechanisms at the group level) and information technology (to enforce mechanisms for systematization, coordination and integration across constituent firms). As market environment became more competitive, the headquarters understandably turned to achieving more administrative efficiency by enforcing systematized control mechanisms.

A noteworthy example in this regard is the case of Exor (previously IFI) group in Italy. The group originally exerted a tight and strategic control on its affiliated companies that were mostly concentrated in automotive manufacturing until the 1970s. With the core capabilities of the headquarters unit concentrated on the knowhow in automotive production, the other group companies outside this core business line (where the holding company at the helm usually held less equity stakes) were not systematically integrated into the group administrative mechanism and hence remained loosely controlled. As the group started to diversify aggressively outside automobile businesses after the 1970s, the holding company continued to strategically control its core business of automobile manufacturing, while the non-core businesses in unrelated industries received unequal attention and less organized control. At this stage, then, the group holding company attempted to systematically combine the strategic control of its main business with the financial control of its non-core businesses. The whole mechanism of group control, however, was not well designed in that the rules and responsibilities among the headquarters and individual operating units in the overall group organization remained unclear. Since the 2000s, then, the holding company's role has changed in two dimensions. First, the involvement of the holding company shifted into more financial, rather than strategic, control of all the group companies, including the core automotive business organized under the subsidiary Fiat. Second, the group headquarters established a much more well-defined control of its several core operating companies. As such, the control mechanism for the entire group organization became more structured and systematic and consequently less confused. At this conjuncture, the core capabilities of the headquarters became focused on financial expertise and managerial resource allocation for constituent group companies (Colli, 2016).

Supporting these arguments on the changing resources, capabilities and administrative mechanisms of diversified business groups to fit into maturing environments, Collis et al (this volume) has also maintained that those unrelated diversified firms in the United States that crafted their own set of resources and capabilities and built administrative mechanisms continued to add value to their businesses in the 1990s. Anand and Jayanti (2005) further argued that "the use of authority, superior information on the individual businesses, the ability to create a common culture and informational norms, repeated exchange and trust" may imply that such diversified entities could have advantages over market forces even in developed economy settings. Recent work supporting these claims has showed that several diversified groups have outperformed their rival firms even in well-functioning markets, and the oft-cited "diversification discount" contains measurement problems so that such "discount" cannot be generalizable to all unrelated-diversified enterprises (Maksimovic and Philips, 2013; Anand and Jayanti, 2005). These findings strongly suggest that the effectiveness of the diversified business model is not emphatically predetermined. Rather, depending on the specific arrangements to manage widely-diversified product and industry portfolio, strategic implementation and operational execution of such business models should be the ultimate component for the success and failure of those business groups.

7. CONCLUSION

This paper has aimed to explore the evolutionary dynamics of diversified business groups across contemporary developed economies over time and to identify common threads to understand why diversified business groups have evolved dissimilarly in different nations. The empirical examination provided in this paper questions the theoretical and empirical validity of the progressive interpretation of the development of large-scale modern industrial enterprises that Chandler proposed. Diversified business groups that have been dismissed in the Chandlerian framework have long lived and still prosper as an effective form of large business organization in several mature developed economies. Chandler was possibly right in emphasizing the historical significance of the emergence and effectiveness of multidivisional enterprise that eventually dominated the U.S. economy. He, however, oversimplified the whole story by eventually demoting historical context and institutional forces outside the internal managerial dynamics of *industrial* enterprises and thus marginalizing the contributions made by such economic players as banking institutions that had functioned as the core of diversified business groups.

Our analysis also suggests the necessity to reconsider and reformulate the conventional theoretical arguments on diversified business groups that were mostly developed based on the experiences of contemporary developing economies. The historical experiences of contemporary developed economies imply that the straightforward association of the general environmental settings of market immaturities and institutional voids with the rise and burgeoning of diversified business groups, which the research derived from the basic theoretical assumption in development economics has been preaching to date, is rather incomplete in reality. That understanding may be applied to the experiences of economies that started their industrialization processes at the stage of acute backwardness in the Gershenkronian sense, but it is not universally generalizable to other economies where industrialization got initiated at relatively advanced stages. This contingency suggests that the external environment of immature markets in capital, labor and product alone does not necessarily function as the sole deterministic factor for the formation of diversified business groups as an effective model of corporate business organization.

Our findings draw attention to the importance of examining the national *differences and* historical *shifts* in larger contexts in understanding the evolution of different varieties of diversified business groups, or comparable models corporate business organizations as a whole for that matter. Historical context had immense effects in the early emergence of bank-centered business groups, when banks, willingly or reluctantly, formed their own groups in several economies. This historical beginning did not however imprint the evolvement of the business group organization in the long-run. Politics and political institutions distorted the development paths often to destroy those business groups all together, transformed them into other varieties of corporate models, or sometimes nationalized them into being state-owned groups. The idiosyncrasy of capital markets, changing investor attitudes and management fads functioned in an interconnected fashion to become decisive as those factors first created and later on destroyed business groups. The conglomeration drive that started in the United States in the early 1950s and got supported by the waves of liberalization in financial and capital markets was taken up by entrepreneurs in other Western nations to end up in diversified business groups that were often organized in pyramidal structures. The changing ideology from the 1980s, especially that by institutional investors following the earlier collapse of many of the groups, worked in the opposite direction to break-up the very groups that they pressed for. Those groups that had concentrated ownership were in a favorable condition to resist or even outright reject the pressure for deconglomeration.

These dynamics suggest that such broad and diverse exogenous factors beyond the environmental settings of immature and imperfect markets and institutions actually play critical roles in shaping the basic course of the long-term developments of business groups. Those exogenous endowments have at times positively functioned to keep business groups intact. Yet, the same environmental factors –and especially political institutions and capital markets – have ultimately turned into powerful agents to dismantle those diversified business groups themselves.

In order to understand the resilience as well as effectiveness of the corporate model of diversified business groups, then, a decisive factor to examine remains inside the group itself: especially the competitive resources, capabilities and administrative mechanisms within the groups and their alignment with ownership structures. A common thread that comes across national experiences (see Colpan and Hikino, 2017) is the evolution from unsystematic and looser arrangements of intra-group administration that defied any competitive assets to more systematic and often financial control mechanisms that valued and utilized proprietary resources at both operating and group levels, which have often been organized under concentrated ownership. This is not necessarily to imply that some business groups cannot attempt to operate on slack while relying on their closed ownership and cross-subsidization across business units to ensure their longevity. But surely with the globalizing capital as well as competitive product markets such strategies alone are unlikely to warrant long-term viability for business groups with broad and unrelated product portfolio.

In sum, we argue that diversified business groups are not simply transitionary organizations that worked well only at the early phase of modern economic growth and shall not necessarily become an obstacle for dynamic development as the economies mature. Instead, as the business groups flexibly evolve as an effective corporate organization they can fit in and stay on as a viable organ for growth even in mature markets. To understand such flexibility in terms of the internal configurations of diversified business groups, more research inside the black-box of the intra-organizational dynamics of business groups is indispensable.

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Table 1. The largest diversified business groups in the West, 2014

Rank	Group name	Country	Revenues (US$m)	Year	Controlling ownership	Public listing[a]	
						Apex	Operating units
1	Berkshire Hathaway	USA	194,673	2014	Warren Buffett	○	×
2	Wallenberg Group	Sweden	182000 [b]	2013	Wallenberg family	○	○
3	Exor Group	Italy	148,043	2014	Agnelli family	○	○
4	Handelsbanken Group	Sweden	140000 [b]	2014	None	○	○
5	Access Industries	USA	125,000	2011	Leonard Blavatnik	×	×
6	Koch Industries	USA	115,000	2014	Koch family	×	×
7	Jardine Matheson	UK/Bermuda/ Hong Kong[c]	62,782	2014	Keswick family	○	○
8	Wesfarmers	Australia	49,235	2014	None	○	×
9	Groupe Bouygues	France	40,131	2014	Bouygues family	○	○
10	Groupe Arnault	France	39020[d]	2014	Arnault family	×	○
11	Weston Group	Canada	37,890	2014	Weston family	○	○
12	Power Corporation of Canada	Canada	36,778	2014	Desmarais family	○	○
13	JD Irving Limited	Canada/Bermuda[c]	30000 [b]	2011	Irving family	×	△
14	Américo Amorim Group	Portugal	25,063	2010	Amorim family	×	○
15	Swire Group	UK	28,974	2014	Swire family	×	○
16	Virgin Group	UK	24,000	2012	Richard Branson	×	○
17	Danaher[f]	USA	19,914	2014	None	○	×
18	Icahn Enterprises	USA	18,758	2014	Carl Icahn	○	×
19	SHV Group	Netherlands	18,051	2014	Fentener van Vlissingen famil	×	×
20	Rethmann Group	Germany	14,774	2014	Rethmann family	×	×
21	Loews Corporation	USA	14,572	2014	Tisch family	○	○
22	Mondragon Corporation	Spain	14,381	2014	Employees' cooperatives	×	×
23	Espírito Santo Group[g]	Portugal	13,252	2010	Espírito Santo family	×	○
24	Oetker Group	Germany	13,241	2014	Oetker family	×	×
25	Edizione Group	Italy	13,200	2014	Benetton family	×	○
26	Leucadia National Corporation	USA	12,407	2014	None	○	△
27	Groupe Artemis	France	12110[h]	2014	Pinault family	×	○
28	Groupe Frere-Bourgeois	Belgium	12,106	2014	Frere family	×	○
29	Maxingvest	Germany	11,702	2014	Herz family	×	○
30	Cofra Group	Switzerland/ Netherlands[c]	10000[b]	2008	Brenninkmeijer family	×	×
31	Axel Johnson	Sweden	8,524	2014	Johnson family	×	○
32	HAL Trust	Curaçao/ Netherlands[c]	8,484	2014	Van der Vorm family	○	○
33	Jim Pattison Group	Canada	8,400	2015	Jim Pattison	×	△
34	Jarden Corporation[i]	USA	8,287	2014	None	○	×
35	Grupo Villar Mir	Spain	7,826	2014	Villar Mir family	×	△
36	Freudenberg Group	Germany	7,244	2014	Freudenberg family	×	×
37	Groupe Wendel	France	7,162	2014	Wendel family	○	○
38	Kinnevik Group	Sweden	6,386	2014	Stenbeck family	○	○
39	Italmobiliare Group	Italy	6,169	2013	Pesenti family	○	○
40	Sonae Group	Portugal	6,024	2014	Belmiro de Azevedo family	×	○
41	Newell Rubbermaid[i]	USA	5,727	2014	None	○	×
42	Fininvest Group	Italy	5,300	2015	Berlusconi family	×	○
43	Fintecna Group	Italy	5,163	2013	Ministry of Economy and Finance, Italy	×	○
44	Renco Group	USA	5000[b]	2014	Ira Rennert	×	×
45	Haniel Group	Germany	4,776	2014	Haniel family	×	○
46	SEPI	Spain	4,433	2014	Treasury and Public Administration Ministry, Spain	×	○
47	Werhahn Group	Germany	4,419	2013	Werhahn family	×	×
48	James Richardson & Sons	Canada	4,200	2010	Richardson family	×	×
49	Bestway Group[j]	UK	3,970	2014	Pervez family	×	○
50	COFIDE Gruppo De Benedetti	Italy	2,952	2014	De Benedetti family	○	○

Source: Orbis/Osiris Database, Bureau van Dijk Electronic Publishing KK; Group webpages and annual reports; Chapters in Colpan, and Hikino, 2017.

Note: This table covers only the diversified business groups in the nations covered in this volume.

a In public listing colomn for operating units, ○means some operting units are listed. △means most companies are privately held. Apex unit represent the central controlling organization of the group, although there may be some family offices or other organizations on top of the visible unit.

b Approximate figure.

c Jardine Matheson has standard listing in the UK, incorporated in Bermuda and operates from Hong Kong. JD Irving is registered in Bermuda. Cofra group belongs to the Brenninkmeijer family in Netherlands, but headquartered in Switzerland. HAL Trust is based in Curacao but listed in Netherlands.

d This figure is the revenues of Financière Agache, which is a holding company controlled by Groupe Arnault.

e Some companies are connected to the Virgin group only through a licensing agreement.

f In 2015 Danaher announced it would split itself into two companies.

g Espírito Santo Group was dismantled in August 2014.

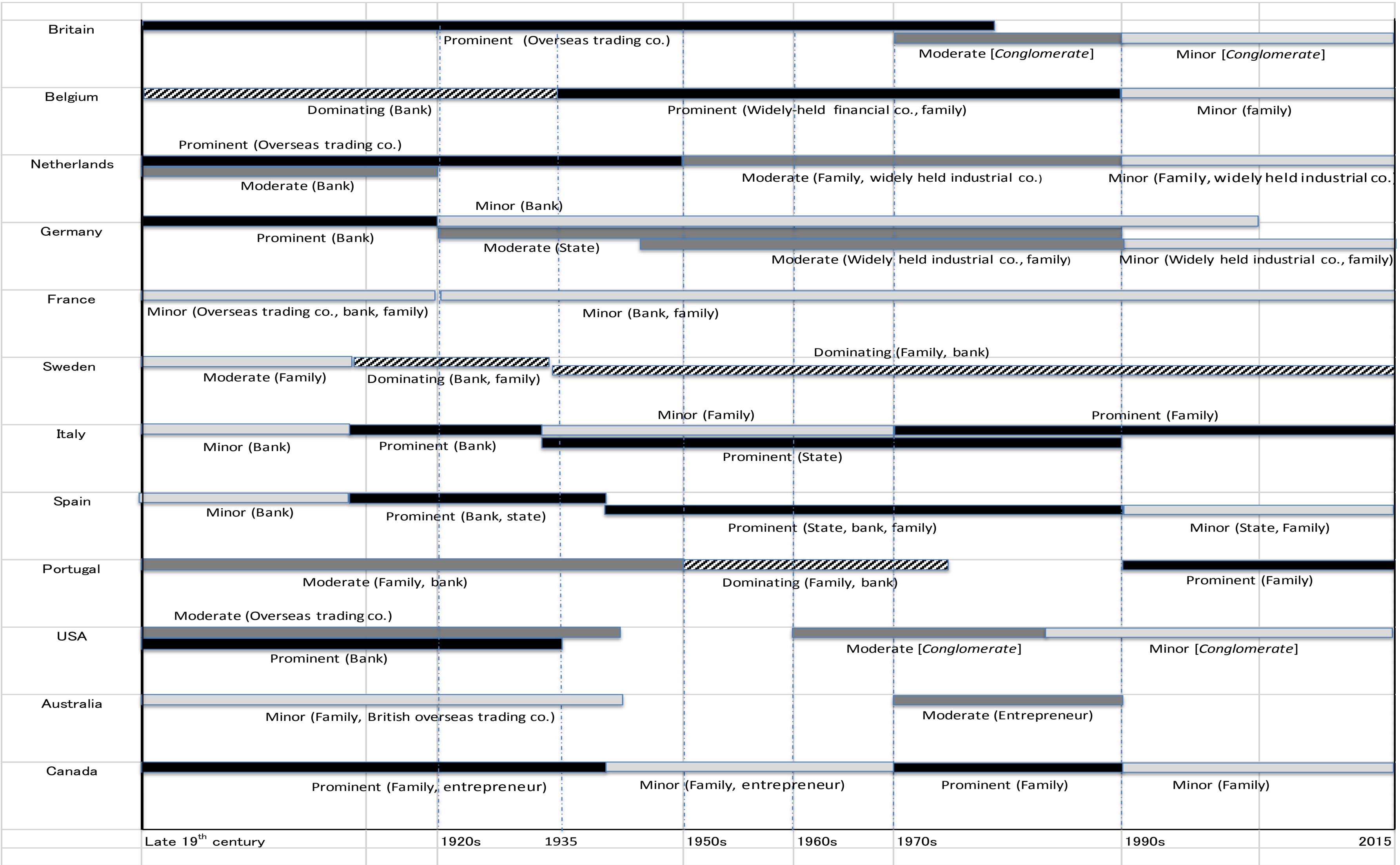
h This figure shows the revenues for only one subsidiary named Kering, as the revenues for the whole group is not available.

i Newell Rubbermaid and Jarden agreed to merge in 2015.

j Bestway group has operations in the grocery wholesale, pharmacy and realestate industries the UK and entered into cement and banking industries in Pakistan.

k The Lundberg family has increased its ownership in the holding company, Industrivärden, to more than 20% in 2106. ,

Figure 1. Significance of different varieties of diversified business groups in the Western economies



Note: The bars in the above figure illustrate the significance that specific type of business groups played in individual economies over time. The type of the group is shown in parentheses besides the term describing its significance. Diversified business groups have been distinguished according to their distinctive types following the typology of diversified business groups identified in Chapter 1 of Colpan and Hikino, 2017.

Source: Based predominantly on the national chapters in Colpan and Hikino, 2017.

Figure 2. Two distinctive models of diversified business groups

Early Industrializing Economies:		**Late Industrializing Economies:**
Business Groups as a ***Reorganizing Device*** of Industrial Enterprises		Business groups as a ***Generating Device*** of Industrial Enterprises
Prime Actor:	2nd Industrial Revolution	**Prime Actor:**
Operating Enterprises		Headquarters unit
Operating enterprises in: - Industry 1 - Industry 2 - Industry 3 - Industry 4 -	Headquarters unit: - Banks - The State - Family Headquarters unit: - Family - Banks - The State	Operating enterprises in: - Industry 1 - Industry 2 - Industry 3 - Industry 4 - ....
Proprietary assets:		**Proprietary assets:**
Product/industry specific		Product/industry transcending

Appendix. The role and significance of diversified business groups in the Western economies

		Britain	**Belgium**	**The Netherlands**
1st wave	Time period	From 1870s to 1980s	From 1880s to 1935	From 1870s to 1950s
	Significance in the economy	Prominent in overseas developing economies	Dominating	Prominent in overseas developing economies
	Core actor	Overseas trading company-centered groups	Bank-centered groups	Overseas trading company-centered groups
	Reasons for emergence	Functioning capital markets in the UK to subsitute for dysfunctional markets and institutions in developing economies	Industrial revolution funded by universal banks that held a portfolio of industrial stakes and close relationships with management; some independent family groups that created their own banks	Opening of colonies for private investments (after 1860s); development of modern banks
	Reasons for decline (if any)	Changes in political environment in host countries; changes in perception of British capital markets that got hostile to diversified groups	Structural change forced separation of banks and industrial holdings in 1934/35; financial holding companies remained important	Economic crisis of the 1930s; mergers; decolonization after WWII brought an end to many groups.
2nd wave		From 1970s to 1990s	From 1935 to 1990s	From the late 19th century to 1920s
	Significance in the economy	Moderate	Prominent	Moderate
	Core actor	Conglomerates	Widely-held financial holding company-centered and family-owned business groups	Bank-centered business groups
	Reasons for emergence	Fluid market for corporate control that functioned instrumentally for acquisitions and sell-offs of enterprises	Earlier groups reorganized through the establishment of financial holding companies. Business opportunities after WWII assisted expansion into new business areas.	Long-term investment by banks in industrial enterprises
	Reasons for decline (if any)	Unfashionability of diversified product portfolio; capital market pressures to refocus on a narrow range of products (A few survived as diversified business groups).	Management mistakes at financial holdings; contestable control structure; opening of Belgian market as part of the European Single Market programme	Dutch financial crisis of the 1920s brought an end to equity investments in industrial firms and led to more conservative attitude towards financing enterprises.
3rd wave			From the 1990s to present	From 1950s to 1990s
	Significance in the economy		Minor**	Moderate
	Core actor		Family-owned groups (Groupe Frere-Bourgeois remained as the "surviving" Belgian diversified group).	Family-owned and widely-held industrial company centered business groups (including some earlier trading company centered groups)
	Reasons for emergence		Decline of the Belgian groups and the eventual sale of group companies to overseas enterprises (in particular from France but also from the Netherlands).	Diversification for growth in the post-colonial market setting since the 1950s; response to decline in original industry; management of risk through diversification
	Reasons for decline (if any)		n.a.	Growing international competition and economic crisis of the 1970s; development of competitive European market; management troubles. Some stay resilient.

Germany	France	Sweden*		
From 1880s to 1920s	From 1870s to 1920s	From 1910s to 1930s	1st wave	Time period
Prominent	Minor	Dominating		Significance in the economy
Bank-centered business groups	Overseas trading company centered groups, bank-centered business groups, few family owned groups	Bank-centered groups and few family-owned groups		Core actor
Long-term investment by banks in industrial enterprises	Market opportunities in overseas markets; long-term investment by banks in industrial enterprises	For the finance of industrial companies by commercial banks that extended their ownership of industrial enterprises after the financial crises of the 1920s and 1930s		Reasons for emergence
World War I and hyperinflation (Deutsche Bank group and few others remained resilient as an exception. After 2000s however they divested their industrial activities).	Changes in political and economic environment in host countries brought an end to trading groups. Some bank and family groups stayed resilient.	Regulations of 1933/34 prohibited banks from directly holding equity; but the groups stayed resilient by reorganizing their structures		Reasons for decline (if any)
From 1920s to 1990s	From the 1920s	From 1930s to present	2nd wave	Time period
Moderate	Minor	Dominating		Significance in the economy
State-owned business groups	Family-owned business groups	Family-owned and bank-centered groups		Core actor
Reorganization of state owned enterprises into holding companies in the interwar period.	Business groups were to seize opportunities in new markets and privatizations, as well as to escape from declines in original industries.	Earlier groups reorganized through the establishment of holding companies and special investment funds. Business opportunities after WWII assisted expansion into new business areas.		Reasons for emergence
Privatization process and focusing on core businesses that ended these groups.	not applicable	Not applicable (Groups however face challenges due to deregulation of financial markets and capital market pressures since the 1980s.)		Reasons for decline (if any)
From 1945 to 1990s		From the 1980s to present	3rd wave	Time period
Moderate		Moderate		Significance in the economy
Widely-held industrial company centered and family-owned business groups		Family-owned business groups		Core actor
Management of risk through diversification; ban of cartelization in 1947 that led to diversification activities		Rise of new sectors such as IT and media, which was taken up by the newly formed business groups.		Reasons for emergence
Perception of Anglo-saxon business model that discouraged unrelated diversification and widely-diversified business groups. After the financial crisis in 2008, a renewed trend towards formation of groups started.		not applicable		Reasons for decline (if any)

Italy*	Spain*	Portugal		
From 1910s to 1930s	From 1910s to late 1930s	From the late 19th century to 1975	1st wave	Time period
Prominent	Prominent	Moderate before 1950s; dominating afterwards		Significance in the economy
Bank-centered groups	Bank-centered groups and some state-owned groups	Family-owned business groups, bank-centered business groups		Core actor
Long-term investment by banks in industrial enterprises that often became controlling shareholders as they took over distressed companies	Government encouragement of banks to invest in industrial firms to grow and achieve rapid industrialization; government intervention to speed up industrialization	Subsitute for dysfunctional markets and institutions in the domestic economy		Reasons for emergence
Bail out of banks and their affiliated companies by state agency following the economic depression of early 1930s.	Civil war (1936-1939), economic collapse and autarchic period at beginning of military dictatorship	Nationalization of business groups in 1975 that led to a sudden end to the business groups.		Reasons for decline (if any)
From 1933 to 1990s	From 1940s to 1990s	From the 1990s to present	2nd wave	Time period
Prominent	Prominent	Prominent		Significance in the economy
State-owned group (IRI and since the 1950s ENI) and few family-owned groups	State-owned group (INI), bank-centered industrial groups, some family owned groups	Family-owned business groups		Core actor
IRI emerged to in order to rescue the failing banks (and their industrial investments) by the state; ENI was created to manage the country's needs in energy.	Import substitutiton model of development: State owned groups to facilitate the rapid industrialization, banks investing in industrial firms to increase income, families diversify in search of growth opportunities	Acquisition of assets in privatization programme; capital market liberalization. (Groups maintained unrelated diversification but focused more on fewer core industries and became multinational).		Reasons for emergence
Dissolution of IRI in 2002 following the privatization of its businesses in the 1980s and 1990s; ENI stays intact.	End of import substitution; liberalization, privatization and deregulation after the 1970s. Some groups remained resilient by focusing on core activities to gain size to compete on a global scale.	not applicable		Reasons for decline (if any)
From the 1970s to present	From 1990s to present		3rd wave	Time period
Prominent	Minor			Significance in the economy
Family-owned groups	Family-owned business groups			Core actor
Acquisition of assets in privatization programme and capital market liberalization, both of which assisted established firms to diversify into new business fields.	Acquisition and restructuring of firms in difficulties led to the formation of new groups			Reasons for emergence
not applicable (There is some decline however in the overall significance of the largest groups in the Italian economy).	not applicable			Reasons for decline (if any)

USA	Australia	Canada		
From the 1870s to 1940s	From 1850s to 1940s	From the late 19th century to 1940s	1st wave	Time period
Moderate in overseas developing economies	Minor	Prominent		Significance in the economy
Overseas trading company-centered groups	Family-owned business groups, British overseas trading companies	Family- or entrepreneur-owned business groups		Core actor
Functioning US capital markets to subsitute for dysfunctional markets and institutions in developing economies	Close-knit colonial communities, entrepreneurial innovation; conducive environment for emerging British overseas trading groups	Business groups emerge to subsitute for dysfunctional markets and institutions in the domestic economy		Reasons for emergence
Maturing of specialized multinational companies and development of local economies	Maturing domestic capital markets and commercial practices fostered large corporations; waning influence of British trading groups.	Role ended by economic development of the country		Reasons for decline (if any)
From the 1880s to mid 1930s	From 1970s to 1990s	From 1970s to 1990s	2nd wave	Time period
Prominent	Moderate	Prominent		Significance in the economy
Large New York bank-centered groups	Entreprenuer-owned business groups	Family-owned business groups		Core actor
Well-developed financial and capital markets; and investment opportunities in technological and product markets	Change of competition policy, financial deregulation and active takeover market that led to the rise of diversified business groups	Nationalistic policies and political connections that favored Canadian-controlled firms to enter into specific industries		Reasons for emergence
Development of managerial enterprises; and government regulations that challenged banking groups	Ineffective management, over-leveraged debt structure and the 1987 stock market crash brought the demise of business groups	Major change of policies toward liberal ones that led to the diminishing of business groups.		Reasons for decline (if any)
From 1960s to 1980s			3rd wave	Time period
Moderate				Significance in the economy
Conglomerates				Core actor
Low interest rate and emerging market for corporate control that functioned instrumentally for acquisitions and sell-off of enterprises.				Reasons for emergence
Low profitability and capital market pressures (Wall Street hostility). Some groups, particularly of the value-creating type, remained resilient.				Reasons for decline (if any)

Note: This chart does not include private equity firms.
* We observe the moderate role of family-owned groups for Sweden, minor role of bank-centered groups for Italy and Spain from the late 19th century until the 1910s. We however do not show them in this chart due to
space limitations on the chart. For a companion chart, see Figure 1 that illustrates the roles of these groups.
** Suez took control of Societe Generale de Belgique and its diversified assets in 1988 (as such looks like a diversified business group for a transitional period), which however from late 1990s divested the non-core assets to focus on utilities and waste manegement.
Source: Based mainly on the national chapters in Colpan and Hikino, 2017.