

Family business groups yield the greatest political influence

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Family business groups are better positioned to play the political game than their non-family counterparts and benefit their affiliate firms, according to new research by emlyon business school.

The study, conducted by Professors Addis Gedefaw Birhanu and Filippo Carlo Wezel, looked into whether business groups have a competitive advantage in the political environment in comparison to non-family-owned businesses and which type of company ownership is more likely to leverage this advantage.

The researchers found that the overlap of management and ownership, and their stability over time, grants family business groups an edge over other firms when it comes to developing trust and exchanging favours with a low risk of traceability with politicians.

In order to find this, the researchers analysed the context of Egypt and Tunisia when they experienced a sudden and peaceful government change following the Arab Spring.

This government change disrupted the 'ruling-bargain' that dominated those countries for several decades and allowed researchers to measure the lost benefits of political influence and identify if certain business groups benefit more from political influence than others.

"Our research found evidence that family business groups have unfairly benefited from the privatisation of state-owned firms, privileged access to licenses and scarce resources such as land for real estate development, and loans from government owned banks," says Professor Birhanu.

However, the results also revealed that while affiliation with family business groups is beneficial, in contexts like Egypt and Tunisia, abrupt political changes can cost these firms profoundly.

The research revealed that during the Arab Spring, affiliates of family business groups suffered a huge profit loss, as high as 29 per cent, of the average profitability in the sample.

The researchers say that any policy intervention that aims to address the political influence of family business groups should focus on the macro-institutional conditions that make political influence more attractive than attempting to weed them out.

The research paper was published in the journal of Strategic Organisation.

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