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Original Article

Political strategy and the growth of business groups

Estratégia política e crescimento dos grupos empresariais

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Abstract

How do companies and government interactions affect business groups' decisions on growth? So far, empirical evidence is based on qualitative data that do not explain how political strategies affect the expansion or diversification of business groups. Our main contribution is to discuss the conditions that affect their growth. To do this, we conducted an in-depth field study in six business groups, and examined 17 growth decisions. Four categories (origin of growth, historical relationships, business group's scope and use of specific political strategies) emerged from the analysis, based on interviews with managers and on 480 secondary data sources. We further applied the qualitative comparative method to test our categories as conditions for growth. We found that a historical relationship between the group and the government is a necessary but insufficient condition for growth through diversification. To foresee diversification, historical relationship must be aligned with government's political interest, or with the use of one or a combination of specific political tactics. We found no set of variables that can fully explain growth through expansion.

Keywords: Business groups; Political strategy; Diversification

Resumo

Como as interações entre as firmas e governo afetam as decisões de crescimento dos *business groups*? Evidências empíricas existentes não explicam como as estratégias políticas afetam a expansão ou diversificação dos *business groups*. A principal contribuição é discutir as condições que afetam o crescimento dos *business groups*. Para responder isso foi realizado um estudo de campo em profundidade em seis grupos empresariais e foi analisado 17 exemplos de crescimento desses seis *business groups*. Quatro categorias emergiram a partir das entrevistas com diretores e presidentes e 480 fontes de dados secundários (categorias: origem de crescimento, relacionamento histórico, escopo do *business group* e estratégia política específica). Foi aplicado o método QCA para testar as categorias como sendo condições para o crescimento. Descobrimos que ter uma relação histórica entre o grupo empresarial e o governo é uma condição necessária, mas não suficiente para o crescimento grupo empresarial por meio da diversificação. Para prever a diversificação, a relação histórica deve ser somada com o interesse político governamental ou com o uso de um ou uma combinação de táticas políticas específicas da firma. Não foi encontrado nenhum conjunto de variáveis que possa explicar plenamente o crescimento via expansão.

Palavras-chave: Grupos empresariais; Estratégia política; Diversificação

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Introduction

A business group is an organizational model in which a set of legally independent firms are held together through a stable relationship, operating strategically in different sectors and under common control and ownership (Colpan & Hikino, 2010; Cuervo-Cazurra, 2006; Khanna & Yafeh, 2007). Authors that tried to explain why organizations grow as a group have approached the topic from several theoretical perspectives (Yiu, Lu, Bruton, & Hoskisson, 2007). The mainstream theory – based on transaction costs (Williamson, 1975, 1981) – argues that growth is necessary to expand groups' internal markets, and consequently, to reduce their transaction costs. However, the political economy approach (Aoki, 2001; Khanna & Fisman, 2004; Schneider, 2009; Yiu et al., 2007) offers another explanation for growth. According to this perspective, business groups diversify and expand as a result of their use by governments for promoting public policies. Therefore, the business group option is a strategic fit to government requirements (Yiu et al., 2007), and a means to open or expand new sectors and markets that serve both parties.

However, explanations proposed to date under the political perspective have largely overlooked the conditions that underlie the growth of different types of business groups (Schneider, 2009). Explanations that consider the business group to be an economic tool per se (Khanna & Fisman, 2004) focus on the state's actions and their impact on group performance. As a result, there is still a limited number of studies on business groups that provide empirical evidence as to the role played by corporate political strategies in achieving diversification and expansion, among other conditions.

We contribute to this issue by showing that in the majority of diversification cases, business groups have a historical relationship with the government. However, this condition is insufficient; if business groups want to diversify, they need to use one or a combination of the following political tactics: long-term cooperation contracts, lobbying, personal relationships, joint venture with a state-owned firm, or a shareholding agreement with the government. On the other hand, when a business group has a historical relationship with the government, which wants to develop a specific sector, it provides stimulus and support to the group, to encourage and enable diversification, without the need of a specific political tactics. Therefore, we propose the following research question: How do companies and government interactions affect the growth decisions of business groups?

There are two dimensions of growth: (i) expansion – opening of new plants, launching of new products and engaging in internationalization (Ansoff, 1965; Donato & Rosa, 2005; Kumar, Gaur, & Pattnaik, 2012); and (ii) diversification – entering or exiting new economic sectors or industries (Ansoff, 1965). Our analysis is oriented to diversification because it is the main feature of business groups (Yiu et al., 2007), while expansions are considered as counterfactual.

We tracked 17 examples of business groups' growth in order to report how it occurred, how relationships between government and groups were formed, and how eventual corporate political strategies were used, regarding these growth events. Our empirical strategy was to perform an in-depth qualitative research, by conducting 16 interviews with top-level managers, from six intentionally chosen Brazilian business groups and also with industry experts. Additionally, we went through hundreds of secondary sources to deal with such a sensitive issue, as suggested by Rama (2011), including news media, business groups' annual reports, government data available in official sites, and books about business groups' history and their directors' careers. From these sources, we created a description of each event, codified all data and compiled them using the software ATLAS.ti, to build empirical oriented categories that could represent the conditions that underlay the growth of business groups. Finally, we applied Qualitative Comparative Analysis – QCA (Ragin, 1987) to our categories, in order to assess multiple conjectural causations, vis-à-vis a case-sensitive approach (Fiss, 2011; Rihoux, 2006; Rihoux, Álamos-Concha, Bol, Marx, & Rezsöhazy, 2013).

Literature review

The growth of business groups

A business group organizational format is defined as a group of formally independent firms that operate in multiple sectors, which may or may not be related, and are under the common control of a family or people who have personal, trust-based relationships with each other (Chang & Hong, 2000; Colpan & Hikino, 2010; Granovetter, 1994; Khanna & Yafeh, 2007; Leff, 1978). Such groups are present in several countries and receive different names: "*chaebol*" in South Korea, "*Keiretsu*" in Japan, "*economic groups*" in Latin America, "*the twenty two families*" (Granovetter, 1994) in Pakistan, "*oligarchs*" in Russia, and "*QiyeJituan*" (Lee & Kang, 2010) in China.

Although business groups once dominated the companies' landscape of North America (Kandel, Kosenko, Morck, & Yafeh, 2013), nowadays they are increasingly present in emerging countries, especially in response to market failures typical of such economies (Khanna & Palepu, 1997), and because of the high levels of state intervention (Musacchio & Lazzarini, 2014).

There are six possible perspectives to address this subject. The mainstream theory is the Transaction Cost Economics (Williamson, 1981); the others are Sociology (Granovetter, 1994), Resourced-Based View (Guillén, 2000), Agency Theory (Yiu et al., 2013), Network Theory (Granovetter, 1983) and the Political Strategy Perspective. We include this last one because historically political issues had a strong influence on business groups' development, not only in Brazil but in South Korea, Italy, China and India (Aldrighi & Postali, 2010; Bresser-Pereira, 2009; Mukhopadhyay & Chakrabortyb, 2017).

Few groups were large and diversified when founded. Growth through expansion and diversification was and still is the fundamental business group strategy (Bhatia & Thakur, 2017; Hernández-Trasobaresa & Galve-Górriz, 2017; Khanna & Yafeh, 2005; Schneider, 2009). Political and policy issues mostly explain the distinct sizes of business groups in different countries. Diversification, on the other hand, is the result of decisions to seek economies of scope and to reduce risk exposure by holding subsidiaries with different market cycles (Schneider, 2009). Choosing growth as a strategic objective may be the result of political connections. In most cases, and especially in developing countries, political motivations influence business groups, making diversification more likely (Ghemawat & Khanna, 1998; Schneider, 2009; Yiu et al., 2007).

Business groups can grow by exploring markets and activities that may or not be related to the economic sector in which they operate (Chang & Hong, 2000; Colpan & Hikino, 2010; Granovetter, 1994; Khanna & Yafeh, 2007; Leff, 1978). A business group might, for example, grow into a new sector with no previous operation (Purkayastha & Lahiri, 2016), diversifying from livestock to construction; or it could seek growth within a sector where it is already present, expanding from cattle slaughtering to leather processing. Literature suggests that the decision to pursue growth in related or unrelated sectors is highly influenced by government actions (Khanna & Palepu, 2000; Schneider, 2009).

The political economy approach emphasizes the relationship between government policy and the growth decisions of business groups (Schneider, 1998, 2009). Evans (1995), Wade (1990), and Amsden (1989) argue that government plays a central role in modeling firms' growth and investment paths, by influencing and inducing businessmen to make investments that concern the government, through the offer of selective subsidies and protection against foreign competition. In doing so, the group is used as a tool for accomplishing government's political and economic goals (Yiu et al., 2007). Moreover, the presence of highly diversified business groups in a country's economic scenario is a useful way to promote public policies and industrial development (Khanna & Fisman, 2004).

Government choices can enable or constrain the operation of groups. Incentives can range from direct promotion, by enabling a specific group to enter a sector of interest to the government, to indirect promotion, such as incentives for a whole sector, through tax benefits and tariff protection (Schneider, 2009). The limits can be the regulation of joint ventures and control over multinationals' growth.

There is historical evidence on the influence of governments on business groups (Khanna & Yafeh, 2007). One example, among others (Amatori, 1997; Guriev & Rachinsky, 2005; Khanna & Yafeh, 2007; Maman, 2002; Schneider, 2009), are the Japanese *keiretsu* groups that emerged after the war as a result of a government privatization program, and have expanded and diversified their activities in response to government contracts granted under special conditions (Shimotani, 1997). There were also periods in which governments have hampered business groups rather than helped them. In Chile, during Pinochet's term, policies toward free market and anti-concentration of property s were adopted in 1973; in China, when the communist party gained power in 1943, the result was hostility between government and business groups. Despite some negative periods throughout history, in general relationships between government and business groups have stimulated the economic development of distinct sectors simultaneously (Colpan & Hikino, 2010).

Interaction of business groups with government

Governments have enough power to influence firms' strategic choices, operations and processes (Pearce, 2001), but business groups are not passive elements in this context. Therefore, there is an interdependence and an ongoing exchange between groups' actions and government policies (Salisbury, 1969). Business groups employ a variety of means to anticipate and influence government decisions, to achieve their credibility and enhance their reputations, in order to achieve better performance and competitive advantages (Bonardi, 2011).

The classification found in the literature specifies political strategies that involve the creation of political connections (Fisman, 2001), and the tactics that firms use to accomplish them (Hillman & Hitt, 1999). These strategies and tactics include: (i) an informational strategy achieved through lobbying or commissioned research projects; (ii) a financial incentive strategy, implemented through contributions to political campaigns, politicians and/or parties, and paying for travel or personal services (Bandeira-de-Mello & Marcon, 2011; Claessens, Feijen, & Laeven, 2008); (iii) a constituency-building strategy, accomplished through public relations or advocacy advertising; (iv) a strategy for building personal relations, implemented, for example, by hiring politicians for the board of directors (Faccio, 2006); and (v) the tactics of businessmen participating in public life, which can be used to influence legislation, get privileged information, and even influence government spending toward their companies.

Firms use a combination of resources to build their political strategies, to differentiate themselves and succeed (Bonardi, 2011; Sojli & Tham, 2017; Tian, Hafsi, & Wu, 2007). In general, they use their growth to have access to politicians and to legislative and regulatory processes (Hillman, Zardkoohi, & Bierman, 1999) and to receive preferential treatment (Faccio, 2006) and easy access to funding (Claessens et al., 2008). Political connections play an important role in the world's largest economies (Fisman, 2001) and are present in firm-government relationships in all countries (Faccio, 2006; Sojli & Tham, 2017). However, political connections are most influential in emerging markets, where the role of institutions is not fully developed, corruption is more latent, and there are some restrictions to foreign investments (Faccio, 2006; Fisman, 2001; Li, He, Lan, & Yiu, 2011). The way by which groups are formed facilitates the use of political connections to favor some of their affiliated firms together (Bandeira-de-Mello, Marcon, Goldszmidt, & Zambaldi, 2012).

Many studies show that groups which have political connections enjoy greater benefits than those that do not (Claessens et al., 2008; Faccio & Lang, 2002; Fisman, 2001; Sojli & Tham, 2017). These benefits include access to funding, lower taxes and fees, and power over market regulation. Other studies show that political connections are linked to firms' diversification into different sectors, and these connections depend on institutional issues. For example, a study of Chinese corporations showed that political connections influenced non-related diversification by firms in that country (Li et al., 2011). Results of an empirical research on Brazil show that politicians guarantee the growth of business groups (Costa, Bandeira-de-Mello, & Marcon, 2013).

According to a 2003 study conducted by the Inter-American Development Bank, Latin America is more volatile regarding politics than Europe or Asia, and as a result of this weakness business groups are offered greater incentives to grow in sectors of interest to the government (Ghemawat & Khanna, 1998; Schneider, 2009).

To go beyond existing empirical contributions that show how business groups can benefit from political connections, the gap that we address, in the political economy perspective, is a deeper investigation on the set of conditions that underlie the two types of business groups' growth – expansion and diversification. These conditions and the relationship between them are analyzed together.

Research design

We chose Brazil as the research setting for the following reasons: (a) the country provides an appropriate scenario for this study because government is a relevant shareholder of business groups (Schneider, 2009; Xavier, Marcon, & Bandeira-de-Mello, 2013); (b) government plays a role either as a majority or a minority shareholder; (c) it also takes part through stakes held by pension funds of state-controlled companies; (d) the relationship between companies and government is a phenomenon rooted in the national culture (Aldrighi & Postali, 2010); and (e) this relationship is seen as a normal state of affairs.

We chose qualitative methodology because the objective of the study was to analyze in detail the conditions that enable the growth of business groups. We compiled a list of business groups that fit the following criteria: (i) groups listed on the Brazilian Stock Market (BM&FBOVESPA) in 2011; and (ii) groups included in a yearbook published by newspaper *Valor Econômico* that lists the 200 largest groups that do business in Brazil, along with their subsidiaries.[1] Groups that met these criteria ($n = 65$) were classified using Schneider's (2009) typology of diversification, based on a measure of diversification variation (the Herfindahl Hirschman Index), and two classifications of political connections, namely the presence of ex-politicians on the board, as used by Camilo, Marcon, and Bandeira-de-Mello (2012), and corporate campaign donations, as used by Costa et al. (2013). Our sample of six groups that agreed to participate in the research comprises business groups that are highly diversified and have made campaign donations. In compliance with a confidentiality agreement, letters replaced the names of these groups.[2]

The unit of analysis was the growth event, considered in two dimensions: (i) expansion, through the opening of new plants, new products and overseas expansion (Ansoff, 1965; Donato & Rosa, 2005; Kumar et al., 2012); and (ii) diversification, as the entry or exit of one of the business groups' companies in new economic sectors (Ansoff, 1965). Seventeen incidents of diversification or expansion were found and described. The study is based on both primary and secondary data. To ensure validity and reliability, three rules were followed when collecting and organizing data: (i) the use of several sources of evidence for each diversification or expansion event, enabling data triangulation (Eisenhardt, 1989; Yin, 2005); (ii) adherence to the historical sequence of facts in order to accurately describe what has occurred; and (iii) creation of a database and a description for each diversification or expansion event.[3]

One of the sources of evidence were interviews with representatives of business groups and specialists in the subject. Table 2 lists the 16 interviewees, with brief descriptions of their jobs and careers up to the meeting date. We used a semi-structured script for defining the questions, and the average duration of the interviews was one hour. The process began in June 2013 and lasted until November 2013. We conducted 16 interviews, nine of which were with members of the boards of the six business groups, or their employees working in the Institutional Relations area, and seven with specialists. These professionals are relevant to the analysis either because they work for the government, or are consultants in governmental relations, or ex-politicians in the federal government, or former employees of the National Bank of Social and Economic Development (BNDES). Table 1 presents the list of interviewees and Table 2 the interview guide.

We used a large number and a wide variety of secondary data sources to validate data collected in the interviews (Rama, 2011). The sources of secondary data were: (i) official documentation about the groups, since their creation up to the present; (ii) published studies and evaluations dealing with the business groups (Costa et al., 2013; Xavier et al., 2013); (iii) newspaper articles and stories published in the media; (iv) economic and market studies and videos; (vi) data from the official websites of the Brazilian Senate and the House of Representatives; (vii) data from the Superintendence for the Development of the Northeast (SUDENE) and BNDES websites; (viii) quantitative data used in a study by Costa et al. (2013), to capture diversification and political campaign donations; and (ix) quantitative data used by Camilo et al. (2012) to capture the presence of politicians in groups' boards. A total of 480 documents from 13 sources were used as secondary data.

We performed a three-stage data analysis. The first step was to describe each individual incident of the group's growth – diversifications and expansions, using primary and secondary data. During this first analysis, Atlas.ti software proved invaluable for organizing and encoding the data and making notes for each event. In the second stage, our main categories of analysis (Table 3) emerged with a view for comparing the cases

[1] "200 Maiores Grandes Grupos, Valor", available at: http://www.revistavalor.com.br/home.aspx?pub=19&edicao=9.

[2] In order to guarantee the necessary confidentiality, preserving the anonymity of the interviewees and their groups, a non-disclosure agreement was signed between Getulio Vargas Foundation (FGV) and all Business Groups. As such, all interviewee's names and their respective groups or entities were hidden as much as possible. We employed a system of codes to allow the relationships between individuals, groups, and the diversification or expansion events to be established.

[3] In all examples, a capital letter indicates that the criterion exists/is met, while a lower case letter indicates that the criterion is not present/is not met.

Table 1
Details of interviews.

Interviewee code	Date	Experience
INT 1	June/13	Manager of relationship with investors, has worked for business group B for 10 years.
INT 2	July/13	International director, works directly with CEO, 10 years in this position. Group B.
INT 3	August/13	Managing director and marketing director of business group A. Responsible for institutional relations and institutional demands. Four years in this position.
INT 4	July/13	Institutional relations manager. Three years in this position; responsible for the development of this area in Group C.
INT 5	August/13	Institutional relations manager. Two years in this position and six years working in the group. Group F.
INT 6	August/13	Director of institutional relations. 15 years of experience in this area. Has worked for the group for six years. Group F.
INT 7	September/13	CEO of the group's holding company. 10 years working in Group E.
INT 8	August/13	Institutional relations director. Has worked for the group for 15 years, and in this position for one year. Group D.
INT 9	August/13	Director of a consulting firm that works for big companies, as a bridge between public banks and companies.
INT 10	August/13	Has worked for 40 years in the government as institutional relations specialist.
INT 11	August/13	Institutional relations specialist. Has worked for 10 years with multinationals and business groups, associations, and the government, as a facilitator in public policy matters.
INT 12	September/13	Owner of a public relations consulting firm for seven years.
INT 13	September/13	Worked for many years in the federal government. Currently, president of an economic consulting firm and member of directors' board of several business groups.
INT 14	October/13	Consultant. Former employee of a public financing institution. Has been in this institution for three years.
INT 15	October/13	Works as director of the main subsidiary of a business group, responsible for government relations.
INT 16	November/13	Chairman of the Board of Directors and entrepreneur. Worked for more than 30 years in one business group, is currently in another.

Notes: Interviewees INT 1 through INT 8, INT 13, INT 15 and INT 16 are all representatives of business groups; INT 9 through INT 14 are all industry experts. INT 13 is both.

Table 2
Interview guide.

Questions
1. What is the structure of the business group?
2. How do business groups' firms compete in their industries?
3. How is the decision making process in a new business?
4. Could you give us examples of investments that have increased or decreased business group's diversification?
5. Could you give us examples of the group's institutional relations?
6. Which are the main activities of institutional relations with the government?
7. Could you give us examples of investments in new industries, in which the institutional relationship with the government has helped or embarrassed the investment decision?

(Eisenhardt, 1989). Finally, we used QCA method as a means to relate the empirical categories to the outcome of interest (Fiss, 2007). We chose QCA (Ragin, 1987) to guide our analysis for a number of reasons, such as: (i) QCA allows the use of a small number of cases to accomplish objectives, which includes testing the necessary and sufficient conditions of specific situations (Ragin, 2006); (ii) the methods used in QCA research employ the principles of logic to compare cases; (iii) QCA is appropriate for analyzing models that involve many interacting factors, to test hypotheses that predict if multiple conditions will operate together (Longest & Vaisey, 2008). As such, QCA can address situations in which an outcome has multiple causes. We used the statistical program Stata 12.0 and the fuzzy package for set manipulation (Longest & Vaisey, 2008) to perform QCA analysis. We used crisp sets (0/1) to define which cases did or did not fulfill specific conditions and outcomes. Table 3 also lists the data codes.

We employed the crisp sets analysis procedure described by Longest and Vaisey (2008). Fourth section presents the results of the study.

Results

Our findings are presented across two sections. In the first, we describe the 17 growth events of the business groups. In the second section, we describe the QCA analysis, showing the sets of conditions used by business groups to achieve diversification or expansion.

Description of growth events

The descriptions of groups' growth through government incentives and groups' political strategies are based on extensive analysis of interviews and secondary data. When a single group had experienced more than one diversification or expansion event, we isolated each event as a single unit of analysis. Interviewees described groups' political strategies for each unit of analysis, explaining how their groups operated in each specific situation. Furthermore, we also searched for secondary data that could provide relevant additional facts for understanding the nature of the relationships between groups and government.

In some events, a group started a process of diversification or expansion, whose origin was a governmental action that set up incentives for the group to grow. For example, growth event 3, a diversification, was the entry of group B into the energy

Table 3
Sets, definitions, encoding of conditions and outcomes.

Condition/outcome sets	Definition	Encoding
Growth strategy (outcome symbol: Y) Y: Diversification Y: Expansion	Diversification: entry into new sectors Expansion: portfolio expansion, new product development, internationalization, plant expansion (Ansoff, 1965; Cuervo-Cazurra, 2006; Donato & Rosa, 2005; Kumar et al., 2012; Schneider, 2009)	1:Diversification 0: Expansion
Origin of growth (condition symbol: O) O: Government o: Business Group	The origin of the diversification or expansion situation: government or business group	1: Government 0: Business Group
Historical relationship with government (condition symbol: R) R: Present r: Absent	The historical influence of the government on group's development (Bonelli, 1998; Bresser-Pereira, 2009; Caldeira, 2012; Queiroz, 1972; Schneider, 2009)	1: Historical relationship present 0: Historical relationship absent
Business group diversification (condition symbol: N) N: >6 sectors n: ≤6 sectors	Number of sectors in which the group has businesses (Xavier et al., 2013)	1: more than six sectors 0: six sectors or fewer
Specific political tactics (condition symbol: P) P: Present p: Absent	Long term cooperation contract; purchase agreement; lobbying; personal relationship; commissioned research projects; contributions to politicians or party; paid travel or personal service; public relations or advocacy advertisement; corporate donations to political campaigns; hiring politicians for the board; participation of businessmen in public life; joint venture with state-owned company; shareholding agreement with the government (Guillén, 2000; Hoskisson, Johnson, Tihanyi, & White, 2005; Johnson & Amsden, 2001; Kock, Guillén, & Hall, 2001; Schneider, 2009)	1: Use of specific tactics to achieve political strategies 0: Absence of specific tactics to achieve political strategies

sector. Group B used financial incentives as political strategy (Hillman & Hitt, 1999) – for example, campaign donations and personal services and the information strategy (Hillman & Hitt, 1999) – ex-politician on the group's board. Group B has a strong historical relationship with the government and is the largest group in the sample. Prior to growth event 3, it already operated in the agribusiness, textiles, logistics, construction, real-estate developments and finance sectors. In 2001, Brazilian economy recorded a lower growth than expected, due to electricity rationing, and that same year government chose this group as the only beneficiary of the Priority Program for Thermoelectricity (PPT), which guaranteed access to natural gas at low prices for 20 years. As such, this diversification originated in the government. In addition, the group also received warranties that energy generated by their plants would be purchased by the government for that same period.

Another example is the expansion of a plant in the Northeast of Brazil, that belongs to group C. The group used the political strategy of financial incentives, which included campaign donations and hiring personal services. The decision to expand in the Northeast was taken because the family that controlled the group had real estate investments in the region and a close and long-standing relationship with the local government, which aroused interest in developing an industrial plant. Hence, this growth event originated in the group. In 2008, a long-term cooperation agreement was signed with the local government, which set out plans to improve industry development in the region. The group made direct contact with three local State Secretaries: Trade and Industry, Treasury and Environment, and Public Security. In 2010, a cheap credit line from BNDES (Program for Investment's Sustainability) was approved, giving access to R$ 2.7 billion. Additionally, the state where the factory was located was SUDENE's territory and, as such, industries in that region were entitled to a fiscal incentive of 74% exemption of income tax, along with another exemption known as Addition to Freight for the Renovation of Merchant Navy (AFRMM).

Table 4 describes the 17 diversification or expansion events, including the political strategies used by the business groups involved, and the set of conditions that accompanied growth.

Analyzing business groups' growth

We first built the best-fit model for group observations with the current conditions, using all possible combinations. As shown in Table 5, the best fit was found with the Y set (diversification vs. expansion). Data reveal that two groups were most common. Group one (**RNOp**), with five observations, presents the following combination of conditions: historical relationship with government: present (**R**); number of sectors: greater than six (**N**); origin of growth: government (**O**); and specific tactics to achieve political strategy: absent (**p**). Group two (**rnoP**), also with five observations, has the opposite configuration, where relationship, sector and origin were all absent (**rno**), but the use of specific tactics to accomplish political strategy was present (**P**).

The following step in data analysis sought to provide a sense of the overlap between outcomes and the set of conditions (Longest & Vaisey, 2008, p. 93). This was achieved using two

Table 4
Description of growth events of business groups.

Group	Sectors of activities	Political strategies often employed	Events	Description of diversification or expansion	Set of conditions linked to growth
A	(1) Agriculture, forestry, logging; (2) trade; (3) parts and accessories for motor vehicles; (4) financial intermediation and insurance; (5) transportation, storage, and postal services; (6) other services	Financial incentive strategy: campaign donation; personal services	(1) Reforestation sector	Origin of this diversification was a government initiative to develop the region through tax incentives. Group A was the first group to diversify in this region	Origin: Government; Number of sectors: 6; Specific political tactics: absent; Historical relationship: absent. **rnOp**
			(2) Seaport	Business group started this diversification due to the need to export timber. In 2009 group asked for government support in the form of a long-term cooperation. Project was financed by a public pension fund – PREVI, with cheap credit. Group received R$ 750 million in support from the federal government. Moreover, local government backed the project by improving local infrastructure.	Origin: business group; Number of sectors: 6; specific political tactics: long-term cooperation contract; historical relationship: absent. **rnoP**
B	(1) Textile; (2) clothes and accessories; (3) agriculture, forestry, and logging; (4) electricity and gas; (5) construction; (6) real-estate services; (7) financial intermediation and insurance; (8) services to companies	Financial incentive strategy: campaign donation; personal services; information strategy: ex-politician on group's board	(3) Energy sector	Group has a strong historical relationship with government. It is the largest group in the sample. In 2001, Brazilian economy had grown less than expected due to electricity rationing. Due to a personal relationship, group diversified into the energy sector. Government originated this diversification, by choosing the group for a program to stimulate electricity generation, which gave the group access to natural gas for 20 years, at low prices.	Origin government; Number of sectors: 8; specific political tactics: absent; historical relationship: present. **RNOp**
			(9) Internationalization of the textile sector and entry into retail	The origin of this diversification was the group's interest for growing. Entry in the U.S. market took place through a partnership with a local manufacturer. The group was supported in this effort by cheap credit from BNDES-Exim, which provided U$ 40 million for a distribution center in that country. Business group participates in Brazil-USA CEOs' forum, which facilitated relationships and business development in that country.	Origin: business group; number of sectors: 8; specific political tactics: lobbying; historical relationship: present **RNoP**

Table 4
(*Continued*)

Group	Sectors of activities	Political strategies often employed	Events	Description of diversification or expansion	Set of conditions linked to growth
			(14) Factory in the Northeast of Brazil	The origin of this diversification was the group's owner, and his business partner was a congressman. They asked for SUDENE's support to build the factory. In 1967, SUDENE and Minas Gerais Development Bank (BDMG) granted a loan of U$ 22.5 million of the 30 million needed	Origin: business group; Number of sectors: 8 sectors; specific political tactics: lobbying and personal relationship; historical relationship: present **RNoP**
			(15) Factory in the Northeast of Brazil	The government, through BNDES, was the origin of this expansion. The group had personal relationships with politicians. In 1983, BNDES invited the group to take over the assets of a company that had gone bankrupt. This expansion was supported by SUDENE, BDMG and Northeast tax incentives.	Origin: government; number of sectors: 8; specific political tactics: absent; historical relationship: present **RNOp**
			(16) Clothing and accessories	The origin of this diversification was the local government. The governor of one of the states in the Northeast of Brazil donated land to the group in an inner city of the state to build the new factory.	Origin: government; number of sectors: 8; specific political tactics: absent; historical relationship: present **RNOp**
C	(1) Energy and gas; (2) pulp and paper; (3) financial intermediation and insurance; (4) chemical; (5) transportation, storage, and postal services; and (6) services to business	Financial Incentive Strategy: campaign donation; personal services;	(4) Energy sector	One of the largest groups in the sample. Origin of this diversification was the group's interest in the energy sector. The group signed a long-term cooperation agreement with the government, and received investments and tax benefits.	Origin: business group; number of sectors: 6; specific political tactics: long-term cooperation contract; historical relationship: present **Rnop**
			(5) Chemical sector	The origin of this diversification was the federal government. Group had a partnership with other companies of the sector and BNDESPar, in a project to create an industrial pole in the Southeast of Brazil. Another group, controlled by the federal government, offered R$ 2.7 billion to buy the group's chemical arm (valued at R$ 1 billion) and got it	Origin: government; number of sectors: 6; specific political tactics: absent; historical relationship: present **RnOp**
			(12) Cellulose pulp factory in the Northeast of Brazil	The origin of this expansion was the group, which developed a relationship with federal and local governments to stimulate growth. There were family relationships between firm and state government, and a long-term contract was signed; state government offered special conditions for building the factory in the state	Origin: business group; number of sectors: 6; specific political tactics: lobbying; personal relationship; long-term contract; historical relationship: present **RnoP**

Table 4
(*Continued*)

Group	Sectors of activities	Political strategies often employed	Events	Description of diversification or expansion	Set of conditions linked to growth
			(11) Pulp factory in the Northeast of Brazil	A joint venture with BNDES. The origin of this expansion event was the business group; BNDES holds 27% of the preferential shares in one of the group companies; a long-term contract was signed with state government, which offered special conditions for building the factory in the state. This expansion received federal tax incentives with a 75% exemption of income tax	Origin: business group; number of sectors: 6; specific political tactics: shareholding agreement with government; long-term contract; personal relationship; historical relationship: present **RnoP**
D	(1) Rubber and plastic; (2) parts and accessories for motor vehicles; (3) trade; (4) maintenance and repair of machinery; (5) chemicals; and (6) trucks and buses	Financial incentive strategy: campaign donation; personal services	(6) Financial sector	The origin of this diversification was the group, which opened a bank to finance its final customers. In order to get credit approval from BNDES, the group started to act as a direct representative of the bank in the market.	Origin: business group; number of sectors: 6; specific political tactics: joint-venture with state-owned firm; long-term contract; historical relationship: absent **rnoP**
			(8) Internationalization to Egypt	The origin of this expansion was the group's interest in internationalization. Group approached federal government through an industry association, thus developing a relationship, which led to financial support from BNDES.	Origin: business group; number of sectors: 6; specific political tactics: lobbying; historical relationship: absent **rnoP**
			(10) Portfolio product	The origin of this expansion was the group. It developed a relationship with the federal government, through an industry association and a personal relationship, which lobbied the government to convince it t to acquire a customized product for serving the rural population. Group was supported by BNDES, which financed the program, and received tax incentives and exemptions.	Origin: business group; number of sectors: 6; specific political tactics: lobbying; personal relationship; historical relationship: absent **rnoP**
E	(1) Machinery and equipment, including maintenance and repairs; (2) trade; (3) transport; (4) financial intermediation and insurance; (5) information services; (6) services to businesses; (7) repair and maintenance services; and (8) electronic material and communication equipment	Financial incentive strategy: campaign donation; personal services; information strategy: ex-politician on the group's board	(7) Electronic and communication equipment	Business group, one of the largest in our sample, has a strong historical relationship with the government. Group entered the satellite industry through a joint venture with a state-owned firm. The origin of this diversification was the federal government's National Program for Space Activities, through a direct request for a project that developed a geostationary satellite.	Origin: government; number of sectors: 8; specific political tactics: joint-venture with state-owned firm; historical relationship: present **RNOP**

Table 4
(*Continued*)

Group	Sectors of activities	Political strategies often employed	Events	Description of diversification or expansion	Set of conditions linked to growth
			(17) Equipment and machinery	Business group entered the submarine sector through partnership with a small Brazilian enterprise with expertise in nuclear generation of electricity. This enabled the group to participate in a Brazilian Navy project. The origin of this diversification was the government.	Origin: government; number of sectors: 8; specific political tactics: absent historical relationship: present **RNOp**
F	(1) Perfumery, hygiene, and cleaning; (2) transport; (3) information services; and (4) agriculture, forestry, and extractive	Information strategy: lobbying	(16) Expansion: increased product portfolio through the opening of two factories in the North of Brazil	The origin of this expansion was the business group. It approached federal and local governments, built relationships with politicians to enable the project, and developed public policies in the region; received tax exemption and benefits, along with permits from environmental authorities. Through a long-term contract, the group got tax reductions for all of the factories' products.	Origin: business group; number of sectors: 4; specific political tactics: lobbying; long-term contract; historical relationship: absent **rnoP**

Table 5
Best fit for Y set.

Best fit	Freq.	Percent	Cum.
RNOp	5	29.41	29.41
RNoP	2	11.76	41.18
RnOp	1	5.88	47.06
RnoP	3	17.65	64.71
rnOp	1	5.88	70.59
rnoP	5	29.41	100.00
Total	17	100.00	

Notes: Capital letters indicate that the attribute is present and lower case letters indicate its absence. R, historical relationship with government; N, group active in more than six sectors; O, growth event originated in government; P, use of specific political tactics.

Table 6
Coincidence matrix.

	Y	R	N	O	P
Y	1.000				
R	0.467	1.000			
N	0.385	0.636	1.000		
O	0.385	0.500	0.556	1.000	
P	0.400	0.312	0.133	0.000	1.000

Notes: Capital letters indicate that the characteristic is present and lower case letters indicate its absence. Y, growth through diversification; R, historical relationship with government; N, group active in more than six sectors; O, growth event originated by government; P, use of specific political tactics.

Table 7
Sufficiency and necessity matrix.

	Y	R	N	O	P
Y	1.000	0.636	0.455	0.455	0.545
R	0.636	1.000	0.636	0.545	0.455
N	0.714	1.000	1.000	0.714	0.286
O	0.714	0.857	0.714	1.000	0.000
P	0.600	0.500	0.200	0.000	1.000

Notes: Y, growth through diversification; R, historical relationship with government; N, group active in more than six sectors; O, growth event originated in government; P, use of specific political tactics.

matrices: a coincidence matrix and a sufficiency and necessity matrix. As can be observed in Table 6, the highest degree of overlap was between a historical relationship with government and involvement in more than six sectors, with coverage of 64%.

The sufficiency and necessity matrix (Table 7) shows which single set is most likely to predict another single set. By focusing on the outcome **Y** (diversification), we observed that two sets have equal scores (0.714). Specifically, groups active in more than six business sectors (**N**) and situations in which the origin of growth was the government (**O**) indicate diversification. With regard to the relationships between condition sets, we noted that a number of sectors greater than six is capable of entirely predicting a historical relationship with the government (1.000).

We tested the sufficiency of all observed configurations of **R**, **N**, **O** and **P** against our outcome (**Y**). We interpreted test results in accordance with the premises set out by Ragin, who stated

Table 8
Final reduction sets – coverage and consistency.

Solution	Set	Raw coverage	Unique coverage	Solution Consistency
1	n*o*P	0.364	0.273	0.500
2	n*O*p	0.182	0.091	1.000
3	R*o*P	0.273	0.182	0.600
4	R*O*p	0.364	0.273	0.667

Total coverage = 1.000/solution consistency = 0.647.
Notes: R, historical relationship with government; n, group active in 6 sectors or fewer; o, growth event originated by business group; O, growth event originated by government; P, use of specific political tactics; p, no use of specific political tactics.

that "consistency scores should be as close to 1.0 (perfect consistency) as possible. With observed consistency scores below 0.75, it becomes increasingly difficult on substantive grounds to maintain that a subset relation exists" (Ragin, 2006, p. 293). Three of the tests (Y-Consistency against N-Consistency, Y-Consistency against All Other Y-Consistency, and Y-Consistency against Set Value) returned consistency levels equal to 0.600, for solutions with more than two observations. This is an average result for consistency in our model.

Longest and Vaisey (2008) propose that the subsequent step is to verify common solutions and reduce them to a short logical recipe. For our data, the "common" command returned the following list of combinations: **rnoP**, **rnOp**, **RnoP**, **RnOp**, **RNoP** and, **RNOp**.[4] We then used the "reduce" command to achieve a reduced final solution set and its accompanying coverage statistics (Longest & Vaisey, 2008). Table 8 shows the output of this process.

As shown in Table 8, results exhibit medium solution consistency for four minimum configuration sets. We can extract some logical statements from the final four solutions. When growth originated in the government, the absence of specific tactics to achieve political strategies was always part of the solution. In contrast, when growth originated in the group, the presence of specific tactics to achieve political strategies was always observed. This reverse overlap shows that origin of growth and use of a specific political strategy are empirically incompatible conditions for diversification, according to our data. Although one or other of these combinations (**o*****P** and **O*****p**) appear in all solutions, they, alone, could not predict **Y**. Each of them was observed twice, in combination with a number of sectors less than or equal to six, and presence of relationship with the government. Finally, it is possible to state, in logical terms, that **o*****P** and **O*****p** are necessary but insufficient conditions to generate **Y**, since they must be combined with either **n** or **R** to result in growth through diversification.

In the next section we discuss some of the theoretical contributions that can be drawn from our analysis.

[4] The following theoretically possible logical combinations were excluded because they did not occur in any of the empirical observations: "rnop", "rnOP", "rNop", "rNoP", "rNOp", "Rnop", "Rnop", "RnOP", "RNop" and "RNOP".

Discussion

Despite the growing interest in the role that political strategies play in business groups' growth, we do not yet know which conditions underlie different types of growth (Schneider, 2009). In our study data shows the existence of historical relationship with government, origin of growth (whether initiated in the group or in the government), degree of business group diversification, in terms of number of different sectors, and use of a political strategy as conditions that may be necessary or sufficient for growth through diversification into new markets, with the expansion of existing operations as counterfactual.

The first and third solutions seem to extend ideas related to the antecedents proposed by Hillman, Keim, and Schuler (2004), regarding growth via diversification; these authors proposed that the higher the firm's level of diversification, more likely the firm will use an on-going relational approach to corporate political activity. The use of specific tactics for political strategy, combined with the decision to grow originating in the group, rather than in the government, is another important contribution aligned with existing literature. Business groups diversify because they want to become large enough to exert influence on governmental actions (Schneider, 2009). If a business group intends to grow, but does not use specific tactics for political strategy, it will be more difficult to diversify, and harder to influence government actions. The tactics for achieving political strategy that we have mentioned in this paper are already known (Baron, 1995; Hillman & Hitt, 1999; Hillman et al., 2004; Oliver & Holzinger, 2008); but the contribution of this research is to demonstrate that the use of specific tactics to achieve political strategies leads to business groups' diversification, if they are taken together with other conditions, such as the government not being the origin of growth, and the group keeping a historical relationship with the government.

Despite difficulties that hamper the measurement of direct effects of political strategy, because it has a complex set of variables (Hillman et al., 2004), we were able to identify some important tactics used to achieve business groups' diversification. For example, in event 9 the political strategy tactics was lobbying. Used in combination with the political strategies commonly employed by the group – the financial incentive strategy (campaign donations and personal services), the information strategy, and the strategy of building personal relations, by appointing ex-politicians to the group's board (Hillman & Hitt, 1999) – it proved possible to diversify. Another example was event 14, in which the tactics for political strategies were lobbying and personal relationships, which, combined with the same other strategies mentioned above, enabled diversification.

Based on solution 4, it is reasonable to assume that governments will select business groups whose relationship strategy rests on long-term ties of trust. These trusted partners will help them implement public policies, compensate for market failures (Khanna & Palepu, 1997) and achieve their political goals (Yiu et al., 2007). At the same time, in exchange, the business group wants to have access to subsidies and protection against foreign competition (Evans, 1995; Wade, 1990), while increasing its sales and profits. Moreover, the historical relationship between business groups and government in Brazil is accepted as a phenomenon rooted in national culture (Aldrighi & Postali, 2010; Bonelli, 1998), for which there is plenty of evidence in the history of Brazilian business groups. According to 2007 data, of the 29 largest Brazilian business groups 18 were founded in the 1960s. From this set, 14 began as state-owned companies, and nine of them had since been privatized (Aldrighi & Postali, 2010).

Solution 2 highlights the fact that if governments initiate actions, it is unnecessary for a business group to employ any specific political tactics, even when the group has a low level of diversification. Diversification event 5, described in Table 4, is an example of this set of conditions that generate the outcome explained above. In our view, it is plausible to say that the government chooses a business group to enter new sectors, giving less priority to market leaders. Literature states that emerging economies' environment stimulates not only diversification of small business groups, but also unrelated diversification (Guillén, 2000). While literature suggests that governments influence the growth of business groups (Schneider, 2009), it addresses the subject generically. We help to fill this gap by explaining how it takes place, suggesting that business groups that have a historical relationship with the government usually rely on governmental actions to ensure diversification.

Conclusion

This research contributes to studies of political strategy and business groups (Bandeira-de-Mello & Marcon, 2011; Costa et al., 2013; Queiroz, 1972; Schneider, 2009; Xavier et al., 2013), by providing an explanation and an empirical demonstration of the conditions that underlie the growth of groups. We found that there is a necessary set of conditions for growth through diversification. First, a historical relationship between the business group and the government is an important condition for growth. In addition, it can be combined with specific tactics of political strategies or with government initiative to support the business group's growth via diversification. Future research should use the categories that emerged in this paper as conditions, and test them in different contexts, in order to verify if they also explain the growth of business groups.

Conflicts of interest

The authors declare no conflicts of interest.

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