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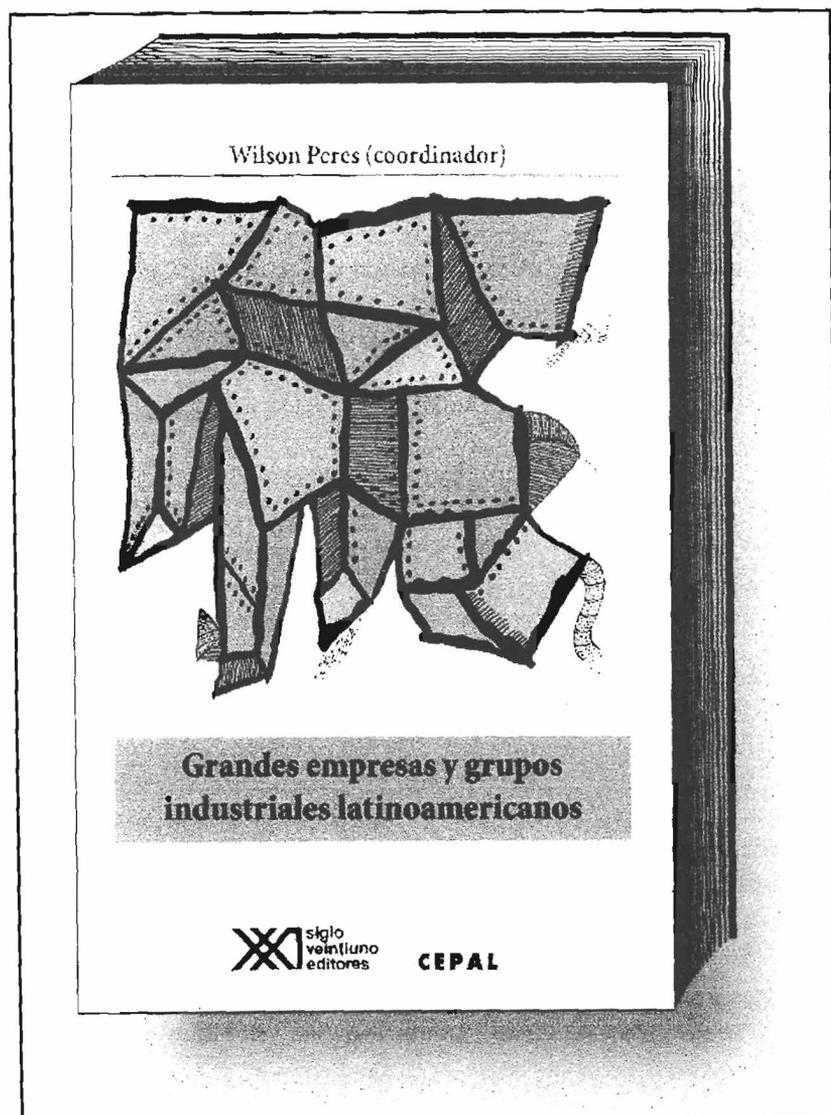
NOTAS SOBRE LA ECONOMIA Y EL DESARROLLO

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LARGE LATIN AMERICAN INDUSTRIAL COMPANIES AND GROUPS IN THE 1990s



- Latin America's large industrial companies and groups increased in size during the second half of the 1990s, although they fell behind compared with large-scale foreign private companies operating in the region.
- Between 1990 and 1996, the 100 biggest Latin American industrial companies increased their annual sales from an average of US\$827 to US\$1,345. But they grew more slowly than foreign companies, whose affiliates in the region increased in average size from US\$1,075 million to US\$1,879 million in the same period.
- Affiliates of foreign companies increased their presence in the region substantially, accounting for 57.3% of total sales by the 100 biggest industrial companies. State companies practically disappeared from the universe of large industrial companies.

**DYNAMICS OF THE 100 LARGEST INDUSTRIAL COMPANIES
1990, 1994 AND 1996**

	1990	1994	1996
Average sales (millions of dollars)			
Private national	827	1 241	1 345
Foreign	1 075	1 841	1 879
State	961	2 757	4 000
General average	937	1 520	1 638
Share in sales of 100 largest industrial companies (percent)			
Private national	45.9	44.9	40.2
Foreign	45.9	53.3	57.3
Auto	(22.1)	(30.0)	(30.2)
Others	(23.8)	(23.3)	(27.1)
State	8.2	1.8	2.5
Totals	100.0	100.0	100.0

Source: ECLAC, based on *Base de datos sobre las mayores 1000 empresas en América Latina, 1990-1992*, América Economía, 1993, and *Las 500 mayores empresas de América Latina, 1996/97 Edition and 1997/98 Edition*, América Economía, 1996 and 1997.

Large privately-owned national industrial groups and companies are strongly situated in Latin American markets in the second half of the 1990s. This is the result of the structural transformation of regional and international economies since the beginning of the 1980s. These groups, together with the affiliates of transnational companies, are now the largest and most dynamic business units operating in the region. Their predominance has been consolidated by the privatization of the great majority of state industrial companies.

These findings are included in the book *Grandes empresas y grupos industriales latinoamericanos. Expansión y desafíos en la era de la apertura y la globalización* (Large Latin American Industrial Companies and Groups: Expansion and Challenges in the Age of Opening-up and Globalization), prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) under the coordination of **Wilson Peres**.

The 472-page publication includes the results of studies of the structure and dynamics of large groups and companies in five countries (Argentina, Brazil, Chile, Colombia and Mexico). These studies, which are carried out comparatively in order to provide a joint perspective, include individual analysis of 46 leading companies (in Brazil, Chile and Colombia) and 15 industrially-based economic groups (in Brazil and Mexico), as well as overall discussions of such groups in Argentina, Brazil and Mexico.

In all these cases, analysis is based on specially carried out interviews, statistical and documentary material, and information previously published in the literature on the subject. Periods covered extend from the foundation

of some groups at the beginning of the century, or during the upsurge of import-substitution industrialization, to the changes under way in the second half of the 1990s. Beyond historical interest, the analysis focuses on the past decade, when structural reform in the majority of these countries was accentuated.

The competitive standing of the large groups is still in transition, argues the ECLAC study, and, despite its strengths, "confronts threats arising from its structural characteristics, particularly the small size of the groups compared with their international competitors, and their positioning in technologically mature sectors with lesser levels of dynamism in world markets. The growth dynamics of these groups have suffered problems in pulling ahead the rest of the national economies, making it difficult to categorize their competitive position as one of real leadership."

An aggregate analysis shows that national companies have increased in size, while falling behind within the overall universe of large private industrial companies (national and foreign). This is the result of the interaction between two important processes arising from the structural reforms. The first of these processes was the privatization of state companies during the 1980s and 1990s, which practically eliminated such companies from the universe of large manufacturing companies in the region. The other change was the growing presence of affiliates of foreign companies, as a result of deregulation, the liberalization of measures restricting the presence of these companies in particular sectors, and policy measures taken to attract foreign capital.

The dynamics of size can be seen in the above table, which shows that the national companies included among the 100 largest industrial companies in Latin America increased their annual sales from an average of US\$827 million in 1990

to US\$1,345 million in 1996. Despite this, however, they grew more slowly than foreign companies, whose average size increased from US\$1,075 million to US\$1,879 million in the same period.

The table also shows that the national companies' share of sales by the 100 largest companies fell from 45.9% to 40.2% between 1990 and 1996, while that of state companies fell by more than two-thirds, and foreign affiliates increased their share significantly to 57.3%. However, it should be born in mind that companies from a single industrial sector, auto

assembly, account for 30% of the foreign companies' share both in 1996 and 1994 (in 1992, this percentage was 22.1). As a result, 8 points of the 11% rise were the result of the notable performance by this industry in the countries examined, almost all of it between 1994 and 1996.

As far as policy conclusions are concerned, ECLAC argues that four areas merit special attention, as they will form part of future debate in the region. In general terms, they are the following: alternative forms of connecting the financial and industrial sectors; problems arising

from the reduced size of national groups compared with their large international competitors; limitations imposed on the competitive development of national companies by their sectoral specialization; the articulation of the large groups with others, especially small and medium-sized companies.

The national studies included in the book contain rich material for consideration and for the design of proposals for action aimed at harmonizing the macroeconomic, sectoral and microeconomic factors affecting companies in Latin America.

STRUCTURE AND DYNAMICS OF ECONOMIC CONGLOMERATES IN ARGENTINA

Conglomerates owned by national capital are one of the business poles of the still incomplete process of international re-integration of the Argentinian economy. The other such pole is made up of the affiliates of international companies, argues Roberto Bisang in *La estructura y dinámica de los conglomerados económicos en Argentina*.

Modifications in the profile, composition and conduct of economic agents stand out among the economic transformations under way in the Argentinian economy. Public companies are disappearing, there is an upsurge in the presence of affiliates of transnational companies, and the performance and relevance of small and medium-sized companies are being rethought in the context of an economy on the road to globalization.

The group of business conglomerates owned by national capital is taking on great economic

significance. The ECLAC study shows that this group is made up of some 40 heterogeneous organizations controlling about 700 large companies. Between them they account for almost 30% of total industrial production by value, 35% of manufacturing exports and just under 20% of the country's imports.

Some 40 organizations control about 700 large companies in Argentina.

These account for almost 30% of industrial production by value, 35% of manufacturing exports and just under 20% of the country's exports. They also provide some 20% of industrial employment.

These conglomerates operate in various sectors of production, although with a marked bias towards the industrial activities which they have carried out since

their origins. Diversification is one of their principal characteristics, but in response to new economic and regulatory conditions, they have begun to outline strategies for specialization.

Of particular importance in this specialization process are the conglomerates which produce basic inputs (petroleum, steel, aluminium, cement), energy, food products (oils, confectionery, dairy products) and some specialized services (multimedia, transport, communications).

Considerable heterogeneity exists within the economic conglomerates. In terms of size, a small group invoices between US\$2,000 million and US\$3,000 million annually, with a workforce of over 20,000 and a clear and active presence abroad through trade and direct investment. A second group invoices between US\$1,000 million and US\$2,000 million, with a minimal interna-

tional presence. The rest is made up of companies - many of which are strongly family-based - which operate almost exclusively in local or regional markets (Mercosur). While their size allows them to be categorized as large by local standards, only a few have any international relevance.

The conglomerates have various origins. A few began as trading companies at the end of the nineteenth century, as part of the agro-exporting model. The largest group has its roots in family businesses founded during the period of import substitution. These

companies expanded significantly in the 1980s and 1990s as a result of an advantageous mix of links with the public sector, the development of new activities, technological improvement and enhanced internal management. Recent years have also seen the emergence of groups from the financial sector - through investment funds - which in a number of cases have carried out activities with a great impact on the technical and productive organization of their companies.

These groups responded to the opening-up and international

integration of the economy by putting a number of strategies into practice. Economic deregulation favoured them; but they also began to feel the effects of international competition. The result, depending on the initial standing of the companies, was a variety of adjustment strategies, in which agreements with international firms, trends towards specialization with Mercosur in mind, and general recourse to the international financial markets are frequent. In a few cases, share packages were sold in part or totally to foreign investors.

THE DYNAMICS OF LEADING COMPANIES IN BRAZIL

Brazilian industrial companies have responded to changing economic policy and globalization with a thoroughgoing revision of their operating strategies and policies. A broad process of industrial restructuring is now under way, say **Ruy de Quadros Carvalho** and **Roberto Bernardes** in the chapter *Cambiando con la economía: la dinámica de empresas líderes en Brasil* (Changing with the Economy: the Dynamics of Leading Companies in Brazil).

The Brazilian economy has undergone great changes since the beginning of the current decade. According to the cases examined in the ECLAC study, the most common effect of these has been intensified competitive pressure, especially in the internal market. Adjustments in companies have been deep and widespread, and have given rise to a pattern of growth and investment which aims at increasing productivity and acquiring new technological capacity.

Adjustments have been thoroughgoing and widespread in Brazilian companies. The emphasis now is on increased productivity and acquiring new technological capacity.

Adjustment strategies have included five main points. Firstly, foreign markets and exports have been given greater importance. Ownership is frequently restructured by means of sales, acquisitions and mergers, and, associated with this, a trend is discernible in some cases towards the denationalization of Brazilian companies and the concentration of capital. Thirdly, product innovation is general; all the companies sampled, without exception, had significantly broadened their mixes of products and services during the current decade. Fourthly, this renovation has been accompanied by a leap in the quality of production methods and techniques. Among leading companies, techniques such as total quality control, total productive maintenance, quality

groups and just-in-time have been assimilated and put into practice. Lastly, there is a trend - significant though not always present - towards reduced geographical concentration, especially where new investments are concerned. This is particularly apparent in the state of Minas Gerais, though it is taking place in several regions of the country.

Despite such trends in the strategies adopted by leading companies, the concrete effects of competitive pressure, as well as the particular adjustments carried out in each case, followed varied, non-homogeneous patterns. These differences can be classified in a number of ways, but the ECLAC study considers that the most important is by variation of company size.

According to this criterion, two groups can be clearly defined. For some of the companies examined in the study, adjustment was marked by a reduction of total sales, profits and jobs, while others were able to take measures while maintaining

growth, increasing income and profits, and holding job levels steady or improving them. These differences were explained by the

variables imposed by the specific production sectors or market segments in which the companies operated, the existence or otherwise

of sectoral policies, and the capacity previously accumulated by each company.

THE STRATEGIES OF LARGE ECONOMIC GROUPS IN BRAZIL

The history of Brazil's large private economic groups is bound up with that of the country's industrialization. In both cases, since the beginning of the 1990s, recession, trade liberalization, state reform, privatizations and economic stabilization have brought about important transformations. In the chapter *Las estrategias de los grandes grupos económicos brasileños* (The Strategies of Large Economic Groups in Brazil), **Regis Bonelli** examines the responses of these groups to the structural reforms and changes in the pattern of industrialization which have taken place during the decade, with special emphasis on business strategies.

Almost 90% of the 300 largest economic groups in Brazil are under family control.

According to the study, almost 90% of the country's 300 largest private national economic groups are under family control and are administered by members of a single family. The share of these groups in the economy has increased since the end of the 1980s. Groups based in finance and heavy construction are increasing their importance among the largest groups and extending their presence in the industrial sector. Almost all these groups have shown interest in public service concessions and privatizations, above all in telecommunications and electricity, in association with other

groups which own the relevant technologies.

Another characteristic of a large number of the groups is the considerable internationalization of their activities. Pension funds, especially those run by the state, have grown significantly, a process enhanced by privatization. The groups' ranking by size is unstable, due to intensive changes in ownership structure in the 1990s. These changes came about largely as a result of mergers and acquisitions, among which purchases of Brazilian companies by foreign companies stand out. There is no sign that these trends are yet exhausted; on the contrary, mergers and acquisitions, with or without participation by foreign capital, remain an important determinant of the evolution of the large groups. Finally, until 1994 the financial conglomerates rose markedly in the ranking of the largest groups, due to profits deriving from inflation.

In general terms, business strategies in the 1990s reinforced existing trends by which ownership restructuring was carried out through mergers, acquisitions and sales of companies. This was partly due to trade liberalization and recession at the beginning of the decade, which lead to an unprecedented increase of competitive pressure.

The response of the large industrially-based groups to state reform was heterogeneous, and only

some of them took a significant part in the privatization process, where the weight of the financial conglomerates and those based in heavy construction was especially felt. Furthermore, privatizations lead to alliances between local groups and the affiliates of transnational companies. Links also existed between industrially and financially-based groups.

If they are analysed according to the strategies they have adopted, the groups examined - all of which were successful in their previous adjustment processes - fall into three main categories: firstly, those belonging to the most competitive sectors, where adjustment and growth are recent and technological and market options are governed by caution; secondly, those, such as commodity producers dependent on external demand, who emphasize specialization and vertical integration; thirdly, those which opt for diversification involving high degrees of financial risk and debt, whether external or not, and which have widened their business portfolios by taking part in privatizations intensively and with little selectivity.

Privatizations have encouraged agreements between national, privately-owned and industrially-based groups, those based in heavy construction, financial groups and national pension funds, and foreign groups, financial and others. Although financing investment with retained profits remains the norm - fiscal credit lost its importance at

the beginning of the 1990s -, new ways of mobilizing resources are becoming increasingly common. The new sources of funds made

possible by the above-mentioned agreements have allowed one of the main obstacles to the growth of the groups in the past to be

overcome: their excessive dependence on companies' own internal resources to finance investment.

LEADERSHIP IN CHILE'S LARGE COMPANIES

Chile is considered to be a laboratory of business strategies in Latin America, due to its early apprenticeship in liberalization and the opening-up of the economy, and its testing, application and rectification of a range of strategies for dealing with greater competition and market rivalry.

In the chapter *El liderazgo en las grandes empresas en Chile* (Leadership in Large Companies in Chile), **Mario Castillo** and **Raúl Alvarez** look at the country's twenty leading companies.

Their study concentrates on three main topics: why these companies are considered leaders; the main focuses of their strategic management and how this has helped the companies deal with change and achieve competitive standing; the dynamic effects produced by these companies on the productive system, and the kinds of public policies, where appropriate, which are necessary to maximize these effects.

Emerging sectors in Chile - such as telecommunications and electricity, where the main leading companies are to be found - are consolidating.

The ECLAC study defines business leadership as a combination of management capacity, image and reputation with economic performance indicators. Leaders are considered to be "companies which have achieved satisfactory financial results and are evaluated favourably by the business community in terms

of management capacity, image and reputation".

The authors reach four conclusions. Firstly, business leadership is not exclusively a matter of financial results, given that of the twenty companies not all are among those with the best such results.

Secondly, emerging sectors - such as telecommunications and electricity, where the main leading companies are to be found - are consolidating. Fifteen years ago, by contrast, producers of forestry, fishing and mining commodities predominated.

The third conclusion is that diversity exists among the economic groups controlling the leading companies as far as origin and size are concerned. The Enersis Group, a holding founded in the 1980s, controls the main electricity generating company, ENDESA, and the main distributor, CHILECTRA. Telefónica Española, which has operated in the country since 1990, controls the Compañía de Teléfonos de Chile (CTC) and has had to deal with the deregulation of the telecommunications market. Traditional economic groups such as Angelini (COPEC and CELCO), Matte (CMPC and ENTEL), Luksic (MADECO and CCU), Said (ANDINA) and Edwards (El Mercurio) control eight of the twenty leaders.

Fourthly, the most recently created groups, such as Cruzat (CRUZ BLANCA), Soquimich, CAP, Pathfinder (IANSA) and Sigdo Koppers (CTI), control another five.

Among the factors explaining the success of the leading companies, their great skill in "plotting the business cycle" stands out: assessing value in the growth phase, taking advantage of sustainability during the phase of stability, and recognizing vulnerability when the cycle enters its phase of decline. This ability explains how there can be such significant changes of positioning among companies in the same industry (due to the success of some and decline of others).

In this context, upper management in the leading companies has successfully met the challenge of understanding the direction and velocity of change in their sectors and deciding which business plans respond most effectively to these patterns as regards markets, products and technology.

In assessing the corporative strategies of the leading groups, unity, coherence and internal consistency in strategic decision-making appear to be key. The following factors stand out: consistency between strategy, goals and policy; strategic coherence in responding adaptively to the business environment and competition; strategic advantage in creating and preserving competitive superiority in the chosen area; the viability of preserving resources.

Three corporative strategies adopted by the main economic groups were taken as examples of these factors in operation: that of Enersis, which has demonstrated a high degree of

consistency between strategy, goals and policy in achieving internationalization; that of the Angelini Group, which shows an adaptive response to new conditions in the commodity markets by developing new business areas; and that of the Matte Group, which has given priority to the preservation of competitive superiority in the forestry sector.

The study evaluates organizational change in a group of six leading companies made up of CTC, CAP, MADECO, CCU, IANSA and CTI, taking into consideration strategy,

structure, systems, human resources, skills, styles and principal goals. The results confirm that business innovation, changes in corporate strategy and the adoption of new management practices create a wide margin for increased microeconomic efficiency.

Finally, the ECLAC study estimates the actual and potential influence exercised by the leading companies in the productive system. The direct and indirect requirements of these twenty companies for raw materials, inputs, equipment and services

amounts to US\$8,400 million, or 15% of GDP. This implies that these companies deal, directly or indirectly, with some 7,000 small and medium-sized companies employing approximately 80,000 people.

From the point of view of public policy, therefore, significant potential exists to improve the articulation and complementarity between companies of varying sizes in different sectors of production. This potential is associated both with the improvement of mechanisms for sub-contracting and the externalization of functions and additional services.

COLOMBIA: BUSINESS STRATEGY DURING THE OPENING-UP OF THE ECONOMY

The behaviour and performance of Colombian manufacturing industry during the years of economic opening-up have been, to a large degree, the result of the previous import-substitution model. This brought about a strong expansion of manufacturing industry, within the tight restraints of a model whose broader base was in agriculture for export.

Changes carried out in Colombia to adapt to the opening-up of the economy were concentrated in foreign trade, the structure of company expansion, profit margins, labour productivity and organization.

So argues **Gabriel Misas Arango** in *Colombia: la estrategia empresarial en la apertura* (Colombia: Business Strategy During the Opening-Up of the Economy).

In the early 1990s, Colombia began a process of commercial liberalization aimed at increasing the competitiveness of the productive sector. Contrary to

intentions, this process created serious imbalances in the economy and led to the strengthening of the large economic groups, which were able to accumulate big profits by providing services in electricity distribution, telecommunications and finance.

The aim of this chapter is to understand the changes introduced in Colombian industry to confront the opening-up process. These changes were concentrated in the areas of foreign trade, the structure of company expansion, profit margins, labour productivity and organization. To study them, and the challenges faced by companies during the reform process, sixteen large companies were examined, all of them producers of tradeable goods and representative of their branches of production.

Not all the required changes were achieved. Opening-up did not lead to a great exporting effort and the export-import ratio fell drastically. Similarly, although labour productivity (sales per worker)

increased, this was achieved by a 8% fall in employment. Companies did not take advantage of liberalization to produce more, but devoted themselves to increasing their profit margins by selling imported products. These greater profits were not reinvested in manufacturing industry but in non-tradeable sectors which offered more promising perspectives for profit.

Some positive results were achieved, says the ECLAC study, such as the widespread diffusion in the economy of organizational changes introduced by the large companies and imitated by smaller firms.

In any case, the investigation concludes, the challenges faced by the companies are neither few nor easy to deal with. Companies know that productivity growth is reaching its limit and that the only way of continuing expansion is through greater investment in technology and a reorientation of profits towards the manufacturing sector.

LEADERSHIP BY LARGE INDUSTRIAL COMPANIES IN MEXICO

In the 1990s, large private Mexican-owned industrial companies (LIC) took up a position of renewed leadership in the national economy. This was evident in the significant size increases of their principal units and the marked internationalization of their sales and investments. Traditional economic groups, vigorously restructured, took part in this new profile of private economic power, together with powerful new conglomerates which arose as a result of considerable structural changes in the economy during these years.

Celso Garrido discusses this process in his study, *El liderazgo de las grandes empresas industriales mexicanas* (Leadership by Large Industrial Companies in Mexico).

The chapter on Mexico argues that the form taken by this new business leadership was not simply the result of competition in markets liberalized and deregulated by structural reforms, but was due to the interaction of three basic factors.

During the 1990s, Mexico's large, privately-owned industrial companies internationalized their sales and investments, increased the size of their units and took a leading position in the economy.

Firstly, the policies applied by the state since 1983 to transform the operating rules and conditions of the national economy brought the traditional oligopolistic structure into line with new competitive conditions in world markets. This was done to strengthen national industrial groups in the new economic order, a process reinforced by the transfer of the state's business power to the large economic groups, while simultaneously stimulating the formation of new conglomerates.

Meanwhile, patterns of productive specialization and external trade were changed, with a considerable expansion of non-traditional exports playing the determining role.

Lastly, the strategies put into practice by these groups allowed them not only to maintain and

strengthen their position at home, but to project themselves as market leaders in the international economy.

The new leadership position of the country's industrial groups has been accompanied by new challenges. The competitive capacity of these groups is limited by the nature of the industries in which they operate and strong competition in world markets. For the economy as a whole, the relationship between structural change and business leadership by the national private sector appears to lead to the formation of a highly segmented economic order. This implies tensions and imbalances which are especially evident between the relative success shown by the LIC for the moment and the likelihood of recurring instability and slow growth in the future. The achievement of sustained, integrated development of the Mexican economy will depend to a great extent on success in bringing about new "virtuous" forms of articulation between the LIC and other companies.

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