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COMMENTARY



Business and development: how organization, ownership and networks matter

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ABSTRACT

A recent wave of research – including the five books we review – argues for paying more attention to business and the private sector when explaining development outcomes. We draw on these books to make four main arguments. First, micro-attention to variations in business organization and behavior forces a framework shift away from a statist literature that attributed explanatory power to bureaucracies and state capacity and away from market-oriented institutionalists who focus on rules – domestic and international – rather than organizations like firms. Second, we identify aspects of firm organization and ownership as key variables in assessing business impact on development. Third, we highlight the development-enhancing networks that grow out of, and transcend, firms. Fourth, we suggest that business characteristics should be both inputs into policy-making and targets of policy. The paper closes with a reminder that beyond its direct contributions to development, business is also a powerful actor in shaping politics and policy in its favor.

KEYWORDS

Business; development; political economy; international political economy

Tasha Fairfield. 2015. *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics*. New York, NY: Cambridge University Press, 345 pp.

Douglas B. Fuller. 2016. *Paper Tigers, Hidden Dragons: Firms and the Political Economy of China's Technological Development*. Oxford, UK: Oxford University Press, 279 pp.

Alison E. Post. 2014. *Foreign and Domestic Investment in Argentina: The Politics of Privatized Infrastructure*. New York, N.Y.: Cambridge University Press, 250 pp.

Mark Z. Taylor. 2016. *The Politics of Innovation: Why Some Countries are Better than Others at Science & Technology*. New York, NY: Oxford University Press, 427 pp.

Vineeta Yadav and Bumba Mukherjee. 2016. *The Politics of Corruption in Dictatorships*. New York, NY: Cambridge University Press, 316 pp.

1. Introduction: making the case for business

A wave of recent research – including the five books in political science we review – argues for paying more attention to business and the private sector in explaining development outcomes. This business-centered approach constitutes an important theoretical shift away from a statist literature that attributed explanatory power to bureaucracies and state capacity and away from market-oriented institutionalists who focus on rules – domestic and international – rather than organizations like firms. Despite the consensus after the 1990s that the private sector would lead development, neither literature focused on business as an object of study.

Theorizing on developmental states began with Chalmers Johnson's pioneering study of MITI, the lead bureaucracy in Japan's industrial policy (Johnson, 1982).¹ Among early scholars of developmental states, only Amsden (1989, 2001) devoted significant attention to business, especially South Korean *chaebols* and their counterpart conglomerates or business groups in other developing countries, though Amsden still ascribed primary responsibility for late-industrialization to bureaucracies. True, Evans (1995) brought business back in through his concept of embedded autonomy but in a junior partner role; variations in states and state roles did the heavy theoretical lifting.

Although with different intellectual roots, market institutionalist views even more thoroughly neglected business. In North's (1990) now hegemonic definition, institutions are the – formal and informal – rules of the game, and organizations such as firms are defined out of the analytical focus as mere rule-taking players. Favoring a limited role for the state in the economy, this approach is also skeptical of any close business-government relationship, where opportunities for entrenchment and rent-seeking outweigh potential gains from collaboration. [Section 2](#) returns to these two strands – statist and market institutionalist – to trace how they combined in the post-2000 institutional consensus in development studies and shifted attention away from business.

Multilateral development agencies (like the World Bank and Inter-American Development Bank (IDB)), the largest research funders on development, have sponsored scant research on business (beyond the World Bank's 'ease of doing business' index, which is actually more a measure of state regulation). As discussed later, publications from these practitioner agencies now all favor 'public-private collaboration' though even in this, they mostly pay less attention to the attributes of business than to the character of bureaucracies. Combined, statist, market institutionalists and multilateral institutions, have little if any research on the dominant types of firms in developing countries – multinational corporations (MNCs) and business groups. A student of development could read vast literatures on the topic and still know very little about business, something the books under review help redress.

Although they cover disparate outcomes, countries, sectors and periods, these books help identify common themes that could constitute core elements of a business-centered approach to development. We draw on these books to develop five main arguments.² First, and most generally, micro attention to variations in business organization and behavior forces a framework shift away from the institutionalist consensus on development ([Section 2](#)).

Second, firm organization and ownership are key variables in assessing business impact on development and politics ([Section 3](#)). For three of the books, aspects of

organization and ownership explain the outcomes they analyze: contract resilience (Post, 2014), technology development (Fuller 2016), and corruption (Yadav & Mukherjee, 2016). While generally confirming the limited contributions of state-owned enterprises (SOEs) to upgrading as well as introducing some skepticism on the role of MNC, these books also delve into more complex configurations of organization and ownership: Post on multisectoral conglomeration, Fuller on hybrid firms with foreign capital and domestic management and Yadav and Mukherjee on small and medium-sized enterprises (SMEs).

Our third argument highlights the development-enhancing networks that grow out of, and transcend, firms (Section 4). In some cases, the networks are related to variations in organization and ownership, but the networks are the intervening variables doing much of the causal work. For Post, conglomeration generates multiple network connections to government. For Yadav and Mukherjee, only when firms are concentrated geographically and their owners participate in common social networks, can SMEs overcome obstacles to collective action to form business associations. For Fuller, international networks of ethnic Chinese managers tie together capital from abroad with innovation in China. And for Taylor (2016), more broadly, networks (both domestic and international) explain variations in the overall ability of countries to innovate.

Fourth, business characteristics should be both inputs into domestic and multilateral policy making (so that policies can be tailored to firms that exist rather than to abstract, generic notions of business) and outputs or targets of policy (where policies contribute to strengthening pro-development sorts of firms) (Section 5). This section shows how practitioners and academics have reached a new consensus (in Washington and elsewhere) on the benefits of ‘embedded autonomy’ or business-government collaboration in making industrial policy. However, multilateral reports and related studies have not taken the next steps to examine what kinds of firms are better able to fulfill different policy goals and how (and which) firms can be most effectively targeted with industrial policies. And, if different sorts of business have different impacts on development, how then can policy foster more developmental types of firms?

Lastly, our fifth argument is that business power skews the politics of development (Section 6). This is more of a reminder, often forgotten, that – whatever its direct contributions to development – business is also a powerful actor in shaping politics, policy and the institutional framework more generally, in its favor. Fairfield (2015) makes this argument abundantly clear in her reworking of instrumental and structural power of business, as do Yadav and Mukherjee in highlighting the contribution of big business to corruption.

A broader, lengthier review could also include more of the intellectual history of business in development going back at least as far as dependency theory and related works on MNCs from the 1970s. A more comprehensive review could also explore wider connections to ongoing research on global value chains (GVCs), foreign direct investment (FDI) and trade that brings in some aspects of firm behavior, as well as a wealth of research from business schools.³ However, our review sacrifices much of this breadth in favor of greater depth in debates in political science. Moreover, the books under review dig more deeply into aspects of firm organization, ownership and networks than does much of the literature on GVCs,

FDI and trade, though we try to note along the way where further connections to these literatures could be made.

2. Against the institutionalist grain

The 2004 article ‘Institutions Rule’ by Rodrik and colleagues (Rodrik, Subramanian, & Trebbi, 2004) is a useful marker for the consolidation of the institutional hegemony in development studies. Within this consensus, both statist and market-institutionalist paradigms grant business only an auxiliary and reactive role, and instead attribute most of the explanatory power to other institutions, to states and markets, respectively. While private-sector led development was certainly part of this consensus, analytically, business was sidelined, at best, as a mechanism.

With a pedigree stretching back to Gerschenkron, and Liszt and Hamilton the century before, a statist perspective flourished in the wake of East Asia miracles and built on Chalmer Johnson’s early theorizing. Others in the 1980s and 1990s more fully elaborated on the functions of state intervention – resolving market failures, relieving capital constraints, promoting self-discovery and facilitating coordination, among others. Given the success of states in East Asia, much of the research then shifted to analyzing what made these states tick. The first answers stressed Weberian traits. Only strong, meritocratic, insulated and coherent bureaucracies – that can thwart rent-seeking by private interests and that have the capacity to discipline business – could best promote development. In this formulation, business was mostly absent and had a subordinate role following guidance from top bureaucrats.

This statist perspective displaced an earlier literature on firms, primarily MNCs, inspired by dependency perspectives (for example, Evans, 1979; Gereffi, 1983). In this view, MNCs were core parts of overall relations of dependence that blocked, or at least conditioned, development in economies with high levels of FDI. Where MNCs dominated, they also impeded the emergence of strong domestic firms of the sort that led development in earlier industrializers. By the 1990s and 2000s a successor research strand highlighted the importance of GVCs, led usually by large MNCs, in organizing global manufacturing and constraining firms in lower valued-added segments of the chains and thus the possibilities for upgrading in the developing countries where they are located (for a review see Pipkin & Fuentes, 2017). The literature on GVCs, however, was a relatively minor exception to the institutionalist consensus.⁴

Evans’ (1995) concept of ‘embedded autonomy’ amended the exclusively statist view, and seemed to bring business back in. To be most effective, Weberian bureaucracies should be enmeshed with the leading industrial firms. This framework drew on extensive sociological work on embeddedness and networks and not only acknowledged business’ role as the ultimate agent of industrial policies, but also as a necessary partner for their policy formulation as a provider of information and policy feedback.⁵ Although Evans certainly included firms, they did not have much causal weight; development outcomes varied fundamentally with state characteristics and roles.

Evans’ point about the limits to bureaucratic insulation filtered through in the 2000s to research sponsored by multilateral banks that also emphasized the importance of ties between bureaucrats and business as essential conditions for successful

upgrading policy (as analyzed further in [Section 5](#)). This research highlights the information asymmetry faced by policymakers as the fundamental obstacle to effective development policies (Fernández-Arias, Sabel, Stein, & Trejos, 2016; Hausmann & Rodrik, 2003; Pack & Saagi, 2006; Sabel, Fernández-Arias, Hausmann, Rodriguez-Clare, & Stein, 2012). And embedded relations and information sharing between business and government, where capable bureaucrats are able to forge trust with their private counterparts, were the solution. Nevertheless, this line of research does not explore what firm characteristics might best facilitate this collaboration.

These statist perspectives contrast, of course, with market institutionalism, which beyond a set of basic market-conforming policies, considers the state more a barrier to – than an enabler of – development. In this neo-classical tradition, firms should germinate spontaneously to take advantage of market opportunities if state expropriation impulses are checked through the appropriate institutional protections for property rights and market competition. Conceptually, the new economic institutionalism toolkit is ill equipped to delve deeply into business (Clague, 1997). As highlighted earlier, North (1990) seminaly focused on rules at the expense of organizations (Acemoglu, Johnson, & Robinson, 2005). Heir to a more individualistic tradition, the Northian view mostly excludes intermediate organizations and firms from the analytical focus. For North, ‘both what organizations come into existence and how they evolve are fundamentally influenced by the institutional framework’ or rules of the game (North, 1990, p. 5). Variations in economic performance depend more on institutions as rules than on firms.

This approach is closely related to institutional perspectives in IPE that also directly connect rules – domestic and international – with development-related outcomes: for example, democracy with free trade (Milner & Kubota, 2005) and international institutions such as the WTO with trade among countries (Goldstein, Rivers, & Tomz, 2007). FDI and MNCs have also been central topics in the IPE literature, though usually more as a dependent variable than as independent variables as in the books reviewed here. The institutionalist perspective in this IPE literature focuses on institutions that influence MNC location choices and entry strategies, mostly inclusive political institutions (democracy (Jensen, 2003) and constraints on the executive power (Henisz, 2000; Jensen, 2008; Li 2009; Staats & Biglaiser, 2012), and economic rules like secure property rights (Li & Resnick, 2003).⁶ In this institutionalist perspective, MNCs are portrayed as rule-takers. And when searching for business-level variation in the private sector, much of this literature takes sector and factors as the unit of analysis (e.g. Pinto & Pinto, 2008), a higher level of aggregation than the firm-level characteristics we analyze here.⁷

Although rarely focused on development, the Varieties of Capitalism (VoC) approach (Hall & Soskice, 2001) with its ‘firm-centered’ perspective would seem to offer a promising alternative framework – to both state and market institutionalists – for bringing business back in. However, the VoC approach understands corporate governance models and firms’ competitive strategies as a reflection of the institutional environment that characterize national models of capitalisms. Building on top of the more standard economics of organization framework, markets and ‘hierarchy’ are not the only mechanisms for firms to source their key productive inputs; instead VoC’s highlights alternative non-market coordination schemes that allow firms – and countries – to remain competitive and thrive under globalization. But even if firm-centered, the key variation and unit of analysis of VoC is still at

the country level, as it largely focuses on a single national dominant, ideal-type of firm that evolves to maximize returns from institutional complementarities. Economic performance thus depends ultimately less on variations among firms than on national institutional constellations.

While the states, markets and other institutions central to the institutionalist consensus cannot be ignored, much can be gained by occasionally pushing them into the analytic background in order to develop a more business-centered understanding of development, the elements of which we advance in the following sections.

3. Organization and ownership matter

Many aspects of firm organization might matter, but the dimensions highlighted in the books under review focus on diversification, ownership and firm size. In most developing countries, the largest firms are diversified business groups or MNCs, with preferences and behaviors (different from stand-alone firms more common in developed countries) that can be consequential for development. The origins of MNCs and business groups often derive from state actions and market institutions discussed in the previous section (Schneider, 2009). However, once consolidated, these large firms can have independent impacts on development, especially in the weaker institutional environments – both states and markets – that characterize most developing countries. Firm size also affects preferences and behaviors. A key issue for SMEs is how well they are organized politically or articulated in clusters (Porter, 1999).

For Yadav and Mukherjee, firm size is key. Adding a private angle to the transparency agenda championed by many multilaterals, they show that in corrupt autocracies, private SMEs are the drivers of a coalition that demands anti-corruption measures. The book's focus is domestic in contrast to explanations centered on foreign firms and international anti-bribery agreements as the vector of more transparent business-government practices (e.g. Jensen & Malesky, 2018; Malesky, Gueorguiev, & Jensen, 2015; Pinto & Zhu, 2016).⁸ Employing mixed methods, the authors blend together cross-national regressions with case studies of Jordan, Malaysia and Uganda to develop an argument on how firm size affects the capacity for political mobilization. Outsiders to the established business elite, SMEs are, they argue, the biggest employers of the economy and the most negatively affected by corruption. SMEs 'face significantly more frequent demand for bribes compared to demands made on large firms, [and] are subject to extensive discrimination based on nepotism and patronage, ... , whereas large firms generally benefit from such practices', and SMEs lack the financial slack to pay bribes (p. 25).

Therefore, SMEs have a latent common interest in transparency and anti-corruption measures. But, given their small size and large number, they suffer from classic collective action problems. Geographical concentration can lessen these problems by engendering networks that facilitate the emergence of business associations (networks that are discussed further in the next section), that together with their political allies then drive reform.⁹ Where SMEs cannot overcome obstacles to collective action, or when there is no multiparty legislature, Yadav and Mukherjee observe the continuity of what others have called the 'entrenchment' of elite, rent-seeking cronies (Morck, Wolfenzon, & Yeung, 2005; Yadav, 2011).

Markus' (2015) book offers an intriguing complement to Yadav and Mukherjee's argument. Rather than thinking about corruption as a 'switch' controlled by the autocrat (or the executive power in the center) and his cronies, the corruption in Russia that Markus analyzes is a symptom of state weakness that actually undermines central control. Still, Markus' de-centralized explanation for state predation and local remedies, also has local business at its center, that can partner with different groups in civil society to hold the local state agents accountable and thus promote stronger, albeit informal, property rights. Presumably the factors in Yadav and Mukherjee's argument – geographic concentration, networks and collective action – would also help SMEs face this sort of decentralized predation.

Alison Post's book examines other organizational and ownership factors and proposes a typology based on portfolio diversification (specialized vs. diversified) and ownership (domestic vs. foreign). In weakly institutionalized emerging economies, foreign firms with industry expertise and easy access to cheap capital are 'not enough', she argues, to ensure positive outcomes in infrastructure investment. Instead, domestically-diversified business groups perform better. Through a creative research design that maintains the country (Argentina) and sector fixed and exploits across-time subnational variation in provincial water and sanitation concessions, the book engages the classic concern of overcoming obsolescing bargains (Ramamurti, 2001; Vernon, 1971). Studying a fixed-assets, capital-intensive and heavily regulated industry, the focus is not innovation nor upgrading but rather securing investment and good management.

Making a liability-of-foreignness argument (Zaheer, 1995), Post shows how distantly owned MNCs are unable to navigate local politics. For Post, MNCs are unable to adapt to new environments and as a consequence adopt short-sighted and legalistic strategies for managing concessions that antagonize local governments. In contrast, domestic business groups (conglomerates) with diversified portfolios of subsidiaries within the same province have advantages. Their diversified asset base (e.g. construction, media, real estate, finance) creates multiple points of contact with provincial governments and allows policy-bundling negotiations (trading off losses in one policy area for gains in another), and cozier, more stable partnerships with governments. These multiple points of contact constitute informal networks examined further in Section 4; the point here is that only one type of firm organization – diversified business groups – facilitates network formation. And following recurrent economic shocks, these embedded business groups are more patient and less legalistic in negotiations that bundle issues across different sectors which eventually result in greater contract resilience and more 'successful' renegotiation outcomes.

Parenthetically, it is important to register the significance of Post's focus on business groups and their portfolio diversification (see also Post & Murillo, 2016). Mainstream political science and economics regularly ignore diversified business groups despite their dominance (along with MNCs) of most developing economies (Colpan, Hikino, & Lincoln, 2010). Business groups are large, diversified across multiple sectors (mostly unrelated), and usually family-owned and controlled, and therefore are likely to have policy preferences and corporate strategies different from stand-alone, specialized firms (that form the basis for most theorizing on business). Early on, Amsden (1989) stressed the capabilities (in particular, enhanced economies of scope in project execution) of diversified business groups,

or *chaebols*, in promoting Korea's rapid development. In the intervening decades, very few development scholars have acknowledged the significance of business groups.

Foreign, politically disconnected businesses also played a starring role in Wang's (2015) demand-side argument about the emergence of stronger rule of law in some regions of contemporary China. At first glance, Wang makes an argument opposite to Post's. It is precisely the litigious strategies of foreign firms – that in Post's book sour relations with local politicians – that in China created the incentives for regional governments to invest in the judiciary and improve business-related rule of law. However, given very different contexts – and outcomes – both arguments could be true; the main point here is that in both books ownership type is the determining independent variable.¹⁰

Fuller's *Paper Tigers, Hidden Dragons* offers an insightful within-China comparison of the upgrading potential of different types of firms. He also proposes a 2×2 typology based on operational strategies and sources of finance, and evaluates the incentives for innovation of each of the resulting four types of firms: favored and neglected domestic firms,¹¹ MNCs and hybrids. Fuller argues state-led initiatives have a poor upgrading record. In a clear example of the perils of Musacchio's and Lazzarini (2014) 'Leviathan as an entrepreneur' model, *Paper Tigers* shows how repeated attempts to create national champions, technology clusters through special development zones and a state-controlled, local venture-capital (VC) industry all underperformed due mainly to pervasive agency issues. Politicians were unable to provide the necessary governance mechanisms to impose financial discipline. Supplying cheap capital through state banks and repeatedly bailing out firms softened budget constraints and sapped incentives for SOEs to take risks, innovate, and upgrade. In contrast to the developmental state views in Section 2, for Fuller the state in China is mostly a drag on innovation.¹²

Fuller agrees with Post that the developmental contributions of MNCs are limited, at least in high-tech industries.¹³ With only a tepid commitment to China, MNCs lack incentives to focus innovation investment there and instead keep at home higher value-added activities on the technology frontier. Therefore, local spillovers are limited and generate only moderate levels of technological upgrading, though Fuller finds that the FIEs (foreign invested enterprises that include MNCs), still 'contribute more to China's technological development than domestic firms' (p. 15). Different from Post's setting, Fuller's home bias argument when applied to MNCs is less about their incapacity to adapt (as in Post) but rather about their unwillingness to focus high value-added activities outside their home countries.

Instead, the 'hidden dragons' driving innovation in China are hybrid firms that combined the best traits of foreign and domestic companies. International venture capital (VC) provided good governance and financial discipline while their local management prioritized China as its vital center of operations. Even if funded externally, these hybrids firms were founded and managed by ethnic Chinese and therefore focus their operational strategy on China, where they chose to develop and embed their highest value-added activities. For Fuller, this 'home bias' results from a mixture of instrumental factors (e.g. lower information asymmetries as in managers know how to operate there) and ideational factors (as in nationalism), and makes 'firms concentrate core resources in their home bases' (p. 23).¹⁴ But, even if Fuller's hybrid firms are considered 'foreign' in the sense of the origin of

most of their capital, the identity of their management has a bigger influence on the type of operational strategy they pursue, which in turn has the greatest impact on technology upgrading and development.

This new class of hybrid firms forces a rethinking of the meaning of ‘foreign’ and more broadly about FDI as a category. Fuller’s hybrids have foreign investment, but VC funds (and more generally private equity (PE)) pool capital from various sources, and their ultimate investors usually do not have a role in investment decisions that are often made by local fund managers. Therefore, and different from more traditional MNCs whose clearly identifiable nationality may shield them from government expropriation (Wellhausen, 2014),¹⁵ even if effectively foreign owned, hybrid firms have a less clear home country. For Fuller, ‘these “foreign” firms act like indigenous ones in terms of their orientation toward the domestic economy and their efforts to embed their activities locally by drawing upon and improving local human resources’ (p. 190). Ultimately, when coupled with capital and good governance, what appears to make the difference are the personal capabilities, preferences and nationalities of managers and entrepreneurs.

This new hybrid model that brings together access to transnational finance and technology networks with domestic management also has implications for analyzing cases outside China. Hybrids are certainly a novel organizational form different from the most prominent types of private firms in the development literature such as MNCs but also different from family-owned business groups, the main protagonists of Japanese and Korean developmental path (Amsden, 1989). PE/VC funds that provide risk capital, though not directly covered in these books, are driving new emerging structures (and ownership models) that also combine foreign capital and domestic management.¹⁶

The prevalence of hybrids reflect changes in the international financial markets and highlights the centrality of finance in thinking about productive development. The role of these providers of risk capital goes beyond their capacity to solve capital constraints to include participating in firm governance and infusing a discipline that state-related Chinese investors do not, in Fuller’s view, have. The PE/VC funds take a hands-on approach to management and networking, and support firms with active mentoring and advice. And, as discussed in the next section, this hybrid organization invites us to focus more on the role of the entrepreneurs who broker between, and form networks among, international investors and local technological communities. Moreover, through different policy levers (with varying success) governments have been actively promoting this more novel class of financial actors as a way to advance development (Klingler-Vidra, 2018).

4. Developmental networks

Lately, everyone seems to like a good network. Social embeddedness and networks permeate these books and have mostly benign consequences like reducing information asymmetries, strengthening monitoring and discipline, facilitating collective action, and generally lowering transaction costs. However, the networks vary in terms of the actors connected and outcomes produced. On who is connected to whom, the main distinction is between business-government and business-business networks. While typically associated with corruption and rent-seeking, business-government networks (embedded bureaucrats though not necessarily Weberian)

can also promote outcomes like contract resilience, regulatory enforcement and better industrial policy. And more ‘novel’ business to business networks foster a broader set of outcomes from collective action to combining domestic management and international finance.

Post makes an ‘embeddedness’ argument where social networks that bring together firm managers with policymakers replace and supplant formal and institutionalized channels of interaction. For others, these sorts of close informal connections between business and government mostly fuel crony capitalism (e.g. Kang, 2002; Szakonyi, 2020). In contrast, Post’s book highlights the positive role of business-government networks and argues they can function as informal substitutes for property rights and allow firms to overcome pervasive ‘obsolescing bargain’ problems. In particular, informal social ties ‘prove to be more important than formal support’ (p. 32), facilitate contract renegotiations, replace arbitration mechanisms provided for example in bilateral investment treaties (BITs), and result in more stable outcomes.¹⁷ In contrast to Evans’ embedded autonomy where links with business complement the capacities of professional bureaucracies, in Post’s book provincial-level governments lacked Weberian characteristics, and the ties were not with bureaucrats but rather with politicians. In addition, this relationship is not about information exchange, monitoring or discipline, as in much of the literatures about the developmental state (Amsden, 2001) and new industrial policy (Rodrik, 2004). Instead, it is a network where cultural and political ties help align the expectations of contractual counterparts, generate trust, and lock in sustained relationships. Post thinks of ties between politicians and provincial business groups as ‘informal contractual supports that firms have developed to cope with economic volatility and weak institutions’ (p. 219) that substitute for formal property rights and therefore sustain investment.

In other books, it is business to business ties that motivate ‘network-based’ arguments. Putnam, Leonardi, and Nanetti (1993) and a large following literature highlight the role of social capital and trust in reducing transaction costs, facilitating the flow of information and enhancing coordination and exchange that can improve both political and economic outcomes (Granovetter, 2005). Building from a literature in economic sociology that considers networks a qualitatively distinct form of economic governance from both markets and hierarchies, Schrank and Whitford (2011) advance a more general argument about network failures, drawing a clear parallel with better known market and government failures. Common in organizational fields ‘characterized by a combination of unstable demand and either rapidly changing knowledge or complex interdependencies between component technologies’ (p. 156), networks both safeguard against opportunism and facilitate information search. Failing in either constitutes network failure. Some of the books under review bring these abstract ideas into an empirical setting and offer more specific hypotheses about networks and the origins of business associations or the relevance of transnational networks of capital, management and technology.

For Yadav and Mukherjee, effective political action by SMEs depends on business associations which in turn depend on networks. In order to explain the emergence of anti-corruption associations, the authors make a cluster-type of argument based on the geographic concentration of SMEs; political mobilization depends on firm agglomeration. Given the authoritarian context the book examines, informal networks take on added importance. Preexisting social and commercial ties born in

geographic proximity facilitate face-to-face interaction and help generate the trust necessary to circumvent informational issues, monitor compliance, and sanction free-riding (pp. 48–9). Only once small business overcomes collective action problems to form a business association, can it partner with other allies to demand anti-corruption reforms.

Taylor's *Politics of Innovation* asks how and why some countries are better than others at science and technology and thus more successful innovators.¹⁸ Building from the cases of Israel, Taiwan, Ireland and Mexico together with cross-national quantitative evidence, Taylor argues that domestic policies and institutions (what he calls the 'five pillars of innovation')¹⁹ are insufficient to fully explain innovation outcomes. Instead, Taylor invokes the most forceful argument about the power of networks in innovation, in particular international social networks that bring together STEM labor, entrepreneurs, and external capital funding. To wit, 'success at S&T is not simply a matter of governments solving market failures, but also dealing with network failures' (p. 178). Taylor stresses that no single best policy design or institutional framework exists to enhance innovation. Rather, 'successful domestic institutions and policies are those that, regardless of design, create and maintain domestic and international networks' (p. 157).

Networks generate cooperation and collaboration as alternatives to markets and hierarchies. By helping financial intermediaries, the technical workforce and entrepreneurs connect with each other, 'social networks provide vital information' that ensures science and technology actors can make coordinated decisions conducive to marketable innovations that neither decentralized free markets nor centralized government can generate by themselves (p. 141). As Taylor concludes, 'networks can sometimes bring people and resources together better than markets can. In doing so, social networks build social capital and drastically reduce the costs and risks of innovation' (p. 157).

Both domestic and international networks matter, though Taylor emphasizes networks that link domestic innovators, STEM labor, and entrepreneurs with 'foreign markets for exports, investment capital, and sources of technical skills and knowledge' (p. 178), fostered by the adoption of common technological standards that enable the communication among network participants. Moreover, the measures used to operationalize network participation reflect the strength of countries' international ties.²⁰ Through cross-national regressions over time in a panel of countries, the book argues that a country's *ex-ante* network participation can explain a significant part of variation in innovation even after accounting for more standard institutional and policy variables (e.g. democracy, free trade, property rights, decentralization, educational policies, etc.). Although lacking methodological details, *Politics of Innovation* concludes that countries with greater participation in the international networks of finance, trade, production, knowledge and human capital will be global innovation leaders.

To buttress the quantitative analysis the book also includes case material on a wide range of countries. The networks as well as the policies promoting them vary across these cases: Israeli firm linkages with American firms for finance, marketing and technology; in Taiwan, Chinese ex-pats returnees and high-tech FDI and JVs; in Ireland, free-trade relationships and the active policy of attracting high-tech MNC; and in Singapore, again, the recruitment of high-tech MNCs. Lumping together an array of different kinds of networks may be helpful in broad cross-

national comparisons, but they are less useful in figuring out exactly what types of international networks contribute to overcoming which specific obstacles to innovation, and which market or state failure. Researchers more interested in that level of specificity should turn to Fuller.

The Chinese managers and entrepreneurs who lead Fuller's hybrid 'hidden dragons' can broker the 'structural holes' that separate domestic and international arenas.²¹ Highlighting the role of returnees back from global centers of innovation, Fuller agrees that transnational informal networks and diasporas (Graham, 2018; Leblang, 2010) can provide the information and knowledge to overcome some of the market failures that plague development. While the 'home bias' exhibited by hybrid firms in their operational strategies is certainly related to their local embeddedness (e.g. better access to local information that enhances their performance *vis-à-vis* foreigners), their privileged access to transnational networks of capital and technology reflects their outward connections.²² But even if recognizing the importance of these transnational informal communities, Fuller qualifies 'network optimism' and repeatedly stresses that returnees impacts are conditional on working under the correct governance schemes. In particular, he argues that his 'global hybrid model offers a corrective to the transnational networks approach by grounding these networks in other institutions, namely the institutions of finance' (p. 191).

Many of the private equity and venture capital firms that back Chinese 'hidden dragons' can also be characterized as 'hybrid', broker organizations that combine local embeddedness (that allows them to secure the best deal flow and operating capabilities) with good connections to international capital markets, simultaneously overcoming the liability of foreignness problems (Taussig, 2017) while still participating actively in international networks of finance, technology, and management. Fuller actually extends his 'hybrid firms' argument to the VC market. Foreign VC funds run by ethnic Chinese managers share with hybrid firms their 'ideational and interest-driven motivation to invest relatively more in China than the typical foreign VC firm' and also 'make the most technological intensive investments' (p. 62).

In sum, these books show how a range of different network relations affect business contributions to development. While they all resonate with a broad sociological paradigm, exemplify the relevance of non-economic structures and make causal claims about the consequential variations in social ties, their nature and function is quite varied. What explains much of the variation – and harkening back to the discussion in [Section 3](#) – is the types of firms that networks grow out of. Conglomeration in Argentina provided the basis for cozier business-government relationships, just as hybrid firms in China embedded the transnational networks crucial to combining financial discipline from abroad with local operational strategies. In short, understanding the origins and functions of networks require an analysis of firm organization and ownership.

5. Policy implications: what kinds of firms?

Foregrounding the analysis of firms – as in the previous two sections – has two main implications for policy, both of which are routinely neglected. The first is that, before designing industrial and innovation policies, policy makers should

inventory the types of existing firms, catalog their preferences and capabilities, and then tailor policies to the strengths and potential of these firms, as Korea did. The second implication is that, longer term, policy makers should also think about deploying different policy tools to shift the overall firm ‘demography’ to get more development-enhancing kinds of firms (and networks among them) and fewer development-sapping firms. Neither the books under review, nor recent research by practitioner multilaterals, offers much guidance on how to cultivate the right sorts of developmental firms.

Historically, the developmental state in Korea offers one of the clearest examples of development planners embarking on a specific plan of firm creation and molding after President Park announced in the 1960s the need for ‘mammoth enterprises’ (Amsden, 1989, p. 50). Government policy directly promoted the huge, diversified, family-owned chaebol that in turn became adept at implementing other policies aimed at establishing new sectors or expanding exports. Governments in Latin America focused in the mid-twentieth century less on encouraging particular kinds of private firms but instead created substitute SOEs and enacted restrictions on MNC entry and behavior. By the end of the century, privatization was a clearer case of governments attempting to shape the organization and behavior of large private firms, though their goals were often ad hoc and disconnected from overall development strategies, and sometimes led to woeful consequences (e.g. the telecommunications monopoly in Mexico, Levy & Walton, 2009) (Etchemendy, 2011).

Among multilaterals after 2000, Evans’ embedded autonomy became the new conventional wisdom. A more institutional post-2000 ‘Washington Consensus’ was less skeptical of state intervention and more interested in industrial policies. In the decade from 2005 to 2015, nearly all the multilateral development agencies produced reports on industrial policy: World Bank (Devlin & Mogueilansky, 2011), IDB (Crespi, Fernández-Arias, & Stein, 2014), ECLAC (2008), OECD (2013), UNCTAD (2018) and ILO (2011). All these reports recommended collaboration between business and government (for a review, see Schneider (2015)). As mentioned earlier, this new developmental framework grants business a more active role and emphasizes the importance of the governance of public-private collaboration to align incentives, foster meaningful exchange and discourage rent seeking. However, their guidelines also suffer from the institutional bias discussed in Section 2 and provide little detail into the types of firms best suited to collaborating with government.

In the recent outpouring on industrial policy from Washington, the IDB’s compilation (2016), *Two to Tango*, went beyond the generic, theoretical recommendations of other multilateral reports to examine empirically 25 cases of business-government collaboration in Latin America. The aspects that determine success or failure of this public-private cooperation appear to be less structural and more practical issues of collaboration and organization, especially the role of leadership and trust born in common backgrounds and shared experiences, elements that resonate closely with the network analysis in Section 4.

Two to Tango also emphasizes private sector organizational capabilities as prerequisites of successful policies, and industry associations are key to fostering cooperation among firms and to allowing for more stable interactions with government. In contrast to Yadav and Mukherjee’s book where the origin of business collective action is a function of a structural features such as firm size and geographic

agglomeration, different state agencies in Latin America play a more proactive political role facilitating collective action in order to have a business counterpart that can aid policy design and implementation (Schneider, 2004). At least implicitly, this edited volume, appears to share the skepticism on MNCs noted earlier due either to their lack of incentives (Fuller) or to insufficient capacity (Post) to engage successfully with their host environment. MNCs also tend to exhibit a less intense participation in business associations, fragmenting private sector representation and thereby complicating business-government collaboration (Schneider, 2015). Overall, the micro-empirical focus of *Two to Tango* leads to important insights on the roles of organizations of firms (and some ideas on networks), but does not delve into issues of what types and organization *within* firms would be most favorable to promoting public-private collaboration.

Similarly for Taylor the policy implication is not favoring particular kinds of firms, but rather advocating multiple forms of state support for network creation. As he argues, 'states that seek innovative economies must first knit together domestic networks of STEM labor with local entrepreneurs and investors. Then, the government must help create several types of international networks, especially linkages between domestic innovators and foreign markets for exports, investment capital, and sources of technical skills and knowledge' (p. 178). As noted in the previous section, for Taylor, networks grow naturally from flows of investment, students, engineers, etc. What is missing is closer consideration of the types of firms that employ the people engaging in networks. In order to develop networks out of these flows, employees must work in the kinds of firms that encourage networks and can take maximum advantage of them. For Fuller and many others, the optimal firms are new and small (and hybrid) rather than large and lumbering like business groups, SOEs and MNCs. In short, effective networks require the right kinds of firms to germinate and flourish.

In sum, neither researchers nor practitioners have been giving sufficient attention to the policy process of cultivating more developmental firms. This should be a key area for further elaborating a business-centered approach to development.

6. Business power: not to be forgotten

Our fifth, briefer argument on business power shifts the focus from business as the object of policy to business as protagonist in policy making. Research on business power has been more constant in recent decades (and less affected by the institutional hegemony in development studies), and would therefore require a separate review to do it justice.²³ However, it is important to remember that one of business' major impacts on development can come indirectly through wielding power to change policies in ways that benefit business without necessarily furthering development. In contrast, as noted earlier, several authors single out particular types of business in promoting develop-enhancing institutional change: Jones Luong and Weinthal (2010) on how private domestic oil producers foster institutions to stem the resource curse and Wang (2015) on how MNCs in China promoted property rights and the rule of law. We single out several other recent books that help advance our understanding of this political side of business.

Fairfield's (2015) *Private Wealth and Public Revenue in Latin America* develops a framework to analyze when and how business elites prevail, and applies it to the

study of tax policymaking. Through a comparison of the Argentinian, Chilean and to a lesser extent Bolivian cases through time and across economic sectors, Fairfield provides detailed qualitative evidence on the variation in the extent of influence business has over tax policy. By reviving classic concepts of instrumental and structural sources of business power, carefully operationalizing them and making them more user friendly for comparative analysis, Fairfield makes big conceptual contributions.

Structural power ‘stems from the profit-maximizing behavior of private sector actors and policymaker’s expectations about the aggregate economic consequences of myriad individual investment decisions made in response to policy decisions’ (p. 42). Hence, its exercise does not require any form of political mediation or collective coordination. While Fairfield’s concept of structural power goes well beyond the financial sector and ‘does not require capital mobility’ (p. 43), the concept resonates closely with Campello’s (2015) book on the interaction between bond-holders and politicians during presidential elections in Latin America. Setting aside the broader business community, Campello zeros in on bond holders (as did Mosley (2000) earlier) and shows how their leverage (or structural power) over economic policymaking increases, in particular with leftist governments, when foreign currency is scarce: ‘the necessity of attracting capital in a scenario of low supply and high demand for hard currency prompts leftist presidents to abandon their original agenda in favor of policies expected to win the confidence of the international financial community’ (p. 4). In this book, bondholders appear mostly as an external, anonymous force – ‘international financial markets’ – and therefore disconnected from other more directly political sources of power.

In contrast, Fairfield’s domestic focus sidelines external forces, but it explores more deeply the interaction between structural and instrumental sources of power of domestic business elites. If structural power is a form of Hirschman’s (1970) exit strategy, instrumental power is voice; it ‘entails capacity for deliberate political action’ (p. 28) and includes all of the influence channels addressed by the more conventional literature on business politics. Among the instrumental sources of power, Fairfield distinguishes between those that characterize business relationships with decision makers (partisan linkages, institutionalized consultation, recruitment into government, etc.) from those resources they hold internally as a group (e.g. cohesion, money and expertise).

Other books pick up on several of the elements of Fairfield’s exhaustive inventory of sources of business power. For Yadav and Mukherjee, business associations can have an outside role in authoritarian contexts (with other possible channels for influence restricted) in fostering transparency. Although Fairfield would agree that organizations boost business influence, she focuses on redistribution rather than anti-corruption policies and notes that ‘whereas leading literature views strong business association and institutionalized-business consultation as promoting socially desirable outcomes, I emphasize that these factors can hinder efforts to promote equitable development in highly unequal societies’ (p. 21). In contrast to Post’s positive views of the informal reciprocal ties between politicians and business group owners, Fairfield warns that ‘in the absence of a Weberian bureaucracy, informal ties may lead to state capture’ (p. 37). More generally, Fairfield resumes a more critical tradition of close informal ties between business and government (e.g. revolving doors, political connections), closer to arguments about the ‘dark side’ of

social capital that are conspicuously absent from the network discussion in Section 4.²⁴

Together with informal ties, the election of business people into public office is also among Fairfield's relationship-based sources of instrumental power. Szakonyi's (2020) book emphasizes the electoral route as a particularly salient channel of business influence, again, in weakly institutionalized environments, in this case Russia. He argues that more conventional indirect avenues of influence such as campaign contributions or lobbying suffer from pervasive commitment problems: politicians regularly renege on promises they make to firms. So, given high transaction costs, the 'integrated' solution is to pull government relations 'in-house'. Therefore, business people run directly for office in order to access economic benefits. With data from Putin-era regional legislatures, Szakonyi shows that firms connected to winning business politicians increase their revenues substantially. And harkening back to Fairfield's dim view of business influence on policy, Szakonyi also shows that elected capitalists bias fiscal policy in their favor and prioritize infrastructure over social investment.

By only focusing in one or a few dimensions of business power, the books under review only tentatively and partially explore the deeper dynamics through which business influences policy. None of them follows Fairfield suggestion to integrate all sources of power within a single analytical framework and explore how they complement and reinforce each other (p. 49). This suggestion may be too tall an order for scholars primarily interested in tracing business in overall analyses of business and development. At the same time, the more disaggregated views of different types business in the books under review could be helpful in extending Fairfield's arguments to examine the sources of differences in structural and instrumental power.

Overall, if business usually wins in policy making, it becomes all the more important to understand firms' preferences and incentives, particularly on issues not as clear cut as taxation.²⁵ A business-centered approach that takes into account the dimensions examined in previous sections – ownership, organization, and networks – can be helpful for business power research and guide the analysis of potentially heterogeneous firm incentives and capabilities. As the books under review suggest, firms' relative power, the instruments through which they exercise that power, as well as their preferences are likely to vary according to their ownership structure and societal ties.

7. Conclusion: completing the picture

The recent wave of research on business and development allows us to reframe discussions of political economy of development away from the institutionalist consensus and elaborate an alternative that foregrounds business organization and ownership, and the networks that grow out of business to connect businesses domestically, internationally and to the state. Taylor aside, the other books brought more narrowly focused empirical evidence – by country, sector or policy area – to support business-centered arguments. Lacking a broader empirical base, these theories cannot yet clinch the debate with the institutionalist hegemony. However, a clear research agenda can be derived from these books, namely, do ownership, firm

organization and firm networks have similar effects on development in other contexts?

Organization, ownership and networks are crucial dimensions of business, as argued by the books under review, but they do not exhaust the range of characteristics essential to a business-centered approach to development. The short list of additional dimensions would include participation in GVCs, sources of finance and family firms and management. Of these, as noted in [Section 2](#), research on GVCs has advanced the furthest. The GVC focus was the first and strongest challenge to the institutional consensus in focusing on firms and privileging international connections over domestic context. However, reconnecting GVCs to the domestic political economy (Fuentes & Pipkin, 2016) and to other dimensions of business is needed for a more integrated, business-centered approach to development.

Finance and corporate governance are crucial to the VoC literature (as well as to Fuller). Much earlier work on finance and development sought to export the Berle-Means model of large, liquid stock markets and dispersed corporate ownership. On this view, shallow stock markets in developing countries impeded stock listings and therefore restricted the flow of capital for investment. However, as rich country stock markets move away from the Berle-Means model (fewer companies listed, 'later' and fewer IPOs and more private equity), so too should the analysis of finance and development to alternative arrangements like foreign and domestically financed, locally-managed private equity (Puente, 2020), state minority shareholding (Musacchio & Lazzarini, 2014) and sovereign wealth funds (Braunstein, 2019).

Another distinctive feature of business in developing countries is family ownership and management. The prominence of family control is often acknowledged but rarely researched (though business schools in both rich and poor countries offer courses on family management). Conventional views see family controlled firms as entrepreneurial in their foundation phase (Amsden, 2009; Khanna & Yafeh, 2007) but then conservative and risk averse after founders retire (Morck et al., 2005), generally patient in investments, more embedded in politics, and paternalistic in employment relations. All these hypotheses merit further research, especially in ways that more coherently integrate into debates on business and development.²⁶

If business organization, ownership and networks – the core variables analyzed here – affect development, then the next question is about the sources of variation in firm structure and networks. This origins question also provides a way to reincorporate the statist and market-institutionalist approaches from [Section 2](#), as well as inform multilateral policy on business support. Take business groups. Most analyses of the causes for the dominance and persistence of business groups in developing economies highlight either the hand of the state or market factors (usually market failures, institutional voids). On the statist side, government regulation and subsidy often favor the formation of business groups (Amsden, 1989; Schneider, 2008). For others, business groups result from the absence of markets and institutions like vigorous property rights and vibrant financial markets (Colpan et al., 2010; Khanna & Yafeh, 2007). This is not the place to try to adjudicate another controversy over the roles of states and markets. The point rather is to note that firm organization, ownership, and networks can still be crucial variables in a longer, integrated causal chain running from states and markets through firms to development outcomes. The origins question is also crucial to the neglected

policy implications raised in [Section 5](#). Better understanding of where different types of firms come from would be valuable to policy makers seeking to promote develop-enhancing types of firms.

Notes

1. For a full review of scholarship on developmental states, see Haggard (2018).
2. For other works in the recent wave of renewed interest in business and development, especially in political science, see Fuentes (2014), Kingstone (2011), Shadlen (2017), Szakonyi (2018), Wellhausen (2014), Yadav (2011), Schneider (2013) and Nölke and Vliegenthart (2009).
3. For recent reviews, see Pandya (2016) on FDI, Alfaro (2017) on MNCs, Gereffi (2018) on GVCs and Kim and Osgood (2019) on trade.
4. In Gereffi's overview of GVCs, he writes that generally 'those who study countries tend to adopt institutional perspectives, while those who work with firms favor organizational frameworks' (Gereffi 2005, p. 169).
5. Other strands in sociology, especially organizational behavior and economic sociology, put firms at the center of analysis. However, they are less concerned with development and focus mostly on developed countries. See Scott and Davis (2007). See Schrank (2015) for an exception.
6. For a meta-regression analysis of all this literature see Li, Owen, and Mitchell (2018).
7. Kim and Osgood (2019) review the IPE literature on trade and criticize its approach that almost exclusively aggregates interests at the industry and sector-level. Integrating findings from the new trade theory in economics, they advance a firm-level approach that emphasizes within-industry heterogeneity based on firms' size and productivity levels (rather than organization, ownership and networks emphasized in this review).
8. Still, FDI – included in the regressions as a control – is significantly and negatively related to corruption in all the different statistical models Yadav and Mukherjee run (see Chapter 5).
9. Busch and Reinhardt (2000) also analyze the impact of geographic concentration of industries on political mobilization around trade but their argument works through individuals and voters rather than firms.
10. Also see Jones Luong and Weinthal (2006, 2010) argument about the ownership type of oil companies in petroleum-rich Soviet successor states. Domestic private oil companies, can counterbalance the state's power and can foster the creation of an institutional framework that constrains the executive and helps overcome the resource curse.
11. Since the 'categorization of firms as state-owned enterprises has become increasingly difficult' in China (p. 15), Fuller distinguishes domestic firms that are close to the state in terms of finance and procurement from those that are not.
12. For a more benign assessment of the developmental role of – different levels – of the Chinese state, see Breznitz and Murphree (2011).
13. MNCs limited contribution to innovation resonates with a larger literature that finds that positive MNC spillovers depend on a range of fairly restrictive contextual factors (such as deep local financial markets, high levels of human capital and the pre-existence of sophisticated suppliers) and overall refers to the heterogeneous 'quality' of FDI (see Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004; Alfaro & Charlton, 2013; Cohen, 2007). Jensen (2008) offers a more positive view.
14. See also Coval and Moskowitz (1999) and more generally, Pauly and Reich (1997).
15. Regarding the importance of the nationality of MNC, also see Beazer and Blake's (2018) argument about the valence between home and host country's institutions.
16. Bloom, Sadun, and Van Reenen (2015) find private-equity-owned firms are in average better managed than government, family and privately-owned firms, and have similar management to publicly-listed firms. See also Puente (2020).
17. Relatedly, Johns and Wellhausen (2016) show that supply chain linkages with local companies function as informal substitute for property rights, helping protect foreign

firms operating in weakly institutionalized environments from government expropriation.

18. Our focus is on the *how* rather than in the *why* question. For the latter, Taylor refines the ‘systemic vulnerability’ thesis (e.g. Doner, Ritchie, & Slater 2005) and makes an argument about ‘creative insecurity’. Innovation flourishes when there is a larger ‘positive difference between the threats of economic and military competition from abroad and the dangers of political-economic distributive rivalries at home’ (p. 13).
19. These pillars are the ‘five most prominent institutions and policies that governments use to correct the market failures that plague innovation: (...) intellectual property rights, research subsidies, education, research universities and trade policy’ (p. 74).
20. The diversity of networks certainly creates a measurement challenge. Taylor mentions a variety of metrics, all of them related to a country’s cross-national ties: STEM graduates of top international universities, international flow of STEM labor, FDI, trade in capital goods and KOF globalization index.
21. For an interesting network analysis of the connections among the Chinese state and both domestic and transnational business elites, see de Graaff (2019).
22. Pandya and Leblang (2017) show venture capital FDI flows are less sensitive to host formal institutions, but instead correlated with skilled migrant networks that can help monitor compliance and impose reputational costs on defectors.
23. In addition to works cited in the introduction, see Schneider (2004), Sinha (2005) and Winters (1996).
24. For some prominent examples of the empirical literature on the effects of political connections see Faccio (2006) and Fisman and Wang (2015), among others.
25. See for example Bril-Mascarenhas and Madariaga (2017) who use Fairfield’s approach to explain (the lack) industrial policy in Chile.
26. Family management, especially when it includes multiple generations and extended kinship, constitutes a core firm network and may as such promote more coherent management. However, as a network, families are much more closed than the sorts of broad, open networks advocated by Fuller, Taylor and others.

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