EDITORIAL: The corporate governance of business groups

Dear readers!

Most of the business academic literature, as well as the more specific corporate governance literature, focuses on firms without paying much attention to their relationship with other firms. However, firms are generally related to other firms. Indeed, all around the world, many legally-independent firms are linked through various, persistent economic and social relationships and operate in a coherent manner to achieve mutual objectives. This is what is commonly known as a business group (Dau et al., 2021; Colpan et al., 2010; Khanna & Yafeh, 2007; Yiu et al., 2005).

Business groups are predominant in emerging economies, mainly because they overcome institutional voids (Chung & Luo, 2018; Khanna & Yafeh, 2007). However, business groups are also relevant in developed economies (Aguilera et al., 2023; Aguilera et al., 2020). In the Organisation for Economic Co-operation and Development (OECD) countries business groups generate around 40% of the total employment. Different names are used to identify business groups all around the world, such as *qiye jituans* in China, *chaebol* in South Korea, or *grupos* in Spain and Latin American countries. For instance, Samsung (South Korea), Toyota (Japan), Volkswagen (Germany), and Inditex (Spain) are large business groups. However, smaller business groups are also relevant, adopting this organizational structure for a variety of reasons, such as risk controlling or tax optimization (Lechner & Leyronas, 2009; Nicodano & Regis, 2019; Zattoni, 1999).

Even though business groups are relevant organizational forms all around the world, little is known about their corporate governance. Previous literature is mainly focused on the effects of ownership (Boyd & Hoskisson, 2010; Colli & Colpan, 2016), e.g., the relationship between pyramidal structures and tunneling activities (La Porta et al., 1999). Affiliated firms are legally independent, and, therefore, have the standard corporate governance mechanisms, such as the board of directors. Additionally, the corporate governance of business groups may use business group-specific mechanisms that we already do not fully understand. For example, headquarters directors holding board positions at the affiliated firms' boards, or affiliated executives reporting directly to the headquarters of the business group (Ambos et al., 2019; Kriger, 1988; O'Donnell, 2000).

The business group needs to coordinate and control the activities of all the affiliated firms. This generates potential conflicts between affiliated firms, especially between the interest of the headquarters and the interest of affiliated firms, and the principal-principal conflicts become more relevant and also more complicated. For example, if the business group is hierarchical and the headquarters has decision (voting) rights in the affiliates, the controlling shareholders of the headquarters may try to extract rents from the minority shareholders at the headquarters, and also at any affiliated firm. The agency conflict between shareholders and managers becomes also more complex since there are managers in all affiliated firms, with interests that may diverge from the interest of the headquarters in an environment with potentially large information asymmetries between all the agents involved in the business group. This complicates substantially the corporate governance of business groups and justifies the need for studies to understand it.

The literature on the corporate governance of business groups is in its infancy. For example, a few articles analyze the board of directors in business groups affiliated firms, such as Du et al. (2011), who analyze the activity and the rubber-stamping role of affiliated boards. Therefore, this editorial note encourages future research on the corporate governance of business groups. Recent developments facilitate the identification of business groups all around the world based on ownership links, and this facilitates the first step in any empirical analysis of business groups, facilitating the analysis of large and representative samples of business groups (Belenzon et al., 2019; Faccio et al., 2021; Faccio & O'Brien, 2020; Masulis et al., 2011).

In this issue of the journal *Corporate Board: Role, Duties and Composition*, *Ibtissem Kaabi* analyzes the effectiveness of the audit committee of the board of directors during the COVID-19 pandemic in French firms. Their findings are consistent with the higher activity of the board during this period being positively related to the effectiveness of the audit committee. In the second article of this issue, *Ihsanul Ikhwan, Mohamed Asmy Mohd Thas Thaker*, and *Hassanudin Mohd Thas Thaker* also focus their analysis on the COVID-19 pandemic, analyzing the technical efficiency of Indonesian government-owned banks. They detect the most efficient banks and the overall tendency of efficiency during this complicated period. It would be very relevant to understand how these issues are when firms belong to business groups. The last article by *Volkan Dayan* provides an exhaustive review of the conference proceedings of the international online conference *Corporate Governance: An Interdisciplinary Outlook*.

The interaction between boards of affiliated firms may facilitate its effectiveness. Although these boards have to deal with more complicated issues, business groups have additional corporate governance mechanisms. Affiliation into a business group could also facilitate efficiency improvements, since affiliated firms may share resources among them. These are areas of study that deserve to be explored.

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