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Contents

The Corporate Governance of Business Groups: What We Know and What Lies Ahead

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ABSTRACT

In this monograph, we discuss the corporate governance of business groups (BGs). To this end, we broadly define both BGs and corporate governance to provide an interdisciplinary conceptualization. We begin by reviewing the key governance theories that scholars have applied to BGs thus far. We then examine the different corporate governance dimensions (ownership, boards of directors, top-management teams, external control mechanisms, and sustainability-related issues) across the different types of BGs. As a result, we identify what we know about these organizations' corporate governance mechanisms. We close with a detailed discussion of fruitful areas for future research on BG corporate governance based on the gaps we identify.

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1

Introduction

What do India's Tata, Japan's Mitsubishi, South Korea's Hyundai, Spain's Banco Bilbao Vizcaya Argentaria (BBVA), and Sweden's Handelsbanken have in common? All of these organizations are what we refer to as business groups (BGs). BGs are ubiquitous around the world, controlling the economic development of many developed and emerging economies (Colpan *et al.*, 2010; Morck *et al.*, 2005). Some BGs are present around the globe though often referred to in different ways depending on the country or region: Chinese *qiye jituan* (e.g., China National Petroleum Corporation, Sinopec, and State Grid); Indian *business houses* (e.g., Aditya Birla Group, Mahindra Group, and Muthoot Group); Japanese *zaibatsu* and its modern successor, the *keiretsu* (e.g., DKB Group, Mitsui, and Toyota); Latin American *grupos economicos* (e.g., Ardila Lulle, Petrobras, and Techint); South Korean *chaebol* (e.g., LG, Samsung and SK Group); Spanish *grupos* (e.g., Banco Santander, Endesa, and Mondragón); Taiwanese *guanxiqiye* (e.g., Formosa Plastics, Tainan Textile, and Weiquan Foods); and Turkish *family holdings* (e.g., Çukurova, Koç Group, and Sabanci), among others. BGs tend to have connotations of weak corporate governance structures, mostly due to tunneling practices and strategic over-diversification, as well as being very large and opaque because they typically combine publicly-traded and non-traded firms and adopt complex ownership structures. They have existed as an organizational form since industrialization and continue to be key, particularly in emerging markets where they potentially fill some essential institutional vacuums.

In this review, we first summarize how the existing body of literature has defined and studied BGs. We then discuss the arguments for why BGs exist and persist. Moreover, to provide a contextual understanding of BGs, we present the worldwide distribution and structure of these organizations. Gaining an overview of BGs' and their affiliated firms' characteristics allows us to disentangle the various dimensions of their corporate governance, particularly focusing on identifying what we know about how they are governed and where future research should continue. For this, we adopt a traditional corporate governance framework based on financial economics to discuss BGs' corporate governance mechanisms. We then attempt to complement this financial perspective by incorporating an organizational and sociological lens to better understand how ties among the affiliate firms influence BG governance. Overall, we argue that BG corporate governance is a fruitful path for scholars to continue to examine because many internal and external governance mechanisms remain understudied and the specificities of BGs generate differences in how these mechanisms are understood in these organizations, resulting in gaps in the literature ripe for future research.

1.1 What Are BGs?

The extant literature offers several definitions of BGs, largely rooted in two disciplines, Sociology and Economics (Chung and Luo, 2018), in which previous studies have adopted several management theories to shed light on what BGs actually are. On the one hand, the sociological-based definitions of BGs highlight the social relationships among several firms (Cuervo-Cazurra, 2006). This view broadly defines BGs as "collections of firms bound together in some formal and/or informal ways, characterized by an intermediate level of binding" (Granovetter, 1995: 95). The member firms (also known as affiliates) are bound by "relations of interpersonal trust, on the basis of similar personal, ethnic, or commercial background" (Leff, 1978: 663). More specifically, affiliates are linked together through the interplay of both "economic (such as ownership, financial, and commercial) and social (such as family, kinship, and friendship) ties" (Yiu *et al.*, 2005: 183). In short, the sociological definitions place great emphasis on relational ties and the BGs' overall network structure.

Researchers who draw on the sociological approach treat BGs as networks or carriers of institutional logics. Adopting a network perspective, BG governance characteristics are assumed to lie between markets and hierarchies. In this vein, network theory is the basis for the discussion on the importance of network position (i.e., centrality and boundary-spanning status) to yield the desired organizational outcomes (e.g., Mahmood *et al.*, 2013). The other perspective within the sociological approach sees BGs as carriers of institutional logics based on the tenets of political economy in which BGs are perceived as products of state ideology (c.f., Fields, 1995; Wade, 2004). For example, governments may channel their economic developmental projects, communitarian initiatives, and social and environmental undertakings by providing grants, loans, and subsidies to BGs that will drive manufacturing and exports to reduce the countries' reliance on foreign markets for goods and services (e.g., Costa *et al.*, 2013; Maman, 2002).

On the other hand, the economic-based definitions focus on unrelated diversification facilitated by cross-shareholding and control (c.f., Cuervo-Cazurra, 2006). The economic view is narrower and refers to BGs as "an organizational form characterized by diversification across a wide range of businesses, partial financial interlocks among them, and, in many cases, familial control" (Ghemawat and Khanna, 1998: 35). Although several scholars identify BGs using family ties to create strong links between firms (e.g., Almeida and Wolfenzon, 2006; Chang and Hong, 2002; Mahmood and Lee, 2004), other researchers highlight interlocking directorates (Douma *et al.*, 2006; Fisman and Khanna, 2004) and ownership of large shareholders—such as banks, the state, and funds—as distinguishing features of BGs (c.f., Hoshi and Kashyap, 2004; Keister, 2004).

Scholars who adopt an economic approach to understand BGs suggest an internal-market view and resource-bundle perspective. The predominant internal-market view primarily draws on transaction cost economics to argue that BGs are substitutes for inefficient or missing external markets. Meanwhile, the resource-bundle perspective builds on resource-related theories (i.e., resource-based, resource dependence, and organizational learning) to contend that BGs create competitive advantage as they repeatedly enter several unrelated industries, thus allowing them to build resources and capabilities that are not industry-specific.

Other definitions are also broad and do not fully fit in either category. For example, some scholars have adopted a definition used by the Korea Fair Trade Commission, arguing that BGs are a constellation of companies of which more than 30 percent of shares are owned by the group's controlling shareholder and its affiliated companies (Bae *et al.*, 2002). Others characterize BGs as consisting of a parent company and legally-independent subsidiaries that all function as a single entity through a common source of control, often attributed to common ownership (Beaver *et al.*, 2019; Belenzon and Berkovitz, 2010; Bena and Ortiz-Molina, 2013; Bertrand *et al.*, 2008). This is a phenomenon in which an investor holds partial shares in two or more entities that compete in the same market (c.f., Bresnahan and Salop, 1986).

These definitions have led to numerous inconsistencies and difficulties in the literature regarding how to differentiate BGs vis-à-vis other types of organizational forms such as firm networks (e.g., strategic, supplier, and distribution networks), strategic alliances, and standalone firms (e.g., conglomerates and multidivisional companies). Cuervo-Cazurra (2006) and Guillen (2000) argue that both strategic unrelatedness and cross-shareholding should be present in order to qualify as BGs. Contrarily, Chung (2001) contends that industry diversification is not a necessary condition to identify BGs, given that affiliates at the early stage of the group's growth may be in the same industry and that other ties also exist to bind firms together (e.g., mutual loans and internal transactions). Moreover, Yiu *et al.* (2005) emphasize that BGs need to have a certain level of administrative or managerial coordination among the affiliates to achieve mutual goals and objectives.

Although there are different ways to account for the existence of BGs, we see the different definitions as complementary; that is, the varying definitions and approaches are important to understand the corporate governance practices in these organizational forms. In fact, because of the multiple definitions in the literature, scholars face challenges in simply identifying what BGs are. For example, several organizational forms such as multidivisional firms, conglomerates, and interfirm networks (i.e., groups of suppliers and consumers) are often misconstrued as BGs. Therefore, for the purpose of this review, we draw on previous studies to propose a synthesized definition of BGs as *a set of legally-independent firms that are linked through various, persistent economic and social relationships and that operate in a coherent manner to achieve mutual objectives.*

Our definition of BGs intends to be broad and contains three important characteristics that distinguish BGs from other types of organizations. First, BGs comprise firms with their own distinct and legally-separable identities and autonomy. This means that BG affiliates have their own legal personality to autonomously comply with their fiscal responsibilities, unlike units or divisions in standalone firms that consolidate their financial reporting and tax filing. Moreover, although some BG affiliates are fully controlled by parent firms, they inherently have the capacity to enter into contracts independently. By contrast, the contractual actions of units in standalone firms are almost always subject to the hierarchical authority of their headquarters.

Second, despite the fact that some affiliates are comparable to wholly-owned subsidiaries of standalone firms because of the direct and absolute control of a parent (or apex) firm, to be considered a BG, the independent member firms require a certain degree of relationship with all the other firms under the same umbrella group. Yiu *et al.* (2007) classify these as H-form BGs, which manifests several features of diversified conglomerates. However, BGs differ from conglomerates and multidivisional companies because the latter pertains to standalone firms that do not always have ties that bind their subsidiaries together, except for economic grounds (i.e., intra-firm economic transactions, market efficiency through integration, tax advantages, and/or ownership). Moreover, BG affiliates' economic and social relationships are mutually reinforcing and persist over time, rather than comprising a one-time engagement in which, in the case of strategic alliances or weak ties in other types of interfirm networks, strong economic ties (i.e., ownership) are rarely present. For example, supplier networks are not considered BGs, given that member firms do not hold any or a significant percentage of each other's shares to formally influence the other companies' behavior. Thus, our definition explicitly states that economic and social ties are necessary conditions to qualify as a BG.

Third, BGs operate coherently by creating interfirm coordination mechanisms among the affiliates. Although some BGs have similar or even stronger control over affiliates than standalone firms, the latter's control over the different business units is primarily based on ownership (i.e., multidivisional firm). Meanwhile, aside from ownership (i.e., cross-shareholding between firms), BGs also organize their affiliates' activities by adopting numerous administrative mechanisms, including presidents' club meetings, interlocking directorates, internal capital movements, related-party transactions, and the establishment of joint subsidiaries, among others (Goto, 1982). Ultimately, although many BGs are prone to tunneling practices by controlling owners, the theoretical collective goal of BGs is to ensure benefits for all the affiliates. This clearly contrasts with standalone firms and other firm networks in which members do not necessarily consider the actions taken by the other firms under the same umbrella.

1.2 Why Do BGs Exist and Persist?

An extensive literature has attempted to explain why BGs have emerged and continue to exist. Scholars have raised this question because, at the outset, BGs and unrelatedly-diversified groups, in particular, are seen as inefficient organizational forms. Carney *et al.* (2018) argue that the existence and persistence of BGs can be understood using several management theories which can be categorized into two overall perspectives: institutional voids and entrenchment/exploitation. The institutional voids perspective builds on both institutional theory (Aguilera and Grøgaard, 2019) and transaction-cost theories (Cuypers *et al.*, 2021) to suggest that BGs are efficient organizational responses to inefficient or missing institutions, thus filling institutional voids in an external market that is incapable of facilitating the acquisition of resources through arms-length contracting (Khanna and Yafeh, 2007). Consequently, BGs would theoretically vanish in developed economies with strong institutions favoring efficient market-based transactions to acquire the necessary goods and capabilities (Khanna and Palepu, 1999). In other words, this view considers BGs a substitute for imperfect markets in reducing transaction costs (Wan, 2005).

In contrast, the entrenchment/exploitation perspective draws on financial economics (Rajan and Zingales, 2003) and agency theories (Jensen and Meckling, 1976) to argue that controlling elite incumbents create BGs as part of their efforts to influence how their countries' markets and institutions are shaped, creating competitive advantage against new entrants (Morck *et al.*, 2005). Consequently, any generated profits are then "tunneled" or covertly transferred within the BG units to benefit the group's ultimate owners (Bae *et al.*, 2002; Siegel and Choudhury, 2012). In this view, a key issue is the expropriation of minority investors' interests in both the member firms and the group (Bertrand *et al.*, 2002; Young *et al.*, 2008).

Both perspectives indeed explain the ubiquity of BGs, particularly in emerging/developing economies that often have weak institutional settings to enable efficient market transactions and protect minority investors. However, BGs are also widespread in many advanced economies where the markets are efficient, institutions are strong, and the expropriation of minority investors is low (Belenzon *et al.*, 2013). In fact, Carney *et al.* (2017) show evidence suggesting that the prevalence of BGs does not diminish over time with economic development. Thus, it is not surprising that researchers have also drawn on other theories such as resource dependence (Wry *et al.*, 2013), the resource-based view (Wernerfelt, 1984), and organizational learning (Fiol and Lyles, 1985) to explain why BGs persist in these economies. For example, Dieleman and Boddewyn (2012) have built on resource dependence theory to show that Indonesia's Salim Group mitigated its dependence on the state by adopting loosely-coupled organizational structures to manage its political ties. In a similar vein, Belderbos and Heijltjes (2005) argue that member firms in a Japanese BG reduced their dependence on local managers of their foreign subsidiaries in Asia by exchanging inter-organizational knowledge about the local policies of the host countries where the BG affiliated firms were located.

Meanwhile, drawing on the resource-based view and/or organizational learning, some scholars contend that BGs can serve as a tool to develop strategic resources and obtain competitive advantage. BGs learn to foster capabilities that allow them to identify and exploit opportunities (Guillen, 2000; Yiu, 2011). This might come, for example, from their geographic diversification in the international markets to help them grow (Kumar *et al.*, 2012). In some instances, intragroup learning also occurs between the parent and affiliates or among the affiliates through knowledge transfers and sharing facilitated by managers or through joint R&D efforts (Kim and Lee, 2001). For example, Lincoln *et al.* (1998) find that Hitachi, Matsushita, and Toyota all learn from their intragroup transactions, but how that learning occurs in each BG differs. Hitachi uses on-site learning-by-doing by adopting the role of a customer, while Matsushita and Toyota leverage their extensive keiretsu networks to gain new knowledge and technologies from their foreign suppliers. Similarly, Mahmood and Mitchell (2004) provide evidence of increased innovation in BGs when the affiliates engage in joint R&D programs.

Moreover, BGs serve as internal capital, resource, and innovation markets, thereby reducing member firms' dependence on external stakeholders such as the market and investors to satisfy their organizational needs to be able to operate and survive (Boutin *et al.*, 2013; Chang and Hong, 2002). Belderbos and Heijltjes (2005) argue that BGs facilitate the movement of human capital across the network to support understaffed affiliates. In some cases, scholars have observed that the transfer of executives in BGs helps increase the capacity to coordinate affiliates' activities (Belenzon *et al.*, 2013). Alternatively, BG organizational structure can also serve as bailout funds for financially-struggling affiliates (Faccio *et al.*, 2006).

1.3 BGs Around the World

Much of the literature has focused on defining BGs and explaining their raison d'être. This prevalent research trend has thus resulted in our limited understanding of how they actually function. It is therefore important to first identify these organizations, since they exist in most countries worldwide. However, there is no pre-existing, explicit database on BGs. Different scholars have collected data on BGs in certain countries such as: Khanna and Palepu (2000) and Bertrand *et al.* (2002) in India; He *et al.* (2013) in China; and Colpan *et al.* (2010) in Western countries (updated in 2016 by Colpan and Hikino). Interestingly, in the Forbes Global 2000 (2022) ranking which classifies the world's largest companies using four metrics—sales, profits, assets, and market value—, Iowa-based BG Berkshire Hathaway tops the list. Table 1.1 shows the BGs in this ranking.

In order to devise a comprehensive description of BGs around the world, we extracted all the firms included in the Orbis database and applied the identification strategy defined by Aguilera *et al.* (2020a), Belenzon *et al.* (2019) and Masulis *et al.* (2011) which consists of using the 50-percent threshold of ownership structure over non-listed firms and 20 percent for listed firms as the criteria to identify BGs (c.f., Faccio *et al.*, 2021; Faccio and O'Brien, 2021). This identification strategy allows us to determine the control of a parent over its affiliates. Given that we cannot empirically capture the informal links from our database and many firms are not listed and do not provide complete information regarding their top executives and board members, our sample consists of BGs with strong ownership-based ties that are frequent in H- (i.e., holding) and M- (multidivisional) form BGs; the former are diversified BGs that are similar to conglomerates, while the latter are vertically-integrated affiliates often operating in the same or closely-linked industry (c.f., Yiu *et al.*, 2007).

As of 2020, our dataset comprises 9,273,856 unique firms that are unevenly distributed worldwide (see Table 1.2 and Figure 1.1). More than 15 percent of the total number of firms in our database were identified as belonging to a BG. The region with the highest percentage of BG-affiliated firms is Sub-Saharan Africa (25.76%), followed by

Table 1.1: Top 40 business groups in the 2022 Forbes Global 2000 List

Rank	Business Group	Country	Sales*	Profit*	Assets*	Market Value*
1	Berkshire Hathaway	USA	276.09	89.80	958.78	741.48
14	Samsung Group	South Korea	244.16	34.27	358.88	367.27
31	China Mobile	Hong Kong	131.49	17.97	283.37	147.05
45	Sinopec	China	384.82	11.04	292.05	80.81
54	Reliance Industries	India	86.85	7.81	192.59	228.63
65	Petrobras	Brazil	83.89	19.77	174.68	83.98
118	Vale	Brazil	54.40	22.47	89.61	82.03
138	Itausa	Brazil	37.47	7.22	387.74	71.31
147	Hyundai Motor	South Korea	102.70	4.32	196.80	37.61
159	Danaher	USA	30.28	6.46	83.39	189.40
167	LukOil	Russia	125.11	10.49	92.49	32.17
170	SK	South Korea	178.99	12.47	287.89	99.08
179	America Movil	Mexico	51.82	5.14	110.35	79.12
182	Bradesco (Banco)	Brazil	28.33	5.57	298.25	45.59
194	China Telecom	China	68.15	4.02	121.10	35.23
200	Cathay Financials	Taiwan	34.46	4.99	418.70	28.90
218	Ovesea-Chinese Banking	Singapore	22.89	3.62	402.17	39.71
232	PTT	Thailand	85.20	4.79	114.71	37.92
244	DBS	Singapore	12.40	4.98	509.07	63.03
251	Power Corp of Canada	Canada	57.93	2.37	507.06	20.47
268	Banco do Brasil	Brazil	29.54	3.40	362.53	20.70
291	Baoshan Iron and Steel	China	55.52	4.06	62.17	23.35
332	LG	South Korea	145.94	7.63	170.87	88.43
366	United Overseas Bank	Singapore	8.89	3.03	340.71	37.99
385	Tata	India	95.84	7.71	95.62	215.33
402	Jardine Matheson	Bermuda	35.86	1.88	91.49	15.89
443	Grupo México	Mexico	14.77	3.87	32.32	37.88
447	Standard Bank Group	South Africa	15.90	1.74	170.79	18.06
449	Norilsk Nickel	Russia	17.81	6.53	23.43	37.75
490	Femsa	Mexico	27.38	1.40	36.04	27.29
514	Larsen and Toubro	India	20.53	1.12	40.82	31.13
526	Bouygues	France	44.43	1.33	50.77	13.13
543	Loews	USA	14.67	1.58	76.16	15.94
558	Wesfarmers	Australia	25.35	1.65	18.34	40.57
577	Svenska Handelsbanken	Sweden	6.34	2.27	369.65	19.52
593	Vedanta Limited	India	16.38	2.63	25.30	20.21
625	Koç Holding	Turkey	38.84	1.70	76.85	6.79
639	Formosa Plastics	Taiwan	45.09	5.69	57.86	69.45
710	Bharti Airtel	India	14.98	0.41	48.72	56.80
717	George Weston	Canada	43.37	0.60	37.27	18.04

Note: *In US$ millions.

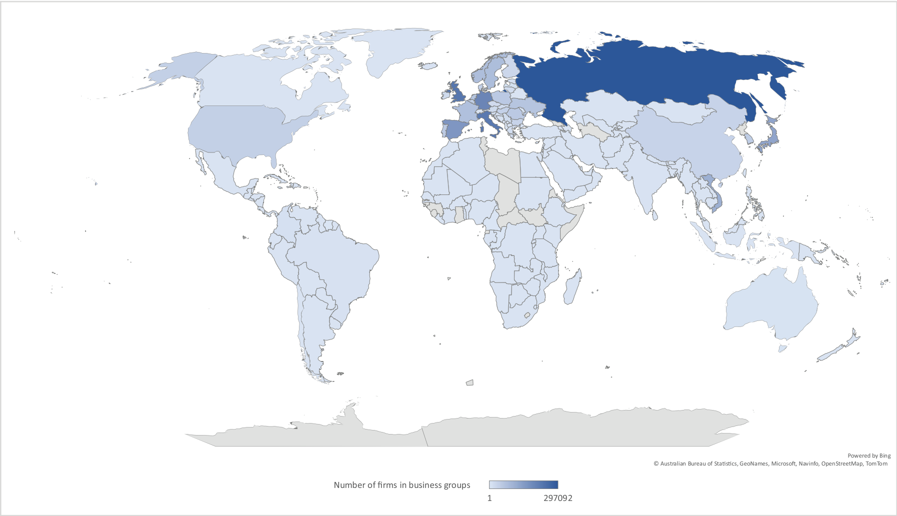

Figure 1.1: Geographical distribution of business group-affiliated firms worldwide.

Table 1.2: Distribution of firms in our sample

	% of Firms	**% of BG-Affiliated Firms**	**% of Standalone Firms**
Panel A: By Region*			
East Asia and Pacific	51.42	11.81	88.19
Europe and Central Asia	44.63	19.46	80.54
Latin America and Caribbean	1.04	8.77	91.23
Middle East and North Africa	0.44	14.94	85.06
North America	1.46	11.37	88.63
South Asia	0.93	13.76	86.24
Sub-Saharan Africa	0.07	25.76	74.24
Panel B: By Country-Income Level*			
Low income	0.01	28.52	71.48
Lower-middle income	4.07	7.14	92.86
Upper-middle income	50.18	11.70	88.30
High income	45.74	19.82	80.18
Total number of firms: 9,273,856	**100.00**	**15.23**	**84.77**

Note: *See appendix for the classification of countries.

Table 1.3: BG distribution and structure in our sample

	% of BGs with 2 Firms	**% of BGs with 3–5 Firms**	**% of BGs with 6–10 Firms**	**% of BGs with > 10 Firms**	**Total Number of BGs**	**% of Total BGs**
			Panel A: By Region*			
East Asia and Pacific	60.72	27.91	6.99	4.38	134,434	38.47
Europe and Central Asia	57.97	30.40	7.31	4.32	192,128	55.81
Latin America and Caribbean	48.43	29.93	11.87	9.77	4,103	1.19
Middle East and North Africa	53.19	30.58	10.03	6.20	1,645	0.48
North America	57.92	24.25	8.96	8.87	10,224	2.97
South Asia	68.08	23.90	5.48	2.54	3,067	0.89
Sub-Saharan Africa	52.05	31.26	9.86	6.83	659	0.19
			Panel B: By Country-Income Level*			
Low income	59.38	28.13	9.38	3.13	32	0.01
Lower-middle income	66.90	24.49	5.47	3.13	6, 230	1.81
Upper-middle income	62.20	27.46	6.46	3.88	128, 303	37.27
High income	56.75	30.41	7.85	4.99	209, 684	60.91
Total number of firms: 9,273,856	**58.97**	**29.20**	**7.29**	**4.54**	**344,260**	**100.00**

Note: *See appendix for the classification of countries.

Europe and Central Asia (19.46%), the Middle East and North Africa (14.94%), and South Asia (13.76%). The firms' distribution adds up to the total number of 344,260 BGs identified in our sample. More than 55 percent of these BGs are headquartered in Europe and Central Asia, followed by East Asia and the Pacific, with 38.47 percent (see Table 1.3). Although a large portion of firms in our sample are from upper-middle-income and high-income countries, low-income countries have the highest percentage of BG-affiliated firms (28.55%) vis-à-vis standalone firms. In contrast, most of the identified BGs are in high-income countries. Moreover, most of the identified BGs in our sample encompass 2 firms, while roughly 12 percent of the BGs consist of at least 6 firms.

Table 1.4: Percentage of the number of employees over the global labor force

	Number of employees in BGs (in millions)**	% of employees in BGs (subsample)**	% of employees in BGs global labor (force)***
Panel A: By region*			
East Asia and Pacific	54.20	69.94	4.30
Europe and Central Asia	90.70	60.07	21.00
Latin America and Caribbean	4.27	39.58	1.50
Middle East and North Africa†	1.21	59.50	0.82
North America	36.00	77.25	19.46
South Asia†	5.58	70.53	0.88
Sub-Saharan Africa†	1.85	73.40	0.45
Panel B: By Country-Income Level			
Low income	0.11	66.83	0.04
Lower-middle income	11.50	46.20	0.95
Upper-middle income	49.10	44.40	3.87
High income	133.00	67.17	21.84
		100.00	**5.79**

Total number of employees (subsample): 194,000,000
Total global labor force: 3,340,000,000
Total number of firms: 2,288,198

Notes: *See appendix for the classification of countries.
**Based on a subsample with complete data on employment.
***Using World Bank data as the denominator.
†Caution for the non-representativeness of the sample due to low N.

We further explored the size of these BG-affiliated firms in terms of job figures. As a result, we reduced our sample to just about a quarter of the total firms in the initial dataset with complete data on employment. We then evaluated the representativeness of our sample by comparing employment figures from our dataset with World Bank employment data on different regions of the world. The firms in our sample employ approximately 194 million individuals, which is 5.79 percent of the global work force. The regions with the highest percentage of employees in BG-affiliated firms over the global labor force are Europe and Central Asia and North America, with 21 and 19 percent, respectively (see Table 1.4 for a complete list). The bias of our sample is evident as we explore the total number of employees for each region shown in Table 1.4. The employees are mostly hired in BG-affiliated firms in high-income countries (almost 70%), partially due to a high percentage of our subsample with data on employment coming from large BG-affiliated firms in Europe and Central Asia and North America.

2

The (Corporate) Governance of BGs

Despite the growing interest in exploring how BGs emerge and evolve over time, a large share of previous studies focuses on BGs as a governance structure that is more efficient and advantageous than external markets (c.f., Williamson, 1975). BGs have become an alternative path for firms to diversify (in terms of both products and geography) and create competitive advantage by overcoming the difficulties in obtaining capital, labor, raw materials, and technology (Guillen, 2000). In some instances, BGs have served as a policy and tool for their respective countries' economic development by becoming government agents to procure and develop production factors and generate multimarket power for their products (Ghemawat and Khanna, 1998).

However, we still do not understand how BGs are governed, given that academic research on BG corporate governance is still in its infancy (Musacchio and Lazzarini, 2014) and "a developing field" (Colli and Colpan, 2016: 274). Moreover, the literature on BG corporate governance is fragmented and one-sided, focusing primarily on the BGs' institutional environment and ownership structure and their influence on the relationships between member firms and the subsequent effects of such relationships (c.f., Boyd and Hoskisson, 2010; Yiu *et al.*, 2013).

Thus, in this review, we map and discuss BG corporate governance, unlike the prevalent body of research which focuses on the determinants and outcomes of BGs (e.g., Carney *et al.*, 2011; Chang *et al.*, 2006; Chittoor *et al.*, 2015). In particular, we provide an overview of the existing literature which examines the corporate governance dimensions related to BGs (see Table 2.1 for our analytical framework that summarizes and foreshadows the contents of this review).

2.1 Corporate Governance in BGs vis-à-vis Standalone Firms

Corporate governance refers to "a set of relationships between a company's management, its board, its shareholders and other stakeholders" (Organisation for Economic Co-operation and Development (OECD), 2015). In other words, it is the structure of rights and responsibilities among the parties with a stake in the firm (Aoki, 2001). It involves the interplay of internal and external mechanisms that align the various stakeholders' interests, contributing to the organization's success (Walsh and Seward, 1990). The internal mechanisms include three elements: ownership, the board of directors (hereafter, "the board"), and managerial incentives. The external mechanisms encompass six elements: the legal system, the market for corporate control, external auditors, stakeholder activism, rating organizations, and the media (Aguilera *et al.*, 2015). Corporate governance also varies depending on the context of different organizational environments, arising from the type of organizations and/or diverse institutional settings in which they operate (Aguilera *et al.*, 2008).

Given that corporate governance differs across organizational forms, we should expect that the idiosyncrasy of BGs will alter how they are governed. The conventional understanding of corporate governance builds on financial economics which is mainly based on agency theory and where the aim is to align the interests of the managers and shareholders while protecting minority investors (c.f., Fama and Jensen, 1983; Jensen and Meckling, 1976). This view is largely true for standalone firms (i.e., firms that are not subsidiaries of another entity) where ownership and control are clearly separated between corporate shareholders and the management team.

Table 2.1: BG corporate governance framework

Dimension of Corporate Governance	Family-Owned BGs	State-Owned BGs	Widely-Held BGs
Control of parent over the affiliates	Can be hierarchical, horizontal, or web	Can be hierarchical, horizontal, or web	Typically web, but some are horizontal
Ownership			
Owner profile	Single family or group of allied families	Citizens	Dispersed shareholders
Ownership structure	Typically concentrated	Typically concentrated	Dispersed
Control mechanism	Direct ownership or indirect ownership through another affiliate	Direct stake of the state or Indirect stake through state-owned vehicles	Through professional agents (i.e., boards and managers)
Value creation	Market demand	Policy-making	Market demand
Value appropriation	Property rights	Law	Property rights
Value distribution	For the family	The government and citizens	For shareholders
Agency problem in BGs	–Among family members; –Controlling owner vs. minority shareholders; –Parent firm vs. affiliates	–Owner vs. manager; –Controlling owners vs minority shareholders; –Citizens vs. politicians; –Parent firm vs. affiliates	–Owner vs. manager; –Group of allied shareholders vs. other minority shareholders; –Parent firm vs. affiliates
Board of directors			
Board structure	–Presence of family members; –Typically interlocked within the group	–Presence of politicians	–Professional executives and/or independent directors
Board engagement	High engagement of family-member directors	High engagement of politician directors	High engagement of independent directors and/or HQ representatives

Continued

Table 2.1: Continued

Dimension of Corporate Governance	**Family-Owned BGs**	**State-Owned BGs**	**Widely-Held BGs**
Top management teams			
CEO	Typically a family member who is sometimes also a professional manager	Politician	Professional manager
Succession	Chosen by the family	Chosen by the politicians	Chosen by the board
Executive compensation	Low	Low	High
Other mechanisms			
Legal system	Family control is stronger than the legal system	Almost no distinction between the owner and the legal system	Relies on the legal system
Market for corporate control	Family substitutes the market for control	State substitutes the market for control	The market is a strong control mechanism
Other external mechanisms	Less sensitive to external pressure	Sensitive to external pressure	Sensitive to external pressure

Conglomerates and multi-divisional companies are types of standalone firms that are comparable to BGs. Although BGs are exposed to the traditional agency problems associated with the separation of ownership and control (Becht *et al.*, 2003), a key difference between standalone firms and BGs is that the former have a single corporate governance structure (i.e., with a board that oversees the entire organization) for the headquarters and the divisions/units, whereas the latter have separate corporate governance structures for the core firm and each of the legally-independent affiliates. This characteristic exacerbates the complexity of BG corporate governance.

2.2 BG Parent Control Over BG Affiliates

Given anti-trust laws, the great majority of BGs consist of a set of affiliates and a core firm that is often referred to as the headquarters, parent, or apex firm, providing common administrative, financial, or managerial coordination (c.f., Khanna and Rivkin, 2001; Leff, 1978; Strachan, 1976). The core firm's degree of control over a BG depends on how the relationships with the affiliates are organized. This is typically done in one of two ways: vertically or horizontally. A vertical BG consists of a member firm that is indirectly controlled by the core firm through its ownership of another group affiliate that owns the former, while a horizontal BG has a controlling shareholder-parent firm that typically has direct stakes in member firms (Masulis *et al.*, 2011). However, the degree of control will depend not only on which company holds the largest amount of shares, but also on the countries where the BG is headquartered. This is because institutional conditions vary regarding the extent of law enforcement designed to protect minority interests, resulting in greater ownership share dispersion in some countries more than in others (Faccio and Lang, 2002).

Vertical BGs are also referred to as hierarchical or pyramidal BGs, in which a single individual, a family, group of families, or a firm directly controls another firm, which in turn directly controls another firm, which might also directly control another firm, and so forth, ultimately assembling a chain of ownership that forms a pyramid structure (c.f., Almeida and Wolfenzon, 2006). In this type of BGs, the parent's control over the affiliates is either direct or indirect through other affiliates (see Figure 2.1 for an illustration of the control flow within a vertical BG). For example, the Sy family group in the Philippines controls numerous affiliates through its wholly-owned SM Investments Corporation, including five of the world's largest shopping malls in terms of gross leasable area. Vertical BGs typically comprise a "network of suppliers, related or spin-off manufacturers, and wholesale and retail distributors" (Belderbos and Heijltjes, 2005: 342), aiming to reduce transaction and production costs through the integration and coordination of an overarching lead organization (Dyer, 1996; Gerlach, 1992).

Member firms of vertical BGs often benefit from a secure market for their products, information and technological spillovers from the core firm and other affiliates, and shared knowledge and capital within the group (Belderbos and Heijltjes, 2005; Suzuki, 1993). However, a pyramidal structure sometimes creates a wedge between cash flow and control rights which may encourage the expropriation of minority shareholders (e.g., Baek *et al.*, 2006; Bertrand *et al.*, 2002; Johnson *et al.*, 2000). Other examples of vertical BGs include the Japanese keiretsus of Toyota and Hitachi and the Portuguese family groups, Corticeira Amorim and Espirito Santo.

In contrast, a horizontal BG has a governance structure that organizes economic transactions through incentive mechanisms based on mutual trust that is built on repeated social exchanges among member firms (Isobe *et al.*, 2006). In other words, economic transactions are embedded within the social network of member firms through a common focal (i.e., parent) firm (Granovetter, 1995). The parent firm's control and ability to coordinate the activities of the affiliates rests on its blockholding or the BG's significant portion of shares in each member (see Figure 2.2 for an illustration of the control flow within horizontal BGs). Some horizontal BGs are difficult to identify, given the difficulty in detecting the informal ties that bind the affiliates together.

Membership in horizontal BGs generates benefits such as having an "insurance mechanism" to reduce risk in case of financial distress (Nakatani, 1984), mutual monitoring and information sharing to reduce agency costs (Isobe *et al.*, 2006), and access to resources for financing activities and the creation of competitive advantages (Colpan, 2008;

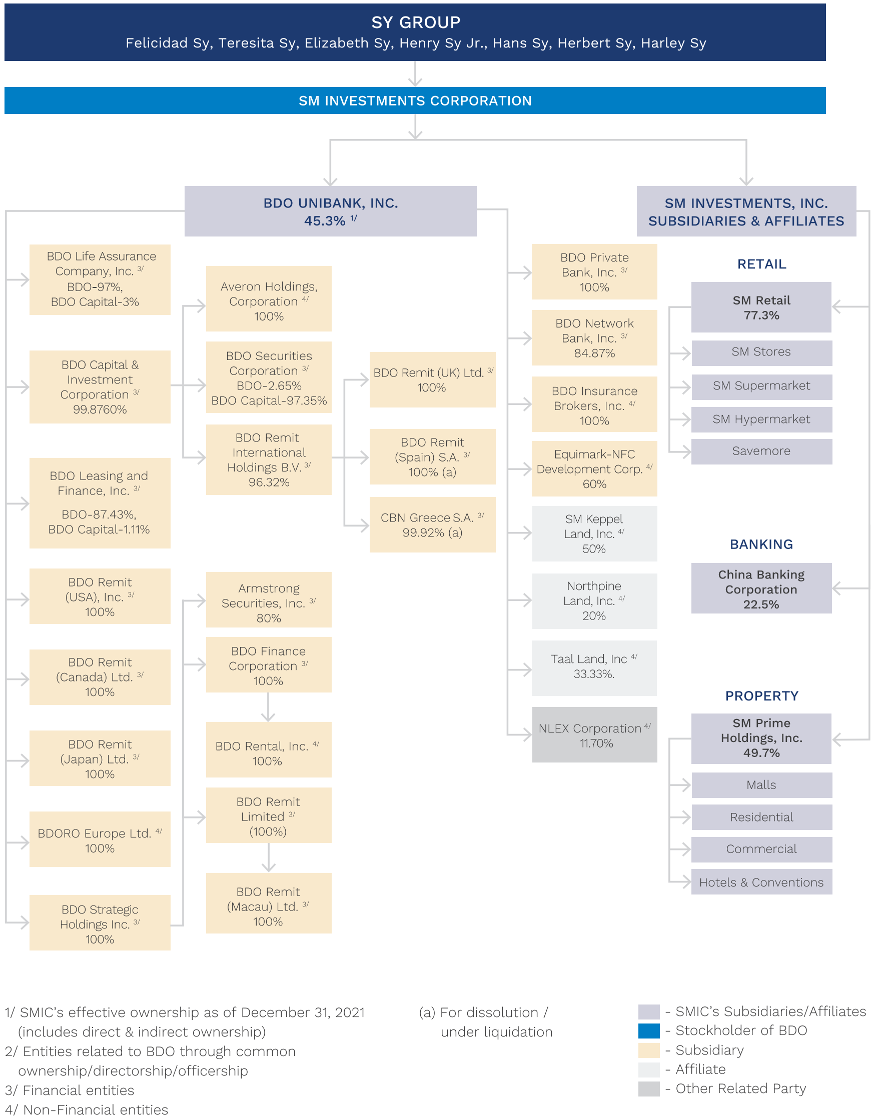

Figure 2.1: Sy Group's vertical structure.

Source: 2021 BDO Annual Report.

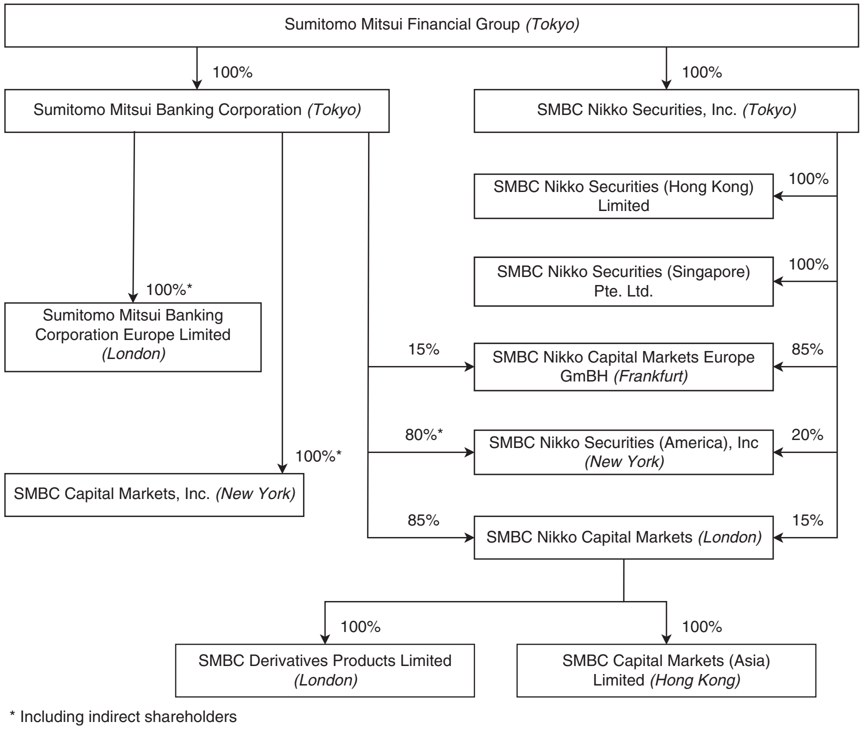

Figure 2.2: Sumitomo Mitsui Financial Group's horizontal structure.
Source: SMBC Nikko Capital Markets Europe GmBH.

Dyer and Singh, 1998; Uzzi, 1996). Typical examples of horizontal BGs are bank-centered Japanese keiretsus such as Sumitomo Mitsui and DKB. As seen in Figure 2.2, Sumitomo Mitsui is generally flat and mostly controls wholly-owned affiliates.

A sub-type of horizontal BGs, which Dau *et al.* (2021) refer to as a "web BG" (see Figure 2.3 for an illustration of the control flow within web BGs), is characterized by small percentages of cross-shareholding among the affiliates that ultimately sum up to controlling blocks in each member firm (c.f., Faccio, 2006). Web BGs are also known as "circular BGs" (c.f., Masulis *et al.*, 2011). Although cross-shareholding or reciprocal ownership is often the underlying tie that binds the member firms together in a web BG, including the core firm relative to the affiliates and among the affiliates (Gerlach, 1992; Johnston and McAlevey, 1998),

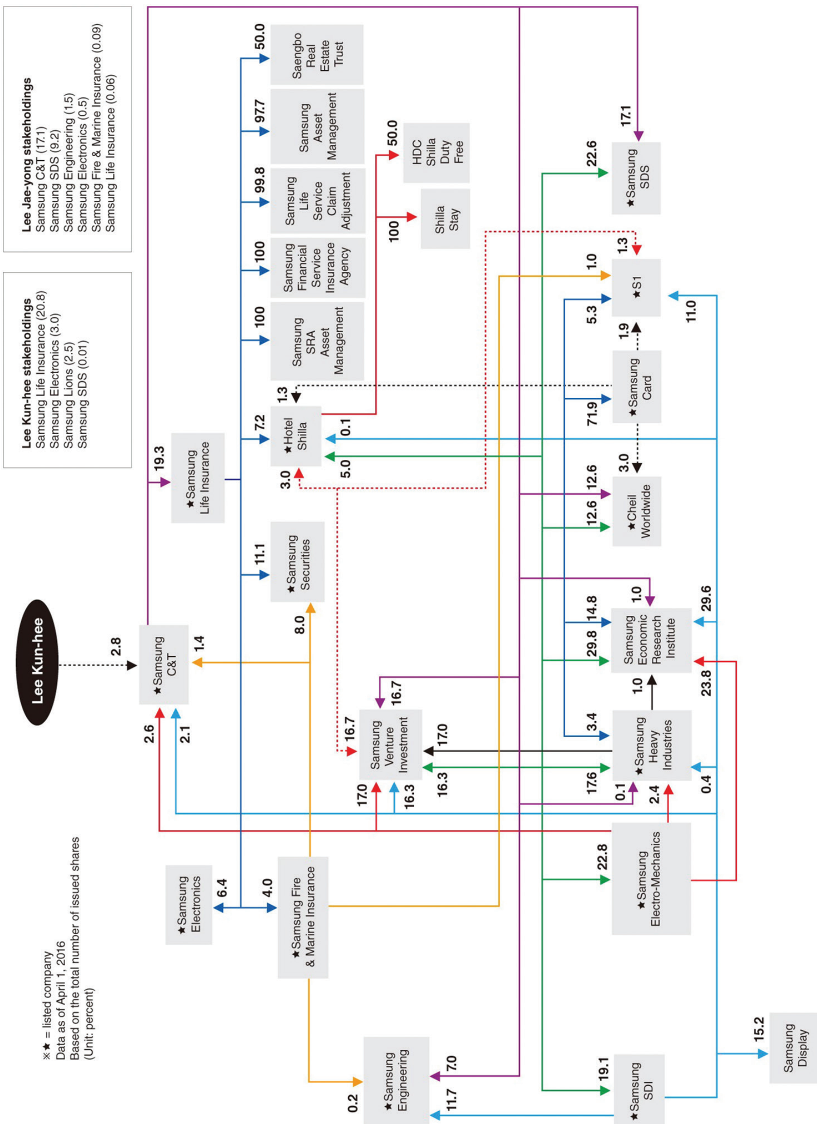

Figure 2.3: Samsung Group's web structure.

Source: The Korea Herald.

Table 2.2: BG hierarchical structure

	Average Number of Layers				
	BGs with 2 Firms	**BGs with 3–5 Firms**	**BGs with 6–10 Firms**	**BGs with >10 Firms**	**Overall Average**
Panel A: By Region*					
East Asia and Pacific	1.00	1.29	1.78	2.60	1.21
Europe and Central Asia	1.00	1.41	2.07	3.35	1.30
Latin America and Caribbean	1.00	1.50	2.36	3.99	1.60
Middle East and North Africa	1.00	1.43	2.07	3.39	1.39
North America	1.00	1.54	2.35	4.06	1.52
South Asia	1.00	1.42	2.06	2.91	1.21
Sub-Saharan Africa	1.00	1.41	2.14	3.89	1.44
Panel B: By Country-Income Level*					
Low income	1.00	1.00	2.00	4.00	1.19
Lower-middle income	1.00	1.34	1.86	2.59	1.18
Upper-middle income	1.00	1.28	1.76	2.58	1.19
High income	1.00	1.42	2.09	3.04	1.33
Total number of BGs: 344,260	**1.00**	**1.37**	**1.98**	**3.13**	**1.28**

Note: *See appendix for the classification of countries.

other mechanisms that may also be used to coordinate firms include presidents' club meetings, interfirm loans, and interlocking directorates (Goto, 1982). Examples of web BGs are the South Korean Hyundai and Samsung chaebols.

In our sample, the average number of layers in all BGs is 1.28, meaning that there is a little over one layer in the shareholder hierarchy. This is because most BGs in our dataset have one layer (more than 59% of the total BGs). As the number of firms increases, the average number of layers also increases (see Table 2.2). Interestingly, BGs with at least 6 firms in relatively high- and low-income countries have a higher average number of layers than in their counterparts in countries with moderate income levels.

3

Ownership

Ownership (particularly concentration) is one of the key internal corporate governance mechanisms since it indicates the owners' incentives and capacity to directly monitor the managers and the board (Morck *et al.*, 1988). Much of the extant literature has focused on how ownership structure influences BG emergence and organization. Some scholars contend that family shareholding is a main distinguishing feature of BGs (c.f., Almeida and Wolfenzon, 2006; Chang and Hong, 2002). However, familial ties are not the only determinants of BGs (Chung, 2001), as other type of owners—such as the state, banks, and investment funds—may own, control, and manage BGs.

3.1 Who Owns BGs?

Family owners are one of the most prevalent shareholders of BGs worldwide. La Porta *et al.* (1999) document that many large, diversified, and global BGs are controlled by a few wealthy families. For example, the Noboa family controls a diversified BG that exports more than 40 percent of Ecuador's banana products, while the Lee family that owns Samsung Group generates more than 20 percent of South Korea's GDP. Similarly, the Wallenberg family trust fund in Sweden holds significant stakes in ABB, AstraZeneca, Ericsson, Electrolux, and SAAB, among others. Family ownership can either pertain to a single family or a cluster of allied families holding substantial interests in a group, either with a direct stake in firms or indirect through family-owned banks, trusts, and holding companies.

Family-owned BGs can be found in both developing and advanced economies to support high-risk, capital-intensive firms that would otherwise find it difficult to attract external funding, particularly in markets with limited availability of capital (Masulis *et al.*, 2011). The advantages of family control in BGs include the creation of financing advantages by leveraging internal capital in the family's hands (Almeida and Wolfenzon, 2006) and building a reputable track record of establishing, managing, and/or monitoring multiple firms (Khanna and Palepu, 2000) while avoiding expropriation of minority shareholdings (Gomes, 2000). Previous studies analyzing the importance of family BGs show that affiliates are more innovative than non-affiliated firms because of the internal capital market that families facilitate within the group (e.g., Belenzon and Berkovitz, 2010; Buchuk *et al.*, 2014).

Aside from families, state actors are also currently some of the dominant owners of many BGs worldwide, but mostly in emerging economies (Musacchio and Lazzarini, 2018). The rise of state-owned BGs has largely been driven by the efforts of governments to manage and provide public goods and services such as mail, water, electricity, and railways (e.g., Millward, 2005; Toninelli, 2000). For instance, China has several state-owned BGs that rank among the largest firms in the world, including Sinopec, China National Petroleum Corporation, State Grid, China Mobile Communications Corporation, and China Railway Construction Corporation, among others (see Table 1.1). The prevalence of state ownership has led to one of the forms of state capitalism in which the government influences the country's economic development "by owning majority or minority equity positions in companies" (Musacchio and Lazzarini, 2014: 12).

Although the conventional state capitalism model is rooted in wholly state-owned enterprises (SOEs), partial state ownership (i.e., majority or minority shareholding) in firms has also emerged through the governments' direct or indirect stakes using state-owned investment vehicles such as sovereign wealth funds and pension funds (Musacchio *et al.*, 2015). Extant research shows that member firms in state-owned BGs are associated with high product diversification and low IPO underpricing (Wang *et al.*, 2019). However, state ownership in BGs does not necessarily lead to competitive advantages (Yiu *et al.*, 2005), given that this model is also associated with low group innovation outputs (Mahmood and Zheng, 2009).

In addition, some BGs are owned by multiple public investors who vest the decision-making authority to professional managers acting as fiduciaries (Morck and Yeung, 2003). These BGs are referred to as "widely-held," meaning that "there is no distinct majority shareholder who exercises control" (Cuervo-Cazurra, 2006: 424). Widely-held BGs are common in Anglo-Saxon countries, where the laws are stringent in terms of mitigating agency problems to protect minority shareholders' interests. For example, the Hudson's Bay Company is a listed BG with a dispersed ownership structure. It has a large stake in Saks, Inc. (which owns Saks Fifth Avenue and Saks Off 5th), The Bay (a Canadian ecommerce marketplace), and HBS Properties and Investments.

Nevertheless, although substantially more common in advanced economies, we can find some widely-held BGs in emerging economies as well (La Porta *et al.*, 1999), such as IHH Healthcare in Malaysia and Ayala Corporation in the Philippines (Morck *et al.*, 2005). The rise of these widely-held BGs can be attributed to the growing privatization of many state-owned enterprises and the need to obtain capital from large and non-affiliated investors (Khanna and Yafeh, 2007).

Among these non-affiliated investors, at least during the last decade of the 20th century, banks provided financing to capital-intensive BGs or those groups wanting to expand/grow, including through mergers and acquisitions, diversification, and R&D activities (c.f., Boehmer, 2000; Lincoln *et al.*, 1992; Rubach and Sebora, 1998). Consequently, banks played a crucial monitoring function for investment decisions in the firms in which they invested (Bae *et al.*, 2002; Gerlach, 1992). During the most recent financial crisis of 2008–2009, banks were crucial for the survival of BGs, protecting them from insolvency (Colpan and Hikino, 2018). However, the existence of BGs around banks has sometimes led to the proliferation of "zombie firms," i.e., highly inefficient and debt-ridden BG-affiliated firms that heavily depend on bank financing (c.f., Caballero *et al.*, 2008).

Foreign institutional investors—who are typically from developed economies, in particular, from the UK and the US—are another type of non-affiliated BG shareholders. They tend to be active and engaged in the BGs' strategic directions given their short-term orientation focused on maximizing the value of their investments (Ahmadjian and Robbins, 2005; Holmes Jr *et al.*, 2018; Kim *et al.*, 2008). There is empirical evidence that shows foreign investors becoming active and instrumental in the restructuring of South Korean chaebols during the 2008 financial crisis (Chang, 2006). They can also exert pressure on BGs to increase their corporate social responsibility and philanthropic activities (Cuervo-Cazurra, 2018; Oh *et al.*, 2018), as well as enhance the efficiency of their corporate strategies.

It is worth stressing that many BGs are often owned by different types of owners, making them hybrid entities. Concrete examples are state-controlled BGs in the Persian Gulf region, in which the organizations are ultimately controlled by ruling families, qualifying them as family BGs. For instance, Qatar National Bank is largely controlled by the Qatar Investment Authority, the country's sovereign wealth fund. One-third of its board members belong to Qatar's ruling Al Thani family, thus making it both a state-owned and family BG. Moreover, its board chair and several key executives have strong political ties with the Al Thani family, having previously served in or currently holding high-ranking governmental positions.

3.2 Ownership Dispersion in BGs

As discussed above, BGs can be owned by several types of owners with varying interests, thus contributing to a spectrum of ownership structures among BGs. One type of owner may dominate or fully own a BG, whereas, in some cases, two or more types of owners may be present in the same BG. In our sample, families are the most common type of owners who have controlling stakes in 22 percent of the BGs (see Table 3.1). At least 20 percent of BGs in East Asia and the Pacific and Europe and Central Asia are family-owned. Surprisingly, only 0.8 percent of

Table 3.1: BG ownership types

	Family-Owned BGs		**State-Owned BGs**		**Non-Family and Non-State BGs**	
	% in Sample	**Average # of Firms**	**% in Sample**	**Average # of Firms**	**% in Sample**	**Average # of Firms**
Panel A: By Region*						
East Asia and Pacific	23.72	3.32	0.99	41.72	75.29	3.94
Europe and Central Asia	22.34	3.36	0.71	10.39	76.95	4.00
Latin America and Caribbean	3.14	3.68	0.56	8.78	96.30	5.77
Middle East and North Africa	18.42	3.73	1.40	14.43	80.18	4.39
North America	5.80	3.24	0.03	3.33	94.17	5.07
South Asia	17.12	2.95	0.52	12.00	82.36	3.19
Sub-Saharan Africa	5.46	3.36	1.37	4.78	93.17	4.60
Panel B: By Country-Income Level*						
Low income	15.63	2.80	6.25	3.00	78.13	4.16
Lower-middle income	21.52	3.06	1.89	11.23	76.58	3.29
Upper-middle income	25.90	3.27	1.11	38.33	73.00	3.69
High income	19.71	3.41	0.58	11.52	79.71	4.25
Total	**22.05**	**3.34**	**0.80**	**25.35**	**77.15**	**4.03**

Note: *See appendix for the classification of countries.

the BGs are state-owned, but these BGs have the highest average number of affiliated firms. The Middle East and Africa have the highest percentage of state-owned BGs among all the regions. Counterintuitively, our sample shows that Latin America and the Caribbean countries have a low percentage of family- and state-owned BGs. Although the distribution of family-owned BGs is similar as per the income level of the regions, state-owned BGs seem to be more prevalent in lower-income countries than in higher-income economies.

A distinguishing characteristic of BGs is the presence of an ownership-control wedge, which refers to the divergence between cash flow rights (i.e., ownership) and voting rights (i.e., control) of the largest shareholder (Jiang *et al.*, 2011; Liu and Magnan, 2011). This ownership-control wedge places BGs at risk of expropriation by the controlling shareholder vis-à-vis the other investors, thus increasing agency costs (Johnson *et al.*, 2000; Shleifer and Vishny, 1997). Although the largest shareholders of many BGs do not hold a majority of shares, they have control over the firm through the presence of wedges using dual-class shares (i.e., preferred stock or founder shares) that grant them additional voting rights (Gompers *et al.*, 2010). Moreover, a wedge also occurs because of many BGs' pyramidal structure that generates an imbalance between voting and economic rights (Faccio and Lang, 2002). Ayyagari *et al.* (2015) argue that the ownership-control wedge can be an indicator whether a firm is core within the BG. The ownership-control wedge in BGs often results in opportunism as related-party transactions increase (e.g., Kang *et al.*, 2014; Kim and Yi, 2006). It is therefore not surprising that many BGs do not disclose who their ultimate owners are or the accumulated votes held by the BG-affiliated firms (Goergen and Renneboog, 2003).

3.3 The Value Chain in BGs

From a value-based perspective (c.f., Brandenburger and Stuart Jr, 1996), BGs are established to create value, but central to the value-creation concept is identifying the target user of the created value. In the case of family-owned and widely-held BGs, they typically produce goods and services to satisfy market demands. By contrast, the goal for state-owned BGs is to develop policies that address the common good of the people. The next question is how to allocate the value created.

Bacq and Aguilera (2022) contend that value allocation entails two stages: appropriation and distribution. They argue that value appropriation requires "a governance mechanism through which an organization either defends itself against unintended stakeholders' attempts to appropriate value or lets go of some value to other intended stakeholders," while value distribution entails "governance mechanisms through which an organization shares the value with its set of intended stakeholders" (p. 41). The fundamental criterion for allocating value is the power of stakeholders to claim a share of the value created (c.f., Mitchell *et al.*, 1997).

In BGs, value allocation varies according to the ownership type, with different power rights to capture the value created. Firstly, with regard to value appropriation, the claims of stakeholders in both family-owned and widely-held BGs stem from their property rights (c.f., Asher *et al.*, 2005). Meanwhile, stakeholders of state-owned BGs assert their claim via the law that grants them the right to do so (c.f., Cabral *et al.*, 2013).

Second, value is then distributed to the stakeholders with the assumed greatest entitlement for the value created. In many family-owned BGs, the family is the ultimate beneficiary, with several control mechanisms to ensure its effective control over the group and the maximization of wealth even at the expense of other minority shareholders. Thus, it is not surprising that a large body of research finds evidence suggesting the likelihood of tunneling within these BGs (e.g., Holmes Jr *et al.*, 2018; Solarino and Boyd, 2020).

State-owned BGs operate like public agencies in order to provide public goods and services. Although the government and group managers who tend to be closely linked to certain political parties or politicians (i.e., enfranchised stakeholders) typically reap the benefits, the general public or citizenry (i.e., the entitled stakeholders)—who does not participate in the value-creation process—also receives the distributed value. Thus, how value is distributed between these two sets of stakeholders depends on their political bargaining in agreeing on to whom the value should be effectively given (c.f., Lieberman *et al.*, 2017; Moore, 1995).

In widely-held BGs, the distribution of value works as if they were widely-held corporations accountable to their respective shareholders (c.f., Fama and Jensen, 1983). The boards of directors who represent the shareholders approve the allocation of value based on shareholder rights (i.e., shareholding). This value is often distributed as dividends, as entitlement for the investment in the group. Interestingly, some shareholders of many wide-held BGs are the affiliates, thus eventually distributing the value across the member firms.

In sum, BG ownership structure is characterized by high concentration (thus control) of large shareholders that are typically the parent firm. As a result, an ownership-control wedge occurs, which may either benefit BG-affiliated firms because of improved coordination within the group or increase the risk of appropriating minority investors. Our review suggests that there are still pieces that we can unpack regarding how the ownership structure influences BG corporate governance and, eventually, their overall functioning. This is because very few studies have explored how value is created, appropriated, and distributed in BGs.

3.4 Agency Problems in BGs

BGs are akin to many organizational forms that suffer from multiple types of agency problems. In other words, BGs are "a collection of agency relationships" that are intertwined with one another (Yiu *et al.*, 2007: 1557).

First, we can observe the conventional principal-agency problem (PA conflict or Type I agency problem), which occurs between the separation of ownership and control in various types of organizations such as corporations, professional partnerships, and nonprofits (Fama and Jensen, 1983), in BGs. The risk-bearing (ownership) and decision (control) functions may be present in member firms, particularly those included in widely-held and state-owned BGs where the owners are distinct from the managers. The member firms of widely-held BGs typically have professional managers who are more interested in growth than the dispersed shareholders' interest to earn a return on their investments.

Similarly, the parent firm and affiliates of state-owned BGs are run by politicians who do not necessarily have the same interests as the citizens who elected them. In contrast, family-owned BGs do not have the same level of principal-agent problem as the other types of BGs because the managers are often the owners belonging to or representing the same family. Nevertheless, a PA problem may arise if the CEO is not a family member in a family-controlled BG (Young and Tsai, 2008).

Second, BGs may also have a principal-principal problem (PP conflict or Type II agency problem), which refers to the conflict between the controlling and minority shareholders in firms (Dharwadkar *et al.*, 2000). The PP conflict is more prevalent in institutional contexts (i.e., emerging/developing economies) where the enforcement of contracts is weak, costly, and problematic, resulting in concentrated ownership that can expropriate minority investors (Young *et al.*, 2008). For example, family- and state-owned BGs are characterized by controlling shareholders who may make decisions that benefit them, but such decisions are detrimental to the minority shareholders. Previous studies show that tunneling or transferring resources to benefit the ultimate owner likely occurs in these types of BGs (e.g., Bae *et al.*, 2002; Gopalan *et al.*, 2007; Joh, 2003). Meanwhile, in family-owned BGs, a sub-type of PP conflict can occur between the family members who have misaligned interests (Schulze *et al.*, 2001). Although the Type II agency problem is infrequent in the HQs of widely-held BGs, they may be present if a group of allied investors go against the wishes of other minority investors or at the affiliate level if the HQ holds a significant portion of shares in an affiliate at different levels of the group.

Third, apart from Types I and II agency problems, BGs are unique because of the likelihood of an agency problem arising from the misalignment of interests between the parent firm and the affiliates. Since parent firms coordinate the collective actions of their respective BGs, affiliates may deviate from the group's common goals and objectives to pursue their own individual benefit, thus increasing agency costs. Moreover, BGs may need to account for the agency costs for the entire group, not just in the individual member firms, because a tradeoff can occur if efforts to mitigate the agency costs in one member firm exponentially increase the agency costs in another member firm. This agency problem is comparable to that of multinationals, conglomerates, and multidivisional companies where information asymmetry and the conflict of interests may occur between the headquarters and the units or among the different units (c.f., Gaur *et al.*, 2019; Singh *et al.*, 2007).

Fourth, inherent to SOEs, state-owned BGs may also suffer from an agency problem that occurs between the citizens (who are the nominal owners) and the politicians representing them (Cuervo-Cazurra, 2006). Since the citizens do not have formal mechanisms to influence the decisions of the politicians running the BG, many ventures are typically oriented toward political benefits rather than creating value for both the BGs and the citizenry (Boycko *et al.*, 1996).

In sum, we have shown the different types of BGs according to their ownership structure. Because of the different types of BG owners and the control they have over the affiliate firms, these organizations are susceptible to several types of agency problems which need to be addressed. Surprisingly, research has yet to empirically explore how BGs control the multiple agency issues that can occur simultaneously.

4

Board of Directors

Most corporate governance scholars and practitioners consider the board to be the heart of corporate governance, as evidenced by many corporate governance codes and corporate laws around the world devoting a large portion of their clauses to the board's role (Federero *et al.*, 2020). The board is a crucial internal corporate governance mechanism that helps mitigate agency problems by aligning the interests of managers and stakeholders. Corporate boards are expected to fulfill three general functions: monitor (or control) top management's decisions, provide resources and advice, and participate in strategy-making (Zahra and Pearce, 1989). Although we anticipate that BG boards will have the same functions, specific BG characteristics may alter how such functions occur. Given that BGs are a collection of legally independent entities, they have multiple boards across each of the member firms. In other words, the parent firm has a board that oversees its activities, and each affiliate will also have a board for its own purposes.

4.1 Board Structure and Composition in BGs

Like any other type of organization, BGs can configure their boards to address their agency problems. One way to do so is to include independent directors who are tasked with effectively monitoring managerial decisions and, thus, align the interests of multiple stakeholders. Although BGs tend to have lower board independence than standalone firms (e.g., Chauhan *et al.*, 2016), studies show that the boards of South Korean BGs have a high number of independent directors (Chizema and Kim, 2010; Han *et al.*, 2014), which can result in better firm value (e.g., Choi *et al.*, 2007, 2012). The crucial monitoring role of independent directors is also documented in BGs based in Hong Kong (Cheung *et al.*, 2014) and India (Aggarwal *et al.*, 2019). Interestingly, scholars find that the relationship between the proportion of independent directors and ownership concentration in Indian BGs is U-shaped, where the percentage of independent directors decreases if ownership concentration is below 24 percent and above 54 percent, while it increases if ownership concentration falls between that range (Bansal and Thenmozhi, 2020).

In our sample, half of BG board members, on average, are independent (see Table 4.1). We refer to independent directors in our sample as those who are independent vis-à-vis the managers. Surprisingly, more than 90 percent of BG board members in South Asia and the Middle East and Africa are independent. This may perhaps be attributed to the non-representativeness of our sample which primarily encompasses large BGs that attract stakeholder attention and are more prone to conform to the expectations of having an independent board. Meanwhile, independent BG board members in East Asia represent approximately 37 percent of the total. Moreover, lower-income countries have a higher percentage of independent directors than higher-income countries.

However, some BGs—particularly those in Asia—staff their boards with independent directors who also have current or former government affiliations, showing a certain level of political capital (e.g., Chizema *et al.*, 2015; Rhee and Lee, 2008; Wang, 2015). The directors' political ties are important not only for control (especially in state-owned BGs), but also for the service (i.e., resource provision) and strategic roles of boards. Political connections can provide access to specific resources,

Table 4.1: BG board structure

	Board Size	Independent Directors (% of Board Size)	Directors Directors (% of Board Size)
Panel A: By Region*			
East Asia and Pacific	2.75	37.27	12.55
Europe and Central Asia	2.71	60.99	14.03
Latin America and Caribbean	7.60	65.28	14.00
Middle East and North Africa	4.19	94.35†	12.25
North America	6.96	60.15	15.41
South Asia	4.29	95.83†	12.77
Sub-Saharan Africa	9.31	77.74	18.96
Panel B: By Country-Income Level*			
Low income	9.12	81.46	16.46
Lower-middle income	4.84	87.98	13.49
Upper-middle income	2.67	33.91	12.75
High income	2.87	62.51	13.78
Total	**2.81**	**50.38**	**13.32**

Note: *See appendix for the classification of countries.
†High percentage due to the sample bias attributed to low N.

such as knowledge of the political system and bureaucratic processes (e.g., Goldman *et al.*, 2009; Lester *et al.*, 2008).

Moreover, former politicians on boards can be as active as any other directors in terms of carrying out board tasks (Pascual-Fuster and Crespí-Cladera, 2018) to help reduce the risks generated by decisions with political ramifications (Hillman, 2005). Although state-owned BGs (for example, in China) typically have politicians in the boardroom (Brødsgaard, 2012), family-owned BGs in Brazil (Gama *et al.*, 2018), Indonesia (Joni *et al.*, 2020), Spain (Pascual-Fuster and Crespí-Cladera, 2018), and Turkey (Selekler-Goksen and Yildirim Öktem, 2009) also have politically-connected directors. This is because many BG-owning families are currently or have been involved in their countries' political landscape (Morck, 2007).

Aside from independence and political connections, BG boards share several other features. For example, family-owned BGs typically have family directors, generally aimed at preserving or providing socio-emotional wealth (SEW) gains for the family (c.f., Gómez-Mejía *et al.*, 2007). Family directors are also expected to monitor outside managers (Bertrand *et al.*, 2008). However, such family involvement in governance may result in a tradeoff between SEW and financial wealth (Firfiray *et al.*, 2018; Gomez-Mejia *et al.*, 2018; Jeong *et al.*, 2022).

Another characteristic of BG boards is interlocking directors, which serve to provide important formal, horizontal ties to coordinate the activities of member firms (Boyd and Hoskisson, 2010; Goto, 1982). Director interlocks are a mechanism to spread practices (Granovetter, 1995; Rogers, 1983), technology and innovation (Lorsch and McIver, 1989), and resources and capabilities (c.f., Amsden and Hikino, 1994), including credible information (Mahmood *et al.*, 2011) and knowledge of institutional frameworks in foreign operations (Ayyagari *et al.*, 2015). An interlocking directorate is common in family-owned BGs that rely on trust among the family members serving as directors of several boards within the group (Chang and Hong, 2000; Hamilton and Kao, 1990; Luo and Chung, 2005). It is also present in many state-owned BGs (Arnoldi *et al.*, 2019; Bucheli *et al.*, 2019; Keister, 1998) and widely-held BGs (Khanna and Rivkin, 2006).

Diversity is also an important consideration for BG boards. Board diversity includes task-related (e.g., education, experience, and industry) and non-task related (e.g., gender/sexual orientation, ethnicity/race, nationality, religion, and age) attributes (Adams *et al.*, 2015). Diverse boards have several benefits such as greater resources (e.g., information, knowledge, skills, and network) to reduce external dependence, the development of competitive advantages, and the advancement of a culture based on creativity, innovation, and sensitivity towards societal differences (Carter *et al.*, 2003; Robinson and Dechant, 1997; Tasheva and Hillman, 2019). The interplay of diversity with other board characteristics helps directors fulfill their basic functions that include monitoring, service, and strategy-making (Hillman and Dalziel, 2003).

Very few studies provide information about the diversity composition of BG boards. For example, González *et al.* (2020) show that women's presence on the boards of Colombian BGs is pegged at 17.5 percent, whereas Oh *et al.* (2019) find that the percentage of women directors in South Korean BGs is only 1 percent. Arioglu (2020) demonstrates that female representation on Turkish BG boards has a positive effect on affiliate performance. However, empirical evidence suggests that diverse boards are also associated with low financial performance among affiliates, particularly within Indian BGs (Aggarwal *et al.*, 2019). In our sample (see Table 4.1), North America has a high percentage of women BG directors (15.41%), followed by Europe and Central Asia and Latin America and the Caribbean (14.03% and 14.00%, respectively). Although Sub-Saharan Africa has a high percentage of women directors (18.96%), this again may be due to the non-representativeness of our sample which covers mostly very large BGs that are more sensitive to stakeholder pressure compared to relatively smaller ones.

Interestingly, scholars argue that board size matters in BGs because it indicates the extent of political ties that the group has in certain countries like China (Chung and Zhu, 2021). An increase in size also allows owner representatives to occupy board seats (Federo and Saz-Carranza, 2020), without impinging the requirements to have a minimum number of certain types of director, for example, having a woman or labor-force representative (Correa-Garcia *et al.*, 2020). Previous studies provide evidence that board size in BGs is larger than in standalone firms in India (e.g., Chatterjee, 2011; Katti and Raithatha, 2018). BG board size also varies across the different regions. For example, BGs in Europe and Central Asia and East Asia and the Pacific have the smallest boards, with 2.71 and 2.75 directors, respectively (see Table 4.1). Contrarily, BGs in Latin America and the Caribbean (7.60) and North America (6.96) are among those with the largest boards, which can be attributed to the large size of firms in these regions.

4.2 Board Engagement in Business Groups

Although directors have the necessary resources and capabilities to effectively carry out their duties in terms of organizational strategies, many of them fail to do so, resulting in low engagement. Board engagement (also referred to as "involvement") focuses on "the overall level of participation of board members in making nonroutine, organization-wide resource allocation decisions that affect the long-term performance of an organization" (Judge Jr and Zeithaml, 1992: 772). These decisions relate to the formulation of organizational strategies that are typically vested in the top management team's hands. Board engagement in BGs is important because boards reconcile conflicting views that arise during strategy-making processes and help define a common set of goals and guidelines to direct managerial action (Ravasi and Zattoni, 2006). Given that BG member firms are legally independent, board engagement in strategy-making processes can also help coordinate group activities.

Several structural board features can capture board engagement. For instance, directors' attendance at board meetings can proxy the extent of board engagement (e.g., Brick and Chidambaran, 2010; Federo and Saz-Carranza, 2018). In family-owned BGs, outside directors tend to be disengaged, as they generally only attend the required meetings stipulated in their contracts (Ahmed and Uddin, 2018). Similarly, the number of board committees (i.e., remuneration, audit, executive, and nomination committees) and director attendance at such committee meetings may indicate director participation in specific board tasks. Pascual-Fuster and Crespí-Cladera (2018) argue that directors in Spanish BGs are active due to their membership and positions on board committees. In addition, the busyness of directors can also indicate whether board members have the time or availability to engage with other directors. Interestingly, scholars contend that BG board members are busy because they typically hold multiple director positions within the group (Sarkar and Sarkar, 2009).

However, a major challenge in BGs is how board engagement materializes at the group level, since there is no overarching board for the entire group that typically relies on the HQ's board. In family- and state-owned BGs, the presence of owner representatives (family members or politicians) and/or interlocking directors involved in strategy-making at the board meetings of each member firm can help coordinate group strategies and transfer knowledge (c.f., Claessens *et al.*, 2006). Conversely, board engagement aimed at formulating common goals and objectives would be difficult in widely-held BGs that have few interlocking directors; thus, independent directors tend to become more active in governance activities.

To sum up, there is still much to learn about how boards can be an effective corporate governance tool to enhance BG functioning. Despite our conventional understanding of boards as a crucial internal mechanism to mitigate agency problems, this may not necessarily be the case for all BGs because boards sometimes become rubber stamps for the powerful owners (i.e., family and state) who control a significant stake in the HQs and affiliate firms. Similarly, some BGs have a centralized structure reliant on strong HQs (particularly vertical/pyramidal BGs) that control the group's overall decision-making, thus rendering the affiliate company boards irrelevant. Conversely, aside from the well-established role of boards (i.e., control, advise, and strategy), BG boards are also assumed to have an additional important function to coordinate activities among the member firms. Yet, this coordination role remains understudied. Overall, the dearth of research on BG boards makes it hard to discuss what the boards of BG-affiliated firms look like, how they function, and how they influence the BGs' overall functioning.

5

Top Management Team

The top management team (TMT) refers to "a relatively small group of [the] most influential executives at the apex of an organization – usually the general manager and his or her direct reports" (Hambrick, 2015: 1). It is the dominant coalition of individuals responsible for setting the firm's direction (Cyert and March, 1963). In other words, TMTs are in charge of formulating and implementing strategic changes in their organizations (Mintzberg, 1979), and they reflect the outcomes of their respective organizations (Hambrick and Mason, 1984). The TMT is also known as the "C-suite," led by a Chief Executive Officer (CEO) and includes other top executives such as the Chief Financial Officer (CFO), Chief Operating Officer (COO), and Chief Marketing Officer (CMO), among others. In BGs, there are multiple sets of TMTs, given that each member firm is legally independent and requires its own set of managers.

The main corporate governance issues revolving around TMTs are CEO succession, dual leadership, and executive compensation. We discuss each of these in the BG context.

5.1 CEO and Succession

Being a collection of firms, BGs do not have a single CEO who oversees and decides on behalf of the entire group. Although the CEO of the parent firm helps organize the BG's activities, the interfirm coordination and exchange of information often occurs during meetings of all the group's CEOs, referred to as "presidents' club meetings" in Japanese keiretsus (Goto, 1982).

In family-owned BGs, many CEOs are either family members or family-group representatives (Ansari *et al.*, 2014). Succession in the majority of family BGs typically follows primogeniture, that is, giving priority to the first-born heir to take over the firm (c.f., Calabrò *et al.*, 2018). This type of executive succession has been observed in the case of the Wallenberg family in Sweden (Lindgren, 2002) and Samsung in South Korea (Campbell *et al.*, 2019). Adopting a primogeniture succession strategy ensures the continuity of norms and principles initiated by the family-firm founders regarding the group's strategic direction and the preservation of the family's socioemotional wealth. If an immediate family member cannot be appointed, a representative who will uphold the purpose and goals of the family is named (Murillo and Sung, 2013).

Meanwhile, in state-owned BGs, politicians from the dominant party or civil servants chosen by such politicians are normally appointed as CEOs (c.f., Lin, 2013). State-owned BGs follow succession strategies ranging from political-oriented to market-oriented approaches (World Bank, 2014). At the political-oriented end of the spectrum, the CEO is appointed by government officials or high-ranking members of the governing elite (Filatov *et al.*, 2005). In contrast, market-oriented succession is at the other end of the continuum and occurs when the top executive is nominated by an independent board, though subject to the approval of the government officials (c.f., Organisation for Economic Co-operation and Development (OECD), 2013). Political-oriented succession is common in Brazil, China, Chile, and several Gulf states (e.g., Bahrain, Qatar, Kuwait, Saudi Arabia, and United Arab Emirates) where the ruling parties/families place their representatives (whether political allies or family members) in various state-owned BG firms (e.g., Bucheli and Salvaj, 2014; Musacchio and Lazzarini, 2014; Xavier *et al.*, 2014). Meanwhile, market-oriented succession is predominant in advanced economies such as Germany, Norway, and Sweden where state-owned BGs operate like private firms, including in terms of executive succession (World Bank, 2014).

For widely-held BGs, given that no single owner dominates group decision-making, the CEO is likely a professional manager who either has a long-standing career within the group or is substantially experienced in BG member firms' industries. Like in publicly-traded corporations, CEO and TMT selection and succession in widely-held BGs are driven by market forces through the nomination of the board and the confirmation of the majority of shareholders. Although some family- and state-owned BGs appoint professional managers to run their groups, what differentiates them from widely-held BGs is that top executives have direct links with the controlling shareholder (i.e., the family or political party). For example, the Indian Mahindra group has appointed Anand Mahindra as its chairman who is a Harvard-trained son of the founder and a seasoned top executive within the group. Similarly, the sons of Mexican CEMEX founder, Lorenzo Zambrano, are both executive directors who worked in several group affiliates for decades before reaching the corporate apex.

5.2 Dual Leadership

Dual leadership (or CEO duality) occurs when the CEO also serves as the Chairperson of the board (Baliga *et al.*, 1996). This facilitates the flow of information from management to the board and helps smoothen changes during firm leadership transitions (Anderson and Anthony, 1986). However, having a dual-leadership structure also increases agency costs because of the potential lack of proper monitoring of the CEO (Jensen, 1993), which sometimes results in high executive compensation (e.g., Krause *et al.*, 2014; Van Essen *et al.*, 2015). In fact, empirical evidence shows that agency costs outweigh the benefits of dual leadership (e.g., Brickley *et al.*, 1997). One probable reason for this is that a CEO who is also the Chairperson of the board takes more risk when it comes to strategic decisions compared to a CEO who does not have this dual role (c.f., Min, 2021). Although the debate regarding the double-edged characteristic of CEO duality (c.f., Finkelstein and D'aveni, 1994) has persisted over the years, the effects of dual leadership remain inconclusive (Dalton *et al.*, 1998); thus, the practice continues to be observed in firms.

The presence of dual leadership varies in different BG contexts. For example, in Pakistan, CEO duality is more common in BGs than in standalone firms (Hussain *et al.*, 2022), whereas it is the inverse in India (Singh and Delios, 2017). Moreover, comparing different types of BGs, family BGs are more likely to implement CEO duality than non-family BGs, particularly in Taiwan and Latin America (Del Carmen Briano-Turrent and Poletti-Hughes, 2017; Young and Tsai, 2008). Within the large body of research on CEO duality (Krause *et al.*, 2014), only a handful of studies actually analyze the effect of dual leadership on BGs across several firm outcome dimensions, and their results are inconclusive.

5.3 Executive Compensation

Corporate governance research includes TMT incentives as one of the internal mechanisms to ensure that managers act in the best interests of the firm and its stakeholders. Managerial incentives are typically operationalized using executive compensation and contingent pay (Aguilera *et al.*, 2015). The assumption in the literature is that equity-related incentives for TMTs are associated with improved firm performance. However, empirical evidence on this relationship is largely mixed and inconclusive (see the reviews by Core *et al.*, 2003; Daily *et al.*, 2003; Dalton *et al.*, 2007; Goergen and Renneboog, 2011; Tosi *et al.*, 2000).

In BGs, high executive pay or equity-based compensation is not as crucial for monitoring as in standalone firms, because the close relationships between the owners and managers in BG HQs are usually tight-knit and long term by nature, thus reducing agency costs (Fama and Jensen, 1983). This is likely the case in family-owned BGs in which the CEOs' family ties serve as a substitute mechanism for their monitoring (DeAngelo and DeAngelo, 1985). Thus, we should expect that executive compensation will be lower in family-owned BGs than in standalone firms (e.g., Kole, 1997; Lodh *et al.*, 2014; McConaughy, 2000). This expectation is consistent with the socioemotional wealth concept, given that family executives may be driven not only by current financial incentives through their compensation packages, but also by a share of any future rents from the business (c.f., Berrone *et al.*, 2010).

The inverse relationship between executive compensation and BG affiliation should also hold true in state-owned BGs, given that the executives are public servants or politicians who are in the spotlight and subject to public scrutiny (Budiman *et al.*, 2009; Ralston *et al.*, 2006). Moreover, CEOs in state-owned entities are typically controlled by those who appointed them, thus reducing the agency-based logic for their compensation (Mengistae and Xu, 2004). In addition, executives in state-owned BGs have a different form of incentive, which is largely political advancement and the ability to climb the ladder in the dominant party (e.g., China and Brazil) or to appease the ruling family (e.g., Gulf countries), instead of financial compensation (Cao *et al.*, 2019; Liou, 2009). Previous studies indeed show that CEO compensation in firms affiliated with state-owned BGs is lower than in other firms (e.g., Conyon and He, 2011; Hu and Xu, 2022).

For family- and state-owned BGs, the risk of expulsion from the family network or political party may also lower executive compensation to demonstrate their alignment with the interests of the ruling elite (c.f., Lin, 2013; Verbeke and Kano, 2012). In contrast, given that the substitutive mechanism for monitoring a dominant owner (i.e., the family or state) is not necessarily present in widely-held BGs, executive compensation in these groups is subject to market forces. Like in standalone firms with a dispersed ownership structure, widely-held BGs have high pay-performance sensitivity. Thus, we would expect high compensation for their CEOs (Banerjee and Homroy, 2018).

Overall, we still know little about the TMT issue in BGs. Much of the extant research has largely concentrated on the CEOs of BG-affiliated firms. Given that TMTs are groups of individuals holding other posts such as CFOs and COOs, there is still a lot to learn about BG C-suites, in particular, how they are structured (e.g., size and diversity) and how they function. We also lack insights on how TMTs and boards work together in BGs. Is the selection process adopted like that in independent firms (c.f., Zajac and Westphal, 1996) or largely market-based (c.f., Yiu *et al.*, 2005)? Up to what extent do HQ executives coordinate with the affiliate executives, and how does the hierarchy among the TMTs across the BG influence how they manage their respective firms (c.f., O'Donnell, 2000)? How is the internal market of executives in BGs also influence the selection and succession of the member firms' TMTs?

6

External Mechanisms

Corporate governance also encompasses several external mechanisms that operate outside organizations. These external governance mechanisms include six elements: the legal system; the market for corporate control; external auditors; stakeholder activism; rating organizations; and the media. These mechanisms have the capacity to influence the structure and effectiveness of internal governance mechanisms by playing an important role in protecting stakeholder rights, managing stakeholder relationships, offering information disclosure, and providing guidance (Aguilera *et al.*, 2015). We discuss how each of these operates in the BG context.

6.1 The Legal System Governing BGs

The legal system is a formal and normative mechanism that delineates the nature of organizational relationships (Roe, 1996). Although it primarily refers to a set of structures and processes used to interpret and enforce existing laws and regulations, it also includes soft laws advocated by several stakeholder groups (i.e., securities exchange commissions and interest groups) to define organizational governance. Some examples of soft laws include codes of good governance, good governance stock exchange recommendations, and sustainable reporting guidelines that many firms incorporate into their governance structures and practices.

The prevailing institutional-voids assumption that explains the existence of BGs emphasizes the importance of the legal system, given that BGs substitute weak legal institutional frameworks (Khanna and Yafeh, 2007). Therefore, it is not surprising that many firms, including BG member firms, in emerging and developing economies do not necessarily follow the prescriptions of global good corporate governance, which is largely based on advanced economies with strong legal systems to support market-based transactions (Aguilera *et al.*, 2019).

However, existing research has shown the importance of having a strong internal governance structure in place (i.e., a combination of independent directors and concentrated ownership control) to counter the absence of enforcement mechanisms in weak legal systems; otherwise, firms are less likely to yield superior performance (e.g., Singh and Gaur, 2009). Interestingly, cross-national differences in terms of legal systems have yielded diverging influence on BG performance. The development of financial infrastructures and labor market quality attenuate the inverse relationship between BG affiliation and member firm performance, while the high quality of institutions heightens such relationship (Carney *et al.*, 2011).

Many BGs are less responsive to coercive pressure from the legal framework because they rely on their internal markets to gain access to capital, resources, and control. For instance, even though BG member firms are located in a country with a poor financing infrastructure, a lack of support for innovative activities, an inadequate labor market, and weak protection for contractual obligations, they can leverage the group's resources and market power to sustain and even develop competitive advantages. In a way, the BG structure shelters them from the institutional environment, particularly, internationally-based BGs, so that BG member firms can engage in cross-national arbitrage.

6.2 Market for Corporate Control in BGs

The market for corporate control is also considered a corporate governance mechanism, whereby it can discipline managers and boards if the firms underperform (Dalton *et al.*, 2007; Walsh and Seward, 1990). The market for corporate control occurs when the share prices of underperforming firms drop and become susceptible to takeovers (Hawley and Williams, 2000). The assumption is that other investors may want to take control over a firm to force changes in management and strategies that can increase stock prices, thus unlocking the understated firm value (Aguilera *et al.*, 2020b; Bebchuk and Fried, 2005).

In widely-held BGs, the market for corporate control operates similarly as in widely-held firms. This is because no single shareholder has enough control to overcome any threat from investors seeking to take over the group. This may be true at the HQ level, but it may not be the same at the affiliate level if the HQ controls a significant portion of an affiliate's shares. Contrarily, many family and state owners have full or effective control over their BGs (i.e., the parent firm and the affiliates), making hostile takeovers difficult if not impossible to implement. Some family-owned BGs may take advantage of pyramidal ownership, dual-class structures, and cross-shareholding to ensure control (i.e., retaining a majority percentage of voting rights) by creating a wedge between cashflow and control rights (c.f., Nicodano, 1998; Orbay and Yurtoglu, 2006), thus fending off takeover bids (Dyck and Zingales, 2004; Nenova, 2003). Meanwhile, some governments may increase barriers to prevent the transfer of shares of state-owned BGs to other entities (c.f., Khanna and Palepu, 2000). Ultimately, the nature of the stock market and ownership concentration will determine the strength of this external governance mechanism in BGs.

6.3 Other External Mechanisms in Business Groups

The role of rating organizations (e.g., financial analysts and corporate governance rating agencies), the media (e.g., *Financial Times* and *The Economist*), and stakeholder activists (e.g., activist investors, proxy advisors, and celebrities) has become more prominent in drawing attention to corporate actions and strategies, particularly those that are illegitimate and dubious (Aguilera *et al.*, 2020b; Aspara *et al.*, 2014; Bednar, 2012; Daines *et al.*, 2010; Dyck and Zingales, 2002; Wiersema and Zhang, 2011). In a similar vein, external auditors are important because they are tasked with expressing an opinion on the reliability of the information presented in the financial statements reported by the firms themselves (Carcello *et al.*, 2002; Desender *et al.*, 2013; Hay *et al.*, 2006). These external mechanisms help reduce information asymmetry, as they pressure organizations to disclose complete information and avoid misrepresentation in corporate documents used for forecasting and investment decisions (Aguilera *et al.*, 2015; Khanna and Palepu, 2010).

Among the external mechanisms, empirical research on BGs has focused mainly on the role and effect of hiring external auditors, while the other mechanisms have been overlooked in the literature. Scholars find that member firms of state-owned BGs in China are more likely to hire one of the top 10 audit firms to perform external audits than non-affiliated firms, the aim being to take advantage of higher quality of information disclosure, higher valuation for related-party transactions, and cheaper equity financing (Fang *et al.*, 2017). Similarly, Italian family-owned BGs that hire Big-4 accounting firms (i.e., Deloitte, PwC, EY, and KPMG) tend to have low earnings management. Moreover, some BGs hire foreign external auditors to deter corporate financial fraud (Yiu *et al.*, 2019).

Moreover, given that external mechanisms are largely studied through the financial economics lens, other types of external mechanisms that are relevant for BG corporate governance continue to be overlooked in the literature, as mentioned. For instance, previous studies have rarely examined the roles that reputation, status, and power/influence play in terms of how BGs are governed. In fact, many family-owned BGs (e.g., the Ambanis, Tatas, and Mahindras of India, Grupo Salinas of Mexico, and DiTellas of Argentina) exploit the controlling families' reputation and status to solidify their hold over the economic development of their respective home countries by appointing family members and political connections to executive posts. In some cases (e.g., Mexico, South Korea, and Taiwan), family owners of BGs engage in strategic unions through marriage to enhance the status of the group (Chung *et al.*, 2021; Han *et al.*, 2017; Sargent and Ghaddar, 2001). However, despite the advantages of the reputation/status associated to these close-knit appointments, it can also be construed as nepotism, which can negatively impact how external stakeholders perceive the legitimacy of the governance structure adopted by these organizations (c.f., Jeong *et al.*, 2022).

In sum, external BG corporate governance mechanisms remain understudied in the literature. Although previous studies have covered many of these mechanisms, scholars have largely used them (with the exception of the role of external auditors) as either the context of their research or control variables in empirical studies.

7

Business Groups, Corporate Governance, and Corporate Social Responsibility

Over the years, the corporate governance field has begun shifting from a governance model that focuses on shareholders—i.e., how to create and distribute value between shareholders and managers (Jensen and Meckling, 1976)—toward a governance model that considers a broader set of stakeholders (Aguilera and Jackson, 2003). Underlying the recently emerged stakeholder governance model is stakeholder theory, which emphasizes the importance of the broader relationships between a firm and its stakeholders (Freeman, 1984). This means that the time has come for organizations to adopt a governance model that tackles the needs of their multiple stakeholders (Amis *et al.*, 2020), and BGs are no exception. In this section, we review why BGs engage in Corporate Social Responsibility (CSR) activities, what types of CSR investments are more prominent, and what effects these CSR activities have on BGs.

7.1 Why Business Groups Pursue CSR

Like private standalone firms, the motives behind BGs' pursuit of CSR objectives can be divided into two streams. On the one hand, scholars suggest that managers adopt CSR activities because of the need to address the impact of their organizational activities on society, not only to maximize shareholder value but to also include the welfare of other stakeholders (Porter and Kramer, 2002). In this vein, BGs can enhance their corporate citizenship by becoming visibly responsible members of society (c.f., Matten and Crane, 2005), since the public is increasingly expecting business organizations to honor their moral responsibility to fill a regulatory vacuum that has failed to address societal needs (Scherer and Palazzo, 2011). This motive explaining BGs' CSR activities is consistent with the institutional voids perspective, which considers that BGs fill institutional voids to perform the role of well-developed institutions in developed countries, aiming to carry out numerous economic and social functions (Khanna and Yafeh, 2007). Thus, according to this logic, it may be expected that BG engagement in CSR would diminish in line with the development of public institutions in the country where the BG is located (Cuervo-Cazurra, 2018).

On the other hand, some scholars apply economic logic to argue that organizations pursue CSR activities as a way to differentiate themselves from competitors, thus building a competitive advantage that improves shareholder value and secures wealth creation (Garriga and Melé, 2004; McWilliams and Siegel, 2011). In this respect, BGs can leverage their access to resources and build goodwill, reputation, and public legitimacy—which are the outcomes of CSR activities—to open and/or increase their market operations (Cochran and Wood, 1984; Godfrey, 2005). This motive parallels the tenets of resource dependence theory, in which CSR activities are used as means to decrease the risks associated with resource acquisition (Berman *et al.*, 1999; Haley, 1991).

However, BGs are distinctive because their member firms are connected and bound by common goals and objectives. Given the ties among the member firms operating under a unified umbrella, BGs can serve as an institutional force that facilitates the diffusion of specific structures and practices within the group. For example, BGs with dominant owners who have majority shares in the member firms can coerce those affiliates to adopt CSR activities. This assumption is in line with the view suggesting that BGs are carriers of institutional logics, where governments use BGs to instill their political ideology or implement projects with social causes (Fields, 1995; Wade, 2004). More importantly, Wang *et al.* (2023) show that the type of BG owners influence how affiliates engage in CSR activities, where family and state owners are negatively associated with the adoption of environmental management systems while foreign owners have a positive association.

Similarly, the close relationships among BG member firms can lead to powerful isomorphic pressure to influence strategic decisions related to CSR (Montecchia and Carlo, 2015; Oh *et al.*, 2018). In other words, BG member firms may replicate the CSR practices of their parent firm or other influential affiliates to demonstrate their alignment with the group (c.f., Choi *et al.*, 2018). At times, the pressure to follow the CSR practices of close affiliates signals good behavior, particularly when it is closer to the home country; however, decoupling may occur as the CSR practices are not put into practice in their foreign activities (c.f., Surroca *et al.*, 2013). Despite the expectation that CSR engagement is lower in developing countries than in advanced economies, previous research provides evidence suggesting that BGs can substitute a strong institutional framework to encourage member firms to become active in CSR-related activities (Agnihotri and Bhattacharya, 2021). Briseño-García *et al.* (2022) show that BGs, through their director interlocks, significantly influence the diffusion of CSR practices across their member firms.

7.2 The CSR Activities of Different BGs

Several stakeholder groups such as customers, activist investors, non-profit organizations, and supranational institutions have historically exerted pressure on BGs to increase their CSR activities (e.g., Cuervo-Cazurra, 2018; Ray and Ray Chaudhuri, 2018). Consequently, many BGs have responded by engaging in corporate philanthropy through donations (e.g., Chen *et al.*, 2015; Pyo and Lee, 2013), joining CSR initiatives (e.g., Marquis *et al.*, 2011), and amplifying the reporting of their CSR activities (e.g., Cho *et al.*, 2015; Marquis and Qian, 2014).

The different types of BGs vary in terms of how they engage in CSR activities. Affiliated firms in family-owned BGs in Korea and Canada tend to make higher donations than non-affiliated firms (Choi *et al.*, 2019; Zeng, 2020). Chaebols are also more likely to disclose their prosocial activities, which can be attributed to a legitimacy-seeking motive (Griffin and Youm, 2018). It is also consistent with the increase in CSR reporting in Latin America (Correa-Garcia *et al.*, 2020). However, Terlaak *et al.* (2018) find that the disclosure of CSR activities in family-owned chaebols depends on family ownership and whether the CEO is a member of the family, noting that family ownership reduces CEO disclosure in groups with low family ownership but increases disclosure in groups with high family ownership and the presence of a family-member CEO. In addition, family-owned BGs in India are also associated with increased community-related CSR activities and spending (Sahasranamam *et al.*, 2020; Tokas and Yadav, 2020).

In contrast, state-owned BGs are associated with low overall CSR reporting (Guo *et al.*, 2018). However, scholars caution how this relationship is interpreted, given that the type of CSR activities may influence how affiliated firms report their CSR practices (e.g., Cui *et al.*, 2022). Ararat (2008) contends that firms' engagement in CSR activities can be attributed to exogenous and institutional factors, particularly in firms that are associated with the state. Therefore, some CSR activities are prioritized and reported because of their respective political returns that benefit the ruling government (c.f., Apaydin, 2015). Moreover, Sahasranamam *et al.* (2020) find that members of state-owned BGs in India are less likely to engage in community-related CSR.

Albeit the growing body of research that aims to understand how BGs implement CSR activities, scholars have also examined the authenticity of such activities, thus explaining the emergence of the "greenwashing" concept (c.f., Laufer, 2003; Parguel *et al.*, 2011). In other words, BGs might be decoupling their activities to signal their commitment to CSR principles (e.g., Tashman *et al.*, 2019). Greenwashing occurs when the organizations' practices are inconsistent with the information they convey (Walker and Wan, 2012).[1] Previous studies have uncovered evidence that BGs sometimes engage in greenwashing to generate public legitimacy (e.g., Choi and Hong, 2022; Kim *et al.*, 2018).

[1]It is important to note that greenwashing is not restricted to organizations' environmental practices; it also involves their efforts to address social and economic issues (c.f., Hamann and Kapelus, 2004; Lyon and Maxwell, 2011; Munshi and Kurian, 2005; Seele and Gatti, 2017).

7.3 The Outcomes of BG CSR Activities

The growing attention being paid to BG CSR activities has also led to the emergence of greater research on the implications of these activities. Although many stakeholders encourage BGs to engage in CSR, the empirical evidence on the outcomes of those CSR activities is mixed at best. Choi *et al.* (2018) and Choi *et al.* (2019) find that BG CSR performance is associated with high Tobin's Q. However, Kim and Oh (2019) show evidence of a U-shaped relationship between BG's CSR scores and Tobin's Q and also reveal that BG affiliation weakens the negative relationship at the low level of CSR, while the positive relationship at the high level of CSR disappears. Moreover, other scholars have shown that BG CSR activities can be a tool for materializing their corporate vision, as demonstrated by the Volvo group case (Hoque *et al.*, 2014).

In contrast, Choi *et al.* (2013) find that the negative association between CSR practices and the level of earnings management is lower in BG affiliated firms than in non-affiliated firms, something which can be attributed to BGs wanting to conceal their poor earnings. In fact, there is evidence suggesting that CSR practices among affiliated firms destroy shareholder value (i.e., stock returns) because firms likely use CSR as a means to comply with regulatory mandates or for tunneling purposes (e.g., Aswani *et al.*, 2021; Bhattacharyya and Rahman, 2020; Kim *et al.*, 2019; Velayutham and Ratnam, 2021).

In sum, research on BGs' CSR policies and activities suggest that they share some unique traits in terms of how they strategically think about CSR and how they spread the latter within their groups. With the growing pressure on firms to engage in CSR, BGs are no exception, and they are expected to develop policies and adopt practices to become good corporate citizens. However, this monograph suggests that there are still a lot of topics to be examined to fully understand CSR in the BG context.

8

Future Research Agenda

Extant research on BGs is currently one-sided, largely focusing on the importance of BGs and their outcomes. However, understanding BG corporate governance is still in a nascent development stage. Thus, future research to understand BGs has several fruitful paths open, which we detail below.

8.1 Corporate Governance at the Group Level

One of the main challenges in understanding BG corporate governance lies in their inherent feature as a collection of legally independent firms. As a result, a significant part of existing research analyzes how several corporate governance variables affect (or are affected by) the BG structure, processes, and outcomes at the member-firm level. Among the few previous studies that focus on the group level, the analyses largely center on the relationship between group ownership (i.e., structure) and group-level outcomes (i.e., strategies and performance). Given that there is no formal overarching TMT or board in BGs, aside from those of their HQs, it is not surprising that research on TMTs and boards at the group level is almost non-existent.

Nevertheless, we propose that a fertile ground for future research is to understand the difference in the structure, composition, and processes of both BG TMTs and boards. This is because adopting different governance structures has corresponding costs that might deter some affiliates to follow the prerogative of the parent (c.f., Ponomareva *et al.*, 2022). Some research questions which could be interesting to explore include: How do parent firms influence the corporate governance practices in their affiliates? How does the structure of BGs correspond to the strategies adopted throughout the group? Do the benefits of adopting a particular governance structure outweighs the costs it entails? What factors shape the diffusion of corporate governance practices within BGs, and do the effects of these factors vary across different types of BGs or in different contexts? For example, gender diversity at the upper echelons has become an important topic, generating debates in both research and practice over the years. It would be interesting to explore how gender diversity at both the TMT and board levels diffuses within and/or across BGs. Relatedly, is the adoption of diversity quotas being pushed by the parent firm, an influential affiliate, isomorphic pressures from peers, or the institutional context?

Another dimension to consider for future research is understanding the outcomes of BG heterogeneity. Aside from differences in ownership and/or control structures, BGs vary in terms of their governance structures. It would be interesting to identify how these differences influence several outcomes such as group financial and non-financial performance. Is there a tradeoff in agency and transaction costs if some firms have relatively "better" governance structures than others? Which factors attenuate/heighten the difference in performance outcomes among member firms or at the group level?

Moreover, future research may benefit from examining whether a tradeoff exists when BGs as a whole or member firms independently pursue specific economic and social goals. BGs' focus on social goals (i.e., CSR practices) has recently gained traction in the literature, and research on this topic is still in its infancy. Thus, understanding the determinants and outcomes of CSR practices in BGs is a rich avenue to explore in future studies. For example, some research topics may include analyzing the multitude of factors that influence BG engagement in

CSR, examining the impact that BG CSR activities have not only on member firm performance but also on the wider societal context. This could include identifying other CSR measures (i.e., beyond ratings and ESG scores) in BGs.

In addition, there are several BG corporate governance dimensions that require further investigation. Aside from the corporate governance mechanisms we discuss above, very few studies have explored the role external corporate governance mechanisms play in BGs, i.e., the influence of rating agencies (except for CSR-related issues), the media, and stakeholder activists. In addition, we still lack insights on how external mechanisms influence overall BG governance structures.

8.2 New Approaches to BGs

BG literature has adopted economic and sociological approaches, applying a variety of theoretical perspectives. Although scholars have long advocated the use of an open-system logic to understand corporate governance (Aguilera *et al.*, 2008), surprisingly, research is yet to draw on this perspective in the BG context. An open-system approach entails viewing corporate governance in a holistic context, rather than independently analyzing factors in isolation. We contend that developing this open-system approach is suitable for BGs with multiple governance structures across their member firms, while the same member firms operate in different institutional environments that have varying stakeholder constellations. Consequently, a closed-system approach underlying the economic approaches to BGs may not fully capture the complexities of the environments in which BGs operate.

By using an open-system approach, future research should consider the complex interconnections of corporate governance factors that influence BGs. These factors are woven together and tend to have mutual causality (Freixanet and Federo, 2023; Schleicher *et al.*, 2018). In BGs, the group level adds another layer of complexity to the already complex mesh of factors. Therefore, how these factors fit together or become congruent to yield a specific outcome exacerbates the challenge of selecting out misaligned attributes (c.f., Grandori and Furnari, 2008). Consequently, we should not expect a single path for an outcome but, rather, the presence of equifinality, that is, having multiple combinations of factors that result in the same outcome (Doty *et al.*, 1993). We argue that an open-system approach can shed light on the diverging arguments and inconclusive empirical evidence regarding the determinants and outcomes of BG corporate governance.

An approach rooted in psychology is another interesting path for future research to understand the microfoundations of BG corporate governance. A very small number of recent studies have used this microfoundations approach to explore BG corporate governance strategies, structures, processes, and outcomes (e.g., Agnihotri and Bhattacharya, 2021; Chittoor *et al.*, 2019). For example, we know little about how the background, mindset, cognition, and attitude of the upper BG echelons (i.e., the TMT and board) influence both the member firms' and groups' governance goals and objectives. In other words, we lack information about the underlying motives of BG governance. Moreover, understanding the human aspect of BGs (i.e., the employees) is an unexplored area. Possible research topics could study employee career development, movement, and influence in BGs and how employees shape BG governance.

8.3 Methodological Issues

One crucial aspect regarding research on BGs is how to identify the groups to differentiate them from other types of organizations. To do so in this monograph, we built our dataset in keeping with Aguilera *et al.* (2020a) who adopted an algorithm that is largely based on ownership ties (Belenzon *et al.*, 2019; Masulis *et al.*, 2011). However, we believe that this approach is incomplete and largely captures a narrow sample of H- or M-form BGs (Yiu *et al.*, 2007), given that the ties among group members may also emerge from the simultaneous positions held by HQ executives in BG member firm boards and/or TMTs. For example, a director of an affiliate may also hold a C-suite position in another affiliate or the parent firm. Moreover, the threshold of 20 percent ownership in publicly-traded firms filters out many widely-held BGs that may have highly dispersed ownership structures. Furthermore, there might be inconsistencies in identifying family-owned BGs, given that many identification approaches in public databases use varying degrees of family relationships. In addition, although BGs are often bound by informal ties, the extant identification strategies among researchers largely rely on formal ties and do not explicitly consider informal ones. Therefore, accounting for these issues in identifying BGs should be addressed in future research.

There is also a limited understanding of how governance practices occur in BGs. The corporate governance field has shifted toward unpacking the processes involving the boards and TMTs. This subject within the BG context has yet to be explored in the literature. Therefore, we urge future research to conduct process studies when examining BGs. A process-oriented method would not only unpack how BGs operate; it might also uncover the processes underlying the formation and evolution of BGs over time. To this end, we encourage using more qualitative research designs with case studies.

We also emphasize the need for a comparative approach when studying BGs. Although previous studies have covered multiple countries or several types of BGs in a single research paper (e.g., Beaver *et al.*, 2019; Bu and Cuervo-Cazurra, 2020; Masulis *et al.*, 2020), very few of these studies have compared BGs bearing in mind their institutional and organizational differences (e.g., Hu *et al.*, 2019; Maman, 2002; Mahmood and Singh, 2003). There are multiple avenues available to apply a comparative approach. First, future research could compare BGs from different countries. Second, researchers could account whether BGs are from advanced vis-à-vis emerging/developing countries. Third, studies comparing different types of BGs would also be interesting. Fourth, a comparison considering both the type of BG and the variation in institutional context would be relevant, as well. Another prospective comparative approach is assessing how corporate governance variables differ between affiliated and standalone firms, given that very few studies have explored this difference (e.g., Chizema and Kim, 2010; Maman, 1999).

Consistent with the open-system approach, adopting a configurational approach, specifically, a qualitative comparative analysis (QCA), may be helpful to uncover novel theoretical insights regarding BGs (c.f., Fainshmidt *et al.*, 2020). Using QCA is a generally-accepted tool to unpack the causal complexity that characterizes the study of BGs (Misangyi *et al.*, 2017; Parente and Federo, 2019). So far, only one study in the BG field has adopted QCA, focusing on the factors that determine BG formation (Chung, 2001). Given that BG corporate governance can be analyzed at multiple levels, a configurational approach would represent a fruitful path for future research on the topic.

8.4 Conclusion

As discussed in this monograph, BG corporate governance has not substantively progressed since the review carried out by Colli and Colpan (2016). Much of the extant research has continued to focus on the effects of BGs' ownership structures and institutional settings. Thus, we still lack a full picture of how BGs are governed, the factors influencing them, and the outcomes associated with their corporate governance structures and processes. We hope that this monograph offers a clear future research agenda on this crucial and practical subject.

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Appendix

Table A1: World Bank Classification of Countries

Region	Country	Level of income
East Asia and Pacific	Australia	High income
	Brunei Darussalam	High income
	Cambodia	Lower-middle income
	China, People's Republic	Upper-middle income
	Fiji	Upper-middle income
	Hong Kong SAR, China	High income
	Indonesia	Lower-middle income
	Japan	High income
	Korea, Democratic People's Republic	Low income
	Korea, Republic	High income
	Lao PDR	Lower-middle income
	Macao SAR, China	High income
	Malaysia	Upper-middle income
	Marshall Islands	Upper-middle income
	Micronesia, Federated States	Lower-middle income
	Mongolia	Lower-middle income
	Myanmar	Lower-middle income
	New Zealand	High income

Continued

Region	Country	Level of income
	Papua New Guinea	Lower-middle income
	Philippines, The	Lower-middle income
	Samoa	Lower-middle income
	Singapore	High income
	Solomon Islands	Lower-middle income
	Taiwan	High income
	Thailand	Upper-middle income
	Timor-Leste	Lower-middle income
	Tonga	Upper-middle income
	Vanuatu	Lower-middle income
	Vietnam	Lower-middle income
Europe and Central Asia	Albania	Upper-middle income
	Andorra	High income
	Armenia	Upper-middle income
	Austria	High income
	Azerbaijan	Upper-middle income
	Belarus	Upper-middle income
	Belgium	High income
	Bosnia and Herzegovina	Upper-middle income
	Bulgaria	Upper-middle income
	Croatia	High income
	Cyprus	High income
	Czech Republic	High income
	Denmark	High income
	Estonia	High income
	Finland	High income
	France	High income
	Germany	High income
	Greece	High income
	Hungary	High income
	Iceland	High income
	Ireland	High income
	Italy	High income
	Kazakhstan	Upper-middle income
	Kyrgyz Republic	Lower-middle income
	Latvia	High income
	Liechtenstein	High income
	Lithuania	High income
	Luxembourg	High income
	Moldova	Upper-middle income
	Monaco	High income
	Montenegro	Upper-middle income
	Netherlands	High income
	North Macedonia	Upper-middle income

Continued

Region	Country	Level of Income
	Norway	High income
	Poland	High income
	Portugal	High income
	Romania	High income
	Russian Federation	Upper-middle income
	San Marino	High income
	Serbia	Upper-middle income
	Slovak Republic	High income
	Slovenia	High income
	Spain	High income
	Switzerland	High income
	Sweden	High income
	Tajikistan	Lower-middle income
	Turkmenistan	Upper-middle income
	Türkiye	Upper-middle income
	Ukraine	Lower-middle income
	United Kingdom	High income
	Uzbekistan	Lower-middle income
Latin America and Caribbean	Antigua and Barbuda	High income
	Argentina	Upper-middle income
	Aruba	High income
	Bahamas, The	High income
	Barbados	High income
	Belize	Upper-middle income
	Bolivia	Lower-middle income
	Brazil	Upper-middle income
	British Virgin Islands	High income
	Cayman Islands	High income
	Chile	High income
	Colombia	Upper-middle income
	Costa Rica	Upper-middle income
	Cuba	Upper-middle income
	Curaçao	High income
	Dominica	Upper-middle income
	Dominican Republic	Upper-middle income
	Ecuador	Upper-middle income
	El Salvador	Lower-middle income
	Grenada	Upper-middle income
	Guatemala	Upper-middle income
	Guyana	Upper-middle income
	Haiti	Lower-middle income
	Honduras	Lower-middle income
	Jamaica	Upper-middle income
	Mexico	Upper-middle income

Continued

Region	Country	Level of Income
	Nicaragua	Lower-middle income
	Panama	High income
	Paraguay	Upper-middle income
	Peru	Upper-middle income
	Sint Maarten (Dutch part)	High income
	St. Kitts and Nevis	High income
	St. Lucia	Upper-middle income
	St. Vincent and the Grenadines	Upper-middle income
	Suriname	Upper-middle income
	Trinidad and Tobago	High income
	Uruguay	High income
	Venezuela, RB	*Not classified
Middle East and North Africa	Algeria	Lower-middle income
	Bahrain	High income
	Djibouti	Lower-middle income
	Egypt, Arab Republic	Lower-middle income
	Iran, Islamic Republic	Lower-middle income
	Iraq	Upper-middle income
	Israel	High income
	Jordan	Upper-middle income
	Kuwait	High income
	Lebanon	Lower-middle income
	Libya	Upper-middle income
	Malta	High income
	Morocco	Lower-middle income
	Oman	High income
	Qatar	High income
	Saudi Arabia	High income
	Syrian Arab Republic	Low income
	Tunisia	Lower-middle income
	United Arab Emirates	High income
	Yemen, Republic	Low income
North America	Bermuda	High income
	Canada	High income
	United States	High income
South Asia	Afghanistan	Low income
	Bangladesh	Lower-middle income
	Bhutan	Lower-middle income
	India	Lower-middle income
	Maldives	Upper-middle income
	Nepal	Lower-middle income
	Pakistan	Lower-middle income
	Sri Lanka	Lower-middle income

Continued

Region	Country	Level of Income
Sub-Saharan Africa	Angola	Lower-middle income
	Benin	Lower-middle income
	Botswana	Upper-middle income
	Burkina Faso	Low income
	Burundi	Low income
	Cabo Verde	Lower-middle income
	Cameroon	Lower-middle income
	Central African Republic	Low income
	Chad	Low income
	Comoros	Lower-middle income
	Congo, Democratic Republic	Low income
	Congo, Republic	Lower-middle income
	Côte d'Ivoire	Lower-middle income
	Eritrea	Low income
	Eswatini	Lower-middle income
	Ethiopia	Low income
	Gabon	Upper-middle income
	Guinea-Bissau	Low income
	Kenya	Lower-middle income
	Lesotho	Lower-middle income
	Liberia	Low income
	Madagascar	Low income
	Malawi	Low income
	Mali	Low income
	Mauritania	Lower-middle income
	Mauritius	Upper-middle income
	Mozambique	Low income
	Namibia	Upper-middle income
	Niger	Low income
	Nigeria	Lower-middle income
	Rwanda	Low income
	São Tomé and Príncipe	Lower-middle income
	Senegal	Lower-middle income
	Seychelles	High income
	Sierra Leone	Low income
	Somalia	Low income
	South Africa	Upper-middle income
	South Sudan	Low income
	Sudan	Low income
	Tanzania	Lower-middle income
	Togo	Low income
	Uganda	Low income
	Zambia	Low income
	Zimbabwe	Lower-middle income

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