Big Business in the BRICs

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Abstract

The growing importance of Brazil, Russia, India and China in the global economy is reflected in the increasing weight of their companies in Fortune Global 500 rankings. Gaining greater knowledge of the characteristics of large firms that dominate the global economy is inherently an important endeavour. Uneven access to data and information makes understanding the strategy, structure, ownership and performance of large business an ambitious programme of research. When it comes to the analysis of the BRICs limitations are even greater. The BRIC economies are different from each other and this is also true as far as the heights of their respective business worlds are considered. But they also share some crucial features: concentrated ownership, with governments and families at the helm, diversification and internationalisation.

Keywords: Brazil, Russia, India, China, big business, strategy, structure, ownership.

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Introduction

The world has changed in the first decade of the 21st century and it would be far beyond the modest ambitions of this chapter to explore why the single largest change in the contemporary world has been the rise of post-WTO China and other emerging economies, and not the clash of civilizations that some pundits were predicting after 9/11. One particular domain in which great changes have occurred is in the composition of the universe of large global companies (Table 1). From 27 in 2005 (the first year for which the Global *Fortune* 500 listing is available online), the number of BRIC (Brazil, Russia, India and China) entries skyrocketed to 96 in 2012. While the increase is much more spectacular for China – that by 2012 has more entries than any other country except the United States – it has been steady for each BRIC (with the exception of Russia that lost two firms in 2009-10). In addition, the largest firm in each BRIC – always the same and invariably an oil company – has constantly climbed the global rankings, with the exception of 2009-10 for Gazprom, Indian Oil and Petrobras. As far as headquarters are concerned, only Tokyo and Paris host more Global 500 companies than Beijing.

Table 1. BRIC companies in Fortune Global 500
(number of companies and global ranking of the largest company)

	Brazil		**Russia**		**India**		**China**	
2005	3	125	3	139	5	170	16	31
2006	4	86	5	102	6	153	20	23
2007	5	65	4	52	6	135	24	17
2008	5	63	5	47	7	116	29	16
2009	6	34	8	22	7	105	37	9
2010	7	54	6	50	8	125	46	7
2011	7	34	7	35	8	98	61	5
2012	8	23	7	15	8	83	73	5

Source: *Fortune*.

This development challenges the convergence expectation that dominated much Western thinking only two decades ago. With the victorious end of the cold war, the world economy seemed such a pleasant place, with heterogeneity and differences on the way out, homogeneity and convergence toward the Washington Consensus and *laissez faire* capitalism on the way in. Yoshihiro Francis Fukuyama wrote that "the century […] seems at its close to be returning full circle to where it started […] an unabashed victory of economic and political liberalism"; privatization and the demise of the state figured highly in John Williamson's Washington Consensus catalogue. The view that there is only one way to organize economic activity

at the nation's level extended in fact also to the internal organization of private business – ownership, governance, strategic orientation, etc. It was Paul Krugman who reminisced: "I am (just) old enough to remember the conglomerate-building era of the 1960's, an era that ended so badly that many thought the word 'synergy' would be permanently banned from the business lexicon." The 1997-1998 East Asian financial crisis provided additional ammunitions to convergence-towards-America supporters: corporate governance failures were blamed for the crisis and major international institutions requested "countries accepting financial assistance […] to commit to fundamental reform of their corporate governance system, in the direction of the American model" (Gibson 2001, p. 331).

Did all this talk convince decision-makers in emerging economies that it was time to shelve their pragmatic dreams and stop policy experimentation? The big success stories of business in the BRICs suggest that multiple socio-cultural and politico-economic forces accompanied the transition from post-WWII regulation of business to increasingly free – although not necessarily private – enterprise. This paper examines overall changes in the business environment and assesses the role of government and politics in shaping the structures and strategies of big business. It shows that government intervention remains pervasive in the BRICs and that this sometimes constrained and sometimes propelled the rise of modern business practices. In addition, it explores the longevity of diversified family-controlled business groups as the main form of corporate organization in emerging economies, including the BRICs.

A framework

As the late Alfred Chandler, for four decades the influential professor of business history at Harvard Business School, forcefully advanced in his writing, the large corporation is the productive engine of the modern industrial world. In fact, we still live in a world of large firms (Chandler 2005). From Google, Microsoft and Apple to Wal-Mart and Ikea, from Boeing and Airbus to the majors that dominate the global oil industries, and almost any manufacturing or service sector, large corporations make a myriad of business, economic, social and political decisions that influence the world we live in.

Bigness, primarily in undiversified firms, has many benefits in terms of economic growth (Chandler *et al.* 1998). They range from exploiting economies of scale and being the "locus of learning for the initial development and continued enhancement of their product-specific intangible organizational assets", to being the core of a "network of suppliers, equipment makers, retailers, advertisers, designers..." and the "primary driver of technological advancement through their heavy investment in research and development activities" (p. 26). For Dosi, "there are size thresholds for the ability of firms to internalize the capabilities of mastering the activities of innovation, production, and marketing in complex products, so that, other things being equal, 'bigness' confers a differential advantage" (p. 466).

Of course, that bigness is important does not mean that smallness is not, nor that bigness cannot have negative implications. Although it is very hard to measure the role played by big business in promoting economic growth, in a rigorous attempt big firms are found to have a significant positive effect on economic growth, both in terms of the number of big businesses and their sales volume in each country (Lee *et al.* 2011). Mahmood and Mitchell (2004) argue that there is an inverted-U relationship between group concentration and innovation. In practice the most productive form of capitalism involves a synergistic combination between large and small firms and allows for "creative destruction" (Baumol *et al.* 2007).

Against this background, gaining greater knowledge of the characteristics of large firms that dominate the global economy is inherently an important endeavour and should be a priority for economists. Unfortunately, the tendency in standard models is to abstract these powerful firms into general economic models, or absorb them as single anonymous data-points into large statistical samples, rather than to treat them as concrete actors (Teece and Winter 1984). Hence the importance of identifying large firms

clearly, so that both their aggregate and their individual behaviours can be easily traced and their strategy, structure, ownership and performance (SSOP) understood (Whittington 2011).

The main axes of this literature are the following:

- In terms of ownership, a) private versus public, b) domestic versus foreign, and c) dispersion versus concentration;
- In terms of strategy, d) related diversification versus single-business specialisation and e) internationalisation versus domestic market focus;
- In terms of organisational structure, f) Chandlerian multidivisionalisation versus variants of the traditional and unsystematic holding company organisational structure and g) internal versus market-based processes for executive jobs.

The SSOP tradition does give a specific drift to the development dimension, i.e. to the possible peculiarities of business in lower-income, non-OECD countries. From another perspective, Amsden's list of common traits of successful late industrializers ("the rest") is relevant: ownership is characterised by government intervention and domestic firms, strategy by large-scale diversification, organisation by the group structure. In addition, the varieties of capitalism approach has shown how 'hierarchical market economies' have a distinctive way of organizing supply arrangements, structuring corporate governance and securing financial resources (Schneider 2007). Compared to industrial countries, in emerging economies, orders and directives from government, as well as other non-economic factors such as ethnic and religious ties, bear greater influence over relations between large firms and other actors than market incentives.

Big Business in the BRICs … Before They Knew They Were the BRICs

The BRIC economies are different from each other and this is also true when examining the heights of their respective business worlds nowadays. The situation aound 1990 was similar and could be summarised as follows.

a) In terms of ownership

- The government exercised wide-ranging control over the industrial sector through a mix of legislation and ownership (including of banks and financial institutions that invest in commercial organizations); in fact state ownership (although in most cases they were legally ministerial departments) was the only form of production in China and Russia, and accounted for 44% of the total turnover of the largest firms in Brazil (Siffert and Souza e Silva 1999).
- With the exception of Brazil – where there were 27 foreign firms among the top 100 – subsidiaries of foreign multinationals played almost no role in the heights of corporate power.
- In the universe of big business, private, listed or unlisted, companies were in practice a residual category. The main shareholders in both Brazil and India were families, representing 27% of the 100 largest companies in Brazil.

b) In dimensional terms

- BRIC corporations were, on average, relatively big. In particular, Chinese and Soviet corporations employed thousands of people and their plants "were deliberately designed as the largest in the world" (Yudanov 1997, p. 403).
- Still, very few of them had a turnover comparable with those listed in the Fortune 500. Only one (from India) was among the global 500 in 1962 (Chandler and Hikino 1997, p. 53), although by the early 1970s "Petrobras had become one of the hundred largest corporations in the world (Evans 1979, p. 217). In 1990 Tata Steel had a turnover of US$1.3 billion, versus US$17.6 for Usinor-

Sacilor, then the world's most global steelmaker. Even in 2003, the first year for which the *Fortune* China 100 is available, the combined turnovers of the 25 largest companies was barely equal to that of Wal-Mart and the largest (CNPC), would have ranked 20th in the US.

- Managerial structures were relatively unsophisticated. In SOEs, top management mostly had a engineering background and normally in-house career path; private business in Brazil and India was still mostly run by first-generation, self-made moguls such as Emirio de Moraes or Dhirubhai Ambani.[2] In India at least, religion and ethnicity played an important role: as late as 1997, fifteen of the twenty largest industrial houses were of *vaishya* or *bania* trading caste, and eight were Marwari.

c) In terms of strategy and structure

- The prevalent strategies were based upon related diversification (for private firms) or prevailing activity (for SOEs) in Brazil and India, while in the socialist economies the most common behaviour was the single business strategy, supplemented by the responsibility of providing a plethora of non-core activities such as education and health.
- The consequence was, as can be expected, a slow diffusion of multi-divisional structures in Brazil (Rago 2008) and India (Kudaisya 2003).
- Another structural characteristic of BRIC large firms was the low degree of internationalisation – even if some early episodes of outward FDI had taken place in the previous decades (Wells 1982), in 1990 none appeared in the UNCTAD ranking of the largest 100 non-financial transnational corporations by foreign assets.

Ownership, Structure, Strategy and Governance in the 21st Century

In theory, the landscape of big business in the BRIC at the end of the 2010s should bear little resemblance to the 1990s. Globalization, structural reform (especially privatization), re-regulation, continuing government promotion and "financiarization" have all shaped decisively the emerging corporate giants. In practice, however, path dependence and deliberate policy action have combined to maintain most of the ownership and structure (and at least some of the strategy and governance) that prevailed in the previous period.

Analyzing responses of large business to global change therefore amounts to an ambitious programme of research at any latitude, in the face of uneven access to data and information. When it comes to the analysis of large emerging economies, and the BRICs in particular, limitations are even greater. To the extent that this paper is based on four different rankings of large companies and that there is great variance in data coverage (Table 2), the findings are indicative only. Nonetheless, the general contours are clear.

Table 2. Data on big business in the BRIC

	Brazil	Russia	India	China
Year	2010	2007	2010	2009
Industry coverage	Non-finance	All	All	All
Ownership coverage	All	All	All	Domestic
Source	*Exame*	RA Expert	*Fortune India*	China.org.cn

[2] Second-generation groups included Tata and Birla in India.

Ownership

With the exception of Brazil, big business in the BRIC remains dominated by domestic firms (Table 3). Obviously this finding must be interpreted with a lot of caution, in view of the exclusion of foreign companies from the Chinese ranking, but it also reflects the fact that most inward FDI over the past 15 years or so has been export-directed.[3] The private sector accounts for almost ¾ of the top 100 firms' sales in Brazil and for slightly more than ½ in India; it is marginally smaller than the government in Russia and almost non-existant in China.

Table 3. Top 100 companies' sales in the BRICs, by ownership

	Brazil	Russia	India	China
Domestic	57.32	91.53	96.83	100.00
Government	*28.02*	*51.74*	*47.96*	*95.25*
Private groups	*29.30*	*39.79*	*41.02*	*4.75*
Independent			*7.85*	
Foreign	38.83	3.67	3.17	..
Joint Ventures	3.85	4.81	..	..

Sources : *Exame*, RA Expert, *Fortune India* and China.org.cn.

In Russia there are six oil companies (including state-owned Gazprom, Rosneft and Surgutneftegaz) among the top 19 companies by turnover. The Kremlin has turned scattered companies into national champions. Rosneft took over most of Yukos from Mikhail Khodorkovsky, once Russia's richest man, and Gazprom bought Sibneft from Roman Abramovich. There is an equivalent number of mining and minerals ones born from the ashes of Soviet *kombinat* (controlled by oligarchs such as Mikhaïl Prokhorov, Alexeï Mordachov and Roman Abramovich), together with seven services companies. It is only in the 20th position that one can find a manufacturing firm, TAIF, and in 32nd a foreign-owned entity, Ford.

Industry-led financial-industrial groups (FIGs) emerged early in the privatization process. Bank-led FIGs emerged later, in relation to auctions initiated by President Yeltsin favoring (some) buyers. The reach of the state has further expanded since 2008: VTB Bank, for instance, acquired 50% plus one share of the DON-Stroy Group in 2009. Russian Technologies rolled up hundreds of state companies, many of which had little to do with technology, into a vast conglomerate. As a result the Russian state once again controls the commanding heights of the economy – only this time through share ownership and cajoling, when not outright persecution (the Khodorkovsky saga), rather than directly.

[3] With a lower degree of precision, in all likelihood no foreign firm other than the car makers (for which such data are not available) generates sufficient China sales to qualify for the top 100 listing. Sales of five of the world's largest companies with large operations in China range from US$7.5 billion for Wal-Mart to US$3.1 billion for Nestlé, with Siemens, General Electric and Procter & Gamble falling in between; 100th–ranked Beijing Railway had sales of US$8.3 billion. On a similar vein, Fosun International, China's largest private conglomerate, is not included in the ranking, but with sales of Rmb56.8 billion it would not be included in the top 100.

India is *prima facie* similar – for 2010, among the top 11, there were seven state-controlled enterprises (four in petroleum, one each in banking, mining and power) and, ranked 2nd, Reliance Industries, the energy and petrochemical private group. The two largest manufacturing companies among the top 11 are Tata Motors (5th) and Tata Steel. Maruti Suzuki was the largest foreign-owned company and ranked 19th only. Among the world's largest multinationals, only in the case of Unilever India has always been a very important location (Jones 2005, pp. 169-74).

Nonetheless, it would be imprecise to consider each Indian firm among the top 100 as a stand-alone corporate entity. In most cases, they belong to diversified family-controlled business groups and operate according to a different logic than traditional Western companies. Such business affiliates account for more than 70% of corporate sector assets. The most famous case is Tata, which groups dozens of firms in almost every sector, each of them applying a series of group-wide principles established in more than a century of existence (Goldstein 2009). Managers often rotate across different firms and other functions are performed centrally. The combined revenues of the six Tata firms (6th–ranked Tata Motors, 8th Tata Steel, 20th TCS in ICT, 40th Tata Power, 68th Tata Comm and 71st Tata Chemicals) equal 10% of the top 100 sales.

Brazil is yet another reality, more heterogeneous. In 2010 the two largest firms were in the petroleum industry, Petrobras (upstream) and BR Distribuidora (downstream), both controlled by the state albeit listed on the stock exchange and with sizeable stakes in the hands of private investors. Volkswagen in 5th place was the largest multinational and four more, all European (Fiat, Ambev, Shell, and Vivo), were in the top 10, together with three private, Brazilian firms, including Vale in third place. These seven multinationals, plus the four next largest (General Motors, Walmart, Arcelor Mittal and Ford), make more than 9% of their global sales in Brazil. There are four other local corporation ranked between 11th and 20th. While business groups exist, they are far less important and widespread than in India.

In China, all entries bar five (Huawei, Ping An Insurance, Haier, Suning Appliance and Gome) correspond to state-owned enterprises. Petrochina and China Mobile alone recorded aggregate 2009 profits that were higher than for the 500 largest private companies in China! In fact not a surprising result when considering that China Mobile and two other state-owned companies, China Unicom and China Telecom, carve out the huge and very lucrative telecom market (in India, which is comparable in size, there are more than a dozen national operators), or that Petrochina pays land €20 cents per square meter, well below the market value. Control by the government is never far away. This model provides the government with continuing control of enterprises critical to the functioning of the economy. In particular, it facilitates the execution of big capital projects such as high-speed railways, steel plants, telecommunications networks and ports.

In China state influence takes a variety of forms (Table 4). In a way the large SOEs that attract most interest are rather uncontroversial: they operate in sectors that are frequently state-dominated and the government (and the Party) are adamant that they intend to maintain control for the foreseeable future. Similarly for joint ventures and start-ups, despite contact negotiation between the parties there is clarity that these are not private entities. The "strange new beast […] both commercial and communist at the same time" (McGregor 2010, p. 53) are the global champions like Haier, Huawei and Lenovo, "in which managers and workers own the company's shares under the supervision of the local government" (*ibid*., p. 202). In addition, the People's Liberation Army has historically been involved in several business ventures, many of which are organized as business groups (Cheung 2004).

Table 4. Varieties of state capitalism in China

Typology	Characteristics	Examples
Large SOEs	Operate in capital-intensive sectors, as monopolies or	ICBC, China Construction Bank, China Mobile, Unicom, CNPC

	oligopolies; minority stakes sold in IPOs on foreign exchanges.	
Joint ventures	Foreign MNEs given market access in exchange for technology	Shanghai Volkswagen, DHL Sinotrans
Private companies with some state influence	Often in new markets with no SOEs	Huawei, BYD, Geely, Chery
Companies backed by publicly-owned investment funds	Investors include foreign private equity and venture capital funds, as well as city and province governments	Shanghai Environment, Nanhai Development, Digital China

Source: "Capitalism confined", *The Economist*, 3 September 2011.

Corporate ownership remains highly concentrated in all BRICs, although with variance that reflects different ownership typologies. Under the impulse of SASAC (State-owned Assets Supervision and Administration Commission), property right management of Chinese SOEs changed significantly in recent years. More than 1,000 large SOEs, controlling high-quality assets, have listed either locally or internationally. SASAC typically owns 100% of the shares in the holding company. The holding company in turn owns a smaller proportion of shares in the listed subsidiary. For instance PetroChina, with a listing on the New York Stock Exchange, is the international division of China National Petroleum Corporation. In the overwhelming majority of cases, the public sector has remained the largest shareholder: among the 100 largest listed companies, when the state is the largest shareholder its stake is on average almost 50% (Bianco 2010). In fact, out of 1,453 A-share companies listed on the Chinese stock market in 2007, as few as six were widely-held, with contestable control (Amit *et al.* 2010).

While the degree of separation between ownership and control is somewhat higher in the other BRICs, it remains much lower than in most OECD countries. In the Brazil, the largest shareholder had a 50.3% stake in 2004, marginally declining to 49.2% in 2008 (Aguilera *et al.* 2012); for Russia, the largest direct shareholder owns 46.2% and the percentage of voting shares tied up in blocks over 5% is, on average, 70.7% (Chernykh 2008); in India, irrespective of the type of ownership affiliation, holdings by promoters constitute the single largest block – 50.2% for group affiliates, around 46% for standalones and the highest, 62.4%, for foreign firms (Sarkar 2010).

Structure

As already noted in the case of India, business groups – large, often family-controlled organizations consisting of legally independent listed and unlisted firms operating across diverse industries and controlled through pyramidal ownership structures – are ubiquitous in emerging economies (Colpan *et al.* 2010). Business groups have been criticized as premodern forms of economic organization, at best a second-best substitute for weak institutions (the legal system, public capital and legal markets) and for weak governments in coordinating Big Push growth programs to establish numerous interdependent industries simultaneously (Khanna and Yafeh 2007). These groups, so the argument goes, place the governance of large swathes of many countries' big business sectors in the hands of a few of their wealthiest families. These have too cosy a relationship with the government and opaque corporate governance arrangements, being in fact synonyms of corruption and crony capitalism, in short a drag on

national development.[4]

The pervasiveness of such structures – despite a decade of reforms to promote convergence towards dispersed share ownership, contestable markets for corporate control and Anglo-American management and governance practices – suggest that agency problems and political rent-seeking, while they exist, are not the only features of these groups. Missing or underdeveloped economic institutions still provide a rationale behind their remarkable resilience and ability to adjust to economic and political turbulence, international competition, and technological change. Despite profound changes in the operating environment, indigenous business groups have shown both resilience and continuous adaptability at the margin with respect to strategy and structure and remained the dominant players. Policies and state actions – especially regulatory policies and overall development strategies – promote and sustain business groups (Schneider 2009).

The Tata and Birla groups in India, created by indigenous entrepreneurs during the time of the British Empire, confirm the value of interested owners whose overriding aim is to ensure the long-term health of the company. Tata, possibly the quintessential family-owned business group, reduced the number and range of sectors in which it is active, but has also continued to explore new possibilities and promote interesting business (Goldstein 2009). As a matter of fact the success of TCS in the globally competitive software industry is a vivid testimony that business groups can coexist with specialist firms (e.g. Wipro and Infosys) focused on a particular industry (Khanna and Palepu 2005). On the other hand, the Reliance soap opera also shows that a feud between heirs may jeopardize the stability and credibility of a nation's corporate sector (McDonald 2010). Clusters of business groups in India formed around ethnic, religious and social communities, for example, the Marwaris of Rajasthan formed businesses in Bengal and elsewhere; the Gujeratis in the West, the Chettiars in the South, etc.

In China, "business groups are vertically integrated firms focused on a particular industry or sector, not diversified groups involved in a wide range of industries" (Lin and Milhaupt 2011, p. 13). Lee and Jin (2009) show the market forces, state-activism, and the firm's voluntary responses have driven the growth of "vertical" business groups. The Party state initially encouraged companies to band together into industry clusters by giving them preferential access to contracts and stockmarket listings. In recent years there is evidence that groups are becoming more "horizontal".[5] Under Beijing's 2009 stimulus, the government moved to support the economy by increasing bank loans. State-owned enterprises were the biggest beneficiaries, considered by banks to be more attractive borrowers than were private companies. When competition in their core business intensified, industrial groups started taking loans and branching out in other higher-return sectors. Baosteel Group, the world's third-largest steelmaker, has extensive subsidiaries that span a range of industries from real estate to telecommunications to manufacturing. Half of its net profit in 2011 came from non-steel businesses – up from 20% the previous year. Wuhan Iron & Steel, China's fourth-largest steelmaker by production, is investing $4.7 billion over the next five years in non-steel sectors, including pig, fish and organic vegetable farming as well as logistics and chemicals. Grains trader Cofco has channelled its access to funds into building luxury hotels in Beijing; copper producer Tongling is expanding into other base metals and timber; Ansteel has moved into coal while Maanshan, a large mill in central China, has invested in wheel and axle manufacturing.

Large, privately-owned conglomerates owned by wealthy individuals ('oligarchs') formed in the institutional void of the mid-1990s continued to dominate the Russian economy in the 2010s, despite regime change and the slow transition to a more stable business environment. Brazilian capitalism is similarly described as a "small world", where different actors "use relationships to explore market opportunities or to influence certain important decisions" (Lazzarini 2011, p. 4, own translation).

[4] If sufficiently large, they may also add to economy volatility by rendering the risk of misgovernance systematic, rather than firm-specific.

[5] "Chinese steel groups forced to diversify to grow profits," *Financial Times*, 21 March 2012.

Internationalization

In the broader context of the explosion of outward FDI from emerging economies (Goldstein 2007), the degree of internationalization of BRIC big business has substantially increased. Some of them, ranked by foreign assets, are CITIC and COSCO in China, Gazprom and Lukoil in Russia, Petrobras and Vale in Brazil, ONGC Videsh and various Tata companies in India.

The BRIC multinationals have developed various ownership-specific advantages – global brand names, management skills and competitive business models – that allow them to be competitive in foreign markets as well as in their own markets. In China, Huawei, a telecoms-equipment firm, is the world's largest holder of international patents, while Haier, an appliance manufacturer, boasts 9,258 patents and 2,532 certified inventions; thanks to its prowess in ultra-deep exploration, Petrobras has twice won the Offshore Technology Distinguished Award.

In organizing their expansion abroad, BRIC MNEs have sought to establish portfolios of locational assets as increasingly important sources of their international competitiveness. Initially, firms from BRIC expanded mainly into their own region, often into countries with which they had close cultural links. Over time they have become much more daring in their international forays, targetting technology, engineering know-how and established brands. Europe has become a natural hunting-ground for industrial companies looking to move up the engineering value chain, for instance in clean technology. Suzlon, a Indian wind-turbine manufacturer, bought a Belgian designer called Hansen Transmission in 2006 so it could develop bigger turbines for its domestic market; in 2011 China National Chemical Corporation clinched the $2.2 billion purchase of Elkem, a Norwegian manufacturer of polysilicon, which is a key component of solar panels. Following the acquisition of Tetley, a beverges company, of Corus, a steelmaker, and of Jaguar Land Rover (JLR), a carmaker, Tata Group is considered to be the largest foreign investor in the UK.

Nonetheless, the importance of developed Western economies in this process should not be exaggerated. China has largely concentrated its investments to date on developing regions that secure energy supplies and natural resources. Some of the largest Brazilian MNEs have focused on Latin America, either to build size and consolidate specific global markets (e.g. JBS for meat packing), or to apply successful business models in similar markets. Bharti Airtel purchased the African assets of Zain to replicate its successful pre-paid mobile-telecom model.

Especially in China, and elsewhere to a lesser extent, state capitalism and supportive government policies have been at the heart of the rise of BRIC's outward FDI. Domestic enterprises have received financial support from state banks. Through the so-called Angola mode, China's Eximbank offers poor countries soft loans for infrastructure projects (usually built by China's contractors) in return for a guaranteed supply of oil or some other raw material (Aguilar and Goldstein 2009). BNDES, the Brazilian development bank, has assisted companies in Latin America and Africa, especially Lusophone countries such as Angola and Mozambique. Even nominally private companies such as Huawei that have chosen to expand organically by exporting and building operations on the ground have been supported by the Chinese state. The globalisation of Indian firms owes more to changing domestic conditions such as the deregulation of finance and to leveraged takeovers. These firms used money borrowed largely from Western banks and money markets, in some cases secured only against their targets' cashflows. As the global crash began, their refinancing options dried up and the target firms' profits slumped in most cases.[6]

The Chinese model of state support for outward FDI is partly explained by scepticism regarding Western ideas about relying on the market, which prompts authorities to see the world in terms of brutal competition for limited resources and therefore to seek ownership rather than long-term, arms' length

[6] "Running with the bulls", *The Economist*, 3 March 2012.

contracts. In the West in turn many consider Chinese corporate strategies as part of a wider plot to control the world's economy. These diverging views are bound to collide, as many failed attemps by Chinese companies to finalize overseas deals – from 2005 CNOOC's unsolicited bid for Unocal, one of America's largest oil companies, to the Australian refusal to buy broadband equipment from Huawei in 2012 – amply testify. The culture clash is causing major delays in some of the most visible Chinese deals abroad, such as iron ore mining in Australia.[7]

Management

In the US and increasingly in other industrial countries, today's executives are younger, more likely to be to be hired from the outside and to be female, and less likely to have elite educations than their pre-globalization counterparts (Cappelli and Hamori 2005). Based on data collected for the 21 largest domestically-owned firms, Brazil and India in 2012 resemble US in 1980, with relatively experienced and mostly male CEOs (Table 5). The percentage of "lifers" (i.e. executives who spent nearly their entire careers at the company they now lead) is high but this seems to mostly reflect family ownership: in the few companies with widespread ownership, it is not unusual to look for external talent.[8] The percentage of CEOs who studied at top Brazilian universities (in particular FGV in Rio) or overseas is also higher than for Ivy League education in the US. Interestingly, few of the Indian CEOs for which this information was available studied in the country's top schools, the Indian Institutes of Management (IIM) and Technologies (IIT).

Table 5. CEOs in the United States, Brazil, India and China

	US 1980	US 2001	Brazil 2012	India 2012	China 2011
Number of companies	100	100	21	21	130
Average age (years)	56	52	56	55	54
Female (number)	0	11	10	10	1
Years of education	17	17	18	17	16
Top universities' alumni (%)	14	10	75	n.a.	n.a.
"Lifers" (%)	53	45	48	69	55

Sources: Cappelli and Hamori (2005), Li (2011) and author's calculations based on Brazilian and Indian company websites.

The way to the top differs. In China, as can be expected, many Chairmen or CEOs – 43% in listed SOEs according to Hung *et al.* (2012) – are current or former government bureaucrats. The state and the Communist Party's Organisation Department appoint senior managers – including a Party committee

[7] "Dug in too deep", *Financial Times*, 25 June 2012.
[8] By 2011, the percentage of "lifers" among the top 500 CEOs in the US had fallen to roughly 30%.

headed by a party secretary (McGregor 2010). Compared with the three elite groups (provincial chiefs, cabinet ministers, and military leaders) that have long constituted the principal components of the CCP Central Committee and its Politburo, the proportion of CEOs of China's large enterprises in the national leadership is still relatively small (Li 2011). But it is evident that younger, business-savvy, politically connected, and globally minded Chinese CEOs have recently become a new source of the CCP leadership.

Obviously this also a convenient career path for top managers in SOEs in other countries: for instance four of five Brazilian SOEs' CEOs for which this information is available have spent at least a few years in government. Like in Germany and the UK, time in government is not a requisite to become a CEO in the private sector – unlike France where 26% of top managers have worked in the public sector (Heidrick & Struggles 2011).

The situation is different in Russia. State-sector 'bureaugarchs', most of them former KGB officials who have close ties with Vladimir Putin, occupy the heart of the economy. The Chairman of the Russian Government himself is chairman of the supervisory board of Vnesheconombank, the state development bank; Igor Sechin, the deputy prime minister, was chairman of Rosneft until 2010, when President Dmitry Medvedev (who chaired Gazprom before entering politics) ordered government ministers to step down as chairmen of state companies' boards of directors to tidy things up. Sechin returned to Rosneft as company president in 2012, at the beginning of Putin's new term at the Kremlin.

Similarly obvious is the finding that in family-held firms most CEO positions are occupied by family members: after many seasoned executives – including PepsiCo's Indra Nooyi or Citigroup's Vikram Pandit – were rumoured as Ratan Tata's potential successors, Cyrus Mistry, the little-known son of a reclusive billionaire who is Tata Group's largest individual shareholder with an 18% stake was selected for the job. Familism itself is not necessarily bad, since the family may be a learning place. But family can also be the source of favoritism and nepotism and the next generation may prove less able than the founding entrepreneur.

The jury is definitely still out regarding the quality of management. Some scholars – such as Cappelli *et al.* (2010) for India – take a very sanguine view, considering that "far more than their Western counterparts, these leaders and their organizations take a long-term, internally focused view. They work to create a sense of social mission that is served when the business succeeds. They make aggressive investments in employee development, despite tight labor markets and widespread job-hopping. And they strive for a high level of employee engagement and openness". BRIC bosses are sometimes said to have other advantages, in handling diverse workforces and making money in complex business environments, that prepare them to make it anywhere.

On the other hand, Bloom *et al.* (2012) use double-blind survey techniques and randomized sampling to construct management quality data on over 10,000 organizations across twenty countries. They find that on average BRIC manufacturing firms tend to be poorly managed, with a long tail of badly managed firms and very few world-class examples (Table 6).

Table 6. The quality of management in Brazil, India and China[1]

	Overall	Monitoring	Targeting	Incentives	Firm interviews
Brazil	2.71	3.06	2.69	2.55	568
India	2.67	2.91	2.66	2.63	715
China	2.71	2.90	2.62	2.69	742

Maximum	3.35[2]	3.63[3]	3.34[4]	3.25[2]	n.a.
All-countries average	2.99	3.28	2.94	2.82	9079

Notes: (1) scale is 1-to-5; (2) United States; (3) Sweden; (4) Japan.
Source: Bloom *et al.* (2012)

Governance

On the whole, corporate and securities laws in the BRICs have been thoroughly reformed in recent years and appear by and large similar to OECD norms. Nonetheless, *de jure* reforms have not always translated in *de facto* application and better protection of the rights of shareholders to influence significantly the company. As Balasubramanian *et al.* (2008) observe in the case of India, compliance with legal norms is reasonably high in most areas, but not complete. As a recent episode featuring Reliance clearly showed, related party transactions is an area of particular concern and the source of permanent risks of tunnelling and expropriation of minority shareholders.[9] This may also explain why, despite (at least partial) formal convergence in corporate law, it is impossible to identify the same or expected convergence in ownership or corporate structure. Ownership concentration is directly related to levels of uncertainty in emerging markets, where both agency and institutional problems persist (Aguilera *et al.* 2011, 2012). An additional problem is the poor quality, when not outright fraud, of accounting data, as shown in 2011 by dozens of scandals at Chinese companies listed in North America. In China, in fact, “the standard corporate mechanism for the appointment and evaluation of senior executives – the board of directors – is missing entirely from this process” (Lin and Milhaupt 2011, p. 39).

To the extent that a good governance framework should ensure that the board plays a central role in the strategic guidance of the company and the effective monitoring of management, while remaining accountable to all shareholders, its composition constitutes a dimension of corporate structure. In evaluating a board’s role in governance, researchers and policy makers have typically focused on board independence, size, director characteristics in terms of education, age and multiple directorships (Kogut 2012).

Diversity is another dimension (Table 7). Focusing on nationality, there is a stark contrast between Brazil and India, where foreigner directors are very rare, and China and – even more so – Russia. In practice the situation in the latter is more complicated. Six of the 13 foreigners in Chinese boards are Hong Kong citizens and one of the Europeans is a Hong Kong resident with British nationality. In the case of Russia, two of the companies (TNK-BP and Vimpelcom) are effectively joint-ventures and eight non-Russian directors represent foreign directors; in addition, Evraz and Severstal, with their nine foreign directors, are listed on the London Stock Exchange. With these caveats the overall BRIC average compares unfavourably with OECD countries: in France, for instance, foreigners occupy 10% of board positions, and 30% in the categories case of the largest companies included in the CAC 40 index.[10] Foreign independent directors can be classified according to their profile function: retired industry executive (such as James Campbell at Evraz), top managers of a major company (such as Franco Bernabé at Petrochina), academics (such as Martin Gilman at Rosbank), and former civil servants (such as Andrew Wood at Kopeyka).

Table 7. Boards of directors in the BRICs

[9] According to the Financial Services Authority in the UK, the founder of Reliance, Anil Ambani, used a foreign vehicle in invest $250 million in a related company.
[10] Communiqué : bilan de l’IFA sur la composition des CA après les AG 2011.

	Brazil	Russia	India	China
Companies	9	9	11	10
Directors	96	100	127	124
Foreigners	3	27	8	13
Europe	*2*	*24*	*6*	*4*
Japan	*1*	*0*	*0*	*8*
United States	*0*	*3*	*2*	*1*
Women	7	5	5	8

Most of the times foreigness and independence coincide. This is the case for China Mobile, where the three independent directors are from Hong Kong and Singapore[11] and these three are in turn the only foreigners on the board. China Construction Bank and Evraz both have five independents, of which four are foreigners (and no other non-nationals). At Severstal all four independents are foreigners, and so is the Chairman. A constrasting example is Tata Motors (TMC) and its two (German) directors, who are respectively CEO at Jaguar Land Rover (Ralf Speth) and former TMC Managing Director.

While the board presence of foreigners may be surprisingly modest, when compared to other indices of internationalization, three further issues must be noted. First, some Indian nationals belong to the academic diaspora – for instance Emory University's Jagdish N. Sheth who sits on Wipro board, or Dean of INSEAD Dipak C. Jain at Reliance Industries. Second, returnee entrepreneurs play a leading role in many Chinese companies, especially in the 'going out' strategy (Wang *et al.* 2011). Third, and obviously not unlike in OECD countries, many BRIC executives have spent time studying and working abroad. The Gerdau example, where all six non-independent directors belong to the founding family, is revealing. The four first-generation brothers all went to the same state university in Southern Brazil (UFRGS) and only one, 1942-born Frederico, studied abroad, in Germany. Both second-generation cousins – who are now CEO and COO – studied in Canada and the US.

The challenges ahead

The BRIC economies have recorded impressive growth rates over the past decade and the role of big business has been crucial in this regard. The process of economic development, however, is inherently dynamic and unstable and new challenges continuously emerge. With no pretence of exhaustion, nor of ranking them in importance, some such challenges are discussed in the following paragraphs.

First, the role of the state in the economy – in both quantitative and qualitative terms – remains a source of contention. This is especially true in the case of China, where many reformers have asserted that "the state [sector] is advancing and the private retreating". Weakening the grip of state-owned enterprises is needed in order to prevent the country from eventually falling into a "middle-income trap" of much slower growth (World Bank and DRC 2012). Control over SOEs should be taken over by new independent bodies that

[11] Frank Wong Kwong Shing, who also sits on the ICBC board.

would hand over dividends to the state budget and gradually reduce the level of state ownership. Of course tackling economic reforms would affect powerful vested interests, such as SASAC.[12] But it is made all the more necessary by the expansion by China's SOEs into international markets and higher-profit areas, where they benefit from privileged conditions, jeopardize the principle of 'competitive neutrality' and generate recurring friction.

Brazil's "Leviathan as a minority shareholder" model (Lazzarini and Musacchio 2011) is arguably subtler.[13] BNDES' loans and equity (through its investment subsidiary, BNDESPar[14]) do not seem to affect firm-level investment decisions and operational performance, although they do reduce firm-level cost of capital due to the governmental subsidies accompanying the loans. Next, examining the selection process through which BNDES' capital is allocated to firms, they find that BNDES apparently selects firms with good operational performance but also provides more capital to firms with political connections (measured as campaign donations to elected politicians). Yet, they do not find evidence that BNDES is systematically bailing out firms. In general, BNDES appears to be generally selecting firms with capacity to repay their loans, as regular commercial banks would do. The critical issue is whether this good judgement, in itself, is enough to justify the subsidies that the Brazilian Treasury grants to BNDES so that it can raise cheap capital to fund big business, especially to those firms which happen to have the greatest political clout. The logic of the BNDES model was clear when capital markets were thin, which is not the case in the BRICs these days, and should probably be limited to unaffiliated (non-group) firms with real capital needs.

More broadly, in systems where lines between Party, state and business are blurred, a second and related challenge has to do with opacity in private-public interactions, bad corporate governance and lack of competition. A few recent Brazilian cases are illustrative. In 2009 president Lula accused the management of Vale of laying off workers during the global crisis and purchasing large vessels to ship iron ore to Asia, instead of investing in integrated steel mills in Brazil. The government eventually removed Roger Agnelli from his post as CEO of Vale despite his outstanding record and is trying to force Petrobras to use expensive local equipment suppliers despite doubts about their competence. In China and Russia there have been numerous episodes where prominent businesspeople have accused political leaders to trample on the law and property and human rights, attack their competitors and take whatever they want in order to enhance their power.[15]

Third, the strategy of making huge strategic investments, even to the point of losing money for the sake of creating national champions and entire new industries, may be necessary to solve a market failure and substitute for financial intermediaries that are not doing their job properly, but it puts private companies at a severe disadvantage. The big question is whether this structure is less useful, and even counterproductive, when the country becomes more integrated into the world economy. If all countries were to implement state capitalism to accumulate a foreign currency surplus, this would result in a "fallacy of composition"; another danger is that the big groups will rig the market in their favour and inhibit the emergence of specialised players.[16] To prevent such an outcome, a financial system that gives start-ups easy access to capital is essential, as well as a vigorous competition policy. In fact it is not sufficient to uphold

[12] "According to a Chinese newspaper, *21st Century Business Herald*, SASAC wrote to the finance ministry arguing that the proposal to scale back state ownership was unconstitutional" ("The bees get busy", *The Economist*, 3 March 2012).

[13] Since the early 1990s the Indian government has enacted gradual divestment in many public sector enterprises, including State Bank of India, ONGC and SAIL. Although they are now subjected to stock market discipline, control still rests firmly in the hands of the state.

[14] By 2009 BNDESPar's holdings were worth $53 billion, or 4% of the stockmarket.

[15] Recent examples include the Khodorkovsky-Yukos saga and the death of Sergei Magnitsky, the lawyer working for Hermitage Capital, in Russia and the incarceration of Huang Guangyu, founder and former CEO of retail appliance and electronics dealer Gome Electronics, and the Bo Xilai scandal in China.

[16] I owe this point to Jorge Arbache.

competition, it is necessary to understand the implications of business groups, cross-shareholdings and interlocked directors in this regard (Lazzarini 2011).

Fourth, even with substantial concentrated (State or family) ownership, corporate governance has been improving (especially in terms of disclosure and investor protection) in all BRICs. Reforms were initially mostly a formal-legalistic process, that with time have become more substantial as institutions (Stock Exchanges and government regulators) showed stronger commitment. Allocation of control, however, remains less dynamic than in more advanced market economies and the enforcement of rights is not always sufficient to protect minory shareholders and indeed other stakeholders. Diversification may also be motivated by expropriation – in Indian groups affiliates are found to engage in activities away from their core business to serve as destination points for funds tunneled from a group's core activity (Kali and Sarkar 2011). This should be a cause of concern insofar as dispersed shareholder firms are typically better managed (Bloom *et al.* 2011).

A note of cautious realism is needed here. There is a great deal of path dependence of corporate structure – the one that an economy has at any point in time depends in part on those that it had at earlier times (Bebchuck and Roe 1999). In the case of China and Russia, their corporate ownership structures after 50 (pre-WTO era) and 75 years of socialism gave some stakeholders both incentives and power to impede changes in them, *i.e. de facto* privatization. In Brazil and India, corporate rules that favoured the formation of business groups also reinforced the latter's power to resist pressures to converge. The paradox is that in the past the corporate model in emerging economies appeared adequate in protecting outside investors, as proven by the early experience of Brazil where financial markets flourished (Musacchio 2009). Politics is what counts: that experience came to an end once the most powerful interest groups of industrialists and labor reached consensus around preserving employment and consolidating domestic industry, at the detriment of the promotion of shareholders' rights.

Fifth, the rapid globalization of BRIC firms through takeovers may well have thrilled cheerleaders and corporate patriots, but the rate of success has not been equally spectacular. *The Economist* has examined the four largest Indian deals for which enough information is available.[17] Gross operating profits (EBITDA) have risen in one case only, while in the others earnings have failed to generfate an adequate return on capital. Most Indian dominant shareholders dislike issuing equity and firms have fiddly holding chains, thus raising the risk of being too convoluted and puny to handle large foreign deals.

The learning curve in overcoming the liability of foreignness has always been very steep (Wilkins 2009) and the growing importance of M&A as entry mode adds post-merger integrations issues to the equation. Psychic distance between Russia, India and China, on one hand, and OECD economies, on the other, is rather high and generates reciprocal bafflement at practices such as taking long holidays or making 'facilitation' payments. In fact the greater success of Brazilian MNEs is explained by the much greater role of foreign MNEs in the domestic economy and managers' greater experience with cross-cultural deals.

The situation will gradually evolve as BRIC service companies start offering what MNEs need as they expand internationally – for instance knowledge of foreign-exchange trading and derivatives, especially important as the yuan internationalises. But to the extent that state capitalism remains prevalent, suspicion and resentment at business practices and privileges will persist. Traditional beyond-the-border issues such as accounting, competition, anti-corruption, public procurement and intellectual property are now discussed in fora such as the G20 and inter-governamental organizations. BRIC business will have to learn how to play the game of lobbying and advocacy effectively and transparently.

Conclusions

[17] "Running with the bulls", 3 March 2012.

The early 21st century is witnessing an increasing internationalization of markets and regulatory institutions, the application of scientific knowledge to the commercialization of products in contexts where financial markets are becoming more uncertain and crisis-prone, and the vitality of new actors making different demands for more effective forms of corporate governance and corporate social responsibility. Drawing on a variety of interdisciplinary perspectives from economics and management, this chapter analyses how national capitalisms are changing in this context, focusing on the ownership, structure and strategy of the largest companies in each BRIC. Highlighting some critical themes, processes, events and personalities that have shaped major corporations, it engages with debates that are central to global policy.

While corporate structures across the BRICs differ in this new environment, we found a common reinforcement of the key role of government in managing large corporations and driving economic development. Certainly there was a lot of privatization, which in Brazil and India included relinquishing control of hitherto strategic network industries and in all countries the sale of minority stakes in energy and natural resource SOEs. But various institutions extended or kept their influence in the governance of the commanding heights of the economy, such as policy and development banks, semi-public pension funds, and the ruling party. All these iterations of state engagement reflect how BRIC governments have adapted their economic policies and processes not only by holding on to economic control, but also finding subtle ways to extend it.

Private capitalists, for their part, have continued to organize their activity around business groups, deciding which industries to enter or leave and recruiting talented non-family associates. This partial transformation has shown that family control and diversification are far from incompatible with competitive success, even in the most demanding markets. Business groups, from a welfare standpoint, "can sometimes be 'paragons' and, at other times, 'parasites'" (Khanna and Yafeh 2007). Although they might be rent-seekers, the rents tend to remain within national boundaries: in practice the alternative is not flourishing national SMEs, but rather a dissipation of rents abroad by MNCs.

Taken collectively, these phenomena constitute an important series of large-scale economic experiments and seem destined to create a plurality of new forms and new logics, with implications for the world's economy. At a minimum one can say that managers have proven that Fukuyama was wrong when he said that "People's Republic of China can no longer act as a beacon for illiberal forces around the world", if liberalism means the American model of diffuse private ownership and coherent diversification as an inevitable outcome of economic development. On the contrary, the Fords, Morgans and Sloans of the BRIC have proven that old structures can adapt somewhat successfully to new circumstances. An earlier generation of researchers studied strategy and structure in Japan and influenced management practice in the West. Today it is time to extend the research into emerging economies, to go beyond the clichés, devise appropriate policies to compete in international markets and avoid the protectionism and even xenophobia that are often stirred by ignorance about the outer world.

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