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# The restructuring *of the Brazilian* industrial groups *between 1980 and 1993*

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This article analyses the strategies applied by the Brazilian industrial groups during the period 1980-1993: that is to say, before the Real Plan was put into effect. After some introductory comments regarding the debate on economic groups, hypotheses are presented on the evolution of the Brazilian industrial groups in the 1980s and early 1990s; the main elements in the Brazilian economy which conditioned the restructuring strategies of the groups are identified, and these strategies are categorized on the basis of this analysis and of the hypotheses put forward in the introductory section. A general analysis is then made of the strategies of a sample of industrial groups, and in conclusion some aspects of the Brazilian groups are compared with those of "winning" business organizations (the Japanese *Keiretsu* and the South Korean *Chaebol*) and some theoretical considerations are put forward on the possibilities of expansion of the Brazilian groups in the light of their sectoral positions.

## I

## Introduction: "winning" business structures

Many economic publications of the 1980s describe and analyse the competitive merits of the great enterprises and industrial groups of Japan and South Korea, of some Italian groups, and of other groups from the recently-industrialized Asian countries. A number of authors have displayed special interest in the impact of these concentrated production structures on international trade, finance and technological development.<sup>1</sup>

Economic groups display a number of features which distinguish them from other firms in a particular market structure. Tavares (1972, pp. 196-197) noted that the fundamental objective of a conglomerate is really to control the market surplus, and it only seeks to achieve integration of production and control over the whole process of production, innovation or technological adaptation when these are essential to the attainment of that objective. In other words, the aim of a conglomerate is not to concentrate production, regulate the absorption of technology and increase production efficiency by taking advantage of economies of scale and linkages or complementation. What it really wants is to gain possession of the surpluses of various firms or sectors and apply them in new and diversified ways which minimize risks and keep up the profitable accumulation of capital. This typically financial form of business organization is capable of controlling the surpluses of activities whose forms of production are not related, and it can even collaborate with the interests of firms or groups that would be antagonists under conditions of normal oligopolistic competition.<sup>2</sup>

<sup>1</sup> OECD (1992) makes an interesting comparison between the winning firms of the 1980s and the former structures based on the Fordist production pattern. See also Torres (1991).

<sup>2</sup> With regard to the capacity of industrial consortia and financial corporations to allocate resources, Hobson (1985, p. 191) says that these bodies are increasingly taking on the form of a purely financial power: of a mass of credit that is directed to any point in the economic system where it is needed in order to force an industrial merger or stifle any threat to invade one of its "spheres of influence".

The analysis of Japanese and South Korean groups made by Coutinho (1992) highlights three basic characteristics of these capitalist structures. First, they are multisectoral groups industrially linked with sectors that generate new technologies (such as microelectronics and electrical equipment) and with firms in industries that use new technologies (such as the motor vehicle, chemical and telecommunications industries). This broad industrial base has allowed them (and continues to allow them) to take advantage of technological and commercial synergies within a single industrial group.

A second characteristic is that they finance investments with long lead times. There is a banking nucleus linked with the industrial strategies (a relationship which is particularly marked in the case of the Japanese groups, the *keiretsu*). This financial structure is founded on stable and abundant monetary resources obtained at relatively low interest rates from the group's own wage bill (pension and insurance funds, etc.). These resources are transferred to the firms in the group in accordance with their investment programmes. The groups thus have a captive loan fund which partly protects them from restrictive monetary policies and ensures the flexibility of their investment plans.

The third characteristic is connected with their vertical and horizontal cooperation strategies. At the vertical level, these groups maintain close partnerships with small and medium-sized enterprises, thus ensuring a regular and flexible supply of parts and inputs, while at the same time enabling them to focus and concentrate their resources on activities which they consider to be strategic. At the horizontal level, they establish agreements, associations and alliances with other major firms, especially in the field of technological development.

The combination of these characteristics within the same business structure was an outstanding feature of the great "winning" industrial enterprises of the 1980s, and this fact raises once again the question of the characteristics displayed by the Brazilian groups (size, sectoral position, industrial and financial synergies, and strategies).

## II

### The strategies of the economic groups

#### 1. Defensive/speculative strategies: formation of conglomerates

The few studies published on the strategies of the Brazilian economic groups in the 1980s suggest a basic hypothesis: these strategies display a marked defensive/speculative tendency which is reflected in investments<sup>3</sup> in firms or real assets that represent protection against the danger of economic instability. The biggest firms sought to acquire shares in firms considered to be market leaders and tried to reduce risks by diversifying their investment portfolios (Almeida, Kawall and Novais, 1990).

Commenting on this behaviour, these authors (*ibid.*, p. 16) assert that the growth in the investments of the leading firms had such marked characteristics that there can be no doubt about its significance: it was a typical move in the direction of diversification and the formation of major private sector conglomerates. They also assume that the aim of the diversification was to stabilize the return on capital within large corporations. This strategy led to the formation of groups with interests in various markets. If they are correct in their assumptions, then this represented a shift of resources of a defensive nature, quite distinct from offensive-type diversification involving the promotion of new related activities and the search for technological synergies, new products and new markets, which would mean financing (and not just stabilizing) new venture investments.

Coutinho (1990 and 1991) criticized the strategies and structures of the Brazilian industrial groups, contrasting their features with the competitive "virtuosity" of the *keiretsu* and *chaebol*. In line with the proposals of Almeida, Kawall and Novais (1990), he speculated that these were merely "poorly informed equity-oriented diversification strategies" aimed at making "good deals" which, while individ-

ually profitable, did not bring any kind of internal synergy for the group. Rounding out his criticisms, he added that the Brazilian groups did not develop strategies which gave priority to complementation and technological synergy, and moreover they had a poorly diversified sectoral structure, concentrated in conventional sectors. With regard to their indebtedness policy, he said that these groups preferred to invest with their own capital, which tended to limit their expansion capacity and make them easy victims of restrictive monetary policies.<sup>4</sup>

It has also been suggested, however, that the Brazilian industrial groups applied strategies marked by the pursuit of real assets with some degree of liquidity. It could be said that their acquisition policies were conditioned largely by financial/speculative aspects related to an unstable economic environment with limited investment opportunities.

Since this was the predominant type of behaviour with regard to the restructuring strategies of the industrial groups, the following questions may be asked: In an economic environment marked by instability and uncertainty, would it not have been better to give priority to the strengthening of strategic activities which increase the capacity to react to disruptive movements? Would it not have been better to discard a defensive/speculative strategy (based on the execution of "good deals") which does not increase market power and adopt instead a more coherent competitive strategy which favours the industrial integration of the firm or group in question? And if this were so, would not this defensive/speculative behaviour be a secondary aspect in a more general strategy for the expansion of major companies and economic groups?

<sup>3</sup> From an accounting (but not economic) standpoint, the investments correspond to the application of resources in other firms in the form of transfers of monetary resources and assets, acquisition of equity, etc.

<sup>4</sup> These views are similar to those set forth by Queiroz (1972, p. 13), who said in his evaluation of the strategies of the economic groups operating in Brazil in the early 1960s that although the extreme diversification of some groups was not rational from the organizational standpoint, it offered advantages in terms of the survival and progress of the groups in a relatively limited market sometimes subject to sharp sectoral fluctuations. Groups organized in this way can establish a business strategy which allows them to withstand possible adverse results in one branch, provided that other branches keep on growing.

To some extent, the hypothesis of a defensive/speculative form of behaviour also implicitly includes the idea that economic instability was one of the leading conditioning elements in the restructuring strategies. This idea is open to question, however. Were the strategies of the industrial firms and groups really determined solely by economic instability? To put it another way, was the prevailing economic situation the main conditioning factor in the diversification strategies? Might there not be other elements, connected with the industrial profile of the group, which conditioned its strategies with regard, for example, to its direction of diversification? May there not have been coherent long-term industrial restructuring processes: i.e., non-speculative strategies?

## 2. Coherent corporate strategies

The theoretical basis for this questioning of the strategies is a hypothesis formulated from the ideas set forth by Steindl (1983), Penrose (1959) and Dosi, Teece and Winter (1992). These authors take the view that the preferred space for the investments of the firms is in the same industry in which they are located or in economic spaces linked with that which they consider to be most important.

Steindl asserts that the preferred area for a firm's investment is the same space in which it is already operating. In investing, the firms seek to strengthen their competitive position either by incorporating new techniques that enable costs to be reduced, stepping up product and market differentiation, or acquiring competing firms. Diversification into other industries, he considers, only tends to take place when there are no more profitable spaces left in the firm's own industry or when the expenditure to strengthen the firm's competitive position is insufficient to absorb the expansion potential of the firm (or group).

Penrose supplements and strengthens this analysis, asserting that a firm defines its preferred areas of investment in the light of the trading environment and its technical base. Thus, a firm evaluates its technical and market knowledge and defines a space where, if it expands into it, it will be able to take advantage of its accumulated competitive advantages and strengthen its already firmly established competitive positions. If there are lucrative economic spaces in its own area of specialization, a firm is hardly likely to decide to invest in industries far removed from that area.

Dosi, Teece and Winter (1992) also concur with these views, although in their approach the technological dimension is given greater prominence. These authors take the view that in large corporations there is a consistent thread running through their processes of diversification and horizontal specialization, which are largely conditioned by the following factors: the know-how built up in the various activities of the firms, technological opportunities, production linkages, complementary assets, and competitive selection. Furthermore, they claim that transaction costs (the existence of specific assets, cognitive diversity, opportunism, etc.) are also important factors in defining vertical integration strategies. They therefore stress that the industrial profile is an important element conditioning restructuring strategies.<sup>5</sup>

In the light of these considerations, a second hypothesis can be formulated. The 1980s were marked by instability and lack of clarity regarding the areas of probable expansion of the economy. In this climate of uncertainty, the most widespread strategy of groups and large corporations was to try to strengthen their competitive position and hence their positions in industries considered to be strategic (core businesses). These groups and firms tried to build economic spaces where they could use their market power and defend the profitability of their assets. In line with the views expressed by Penrose, they decided on their investment priorities in the light of their areas of specialization. This would suggest that they applied coherent synergic strategies relating to the sectoral profile: that is to say, strategies which were not merely of a defensive/speculative nature.

If this hypothesis is correct, then defensive/speculative strategies were not those which most faithfully reflected the behaviour of the big industrial firms and groups in the 1980s, since these groups did not disperse their investments in order to obtain average levels of profitability and avoid the risks involved in concentration of capital in a single industrial segment. On the contrary, they sought to strengthen their industrial structures and, on this basis, to expand by incorporating new activities which had strong financial, technological or commer-

<sup>5</sup> Pondé (1993) gives an analysis of transaction costs, taking a neo-Schumpeterian approach. With regard to the factors mentioned by Dosi, Teece and Winter, see Dosi (1988); Very (1993) also sets forth some similar ideas.

cial backing in the existing industrial base. In effecting this expansion, they may have opted to diversify their activities in a structured and coherent manner by entering other industrial sectors.

The prevailing economic situation may have stimulated restructuring processes (diversification and specialization), but in order to identify the reasons for this it is necessary to analyse the long-term movements of the major enterprises and industrial groups, which would mean reducing the explanatory importance of factors which might be considered as transi-

tory and which would therefore justify defensive/speculative measures. The truth is that it is necessary to analyse the whole competitive context in which the firms or groups in question operate, their industrial profile, and their strategic decisions, including the diversification of their activities. In this respect, the restructuring strategies of Brazilian firms were determined by the overall interaction of the general behaviour of the Brazilian economy, the performance of the industrial sectors, and the specific sectoral profiles of the industrial groups.

### III

## Conditioning elements and industrial strategies

### 1. General conditioning elements and reactions

Analysis of the Brazilian economy reveals some general elements which conditioned the restructuring strategies of the industrial groups during the period 1980-1993.

First, it may be noted that large corporations kept up their accumulation capacity during the 1980s, in spite of the recession and economic instability. They reduced their indebtedness and began to put their surplus resources to work in the financial market and to use them to acquire real assets. This fact may have prompted expanding industrial groups to acquire firms considered to be profitable or of strategic importance or to take out shares in them.

Second, in contrast with the rapid growth registered in the 1970s, the domestic market grew only slowly. This stagnation of the domestic market, and the prevailing economic policy, led firms to seek markets abroad, although the domestic market continued to be the main area of expansion for most companies.

Third, technological change led to the redefinition of areas of competition, so that some activities expanded rapidly thanks to the new technological opportunities, others were restructured in line with the innovations, but some areas of activity stagnated or deteriorated because of the unfavourable impact of technological changes. In this process, trade protection and government incentives played a vital role in the growth of domestic capital.

The economic changes which took place in 1990-1993 faced business strategies with new demands and heightened those already being faced. First, the domestic recession and the lack of industrial guidelines caused expansion to continue to be directed towards the external market, stimulating the growth of those industrial sectors and firms which had turned to exports in the 1980s.

Second, the authorities ceased to apply selective industrial policies which placed conditions on the entry of foreign capital and encouraged the development of some industrial sectors. As a result, because of the scarcity of domestic capital in technology-intensive sectors, foreign firms came to enjoy big competitive advantages in the core segments of the new industrial growth, and domestic capital tended to be restricted to the sectors where it already occupied a competitive position.

Third, the State decided to redefine its participation in production activities and put into effect an extensive privatization programme covering all firms not of a strictly public character. Thus, the former State enterprises began to offer opportunities for expansion to some industrial groups.

Lastly, there was the question of trade openness. The marketing of imported products and the possibility of strong foreign competition gave rise to various reactions. Some firms reduced their industrial activities and concentrated instead on certain specific segments, complementing their own product lines

with imports. Others decided to import inputs, machinery and equipment so as to raise their production efficiency.

Not all firms and industrial groups showed the same capacity to react to these changes. Faced with the multiple conditioning elements referred to in the previous paragraph, the groups could adopt various strategies, depending on their specific industrial profiles. Thus, there were different types of appraisals and capacities for action to tackle the prevailing economic restrictions and opportunities.

## 2. Expansion, diversification and specialization strategies

Diversification and specialization are aspects of competitive strategies and are subject to certain conditioning elements. In his study of the growth of companies, Penrose (1959) considers that firms prefer to invest (especially when diversifying) in activities closest to their own area of expansion.<sup>6</sup> This is an economic space, determined by the firm's marketing area and technical base, in which the firm aims to attain a leading position compared with existing and potential competitors. Consequently, its diversification horizon consists of a range of options determined by the strategic importance and competitive advantages that the firm believes it has.

Dosi, Teece and Winter (1992) believe that large corporations are groups which have a special kind of corporate coherence. They consider that transaction costs, technical and organizational know-how, technological opportunities, production linkages, complementary and specific assets, and competitive selection are important aspects in the definition of this corporate space. They suggest that there is a strategic group of core competences which condition the group's expansion possibilities, and they note that this core normally has two dimensions: one organizational and economic, and the other technical. The organizational/economic dimension covers i) the capacity to decide what to produce and at what price; ii) the capacity to decide whether to manufacture or purchase the goods, and in the case of manufacture,

to decide whether to do so alone or in association with another firm; and iii) management capacity: that is to say, the capacity to plan the organizational structures and policies so as to ensure efficient operation. The technical dimension, for its part, includes the capacity to develop and plan new products and processes, the capacity to operate the installations effectively, and the capacity to accumulate know-how (Dosi, Teece and Winter, 1992, p. 198).

These authors consider that if there is no core of competences and capacities which give coherence to a firm's business activities, then it is likely that the enterprise—which in such a case is a portfolio of autonomous enterprises—will only be able to survive in environments where there is very little selectivity: for example, where there is no credit and firms are protected from their competitors by regulations, reserved markets, import barriers, etc.

In the light of the above hypotheses and the factors affecting the coherence of enterprises, strategies can be classified in two groups: coherent strategies, and non-coherent or defensive/speculative strategies. However, this division is not sufficiently detailed to describe the various possible strategies, especially the coherent ones, and we therefore decided, in the classification set forth below, to increase the degree of segmentation.

Non-coherent—or, more exactly, insufficiently coherent—strategies are a reflection of the hypothesis that the groups diversified their activities in order to defend their liquid resources from economic instability by acquiring shares in companies in various industries, in an effort to reduce the risks involved in the concentration of capital in a particular sector.

Coherent strategies (strategies involving diversification, synergic diversification, specialization and intensive specialization), for their part, represent the hypothesis which asserts that there is a relation between the industrial structure of the groups and their restructuring. These strategies are marked by the search for external markets, spaces in the domestic market, and technological opportunities. They also place emphasis on the importance of planning and long-term corporate expansion in order to cope with the short-term movements which were largely responsible for the defensive/speculative strategies.

Specialization strategies (especially those involving intensive specialization) correspond to the hypothesis that, in the early 1990s, industrial groups and

<sup>6</sup> In the original text, Penrose says "area of specialization", but in order to avoid future ambiguities it was decided to use the term "area of expansion".



large corporations concentrated their resources in the industrial sectors and segments where they believed they had solid competitive advantages.

Although this movement is only recent and has not yet been completed, it may be assumed that these strategies are different from those used in the 1980s, when groups expanded into related industries (synergic diversification strategies), acquired competing firms, incorporated complementary or subsidiary activities into their areas of expansion (specialization strategies with horizontal and vertical integration) or even speculated and acquired shares in leading firms and activities considered to be safe.

#### a) *Non-coherent strategies*

Defensive/speculative strategies are characterized by the management of a portfolio of real assets in firms among which there is little coherence. A salient feature of these strategies is the acquisition of shares in companies which are well-placed in their markets and are financially sound. Another frequent feature is the acquisition of companies whose main assets consist of mineral deposits or urban or rural properties, which act as a value reserve or as hot money.

The evaluation criteria applied when acquiring new companies do not take account of the potential competitive relations with other firms in the group. All that is demanded is that the acquisitions should be "good deals", that is to say, that they should correspond to assets with low relative cost, high liquidity, low risk and positive returns above a predetermined minimum.

According to the definition given by Dosi, Teece and Winter (1992, p. 201), this strategy is likely to lead to the formation of conglomerates: i.e., business structures which have a high degree of diversification but in which the synergies between activities are limited (low level of coherence), so that in a more selective environment (for example, one marked by recession and trade openness) these structures would tend to disappear, probably because of the need to defend a sectoral presence considered to be of greater importance.

#### b) *Coherent strategies*

In contrast with the above strategy, coherent strategies deliberately seek to exploit or increase established competitive advantages. Through acquisi-

tions or expansion, they seek to create synergies with the main firms in the group and to open up new areas of expansion.<sup>7</sup> Although conglomerates have a wide range of expansion options, their strategies tend to show some common features and may be classified in four groups:

i) *Synergic diversification strategies*. These strategies are aimed at expanding and strengthening the group's presence in a given set of industries, and they seek to incorporate industrial segments or activities close to the main area of expansion of the group.

According to Chandler (1990, pp. 36-45), who classifies strategies as either offensive or defensive, synergic diversification strategies should be considered as offensive, because they seek to take advantage of the groups' production, technological, organizational, financial and commercial capacities to introduce new products and enter new markets. The greatest incentive for this type of expansion is the economies of scope that it offers. Idle capacity in the production structure due to declines in demand and/or discontinuities of scale is another element which, in combination with economies of scope, can facilitate access to new markets and products (Penrose, 1959).

In the opinion of Dosi, Teece and Winter (1992), synergic diversification is more common in companies or groups with strategic cores characterized by the accumulation of generic know-how. The capacity to generate new products and processes, to build and control distribution networks, to step-up production efficiency, etc. creates investment opportunities, since it fits the company or group to expand into new industrial segments. In such cases, coherently diversified business structures would be formed.

<sup>7</sup> Hobson (1985, p. 151) describes the tactics of what might be termed a coherent strategy for a large corporation: A conglomerate must naturally seek, on the one hand, to control or take possession of the market for its main raw materials, and on the other, of the markets on which to sell its manufactured products (...) Furthermore, it generally seeks to control the main and subsidiary manufacturing processes (...) so as to ensure its self-sufficiency. Horizontal expansion is reflected partly in the development of new products and sub-products and partly in the incorporation of other types of products which would otherwise compete with the products manufactured by the conglomerate and thus limit its monopoly. Within this set of possibilities, it may be conjectured that some activities are more important than others: for example, those relating to control of raw materials and technology.

ii) *Specialization strategies*. These strategies seek to concentrate the group's activities in a well-defined area of expansion, and they do not necessarily represent strategies which are lacking in offensive qualities compared with synergic diversification strategies. Indeed, they may represent the consolidation of a firm's position in an important industrial activity. The pursuit of economies of scale, modernization and control of technology, the defence of competitive positions, and expansion into certain markets are motives which may contribute to the concentration of investments in certain industrial activities, leaving aside some others considered to be less profitable or less dynamic.

Chandler (1990, pp. 36-45) considers that both horizontal integration (specifically with the aim of controlling installed capacity) and vertical integration (aimed at exclusive control over strategic inputs) are generally defensive strategies. When horizontal integration is defensive, its aim is to protect existing investments by gaining greater control over production, prices and markets and thus limiting the possible intensification of competition in terms of price formation or technological aspects. He notes, however, that by exploiting economies of scale horizontal integration can generate significant reductions in operating and management costs and increase technological efficiency, thus possibly resulting in a more offensive approach.

Vertical integration may be connected solely with the establishment of barriers to the entry of new competitors (control over sources of raw materials or the supply of parts) or with increased control over demand (downstream vertical integration), both of which approaches are eminently defensive. On the other hand, however, vertical integration may reflect efforts to reduce operating costs, to improve quality, to increase the supply of inputs, etc., and in such cases it would represent a more offensive approach. Dosi, Teece and Winter (1992) state that vertically integrated companies and groups are more common in industries with limited technological capacity, very strong production linkages and specialized assets.

It will be noted that specialization strategies, like synergic diversification strategies, are conditioned by the technological base and the marketing area. In some cases, distinguishing between one and the other may be quite complex, because they are both conditioned by the same strategic core. Vertical and horizontal integration strategies may correspond both to

synergic diversification and to specialization. In these cases, investments in related activities (vertical integration, for example) would have diversifying effects when they lead to a relative reduction in the links between their expansion and the growth of the firms to which they were originally subordinated.

Previously, specialization was considered as a free option of a company or group, but it may also be seen as something imposed by circumstances. Inability to ensure a firm's competitive position in a wide variety of markets may lead to specialization and may also reduce diversification, whether the latter is synergic or not. There are factors such as intensive technological changes, the appearance of strong competitors, or an increase in scales of production which may demand investments beyond a group's financial capacity. In such cases, concentration would reflect the group's inability to compete in various industries simultaneously, regardless of the expansion opportunities that may have existed.

iii) *Intensive specialization strategies*. These strategies are aimed at the concentration of activities in a limited strategic core area and tend to reflect the centralization of activities around an industrial segment with just a few product lines or with very similar products. Generally speaking, intensive specialization corresponds to intra-sectoral concentration, whereas specialization corresponds to sectoral concentration. According to the classification prepared by Dosi, Teece and Winter, intensive specialization strategies tend to create specialized companies.

iv) *Diversification strategies*. Diversification strategies, in contrast with synergic diversification strategies, are aimed at entering markets and incorporating companies or activities which are not directly related with those already being operated by the group. Among the motivating elements for these strategies are the perception of persistent stagnation of demand, the availability of financial resources, and the existence of expanding markets and highly profitable opportunities in other industries.

The possibility of expanding into other unrelated activities is also conditioned by aspects connected with competition. Companies diversify into particular industries when they consider that they are capable of achieving competitive costs, winning clients, and keeping up with technological progress. A diversification strategy tends to be inter-industrial, whereas synergic diversification is closer to an intra-industrial form of investment.

According to the classification prepared by Dosi, Teece and Winter, diversification strategies contribute to the formation of conglomerates, since there is only a small degree of coherence among the different activities of the group. Unlike non-coherent strategies of a defensive/speculative nature, however, these strategies lead to a lasting sectoral presence

which would correspond to the creation of new expansion frontiers, and it would not be correct to assert that these strategies are motivated by primarily financial/speculative considerations. With the aid of this classification, we will seek in the following sections to make an appraisal of the restructuring strategies of a sample of Brazilian industrial groups.

## IV

### An analysis of the restructuring strategies of some Brazilian industrial groups

In order to analyse restructuring strategies, we prepared a sample of industrial groups made up of large corporations, excluding those which are not typically industrial or which are firmly located in construction or commerce. Another criterion in the selection of these groups was the availability of publicly available information (newspapers, magazines, reports, balance sheets, etc.) which would make it possible to trace the past development of the strategies. Bearing in mind these restrictions, 18 Brazilian industrial groups operating in different sectors were selected. Two more groups were selected which were largely foreign-owned: the Argentine group Bunge and Born, and the Belgian group Belgo-Mineira. These two groups were selected because they apply strategies which are largely conditioned by the Brazilian economic environment and because they further highlight the strategies of such typical Brazilian groups as Hering, Vicunha and Gerdau.

The sample covers a broad range of industrial activities, the most notable exception being the chemical industry. This industry was excluded because of the well-known complexity of its technical and production aspects, the marked overlapping of domestic (State and private) and foreign capital in it, and the far-reaching changes which are under way in connection with the privatization of State enterprises. Tables 1 and 2 summarize the restructuring processes in this sample of large corporations and industrial groups.

#### 1. Business strategies in the 1980s

The restructuring of industrial groups in the 1980s was related with four general features which gave the

economy a special nature. First, there was the reigning economic instability, which led groups to acquire firms and assets to serve as a value reserve or as hot money. These strategies did little to strengthen comparative advantages or create new areas of expansion. The assets of almost all groups included companies in the fields of mining, real estate and reforestation, as well as shares in other industrial corporations. The Weg, Bunge and Born, Suzano, Vicunha and ABC-Algar groups are examples of this general behaviour characterizing a highly varied set of groups with different sectoral presences and competitive strategies.

The second feature—the recession and stagnation of the domestic market—mainly influenced the strategies aimed at market control. Financial power was of fundamental importance for acquiring existing firms and, in a few cases, installing new plants. The groups strengthened their competitive position by buying out their competitors and carrying out vertical integration either forward, thus seeking to control demand, or backwards, through the acquisition of suppliers of inputs (as was done, for example, by the Vicunha, Gerdau, Belgo-Mineira and Votorantim groups). Generally speaking, the aim was to acquire firms of strategic importance for control of the areas of expansion; less frequently, the aim was to diversify production lines by taking advantage of commercial or possibly technical synergies (as in the case of Sadia, Cofap and Metal Leve).

Export considerations were a third determining factor in restructuring strategies. The desire to obtain a place in the external market was a more or less important influence on all the industrial groups. Some of them (such as Caemi) gave up the produc-

TABLE 1

**Brazil: Profile of selected industrial groups  
in 1980, 1989 and 1992**

Groups	1980	1989	1992
<b>Machline</b>	Electronics, including consumer goods Automation of services Finance Computers Telecommunications	Electronics, including consumer goods Automation of services Microelectronics Telecommunications (segment) Finance	Electronics, including consumer goods (segment) Automation of services (segment) Microelectronics (paralysed)
<b>ABC-Algar</b>	Agricultural activities Telephone services Commerce and services Real estate Tourism Cold storage (packing) plants	Agricultural activities Telephone services Telecommunications Computers Agroindustry (soya) Commerce and services Real estate Tourism	Agricultural activities Telephone services Telecommunications (segment) Agroindustry (soya) Cold storage (packing) plants (paralysed)
<b>Docas</b>	Finance Port services Telecommunications Agricultural activities Real estate	Finance Telecommunications Computers Peripherals Agricultural activities Real estate	Finance Agricultural activities Real estate
<b>Gerdau</b>	Iron and steel Commerce Reafforestation	Iron and steel Commerce Reafforestation Data processing services	Iron and steel Commerce Reafforestation Data processing services
<b>Villares</b>	Iron and steel Industrial machinery and equipment Heavy foundry work	Iron and steel Industrial machinery and equipment Industrial automation Heavy foundry work	Iron and steel Industrial machinery and equipment (segment)
<b>Belgo-Mineira</b>	Iron and steel Mining activities Reafforestation	Iron and steel Mining activities Reafforestation Metalworking	Iron and steel Mining activities Reafforestation Metalworking
<b>Cofap</b>	Motor vehicle parts	Motor vehicle parts Electronics	Motor vehicle parts Marine electronics
<b>Metal Leve</b>	Motor vehicle parts Industrial machinery and equipment Agroindustry (juices)	Motor vehicle parts Industrial machinery and equipment Industrial automation	Motor vehicle parts

Source: Ruiz (1994).

TABLE 2

## Brazil: Profile of selected industrial groups in 1980, 1989 and 1992-1993

Groups	1980	1989	1992-1993
Weg	Electromechanics	Electromechanics Electronic components Industrial automation Chemical industry (dyes) Reafforestation Cold storage (packing) plants Foodstuffs (fisheries)	Electromechanics Electronic components Industrial automation Chemical industry (dyes) Reafforestation Cold storage (packing) plants Foodstuffs (fisheries)
Hering	Textiles and clothing Agroindustry (soya)	Textiles and clothing Agroindustry (soya) Cold storage (packing) plants Prepared meat products Vegetable oil products	Textiles and clothing Agroindustry (soya) Cold storage (packing) plants Prepared meat products Vegetable oil products
Bunge and Born	Textiles and clothing Flour milling Agroindustry (soya) Vegetable oil products Paints and varnishes Mining/chemical industry Mineral extraction Real estate Finance and insurance Computers Data processing services	Textiles and clothing Flour milling Agroindustry (soya) Vegetable oil products Paints and varnishes Mining/chemical industry Mineral extraction Real estate Cement	Textiles and clothing Flour milling Agroindustry (soya) Vegetable oil products Paints and varnishes Mining/chemical industry Mineral extraction Real estate (paralysed) Cement
Vicunha	Textiles Agricultural activities	Textiles and clothing Agricultural activities	Textiles and clothing Agricultural activities Iron and steel
Alpargatas	Textiles and clothing Footwear	Textiles and clothing Footwear	Textiles and clothing Footwear
Sadia	Agricultural activities Cold storage (packing) plants Flour milling Agroindustry (soya)	Agricultural activities Cold storage (packing) plants Flour milling Agroindustry (soya) Prepared meat products Vegetable oil products	Agricultural activities Cold storage (packing) plants Flour milling Agroindustry (soya) Prepared meat products Vegetable oil products Edible pasta industry
Perdigão	Agricultural activities Cold storage (packing) plants Flour milling	Agricultural activities Cold storage (packing) plants Flour milling Prepared meat products Agroindustry (soya)	Agricultural activities Cold storage (packing) plants Flour milling Prepared meat products Agroindustry (soya)
Votorantim	Cement Aluminium Metalworking Chemical industry Mining activities	Cement Aluminium Iron and steel Metalworking Chemical industry Mining activities Paper and paperboard	Cement Aluminium Iron and steel Metalworking Chemical industry Mining activities Paper and paperboard Agroindustry (juices)

Table 2 (concluded)

Klabin	Paper and paperboard Lumbering Reafforestation Ceramics	Paper and paperboard Lumbering Reafforestation	Paper and paperboard Lumbering Reafforestation
Suzano	Paper and paperboard Lumbering Reafforestation Petrochemicals	Paper and paperboard Lumbering Reafforestation Petrochemicals Others	Paper and paperboard Lumbering Reafforestation Petrochemicals
Caemi	Mining activities Iron and steel Wood pulp Paper Cold storage (packing) plants Agricultural activities Agroindustry	Mining activities Wood pulp Paper	Mining activities Wood pulp Iron and steel
Matarazzo	Edible pasta industry Vegetable oil products Plastics and plastic products Textiles Metalworking Cement Mining activities Paper and paperboard Chemical industry Sugar and alcohol Agricultural activities Commerce Real estate	Vegetable oil products Plastics and plastic products Mining activities Paper and paperboard Chemical industry Sugar and alcohol Agricultural activities Commerce Real estate	(...)

Source: Ruiz (1994).

tion of goods normally not tradeable on the external market. Others which relied largely on the domestic market (such as Cofap, Gerdau and Votorantim) invested in measures to secure a viable position in the external market.

The two above-mentioned market movements (external and internal) did not give rise to a radically export-oriented trend in the restructuring process. All the groups tried to enter the external market, but only a few set aside the domestic market in so doing (an important exception is Caemi). In the restructuring strategies, the domestic market was retained as a strategic area of expansion. Some groups with an important position on the international market (such as Sadia and Hering) took active measures to expand their position on the domestic market. For these groups, the chances of succeeding on that market were greater than those of achieving expansion on a competitive and unstable external market.

Technological change was the fourth determining factor in the restructuring processes of some industrial groups and large corporations (such as ABC, Sharp, Weg and Villares). Only a few, however, were capable of maintaining a strategy based exclusively on technological opportunities. Many strategies failed or were not carried through (as in the cases of Docas, Metal Leve and Villares), while others flagged and their viability was brought into question (for example, Sharp and Weg). The strategies which succeeded in the 1980s were those which were largely but not exclusively technological.

The groups which sought to strengthen their position in more traditional sectors (textiles, foodstuffs, iron and steel, etc.) increased their net worth, maintained their financial security, and some of them managed to enter the external market. At the same time, they strengthened their leading positions on the domestic market and increased their market power,

thus ensuring a better capacity to react to upsets. In various ways, established competitive advantages were reproduced, restricted areas of growth were created, and market concentration was increased. For many groups, this cautious strategy was responsible for their good performance in a period of uncertainty and instability (as for example in the cases of Belgo-Mineira and Votorantim).<sup>8</sup>

Another constant feature was the absence of links between the industrial structures and financial institutions. The closer links finally established between Brazilian industrial groups (such as Sharp, Bunge and Born and Vicunha) and financial institutions are nothing like the movements observed in some foreign countries, such as Japan. If the sample studied is representative of general behaviour, then the relations between the groups and the banks corresponded to a manner of maximizing the financial returns on idle monetary resources or working capital. They were not aimed at forming structures to back long-term investments.<sup>9</sup>

Although the separation between industrial and financial capital has existed for a long time past, the recessionary economic climate, fluctuating and rising interest rates, the increasingly short-term nature of the available finance, etc. tended to make it even more marked. The only exceptions to this were the groups which did not opt for cautious financial policies. In most cases, however, such policies were considered to be good management practice. Investment plans using the companies' own capital were considered to be better than those using capital from third parties. Indeed, those companies which did not follow this rule ran into serious financial problems, as in the cases of the ABC, Algar and Perdigão groups.

<sup>8</sup> Although the sample studied is rather limited, it supports the hypothesis that in the 1980s there was a significant increase in industrial concentration (and especially economic concentration) in many segments of industry. As a result of the stagnation of the domestic market, the more progressive firms strengthened their positions still further, through the acquisition of "marginal" firms.

<sup>9</sup> Cruz (1994) sums up the special nature of the financing arrangements for the Brazilian economy. With regard to national capital finance, he observes that there continues to be only limited access to (domestic or external) long-term finance which would permit the expansion of investments beyond the limits of companies' own funds. Similarly, other authors have noted that this is one of the main problems impeding the recovery of growth by the Latin American economies.

To sum up, then, it may be asserted that the groups used strategies characterized by investment and the acquisition of companies which would give them greater power in the markets of the industrial core segments seen as strategic, and there was a predominance of coherent strategies, especially those based on specialization, supplemented by synergic diversification (table 3).

In spite of the stagnation of some markets and the severe economic instability, there was not much diversification into activities that did not have many links with the areas of expansion, nor was there much acquisition of activities which seemed to be "good deals": few companies were guided by purely speculative strategies.

The prevailing economic instability must not be overlooked, however, as an incentive for the acquisition of other firms. As the severe instability made basic parameters of capitalist calculations (expected income and profits, interest rates, exchange rates, etc.) very volatile, it may have helped to intensify divergences in the evaluation of the expected return on assets, thus encouraging the consideration of possible acquisitions. However, the process continued to be conditioned by the sectoral position of the groups and the complex logic of industrial competition.<sup>10</sup>

## 2. Business strategies in the early 1990s

Unlike what happened in the 1980s, when the restructuring of the industrial groups was characterized by specialization strategies combined with synergic diversification, in the early 1990s the strategies were characterized by sectoral specialization supplemented with (intrasectoral) intensive specialization (see table 3).

Many strategies were reviewed when the economic changes of the early 1990s took place. Because of the severe recession, the groups postponed their expansion plans and disposed of their non-strategic assets, especially those of a speculative nature (this was done, for example, by Weg, Bunge and Born and

<sup>10</sup> It should be noted that the difference between prices of assets is not a specific feature of a period of high instability. There are many differences between firms in the same industry which give rise to differing appraisals of asset prices, even in periods of relative economic stability.

TABLE 3

**Brazil: Strategies of the selected industrial groups**

Groups	1980-1989	1989-1992/1993
Machline	Synergic diversification	Intensive specialization
ABC-Algar	Synergic diversification and speculation	Intensive specialization
Docas	Synergic and speculative diversification	Intensive specialization
Gerdau	Specialization	Specialization
Villares	Synergic diversification	Intensive specialization
Belgo-Mineira	Synergic diversification	Synergic diversification
Cofap	Synergic diversification	Specialization
Metal Leve	Synergic diversification	Specialization
Weg	Synergic and speculative diversification	Specialization
Hering	Synergic diversification	Synergic diversification
Bunge and Born	Synergic and speculative diversification	Intensive specialization
Vicunha	Specialization	Diversification
Alpargatas	Specialization	Intensive specialization
Sadia	Synergic diversification	Synergic diversification
Perdigão	Synergic diversification	Specialization
Votorantim	Specialization and diversification (in the late 1980s)	Diversification
Klabin	Specialization	Specialization
Suzano	Specialization	Diversification
Caemi	Intensive specialization	Specialization
Matarazzo	Speculative diversification	(bankrupt)

Source: Prepared by the author.

ABC-Algar). In a second phase, they decided to reduce the degree of diversification of their industrial structures (as in the case of Bunge and Born, Villares and Metal Leve, for example). Finally, within their strategic expansion areas, they decided to paralyse, scrap or sell off their least efficient industrial plants, or those which had high levels of idle capacity (Perdigão, Villares and Bunge and Born).

The recession also encouraged restructuring processes giving priority to a greater external presence (as for example in the cases of Villares, Caemi and Votorantim). The drop in domestic demand caused several groups to reduce their operations aimed at that market, and although this situation had prevailed during the whole of the 1980s, it got worse in the period 1990-1993.

When the government discarded sectoral industrial policies and there was a big increase in trade openness, diversification into technology-intensive industries was largely abandoned (as for example by Villares, ABC-Algar and Docas). As there was no ac-

tive State protection, the heavy external competition and the recession were sufficient to cause firms to put off their plans to enter new industrial sectors, preferring instead to operate in the sectors considered to be most stable. Ultimately, all this acted as a stimulus for the application of strategies involving specialization in sectors where the firms felt they had solid competitive advantages.

The differences between the two periods (1980-1989 and 1990-1993) stand out more clearly if we compare the years in which there was a recession. In 1981-1983, the groups opted to adjust their production structures through changes in production levels, reduction of financial costs, and expansion of exports. The recession was considered to be only temporary, and the pressures arising from competition, technological innovations and new producers (especially from abroad) were not seen as a threat to the strategies and industrial structures built up in the 1970s. The industrial policy adopted at that time protected domestic production from outside competition



and opened up room for expansion, especially of technology-intensive activities. Thus, for example, even during the recession many groups pressed on with intensive policies of acquisition and expansion (as in the cases, for example, of Perdigão, Vicunha, Gerdau, Belgo-Mineira, Klabin, Metal Leve, ABC-Algar, Sharp and Docas).

In the early 1990s, however, the economic climate was seen in a different light. The prevailing restrictions obliged the groups to make a fresh adjustment and reduce their levels of production, together with a redefinition of their areas of expansion. Thus, not only was there an adjustment like that which took place in the 1981-1983 period, but there was also a redefinition of structures involving the exclusion of firms which were technology-intensive but not export-oriented and the dismantling of plants which were inefficient or marginal (this took place, for example, in the cases of the Sharp, Sadia, ABC-Algar, Bunge and Born, Villares and Caemi groups). It is these features which differentiate the restructuring processes of the groups in the early 1990s<sup>11</sup> from those applied in the 1980s.

### 3. Offensive, conservative and defensive strategies

One of the aspects giving a particular character to the strategies of the groups studied was the way they reacted to instability and uncertainty. Some groups dared to tackle the adverse economic environment head-on and quickly invested in the expansion of their industrial base. Others took a defensive attitude and virtually stagnated, while many others applied conservative strategies.

An example of an offensive strategy was that applied by the Perdigão group, which applied rather daring financial policies in the 1980s and maintained a high level of indebtedness, although the economic environment counselled a more cautious approach. In the early 1990s the group was decapitalized, with investments which were coming to an end, and it could not withstand the recession.

<sup>11</sup> Tavares (1993, p. 23) considers that when the big corporations felt themselves to be threatened by the recession and the prospect of reductions in exchange-rate and tariff protection, they reacted by trying for the first time to effect a microeconomic adjustment which, while confirming the recession and unemployment, sought to achieve modernization in order to be able to keep on competing in international markets.

The behaviour of the Docas and Sharp groups was another example of offensive strategies. They expanded into technology-intensive sectors requiring large and recurrent investments, so that they had to apply a more daring financial policy. On account of the economic changes which took place in the early 1990s, a large part of the activities of these groups were sold or paralysed.

The approaches adopted by the Hering and Cofap groups are examples of offensive strategies as regards investments (and also technology in the latter case), although they acted more cautiously as regards indebtedness. Their financial policy was more in keeping with an economic environment marked by uncertainty, and this enabled them to withstand economic upsets.

The strategy of the Belgo-Mineira group reflects a coherent defensive policy marked by low indebtedness, investments made with the group's own capital, and partial modernization of the production base. Under this policy, the group kept its production capacity unchanged, vertically integrated its production, and did not try to take measures to affect the competition in its market or to invest in other segments. This was a defensive strategy adopted until the conditions for investment improved.

The Votorantim group applied a similar strategy in the 1980-1987 period, reducing its indebtedness and investing only with its own capital in mutually related activities. Only at the end of the 1980s did the group expand its investments. The selected sectors—pulp and paper and citrus juices—had already become internationally competitive. This may be considered a rather conservative strategy.

The approaches adopted by the Vicunha and Gerdau groups are examples of conservative strategies. Both of them combined expansion of the production base with their internal accumulation capacity, the issue of shares and carefully managed indebtedness, managed to consolidate their position in their main market segments, and stood up to adverse movements of the economy. These were suitable strategies for a period marked by uncertain economic conditions.

It is considered that, out of these three types of strategies, the conservative strategy was the one most widely adopted by the Brazilian industrial groups as a whole. During the period under consideration, few groups completely paralysed their areas of expansion, and likewise only a few took the risk of going against

the prevailing trends in the economic environment and expanding their investments with third-party capital in non-conventional or technology-intensive areas. The sectoral industrial policies were an important element behind these "offensive strategies".

Most of the groups invested in the purchase of competing firms and in activities which were complementary, subsidiary and quite closely linked to their strategic core areas. When they invested outside their own area of expansion, they opted for industries which were more firmly established from the technological point of view, with external competitiveness already clearly established and, as far as possible, guaranteed by natural factor endowment and/or by intensive use of cheap unskilled labour (the Vicunha and Votorantim groups, for example).

Although there were some exceptions, this set of elements gives grounds for classifying the strategies of the Brazilian groups as predominantly conservative, since they invested in keeping with their strategic core areas, up to the limits imposed by their internal accumulation capacity and a safe level of indebtedness.

## V

### Winning business structures and development

The (re)structuring of the Brazilian industrial groups which took place in the 1980s and above all in the early 1990s further increased the profound differences between the structures of those groups and winning business structures such as those of the *keiretsu* and the *chaebol*. One of the features of the latter forms of business organization and of many transnational corporations is that their strategies link forms of industrial insertion which spread new technologies with others which absorb technology.

The dismantling of active industrial policies in Brazil (and the failure to reformulate them), especially in the case of policies relating to new technologies, has led to a reversal of the timid movements towards the internalization of a core of technology which had taken place in some Brazilian groups. This has jeopardized the possible dynamic stimuli that could exist between mature industrial structures and new industries making intensive use of technology.

The general conclusion that may be drawn from this analysis of the restructuring processes of this sample of industrial groups is that the behaviour of the Brazilian industrial groups can be most accurately described as consisting of coherent strategies based on synergic considerations, diversification, specialization, and intensive specialization. In other words, the fundamental feature was the relation between the sectoral structures of the groups, the acquisition and sale of assets, diversification and specialization, and the strengthening (and defence) of their strategic activities. The major Brazilian private firms increased their degree of industrial coherence, since they defended and strengthened their position in industry while not neglecting opportunities for synergic investments. Within this industrial coherence, however, there is still a missing conditioning element, namely, the technological vector. In their restructuring process of the early 1990s, the industrial groups left out those areas of expansion related to the new technologies, which are important elements in the industrial strategies applied by the industrial groups seen as winners.<sup>12</sup>

A second feature of the "winning" strategies is the financing of investments with long lead times by a banking core linked up with the industrial strategies. In the case of the Brazilian groups, the links between the financial and industrial spheres, when they existed, only served to permit quick returns on financial resources, without resulting in the establishment of broad and stable investment finance funds. Investments continued to depend on the internal accumulation of resources.

Regardless of the differences in size and sectoral presence (table 4), the most disturbing feature is the

<sup>12</sup> Fanelli and Frenkel (1995) detected similar movements in other Latin American economies. The strategies which we have termed defensive, conservative and offensive may be considered, in that order, as strategies with decreasing degrees of flexibility. In the case of Brazil, decisions to adopt strategies with a high degree of flexibility were common, but not as common as in other Latin American countries.

TABLE 4

**Brazil and South Korea: Sales by economic groups, 1980-1993**  
(Millions of current dollars)

Company	1980	1983	1985	1988	1990	1992	1993	Main activity
<b>South Korea</b>								
Samsung	3 798	7 167	14 193	27 386	45 042	49 560	51 345	Electronics
Daewoo	...	6 313	8 698	17 251	22 260	28 334	30 893	Electronics
Sunkyong	1 449	...	6 437	7 723	10 694	14 530	15 912	Petrochemicals
Ssangyong	1 708	3 257	3 689	6 021	8 069	14 610	14 479	Petrochemicals
Hyundai	5 540	9 300	14 025	8 250	12 811	8 606	9 204	Transport equipment
Hyosung	1 950	2 107	2 390	4 183	5 263	6 335	6 332	Textiles
Goldstar	...	...	...	...	4 253	4 917	5 366	Electronics
Honam Oil	...	...	...	2 867	3 512	4 021	4 267	Petrochemicals
<b>Brazil</b>								
Votorantim	1 098	960	1 081	1 825	1 769	2 098	2 798	Various <sup>a</sup>
Ipiranga	1 843	1 519	...	2 018	2 220	2 090	2 121	Petrochemicals
Hering	424	538	938	885	1 851	1 511	1 637	Textiles/foodstuffs
Sadia	426	667	832	1 190	1 440	1 491	1 514	Foodstuffs
Gerdau	519	397	630	2 161	1 033	1 150	1 494	Metalworking
Machline	246	285	235	659	844	...	1 040	Electronics
Vicunha	174	249	383	534	762	799	904	Textiles
Belgo-Mineira	...	...	...	700	786	858	767	Metalworking
Antártica	301	313	308	437	753	670	785	Beverages
Brahma	501	419	461	620	1 177	670	...	Beverages
Klabin	275	262	421	744	718	1 623	606	Paper and pulp
Perdigão	186	253	318	382	569	...	594	Foodstuffs
Suzano	241	173	217	473	428	485	582	Paper and pulp
Cofap	142	124	208	437	567	845	548	Motor vehicle parts
Villares	388	490	388	790	756	689	516	Metalworking
Itamarati	...	403	523	995	856	573	...	Agricultural activities
Ultra	278	210	105	404	439	356	476	Petrochemicals
Caemi	714	498	560	879	322	...	431	Mining/iron and steel
Alpargatas	514	419	501	762	992	...	406	Textiles/footwear
Paranapanema	81	148	406	506	234	308	343	Mining
Metal Leve	120	99	172	335	365	278	339	Motor vehicle parts
Dedini	185	182	218	260	230	282	338	Mechanical engineering/ metalworking
ABC-Algar	87	105	139	276	328	288	327	Telecommunications/ foodstuffs
Weg	65	45	92	173	200	168	181	Electromechanical products

Source: Prepared by the author on the basis of information published in *Fortune* (Time, Inc., New York) in 1981, 1984, 1986, 1989, 1991, 1993 and 1994 and in *Balanço Anual* (Jornal Gazeta Mercantil, São Paulo, Brazil) in the same years.

<sup>a</sup> Non-metallic minerals, paper and pulp, metalworking, chemical industry and foodstuffs.

long-term performance of the Brazilian groups compared with that of the winning business structures. These differences increased still further in the 1990s, since the strategies seeking to achieve technological synergies were abandoned, there was an increase in sectoral specialization in mature industries, and the distance separating industry from the financial system grew still wider. The rapid increase in the presence of Brazilian industry on the domestic market, though a sought-for objective, strengthened

existing competitive advantages to the detriment of the establishment of new forms of insertion connected with new markets, products and processes.

This type of restructuring also heightened other features of Brazilian capitalism, such as the preference for concentrating on sectors which make intensive use of natural and energy resources, which are marked by the production of standardized goods with conventional technology and static economies of scale, and which take advantage of ecological

dumping and the use of cheap unskilled labour (Fajnzylber, 1990; Canuto, 1994).

If, for example, we consider the evolution of the industrial structures of the seven largest developed countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) over the period 1985-1989 and we group the industrial sectors by their degree of dynamism, we obtain the order given in table 5.<sup>13</sup>

If we look at the sectors classified as "dynamic" or "very dynamic", we see that the restructuring of the Brazilian industrial groups in the early 1990s left out a number of important activities belonging to those sectors, especially those connected with electronics and electromechanics. In these industries which have high growth rates and make intensive use of research and development, there was an increase in the presence of foreign capital, which, although not occupying majority or leading positions, reached significant levels.<sup>14</sup>

There are some exceptions to this, however. The State still has a leading share in the telecommunications segment, and although the petrochemicals industry is not dealt with in this article, private and public Brazilian capital still have a major share in it.

Only a few of the groups analysed in this article (the Cofap and Weg groups, for example) have maintained a coherent presence in dynamic technology-intensive activities. Most of them (such as ABC-Algar, Docas, Machline and Villares) have abandoned these activities or applied more conservative strategies in this respect. Among the groups which maintained a presence in dynamic sectors, mention may be made of Votorantim, Klabin, Suzano and Caemi. These groups were in the pulp and paper industry: an activity which makes intensive use of natural resources and whose limited capacity for innovation and the spread of new products and pro-

TABLE 5

**Most highly developed countries:  
Level of dynamism of their  
Industrial sectors**

Level of dynamism	Industrial sectors
Very dynamic	Transport equipment Electrical machinery Other chemical products Other metallic and non-metallic products Chemical products Non-electrical machinery Paper and paper products
Dynamic	Printing and publishing Plastic products Metal products Glass and glass products Professional and scientific equipment Rubber products Petroleum refining
Sluggish	Food products Ceramic products Miscellaneous chemical products Other industrial manufactures Iron and steel Beverages Textiles
Stagnating	Non-ferrous metals Clothing Tobacco and tobacco products Wood and wood products Footwear Furniture and fittings Leather and leather products

Source: Ruiz (1994), on the basis of UNIDO, 1991 and 1992.

cesses considerably restricts its future growth prospects, as may be seen from the crisis suffered by the sector in the 1990-1993 period.

Most of the Brazilian groups will tend to concentrate on sluggishly growing activities such as foodstuffs and beverages, ferrous metals, textiles and clothing, and non-ferrous metals. Within the foodstuffs sector, significant growth rates have been displayed by some industries (soya beans and soya products, meat and poultry, concentrated juices) which make intensive use of natural resources and involve little industrial processing.

In the light of the strategies of the industrial groups described in the preceding paragraphs, it may be asserted that Brazil's historical status as an under-

<sup>13</sup> The order of industrial sectors in terms of their dynamism was obtained by combining the following criteria with equal weights: growth in added value at current and constant prices (base: 1985=100), variation in prices, and contribution to growth. This latter element was obtained by taking the growth in added value, weighted by the share of the sector in the industrial structure in the base year, and dividing it by the growth in total industrial added value, likewise at current and constant prices.

<sup>14</sup> For more details on the growing presence of foreign capital in the industrial structures of Brazil and other Latin American countries, see Bielschowsky (1994), Bielschowsky and Stumpo (1995) and Di Filippo (1995).

developed peripheral nation has been reaffirmed by the neoliberal-type policies implemented in the early 1990s. The restructuring of the domestic groups has been directed towards the occupation of a subordinate place in both the national and international economy. Responsibility for establishing the structures of the new industries which are stimulating the world economy (and will continue to do so in the future) and are shaping a new international division of labour, such as those in the electronics, electromechanical and transport equipment sectors, has been placed in the hands of foreign-owned enterprises (Laplane, 1992).

Thus, the apparent optimism implicit in asserting the coherent nature of the restructuring processes must not blind us to the fact that the expansion of the domestic groups will continue to depend largely on the behaviour of other agents, whether they be the State or the transnational corporations, or, more precisely, on the position that the branches of foreign firms installed in Brazil occupy in the global strategies of their parent corporations.

With regard to this latter aspect, an analogy should be made with the theory formulated by Schumpeter in 1912. In his model, there are two types of individuals (or types of conduct): managers and entrepreneurs. The former are merely responsible

for keeping up the economic routine (the "circular flow"). The entrepreneurs, however, innovate, create new products, think up new ways of producing goods: they are the central agents in new economic development. We must ask ourselves, then: are Brazilian businessmen mere managers or timid entrepreneurs? Are the foreign businessmen reluctant entrepreneurs? Has the State turned out to be an unsuccessful innovator? If so, then who is to act as a dynamic entrepreneur in the Brazilian economy?

As the industrial groups analysed here are representative of the general behaviour of Brazilian business interests, some further questions arise: What are the frontiers of expansion that the Brazilian groups have in mind, in the light of their concentration in industrial sectors considered to be "mature"? What groups could still take a less passive place in the national and international economy? Or perhaps, to phrase this better: What are the possible links between national capital and the many forms of foreign capital? Are there Brazilian groups that could collaborate in a more equitable growth pattern? There are no hard and fast answers to these questions, so that the debate –and the impasse– over the future growth path of the Brazilian economy remains as active as ever.

(Original: Portuguese)

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