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RESEARCH ARTICLE

Better together: How multinationals come together with business groups in times of economic and political transitions

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Research Summary: This article studies two interrelated questions. First, why did business groups in emerging markets thrive and prevail after pro-market reforms were implemented in their countries? And, second, what type of adaptation strategies can multinational corporations develop in order to be competitive in economies dominated by business groups? By conducting an archive-based historical network analysis of business groups in Chile during periods of major economic and political transitions, we maintain that business groups were created in periods of protectionism as a way to navigate economies with strong state participation or inefficient markets. In this process, these groups endogenously created an economy with market imperfections resulting from the dominance of these business groups. This means that the transition toward more open markets did not necessarily create more competitive environments and that elites in emerging economies were unwilling to abandon the advantages of having links between their businesses. Multinationals entering this economy adapted by becoming business groups themselves and creating links with other business groups. In sum, strategies devised as means to reduce market imperfections created new imperfections that incentivized the business groups to retain their structure and forced multinationals to become business groups.

Managerial Summary: Large diversified conglomerates known as business groups dominate the markets of emerging economies. These groups have survived important changes taking place in their own countries, including the abandonment of an import substitution industrialization model for an open market one or changes from military regimes to democratic ones. This article explores two aspects related to these transitions most emerging economies have gone through. First, why did some business groups survive despite the fact that many of them were created and grew during protectionist times? And, second, what strategies have multinational corporations developed when operating in economies dominated by those powerful business groups? We show, first, that some business groups survived the transition by rearranging the type of links they had with each other, and, second, that multinationals competing in economies dominated by those business groups opted for becoming business groups themselves.

KEYWORDS

business groups, business history, interlocking directorates, market imperfections, political transitions

> "While the formation of the internal market is usually in response to a market imperfection, the continued exploitation of the firm-specific advantage by the multinational enterprise often serves to maintain the advantage in an endogenous manner. Thus, the multinational enterprise is both a victim of external market imperfections and a villain in seeking to retain them." (Rugman, 1981, p. 51)

1 | INTRODUCTION

Business groups are defined as "clusters of coordinated activities carried out by interlinked but legally independent enterprises" (Colpan, Hikino, & Lincoln, 2010, p. 6). They have long been major actors in emerging economies where most business groups were created and organized in periods of protectionism and state-led import substitution industrialization (Amsden & Hikino, 1994). This led several scholars to assume that business groups owed their existence to the market imperfections created by protectionist and economically interventionist governments, because in such economic systems, the private sector requires governance structures that allow firms to coordinate between different industries (Ghemawat & Khanna, 1998; Guillén, 2000; Khanna & Palepu, 1997; Khanna & Rivkin, 2001). Paradoxically, the transition to less regulated economies that started in the 1980s and 1990s did not lead to the end of business groups in emerging economies (Colpan & Hikino, 2010; Manikandan & Ramachandran, 2014). Rather, after this transition, the world saw business groups prevail and even thrive in countries like India, Turkey, or South Korea, with some of them even becoming multinationals in their own right (Tan & Meyer, 2010; Yaprak & Karademir, 2010). Interestingly, the growth and proliferation of business groups took place at a time when the home countries of these business groups were opening their doors to foreign investment, meaning that MNCs investing in those countries had to develop strategies that took into consideration the persistence and strength of business groups in those economies.

This article investigates two interrelated inquiries. First, why did business groups (a form of governance related to protectionist and interventionist environments) prevail after economic and political transitions that favored open and less regulated economies? And, second, what type of strategies did multinational corporations (MNCs) develop when investing in economies that had undertaken these transitions and were dominated by business groups? We argue that the persistence of business groups in the post-transition period is partly because firms' efforts to deal with one type of market imperfection can endogenously create another type of market imperfection. More specifically, the creation of business groups in an attempt to overcome the inherent imperfections of the pre-transition period, such as asymmetric information and opportunism, can endogenously help create an oligopolistic economy dominated by new types of imperfections resulting from the dominance of a small number of large firms or business groups. This means that the transition toward more open markets does not necessarily create more competitive environments and that elites in emerging economies are not willing to abandon the advantages of having links between their businesses. When entering an economy dominated by business groups, MNCs face a high level of liability of outsidership (Johanson & Vahlne, 2009), because one of the most important ways to enjoy competitive advantages in this type of economy is by belonging to the most relevant or influential groups or networks. As such, foreign MNCs can deal with and, thus, benefit from imperfections by joining existing business groups or creating their own. In this way, these MNCs would go from being victims of the imperfections created by domestic actors to becoming villains in retaining them, as suggested by Rugman (1981).

To address our research questions, we conduct our analysis by studying the evolution of Chilean business groups from 1970 to 2010 and the strategies adopted by foreign MNCs in that country during the same period. Chile provides us with an excellent context because it is a country that, during the period we study, underwent dramatic political and economic changes (from a democratic regime into a military dictatorship and later back to a democracy, and from a highly protectionist economy into a globally oriented open market economy). Indeed, in their study of economic and political transitions, North, Wallis, and Weingast (2009) consider Chile a clear example of transitions from limited to open markets and from limited to open political systems.

In this article, we first show how firms formed business groups as a way to economize on transaction costs created by the limited political and economic system. To that end, we use a historical narrative approach that gathers together evidence from previous studies and our own analysis of networks that existed among business groups. The evidence shows how the business groups were created to overcome existing obstacles or to benefit from close relations to policy-makers. The process of creation of business groups, however, endogenously led to a strong concentration of economic power around those groups. Then, we study the period after the transition, when the business groups have already endogenously created structural market imperfections and turned Chile into an oligopolistic economy. With this type of economy consolidated, we conduct a network analysis to show how the business groups increased the concentration of their power by building links with each other through interlocked directors. We show how this process was carried out not only by the Chilean business groups, but also by the foreign MNCs entering Chile, which adopted a business group structure and built links with other business groups (both Chilean and foreign).

This article is organized as follows: The second section discusses the concepts of transactional and structural market imperfections (Dunning & Rugman, 1985) and shows the benefits of using this framework to understand the global persistence of business groups and the strategies of MNCs to create their own business groups in countries having undertaken dramatic political and economic transitions. The third section describes our unique data and discusses the methodological benefits of our historical approach. In the fourth section, we proceed to use our data, sources, and methods to study the long-term evolution of business groups in Chile and the adaptation strategies developed by foreign MNCs. A fifth section discusses the implications and limitations of our study and concludes the article.

2 | TRANSACTIONAL AND STRUCTURAL MARKET IMPERFECTIONS IN THE CONTEXT OF INSTITUTIONAL TRANSITIONS

MNCs and business groups both owe their existence to market imperfections. The classic studies on MNCs maintained that companies operating at the global level are prompted to establish facilities in other countries to circumvent trade barriers, differences in economic policy, and incomplete or unreliable information (Dunning, 1971, 2009; Kindleberger, 1969). These imperfections led some scholars to use the conceptual framework of transaction costs economics to explain the existence and strategies of MNCs (Hennart, 1982). Similarly, the literature on business groups pointed to imperfections created by inefficient labor or financial markets, closed economies, corrupt or underdeveloped governments or judicial systems, or opaque politics (characteristics defined as *institutional voids*) to explain why, in some countries, the private sector organized itself around business groups (Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011; Guillén, 2000; Khanna & Palepu, 1997, 2000; Khanna, Palepu, & Sinha, 2005; Leff, 1978). Dorobantu, Kaul, and Zelner (2017) explain the creation of business groups as an adaptation strategy developed by private firms when operating in environments with absent, unpredictable, or weakly enforced regulations (or what they call *incomplete institutions*).

If we accept the main premises of the literature discussing institutional voids, by which they maintain that globalization and the opening of the economy would fill institutional voids (Khanna & Palepu, 1997, 2000; Khanna et al., 2005), then we can suppose that the second global economy (Jones, 2005) that started in the 1970s and the third wave of democratization that started in the 1980s (Huntington, 1991) should have substantially lowered or even eliminated market imperfections. As became evident, however, both business groups and MNCs thrived by creating an environment with new actors coming from emerging countries (Cuervo-Cazurra & Ramamurti, 2014). Moreover, the transitions that took place during the 1990s were more complex than originally expected. Instead of having the whole world converging toward a Western-style liberal democracy and market economy, the world that emerged was a multipolar world composed by a multiplicity of political and economic systems (Bochsler & Kriesi, 2013; Hall & Soskice, 2001).

Several interpretations have been offered to explain why the expected fall of the business groups did not materialize. Khanna and Palepu (1999) and Khanna and Rivkin (2001) maintain that since the implementation of market deregulation policies in some countries was not followed by the creation of efficient and reliable intermediaries, preserving the existence of business groups was necessary to palliate the lack of those intermediaries. This responds partially to the fact that after the adoption of market economic reforms, crony capitalism (or systems in which informal trading of favors between economic actors) became the norm (Khanna & Yafeh, 2007; Schneider, 2010; Verbeke & Kano, 2013). For Cuervo-Cazurra and Dau (2009) and Ramachandran, Manikandan, and Pant (2013), neoliberal reforms made business groups more efficient than large multidivisional firms because independent units have more autonomy and room to react to changes and seize opportunities in the global markets. Guillén (2010) adds that during the pre-transition period, business groups developed certain capabilities and political contacts from which they would benefit after the opening of the economy. In this way, it did not make sense to abandon a governance structure that positioned them favorably with respect to the government and foreign investors. Ramaswamy, Purkayastha, and Petitt (2017) find that some groups succeeded in the post-transition period by focusing their efforts on a narrower number of activities.

These various interpretations can be integrated systematically by using the concepts of *transactional* and *structural* market imperfections. *Transactional market imperfections* are Williamson-type

(1975) transaction costs and can result from opportunism, bounded rationality, uncertainty, asset specificity, and information asymmetry (Buckley & Casson, 1976), which arise naturally or are assumed to be exogenous to firms (Dunning & Rugman, 1985). In other words, they are not created by the firms themselves, but rather provide the *raison d'être* for the firm: Nontrivial transaction costs create incentives for firms to mitigate those costs by internalizing their market transactions.

Structural market imperfections are Bain-type (1956) advantages to close markets and increase firms' market power via, among others, scale economies, knowledge advantages, and product diversification (Dunning & Rugman, 1985). Unlike transactional market imperfections that arise when information is not readily available or is difficult to acquire, structural market imperfections arise due to barriers to competition created by the firms (Dunning, 1981; Dunning & Rugman, 1985), such that "a firm's performance in the marketplace depends critically on the characteristics of the industry environment in which it competes" (Porter, 1981, p. 610). This perspective has its intellectual roots in industrial organization (Bain, 1956, 1968; Hymer, 1960). Some structural characteristics of particular industries–such as barriers to entry (Bain, 1956), the number and size distribution of firms (Bain, 1968), and barriers to mobility (Caves & Porter, 1977)–are crucial to ensuring a firm's performance. As such, firms may seek to create these imperfections to obtain and maintain their competitive advantage over other firms.

Our study relates the creation of transactional and structural market imperfections and the related persistence of business groups and adaptation strategies of MNCs with larger and complex transitions taking place in the wider political and economic environment. We study these transitions using the concepts of *institutional environment* and *institutional arrangements* as examined by Davis and North (1971). These authors define institutional environment as a "set of fundamental political, social, and legal ground rules that establishes the basis of production, exchange, and distribution" (Davis & North, 1971, p. 6). Institutional arrangements are a subset of the institutional environment and are defined as the arrangements "between economic units that govern the ways under which these units cooperate and compete" (Davis & North, 1971, p. 7). Williamson (2000) shows how the two levels (organizational governance and institutional environment) are often analyzed separately even though they interact with each other. In this article, we conduct our analysis taking into account that interaction. The general patterns of social organizations resulting from that interaction are what North et al. (2009) refer to as *social orders*, of which they define two types: (a) limited access orders (in which competition between economic actors is mainly political in nature) and (b) open access orders (which invoke competition through price mechanisms).

In the current study, we employ the conceptual framework of transactional and structural market imperfections (Dunning & Rugman, 1985) to understand both the persistence of business groups after pro-market transitions and the strategies followed by MNCs operating in that environment. We show that business groups were created in the pre-transition period to overcome transactional market imperfections. However, efforts to overcome those imperfections endogenously create an economy with structural market imperfections that incentivize the permanence of business groups. We also examine how MNCs entering an economy with structural market imperfections created by the domestic business groups adapt to that environment by adopting a business group governance structure and creating links with other domestic and foreign business groups. The next section explains the methodology we use to support these points.

3 | METHODOLOGY, DATA, AND SOURCES

We analyze the evolution of the business groups operating in Chile and how changes in the institutional environment shaped the strategies foreign MNCs followed in light of those transitions. We

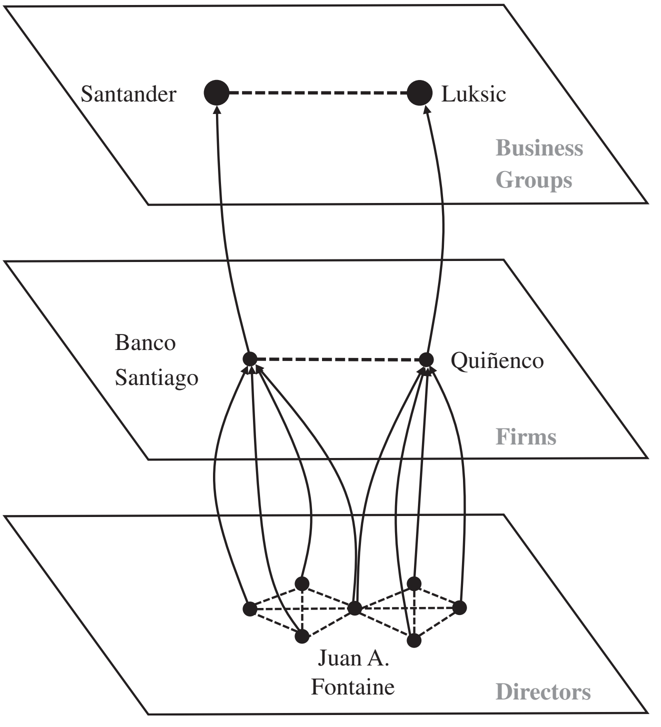

FIGURE 1 Levels of analysis of links between business groups. *Note.* Dotted lines indicate connections through at least one director

develop our study by adopting a historical approach that combines archival research with the findings of political economy and business and economic history. Chile offers an ideal context in which to address our question about the persistence of business groups. It provides a quasi-experimental setting and is considered in the literature as an almost perfect example of a country that from 1970 to 2010 transitioned from a limited access social order to one of open access (Navia, 2013; North, Wallis, Webb, & Weingast, 2013).

We use a historical network analysis to study the links between business groups (either domestic or foreign) in Chile from 1970 to 2010. We focus on the links between business groups because we believe they capture two important aspects of our theoretical framework. Individual groups' efforts to address transactional market imperfections endogenously generate network structures that create structural market imperfections that would, in turn, systematically discriminate against those who are outside the relevant network (Johanson & Vahlne, 2009). Toward this end, we conduct our analysis in three levels, as illustrated in Figure 1, focusing on the third (business group) level. At the bottom of the figure, we have the board of directors for each firm (we use the case of Juan Fontaine, an influential individual for the period we study). The second level is the one composed by the links between firms through interlocked directorates (in the figure, Mr. Fontaine connects Quiñenco and Banco Santiago). Firms can belong to a single group or not, but their boards can create links between business groups (third level). In the figure, Quiñenco belongs to the Luksic group, and Banco Santiago to the Santander group. This means the links between groups are not between group boards, but between affiliated firms.

We use a historical network analysis to study the links between business groups (either domestic or foreign) in Chile from 1970 to 2010. By analyzing links that are created through interlocked directorates, we can account for how individuals or firms are embedded within interpersonal relational networks and how those relations hold the larger structure together (Ventresca & Mohr, 2002). Links between business groups do not explain transactional market imperfections, but we explain how firms aimed to overcome those imperfections with a historical narrative on the strategies of corporate Chile during the protectionist period.[1]

We focus on interlocking directorates because this is considered a crucial strategy by which the members of the business elite of a particular country influence the general economic structure in order to achieve its goals (Granovetter, 1985).[2] Benefits of this strategy for firms include the promotion of trust and cooperation between firms and managers (Burris, 2005) and mitigation of opportunistic behavior (Mizruchi, 1996), which clearly reduce transactional market imperfections.

The literature on interlocking directorates highlights several aspects through which those interlocks help generate structural market imperfections. Mizruchi (1996) posits that director interlocking is related to the collusion of interests between firms. We go beyond this focus on the collusion of firms by taking into consideration the creation of links between business groups. Specifically, interlocking directorates between business groups reinforce the structural market imperfections of an economy already dominated by business groups by reducing competition.

We use De Nooy, Mrvar, and Batagelj's (2006) methodology to study the evolution of the links between business groups in three dimensions. First, we study their network structures by noting the number and percentage of marginal business groups that have just one link to other business groups; the number of isolated groups with no ties to other business groups; and the number and percentage of business groups belonging to the network's main component, such that they constitute a maximally connected subnetwork. Second, we study the ties between groups by determining the number of ties between them and the density of the network, as a proportion of the maximum number of potential ties, which we measure for the whole network. Third, we study the distribution of different individual members of interlocked directorates and, thus, determine the number and percentages of most active directors that sit on two or more business groups' boards in the network, as well as the number and percentages of "big linkers," or directors on three or more business groups. We use the *UCINET* software to generate the quantitative analysis and illustrate the graphs with *Mathematica 10.*

Additionally, we conducted a set of community detection analyses that enables us to "separate the network into groups of vertices that have few connections between them" (Newman, 2010, p. 371) and employ the modularity method using the *Mathematica 10* software. In order to provide a clear image of how MNCs created their business groups and links with other business groups, we organized the MNCs according to their home country, grouping them in five areas of origin: *Europe, South America, North America, Asia,* and *Oceania.*

Our final sample includes 114 business group affiliated firms for 1970, 66 for 1988, 272 for 1999, and 474 for 2010. We have 353 individual board directors in 1970, 259 in 1988, 1,018 in 1999, and 1,548 in 2010. In terms of business groups, we have 19 for 1970, 13 for 1988, 64 for

[1]There is a body of literature that claims that network analysis of interlocked directorates can yield a better understanding of how the institutional environment relates to institutional arrangements or corporate governance. For example, Brookfield et al. (2012) maintain that an analysis of the survival of institutional arrangements related to closed economies after a transition serves as a way to analyze the success of the transition. Stark (1996) and Stark and Vedres (2012) show how network analysis permits scholars to understand the rationale followed by firms when approaching policy makers in countries transitioning from command to market economies. Davis, Yoo, and Baker (2003) show how this analysis provides insights even for countries going through less dramatic changes, such as the United States in the 1980s. David and Westerhuis (2014) and Kogut (2012) advocate the use of long-term network analysis to understand the evolution of institutional arrangements in their interaction with the institutional environment.

[2]A common element in the literature of business groups is the fact that network analysis of interlocking directorates is often used to understand how the links between the affiliates of the group are built through their boards of directors (Au, Peng, & Wang, 2000; Goto, 1982; Maman, 1999; the collected volume on Chinese business groups by Hamilton (1996) provides good examples of this approach).

1999, and 113 for 2010. The business groups include those owned by domestic shareholders, by MNCs, and by the state. The Chilean regulatory agencies' definition of business groups is consistent with existing scholarship (Colpan & Hikino, 2010; Lefort, 2010), so it was sufficient for our purposes. It is worth highlighting that Chile has a clear legal definition of what a business group is, so our decision to focus on this country is not arbitrary. In fact, of all the countries studied in the *Oxford Handbook of Business Groups* (Colpan et al., 2010), Chile is the only one for which the entry's author (Lefort, 2010) did not have to create his own definition of business groups and could use one accepted by participating firms and policy makers. The regulatory agency defines a business group as "a set of companies which present such a sort of relationships and linkages in their property, management, administration, or credit responsibilities, that there is ground to believe that the economic and financial decisions of those companies are guided by or subordinated to the shared interest of the group, or that there are common financial risks in the credits obtained or in the financial instruments they issue" (cited by Salvaj & Couyoumdjian, 2016, pp. 131–132]). Boards of directors are involved in the firms' management, therefore links between them fall into this category.

Two characteristics of our study require us to follow the methodologies developed by business historians. First, we cover a long period of time during which dramatic political, social, and economic changes took place and affected the operations of private firms. Second, we use a dataset for which the great majority of information is available only in hard copy and must be compiled by way of archival research.

Business historians emphasize how the wider economic and political context needs to be integrated in the analysis of firms' strategic decisions, rather than being treated as an exogenous element that a scholar can choose whether or not to include or that can be included as mere "background" (Suddaby, Foster, & Mills, 2014). This means that the analysis of firms' decisions requires that they be both geographically and temporarily contextualized (Wadhwani & Bucheli, 2014). Multinationals' operations and strategies evolve in constant interaction with the wider ever-changing political and economic environment (Cantwell, Dunning, & Lundan, 2010), and the analysis of their operations needs to consider the different micro- and macro-layers that interact with one another and whose understanding requires historical knowledge (Verbeke & Kano, 2015). Bucheli and Kim (2014) add how previous historical processes determine the decisions made by governments and firms in this interaction. As a result, when studying long-term processes involving firms, scholars should conduct a deep and careful reading of the historical events that preceded or surrounded the firms' decisions in order to situate these decisions within the appropriate context (Mclean, Harvey, & Clegg, 2017; Perchard, MacKenzie, Decker, & Favero, 2017). This is why our study is informed by a number of articles and books on Chilean political and economic history published in Spanish and English and reflecting different ideological viewpoints and methodological approaches.

Our analysis uses a unique dataset that could be created only by conducting detailed archival research in different institutions for a period spanning several decades. With the greatest majority of our information not available in electronic formats or on the web, we conducted an analysis using the methodologies developed by business historians. For instance, for our analysis of business groups, we collected the information pertaining to all their affiliated companies for our benchmark year of 1970, using the studies of Garretón and Cisternas (1970), Hachette and Lüders (2003), and *El libro de las 91* (Movimiento de Acción Popular [MAPU], 1972). Following Kipping, Wadhwani, and Bucheli's (2014) method to analyze historical sources, we used these works to compare the information they provided in order to overcome the authors' potential ideological biases. For instance, the second coauthor of the first study (Rolf Lüders) was one of the so-called Chicago Boys (the group of economists working closely with the right-wing military dictatorship of Augusto Pinochet) and worked as a minister under Pinochet. But, the other two studies were published during the democratically elected and leftist Salvador Allende administration and aimed to illustrate existing income inequalities in Chile. We found that the information offered in the three sources was consistent from one book to the next. In this way, we triangulated our sources and read them in the context in which they were produced (Kipping et al., 2014; Taylor, 2015). For the benchmark years of 1988, 1999, and 2010, we use the *Superintendencia de Valores y Seguros* (SVS, Chile's equivalent to the United States' SEC) list of affiliated companies to business groups.

With this information, we proceeded to study the board composition of each of the companies belonging to each group for each of our benchmark years, using the corporate annual reports deposited in the SVC, the *Superintendencia de Bancos e Instituciones Financieras* (SBIF, Chile's financial regulator), the *Superintendencia de Administradoras de Fondos y Pensiones* (SAFPs, Chile's regulator for pension funds), and the *Bolsa de Comercio de Santiago* (Santiago Stock Exchange). Additionally, we researched the activities of each individual on these boards by consulting dozens of financial yearbooks, more than 300 corporate annual reports, and bibliographical dictionaries for several years. As this information is not available in electronic format or on the internet, we obtained it by conducting archival research on the texts of those sources. In doing so, we follow Boon (2017), who highlights the importance of using archival sources from the host country when analyzing the operations of MNCs to reduce the "metropolitan bias" in information created by Western powers or multilateral agencies. When possible, we were careful at selecting more than one source to build these individuals' biographical information. Finally, we thoroughly read 10 interviews (of around 30 pages each) of different CEOs, presidents, and founders of Chile's largest business groups from the *Harvard Business School Creating Emerging Markets* collection (for an explanation of the interviews' methodology, see Gao, Zuzul, Jones, & Khanna, 2017).

4 | INSTITUTIONAL TRANSITIONS, NETWORKS, AND ORGANIZATIONAL STRUCTURES IN CHILE

Our integrative approach jointly considers the following aspects: transitions at the institutional environment level, the existence of two types of market imperfections, and firms' and business groups' network strategies. In the following subsections, we show, first, the efforts by Chile's domestic corporate sector to mitigate transactional market imperfections by creating business groups. We do this by using a historical narrative of the growth of business groups in the Chilean economy during the protectionist period. These efforts led to the creation of the structural market imperfection as the economy became dominated by business groups. Second, we study the evolution of interlocked directorates among business groups (including those controlled by the Chilean private sector, the Chilean government, and foreign MNCs) in Chile to show how corporations in Chile reinforced the structural market imperfections they previously created. We divide Chilean economic history in three phases in accordance with the characteristics of the institutional environment:

- *Phase 1* (democratic protectionist system, 1932–1973);
- *Phase 2* (authoritarian open market system, 1973–1989); and
- *Phase 3* (democratic open market system, 1990-present).

In Table 1, we list the information and our network calculations regarding the characteristics of our sample, the number of interlocked directors, the structure of the network (whether we have *marginal* groups, meaning those with just one link to other groups, or *isolated* groups, meaning those with no links to other groups), and the characteristics of the directors creating those links.

TABLE 1 Institutional transitions and interlocked network relations of Chilean business groups, 1970–2010

Year	1970	1988	1999	2010
Institutional environment				
Type of political regime	Democratic	Authoritarian	Democratic	Democratic
Type of economic regime	Protectionist	Open market	Open market	Open market
Sample size				
Number of groups	19	13	64	113
Percentage of groups in sample in previous year		38	18	42
Total number of directors	353	259	1,018	1,548
Total number of firms (with data)	113	64	272	474
Total number of firms belonging to groups	230	118	352	505
Size of the board	5	6	6	6
Structure				
Number of marginal groups (M)	2	1	9	12
M as percentage of total groups	11	8	14	11
Isolated groups (I)	0	8	10	31
I as percentage of total groups	0	62	16	27
I and M as percentage of total groups	11	69	30	38
Percentage of groups in main component	100	38	84	70
Directors				
Number of directors	353	259	1,018	1,548
Number of interlockers connecting groups	65	4	96	139
Number of big linkers connecting groups	20	0	23	34
Interlockers as percentage of directors	18	2	9	9
Big linkers as percentage of directors	6	0	2	2

Table 2 displays the links between business groups by calculating the intra-edges (or ties between the same type of business groups) and inter-edges (or ties between different business groups in terms of ownership). The first number indicates the links between business groups controlled by MNCs (M in the table), domestic business groups (D), and groups jointly owned by MNCs and domestic firms (MD). The second number measures the links between different types of groups. This means

TABLE 2 Links between multinational business groups, domestic business groups, and mixed business groups in Chile, 1970–2010

	1970		1988		1999		2010	
Groups	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
Intra-edges								
MNCs (Foreign groups)	0	0	0	0	20	12.90	19	9.20
Local business groups	65	100	4	100%	50	32	117	56.50
Mixed ownership groups	0	0	0	0	1	0.60	0	0
Total	65	100	4	100%	71	46	136	65.70
Inter-edges								
MNCs-Local BG (M-D)	0	0	0	0	58	37.42	61	29.50
Local BG-Mixed ownership groups (D-MD)	0	0	0	0	14	9	7	3.30
MNCs-Mixed ownership groups (M-MD)	0	0	0	0	12	7.74	3	1.45
Total	0	0	0	0	84	54	71	34.30

that M-D indicates the links between MNCs' business groups and domestic business groups, D-MD indicates links between Chilean business groups and groups jointly owned by MNCs and domestic groups (which we refer to here as mixed business groups), and M-MD indicates the links between MNCs' business groups and mixed domestic business groups.

4.1 | Phase 1: Chile under a Protectionist Democratic System (1932–1973)

From 1932 to 1973, Chile was ruled uninterruptedly by democratically elected presidents under the same political constitution, it did not fight any foreign or domestic wars, and its elite largely agreed on the basic terms of economic policy (Meller, 1990). These decades were marked by state-led industrialization, rapid urbanization, growth of the urban middle and working classes, and the rise of political parties representing these constituencies (Mamalakis, 1976). Yet in 1973, the state accounted for 39% of Chile's gross domestic product (GDP) (Chumacero, Fuentes, Lüders, & Vial, 2007). Chile also witnessed the rise of an organized labor movement that became the left wing and center parties' main constituency, encouraging the legislature to increasingly adopt union-friendly measures.

The import substitution industrialization model created incentives for the private sector to coordinate increasing links at the corporate level and organize around business associations and business groups (Salvaj, Lluch, & Gómez, 2018). This economic model was implemented through CORFO, a state agency in charge of industrial policy planning and targeting industries favored by the government and also responsible for channeling funds and subsidies to the industrial private sector and state-owned enterprises (SOEs) (Silva, 1996). Since its creation in 1938, CORFO has operated in close coordination with the private sector, in such a way that influential business leaders held high-ranking positions in CORFO and the ministries in charge of the industries with which they are affiliated. As Schneider (2004, p. 155) explains, "after 1939 most of the crucial economic decisions in Chile were made, not by the Senate, but by CORFO in closed-door meetings." Given the government's need to coordinate with the private sector, the private sector had incentives to create associations to negotiate or coordinate with the government (Schneider, 2004).

By the 1950s, Chile's highly protected and regulated economy relied on differentiated trade barriers, import prohibitions, subsidized credit through bank interest rates, and multiple exchange rates (Silva, 1996). This period began an era of increasing concentration of wealth: by 1960, 50% of agricultural land belonged to one group, four groups controlled 62% of the insurance sector, the three largest groups controlled 70.6% of all capital invested in Chilean chartered firms, and 100 companies had at least one member of Congress on their boards (Lagos, 1960), evidencing the gradual creation of structural market imperfections.

These connections with government and the interlocked directorates gave the private sector increasing influence over a government with economic interventionist policies. In this way, there were two major incentives to create diversified business groups: first, the channeling of governments' funds to different industrial sectors, and, second, the defense of corporate interests from an increasingly organized labor movement (Schneider, 2004; Zeitlin, Ewen, & Radcliff, 1974).

In the early 1960s, the political consensus regarding import substitution industrialization started to fracture. Beginning to blame that model for generating inflation and income inequalities, politicians on the right advocated for economic liberalization, whereas those in the center and on the left called for increased control over business groups (Corvalán, 2002). As the polarizing debate grew, business groups organized themselves to defend the *status quo* and the benefits they had gained (Silva, 1996). This meant that what started as a strategy to overcome a series of regulations gradually became a source of oligopolistic power that the Chilean elite strove to protect (Schneider, 2004; Silva, 1996).

In 1970, Marxist candidate Salvador Allende won the presidential election. During his first 17 months in office, the government increased its share in industrial sales from 25% to almost 40%. By 1973, the state controlled 43% of arable land and 100% of mining operations that had previously been mostly foreign owned (Larroulet, 1984).

Table 1 shows that by 1970, all business groups were part of the network's main component and that none of them were isolated and only two of them were marginal. This degree of cohesiveness was achieved through the presence of 65 multiple directors, or individuals who sat on the boards of more than one business group. By 1970, the main business group in terms of size was the Chilean state, with 67 affiliated firms (Hachette & Lüders, 1994). Business groups controlled by traditional families such as the Mattes or the Edwards accounted for 26 and 27 firms, respectively. The Banco Hipotecario group (a group not belonging to the state or traditional families) controlled 26 firms (Garretón & Cisternas, 1970). Our network calculations show that through interlocked directors, the Chilean government was connected to 11 out of 18 business groups, with stronger connections to the largest business groups (six of the directors who sat on the Edwards group also sat on the boards of state-owned firms, while the Matte group included five directors who were also board members of state-owned firms). Some of the links created between those groups and the state can be explained by the fact that the shared directors were politicians themselves or high-ranking officials of business associations (Salvaj & Couyoumdjian, 2016). It is worth noting the absence of MNCs during this period, as they did not have their own business groups nor were they linked to business groups (see Table 2). This did not mean that the MNCs did not have interlocked directorates, but rather that they did not organize themselves as business groups even when they belonged to a large conglomerate in their home country, as was the case of the U.S.-based International Telephone and Telegraph Company (ITT) (Bucheli & Salvaj, 2013). Figure 2 displays the links existing between business groups through interlocked directorates by 1970.

4.2 | Phase 2: Chile under an Authoritarian Open Market System (1973–1989)

Allende faced fierce opposition from the Chilean elites, sectors of the armed forces, MNCs, the U.S. government, and contesting political parties. This polarization culminated violently on September 11, 1973, when a group of military officers led by General Augusto Pinochet staged a coup, during which the president died. The new ruling junta nullified the constitution and political parties, inaugurating a military regime that lasted 17 years. The members of the military junta officially shared power, but Pinochet gradually assumed more control and eventually became the sole head of state (Valdivia, 2003). The resulting political system fits Linz and Stepan's (1996) characterization of an authoritarian regime.[3]

Chile's transition from democracy to authoritarianism paralleled an equally dramatic economic transition. From 1975 to 1982, Pinochet led one of the world's most comprehensive privatization programs, strictly adhering to the neoliberal recipe coined by a group of young economists trained by Milton Friedman at the University of Chicago and known as the "Chicago Boys" (Corvalán, 2002). For instance, in 1973, the state owned or managed 593 enterprises whose value added represented 39% of the GDP; by 1983, that number had fallen to 43 enterprises representing just 16% of Chile's GDP (Lüders, 1993). In terms of employment, while Chilean state-owned firms employed some 21,600 workers by 1970, that number increased to 37,000 during the Allende administration and

[3]Data from the Center for Systemic Peace/Integrated Network for Societal Conflict Research (CSP/INSCR, 2017) classifies Chile as a country with "limited political violence" for the year of 1973 and "serious political violence" from 1974 to 1976 (www.systemicpeace.org/inscrdata.html). The Rettig Report (1993) estimates 2,920 confirmed cases of people killed by the government under the Pinochet regime, and Wright and Zúñiga (2007) calculate 200,000 people exiling themselves from Chile during that period.

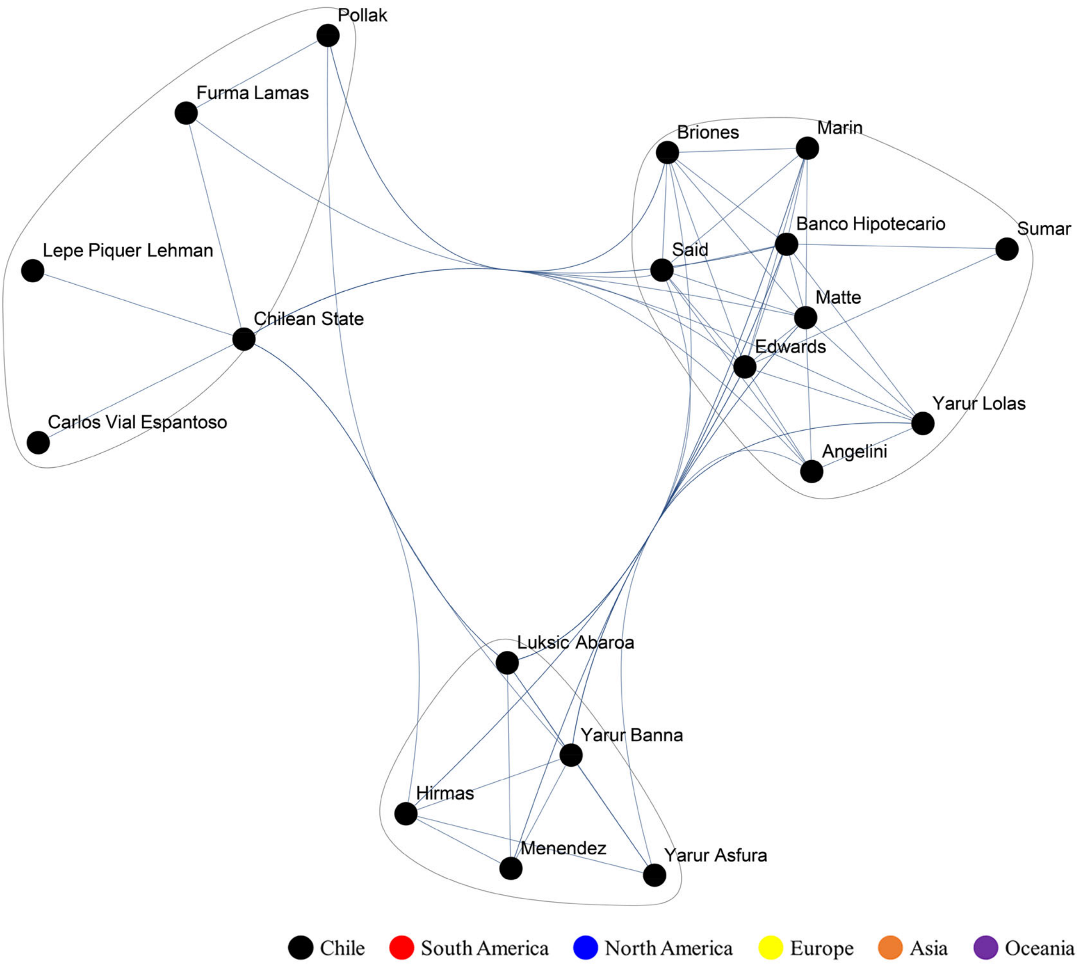

FIGURE 2 Business group communities in Chile in 1970. *Note.* Isolated groups removed

gradually decreased to reach its lowest point in 1983, with 9,700 workers (Hachette and Lüders, 1993). Dramatic as they may have been, these reforms did not change the importance of business groups within the general structure of the Chilean economy. By 1977, two business groups controlled 37% of the assets of Chile's 250 largest companies and 40% of private sector banking (Dahse, 1979), which highlights that the concentration of the economy did not decrease with the reforms.

In fact, the opposite trend can be observed. During the transition, business groups became more solid in several aspects. From 1988 to 1997, firms affiliated to business groups performed better than nonaffiliated firms (Khanna & Palepu, 1999; Khanna & Rivkin, 2001). Similarly, the amount of total assets of the top 33 Chilean business groups increased by more than 2% from 2008 to 2011 (CEEN, 2012).

The policies of financial liberalization implemented by the dictatorship had important effects on business groups. First, the tumultuous nature of the transition led some groups to disappear, while others were strengthened as they took advantage of the military government's aggressive privatization program that made new assets available to the private sector (de la Cuadra & Valdés, 1992). The greatest expansion was experienced by the Vial and Cruzat-Larraín groups, whose respective assets amounted for 6.2% of Chile's overall market capitalization in 1970 (a percentage that jumped to 39.3% in 1980) and whose investments encompassed banks, mutual funds, insurance, mining, forestry, fishing, and manufacturing (Islas, 2015). These two groups' expansion shows the reinforcement of a less competitive economy independently of the pro-market reforms implemented.

Second, the aggressive pro-liberalization financial policies launched in 1975 led to abuses in the financial sector that culminated in a deep economic crisis in 1982 that spurred vast social unrest. Between the liberalization and the crisis, business groups with strong participation in the financial sector enjoyed booming years that allowed them to conduct operations such as raising capital through their mutual funds to invest in affiliated companies, thus incurring high levels of debt in foreign currencies. As a result, the financial collapse of 1982 and the subsequent currency devaluation created a domino effect among the groups that had benefitted from the previous period of financial exuberance (Islas, 2015).

The 1982–1983 financial crisis hit all segments of Chilean society. Despite strict restrictions on political activity, people from the shantytowns protested *en masse* in the streets and violently clashed with police; meanwhile, the economic elite grumbled about the regime's apparent inability to stem the flood of bankruptcies and hinted at joining the opposition if orthodox neoliberal policies continued (Schneider, 2004). For the first time since the coup, the integrity of Pinochet's political coalition was threatened. In response to this conjuncture, despite the pro-market ideology that had characterized the early years of the dictatorship, Pinochet pragmatically bailed out some financial institutions and developed relatively heterodox macroeconomic measures (Silva, 1993). Additionally, government employment, which had reached its lowest point in 1983 with 9,700 workers, increased again to 34,400 in 1988 (3,000 less than during the Allende administration) (Hachette and Lüders, 1993).

The policies developed by the Chilean government to confront the 1982–1983 crisis had long-term effects on Chile's business groups. First, business groups accepted that the new economic model was irreversible and, therefore, oriented their economic activities toward foreign markets (Ffrench-Davis, 2002). In referring to this period, Chilean entrepreneur Sven von Appen expressed that “the country had opened up and there was a lot of competition. We either dealt with it together or the country would have ended up dominated by foreign firms…why would we fight with one another?” (Interview with Sven von Appen, 2008). Second, groups affiliated to the export sector (which also had lower levels of debt than their financial sector-centered counterparts) weathered the crisis better and took advantage of the reprivatization of firms that Pinochet had renationalized during the crisis in an effort to increase their size (Islas, 2015). In an interview, Chilean entrepreneur Ricardo Claro described in detail how by talking to “a friend of mine and after a six-hour discussion,” he managed to buy privatized government property at better terms than bidders from the Luksic business group (Interview with Ricardo Claro, 2008). Third, the groups as a whole benefitted from new privatization programs in the second half of the 1980s (Silva, 1996). And, fourth, the government acknowledged the need for a regulatory framework for business groups in order to avoid the chaos experienced in the first years of the 1980s. This materialized in 1986, when the Chilean legislation officially recognized business groups as a governance structure and enshrined a government-issued definition of this structure (Lefort, 2010). This last point is worth emphasizing, as it evidences the uniqueness of the Chilean case. By creating a regulatory framework for business groups, the Chilean government was fomenting a governance structure whose existence had been foreclosed in most Western countries by antitrust legislation (Colpan, et al., 2010).

Even business groups that were not very close to the Pinochet regime used their knowledge on how the tight networks operated in order to benefit from the privatization process, as was the case of

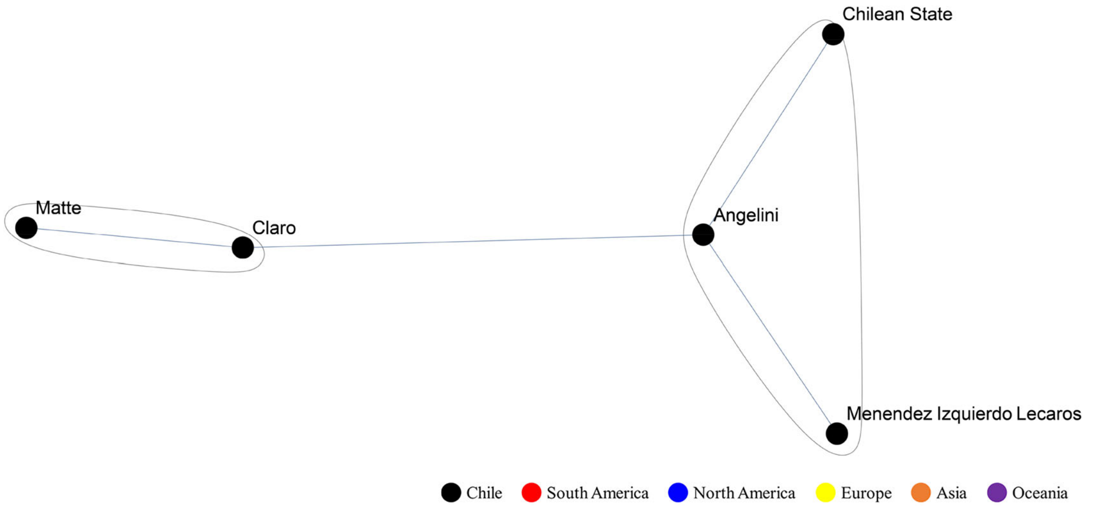

FIGURE 3 Business group communities in Chile in 1988. *Note.* Isolates removed

Ricardo Claro and his entry to the telecommunications businesses. A segment of Claro's narration of his strategy is worth citing at length:

> "Yes. I knew Pinochet would not be pleased if I won the bid, because I was critical of his administration…So I told myself, 'I have to find a way so that they do not find out it's me.' I told my lawyer, an excellent lawyer named Manuel Correa who had worked at Claro, 'Find a friend of yours whom I do not know.' He chose a very good friend of his, a student, the son of a former minister called Jorge Alessandri. I was a friend of his father, but I had never even seen the son. Correa created a partnership with this man's name & Co. It was a great idea. Other interested parties in the television frequency were the Matte/ Ibáñez Group, on the one hand, and Luksic, on the other. Luksic had experienced several clashes with Pinochet, but nothing that could not be solved. But Matte/ Ibáñez was the favorite candidate. During the bid, I sent an employee to fetch the bidding specifications, and I instructed him: 'Surely, there will be Pinochet intelligence agents around, watching. If they question you, you are a mere employee and you know nothing.' In fact, he knew nothing. And he kept his head down...When bidding time came, my opponents almost dropped dead…Pinochet was skeptical about assigning the frequency to us. But I offered a price they couldn't refuse. I offered at least $1.5 million, which was a lot of money in those days. More than the other proponents. So he couldn't say no. And that was how we entered the telecommunication business." (Interview with Ricardo Claro, 2008)

The policies enacted as a response to the crisis prompted several interesting changes that were consolidated by the last years of the 1980s. First, as Table 1 shows, the number of business groups (13) diminished with respect to 1970 (19), a decrease that evidences the stronger concentration of the economy. Second, foreign MNCs start operating in the Chilean economy as business groups themselves. As Figure 3 and Table 2 show, however, these foreign business groups did not build links with their Chilean counterparts during that period, while the Chilean groups strengthened ties with each other (foreign groups are not included in Figure 3 because we removed isolates). Third, even though the privatization programs reduced the government's participation in the economy from

25.7% of the GDP in 1985 to 11.7% in 1988 (Larroulet, 1984), the Chilean state remained as the largest business group in terms of number of affiliated firms (48, according to Hachette & Lüders, 1994). However, by 1988, the state had lost its degree of centrality, as most of its connections with corporate Chile had been dismantled (Salvaj, 2013). For example, in 1988, the state's business group was connected to the Angelini business group by one director, Joaquín Prieto Pomareda, who was a director at the private oil firm COPEC. Since the 1930s, the Chilean state owned 15% of COPEC's shares, giving the government the right to have two directors on the board of COPEC (Bucheli, 2010). In 1982, the government got rid of those shares, which were acquired by Angelini, in a move that made Mr. Prieto Pomareda a big linker not for the state, but for the Angelini group. Figure 3, illustrates the links between business groups by 1988.

4.3 | Phase 3: Chile under a Democratic Open Market System

In the late 1980s, Pinochet allowed limited political opposition and called for a referendum giving the people the choice between keeping him in power for eight more years or holding democratic elections. Multiparty opposition in an environment of unprecedented freedom of expression led to Pinochet's defeat. The general agreed to transfer power according to the terms of a constitution written by his inner circle and approved in another referendum. In parallel with this continuity, the new democratic regime also failed to mount any challenge to Pinochet's human rights record. He died in 2006 and was buried with the standard official honors reserved for former heads of state. In light of these factors, Chile's transition can be characterized as an agreed transition (Linz & Stepan, 1996) in that the pre-authoritarian elites remained economically powerful and strongly influential in politics. After the transition, Chile elected a president from a center-left coalition known as the Concertación.

The network structure of business groups during the Concertación's democratic and open market regime shows that the network's main components and the periphery remained stable (Table 1). That is, the center continued to be highly connected, but peripheral actors (marginal and isolated business groups) also began to display strong networking activity. As Table 1 shows, from 1999 to 2010, the rise in interlocked directorates created a big main component that included 84% and 70% of the business groups, respectively. In 1999, business groups shared 96 directors, and in 2010, this number rose to 139 directors.

Between the second and third phase, foreign MNCs increased their participation as business groups in Chile. Business groups controlled by MNCs grew from 23% of the sample of business groups in 1988 to 41% in 1999. As shown in Table 2, they also increased their links with domestic business groups and with other MNCs' business groups. The table shows 20 links between MNCs' business groups, with those links representing 13% of all connections. An even more striking fact is that around 40% of the links in the network were between MNCs' business groups and Chilean ones, which is a higher proportion than the links among Chilean groups, which amount to 32% of the total.

In order to understand how the MNCs' created links with other business groups, we conducted a community analysis grouping the MNCs according to their home country. We organized the groups by continents to have a cleaner view of the network. This grouping is displayed in Table 3, and the results of our calculation are in Figures 2–5.

The community detection displayed in Figure 4, shows that interlocked directorates were crucial to the tendency among business groups controlled by MNCs to group around particular communities of Chilean business groups and to remain a part of those communities. Indeed, when acquiring domestic firms, the MNCs maintained the existing directors who, in turn, built links with other firms and groups. Some MNCs acquired existing groups (as was the case of Banco BHIF, acquired by Spain's BBVA in 1998, or the acquisitions made by Citibank) or benefitted from acquiring firms that

TABLE 3 Home countries of MNCs business groups operating in Chile and colors used in community analysis graphs

Country	Region	Color
Austria	Europe	Yellow
Brazil	South America	Red
Canada	North America	Blue
Canada-Germany	North America	Blue
Canada-USA	North America	Blue
Chile	Chile	Black
Chile-Belgium	Europe	Yellow
Chile-Canada	North America	Blue
Chile-Italy	Europe	Yellow
Chile-Japan	Asia	Orange
Chile-Spain	Europe	Yellow
England	Europe	Yellow
France	Europe	Yellow
Germany	Europe	Yellow
Italy	Europe	Yellow
Japan	Asia	Orange
Mexico	North America	Blue
Netherlands	Europe	Yellow
New Zealand	Oceania	Purple
Panama	South America	Red
Peru	South America	Red
Singapore	Asia	Orange
Spain	Europe	Yellow
Switzerland	Europe	Yellow
United States	North America	Blue

previously belonged to the government but whose directors directly participated in the privatization process by guaranteeing a good price for the buyers. This shows how the structural market imperfections were reinforced by having groups of different business groups sharing directors with each other.

As stated by Goergen and Renneboog (2014), the connections that the MNCs acquired from the firms gave the former advantages, including access to privileged information. This, in turn, created incentives for the MNCs to organize themselves around business groups and create links with other business groups. Some cases illustrate this point. For instance, take Julio Ponce Lerou, General Pinochet's son-in-law, who made a fortune after leading the privatization process of Soquimich, a state-owned enterprise turned into a private business group; or José Yuraszcek, who after helming the privatization of the state electricity firm Endesa, bought it for a bargain price to later sell it to Spain's namesake multinational (Endesa-Spain), thus generating a situation in which foreign investors could have their own business groups while maintaining ties with the other domestic groups (Mönckeberg, 2015). Other MNCs benefitted from including influential directors from the other side of the political spectrum, as was the case of Spain's Telefónica, which appointed individuals who had previously been part of the Allende government, in such a way that the Spanish group acquired close ties with the center-left government (Bucheli & Salvaj, 2009, 2014). In addition, the creation of links between

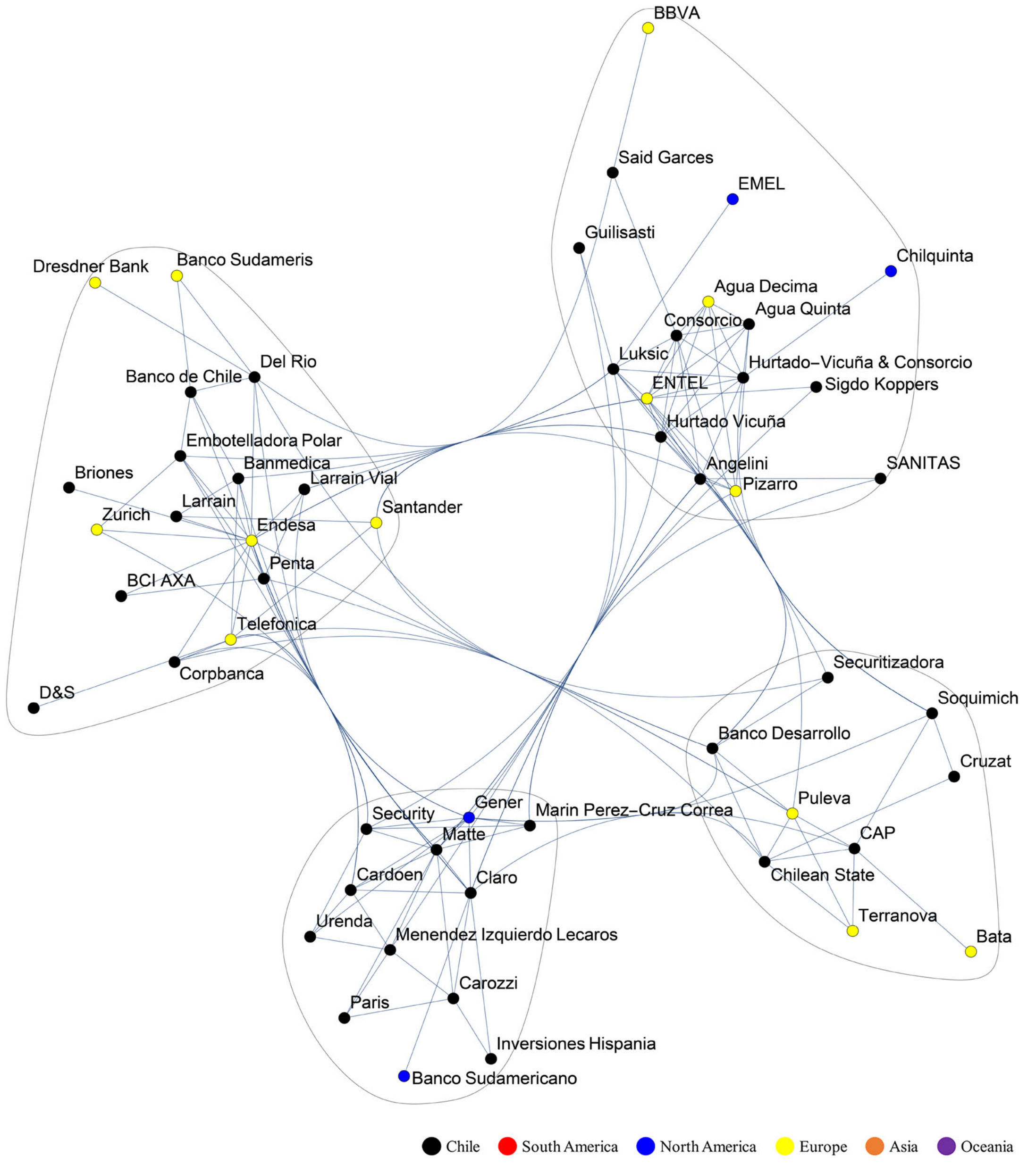

FIGURE 4 Business group communities in Chile in 1999. *Note.* Isolates removed

domestic business groups and foreign ones allowed Chilean firms to internationalize (as was the case of COPEC with Colombia's Terpel) or block the entry of new foreign competitors (*El Mostrador*, 2018; *Cooperativa*, 2003).

The period during which the MNCs strengthened their strategy of operating as business groups in Chile coincides with the time of democratic consolidation when Chile was praised as a model of corporate governance for emerging economies. The World Bank ranked Chile in the highest percentiles with regard to voice and accountability, political stability, government effectiveness, regulatory quality, and control of corruption (World Bank, 2017). This means that Chile seemed to have overcome

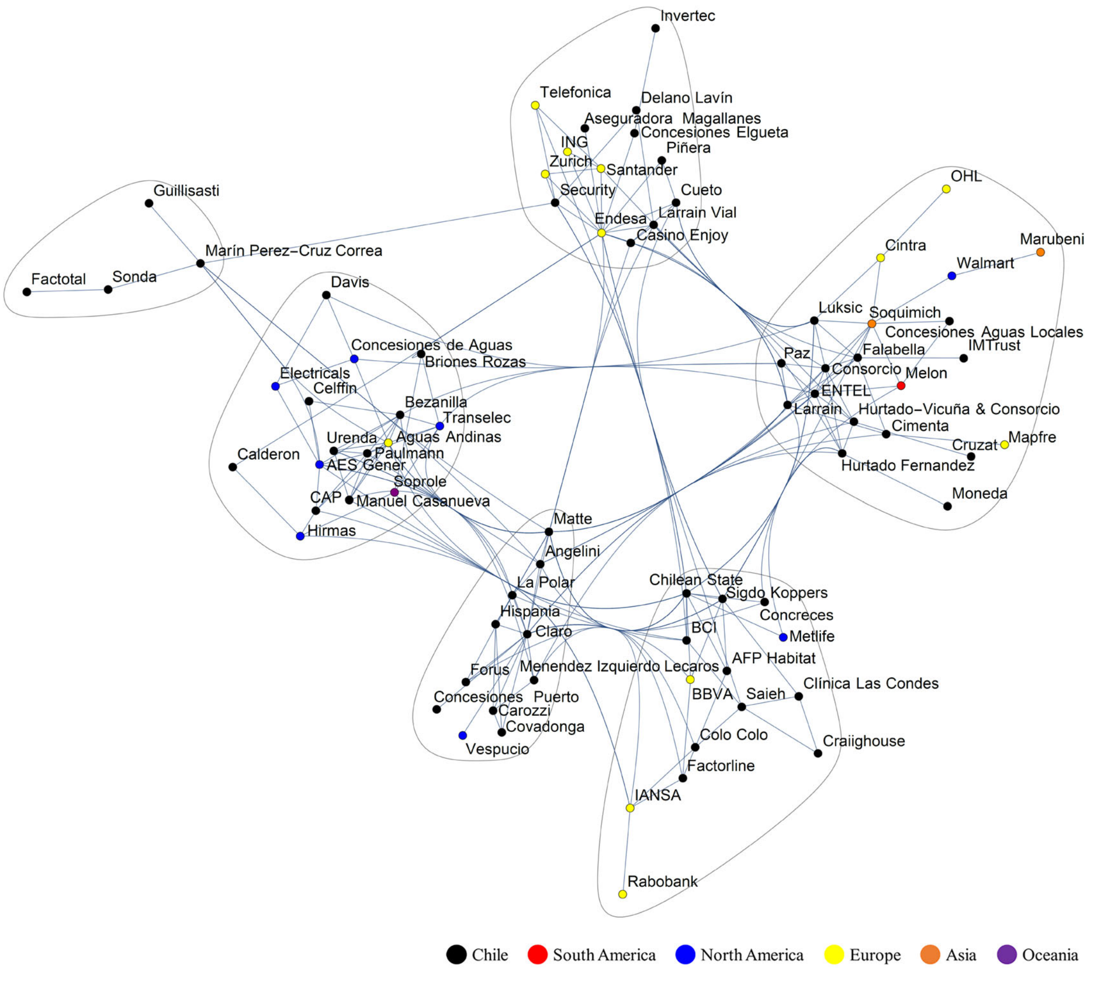

FIGURE 5 Business group communities in Chile in 2010. *Note.* Isolates removed

many institutional voids and had, therefore, succeeded at reducing transactional market imperfections. However, our calculations, tables, figures, and historical narrative portray this success in a different light—they show that after the transition, the Chilean economy became dominated by business groups both domestic and foreign. The MNCs developed an adaptive strategy by becoming business groups themselves and increasing their links with Chilean business groups (reinforcing the structural market imperfections of the Chilean economy). This is evident in Figure 5, where we find that by 2010, the MNCs' business groups had increased their links with the Chilean ones. Moreover, as Table 2 displays, in 1999, the links among MNCs' business groups represented 13% of all connections but accounted for 40% of links across the whole network. By 2010, we find that connections between MNCs' business groups and domestic ones still account for a high percentage of links (almost 30%). Links between domestic groups represented a larger percentage (56.6%), but we need to note here that a larger number of domestic groups were created between the late 1990s and 2010 (see Table 1). One explanation for this larger number of groups is the fact that the economy was going through a strong growth process that attracted more MNCs and created new business opportunities for new firms that (as became the norm in Chile) organized themselves as business groups.

TABLE 4 Survival rate of business groups operating in Chile, 1970–2010

Years	1970	1988	1999	2010
1970		**26%** [0% + 0% + 100%]	**47%** [0% + 0% + 100%]	**42%** [0% + 7% + 93%]
1988			**100%** [0% + 0% + 0%]	**62%** [40% + 60% + 0%]
1999				**36%** [30% + 30% + 22%][a]

Note. The numbers in brackets explain the types of mortality in percentages (percentage of firms acquired by MNCs; percentage of firms acquired by or merged with Chilean business groups; percentage of firms disintegrated or not listed by the *Superintendencia de Valores*).
[a] These numbers do not add up to 100% because we do not have information for five cases. Source: Table A1, Appendix S1.

The business groups present in the post-transition period do not coincide exactly with those that were active during the pre-transition period. Clearly, the transition led to the disappearance of some groups, but the major ones survived while others were simply acquired by the major ones or the MNCs. In Table 4, we summarize the rate of survival of business groups for the periods we analyze and show that of all the business groups that existed in 1970, 26% survived by 1988. Of those survivors, 47% remained alive in 1999 and of those, 42% survived in 2010. The totality of groups created in 1988 were present in 1999, but of those, 62% had survived by 2010. This shows that even though we do not find the same business groups in all periods, the Chilean economy remained dominated by business groups. The table shows that some of them disappeared because they merged with other business groups or MNCs or because changes within their corporate structure led the Chilean government to declassify them as business groups. Table A2 in Appendix S1 also shows that some groups disappeared simply because they could not recover from the turmoil in Chile's corporate sector during the Allende administration or because they were not involved in industries favored by Pinochet's economic model. The fact that some of them disappeared because of mergers reinforces the characteristic of the Chilean economy as one with structural market imperfections.

The strategies by the Chilean business groups and foreign firms were consistent with the broader transformations in the Chilean economy. Reinhardt, Peres, and Correa (2006) show that the change in the manufacturing sector's participation in the GDP was −18.4% for the 1970–1985 period and −12.5% for the 1986–2000 period. For the same two periods, the change for utilities was +44 and +6 %, for finance +28 and 0 %, for trade −6.4 and + 26.4, and for transportation +12 and +57%. This change in the groups' orientation is apparent when taking a closer look at the industries in which the business groups operated. Table 5 displays the main industries the groups were involved in and shows some telling examples. For instance, the Yarur Banna group rid itself from the textile industry investments it owned in 1970 to focus on areas such as finance and insurance, while the Marín-Pérez group also abandoned textiles to focus on energy. The textile industry was one of the import substitution industrialization policies' main beneficiaries and one of the biggest losers of the open market model. The powerful Angelini group had originally bought the manufacturing operations of the foreign conglomerate Grace, but eventually shifted toward oil and gas and forestry (for details on the firms each group owned and what industries they were involved in for each of the years we analyze, see Tables A3–A6 in Appendix S1). Although the number of firms in the groups decreased between 1970 and 1988 (from 144 to 101), they went up to 110 in 1999 and 127 in 2010 (see Table A7 in Appendix S1). This growth, however, did not mean further diversification of the groups' investments because in 1970, the average number of industries each group invested in was 6.3, going down to 5.1 in 1988, 5 in 1999, and 4.5 in 2010 (see Table A8 in Appendix S1). This meant that the groups had more firms, but their operations were more focused.

TABLE 5 Chile: Industries of operation by business group, 1970–2010

Business group	1970	1988	1999	2010
Yarur Banna (BCI)	Finance Manufacturing: textile Insurance	NA	Finance Insurance	Finance Insurance
Briones	Construction: heavy and civil engineering construction Manufacturing: cement	NA	Manufacturing: cement	Manufacturing: cement Manufacturing: industrial, metalworking and machinery
Marín, Pérez Cruz, Correa	Finance Corporate investment Forestry Insurance Energy (electricity) Textile Chemical Wine Agribusiness Construction Shipping	NA	Electric power generation, transmission and distribution Corporate investment	Electric power generation, transmission and distribution Natural gas distribution Corporate investment
Francisco Javier Errázuriz	NA	Finance Pension funds Retail trade Insurance Construction	Pension funds Real estate, rental and leasing Retail trade Insurance	Retail trade Real estate, rental and leasing Finance Insurance
Claro	NA	Manufacturing: fabricated metal product Manufacturing: glass products Corporate investment	Manufacturing: fabricated metal product Transportation and warehousing: water transportation Manufacturing: glass products Corporate investment Manufacturing: alcoholic beverages	Manufacturing: fabricated metal product Transportation and warehousing: water transportation Manufacturing: glass products Transportation and warehousing: support activities for transportation Corporate investment Manufacturing: alcoholic beverages
Guilisasti	NA	Agriculture: fruit production Manufacturing: alcoholic beverages	Agriculture: fruit production Manufacturing: alcoholic beverages	Agriculture: fruit production Manufacturing: alcoholic beverages
Matte	Agriculture Construction Corporate investment Finance Forestry and manufacturing: wood	Finance Manufacturing: cement, concrete, lime, gypsum and other nonmetallic mineral product	Finance real estate, rental and leasing Insurance Manufacturing: cement, concrete, lime, gypsum and other nonmetallic mineral product	Finance Insurance Electric power generation, transmission and distribution Manufacturing: cement, concrete, lime,

TABLE 5 (Continued)

Business group	1970	1988	1999	2010
	and paper Manufacturing Insurance Manufacturing: cement, concrete, lime, gypsum and other nonmetallic mineral product Manufacturing: steel mining Wholesale trade	Forestry and manufacturing: wood and paper Insurance Corporate investment Construction Mining Transportation and warehousing: support activities for transportation	Forestry and manufacturing: wood and paper Construction Corporate investment Mining Transportation and warehousing: support activities for transportation	gypsum and other nonmetallic mineral product Forestry and manufacturing: wood and paper Corporate investment Mining Transportation and warehousing: support activities for transportation
Menéndez Izquierdo Lecaros	Water transportation Transportation services: arrangement of transportation (shipping agencies) Fishing Manufacturing: food manufacturing Insurance	Corporate investment Fishing	Corporate investment Fishing	Corporate investment Fishing
Angelini	Manufacturing: food manufacturing (canned fish) Fishing Manufacturing: food manufacturing (sugar) Transportation services: arrangement of transportation of freight and cargo (shipping agencies) Wholesale trade (representing international branded goods that were imported to Chile) Forestry and manufacturing: wood and paper Manufacturing	Forestry and manufacturing: wood and paper Oil transportation and retail: gasoline stations Insurance Fishing Corporate investment Electric power generation, transmission and distribution	Forestry and manufacturing: wood and paper Oil transportation and retail: gasoline stations Insurance Fishing Corporate investment Electric power generation, transmission and distribution	Finance Forestry and manufacturing: wood and paper Oil transportation and retail: gasoline stations Insurance Fishing Corporate investment Electric power generation, transmission and distribution
Luksic Abaroa	Water transportation Corporate investment (Holding) Mining Fishing Manufacturing: brick and structural clay tile	Corporate investment Finance Information: telecommunications resellers, satellite and other telecommunications	Corporate investment Information: telecommunications resellers, satellite and other Telecommunications Mining Real estate, rental and leasing Manufacturing: beverage	Utilities: water, sewage and other systems Finance Insurance Manufacturing: alcoholic beverages Manufacturing: fabricated metal product Corporate investment

TABLE 5 (Continued)

Business group	1970	1988	1999	2010
	Forestry and manufacturing: wood and paper Food manufacturing	Mining Real estate, rental and leasing Trade Forestry and manufacturing: wood and paper Manufacturing: plastic, cooper and aluminum products Manufacturing: food Construction	Manufacturing: alcoholic beverages Manufacturing: food Accommodation and food services: traveler accommodation services Manufacturing fabricated metal product Manufacturing: plastic, cooper and aluminum products	Manufacturing: plastic, cooper and aluminum products
Chilean government	All sectors of the economy	All sectors of the economy	Real estate, rental and leasing Finance Insurance Transportation and warehousing: rail transportation Utilities: water, sewage and other systems Transportation and warehousing: water transportation Mining Construction Arts, entertainment and recreation: amusement, gambling and recreation industries Transportation and warehousing: support activities for transportation	Insurance Finance Mining Transportation and warehousing: rail transportation Utilities: water, sewage and other systems Mining: oil extraction Transportation and warehousing: support activities for transportation Transportation and warehousing: pipeline transportation of crude oil, refined petroleum and miscellaneous products, except natural gas Construction arts, entertainment and recreation: amusement, gambling and recreation industries

Note. Industrial classification based on the North American Industrial Classification System (NAICS).
Source: Tables A3–A6, Appendix S1.

5 | DISCUSSION, IMPLICATIONS, AND CONCLUSION: TRANSITIONS, MULTINATIONALS, AND BUSINESS GROUPS

In his study of the global elite, Rothkopf (2008, p. 55) described Chile as "not a country, but a country club," which succinctly highlights the fact that Chile is a country with a small and highly connected elite (Salvaj, 2013) who had interests in several sectors of the economy and were willing to cooperate with each other in order to maintain their privileged status. Just as Rothkopf (2008) describes an early 21st century Chilean elite that prided itself on its businesses' global reach and social networks, scholars analyzing that country's elite for the pre-dictatorship period also found tight networks linking elite members through family or business ties (Dahse, 1979; Zeitlin et al., 1974).[4] These authors all considered that business groups and interlocked directorates were the quintessential manifestation of those close ties and networks.

Business groups were the dominant form of corporate governance in the major emerging economies before the pro-market reforms, and this did not change after the consolidation of those reforms (Colpan & Hikino, 2010). Instead, they acquired increasing relevance in international business scholarship after the 1990s, when some business groups became major MNCs competing at a global level (Tan & Meyer, 2010; Yaprak & Karademir, 2010). Two elements related to those groups deserve the attention of international business scholars. First, why did business groups remain important and influential in their home countries after the pro-market reforms? Second, how did MNCs adapt to economies shaped largely by those business groups? The first question has received great attention by scholars, but the second one remains understudied. The first question is an interesting one from the viewpoint of international business scholarship because it was long believed that the existence of business groups could be explained by the so-called institutional voids, especially in less developed and emerging economies (Carney et al., 2011; Guillén, 2000; Khanna & Palepu, 1997, 2000; Khanna et al., 2005). The business groups' persistence after a transition toward a more open economy has been explained as resulting from the imperfect nature of the pro-market reforms (Khanna & Palepu, 1999; Khanna & Rivkin, 2001) or the exploitation of capabilities the groups acquired right before the pro-market reform period (Guillén, 2010). Regarding MNCs' adaptation strategies, scholars have focused on ways in which foreign firms can reduce their liability of foreignness or liability of outsidership by establishing joint ventures with domestic partners (Delios & Henisz, 2000), hiding their origin by creating corporate networks with domestic firms (Lluch, Salvaj, & Barbero, 2014), engaging in corporate social responsibility programs (Rathert, 2016), appointing influential actors to their boards or management positions (Hillman & Wan, 2005; Kostova, Roth, & Dacin, 2008; Peng, Wang, & Yi, 2008), or incorporating elements of the host country's polities within the MNC corporate structure (Bucheli & Kim, 2015). In their now classic *Harvard Business Review* article, Khanna and Palepu (1997) maintain that "focused" strategies (meaning those in which firms concentrate their efforts in one line of business) are doomed to fail in emerging economies because conditions in those countries require that firms be present in several industries so as to overcome problems stemming from incomplete information, bad infrastructure, or corrupt or inept governments. Peng et al. (2008) add that one way in which foreign MNCs can achieve this is by establishing interpersonal networks in the host country, while Hoskisson, Eden, Lau, and Wright (2000) posit that the MNCs need to establish close links with government officials, sometimes indirectly by approaching influential

[4]Some scholars suggest that networks can also result from cultural characteristics of the society where these networks are built (Ledeneva, 1998; Verbeke & Kano, 2013). Studies on the Chilean elite suggest that the close ties respond to strategies by which that country's small and homogeneous elite sought to perpetuate its power (Espinoza, 2010; Garrido, 2013; Henneus, 2013; Zeitlin & Ratcliff, 1988).

individuals. Oviatt and McDougall (1994) maintain that networks in host countries can help the internationalization of new MNCs. However, the scenario in which an MNC would seek to become a business group (particularly Western firms) in an emerging economy has received little attention with the exception of historically oriented analyses (Hikino & Bucheli, 2018; Jones & Khanna, 2006). This might be because the literature assumes that once an MNC enters an emerging economy, domestic firms will have to change their strategy and structure in order to become more competitive. Peng, Wang, and Yi (2008) maintain that firms from emerging markets can remain competitive after a transition toward more open markets by reducing the importance of relational strategies and shift toward more impersonal ones. Cantwell et al. (2010) maintain that in increasingly open markets, the domestic firms will converge toward the strategy and structure brought in by the foreign MNCs, and not the other way around. To the contrary, as we demonstrate in this article, a transition toward an open social order did not result in a decrease of importance in interpersonal networks, a diminishing importance of business groups, or a convergence by domestic firms toward the model imported by foreign MNCs. Rather, the Chilean economy remained firmly dependent on traditional links between boards of directors and dominated by business groups. An even more dramatic change took place in the period of open markets and democracy, where we find business groups building links with each other and the MNCs creating their own business groups. The creation of those inter-business groups links through interlocked directorates (which might lead to the creation of groups of business groups, or what we call *meta-business groups*) shows how an economy can become even more concentrated and less competitive, even after addressing many “institutional voids.” In this way, we contribute to the literature by shedding new light on the implications of interlocking directorates *between* business groups. By conducting this analysis, we show that the endogenously created structural market imperfections incentivize business groups to create links with the other business groups dominating the economy so that they benefit from collusion. This applies for both domestic business groups and foreign MNCs.

Our article shows the importance of analyzing jointly the evolution of the institutional environment and that of the corporate governance of private firms. We show how the pre-transition period had some of the characteristics described by the literature on institutional voids (an economy highly coordinated by the state, problems in infrastructure, a deficient financial sector), leading the Chilean economy to organize itself around business groups. After the major political and economic transitions, we not only see business groups retaining their dominance over the economy, but also witness the rise of business groups owned by MNCs and the strengthening of links between business groups. The economic crisis of 1982 played an important role, as it led the Chilean government to create a legal framework to regulate business groups, in a measure that went against the grain of tendencies worldwide. This framework represented a crucial legal transition that reinforced the structure of the Chilean economy as one dominated by business groups. As such, for foreign MNCs, operating as business groups was not a means to circumvent “voids” or “uncertainties,” as it actually provided MNCs a means of operating under the written rules regulating institutional arrangements.

We show that illuminating on the interconnected nature of the two types of market imperfections proves to be helpful to analyze both the survival of business groups in emerging economies (especially in time of institutional transition) as well as the MNCs' adaptation strategies. We demonstrate how the transition toward more open markets does not necessarily create more competitive environments and that elites in emerging economies are not willing to abandon the advantages of having links between their businesses. More generally, we agree with Guillén (2010) that business groups develop capabilities that are useful for a post-transition period. We add that, since the business groups create and consequently dominate larger economic structures, other firms willing to compete in that environment benefit from creating their own business groups. This is reinforced by the value that directors embedded in the domestic economy give to foreign firms acquiring domestic ones (Goergen & Renneboog, 2014).

Our study has implications for literature on institutional voids and market imperfections. First, drawing on Dunning and Rugman (1985), we go beyond the idea accepted by the literature on institutional voids that assumes business groups as institutional arrangements created to address institutional voids. In fact, unlike what that literature assumes, we examine how business groups persisted after a transition toward a more pro-market and pluralistic regime. We show how firms' efforts to address transactional market imperfections in an environment with "voids" can endogenously create structural market imperfections that incentivize firms to maintain business groups in the post-transition period so that they can sustain their market power in the structurally imperfect market. In this light, our approach illuminates the explanation of the persistence of business groups.

Second, we contribute to the literature on market imperfections through the joint consideration of transactional imperfections as studied by Buckley and Casson (1976), and Williamson (1975) and structural imperfections as studied by Bain (1956, 1968) and Hymer (1960). Despite the substantial influence of the two types of imperfections on the literatures, conversation between the two has been sparse. Using our historical approach, this article inductively advances a theoretical framework that links these two streams of literature and provides a richer understanding of market imperfections by underscoring the interconnection between the two. Indeed, our framework shows that the two types of market imperfections could exist in an iatrogenic relationship in such a way that "an attempt to resolve one fundamental problem leads to a failure in another market-ordering mechanism" (Ahuja & Yayavaram, 2011, p. 1,638).

Following Mclean, Harvey, and Clegg (2016) and Jones and Khanna (2006), our article adopts a historical approach in order to evaluate and refine theories with the aim of generating a dialogue between different theoretical approaches. Based on this, we can offer some generalizable theoretical mechanisms that could be used in other studies analyzing the persistence (or death) of certain organizational forms following significant changes in the institutional environment. Institutional voids (in terms of obstacles to the operation of market forces) can create transactional market imperfections. These imperfections generate incentives for the creation of business groups or other collaborative strategies between businesses, which could, in turn, endogenously create structural market imperfections. When entering the structurally imperfect market, MNCs find themselves in a disadvantageous position due to the substantive market power exercised by domestic business groups. In this situation, MNCs can strategically become part of the business groups or create their own reinforcing structural market imperfections. Or, as insightfully stated by Rugman, "thus, the multinational enterprise is both a victim of external market imperfections and a villain in seeking to retain them" (Rugman, 1981, p. 51).

In Table 6, we summarize the phases we study in relation to the types of market imperfections created in each of those periods, the predictions of the institutional voids literature, and our findings for the Chilean case.

An analysis of the long-term evolution of interfirm connections requires detailed analysis of the firms' boards within the context of the changing larger institutional environment. This implies carrying out a type of research that zooms in and out between long-term changes resulting from complex social and political processes, on the one hand, and, on the other hand, the composition of the board of directors of different firms, considered jointly with a detailed understanding of their individual biographies. This approach required us to combine three analytical lenses: quantitative network analysis, a careful reading of Chilean economic and political history, and painstaking archival research in different entities. These efforts are crucial to integrating the coevolution of the institutional

TABLE 6 Market imperfections, institutional environment, and business groups

Year	Phase 1 1970	Phase 2 1988	Phase 3 1999–2010
Institutional Environment			
Political regime	Democratic	Authoritarian	Democratic
Economic regime	Protectionist	Open market	Open market
Market Imperfections			
Types	Transactional	Structural	Structural
Sources	Exogenous	Endogenous	Endogenous
Predictions of the institutional void literature	Creation of business groups	Demise of business groups	Demise of business groups
Our findings in the Chilean context	Creation of domestic business groups	• Persistence of domestic business groups • Creation of MNC business groups	• Persistence of domestic business groups • Persistence of MNC business groups

environment and institutional arrangements in a way that allows us to understand the nuances of the changing strategies of the actors involved. We are aware that researching individual biographies of directors for individual firms can be extremely time consuming. The rewards, however, can be highly enriching, and Decker (2013) and Kipping et al. (2014) offer methods to management scholars to conduct this type of historical research.

Some limitations need to be highlighted. First, we are aware that the type of transition we study is not the only one possible. In the first years of the 2010s, different countries transitioned from more democratic regimes toward less democratic ones. A new breed of nationalist movements emerged worldwide, and nepotism and authoritarian tendencies emerged across the OECD world (*The Economist,* 2017). The effect of these changes on the legislation affecting business groups is a subject for further research. Second, access to crucial information depends on how efficient regulatory agencies are at maintaining records and how transparent a country is in the type of information that it requires corporations to disclose.

We conclude this article by advocating a reintegration of historical approaches to the study of the strategies of MNCs that also dialogues with social sciences studying the logics of the operations of the states and those analyzing relationships between different political and economic actors. We all have heard the cliché "corporations do not operate in a vacuum," and all scholars are aware of that. This article proposes a way to bring MNCs and domestic firms out of that "vacuum" by returning to the interdisciplinary and historically informed nature the study of international business and global strategy had in its beginnings.

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SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section at the end of the article.

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