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Business groups

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BUSINESS GROUPS

Asli M. Colpan and Alvaro Cuervo-Cazurra

Introduction

Business groups have risen to play essential roles in industrial development since the Second Industrial Revolution in the late nineteenth century. While business groups have been a crucial organizational form in many economies, they have been most resilient and remained dominant actors in contemporary emerging economies (Colpan et al., 2010; Colpan and Hikino, 2018a; Khanna and Yafeh, 2007). Business groups have generated an extensive and increasing literature that has mostly focused on their diversification strategies and pyramidal structures, and the performance implications of group affiliation (e.g., Carney et al., 2011; Cuervo-Cazurra, 2006, 2018a; Khanna and Rivkin, 2001; Morck and Yeung, 2003; see literature reviews in Colpan and Hikino, 2010; Colli and Colpan, 2016; Khanna and Yafeh, 2007). However, the literature has paid less attention to the internationalization of business groups as an organizational form, and to how companies affiliated with business groups are influenced by the parent organization in their internationalization (e.g., Guillen, 2000; Kumar et al., 2012; Tan and Meyer, 2010; Yiu, 2011; see a review in Yaprak and Karademir, 2010).

Hence, in this chapter, we examine the internationalization strategies taken by business groups to understand how business groups act as “makers of global business.” After providing a broad discussion of different varieties of business groups and their internationalization patterns in historical context since the nineteenth century, we concentrate on the cases of emerging market business groups for analytical focus and logical clarity. These emerging market business groups have shown active involvement in overseas markets, especially since the implementation of pro-market reforms after the 1980s induced them to improve the competitiveness of their component businesses (Cuervo-Cazurra et al., 2019). Advanced economy business groups also expanded their international presence in this period, while at the same time several of them refocused their product portfolios (Colpan and Hikino, 2018a). We focus on emerging market business groups after the 1980s for two reasons. First, emerging market business groups, and consequently their internationalization, differ in their basic resource endowments and institutional settings from those in advanced economies. Firms in emerging economies often lack the support of superior national innovation, capital, and educational systems that have helped the internationalization of companies in industrialized economies. Second, research on emerging economy business groups and the internationalization of their firms has surged recently, providing new and rich material.
We examine the case of the Koç group, the largest and one of the most internationalized Turkish business groups, with operations in automotive, consumer electronics, energy and petrochemicals, banking and insurance, tourism, and information technology. This broad examination of the internationalization of business groups at the entire group-level in an evolutionary perspective differentiates the present chapter from previous research on the topic. As such, the case serves as the basis for understanding the internationalization of business groups in emerging economies and the identification of the following conclusions.

First, we propose and explain how the affiliation of a company with a business group provides it with not only benefits, but also constraints on its internationalization. On the one hand, business groups assist component firms with the financial, managerial, and knowledge support needed to undertake investments that are critically lacking in emerging markets and that form the basis for internationalization. On the other hand, membership in a business group may constrain internationalization because affiliated firms may have fewer incentives to internationalize given their advantageous and often dominant positions in domestic markets.

Second, we propose and explain how the internationalization of emerging market business groups has been driven by the adoption of pro-market reforms that have supported their global expansion since the 1980s. Such reforms had critical effects on the timing and momentum of internationalization of business groups as the component firms were forced to improve their competitiveness. This is illustrated in the Koç group’s accelerated internationalization efforts as the country opened up its domestic markets to overseas competition after the 1980s.

The rest of this chapter is organized as follows. In the next section, we provide a brief overview of the literature on the internationalization of business groups in historical context to present a broad picture of the topic. We then introduce our arguments on the influence of business groups on internationalization in emerging markets. We illustrate these with a historical overview of the internationalization of the Turkish Koç group. We conclude with suggestions for future studies and the overall impact on the development of global business.

**Business groups and internationalization: historical context**

Business groups are a collection of legally independent firms operating in unrelated product markets and connected via equity and other formal and informal ties. Business groups can be considered under the category of “multi-unit” enterprises, which consist of a headquarters unit and operating units that illustrate the division of labor between the task of administrative control and the actual production of goods and services (Colpan and Hikino, 2010). Business groups differ from other organizational models especially regarding their strategy and structure. First, they show technology- and market-unrelated product portfolios. Second, their operating units are structured in legally independent subsidiaries and affiliates that are connected via multiple ties; those units are often partially (rather than wholly) owned by the headquarters.

Table 15.1 illustrates the difference between business groups and other multi-unit enterprises. It shows that business groups differ from other multi-unit enterprises as they are composed of legally independent firms that operate in unrelated industries and have a degree of coordination, control, and ownership links. Thus, business groups differ from acquisitive conglomerates (no strategic coordination), multidivisional firms (no legally independent firms and no unrelated diversification), multinational firms (no unrelated diversification), or holding companies (no strategic coordination and no unrelated diversification).

There is a perception that business groups are an organizational form characteristic of emerging markets, known by various names such as grupos económicos in Latin America or chaebol in South Korea, since many of the largest companies in emerging economies are linked to business
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For example, among the largest publicly listed firms in Forbes (2017) one finds the South Korean Samsung Electronics, which is part of Samsung group’s operations in construction and real estate, consumer electronics, medical services, shipbuilding, and financial services; the Chinese technology conglomerate Alibaba operating in e-commerce, finance, artificial intelligence, information technology services, distribution, and media; the Indian conglomerate Reliance Industries that has operations in telecommunications, oil and gas, refining and petrochemicals, retail, biotechnology, and transportation; and the Saudi holding Saudi Basic Industries Corporation that operates in chemicals, fertilizers, and metals.

Many of the billionaires from emerging markets derive their wealth from the ownership of business groups. For example, among the list of billionaires in Forbes (2018), one finds Carlos Slim Helu of Mexico whose wealth comes from telecommunication, construction, mining, real estate, and consumer goods firms; Wang Jianlin of China whose wealth is associated with commercial real estate, hotels, tourism, and entertainment; Gennady Timchenko of Russia, who has investments in gas, petrochemicals, railways, and construction; and Mukesh Ambani of India whose wealth is derived from oil and gas, telecommunications, petrochemicals, and retail.

However, business groups are not exclusively an emerging market phenomenon; they have also played critical roles in the world’s most advanced economies especially in Europe since the late nineteenth century and they continue to be a prevalent form of large enterprise in many developed economies. For instance, the Wallenberg group in Sweden is presently active in engineering, finance, wood and paper, pharmaceuticals, and medical equipment industries and others; and the Exor group in Italy operates in insurance, motor vehicles, heavy machinery, media, and sports management (see Colpan and Hikino, 2018a; Jones and Khanna, 2006; Morck, 2005).

We argue that the internationalization of business groups can be understood in three broad categories depending on the historical context in which they were formed: trading, early

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Ownership link</th>
<th>Central control</th>
<th>Strategic coordination</th>
<th>Unrelated diversification</th>
<th>Type of enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legally independent firms</td>
<td>Yes (often partial)</td>
<td>Yes</td>
<td>Yes^2</td>
<td>Yes</td>
<td>(Diversified) business group</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Acquisitive conglomerates, private equity</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Chandlerian multidivisional enterprise</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Multinational enterprise</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes^3</td>
<td>No</td>
<td>No</td>
<td>“Holding-company”^3</td>
</tr>
</tbody>
</table>

Notes
The above classifications give the archetypal characteristics of some of the comparable organizational models.
1 Ownership link here denotes equity ties between the different units of the organization.
2 Conventionally, often limited and unsystematic.
3 The “holding company” model is based on Chandler-Williamson, which includes a pure holding company with limited and lose control of operating subsidiaries that are concentrated on focused or narrowly related product categories.
Business groups

industrializing, and late industrializing business groups. The contextual conditions can primarily be understood in terms of the period of industrialization of the national economy (early industrializing nations that underwent their initial phase of industrialization by the late nineteenth to early twentieth century, and late industrializing ones had their modern economic growth in the twentieth century and especially after the 1950s) and the economic nature of central institutions within the groups (overseas trading companies versus banks and financial institutions) (Colpan and Hikino, 2018b). The three types of traditional business groups, however, should not be viewed as a comprehensive set of business groups and patterns of internationalization that were prevalent at a particular time in history. Instead, they show how the prevailing types of business groups within a specific developmental context have followed various internationalization patterns.

The first type is the trading business groups. Firms in early industrializing economies used the abundant capital in those economies to invest abroad in the mid to late nineteenth century. In some economies, such as Britain, business groups were formed to exploit market imperfections in developing, and particularly colonial, economies (Jones, 2000). Their objective was to take advantage of investment opportunities in those developing countries that were at the initial stage of industrialization and lacked domestic capital. These groups often had contacts with colonial administrators and local businesses in the regions where they invested, and leveraged their regional knowledge competencies. These business groups were thus international from their beginning, operating in a variety of foreign nations (Jones and Khanna, 2006). Examples of these groups are overseas merchant business groups, such as the British-trading company centered groups Swire’s and Jardine Matheson, and the US overseas groups Grace and United Fruit, which were established in the mid to late nineteenth century (Jones, 2000; Jones and Colpan, 2010; Hikino and Bucheli, 2018). The merchant houses were the core firm within each group, whereas their separately listed or incorporated affiliates operated plantations, mines, processing facilities, and others. For instance, Harrisons and Crosfield was founded as a Liverpool-based partnership in the 1840s and managed tea trading and rubber plantations, as well as import, shipping, and insurance agencies, mostly in South Asia and Southeast Asia. The overseas companies were placed in publicly quoted entities in which Harrisons and Crosfield held equity and board positions (Jones and Colpan, 2010).

The second type is the early industrializing business groups. These groups were bank-centered groups appearing in the late nineteenth to early twentieth centuries in countries like Belgium, Germany, and Sweden. In those groups, the commercial and investment banks functioned as reorganizing mechanisms by restructuring existing industrial firms and forming business groups around the banks (Colpan and Hikino, 2018b). In these instances, banks (or financial holdings linked to banks after the 1930s when banks experienced limitations on their control of industrial enterprises) reorganized large industrial firms with proprietary resources and capabilities in technology and brands. Business groups served as providers of capital when necessary, but the internationalization of the industrial companies often targeted additional revenues for those firms to exploit their capabilities. Swedish industrial firms belonging to the biggest business group in the country, Wallenberg group, fit this case (Larsson and Peterrson, 2018).2 An example is Skega, founded in the 1920s by the Svensson family in Sweden to produce working shoes and rubber gloves, which experienced early internationalization attempts in the mid–1960s under agent agreements. However the real internationalization momentum of the company came when it was acquired by the Wallenberg group company, Incentive, in 1969. Skega by itself had failed to export capital from Sweden under the tight capital markets of the time, and could not find local financiers abroad either. Under the new ownership of the Wallenberg group and an introduction letter from Marcus Wallenberg, Skega was able to access financial funds for its overseas
investment. As a result, by the end of the 1970s it had established overseas subsidiaries in Chile, Canada, Mexico, South Africa, Singapore, Finland, and Brazil. Being a part of the Wallenberg group with its financial expertise and international network brought critical advantages in this affiliated company’s international endeavor (Andersson, 2010).

The third type is the late industrializing business groups. These groups were formed as local entrepreneurs established several legally independent firms based on licensed and imported technologies, which then grew in protected domestic markets, especially since the 1950s. In these economies, business groups emerged with an industry generating role, with entrepreneurs creating multiple enterprises and gathering them within diversified business groups (Colpan and Hikino, 2018b). Examples are current emerging market business groups such as the Indian Tata group, which was created in 1869 and by 2017 had 100 operating companies, 29 of which were publicly traded. The group has operations in metals, automobiles, information technology, consulting, energy, chemicals, food and beverages, and hotels, and obtained 64 percent of its total revenues from its international operations (Tata, 2018).3 Firms in these economies actively went overseas, particularly since the 1980s after their home countries implemented pro-market reforms that forced component firms to improve their capabilities (Cuervo-Cazurra and Dau, 2009b), seeking to invest in more advanced economies to acquire superior resources and capabilities (Luo and Tung, 2007). They also invested in other emerging countries to exploit their firm-specific capabilities (Sarkar, 2010; Colpan, 2010), taking advantage of their knowledge on how to operate in the challenging conditions of emerging economies (Cuervo-Cazurra and Genc, 2008; del Sol and Kogan, 2007). Being part of a business group was more critical in the internationalization of these emerging economy firms relative to the advanced economy ones, because the group membership brought a range of resources and advantages that affiliated firms critically lacked in supporting their overseas expansion (Pedersen and Stucchi, 2014).

Given the differences in the apparent roles and functions of business groups across the historical developmental patterns of countries, in this chapter, we will focus on the third case for analytical focus and logical clarity. While business groups share similar organizational characteristics across countries, they have served different roles and functions depending on the historical context in which they were created. The first two types have been discussed elsewhere (for instance see Colpan and Hikino, 2018a; Jones 2000; Hausman et al., 2008; Pedersen and Stucchi, 2014). They reflect not only the ability of business groups as an organizational form to provide component firms with necessary resources, but also the nature of advanced economies in comparison to emerging ones in terms of institutional endowments and their ability to facilitate the internationalization of companies. This facilitation in advanced economies was done in the early stages via colonial relationships, and in the latter stages via the provision of superior innovation systems.

The distinctive growth strategies pursued by emerging economy business groups relative to those pursued by large enterprises in mature industrial economies has attracted broad interest not only from scholars of international business, but also from scholars in other disciplines including economics, sociology, and business history, as well as in policy and practitioner circles (Colpan et al., 2010). Interest on emerging market multinationals has also been growing (see, for example, Cuervo-Cazurra et al., 2016; Goldstein, 2007; Guillen and Garcia-Canal, 2012; Ramamurti and Singh, 2009). Nevertheless, the two domains of research on business groups and the international growth of emerging market firms have tended to evolve separately.

Below we try to integrate those arguments to provide a broader framework to understand this phenomenon. Once we discuss the literature and our research questions, we will explore them in a specific case of the internationalization of the largest business group in Turkey, the Koç group, in the next section.
The internationalization of emerging market business groups

The conventional wisdom in international business research is that internationalization takes place around a set of core ownership advantages such as technology and brands, which usually is the formula for competitive success abroad (Dunning, 1977). Since emerging market firms tend to have such proprietary assets in a less sophisticated form, one critical resource to exploit is leveraging business group affiliation. This is a common argument underlining most of the literature that has studied the internationalization of business groups in emerging markets and that was attributed above (Chari, 2013; Pedersen and Stucchi, 2014; Yaprak et al., 2018; Yiu et al., 2013).

The affiliation with the business group helps individual operating companies internationalize in several ways. Affiliated firms can tap into intra-group capital markets and accumulated management skills that less developed economies critically lack (Khanna and Yafeh, 2007). Such resource endowments place the affiliated firms in an advantageous position in their internationalization attempts, either by supporting the development of firm-specific assets to be exploited overseas or by assisting in the acquisition of such assets in international markets. Accumulated international contacts and established overseas networks within the group can also be instrumental in affiliated companies’ internationalization efforts. The group brand name by itself may function as a critical competitive asset insofar as it enjoys international recognition (Bonaglia et al., 2007; Mukherjee et al., 2018). Exclusive rights and subsidies from governments given to the largest business groups may be another critical factor in certain groups’ overseas endeavors as well (Yiu et al., 2013). Kim (2013) argues that the Korean business groups have exploited their domestic advantages in accessing and mobilizing generic resources, mainly financial and human resources, to develop firm-specific advantages. Those firm-specific advantages, therefore, provided the business group firms with adequate motivation as well as the capability to pursue entry into international markets.

However, firms affiliated with business groups, relative to their stand-alone counterparts, may also internationalize and profit less from internationalization as they may have fewer incentives to internationalize. Business groups often enjoy advantageous, dominant, and privileged positions in their domestic markets that guarantee high enough levels of profitability to prevent them from taking the unnecessary risks of venturing into unknown overseas markets (Pedersen and Stucchi, 2014). Carney et al. (2011) found a negative relationship between business group affiliation and the degree of internationalization. The primary resources and capabilities, such as contact capabilities or project execution capabilities, that business groups have used to grow in their domestic markets, may not be transferable to foreign markets (Kim, 2013). Gaur and Kumar (2009) found that in India, firms affiliated with business groups show lower performance from internationalization compared to non-group affiliated ones. The business group uses some of its most successful companies to help support other affiliated firms, thus establishing some constraints on their internationalization. These constraints can take the form of using financial resources from companies and their international operations to subsidize underperforming member companies in the business group, limiting the funds available for internationalization.

The internationalization of business groups changes with the transformation of the home country and particularly with its opening after pro-market reforms (Barbero, 2015; Guillen, 2000; Pedersen and Stucchi, 2014). In a closed economy, business group affiliated companies, relative to independent firms, enjoy advantages from their access to intra-group markets as well as from the relationship between the business group and the government, which provides them with the opportunity to expand and perform well within their home country (Ghemawat and
Khanna, 1998; Kock and Guillen, 2001). Thus, these companies are less likely to explore international markets given that most of the source of their advantage relies on their home country. The adoption of pro-market reforms in the home country, on the other hand, has helped many business groups to expand rather than reduce their businesses, and notably supported their internationalization. The result has been that pro-market reforms have forced business groups and their affiliated companies to improve their level of international competitiveness, although some of them may have disappeared as a result of their inability to compete in an open economy (Barbero, 2015; Cuervo-Cazurra and Dau, 2009a; Kumaraswamy et al., 2012). The business group affiliated company is more likely to achieve a competitive advantage because it is better positioned to receive support from the business group for its transformation toward internationally competitive levels. In contrast, unaffiliated companies may not have the necessary resources to improve their competitiveness in the face of foreign competition.

Thus, in the following section, we take into account these influences on the internationalization of business groups and their affiliated companies in a specific case of the internationalization of the largest business group in Turkey, the Koç group.

The internationalization of the Koç group

The Koç group is one of the oldest and the top business group in Turkey, and one of the most internationalized. In 2016 it was the only Turkish firm in the Fortune Global 500 ranking with its revenues of US$15.6 billion, representing 6 percent of the gross domestic product (GDP) of Turkey and its total exports representing 9 percent of Turkey’s exports (Koç, 2017) (see Table 15.2 for the Forbes Global 2000 ranking of Turkish firms in 2017 that ranks Koç Holding at the top of the list). The group is active in a diverse range of products and industries including automotive (automobiles, car retailing, and others), consumer durables (white goods and consumer electronics), energy (refinery, distribution, power generation, natural gas), finance (including banking, leasing, real estate investment), and other businesses. The Koç group is also one of the most internationalized groups in the country (Colpan, 2010). It was Turkey’s largest exporter, and four of its component firms were among the top ten of Turkey’s exporters in 2016 (Koç, 2017). The group thus well illustrates the internationalization of business groups from emerging markets.

Table 15.2 Ranking of the largest publicly traded Turkish firms that appear in the Forbes Global 2000 list, ranked by sales, 2017

<table>
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<tbody>
<tr>
<td>567</td>
<td>Koç Holding</td>
<td>23.50</td>
<td>1.10</td>
<td>25.10</td>
<td>10.40</td>
</tr>
<tr>
<td>739</td>
<td>Sabanci Holding</td>
<td>11.90</td>
<td>0.88</td>
<td>87.90</td>
<td>5.40</td>
</tr>
<tr>
<td>527</td>
<td>Isbank</td>
<td>11.70</td>
<td>1.80</td>
<td>118.00</td>
<td>7.90</td>
</tr>
<tr>
<td>1,511</td>
<td>Turkish Airlines</td>
<td>9.70</td>
<td>–0.02</td>
<td>18.50</td>
<td>2.00</td>
</tr>
<tr>
<td>523</td>
<td>Garanti Bank</td>
<td>9.20</td>
<td>1.70</td>
<td>88.10</td>
<td>10.20</td>
</tr>
<tr>
<td>585</td>
<td>Akbank</td>
<td>7.90</td>
<td>1.50</td>
<td>91.60</td>
<td>9.20</td>
</tr>
<tr>
<td>932</td>
<td>Halkbank</td>
<td>7.00</td>
<td>0.73</td>
<td>71.00</td>
<td>3.50</td>
</tr>
<tr>
<td>951</td>
<td>VakifBank</td>
<td>7.00</td>
<td>0.69</td>
<td>69.00</td>
<td>3.70</td>
</tr>
<tr>
<td>1,744</td>
<td>Turkcell</td>
<td>4.70</td>
<td>0.51</td>
<td>9.00</td>
<td>7.10</td>
</tr>
<tr>
<td>1,870</td>
<td>Enka</td>
<td>3.50</td>
<td>0.59</td>
<td>7.60</td>
<td>6.80</td>
</tr>
</tbody>
</table>

Koç group’s origins go back to the 1920s when Vehbi Koç, its founder, started his business as a retail merchant in the city of Ankara. Building on his initial contacts with international companies through his relationships especially with ethnic minorities (Greeks, Armenians, and Jews) in the country and the government, Koç grew in the Turkish market as it secured franchise deals and representative positions like for the US companies Standard Oil (New Jersey) and Ford Motor (Colpan and Jones, 2016). Koç partnered with foreign multinationals, such as General Electric, US Rubber, and Siemens, as it leveraged the establishment of contact capabilities with overseas, and especially, US companies (Colpan and Jones, 2013). When import substitution measures, such as import restrictions and tariff barriers, began to be implemented in Turkey from the early 1950s due to the shortage of foreign exchanges, Koç turned to domestic manufacturing via joint ventures and licensing agreements with international companies (Colpan, 2010; Colpan and Jones, 2016). At the same time, Koç also attempted to establish a group-wide Research and Development (R&D) center in 1975, which would become the first such center in the private sector in Turkey.

Nonetheless, serious efforts to accumulate skills in technology to develop indigenous products only materialized when Turkey turned from import substitution toward export-led growth and liberalization starting in the 1980s. With the opening of the domestic market to international companies, the increase in imports and inward investment by those international companies brought growing competition within the Turkish market. The 1996 customs agreement with the European Union reduced tariffs and created a free trade area in manufacturing goods. The following liberalization of the economy accelerated domestic competition.

The closed economy partly caused the delay in the internationalization of companies, including the Koç affiliated firms, as they could enjoy advantageous positions in the Turkish market. The new environment of pro-market reforms, in contrast, pushed them to compete with international companies not only in their home market but also in overseas markets leading to the advancement of the group’s globalization efforts (Colpan, 2010).

The internationalization of the Koç affiliated company Arçelik illustrates these points, because it has been the principal company in the Koç group to lead a rapid internationalization process especially after the 1980s. Arçelik was founded in 1955 by Vehbi Koç and his partners to produce steel office furniture. The company quickly moved into home appliances such as washing machines and refrigerators in the late 1950s and early 1960s by establishing technical assistance and licensing agreements with firms from Belgium and Israel and purchasing key components such as motors and gearboxes from overseas. With these, they manufactured the first locally produced washing machines and refrigerators in the country. Restrictions and difficulties in importing prompted the company to begin domestic manufacturing of more parts, such as electric motors and compressors in partnership with General Electric. This was followed by technology licensing agreements with General Electric and Bosch-Siemens in the late 1960s (Colpan and Jones, 2013). Arçelik became a prime white-goods enterprise in the protected domestic market, but depended on licensed technology until the 1980s.

The company took a two-pronged strategy in its internationalization: exports and acquisitions. The first was organic growth that started with exporting, opportunistically at the beginning, to neighboring countries in the Middle East and North Africa from the 1970s. The main motivation was to exploit the company’s production surplus. The company did not have any separate exporting model in these initial attempts, e.g., the first machines sold to Saudi Arabia did not have any manuals in Arabic (Bonaglia et al., 2007). The company also needed foreign exchange to pay for its imported parts due to the severe foreign exchange shortage in Turkey. Neighboring countries such as Iran, Pakistan, Iraq, Syria, and Tunisia, and their government institutions, in particular, were the major buyers (Colpan and Jones, 2015). These exports were
originally conducted with the cooperation of the Koç group’s foreign trade company RAM, after which Arçelik established its export division in 1983. The company then turned towards original equipment manufacturing (OEM), which was first secured with Sears Roebuck in the USA in 1988 to produce refrigerators. It did not rely on OEM only, however. The company also began investing heavily in its technology and brands to overcome the potential challenges of the gradual opening of the domestic market to international competition starting in 1980. By the late 1990s, the company had set up sales offices in France, Germany, and the UK (Bonaglia et al., 2007; Colpan, 2010; Colpan and Jones, 2015) to sell its branded products.

The second part of the internationalization strategy was the targeted acquisition of international companies to obtain superior brands and technology and enter into new markets. In the early 2000s, Arçelik began its purchases with European companies that included Blomberg in Germany, Elektra Bregenz in Austria, Arctic in Romania, the Leisure (cookers) and Flavel (appliances and TV sets) brands in Britain, and Grundig in Germany (Bonaglia et al., 2007). The aim was to enter these markets by building on these strong brands that the company lacked in international markets. As the company upgraded its capabilities, it established itself as one of the most significant players in the white-goods industry, expanding first into close geographical markets and later on to more distant ones such as China, especially since the late 2000s (Colpan and Jones, 2015). By the late 2010s, the company had manufacturing plants in China, Russia, Romania, and South Africa and operated sales and marketing companies in 19 countries (Bonaglia et al., 2007; Colpan and Jones, 2015).

For its rapid and successful internationalization, leveraging the business group membership was instrumental for the company. A critical membership advantage was tapping into intra-group capital and managerial markets which independent firms lacked. Arçelik not only had access to intra-group resources in its development of technology and brands, but it also benefited from those resources available group-wide when necessary in its foreign expansion. For instance, some of the company’s top executives came from other group companies, like Beko Ticaret which had been active for the marketing and sales of electronics products (Colpan, 2010; Bonaglia et al., 2007). Some others also came from Koç Holding, giving a broad exposure to the business group headquarters and its knowledge resources. Further, Arçelik undoubtedly benefited from the group-wide technological know-how and especially overseas networks available within the group. When it integrated in 2001 with another Koç affiliated firm, Beko Elektronik, that integration brought benefits not only in terms of operational efficiency and cost-effectiveness, but also in overseas expansion as the usage of the Beko brand name in international markets was useful since that brand was already known in several markets in Europe. Finally, the reputation associated with the Koç brand name, which enjoyed international recognition especially among foreign manufacturers and distributors was also a significant asset when Arçelik, or any other group affiliated firm for that matter, ventured abroad (Bonaglia et al., 2007; Colpan, 2010).

Apart from Arçelik, however, the international expansion of other Koç group companies was overall limited. The automobile companies, Ford Otosan and Tofaş contributed to exports through their international joint partners’ networks; but at the same time, those joint ventures limited the pursuit of independent international expansion, because the vehicles produced were models from the international companies (Ford and Fiat) and Koç auto companies were only a manufacturing hub for the vehicles. In banking, the situation was similar with the joint venture partner Unicredit restricting an independent internationalization strategy for Koç affiliates. In energy, on the other hand, a newly acquired company in 2005 (Tupras in refining and petrochemicals) had a wide export presence, but the knowledge from these export markets has yet to be shared and utilized within the group (Koç Holding, 2012; Colpan and Jones, 2015).
Arçelik thus remained the only company with overseas production facilities, whereas other group companies have contributed to the group’s increasing international sales via exports. As a result, Koç group’s international sales overall increased from 7 percent in 1990 to more than 30 percent by the mid-2010s (Colpan and Jones, 2015).

The above narrative provides some support for our research questions. In a protected market environment before the 1980s, Koç companies were in a favorable position to access technology and establish alliances with foreign companies. International contacts were beneficial as such know-how for accessing overseas companies could be shared across different affiliated companies. Koç group affiliated companies, therefore, did not internationalize before pro-market reforms because their sources of advantages lay within their home country where the Koç group enjoyed a dominant position. However, some of those same companies, especially Arçelik, internationalized rapidly after pro-market reforms because the business group affiliation provided them with the ability and resources (especially capital, managerial talent, technology, and brands) to compete overseas initially in neighboring countries of the Middle East and Europe and later in more distant ones such as East Asia and Africa. Table 15.3 shows that while all large business groups in the country exploited the opportunities in international markets after the 1980s, by 2007 the Koç group had become the most international group with operations in 23 countries (Colpan, 2010). By 2016 it had gained about 30 percent of its total revenues from foreign sales and remained active in 23 overseas markets (Koç, 2017).

Our narrative about the Koç group also illustrates that Arçelik established its capabilities by investing in research and development and acquiring overseas brands; while other Koç companies like Ford Otosan and Tofaş relied on their foreign joint venture partners with sophisticated technology and international brands. Those international partners continued to work with Koç because it had controlled a vast dealership network in the country and had extensive knowledge of the local market. Affiliation to the Koç group brought some affiliated firms wider

<table>
<thead>
<tr>
<th>Business groups</th>
<th>International scope (number of countries shown below)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100%-owned manufacturing</td>
</tr>
<tr>
<td>Group A</td>
<td>25–50%</td>
</tr>
<tr>
<td>Group B</td>
<td>11–24%</td>
</tr>
<tr>
<td>Group C</td>
<td>50%+</td>
</tr>
<tr>
<td>Group D</td>
<td>25–50%</td>
</tr>
<tr>
<td>Group E</td>
<td>50%+</td>
</tr>
<tr>
<td>Group F</td>
<td>25–50%</td>
</tr>
<tr>
<td>Group G</td>
<td>11–24%</td>
</tr>
<tr>
<td>Group H</td>
<td>1–10%</td>
</tr>
<tr>
<td>Group I</td>
<td>25–50%</td>
</tr>
<tr>
<td>Group J</td>
<td>25–50%</td>
</tr>
<tr>
<td>Group K</td>
<td>11–24%</td>
</tr>
</tbody>
</table>

Source: Colpan (2010).

Note
Business groups are ranked based on their number of employees. Koç is the top-ranked group shown as Group A above.
internationalization. However, this was not homogeneous across all affiliated firms. Arçelik undoubtedly benefited from being a group member as it received financial, managerial, and knowledge resources from the parent and affiliated companies (Colpan and Jones, 2015).

Table 15.4 shows the first-ever ranking of Turkish multinationals investing abroad in 2007; as of 2017 this ranking had not been updated. A close look at the largest Turkish multinationals shows that business groups and their affiliated firms dominate the top of the list by their foreign assets (Vale Columbia Center, 2009). The table also illustrates that all the firms in the list except for one are (or belong to) business groups. This supports our argument about the broader internationalization of business group firms relative to independent firms.

![Table 15.4 Ranking of Turkish multinationals, 2007](image)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Industry</th>
<th>Ownership type</th>
<th>Foreign assets (US$ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enka Construction</td>
<td>Diversified</td>
<td>Business group</td>
<td>3,877</td>
</tr>
<tr>
<td>2</td>
<td>Turkcell</td>
<td>Communication</td>
<td>Part of business group</td>
<td>2,331</td>
</tr>
<tr>
<td>3</td>
<td>Çalık Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>2,002</td>
</tr>
<tr>
<td>4</td>
<td>Koç Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>1,742</td>
</tr>
<tr>
<td>5</td>
<td>Anadolu Group</td>
<td>Diversified</td>
<td>Business group</td>
<td>1,629</td>
</tr>
<tr>
<td>6</td>
<td>Turkish Petroleum Corporation (TPAO)</td>
<td>Oil and gas</td>
<td>State owned enterprise</td>
<td>1,121</td>
</tr>
<tr>
<td>7</td>
<td>Şişecam A.Ş.</td>
<td>Glass</td>
<td>Part of business group</td>
<td>977</td>
</tr>
<tr>
<td>8</td>
<td>Tekfen Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>751</td>
</tr>
<tr>
<td>9</td>
<td>Sabancı Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>640</td>
</tr>
<tr>
<td>10</td>
<td>Eczacıbaşı Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>266</td>
</tr>
<tr>
<td>11</td>
<td>Borusan Holding</td>
<td>Diversified</td>
<td>Business group</td>
<td>223</td>
</tr>
<tr>
<td>12</td>
<td>Zorlu Enerji Group</td>
<td>Energy</td>
<td>Part of business group</td>
<td>152</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td>15,711</td>
</tr>
</tbody>
</table>

Source: Adapted with additions from Vale Columbia Center on Sustainable International Investment, Kadir Has University and DEIK survey of Turkish multinationals, 2009.

Conclusions

This chapter has analyzed the internationalization of business groups, concentrating on the cases of emerging market business groups and examining the case of the Turkish Koç group. Although the use of one case cannot be regarded as a defining test for the abovementioned ideas, some generalizations can be made from the historical development of our case. We argued that emerging market business groups assert a dual influence on the international expansion of the member companies that often originally lack the necessary resources for internationalization. On the one hand, business groups support affiliated companies’ internationalization by providing them with intra-group financial, managerial, and knowledge resources. On the other hand, business group affiliation establishes constraints on internationalization by limiting the expansion of affiliated companies that enjoy dominant positions and privileges in their home markets. We also proposed that the conditions of the home country influence these international expansions, and that the pro-market reforms of the home country lead a company affiliated with a business group to expand faster.

There are several similarities with business groups in other emerging markets, such as the intra-group resource support to help internationalization (e.g., Pedersen and Stucchi, 2014) and the push for internationalization in business groups following pro-market reforms after the
1980s and 1990s (e.g., the Argentina groups in Barbero, 2015). There are also differences, however. Contrasting with some other cases where business groups achieve a significant presence in global markets (such as those in India, e.g., Khanna and Palepu, 2009), Turkish groups lack behind other emerging market multinationals regarding their level of foreign expansion (Vale Columbia Center, 2009). This might be related to the low competitiveness of Turkish products and businesses in international markets and the delayed internationalization of Turkish companies that benefited from the closed economy of the country that gradually opened from the 1980s (Colpan, 2010). These differences suggest that any generalizations need to take the country of origin and the timing of internationalization into consideration. With this caveat, we conclude that business groups acted as contributors to the internationalization of their component firms and the globalization of markets.

These ideas contribute to a better understanding of the literature on business groups by bringing a historical perspective. There have been limited analyses on the internationalization of business groups and many of these have tended to study the determinants or impact of internationalization within a short period. This has yielded new insights but a historical perspective helps expand, enrich, and in some cases challenge them by bringing a long-term view.

We proposed that there have been three broad categories of internationalization of business groups in historical context: trading, early industrialization, and later industrialization business groups. The first type was trading business groups in early industrializing economies with abundant capital that used this capital and colonial relationships to expand widely abroad, exemplified by the British nineteenth century overseas merchant groups. The second type of business groups appeared in early industrializing economies with advanced technologies. Business groups were centered around banks and financial holding companies, which often provided the capital, and their affiliated industrial firms used indigenous technological capabilities to expand abroad, exemplified by the Swedish groups. The third type is business groups from late industrializing countries with limited proprietary assets. These business groups grew in protected economies and later used their intra-group resources and domestic advantages to expand abroad as their economies opened; this type is illustrated by emerging market business groups.

In sum, the internationalization of business groups can only be understood in the context in which they emerged and expanded. Business groups have played a crucial role in the making of global business at different points in time and in different locations. They have promoted the integration of economies into the global arena, not only in their home countries by facilitating exports, but also in other countries by facilitating imports from host countries and the coordination of global value chains dispersed across a multitude of nations. Their diversified operations in the home country have reinforced the links across countries, with one business’s foreign operations serving as a bridgehead for subsequent investments and trade connections for other businesses. This contextual and historical account has the critical implication of challenging the assumption that insights from studies of business groups in one economy can be automatically transferred to business groups in other economies; the contextual conditions that determined the creation and internationalization of the business groups play a role that cannot be assumed away. This same contextual and historical account helps explain the variation in the characteristics of globalization across time and the pre-eminence of particular business groups in it.

Notes

1 We adopt the definition of “diversified business groups.” For detailed typology and other types of business groups, such as network types, see Colpan and Hikino (2010; 2018a) and for a discussion by their ownership see Cuervo-Cazurra (2006, 2018b).
2 For the earlier overseas investment of groups focused on public utilities from nations including Belgium and Germany, see Hausman et al. (2008). We do not explore such groups further here as they are typically operating in one industry rather than being unrelatedly diversified.

3 For the map of the historical development of the international business of the Tata group, see Regan (2015a).

4 Mukherjee et al. (2018) argue that a business group’s reputation quality is heterogeneous and may serve as a positive or a negative factor as the groups expand internationally.

5 For the map of the historical development of the international business of Arçelik, see Regan (2015b).

References


