Business groups and transnational capitalism in Central America: Economic and political strategies

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List of abbreviations

ALBA	The Bolivarian Alliance for the Peoples of our America
ANDI	National Industrial Association
ANEP	National Association of Private Business
ARENA	National Republican Alliance
BANAMER	Bank of America
BANCENTRO	Nicaraguan Bank of Industry and Commerce
BANEX	Agriculture Export Bank
BGA	Honduran Savings Bank Group
CACM	Central American Common Market
CAFTA-DR	Central American and Dominican Republic Free Trade Agreement
CCIAP	Chamber of Commerce, Industry, and Agriculture of Panama
CD	Democratic Change
CME	Coordinated Market Economies
CFTZ	Colón Free Trade Zone
CNR	National Center for Registries
COENA	National Executive Council of Arena
CONADI	National Investment Corporation
COSEP	Superior Council of the Private Enterprise
DBG	Diversified business group
EGI	General Investment Company
FDI	Foreign Direct Investment
FIASA	Industrial and Agricultural Financial company
FMLN	Farabundo Martí National Liberation Front

GAF	Group Affiliated Firm
GANA	Grand Alliance for National Unity
GDP	Gross Domestic Product
GEFG	American General Electric Finance Group
HME	Hierarchical Market Economies
LAFISE	Latin American Finance Services
LIBRE	Freedom and Refounding party
LME	Liberal Market Economies
ML	Libertarian Movement
MNC	Multinational Corporation
PA	Panamenista Party
PAC	Citizens Action Party
PAN	National Progress Party
PLC	Constitutionalist Liberal Party
PLH	Liberal Party of Honduras
PLN	National Liberation Party
PNH	National Party of Honduras
PRD	Democratic Revolutionary Party
PUD	Democratic Unification Party
PUSC	Social Christian Unity Party
R&D	Research and Development
SAF	Stand-alone Firm
SICA	System of Central American Integration
TFP	Total Factor Productivity

USAID	United States Agency for International Development
VoC	Varieties of Capitalism

Chapter 1: Introduction: the emergence and evolution of business groups in Central America

1.1 Introduction

Central America as a region has made world headlines mainly due to civil wars, insurgencies and more recently drug-trafficking and violent youth gangs. Central American enterprises are only rarely studied, and even less so, the Central American conglomerates and business groups, that albeit small by Latin American and global standards play a significant role in the region's economies. If they are studied at all, it is mainly as supporters of repressive dictatorships or corrupt regimes, or as the incarnation of colonizers and landholders, dominating the system that is considered to be the root causes of most of Central American problems. They are assumed to have the power to dominate politics and the state and, as a parallel power structure, be able to perpetuate themselves in power in a way that no democratically elected politicians have ever been able to do.

However, these accounts often overlook the significant differences between the different business groups. And more importantly, they fail to recognize the profound changes that they are going through as they are adapting to new international economic realities. The purpose of this book is to contribute to a more profound understanding of the transformations of these groups. This is not only viewed as important for academic purposes. As these groups have historically played a key role in the development of the region, we consider it also to be of high importance for the future of the regional development.

In a global context, business groups and particularly diversified business groups (DBGs) that sprawl across multiple apparently unrelated sectors are a well-known and studied phenomenon. A large body of literature intends to answer the questions of why they

predominate in certain contexts, how they fare in increasingly transnational economies and what impact they have on development. However, this literature has largely focused on Asian and European economies and to the extent they have included Latin American groups, the focus is on the groups from the large economies of the region: Brazil, Mexico and Argentina, and to some extent Colombia, Chile and Peru (Peres 1998, Schneider 2013). Only Segovia's 2005 study of the regional groups provides a systematic analysis of Central American groups, but focuses exclusively on the groups that successfully have internationalized their activities (Segovia 2005). Also the increasing literature on the Latin American multinational companies, the so called *multilatinas* (Cuervo-Cazauro 2011, Casanova 2009, 2012) has generally overlooked Central America. Nevertheless, both bodies of literature provide important insight that this book has drawn on.

Devoid of concrete information about them, the Central American diversified business groups and their leaders have acquired almost mythological dimensions in the local public discourse. Figures such as Dionisio Gutierrez in Guatemala, Stanley Motta in Panama, Ricardo Poma in El Salvador, Carlos Pellas in Nicaragua and Miguel Facussé in Honduras are treated in the public debate with a mix of admiration, contempt and fear. They are admired for being successful businessmen and purveying a sense of modern management in the midst of economies dominated by informal relations; they are despised as they concentrate immense fortunes in countries with high levels of poverty; and they are feared because of their influence in political and security circles. Yet, as few of the companies they own and manage are public, the information available about them is scarce. They do not willingly share information about turnover, profits, employees or investments, and apart from in the case of financial companies, they are under no obligation to do so.

This is of course not only a problem for the public debate; it has also been a major challenge for us. We have tried to resolve the lack of reliable data by cross checking a number of semi-reliable sources and arriving at information about the companies that we feel relatively confident give a correct picture. When exhausting public registries, we have read business magazines, newspapers and biographies, and conducted interviews. The disciplinary approach is a mix of political science, sociology, international political economy and economics, reflecting the multidisciplinary background of the research team.

The main purpose of this is not only to generate knowledge about the business groups, but to understand the rationale for the strategies they apply to confront the rapid transformations of the economies in which they are embedded, and what can explain it in the cases that have had major success. Through arriving at a better understanding of this, we also aim to better understand the dynamics of growth and development in Central America generally, and how business group strategies contribute to that in the different countries.

While we started out studying the changes in business group strategies as a result of major changes in the global political economy and the policy shifts in Central America that increasingly opened the region, one of our first findings was that the strategies of the business groups differ greatly across the six tiny countries of the isthmus: Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. Thus, we have been concerned to include a focus not only on international economic drivers, but on formal and informal domestic institutions and how these condition, but are also conditioned by, the actions and strategies of the main business groups.

Our study builds on institutional literature in the varieties of capitalism tradition. A main inspiration is the work of Ben Ross Schneider on the Latin American form of hierarchical capitalism (2008, 2010, 2013), that view DBGs as an integrated element in a form of

capitalism that is characterized by negative complementarities between the organization of business into sprawling, diversified groups, strong presence by multinational companies (MNCs), atomistic labor relations and low investments in skills and technology. The result is continued low productivity growth and thus, sustained structural inequality and long term low growth.

However, Central America also presents some particular characteristics that are not well accounted for in this literature. First, as our study of Central American DBGs reveal, although many have a hierarchical structure, they are highly interlinked between each other in a way that makes in necessary to study networks between them as well as hierarchical relations coordinating the companies within them. Second, close integration of the business groups across the region in spite of much dissimilarity in national institutional contexts, presents a challenge to the VOC literature that is frequently criticized for being too nationally focused (Nölke and Vliegenhart 2009). Third, in spite of recent attempts to include a political dimension in the analysis of DBGs (e.g. Schneider and Soskice 2009), the VoC literature still falls short of accounting for the intimate relationship between economic and political elites in the small Central American countries and how that conditions private sector strategies. Fourth, the frequent critique against the static nature of the VoC approach becomes even more problematic in the small, open Central American countries that are highly vulnerable to changes in the international economic context. These are issues that will be addressed throughout this book.

Although we situate this study in an international literature, the emergence of the evolution of the DBGs in Central America is also highly conditioned on the region's economic history. Thus, in the following, we will first discuss the defining characteristics of business groups, before we give a brief historical account of the emergence and evolution of the currently

dominating business groups in Central America and the economic performance of the region. Subsequently we will outline the main arguments of this book and sketch out the remaining chapters.

1.2 Defining characteristics and varieties of business groups

There is little agreement in the literature about how to define the sprawling networks of companies, mutual share-holderships, families and political interest-groups dominating the political economy of several Central American countries. In most of the literature specific to the region these have been conceptualized through concepts that somehow attempt to capture simultaneously their economic resources and their influence on political decisions. Some take an explicit or implicit structural or Marxist point of departure and talk about ruling classes (Stone 1990), dominant classes (Mahoney 2001) or elites, encompassing landholders, as well as the industrial bourgeoisie (Rueschemeyer, Stephens and Stephens 1992; Flora and Torres-Rivas 1989; Paige 1997). Their economic strength as well as political influence are viewed as derived from the ownership of assets (land, capital), and splits within the dominant classes are understood as a result of the differences in the interests derived from different forms of capitalist production: agriculture, industry, commerce and finance.

More recent studies have used concepts such as 'hegemonic bloc' (Paniagua 2001), power groups (Segovia 2005), or elites (Dosal 2005, Palencia Prado 2002, Váldes 2003) in order to capture the simultaneous economic and political clout of big business. We have taken a different approach; our starting point is the more specific figure of the business group typically defined as 'legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g. equity) and informal (e.g. family) ties' (Khanna and Yafeh 2007, p. 331). We have chosen this as our main focus of as

we have needed a more precise definition than the ones referred to above in order to make a multi-sectoral comparison across national contexts, such as intended here.

However, the concept of business group also encompasses a number of variations. Business groups differ, regarding the kind of ties that bind the different enterprises within the group together, their internal ownership structure, and their degree of diversification. The linkages that bind the business groups together may include mutual share-holdership, close market ties (such as inter-firm transactions), and/or social relations (family, kinship or personal friendship ties) through which they coordinate to achieve mutual objectives. Regarding ownership-structure, some might be of the network type, defined as a constellation of legally independent companies that cooperate for common, long-term goals, whereas others are hierarchies in which a holding company owns and controls legally independent operating units, usually organized as subsidiaries and affiliates. Within the latter group one may further distinguish between multicompany firms which transact in different markets but which does so under common entrepreneurial and financial control, and pyramidal business groups that allow owners to tunnel profits from second and third tier subsidiaries to owners (Colpan and Hikino 2011)).

Another difference is whether the group is presented as a group. Rettberg argues for example that business groups are 'networks of legally independent firms, affiliated with one another through mutual shareholding or by direct family ownership under a common group name' (Rettberg 2005). However, in Central America, we find a number of constellations of networks of companies with mutual shareholdership that do not appear under a common name, but that are nevertheless bound together by persistent relations. Moreover, often time we find formal groups with owners that also own a number of companies that are not formally in the group but that are financially and administratively coordinated with the rest. This complicates

significantly the identification of groups since one needs a lot of knowledge about the relations between the different companies in order to conclude about whether they belong to the same group.

Our strategy to diminish, if not overcome, this problem has been to focus on the family owned groups. These are the overwhelmingly dominant ones in Central America, and starting with the family or family network has helped us to identify the business groups. Our definition of a diversified business group is thus: *a set of legally independent firms, operating in multiple (often unrelated) industries, which are controlled by a family or family network through direct ownership, mutual shareholder ship, or other forms of persistent linkages*.

This does not mean that families necessarily own the companies exclusively. As pointed out by Khanna and Yafeh (2007, p. 331), varying degrees of participation of outside investors characterize many business groups around the world, also the family owned. In Central America, the degree of shareholding between different business groups is also widespread and it can sometimes be difficult to decide where one group ends and the other starts. Nevertheless, for our purposes, we start with the business groups, and secondly, intend to unravel the networks and connections between the different groups.

1.3 From landowners to CEOs of diversified business groups: the evolution of Central American economic elites

1.3.1 The emergence of business groups in Central America

The development of the Central American business groups reflects in many ways the economic evolution of the region, and thus also the major differences between the different Central American countries. Throughout this history, while there are clear aspects of

continuity – of the same families or family networks dominating the economy through adapting to new economic realities – we also see new actors and elites emerging with the rise of new economic sectors, political upheavals or flows of migration.

Some of the currently existing business groups can date their roots back to the control that their families have exerted over land and politics since colonial times. This is true for example of the Castillo family of Guatemala, that proudly refer to their direct descent from the conquistador Bernal Díaz del Castillo (Dosal 2005, p.30), and that has evolved into a dominating industrial family currently heading two of the dominating Guatemalan groups (Cabcorp and Hermanos Castillo). The colonial elite produced and exported cattle, gold, silver and in El Salvador and Guatemala, cochineal and indigo dye. However, it was with the liberal reforms of the 1870s and the parallel establishment of the agro-export economy that the economic elite in Central America was consolidated. By the late 19th century, coffee had acquired a dominating position in export earnings in all the countries in the isthmus except Honduras: It accounted for 96% of export earnings from Guatemala (1989), 91% from Costa Rica (1890), 71% from Nicaragua (1890) and 66% from El Salvador (1982). Among the current business groups that can trace their roots back to the late 19th century coffee-boom, we find for example the Regalado Dueñas in El Salvador. This family controlled not only the presidency (between 1999 and 1903), but over 6,000 hectares of land. This platform was used to establish itself first, as a leading coffee producers, but subsequently diversified into finance (Banco del Comercio), electrical utilities, and sugar estate s (Paige 1997, p. 18). Their current main activity is production of sugar and derivatives.

The control that the coffee-elite acquired over banks later impacted on the development of business groups in many ways. An important hypothesis in the literature on diversified business groups, is that business groups form with a financial institution in their midst in

order to overcome the limitations of weak financial markets. In Central America, the evolution of banks was closely associated with the development of the coffee trade. Banks were established across the region mainly owned by the coffee-elite and directed towards serving their interests, starting with the creation of the Banco Anglo Costarricense in 1864. The only bank originating in the other prosperous sector of the time, the banana export, was Banco Atlantida of Honduras (founded in 1913), owned by the Vaccaro Brothers, one of the three dominating banana producers in Honduras at the time. In all the other countries, banana production was owned by foreign companies and generated financial institutions in the United States rather than in Central America (Bulmer Thomas 1987).

The control over banks allowed the coffee elites to diversify into other agricultural and industrial activities when opportunities opened up. However, since they were often unwilling to fund other activities, this control also contributed initially to stifling industrial development by domestic entrepreneurs in the early 20th century.

It was rather new immigrant groups that established themselves in industry and commerce, and often initially utilizing their own funds and savings. The diverse trading networks that were established in the United States and Europe through the coffee-trade attracted a number of immigrants. They often began import-export businesses, relying on existing connections in Europe and North America. Later, as they became knowledgeable of the coffee business, they invested in coffee-processing mills and subsequently in plantations, ensuring their position within the elite (Williams 1994, p. 182). For example, the De Sola (Homarca) and Cristiani groups from El Salvador both originate in European immigrants that first were established in commerce and later moved into coffee processing.

Also the few industrial establishments existing at the time – the textile industry in El Salvador and Quetzaltenango in Guatemala, the Guatemalan cement industry and two small iron

foundries in El Salvador – were all established by European immigrants bringing their own funds, and often struggling hard initially to gain acceptance for policies favorable to industry in the states dominated by the coffee-elite (Dosal 2005). Among groups that trace their roots to the early industrial establishments we find for example, the Guatemalan Grupo Multiinversiones (Gutierrez/Bosch) and Cementos Progreso (Grupo Novella), both originating in industries established by European immigrants in the first half of the 20th century.

The other main group of immigrants of this time was Arabs, mostly from Palestine, but also some from Syria and Lebanon. The Arabs did not buy land since they initially did not see their residency in the region as permanent (Foroohar 2011). Therefore they mainly focused on commerce, services and in some cases industry. In spite of several intermarriages with elite families, they always stayed a somewhat separate elite, as is particularly well documented in the case of Honduras (Euraque 2009, 2012). As we will see in the following, the groups of Arab origin are currently among the principal business groups in the region, including Grupo Atala Faraj (Fischosa) from Honduras or Grupo Siman from El Salvador. They are also highly inter-linked among each other, but they are less integrated with the rest of the groups.

After the upheaval of the Great Depression and the Second World War, Central America experienced two new agro export booms. Between the late 1950s and 1975, the Central American countries experienced a significant increase in cotton production. This attracted new immigrants, but also gave an important investment opportunity for the old coffee elite. Cotton required larger investments but also gave quick returns. This meant that credit was of key importance, and members of the main cotton growing families frequently also became owners and managers of banks (Williams 1986, p. 44-48).

The opposite was true for sugar production; it required little initial investments, but was originally of modest scale and destined mostly to production of panela (a crude sugar

processed in artisanal form) and fabrication of rum and other liquors (Fonseca 1996, p. 146). In 1929, sugar made up only between 1.3% (in Guatemala) and 4.9% (in El Salvador) of the export income of the sugar producing countries (that excluded Costa Rica) (Bulmer-Thomas, 1987, p.37). In the 1950s it went through a modernization process led by local groups such as Grupo Pellas-Lacayo in Nicaragua and supported by local banks, in the case of the Grupo Pellas-Lacayo, of Banic and Banamer. This led to increased milling capacity and efficiency that enabled the Central American producers to benefit from the market opportunities occurring in the United States after the Cuban revolution had led it to close the market for Cuban sugar. The result was a major sugar-boom in the 1960s (Bulmer-Thomas 1987, p. 1958-59). The mentioned Grupo Pellas as well as Guatemalan Grupo Pantaleon (Herrera family) are examples of groups whose fortunes were greatly expanded during this period and that later expanded into other sector.

The rise of prices of the principal agro-export products between 1945 and 1954 allowed the landholders to diversify into industry, a process that later flourished under the generous protection of the import substitution scheme of the Central American Common Market (CACM). From the late 1950s to the early 1970s a number of industrial enterprises were established, and by 1970 over 70 percent of industrial production was controlled by local companies. Many of these were artisanal, small companies, but also the agro-export elite entered into industry (Bulmer-Thomas 1987, p. 2190-95) often reinvesting the surplus from the agro-export, circulated through national banks owned by the same agro-export elite, although a separate industrial bourgeoisie also Most of it could be characterized as light industry: food and beverage, householdgoods, shoes and textiles. The only main exception were agricultural machinery and cement. This diversification gave rise to the first truly diversified business groups from Central America, for example Grupo Cressida (now Dinant)

from Honduras led by Miguel Facussé of Palestine origin, that started to produce soaps and detergents on license from different MNCs, including Procter & Gamble.

However, it was not only the protection of the CACM that provided business opportunities. A major additional source of diversification was governmentally sanctioned private monopolies in the production of basic goods and sometimes services. There were different reasons for their monopoly status: many sectors enjoyed high tariff protection, but in addition many industries enjoyed governmental price regulations such as the cement industry, they have been regulated by private associations that controlled prices and entry of new actors (as for example the sugar industry in Guatemala), exclusive governmental contracts (as for example in the pharmaceutical industry), or they emerged due to the exclusive support by the state to specific industries an later managed to keep their position due to high entry barriers. Of the sectors that have been highly monopolistic we find the production and distribution of beer, liquor, flour, rice, poultry, sugar, flour, rice, poultry, and cement, as well as the distribution of gasoline, and pharmaceuticals in addition to the governmentally owned services that generally were monopolies in most part of the world including electricity and telecommunication (Férnandez 2005, Tábora 2007, Romero 2006, Molina 2007).

1.3.2 The lost decade and the economic transformation

In much of Latin America the 1980s is named "the lost decade" due to the unraveling of the deb-crisis, and with that, the collapse of the development model that had characterized the region since the 1950s. However, for Central America, the 1980s were lost in economic terms for an additional reason, namely the conflicts ravaging Nicaragua, El Salvador and Guatemala with reverberations across the region. The combined effect of the reduction of agricultural production, the fiscal- and, for some countries, debt-crisis, and the end of the cold war that facilitated the peace-accords and the end to insurgencies and military dictatorships, was a

transformation of the economic model. Yet, this transformation was crucially influenced by a set of economic reforms implemented across the region. Although there were very significant differences between the countries, one may sum up the reforms with the most significant implications for the DBGs under three major headlines: the modernization of the state and de-monopolization/privatization of public services, the support of a new development model and the liberalization of trade and opportunities for foreign investment. In sum, these reforms created a model that was more open to flows of capital and goods from outside the region as well as intra-regional trade and investments.

The reform process started at different points in the different countries and occurred in three principal ways: by the adoption of unilateral policy measures, some of which were included as conditionalities for different structural adjustment programs, bilaterally as part of international trade agreements and regionally, as part of the process of integration under the renewed new Central American integration scheme, the System of Central American Integration (SIECA) reviving the Central American Common Market (CACM) but in a context of parallel international liberalization (Chamorro and Nájera 1998).

The first country to adopt a structural adjustment program was Costa Rica. After having declared a unilateral debt moratorium in 1982, it signed the first structural adjustment loan with the International Monetary fund in 1985 (Sojo 1995). Honduras followed in 1988, and the rest of the countries in the 1990s. These programs were initially focused on macroeconomic stabilization, but the second phase of structural adjustment entered into significant details on the reform of the state, particularly downsizing of the public sector, privatization of public companies, and limitations on public investments. The reforms actually implemented where not only a result of the pressure from the international financial institutions, but equally from private sector associations and local think-tanks associated with

it, often supported by the United States Agency for International Development (USAID) (Sojo 1995, Rosa 1993, Bull 2005). With the partial exception of Costa Rica, the reforms resulted in the opening of key public services such as telecommunications and electricity generation and distribution, to private investors. In the phase of what is often called the "third generation reforms", efforts were also made to strengthen the regulation to combat new and old monopolies. New institutions to regulate the newly privatized sectors were created across the region in the 1990s (Bull 2005). However, only Costa Rica and Panama had competition laws and regulatory institutions monitoring them until the mid-2000s, when El Salvador, Honduras and Nicaragua passed similar laws to those of Panama and Costa Rica (Rivera and Schatan 2008, Damtoft and Irizarry 2011). As of 2013, Guatemala still does not count on a competition law although different drafts have been debated for many years, the existence of competition laws was a requirement for the entering into an Association Agreement with the European Union. [1]

These reforms had the effect of first, opening new sectors for private investment, mainly electricity and telecommunication, but also in the financial sector in the cases where those had been nationalized (Kasahara 2012). In the telecommunication sector local groups entered mainly as junior-partners of transnational companies, portfolio investors or short-term investors, due to lack of access to technology and sufficient capital (Bull 2005), whereas the energy sector, on the other hand, has been a main new source of revenue for Central American groups. Grupo Terra (Freddy Nasser) from Honduras is an example of a group that owes its fortune to this process. Through the telecommunication company Megatel, Nasser acquired mobile licenses and company shares in the processes of telecommunication privatization in Honduras and Nicaragua. He later sold them to Mexican Grupo Carso (Carlos

[1] http://www.elperiodico.com.gt/es/20120830/economia/217191/. For a critical debate of the law-proposal discussed, see http://www.plazapublica.com.gt/content/una-ley-de-competencia-que-legitima-los-monopolios

Slim), and used the revenue for investment in hydroelectric power-plants and a number of other sectors in Honduras and Guatemala.

One reason for the fiscal crisis was the reduction in agricultural production and/or prices that led to a reduction in the percentage of PIB accounted for by the primary products sector. Thus, a second major set of reforms were directed towards the support of non-traditional agricultural and industrial exports as well as tourism aimed to make up for the loss of revenue from agro-exports and reduce its traditional vulnerability to the fluctuation in commodity-markets. This was done through the creation of free trade zones, tax-exemption schemes, facilitation of credits and labor reforms to enable access to the required cheap labor. The result was a transformation of the economic model and the facilitation of new lines of accumulation principally in the maquila and tourism sectors and also a few non-traditional agricultural goods (such as cardamom and pineapple) (Segovia 2004, Robles Rivera 2010).

The third major set of related reforms came in the trade and foreign investment policies. After the reinvigoration of SICA by 2012, 95.7 percent of the tariffs in the region were harmonized, and Central America had the highest percentage of intra-regional trade in Latin America (26 percent), meaning that it had returned to the level at which it was in the 1970s, after the dramatic reduction (to around 10 percent) experienced in the 1980s. At the same time, the trade with the rest of the world increased, first under preferential schemes such as the Caribbean Basin Initiative, and later in the framework of WTO and trade agreements with 17 countries or groups of countries. The by far most important of these agreements was the DR-CAFTA signed with the United States – the most significant trading partner of Central America – and the Dominican Republic in 2003. DR-CAFTA encompasses all economic sectors and has a goal of full free-trade although at differentiated paces and with some minor exceptions. As is well known, it also grants full investor-protection and open competition on

governmental procurements, protection of intellectual property rights among other areas included.

<Figure 1.1 in approx. here>

As a result of the agreements, the region went from having a three digit foreign tariff on many goods until the 1980s, to an average external tariff rate of 6 percent in 2011, the lowest in Latin America and the Caribbean (CEPAL 2012). This contributed to a significant expansion also in extra-regional foreign trade (see figure 1.1). By 2011, Central America's total trade counted as the sum of exports and imports made up 82 percent of the region's GDP (CEPAL 2012). It is thus consider the region with the highest degree of trade-openness in Latin America.

The major DBG leaders were staunch supporters of the structural reforms as well as regional integration and the trade agreements, particularly DR-CAFTA, although there were differences in sector-priorities (Condo, Colborn and Rivera 2005, Bull 2012). However, it is clear that not all the reforms had the expected effects, and thus that it benefitted some groups more than others.

One of the main expectations of DR-CAFTA was that it would consolidate the region as a destiny for foreign direct investment (FD). However, the performance in terms of FDI attraction has varied significantly between countries and over time as shown in figure 1.2. There is an increase, but Panama and Costas Rica accounts for most of it, and some of the other major spikes can be explained by the sale of domestic enterprises to MNCs.

<Figure 1.2 in approx. here>

Moreover, as shown in figure 1.1., although trade increased in total, and the Central American region consequently became relatively more open to trade than other countries of similar

income levels, imports rather than exports are the main source of this trade openness, resulting in major trade deficiencies. While Nicaragua historically runs the highest trade deficit in the region (near 30% of GDP in 2010), Honduras and El Salvador's trade deficits are also high (around 20% of GDP in 2010) (World Bank 2012). Thus, while many Central American businesses were satisfied with having gained sustained access to the US market, among them the sugar growers and *maquila* producers, and the importers faced less obstacles in their business, many DBGs also met new challenges.

These were confronted through different strategies in which the DBGs have ben exploiting the opportunities involved in the new model, as well as defending themselves against the challenges it presented. These are the topic of this book.

1.3.3 Economic growth, distribution and productivity in the new economic model

The Central American economies have over the last decade performed markedly differently in terms of economic growth and technological upgrading. As shown in table 1.1 the six countries differ both regarding the size of the economies (Gross Domestic Product (GDP), economic growth and income levels, measured in GDP per capita.

The first thing to notice is the different size of the economies. Guatemala is the largest economy with a GDP five times larger than that of Nicaragua, the smallest economy in the isthmus. The second major difference is income levels per capita, with Panama on top with with \6856 USD in 2012, while Honduras and Nicaragua are among the poorest in the hemisphere with 1542 and 1267 USD per capita respectively. Also growth rates have differed significantly over the years. The decade between 2003 and 2013 was characterized by high growth in most of Latin America, with a steep slump in 2009 due to the financial crisis. The Central American sub-region has largely followed this trend. However, there are very

significant differences between the different countries. While Panama has performed significantly better than average, and partly also Costa Rica, the rest of the countries have generally performed slightly worse. The last decade, El Salvador in particular has shown weak results and growth in Guatemala has also been mediocre, while the two poorest countries, Honduras and Nicaragua have had a volatile, but at times satisfactory growth.

<Table 1.1 in here>.

When looking at the explanations for the varied growth results, one important factor is productivity. Studies of Total Factor Productivity (TFP) shows that Central America (with the exception of Panama) has lagged significantly behind the Latin American average over the last decade regarding this, and the worst performer, El Salvador, has seen a falling TFP (Fajnzylber, Guasch and López 2009). On rankings of competitiveness and business climate, the Central American countries are generally performing badly: on the World Bank Investment Climate Index (2011), the Central American countries rank from 84th place (El Salvador) to 141th (Honduras) out of 183 countries listed. In the Global Competitiveness Report from the World Economic Forum, the Central American countries again perform badly, on most indicators related to innovation and productivity growth (WEE 2011). As an example, total spending on R&D did not exceed 0.06 percent of GDP in any of the Central American countries, whereas the average for Latin America was 0.54 percent (Lederman 2007). A number of other prerequisites for industrial upgrading are also found to be missing. Among them is good quality infrastructure and logistics. The Central American countries are found to be deficient on most accounts ranging from electricity supply and mobile telephone subscriptions to quality of roads and ports (WEE 2011).

A main explanation for the above in the VoC literature is the existence of atomistic labor markets and low levels of skills and training. Most workers have fluid, short-term links to

firms, and they have few and weak links to other workers through labor unions. All of these conditions are even more accentuated in Central America than the rest of Latin America. While the unionization rate is 45 percent on average in CMEs, it is 28 in LMEs and 15 percent in Latin America (Schneider and Karscher 2010). However, it is only 8 percent on average for Central America, and there are significant differences across the countries. Only 2 percent of the labor stock is organized in Guatemala, the corresponding number is 7 percent in El Salvador, 8 in Honduras, 9 in Costa Rica, 12 in Nicaragua and 13 in Panama.[2] Furthermore, in some Central American countries, labor markets are characterized by extreme levels of informality. In Central America the percentage of the population (outside agriculture) that is employed in the informal sector varies between 70.7 percent in Honduras, and 65.7 percent in El Salvador to 39.3 percent in Panama and 33.6 percent in Costa Rica (OIT, 2012, no data for Guatemala and Nicaragua).

High levels of informality labor is both a sign of atomization itself, and a factor contributing to low levels of on-the-job training and thus low levels of skill development. This adds to the already low levels of education and skills. While education levels have increased significantly over the last years, and in particular, the extension of basic education, the levels vary across the countries. In Guatemala people above 24 years of age have an average of 4.1 years of education, while the corresponding figure for the other countries are: 5.8 (Nicaragua), 6.5 (Honduras), 7.5 (El Salvador), 8.4 (Costa Rica) and 9.4 (Panama) (UNDP 2013). Compared to other Latin American countries, only Costa Rica and Panama reaches the average, whereas the countries of "high human development" reaches between 12 and 13 years of schooling.[3]

[2] See chapter 5 in this volume. For further information see also http://white.oit.org.pe/spanish/260ameri/oitreg/activid/proyectos/actrav/proyectos/proyecto_ssos/act_regionales/mexico_nov2010/documentos/3erdia_cancun1.pdf
[3] http://hdrstats.undp.org/en/indicators/103006.html

The atomistic labor relations and low levels of skills and training complement the dominance of MNCs and business groups, since both MNCs and business groups have relatively low demand for skilled labor and weak incentives to press for widespread investment in education and training and the absence of a large pool of skilled workers discouraged domestic firms from investing in upgrading their production or in other higher technology sectors, and instead encouraged domestic firms to target lower technology investments where appropriate skills were abundant in the labor market (Schenider 2013, p. 26).

1.4 Understanding business group strategies in open and changing institutional contexts

The debate about the political economy of Central America has long been quite polarized. In the process of economic reforms from the late 1980s, some saw the state as the main culprit of stagnant growth and low productivity. With its allegedly bloated state apparatuses, myriad of regulation and red-tape, and inefficient bureaucracies, it was viewed as stifling business initiatives, out-crowding private investments, and contributing to business-hostile macro-economic volatility. As elsewhere, the solution was to be found in unleashing business initiatives by reducing and reforming the state presence. However, while surveys attempting to unveil the views of business on the main obstacles to their growth flourished, often conducted by private sector think-tanks, very little research was done on the ownership structure of the companies, their main strategies and investments: the focus was on the state and how it should be reformed.

Against this, it was argued that the problem was not the magnitude of the state or its presence in the economy, but rather that it had always favored a small elite of capitalists that were preoccupied with serving their own interest, not that of the countries as a whole. Yet, having structural rather than institutional focus, their main concern was to reveal the concentration of

capital in the hands of a ruling class and how it influenced state policies, and not how they organized and reorganized their enterprises and the implications that had for the economy as such.

This book is an attempt to carve out a different position by focusing on the business groups, their internal organization, how they try to both influence and adapt to a volatile economic environment and rapidly changing institutional context. As such, we not only attempt to contribute to debates about Central American development, but also to the international literature on why DBGs emerge and thrive, and whether they represent important determinants of productivity and growth in developing countries. Specifically, how do DBGs respond to the process of institutional transition and market development that characterize many developing economies worldwide? Are they progressively shrinking and weakening their dominant market position and political influence – or, by contrast, are they adapting to a new market-based competition and finding new strategies and market niches to support their market dominance?

Our findings point to that the DBGs are not in the process of being subsumed by the MNCs, nor do the majority thrive in the global economy. Some groups are struggling hard to compete with MNCs and they diversify as a means of defending themselves against MNC competition, many have refocused their activity to sectors wherein there are still possibilities to create de-facto monopolies or oligopolies or they have particular competitive advantages as local groups, and many have established links with MNCs in order to access technology, new products to distribute or brands to produce. Many have cross-border investments, but only a few are moving towards being successful MNCs themselves.

The questions are: what can explain the different strategies? What are the implications for the development of the region? Can we see a new form of capitalism emerging in Central America as a result of the increasing penetration of MNCs and expansion of the DBGs abroad?

In order to answer that, two concepts from the Varieties of Capitalism literature have proven particularly useful: hierarchies and networks. The concept 'hierarchical capitalism' is launched by Schneider to depict the Latin American capitalism where hierarchical relations not only govern the internal structure of the two dominant economic organizational forms – the diversified business group and the MNC – but also relations among firms both within sectors where large firms dominate economically (oligopoly) and in associations as well as across sectors and borders in that business groups and MNCs buy and control firms that would be independent in other varieties. As such, 'hierarchies replace relations that in other varieties would be mediated by markets, networks, or coordination.' (Schneider 2013, p. 40). In Central America, hierarchical relations are evident in the daily operation of the groups, and the command that the group leaders have over an array of companies in different sectors provides a crucial resource in their survival and growth. However, the hierarchies also characterize the MNC structure and their introduction to Central America has shifted the kind of hierarchies that the companies relate to. This is evident in the access to technology, but also in some countries access to finance. Moreover, in the current process of regionalization new hierarchies are formed when groups from one country buy a number of independent companies in the neighboring countries.[4]

However, although hierarchies are important, it is impossible to understand of the DBGs without also taking into account how they function as networks and within networks. While the DBGs characterized by being horizontal networks bound together by a set of social norms

[4] See for example the presentation of Grupo Multi-Inversiones in chapter 4

and economic self-interest between conceptually equivalent units (Hamilton and Feenstra 1995) are quite rare in Central America, networks between DBGs and other actors is often what allows the companies to compete even with companies with superior technology or access to finance. With the transnationalization of the economy, due to the sale of a number of companies in which the DBGs held majority, network coordination has become a more predominant as the group owners have entered into various companies as minority shareholders.

Our argument is that while hierarchies characterize the relationship between DBGs and MNCs, as well as between the large DBGs and smaller groups and independent companies, networks characterize the relations between several of the large DBGs and important political institutions. Networks are strengthened when DBGs pool resources in order to make investments in the magnitude needed to compete with MNCs; networks are also needed when red-tape is to be overcome, governmental bids are to be won, or licenses acquired. These networks are distinct from the coordination found in the CMEs because they are based on a set of informal institutions that are stable and long term and not up for negotiation. The long term nature of hierarchies and networks stand in contrast to the atomistic relationship with labor and the relative isolation from local communities, and the privileged position in such networks give the DBGs a permanent role in the economies.

Further, because of the structural and long-standing characteristics of the networks in which DBGs are embedded, groups are often better able than independent companies to coordinate and get access to tangible and intangible resources, exploit external economic and policy opportunities, upgrade their managerial and technological capabilities, and strengthen their market dominance even in the presence of a rapidly changing institutional context. The interlinks and complementarities between groups’ resources, capabilities and strategies, on the

one hand, and the institutional characteristics of the environment in which they operate, on the other, represents a major avenue to explain the resilience and continued superiority that DBGs are proving to have in developing economies worldwide. We will explore this research avenue in the next chapters.

1.5 Research strategies, methods and the plan for the book

This book is based on a multidisciplinary approach and has sought to combine a number of different methods for data-collection and analysis. We have made use of six principal sources of data. First, where existing we have used public registries. Those are available mainly in the Company register in Panama. There are also some data (on company ownership and composition of boards) in the Mercantile Register in the National Center for Registries (CNR) in El Salvador. Second, we have used company web-sites and websites of business associations. Particularly export associations maintain useful websites with overviews over companies associated, but also some other organizations have such information available. Third, we have used newspapers and business magazines particularly to gain information about mergers and acquisitions or the investment in new projects. Newspapers and magazines have also been a valuable source about the political strategies of business groups. Fourth, we have undertaken a survey among both group affiliated and stand-alone firms in the region on their internationalization strategies. However, in spite of having sent hundreds of requests of participating and spent considerable resources on follow-up calls, we received a too low number of responses to be able to lend much importance to this survey. The results are referred to in chapter 6, but interpreted with care and cross-checked with other data. Fifth, we have conducted a number of interviews with business group leaders and with experts knowledgeable about them. This has been used to correct the material we had already collected in order to get a better idea of their strategies, the companies belonging to the groups

and importantly, on the evolution of their groups over time. Sixth, and finally, we have complemented our own data with data from the World Bank Enterprise Survey 2010-2011.

With the exception of the surveys (our own and that of the World Bank), the data has been used to compose a database (discussed further in chapter 2) that has been the basis for a substantial part of the analysis. This analysis has been done at three different levels: the regional (Central American) level, the national level, and the level of individual DBGs. As a result, Central America is sometimes treated as a unit, when we talk about Central American groups, and sometimes it is treated as the universe and the six different countries are the units that are compared in the analysis. Moreover, we have attempted to combine the study of the state of affairs today with process analysis, tracing developments over time to investigate how institutional and policy changes coevolve with groups' strategies in a long run perspective

We have also used a variety of techniques and methodologies for analysis. Chapters 5 and 6 uses quantitative techniques to reach conclusions about the export performance and innovativeness of group related firms compared to stand-alone firms, and to analyze how that performance can be explained by pointing to institutional variables. In this case, different institutions are given values as 'strong' or 'weak'. In the following chapters, we 'unpack' several of these institutions and describe them in more qualitative terms as well as attempt to uncover aspects of their co-evolution with the DBG strategies. Thus, we move both from a quantitative to a qualitative approach, and from an 'outside' view attempting to sustain causal mechanisms, to an 'inside' view aimed at interpreting institutions and sequences of events within their national and historical context. In other words: we move from an explanatory to an interpreting mode of analysis and from asking questions of 'why?' to also including an investigation of the 'how?' and the underlying explanatory process.

Applying such a multitude of methods and techniques has its clear advantages but also disadvantages. We hope to be able to give a thorough picture of the Central American DBGs, the transformations they are currently undergoing and how that is affected by the institutional context, while at the same time affecting it. However, the book does not intend to provide a parsimonious model for institution-DBG interaction or a clear prediction of where the Central American DBGs are headed. Rather, it attempts to provide a coherent framework to interpret the complexity of the realities of these small, but very different, neighboring countries, but without losing sight of the differences between groups, economies, institutions and policies.

The rest of this book is outlined as follows. The next chapter provides an analytical framework for the analysis of the strategies of the Central American DBGs. It draws on the vast comparative literature on the emergence and impact of the DBGs, and on the more specific literature on DBGs and globalization. It further builds on the institutional literature on Varieties of Capitalism (VoC) and DBGs.

Chapter three provides a general overview over the changes that the DBGs have undergone in Central America, along three dimensions: shift in sector focus (differentiation), establishment of relations with MNCs, and expansion abroad. This regional analysis is complemented by an analysis of national trajectories that uses the same variables but attempts to place the national differences in a historical and institutional context.

Chapter four intends to give a ‘face’ to the DBGs by studying the formation, expansion, sector shifts, alliance formation and political connections of six of the most emblematic business groups in the region: Grupo Multiinversiones (Gutierrez-Bosch) from Guatemala, Grupo

Poma from El Salvador, Grupo Continental (Rosenthal) from Honduras, Grupo Pellas from Nicaragua, Grupo Motta from Panama and Grupo Montecristo from Costa Rica.

Chapter 5 focuses on one important strategy of internationalization, export sales, that has so far received only limited attention in the literature. The chapter compares the export performance of the business group affiliated firms to the non-affiliated or "standalone" firms, seeking to explain whether being affiliated with a DBG has positive or negative effect on Central American companies' export sales.

Chapter 6 shifts the focus to the innovation activities of DBGs, and it seeks to scrutinize empirically whether groups' innovative capability and investments increase or decrease when a national economy undertakes a process of institutional change, liberalization and market development.

While these two chapters focus on different development impacts of DBG dominance, chapter 7 and 8 turn to the explanations for differences across countries. In chapter such explanations are sought in differences in institutions regulating the financial sector and how they have evolved over time. This explains the differences in the weight that financial companies have in the groups across the countries, but can also shed light on their general sector preferences.

Chapter 8 turns to the political strategies of the DBGs and attempts to understand how those in part are shaped by their home countries' political institutions and in part shape those. Their strategies are studied across four presidential periods, but a particular weight is put on those periods in which there have been presidents in power that have challenged the core interests of the DBGs.

In sum, the book presents a view of Central American DBGs and the institutions of their home countries as knit together in a long-term co-evolutionary process: groups' strategies are largely shaped by domestic institutions, but their actions are in turn of deep consequence for the same institutions and the development trajectories that they follow over time to adjust to the process of market development and institutional change. The following chapter will elaborate that perspective in full.

Chapter 2: Between hierarchies and networks: understanding business group strategies in a global capitalism

2.1. Introduction

As argued in chapter one, in Central America the debate about what economic development model to pursue and what role big business and transnational companies have in that tends to be polarized between those that argue for focusing on integration into a global economy and reducing barriers for investments, and those that argue for a more significant role for the state, and development from below. The former tend also to see the diversified business groups as paragons of development, while the latter tend to view them as parasites.

In this chapter we will outline a theoretical framework to answer the questions posed in the last chapter. First, we will revise the literature that specifically discusses the implications of the predominance of business groups on economic performance. This is broad and diverse and looks at both firm profitability and the wider implications for national welfare and development. Here we will outline different theoretical bases for the two principal contrasting theses in the literature as well as the public debate: that they are either ***paragons*** or ***predators*** of development.

Second, we will discuss different perspectives on the consequences of international integration on business group strategies and their performance. Here we distinguish between three distinct hypotheses that have been formulated in the literature regarding groups' strategies of ***international expansion, sectoral differentiation and subordination*** to MNCs.

Third, we discuss how business groups may be viewed as an integrated part of a particular institutional configuration of capitalism. The assumption made here is that the institutional context in which the DBGs have emerged, affects their strategies, but importantly, their

strategies also affect their intuitional environmental over time. Thus, we present the argument that the long-run persistence and resilience of business groups may be explained by the two-way interaction and dynamic coevolution between groups' business and political strategies, on the one hand, and country-specific institutional settings that characterize each national economy.

2.2. Diversified business groups: why they thrive and with what consequences

The broad literature on the impact on welfare and development of the dominance of business groups has encountered significant challenges due to scarcity of data as well as differences in theoretical approaches, that has ranged from a narrow micro-economic focus on effects on firm-profitability, to broad studies focusing on economic growth and development generally. Another challenge has been that business groups differ widely across countries and regions, in spite of some common key defining features. Thus, a recent survey of the literature has concluded that it is impossible to draw clear conclusions about the impact of the dominance of DBGs on economic performance of a country (Carney et al 2011).

The different theoretical arguments may be divided between those that consider DBGs to be **paragons** of development, and those who consider them to be parasites. According to the paragon thesis, business groups in developing economies play an important function for economic development by making up for missing or inefficient institutions, hence filling 'institutional voids' (Leff, 1978; Khanna and Palepu, 1997). According to Leff, groups are an 'intrafirm mechanism for dealing with deficiencies in the markets for primary factors, risk, and intermediate products in the developing countries' (Leff 1978, p. 667). Groups form and prosper when national institutions are weak and, correspondingly, group performance is relatively better in countries characterized by weaker institutions than in economies with well-functioning institutional set ups (Khanna and Yafeh, 2007; Carney et al., 2011). Some authors

have argued that business groups are essentially a substitute for efficient financial markets and institutions and they often develop with a financial institution in their midst (Mintz and Schwartz 1986). Groups may also make up for the lack of legal institutions and weak contract enforcement mechanisms, thus making it possible to decrease transaction costs in product and factor markets. Further, if labor markets are inefficient and rigid, group affiliation may facilitate access to qualified human capital or set up training courses internally within the group, thus sustaining further capacity building and resource accumulation processes by DBGs.

The theoretical arguments that provide a conceptual foundation to this market failure view are primarily rooted in transaction costs economics developed by Coase (Williamson, 1975): taking advantage of their organizational structure and internal network, groups may decrease and partly avoid the high transaction costs that characterize the inefficient market context that is typical of less developed economies. Transaction costs increase when generalized trust is missing, and the formation of economic groups with a high level of internal mutual trust becomes a rational response. Thus, building on Coase, Granovetter argued that a 'business group is to firm as firm is to individual economic agent' (Granovetter 2005, p. 453).

A related argument is that groups are an 'insurance- policy' that reduces bankruptcy risk for affiliates (Ferris et al 2003), and thus a rational risk-management strategy in highly volatile contexts. This has been pointed to as a main explanation for the prevalence of DBGs in Latin America, where until recently macroeconomic volatility was the norm rather than the exception, and the generally high dependence on export of natural resources with fluctuating prices has made Latin America particularly vulnerable to global economic cycles. In this context, groups have entered into different sectors that are exposed in different ways to economic cycles. Volatility also explains the concentration of ownership, or block holding,

which is a typical feature of the Latin American economic groups, since it allows owners that maintain tight control to adjust rapidly to changing circumstances (Schneider 2008a).

The argument about the superior performance of groups in emerging economies is also related to the resource-based view of the firm (Penrose, 1959; Wernerfelt, 1984). According to this, it is important to distinguish between resources and capabilities: the former are stocks of production factors that a firm possesses (e.g. physical and human capital), whereas the latter represent its ability to manage these resources in order to create products and services. According to Guillén, business groups are able to accumulate resources needed for repeated industry entry and as a result they overcome barriers to entry in less developed economies. In other words, the diversification may ensure steady supply of important input and information (Guillén 2000). One such input is skilled labor and managerial talent that can be developed and shared among affiliate firms in order to overcome deficiencies in the labor market (Chang and Hong 2000).

However, in the recent literature on business groups it is increasingly recognized that while the business group diversification is a result of adaptation to their institutional environment, by employing purposive strategies in pursuit of their self-interested objectives, the groups also play a profound role in shaping their local environments (Carney and Gedajlovic 2003). Once large, family owned business groups become a dominant form, the aggregate effects of their action will feed back into institutional processes by contributing to the establishment of some practices and the exclusion of others (Carney, Gedaljovij and Yang, 2009). In other words: there exists a mutually causal relationship between concentrated control by large, family owned groups and the host economy's institutional environment (Fogel 2005, p. 6). This may be described as "co-evolution": a mutual and reciprocal influence between institutional environments and organizational action (Carney and Gedaljovic 2002, p. 2).

This means, that we should not only focus on how business groups practices reflect weaknesses in local institutions, but also how they potentially may contribute to maintain such weaknesses through their practices. Such practices, for example, the internalization of financial transactions, may be beneficial for the group in question in the short term in the context of limited financial markets, but may in the long term contribute to the sustained weakness of those financial markets. Another example is attempts to control the government through rent-seeking or state capture that may produce benefits to the individual groups in the short run, while being highly detrimental to the development of institutions favorable to growth in the long run (Fogel 2006, Morck and Yeung 2004).

This points to the opposite thesis to the one launched above, namely that DBGs are **parasites**: they play a negative function in developing economies. In addition to their potential influence on institutions, the literature points to two main reasons for that. First, due to their strong market power and political connections, groups are often able to erect entry barriers in domestic industries to prevent other firms to enter the market. This reduces the level of market competition, having negative consequences in terms of price dynamics, domestic consumption and welfare. Furthermore, entry barriers reduce firm heterogeneity in the domestic market and may in this way hamper the entry of new innovative firms (Hannan and Freeman, 1989; Mahmood and Mitchell, 2004).

Second, groups are often inefficient and rent-seeking organizations. The literature on agency theory and corporate governance points out that groups have often concentrated ownership characterized as control pyramids, in which a family firm controls several listed companies. This type of structure leads to the separation of ownership and control and thereby creates important agency problems. Furthermore, internal power struggles may lead resources to potentially flow towards the most inefficient parts of the group (Rajan et al 2000). The effects

of these agency problems are capital misallocations and a lower level of efficiency also in the national economy (Morck et al., 2005).

Third, diversified groups are argued by some to be less productive than other companies. Leff argued that 'the essence of their expansion path is entry into new products rather than cost cutting in existing product lines' (Leff, 1978, p. 725). Thus, diversification may reduce the need to specialize (Carney and Gedaljovic 2003, Johnson et al 2000), and this low degree of specialization may contribute to a generally low productivity growth.

In sum, both of these perspectives do to some extent view DBGs as an expression of low levels of development. In the '***paragon perspective'*** they are viewed as a rational response to a given institutional contexts, but they might nevertheless be relatively inefficient compared to companies emerging from contexts characterized by stronger institutions. In the '***parasites perspective'*** they are considered to be potentially inefficient both due to their organizational structure and low levels of innovation, in addition to having a negative effect on institutions.

In chapter 5 of this book, the paragon versus parasites hypotheses will be tested in the cases of Central America with the use of quantitative data on innovation. However, our interest is not only to understand which one gets most support in Central America, but also how they relate to internationalization and how their strategies to confront that impact on the growth and development of the respective economies.

2.3. DBGs and internationalization

As discussed in chapter one, the market reforms introduced in Central America increased imports as well investments made by MNCs, and thus increased the presence of MNCs in the domestic markets as suppliers of goods and services. With their higher degree of

specialization, economies of scale and access to capital and technology, they present a challenge to most DBGs in the local markets, as well as in the competition for other international markets. There are different views in the literature regarding how that will impact on the DBGs.

One may identify three principal perspectives, each of which focusing on a distinct dimension of groups' strategies and providing a different prediction regarding their economic performance and long-run survival as response to a process of internationalization and institutional change in the economy. One perspective takes a structuralist starting point and focuses on the consequences of the incorporation of developing countries in global financial and production systems on the leading companies of those countries. Although not focusing explicitly on the figure of the diversified groups, but rather "elites" or "capitalists classes", it poses hypotheses of significance for the DBGs. It proposes that structural changes in the world economy associated with globalization have contributed to a new division among elites in the former Third World between nationally-oriented and transnationally oriented elites (Robinson 2003, 2011). This may cause temporary political ruptures, yet eventually local capital will be ***subordinate*** to transnational capital. As argued by Robinson:

> It is increasingly difficult to separate local circuits of production and distribution from the globalized circuits that dictate the terms and patterns of accumulation worldwide, even when surface appearance gives the (misleading) impression that local capitals retain their autonomy. There are of course still local and national capitalists, and there will be for a long time to come. But they must 'de-localize' and link to transnational capital if they are to survive (Robinson 2011, p. 355).

Segovia (2005) elaborates this subordination hypothesis related to Central America. He studied what he termed the 'economic power groups' that have internationalized to be present

at the regional level. This ‘real regionalization’ of the Central American economies is partly the result of the revival of the Central American Common Market under the System of Central American Integration (SICA) that lowered the internal barriers to investment. However, the regional integration also made the region more attractive for MNC investments, and Segovia predicted that the regional groups eventually would become incorporated into the structures of transnational companies through acquisitions and buy-outs (Segovia 2005).

However, this perspective does not enter into details on the kind of relationships established with MCNs. There are many kinds of connections that local groups may establish with the MNCs. One may distinguish between being a distributor, sub-contractor, a franchise-holder, a joint-venture partner or a partner in a strategic alliance with MNCs (Dicken 2004). These involve different degrees of subordination: whereas the distributor essentially works for the MNC and the subcontractor depends heavily on the decisions made by the MNC headquarter, in a joint venture or a strategic alliance the partners are more equal. There are also significant differences within the different categories of relations sketched above: holding a franchise to produce clothes for a particular brand may for example involve a higher degree of subordination than operating a franchised hotel chain where the local partner own the assets and may change the franchise agreement without major problems. In short, it is necessary to describe in further detail the different DBG-MNC relations in order to decide whether it amounts to subordination or not. This is one of the aims of the analysis presented in chapter 3.

A related thesis was explored already in the 1970s, when it was hypothesized that with integration into the global capitalist system, the Latin American ‘national bourgeoisie’, mostly organized as DBGs, would eventually disappear and give way to groups incorporated into global capitalist structures (Galetti 2004). This was contested on empirical grounds in Peter Evans’ study on Brazil from 1979, that showed that rather than disappearing, the domestic

groups differentiated themselves from the multinationals by moving into sectors or segments that required lower levels of technology and investments, or where multinational companies were less dominant, including finance, commerce and construction (Evans 1979). This ***'sectoral differentiation hypothesis'*** was confirmed by Schneider 30 years later who, attempting to explain the surprising persistence of Latin American DBGs faced with economic openness and increased competition from multinationals, found that the DBGs had moved into sectors that are protected or where they have a particular competitive advantage (Schneider 2008b).

Although he is coming from a quite different starting point, Mauro Guillen's seminal study on the diversified business groups in a global economy to some extent confirms the "differentiation" thesis. However, he argues more specifically that DBGs thrive in an economy characterized by asymmetries between national and international institutions such as those that would exist when the national economies are not liberalized. In those situations groups may exploit the information asymmetries existing between local and global companies by taking advantage of their unique skills for entry into new industries, and mobilizing domestic as well as international resources related to inputs, processes and market access. When economies liberalize the diversified groups loose some of that advantage and tend to move towards ***specialization*** (Guillén 2000, 2001).

However, this seems not to accord with the findings of Schneider (2013) of Latin America who shows that although a few groups have divested everything but their core business, most of the DBGs that have made significant investments abroad in Latin America have done so without reducing the number of sectors in which they are involved (Schneider 2013). As suggested by Schneider (2008b) the reasons might be found in the dynamic of their diversification. He distinguishes between groups that follow three patterns of diversification:

(i) organic groups that diversify according to the logics of scope and vertical integration and their subsidiaries, and that are likely to have stronger synergies in organization, personnel and expertise, (ii) portfolio groups that diversify to manage risk and are more likely to buy firms than to build them from the ground up, and (iii) policy-induced groups diversify in response to government incentives or directives. In Latin America, the portfolio group is the most prevalent and they continue diversification in spite of internationalization.

While we find some groups that could be called 'organic groups' in Central America, most could be labeled 'portfolio groups', in spite of the fact that it is more common to build firms from the ground than to buy them (see chapter 3). The majority of the groups in Central America can be called 'opportunity-seekers': they diversify in order to increase revenue, and tend to do so in a wide range of sectors where opportunities appear, whether at home or abroad, but mainly within the Central American region. When faced with competition from MNCs this may put pressure on specific companies. The groups tend to react in one out of three ways: they ally with the MNC; they sell out in the sector where the competition is strong and enters into new ones; or they accept reduced profits in one sector and spread themselves across the economy in order to accumulate equal amounts of profits as before. Thus, internationalization may not lead to less diversification but more.

Finally, in the increasing literature on *multilatinas* another hypothesis appears: that DBGs ***expand*** abroad and become multinationals themselves. Thus, they are not only subsumed under the circuits of accumulation of transnational capital, they *become* transnational capital. The question then is which groups that do expand abroad and which don't. The *multilatina* literature makes some suggestions in this regard: it shows that while internationalization is viewed as a risky process by many US or European companies (Casanova 2011), in Latin America internationalization is often motivated by accessing more stable markets and thus to

reduce risk. However, whereas a risky home-environment is viewed as a motivating factor, it is also the case that the evolution of multilatinas has depended on market reforms that first have given them a stronger foothold in the national economy (Teubal 2004, Cuervo Cazurra 2012). Based on these arguments, we would expect that *the groups from countries that have gone through thorough market reforms as well as experienced significant economic volatility*, *would be more prone to expand abroad.*

In sum, in the literature we find three hypotheses about what will happen to DBGs in an internationally integrated economy that may be summed up as: (1) ***subordination,* (2) *sectoral differentiation, and* (3) *international expansion***. An interesting issue that we will try to analyze throughout the book is how groups combine different patterns of for example expansion and differentiation, or expansion and specialization, and how these strategies differ across countries in Central America.

Our study shows not only that DBGs combine different strategies, but also that how they combine them differs across countries. Thus, it appears that no hypothesis will get universal support. Moreover, the significant differences observed across countries may require that we move from assuming general institutional weakness as a background for the emergence and evolution of BDGs, to specifying rather what *kind* of institutions that actually exist and what impact those have on DBG strategies. In other words, it requires a shift of focus from the lack of institutions to studying how DBG strategies are shaped by the existing institutional environment, and as mentioned above, how they in turn affect those institutions.

2.4. Varieties of capitalism, institutions and diversified business groups

Studying how firm strategies are shaped by the institutional environment is the principal concern of the Varieties of Capitalism (VoC) approach. Firms are argued to be the principal

actor in capitalism, but they are considered to be shaped by their institutional environment, as they take advantage of institutional opportunities and exploit their core competencies and capacities (Hancké et. al 2007, p.5). In a similar vein as the resource based view of the firm discussed above, VoC is based on transaction cost theory, and it argues that institutions mitigate uncertainty, moral hazard and opportunism and thus enable coordination between economic actors. However, the companies that thrive are those whose competitive strategies "fit", or become isomorphic, with opportunities and resources prevalent in the prevailing institutions (Hall and Soskice 2001). The comparative advantages of firms are portrayed in terms of how their strategies display key complementarities with their institutional environment. These have become complementary through a process of "positive feedbacks", thus contributing to a degree of stability of capitalist varieties, and in different ways contributing to economic development and growth.

With this starting point, the original contribution of Hall and Soskice distinguished between liberal market economies (LME) and coordinated market economies (CME) (Hall and Soskice 2001), characterized by differences in the institutions of corporate governance, industrial relations, vocational training and education and the structuring of inter-firm relations. Boyer expands this and argues that each capitalist variety is based on a conjunction of five institutional forms: the wage/labour nexus; forms of competition; the monetary regime; relational configurations between the State and the economy; and the modalities by which the economy is inserted into the international relations (Boyer, 2005).

Each configuration of capitalism has produced its emblematic firm: in the LME it is the equity-finance managerial enterprise, whereas the CME will be populated by the bank-monitored alliance centered firm (Boyer 2005, Carney 2009). The diversified business group is found to be emblematic in Asian as well as Latin American forms of capitalism. The large,

family owned groups have been viewed as an integrated aspect of a "oligarchic capitalism" (Carney et al 2011, Fogel 2006, Morck and Yeung 2004), but also in what Rajan and Zingales call 'relationship capitalism' (Rajan and Zingales 2004). They are also viewed as the emblematic firm jointly with MNCs in the 'dependent market economy' depicted by Nölke and Vliegenhart (2009).

Focusing particularly on Latin America, Schneider argues that DBGs are rather a part of what can be called 'hierarchical market economies' (HME) (Schneider and Soskice 2009). The DBGs are internally hierarchically structured: each large group maintains direct hierarchical control over dozens of separate firms; small numbers of huge groups account for large shares of economic activity; and they are mostly owned and managed by families, and often have been for several generations. They dominate the economy jointly with the other key economic actor in Latin-America, MNCs, and their domination is supported and complemented by the existence of atomistic employee and labor relations, and low levels of education and vocational skills. Jointly they substitute for efficient financial markets as they internalize financial transactions and favor the use of their own funds.

However, as opposed to the models outlined by Hall and Soskice, complementarities between the different elements in the hierarchical market economies in terms of economic upgrading have been largely negative: among the most important consequences is that with the presence and dominance of MNCs, the domestic groups have little incentive to invest in innovation and those that have done so have often been bought up by MNCs. And the MNCs on their hand mostly keep their R&D departments at their headquarters (Morgan 2009, Nölke and Vliegenthart 2009). Consequently, Latin America's economies may be stuck in a sub-optimal equilibrium reinforcing the historical pattern of a low degree of innovation, low productivity and low-skilled labor force (Sánchez-Ancochea 2009). This in turn may reinforce the need

for diversification since the low productivity makes stable growth in one sector difficult. In such a context, rational owners and managers of business groups would have little incentive to demand or push for a transformation of the institutional features that grant them a competitive advantage. The strategy of group diversification may thus be explained by the requirement of maintaining or increasing surplus without productivity growth. The skills developed for multiple entries therefore explain at the same time the diversification and their persistence in the face of global competition. However, it would generally be a strategy of growth as junior partners, not as dominant global companies.

While initially focusing on formal institutions, the variety of capitalism literature has increasingly taken into account the importance of informal institutions as well. Informal institutions can be defined as: 'socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels' (Helmke and Levitsky 2004, p.727). These are not simply the result or the same as weak formal organizations; rather they shape the performance of formal institutions. If formal institutions are effective, informal institutions may serve to complement them if they are convergent with their behavioral prescriptions. If not, they will somehow accommodate them. If, on the other hand, formal institutions are ineffective, informal institutions may substitute for them, or they may be competing (Helmke and Levitsky 2004, p. 727-728). We will discuss several informal institutions that appear as important in the following, including informal political institutions (such as clientilism) and networks.

2.5. Between hierarchies and networks: Central American varieties of capitalism

As elaborated by Schneider (2013) the dominance of the Latin American economies by DBGs and MNCs and hierarchical forms of corporate governance, is a reflection of their institutional environment including atomized labor relations and low levels of education and skills. As

shown in chapter 1, the features of atomistic labor relations and low skill levels is even more accentuated in Central America than elsewhere, but they differ across the region. Thus, we would thus also expect DBGs and MNCs to dominate to different degrees across the six countries studied here with Costa Rica and Panama having higher levels of education and lower levels of informality.

The particular type of group that Schneider finds to dominate in these circumstances is the portfolio group. However, he assumes that portfolio groups operate in an active market for corporate control with both interested buyers and, especially, sellers. This does not hold for Central America where the market for corporate control is extremely opaque. Investment decisions are made not only based on risk management and return prospects, but mainly on personal trust and networks. Investment opportunities are often presented through the numerous contacts the families build, nationally and within and outside the region. Moreover, the Central American countries do not have strong rules protecting minority shareholders, and trust developed among elites is important to minimize uncertainties about the economic and legal environment. Thus, we will argue that in this context networks appear as equally important coordinating mechanisms as hierarchies. .

Networks have been recognized as key to understand the behavior of Central American business by many authors. Casaus Arzú (1994) focused on family networks, interlinked by inter-marriages as well as business relations, political connections and social ties as the most important unit for understanding the political and economic development in the region. In Strachan's classical study of Nicaraguan business groups, he argued that they could be considered to exist at different levels: the DBGs would be embedded within larger networks of groups, and he just spoke of *grupos* and *grupitos* (Strachan 1978). The same pattern was found by Paniagua when studying the El Salvadoran groups some 20 years later (Paniagua

2002). The networks are partly based on family ties and in some cases, such as with the groups of arab origin, on cultural or ethnic ties (Euraque 2013).

Some associate kinship and ethnic ties with the *coordinated market economies* (Steier 2009, p. 514) because they 'generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative as opposed to competitive relationships to build the competencies of the firm' (Hall and Soskice 2001, p. 8). However, others have rather attempted to construct new capitalist forms based on an understanding of networks. Orru (1997) juxtaposes *dirigiste capitalism* in which a 'centralized management and vertical integration of business firms parallels the hierarchical structuring between the central state and the private economy', with *familial capitalism* wherein the core of political and economic networks is constituted by personal ties among individuals related to each other through kinship, and *alliance capitalism* characterized by collaborative horizontal linkages between political, economic and cultural institution.

While, there are certainly aspects of familial capitalism found in Central America, this co-exists with elements of the hierarchical market economies. The emblematic firm of this form of capitalism is the DBG which is embedded in broader networks based on family, kinship and long term friendship ties, and increasingly operate in different alliances with MNCs. These are a rational response to weak institutions and volatile contexts. Both the groups and the broader networks enable firms to get access to the resources, including financial, labor and intangible resources. We will explore the hypothesis that Central American groups tend to expand both domestically and externally partly through exploiting their extensive networks of contacts with other, often family based, diversified groups. Jointly they pool resources for investments and jointly they secure to control markets for certain goods and services. Where

the networks are a particularly strong aspect of economic coordination, it has helped the DBGs to avoid being absorbed by MNCs.

While ensuring survival in a global economy for many DBGs, these networks may also create entry barriers for other companies. Thus, we would expect groups to attempt to sustain the institutions that have enabled their strength in the first place. Through their practices and political strategies they influence the formal as well as informal institutional contexts, and in order to understand their strategies we need to study their political strategies for affecting policies and the evolution of institutions as well as their economic strategies.

However, the Central American countries also show significant differences regarding the importance of these networks compared to formal institutions. In order to explain those differences, it is important to consider what Boyer (2005) calls the relational configurations between the state and the economy. This is in fact a broad category that encompasses both the formal role of the state in the economy (extent of state ownership and regulation) and the degree to which the DBGs themselves are able to control politically the institutional framework. Thus, whereas complementarities between labor relations, skill levels, corporate governance and industrial relations may explain why a certain form of DBG have remained dominant over time, only by also taking into considerations how these have managed (or not) to shape governmental policies and their institutional environment, we will understand how and why DBGs from different national institutional contexts choose different strategies related to globalization.

2.6. The link between DBG strategies, political institutions and policy outcomes

We argued above that Central American groups fit best in the category 'portfolio-groups'. They cannot be called policy-induced since states and governments in the region generally are

too weak to be able to direct the investment patterns of the DBGs. However, that does not mean that governmental policies or the DBG-government relations do not matter. As will be discussed in chapter 7, particularly the type and sequencing of liberalization and privatization policies have been of crucial importance and particularly in the financial sector that have been at the core of much DBG activity. However, in countries such as the Central American ones, with small, tightly connected elites, the DBG leaders have not only been affected by governmental policies, but in turn they have also substantially affected them.

Following the logic of co-evolution, we will discuss both how DBG leaders have influenced policies and politics and how institutional contexts affects the way firms translate preferences and resources in actual lobbying strategies (that in turn are assumed to impact on policy). In other words, the strategies adopted by firms are framed by particular institutional contexts in which the interactions take place, and therefore we not only have to study economic institutions and corporate governance but also political institutions.

Institutions determine which actors will be the preferential targets for lobbying activities of firms (de Figueiredo and de Figueiredo, 2002; Yadav, 2011). Due to the dominance of presidential systems with ample powers given to the president, most studies of DBGs in Latin America focus on how they interact with the Executive in their respective countries (Rettberg, 2000; Schamis, 2002). However, as studies about economic reforms in Latin America show, successful processes took place in countries where presidents were able to establish accommodating relationships with ruling parties (Corrales, 2000) or establish multi-party legislative coalitions (Figueiredo and Limongi, 2000). Controlling or not a majority in the legislative is usually a strong signal about how effectively presidents can implement their agendas. Furthermore, the predominance of proportional systems often forces presidents to

deal with multi-party coalitions that leads often to compromises and softens more radical agendas of reform.

Schneider and Karscher (2010) argue that this combination of a majoritarian presidential system and pluralistic legislatures are complementary to the dominance by the DBGs. This is due to the many avenues for influence in the processes of negotiations between presidents and the legislature and other branches of government.

These complementarities may be even more pronounced in the cases where informal institutions that may substitute for or compete with formal institutions (Helmke and Levitsky 2006) are dominant. That makes the networks in which the DBGs are embedded even more important. In turn, as discussed in chapter 8, this may give them a dominance over the policy agenda that in turn shape processes of institutional change and market development.

2.7. A summary of our theoretical framework

Although the arguments discussed in this chapter have been presented in different branches of the literature – in diverse fields as business studies, economics and political science, it is important to emphasize the complementarities existing between most of them, and our book does in several respects represent an effort to study DBGs from this interdisciplinary perspective. Thus, before proceeding, it is useful to summarize the main ideas of the theoretical framework that will guide this book in a general and simplified way.

Figure 1 presents such a summary, which provides an attempt to link together the various arguments discussed in this chapter. The diagram points out the four main dimensions that are relevant for our study and that are typically discussed in the literature: (1) The institutional context of a national economy; (2) The business strategies adopted by DBGs; (3) The effects of these strategies on economic development; (4) The process of institutional change and

market development. The various arrows in the figure point out causal links between each dimension, i.e. representing the dynamic process of interaction (coevolution) between groups' strategies, on the one hand, and institutional patterns, on the other.

To illustrate the idea, a given institutional context (formal as well as informal institutions) provides groups with a set of opportunities and constraints (e.g. institutional voids; hierarchical and network structure; see sections 4 and 5). DBGs formulate a set of business strategies that are based upon, and embedded in, this national institutional structure. Further, when institutions change and national policy-makers undertake a process of reform and market development (such as market liberalization), the degree of competition in the economy tends to increase, new foreign competitors enter the market, and DBGs will respond to these challenges and increasing pressures by adjusting their business strategies further – e.g. through processes of sectoral differentiation, alliances to MNCs, international expansion, as well as lobbying and political strategies (as described in section 3 above).

If groups are successful in their endeavor to differentiate, find new market niches, erect entry barriers and protect their market power in the increasingly competitive domestic market, their effects on economic development will arguably be negative, as pointed out by the "business as parasites" view: DBGs organizational inefficiency and rent-seeking activities will lead to capital misallocation, limited scope for entrepreneurship and innovation in the domestic market and, consequently, a stagnant dynamic of productivity combined with increasing income inequalities (see section 2).

Besides, DBGs' strategies and economic performance will also tend to affect and hamper, directly or indirectly, the process of institutional change and market development that national policy-makers typically intend to pursue. In particular, if group leaders are well connected with each other and manage to exercise a powerful influence on national policy-makers

through the set of groups' hierarchies and networks, as it is often the case in Central America, they will arguably be able to hamper and slow down the process of market reform and liberalization, in order to protect their business interests and maintain their market power (see section 6 above).

In short, this framework highlights the process of two-way interaction – or dynamic coevolution – between group-level strategies, on the one hand, and country-specific institutional conditions, on the other. When negative complementarities are in place, a reinforcing cumulative mechanism sets in, according to which groups do not weaken their market position, but rather reinforce it over time based on their changing strategies, political ties and supporting hierarchies and networks. This type of dynamic coevolutionary process provides the general conceptual framework that will guide our empirical studies of DBGs in Central America.

< Insert Figure 2.1 here >

Chapter 3: Regional shifts and national trajectories: differences in the context and strategies of business groups

3.1 Introduction

In this chapter we present an analysis of the 67 principal diversified business groups in Central America. The aim is to advance towards the hypotheses that were discussed in chapter 2 in relation to the strategies that DBGs in the region are adopting in order to face the increasing competition from foreign multinationals: (i) that in an internationally integrated economy, DBGs from developing countries will be subordinated to the MNCs and incorporated within their circuits of accumulation; (ii) that they will rather attempt to differentiate themselves from the MNCs by shifting sector focus (or alternatively move towards further specialization); and that (iii) they would expand internationally themselves. As noted in chapter 2, these are not all mutually exclusive hypotheses, and some are indeed complementary: this chapter will investigate how different groups present varied combinations of these strategies, and how this combination differs across countries in the region.

This chapter uses the data collected on the 67 principal groups along the corresponding dimensions. First, we analyze the sector focus of the DBGs in order to conclude about whether we can observe a process of differentiation from MNCs. Second, we analyze the investments made abroad by the DBGs, mainly within the Central American region, but also in some cases outside. We also attempt to cross-check whether there is a correlation between expansion and degree of diversification in order to be able to conclude whether participating in an internationally competitive economy leads towards specialization. Third, we will

analyze alliance formation in order to be able to conclude regarding the process of subordination.

However, data collected at one point in time has clear limitations as a means to arrive at conclusions about directions of change. Moreover, as the analysis of the 67 groups shows, there are clear differences between groups emerging from different national contexts. Thus in the second part of this chapter we analyze in more detail national trajectories. This will both allow us to follow developments over time, and to discuss the importance of national institutions for the evolution of the DBGs in a global economy.

3. 2. The Central American DBGs confronted with globalization

In order to study the Central American DBGs, we first created a preliminary list of the principal groups based on previous studies and a round of initial expert-interviews. Based on those, we selected the groups that satisfied the definition of a DBG given in chapter one and used the methodology of tracing the companies belonging to single families or family-networks. Thus, in most cases we use the family name for the group. Some of the names of groups appearing below are therefore not the common name used for the groups. For example, we use the name Grupo Atala Faraj instead of Grupo Fichosa to indicate that we include not only the companies formally belonging to Fichosa (a financial conglomerate) but also other firms in which the owners of Fichosa (the two inter-married families Atala and Faraj) are majority shareholders. Where the family group uses a different name than the surname of the family for the group but all companies are nevertheless included, we apply that. For example, we use Corporación Dinant for the firms controlled by Miguel Facussé.

In some cases the strategy of tracing families had to be replaced by a focus on clusters of joint ownership by a number of different families. This is the case, for instance, of Empresa General de Inversiones (EGI) from Panama, in which the Humbert, Motta, and González-Revilla families share control. In that case, we considered the EGI a separate group for two reasons: First, it has an independent organizational structure with its own subsidiaries that operate in different sectors. Second, despite having a more dispersed ownership, it is still managed as a family-owned group with representatives of the three families on the board of directors and occupying key executive positions.

As discussed in chapter 1, we have applied a mixed strategy of data collection. Although no figures exist of assets or capital that would have allowed us to make a more precise sample, we believe that we have collected information about the biggest and most important DBGs in each country. We collected data on several thousand companies but ended up with a database that includes 2198 companies divided between 67 diversified business groups that we believe are the most important ones. For each company we collected data on sector focus, ownership (both direct ownership and controlling group if different), country of origin, country of operation, alliances with MNCs and other groups and principal changes in terms of mergers & acquisitions over the last 10 years (2003-2013). The groups included in our sample appear in table 3.1.

<Table 3.1 inn here>

3.2.1 Sector shifts: differentiation or specialization?

Table 3.2 shows which sectors the main business groups operate in. Since being present in more than one sector is an operational definition of a DBG, each group has been tagged with

up to three sectors.[5] Three general patterns can be observed from the table. First, it shows a strong sector concentration on services and construction, and some significant differences across the different countries. The Central American DBGs concentrate in four types of services: 1) construction and real estate; 2) finance, 3) retail and wholesale, and 4) tourism and restaurants. The sector in which the largest number of groups is present is construction and real estate. Of the groups analyzed here, 67 percent have major investments in this sector, and in Nicaragua the number reaches 83 percent. The construction and real estate sector is characterized by possibly requiring low levels of initial capital commitment and technology, but high levels of local knowledge of land value and suppliers as well as contacts necessary to acquire permissions. Thus, in this sector, what Guillén calls the 'unique skills for entry into new industries, and mobilizing domestic as well as international resources' of the business groups may be of particular significance. It is also a sector in which the MNC generally are less interested, particularly in small and relatively volatile countries such as Central America.

Finance is the second most important sector for the Central American DBGs. On average 45 percent of the DBGs are invested in finance, although it differs quite significantly between Panama where 69 percent of the groups are in finance, and El Salvador, where only 17 percent of the groups have investments in this sector.

In tourism and retail/wholesale activities some DBGs operate in competition with MNCs, but a more common strategy is to compete nationally or regionally as partners with MNCs as managers of brands and distributors of goods. 58 percent of the DBGs are in retail or wholesale activities. While some of these compete with MNCs, as for example a group of

[5] We have limited it up to the three sectors where they are strongest, so a group can be counted more than once (that is why the percentages in the columns do not add up to 100). However, we have not included all sectors as we have attempted in this table to understand what the principal focus is, and have not been so interested in minor investments.

regional supermarket chains as discussed below, many of the groups are operating franchises for MCNs or they have invested in commercial centers or wholesale or retail chains largely selling imported brands.

<Table 3.2 inn here>

The same pattern can be found in tourism and restaurants. A significant number of groups are operating franchises for restaurant chains although a few have also established their own brands. Thus, the shift into these two sectors do not so much reflect differentiation from MNCs as it reflects a form of subordination.

Currently 37 percent of the DBGs have investments in agriculture. However, also here there are strong regional differences (between 15 percent for Honduras and 56 for Costa Rica and Nicaragua). The relatively high number seems to be slightly in discord with the often heard argument that the region now has moved away from the agro-export based model (Segovia 2013). It rather reflects the point made by CEPAL (2012, p. 121) that if we do not count products from the maquila industry, regarding the export of goods, Central America is still primarily an exporter of primary products. However, Central America has diversified the *types* of primary products that it is exporting, and that is also reflected in the activities of the DBGs. Had we decomposed this category further we would have observed that the main product focus currently is on sugar, with ethanol and electricity-production as related activities, and African palm aimed for production of oil and related products, such as margarine. Slightly further down on the list we find pineapple, and coffee. In Guatemala, the high percentage of groups in agriculture reflects both the traditional importance of sugar production and the increasing importance of palm oil farms, in addition to a few other products such as poultry and pork production. In El Salvador, the higher percentage can be misleading. Due to the drastic reduction in the coffee and sugar sectors in the 1990s, most

groups looked for diversification of activities, but they kept some investments in the coffee sector. Currently the sugar sector is increasing in importance again in addition to African Palm (Government of El Salvador 2013). In Costa Rica, the presence of business groups in agriculture has a more diversified profile, ranging from cattleand tropical fruits to pork and African palm. The low percentage of groups participating in agriculture in Honduras reflects the fact that local economic elites were never as strongly present in this sector since the ownership of coffee has always been dispersed and banana plantations were mostly foreign owned. The same can be said about the more service-oriented economy of Panama, in which agriculture and manufacturing were never the main activity of local elites (Zimbalist and Weeks, 1991).

31 percent of the DBGs currently have investments in manufacturing. The acquisition by MNCs of many important manufacturing companies that were established by DBGs in the heydays of the CACM has led to a relatively weak current presence of DBGs in this sector. Simultaneously, with the partial exception of Honduras and El Salvador, DBGs have demonstrated little enthusiasm for the *maquila* sector – launched during the 1990s as a key element of the model to replace the traditional agro-export based economies. Following the strategy of focusing on services, some DBGs that have invested in the *maquilla* sector, particularly in textiles production, are gradually becoming providers of infra-structure and support activities to other MNCs or *maquiladoras* through industrial parks. Grupo Lovable and Grupo Karims in Honduras are a clear example of this trajectory. Grupo Zeta from Costa Rica is another example of DBG that did not involve directly into industrial production but chose rather to invest in industrial parks in order to satisfy the needs of MNCs interested in transferring production plants to the region.

Analyzing the industrial sectors where the DBGs have remained important they have generally one out of two important characteristics: Either they are protected from external competition by tariffs or non-tariff barriers, or they operate in sectors that have monopolistic or oligopolistic market structures for other reasons. Particularly the beer, cement and flour markets are oligopolistic in many of the countries. The only heavy industry where the DBGs are dominant is cement production. In Guatemala, this sector is dominated by Cementos Progreso (controlled by the Novella/Torrebiarte family), whereas Cementos del Norte, controlled by Grupo Continental, is the main producer in Honduras. In several of the industrial sectors where the DBGs remain present, there is a de-facto monopoly or oligopoly (e.g. in beer and cement production), providing the DBGs protection against competition (Schatan 2008).

The energy, telecommunication and natural resource extraction sectors seem currently to be of less importance to DBGs. In all these sectors, the MNC presence is strong partly due to the requirements of superior technology, and partly due to high capital requirements. However, all of these are sectors that may become more important in the future as MNCs sell out as a means to reduce debt, or as the need for local MNC partners increase. The first is currently seen in the telecommunication sector, whereas mining is increasing, particularly in Guatemala and Honduras, and local DBGs attempt to enter into the sector as junior firms or partners to MNCs (Dougherty 2011).

In sum, there is evidence for a process of differentiation although it cannot be confirmed without tracing the development over time as we will do below. The sectors on which the DBGs have currently focused are characterized by requiring relatively low levels of capital investments and technology, but significant local knowledge.

3.2.2 International expansion or domestic focus?

The second dimension we have analyzed is the international expansion. When Alexander Segovia wrote his study on the regionalization of business groups in 2005, he concluded in a gloomy way that: 'Given the enormous economic and political power of [the transnational companies], undoubtedly the currently incipient process of acquisition of local companies belonging to the economic groups of the region, will deepen. In this sense, rather early than late, these groups will end up being subordinated to the transnational interests' (Segovia 2005, p. 90, authors translation). When he concluded his study, he found that there were 28 economic groups that had significant regional investment. Many of the families had alliances with transnational companies, and Segovia's prediction was that these alliances would eventually lead to subordination. However, how this would happen was not specified. Our study partly confirms Segovia's as we find that 27 of the Central American DBGs can be called regional applying the definition that they have invested in more than two countries and in two sectors or more. However, these groups are not the same as the 28 groups identified by Segovia. Some groups have expanded significantly and become regional since 2005, while others have become less transnational. The reason for the latter is indeed that some have seen their regional operations becoming absorbed by transnational companies, and chosen to focus rather on national activities. However, others have expanded to the regional level and become transnational groups in the period after.

Based on the extent of their expansion, the groups can be divided into three categories: national groups, branched groups and regional groups.

The national groups focus their production and activities in their home country. It includes three sub-categories: (i) groups that compete with MNCs and other local firms for the local market; (ii) groups that produce for export and compete with foreign companies and

producers for markets abroad; and (iii) groups that focus on representing MNCs and distributing their products locally.

In the first sub-category, we find business groups that own supermarkets and other retail chains. Those include Super 99 (Grupo Martinelli, Panama), La Colonía (Grupo Atala Faraj, Honduras), Superselectos (Grupo Calleja, El Salvador) and others, many of which were created as a response to the entry of Wal-Mart in the region. In the second sub-category, there are industrialists mainly in maquila. Here we find for example many Honduran DBGs owned by families with Arab origin involved in the textile industry, such as Grupo Lovable. They compete against firms from countries within the region and other developing countries for markets for mainly cheap manufacturing goods. In the third sub-category we find DBGs involved in distributing imported goods, such as the Grupo Zablah from El Salvador or the Grupo CALSA from Nicaragua, and groups involved in franchised operations of restaurants and hotels, such as Grupo Intur (controlled by the Kafati family) from Honduras and Grupo Quijano from Panama. In both cases, they are closely involved with transnational companies.

The branched groups have invested abroad in one sector without having an integrated regional operation or management. Those groups also fall into three different sub-categories. A first one includes groups that are beginning a process of regionalization focusing one sector, while still having most of their investments and activities domestically. As examples of this we have Corporación Lady Lee (Malouf family) from Honduras – building a shopping mall in Costa Rica while having most of their focus on ownership of department stores, fast-food franchises and real estate in Honduras – and Grupo Btesh from Panama – opening credit companies in Colombia and Costa Rica, with their main focus still being Panama. A second sub-category includes groups that present a strong regional core business, but also diversified domestic investments made at a later stage. One example is Grupo Lafise, a financial group that after

having become a major regional player, started to diversify in various sectors in its home country Nicaragua including dairy products (after buying the Parmalat operations in Nicaragua) and hotels. Another example is Grupo Improsa from Costa Rica. Starting as provider of logistics and transportation services to MNCs regionally, the group created a financial institution in Costa Rica and started to invest in construction and real estate activities. A third sub- category includes groups that have previously been regional but have sold major assets. Grupo Cuestamoras from Costa Rica is a good example of this. After selling the regionalized retail operations CARHCO to Wal-Mart, the group focused mainly in real estate and private equity activities in Costa Rica and recently started to invest in renewable energy projects in the region.

The regional groups have a clear regional or international vision and strategy in different sectors of activity. Several of the groups included in Segovia's study have sold their regional operations to multinational companies in the 2005-2012 period, a development that lends support to Segovia's prediction at that time. An example of that is Grupo Cristiani (El Salvador) that had major regional investments in finance and agro-equipment that later were sold to MNCs. There are also groups that just dismantled after the sale of its main assets, such as the Grupo Banistmo from Panama and Grupo Banco Agrícola from El Salvador. Yet, other groups expanded regionally only after 2005 and were thus not included in Segovia's list. This includes Grupo Terra and Grupo Karim's (Honduras), Grupo Belismelis (El Salvador), and Grupo Disagro and Grupo Solid (Guatemala).

Among the regional groups a few are expanding also beyond the region. Only Grupo Multi-inversiones (Gutierrez-Bosch) of Guatemala can currently be considered a real *mulitlatina* with investments in four continents, but several are expanding to Colombia, the United States and the Caribbean, including Grupo Poma and Grupo Siman from El Salvador.

However, the hypothesis that international expansion may lead to less diversification does not find support in our material on the Central American groups. In fact, as shown in Table 3.3, there is a slight tendency for the opposite to be true: the more international, the higher number of sectors the groups are involved in. This may be due to the fact that most have regionalized mainly to seek new investment opportunities rather than exploring the economics of scale or establish transnationally integrated production processes.

<Table 3.3 inn here>

While it is a trend in the larger Latin American countries that *translatinas* are increasingly acquiring companies from abroad (CEPAL 2013), it appears both from interviews and the profile of the Central American groups that they are mainly expanding regionally through green-field investments. For example, many of the main groups are involved in tourism and construction. A typical way to expand abroad is to develop a hotel or a commercial center in one of the neighboring countries – an activity that would amount to a green-field investment. However, there are many exceptions. One of the strongest international groups, Grupo Multi-inversiones from Guatemala, has for example principally expanded through acquiring existing companies.[6] Studies undertaken by others show that during the period 2006-2012, 52.6 per cent of the M&As in the region were undertaken by Central American companies. However, only 18.7 percent of the M&A's are undertaken by Central American companies in a neighboring country (the rest by local companies) (Summa-Capital Financial Advisors 2013).

2.2.3 Transnational alliances: towards learning from MNCs or subordination to them?

A third key strategy employed by the DBGs is to enter into different forms of relationships with MNCs. Of the 67 groups in our sample, 25 could be considered strongly linked to MNCs, in the sense that they have their main activities as direct suppliers for international brands (e.g.

[6] Interview, Dionisio Gutierrez, April 2013.

textiles, beverages), distributors (e.g. car dealerships, pharmaceuticals, mass consumption products), franchisees (e.g. restaurants, hotels), have joint ventures with MNCs or have MNCs as shareholders. Although entering into different kinds of relationships with transnational companies may be an alternative to external expansion, it may also be a complementary strategy. Indeed we find many groups that have expanded abroad have done so through a form of alliance with a MNC. Table 3.4 provides an overview of the main partnerships between Central American groups and MNCs.

However, in order to judge whether this amounts to a process of subordination, we need, first, to know more about the nature of the relationships between the DBGs and MNCs. As argued in chapter 2, one may distinguish between being a distributor, sub-contractor, a franchise-holder, a joint-venture partner or a partner in a strategic alliance with MNCs (Dicken 2004), and these relationships involve different degrees of subordination.

<Table 3.4 inn here>

Analyzing the partnerships above, we find 10 joint ventures, but only one strategic alliance, 7 of the groups are exclusive distributors of international brands in the region or the country, whereas the franchise is by far the most common kind of relationship. In some cases, these definitely amounts to being submerged to the interest of transnational capital, such as when a number of the Honduran groups specialize in operating franchises for US fast food chains. However, many of the groups have relationships to several different MNCs or they may shift over time whereas the groups continue in business. For example, the Salvadoran Grupo Poma operates hotels with has a significant degree of operational control in their hotel operation and has indeed changed the brands they are operating various times.

The other issue of importance is what direction this takes. Such a snapshot cannot for example tell us whether entering into some kind of partnership with a MNCs is a step towards later becoming absorbed by the alliance partner. However, analyzing the recent history we find several groups that have included companies that have entered into alliances with MNCs and that have later been absorbed by them.

One example is Corporación Pipasa, owned by Grupo Sama of Costa Rica. Grupo Sama started mainly as aninvestment fund buying stocks at the small Costa Rican stock market and became a private equity fund. It acquired Corporación Pipasa producing mainly meat and poultry as it was on the brink of bankruptcy in 2003. After turning around the company, it sold it on to Cargill in 2011.[7]

An even more well-known example is the gradual sale of various local supermarket-chains to WalMart in the late 2000s. In 2001, Grupo Carhco (Central American Retail Holding Company) was established to operate supermarket chains by Grupo La Fragua (Paiz family of Guatemala), CSU (Uribe family of Costa Rica) and Dutch Royal Ahold. It operated seven major chains across Central America: Supermercados Paiz, La Despensa de Don Juan, Despensa Familiar, Palí, Más x Menos, Hipermás y Maxi Bodega. However, in 2005 WalMart bought the 30 percent owned by Royal Ahold, and in 2009 it bought the remaining stocks owned by the local groups.[8]

Grupo Cressida/Dinant, owned by Honduran businessman Miguel Facussé is an example of a group that has gone back and forth between independence and alliances with transnationals. After having successfully competed with international brands such as Procter & Gamble, Unilever, Colgate, Clorox, Henkel, and Nestlé for production of food, detergents and other

[7] http://www.diariodefusiones.com/?page=ampliada&id=323
[8] http://www.nacion.com/ln_ee/2009/diciembre/08/economia1729553.html; http://www.revistasumma.com/negocios/988-avalan-compra-de-walmart-centroamerica.html

household products from the days of the Central American Common Market, it sold its manufacture division to Unilever in 2000, as it also transformed itself into Grupo Dinant, focusing more on agriculture and energy. However, it returned to the food industry in 2006 with the launch of the branches Issima, Schilo's Yummies and Xixi in conjunction with among others the ACH Food Company (US) and Princess Food & Drinks (UK), while simultaneously investing heavily in energy and African Palm production.

A more recent trend is to sell to groups from other Latin American companies, increasingly Colombian. For example General Electric Capital Corporation bought 49.9 percent of BAC Credomatic in 2004, a share that was increased to 75 percent in 2009. However, later Grupo Aval from Colombia bought 100 percent of BAC Credomatic as well as of five other financial institutions belonging to Grupo Pellas (Actividades Empresariales. S. A., BAC Florida Bank lnc., Bac Valores Guatemala, S. A., Credomatic de Guatemala, S. A., Negocios y Transacciones Institucionales, S. A.). Also, Bancolombia has been active in acquiring assets in Central America. In 2012 it bought 40 percent of Guatemalan owned Grupo Financiero Agromercantil, in which Grupo Pantaleon and Grupo Campollo had been the principal investors,[9] consolidating its position in Central America.

However, there are also groups that have moved in the opposite direction. For example Grupo Progreso of Guatemala (Novella/Torrebiarte) entered into a much celebrated alliance with the Swiss MNC Holcim in 2000 which allowed it to acquire new technology while retaining a firm majority control over the cement producers. In 2013, Holcim sold its 20 percent stake as a part of its debt reduction program. Thus, Grupo Progreso has gone back to being a wholly

[9] http://www.diariodefusiones.com/?Bancolombia_adquiere_el_40%25_de_Grupo_Financiero_Agromercantil_de_Guatemala_en_US__216_millones&page=ampliada&id=576&_s=&_page=centro_caribe. It also bought HBSC's operations in Panama in 2013.

Guatemalan owned group.[10] Following another alternative path, a few companies controlled by DBGs become public and are traded internationally. An example is the Panamanian Copa Airlines, controlled by Grupo Motta, but listed on the New York Stock Exchange.

Moreover, it is noticeable that although many groups have sold companies to MNCs, they have generally not been dissolved as a consequence of the sale. Rather, they have used the revenue to establish themselves in other sectors.

In sum, large number of companies owned by Central American DBGs are linked in some way or another to transnational capital, and many have been sold. Yet, it would be premature to conclude that they have become subordinate to transnational capital since many have kept significant degrees of control over their companies.

A general conclusion that can be drawn from the above is that none of the hypotheses launched in chapter 2 gets general support, and that there are significant differences between groups of different national origin. This will be further attempted explained in the following.

3.3 National trajectories of business group

3.3. 1 El Salvador: Rupture and re-alignment

Studying the sector distribution and regional expansion of the companies of the El Salvadoran DBGs makes us notice several principal trends. The first is a very high presence in commerce and wholesale (83 percent) and the second is a very low presence in finance (17 percent). Furthermore, the Salvadoran groups are among the most regionalized groups, with 7 of the 12 groups included in the study falling within this category. The strong expansion of the Salvadoran groups at the regional level stand in relative contrast to the weak economic performance of El Salvador between 2000 and 2013, and the low levels of both FDI and national investments after 2000 (see chapter 1). Also the fact that only 37 percent of the

[10] http://www.globalcement.com/news/itemlist/tag/Cementos%20Progreso

groups are involved in agriculture signifies a significant shift from the historic pattern of the dominance of an “oligarchy” (the “fourteen famililes” according to the myth) with their main source of income from agro-exports.

The shift can be understood on the background of the profound economic transition that the country has undergone, from being a country based largely on agro-exports towards dependence on services and particularly remittances. This is the combined result of the rupture produced by the civil war, and the profound but different economic reforms that started during the civil-military *Junta Revolucionaria* that took over after the 1979 coup, continued during the civil war (1982-1992) with the assistance of USAID, and deepened during the 20 years of rule by the business dominated National Republican Alliance (ARENA) party. Most important of these reforms for the DBGs were the land reforms and first the nationalization of banks, and later their re-privatization.

The most noticeable impact of the reforms this was the reduction in importance of the traditional agro-exports (coffee, sugar and cotton) from having made up an average of 20.6 per cent in the 1975-79 period to 2.4 per cent in 1999. As a percentage of exports it was reduced from 64 per cent to 11.7 per cent in the same period (Segovia 2002). Initially it was non-traditional exports, mainly from the maquila industry, that was intended to be the new main source of income. However, while this experienced an upsurge in the 1990s, heavily encouraged by US support, it never acquired sufficient dynamism to make up for the loss of income from traditional agro-exports. What ended up doing that was remittances from Salvadoran migrants in the United States. Remittances grew from virtually nothing in 1980 to 3.5 billion dollars annually in 2006, representing 55 percent of the generation of income from abroad (Rosa 2010), and then to 58 percent in 2011 (Banco de Reservas Nacional El

Salvador). While the traditional coffee based elite initially had little faith in remittances as a 'development model" (Paige 1997, ch. 6), they gradually adapted to benefit from this type of income, a matter which explains the heavy focus on services and commere.

The re-privatization of the banks encouraged the formation of family-networks with joint ownership interests in seven banks: Banco Cuscatlán, Banco Agricola Salvadoreño, Banco Desarrollo, Banco Ahorromet, Banco de Construcción y Ahorro, Banco de Comercio, Banco Salvadoreño (Paniagua 2002). However, between 1997 and 2006, all the banks were sold to MNCs. Simultaneously; most major national industries were sold to MNCs (Bull 2013). The motivation for the sales, as expressed in interviews with business-leaders was a combination of three principal factors: first, the Salvadoran companies viewed that they lacked the necessary technology to compete with MNCs, particularly in the banking and industry sectors. Thus, it was a desirable solution considering the generally low levels of skills and innovation. Second, after the dollarization of the currency in 2000, the prospects of a free trade agreement with the United States, and the steady increase of the flow of remittances, good offers were made for the Salvadoran companies. A third important factor that entered into the account in in the mid-2000s was the potential for an electoral victory of a government supported by the party of the former left-wing guerrilla FMLN that started to loom as a possibility in the mid-2000s. This made the DBG leaders nervous for a new round of privatizations, which made them opt for abroad rather than investing at home.

In sum, in El Salvador, there has been a significant process of differentiation combined with expansion. Groups have sold companies to MNCs in sectors where they lacked technology or capital to compete, and kept their presence mainly in non-tradable sectors that have required

less capital and technology. Thus, the energy, telecommunications and finance sectors are currently completely dominated by MNCs. At the same time some of the strongest regional groups have Salvadoran origins including Grupo Poma, Grupo Siman and Grupo Agrisal. However, we also see some degree of specialization and indeed a number of cases of "deregionalization" after the sale of major regionial investments to MNCs, such as is the case of the investments by Grupo Cristiani (in banking) and some of the regional investments by Grupo de Sola (Homarca) in movie theaters.

Regarding relations to MNCs, entering into different kinds of cooperation agreements with MNCs is widespread, but it is much less clear whether this has led to subordination in the case of El Salvador. Few of the DBGs operate as subcontractors to the MNCs. The most common forms of cooperation is operating franchises, entering into joint ventures, and forming strategic alliances, while in the retail and wholesale sectors many are also distributors of goods for MNCs. In the industrial sector we see examples of companies moving from being owners of industry to being representatives of MNCs (for example Grupo Zablah that sold their tobacco company to Phillip Morris and became the local representative of the latter). However, in general, most of the relations they have established with the MNCs have allowed them to continue as quite independent groups.

In the process, some groups have strengthened while others have weakened. What the most expansive groups have in common is that they do not emerge out of the old coffee-oligarchy. They rather grow out of investments made in commerce by European, Arab and North American immigrants in the early to mid-20th century.

Furthermore, some of the principal groups are moving from being hierarchically integrated groups of wholly owned companies towards being networks of minority shareholderships. This is for example the case of Grupo Kriete. Grupo Kriete used to be used almost

synonymous with Grupo Taca, the holding including Taca airlines. Yet, after the merger with Colombian Avianca in 2009, Grupo Kriete is mainly defined as an administrator of local and international investments in different sectors such as aviation, real estate, agroindustry and hotels among others, being associated with some 13 investment and real-estate companies. [11]

The factor that remains important in the midst of the profound ruptures in the El Salvadoran economy is family networks. There are numerous examples of DBGs connected by marriage: For example Ricardo Poma (leader of Grupo Poma) married one of Ricardo and Roberto Krietes sisters, while Archie Baldocchi Dueñas (founder of an emerging group not included here) married another. Archie Baldocchi Dueñas is in turn Tomas Regalado Dueñas' cousin. The groups of Arab origin are linked through a number of kinship ties. We have also found one in the case where external expansion occurred through marriage, when one of the Belismelis brothers' sister married one of the leaders of Grupo Romero in Peru. Furthermore, we find members of family groups appearing in the management of other groups: for example is Roberto Simán the vicepresident of Gupo Agrisal. To include members of other family groups on the board is the rule rather than the exception, and many enter into joint ventures.

3.3.2 Guatemala: old groups holding the fort

Concluding from the aggregate data, the Guatemalan groups are characterized by being quite heavily involved in agriculture, manufacturing, finance, and construction and real estate. The Guatemalan groups are also relatively more involved in industry (manufacturing and food processing/beverages) than groups from their neighboring countries. Moreover, the Guatemalan groups have a below average participation in telecommunications/media, energy and tourism. Along with the El Salvadoran groups, the Guatemalan groups are also the most

[11] http://www.aviancataca.com/Lang/es/ri/gobierno/composicionJuntaDirectiva.html and Registro Comercial.

regionally expansive, but as opposed to the El Salvadoran groups, there is a relative scarcity of alliances with transnational companies. In this respect, there have not been major changes since Robinson (1998) and Segovia (2004) concluded that the Guatemalan oligarchy was the least transnationalized of the Central American elites. The major change that has occurred with the Guatemalan groups is their regional expansion.

Palencia Prado (2013) concludes that in Guatemala it is mainly the same groups that dominate today as it was for large parts of the 20th century. These historically accumulated their fortunes through the development of agro-export plantations of coffee (Williams 1986, Mahoney 2001). From the early 20th century, several industries were established, mainly by immigrant groups, and although the emerging industrial bourgeoisie often had differences with the agricultural elites (Martí 1992), there were also ties between different groups created through, a.o. inter-marriages. Both industrial and agricultural families expanded into non-traditional agricultural sectors in the 1960s and 1970s (cotton, sugar and cattle) (Dosal 2005, p. 216). Although, many of the newly established industrial enterprises were quite quickly absorbed by multinational companies in the late 1960s (Dosal 2005, p. 218-219), some have remained.

Many of the currently dominating groups have kept their stronghold in the industrial or agro-industrial sector. This includes for example the Castillo family that, one of the main families of the coffee-elite (Casaús Arz`1992, p. 41-42). It ventured into industry with the establishment of the Central American Brewery in 1888, and diversified its agricultural investments in the 1960s and further expanded in to finance (Banco Industrial and the industrial FIFASA). The broad family network of the Castillos is the origin of two of the principal groups today: Grupo Cabcorp, run by Carlos André Mata Castillo and Castillo Hermanos (that includes Cervecería Centroamericana), run by the Castillo Love family. The

Cervecería Centroamericana still has a dominating position in Guatemala, partly due to the generous protection of this sector, whereas CabCorp has entered into an alliance with PepsiCo. Other main examples of groups originating with the old coffee elite are Grupo Pantaleon run by the Herrera family that also originates with the old coffee-oligarchy. Grupo Pantaleon is currently investing across the region in various sectors, but mainly sugar, sugar derivatives and finance, but without leaving the integrated hierarchical structure. Other examples are Grupo Progreso (Novella) discussed above.

While we cannot observe a sector shift in the same way as in El Salvador, there is a kind of differentiation from MNCs since most of the industries are focused on sectors where the groups benefit from also being producers of the raw material (as in sugar and sugar derivatives) or where they enjoy a monopolistic or duopolistic situation (as in beer and cement).

However, there are also new sectors in which the traditional groups have moved and some new are arising. They have their background in the structural adjustment processes that the the Guatemalan economy underwent after having suffered from high inflation, extensive capital flight and endemic fiscal deficits in the 1980s. Supported by international financial institutions, these programs were aimed to improve the macroeconomic situation, but also to modernize the economy, including a strengthening of non-traditional exports (Sosa 1991, Trudeau 1993, Bull 2005, ch. 5).

The 'new sectors' were telecommunications, energy and maquila, as well as new agroindustrial sectors, such as cardamom and later ethanol (based on sugar) and African Palm. Later the groups also invested in mining and oil, but again often as junior partners to MNCs. In telecommunications, the local groups invested mainly as junior partners to MNCs or "bridges" that provided the necessary "know-who" for being able to acquire licenses and

assets, but that later sold to MNCs due to lack of technology and experience (Bull 2005, ch.3), and thus the relatively low presence of local groups here.

The recent changes have also led to the emergence of groups that are based on networks of of joint investments in companies in which none of the involved families have a majority of shares. This includes for example Grupo Financiero BI, that owns a number of companies[12] and has a series of the old important group members as shareholders.[13] Such pooling of resources may be interpreted as a defense strategy against the entering of MNCs by the Guatemalan groups, at which they have been among the most successful in the region.

3.3.3 Honduras: surviving at the margins

The most striking characteristics of the Honduran BDGs are their low participation in agriculture and absence from natural resource extraction and transportation/warehousing, and their relatively high presence in manufacturing. Moreover, Honduran groups have entered numerous alliances with MNCs, but few have expanded regionally.

Three historical features of Honduras must be kept in mind in order to understand this: the dominance of MNCs in the economy, the ownership structure in agriculture, and the division between the elites of the political capital Tegucigalpa and the "economic capital" San Pedro Sula. As mentioned above, ownership to coffee production in Honduras has historically been dispersed and coffee was never an equally important sector in Honduras as in the neighboring

[12] These include: Banco Industrial, S. A., Banco del País (HN), Financiera Industrial, S. A., Almacenes Generales, S. A., Almacenadora Integrada. S. A., Seguros El Roble, S. A., Fianzas El Roble, S. A., Mercado de Transacciones, S. A., Westrust Bank (Intematlonal) Limitad Contécnica, S. A., Servicios MCilliples de Inversión, S. A.

[13] The list of shareholders includes: Juan Miguel Torrebiarte Lantzendorffer; José Antonio Arzú Irigoyen; Rodolfo Kong Vielman; José Luis Gabriel Abularach; Ramiro Castillo Arevalo; Rafael Felipe Soares Riépele; Mario Rey Rosa Quiroz; Tomás Rodríguez Schlesinger; Carlos Springmuhl Silva; Juan Luis Bosch Gutiérrez; Luis Estuardo Godoy del Valle; Pablo Capuano Arís; José Andrés Castillo Arenales; José Roberto Bouscayrol Lemus; Eduardo Antonio Herrera Alvarado; Juan Antonio Godoy Barrios; Ernesto José Viteri Arriola; Victor David Benchoam Perera;

countries. The main economic sectors (banana production and mining) were on foreign hands. The banana industry was also source of external finance both for the government and private companies. Among the main creditors of the government were the Cuyamel Fruit Company, the Vaccarro Brothers & Company and its two banks: Banco Atlántida and Banco del Comercio (Posas and Del Cid 1983). The local elites emerged rather from the control over cattle, ranching, but were on all accounts weaker than their El Salvadoran or Guatemalan counterparts.

Currently, we have two groups of Honduran groups. One arose out of the San Pedro Sula based industrial community, and has a strong focus on manufacturing, but also finance, services and the media. These include the Grupos Contiental and Atlandida that are of jewish origin and that have had the financial sector as the main original focus, but that are diversified into a number of other sectors. It also includes a number of groups of arab origin from the San Pedro Sula area that have focused strongly on maquila but also finance and media, including Grupo Lovable (Kafati family) and Grupo Kattan. Also Grupo Atala Faraj and Grupo Kafie are San Pedro Sula groups of arab origin, but with a focus on finance and wholesale in the first case, and energy, industry and wholesale in the latter. While owning individual groups, they only invest individually in industry, but also pool resources often, a process they historically have done often with assistance from international or national development institutions (Euraque 2009, p. 254).

The other main group originates in Tegucicalpa and has focused more on industries and energy. Many emerged in the 1970s as partners and suppliers to the National Investment Corporation (CONADI) that participate in mixed enterprises in a variety of sectors, including forestry, sugar, textiles, food, cement, paper (Rosenberg 1986). The process of privatizing the CONADI enterprises in the late 1980s and early 1990s, as well as privateization of energy and

telecommunications, opened new business opportunities and for the local groups that participated in this process of divestiture.

The most emblematic of the new groups is perhaps Grupo Terra, a Tegucigalpa based group, led by Freddy Nasser, also of Arab origin, which emerged due to participation in privatization processes in Honduras as well as Nicaragua. Although mainly being a “bridge to foreign” capital (buying shares and then reselling to MNCs), Grupo Nasser used the gains from this to invest in sectors in which state concessions has been of most importance, including the concession to operate airports and gas stations.

The first is that due to the relative financial weakness of these groups, an increasing phenomenon is the pooling of resources between different groups in real estate project, tourism and other projects. Thus, we may observe in the years to come an increase of the patterns of large investment networks and specific groups within those groups. This is for example the case with the tourism project in Bahía de Tela where the Honduran Fund for Tourism Development is the main investor. This is a conglomerate in which the majority of the business groups in our study participate.

3.3.4 Nicaragua: The return of the prodigal sons

The Nicaraguan business groups, in comparison to their counterparts in the region, are characterized by the highest level of diversification – with most groups operating in agriculture, finance, and real estate. They also present a reasonable degree of regionalization of their activities, with only two of the nine groups selected being classified as national. Looking at this information, it would be easy to assume that Nicaraguan business groups have followed a similar path to the Guatemalan ones, diversifying gradually from agriculture to

finance, more recently to real estate and other activities that were opened by liberalizing reforms. However, Nicaraguan business groups have experienced a much less linear trajectory.

The main backdrop to the current trajectories is the 1979 revolution by the Sandinista National Liberation Front (FSLN) in 1979, that ended Anastasio Somoza's authoritarian regime. Most of the family business groups in Nicaragua were following a path of diversification from agriculture to finance and construction during the 1970s similarly to what happened in countries such as Honduras and Guatemala (Strachan 1976).[14] Although many Nicaraguan businessmen had supported the ousting of Somoza from power and initially were spared from confiscations of their assets, the revolutionary government gradually promoted both an agrarian reform and the nationalization of banking institutions that forced most family business groups to leave the country.

These policies resulted in an early internationalization of Nicaraguan business groups, particularly in the financial sector. Clear examples are the Pellas group who created a bank in the United States and acquired a bank in Costa Rica (Banco de América Central – San José) during the 1980s, and the Coen group who found an currency exchange in the US and became the exclusive representative of the money exchange company Westen Union for the Central America region during the same period. That's an important dynamic to understand the current high presence of Nicaraguan DBGs in the financial sector and their high level of regionalization.

The forced internationalization was also a path trailed by groups with stronger roots in agriculture – particularly coffee. The MERCON group, based in the U.S. and owned by the Baltodano family started as a small import office in 1982 after the Sandinistas nationalized

[14] Construction became an important area of investment for local Nicaraguan business groups mainly after the devastating earthquake that destroyed Managua in 1972.

the export of all coffee production. Nowadays, the group has offices in Spain and Vietnam, and it is the biggest trader of Nicaraguan coffee to the world market.

However, some sectors were less affected by Sandinistas' nationalization policies. Retail was not nationalized and many Nicaraguan groups were able to keep existing retail and distribution activities of imported goods. Calsa group, owned by the Lacayo family did not go in exile and maintained their distribution company in Nicaragua – whose main product was the Rayovac batteries by the time. The same occurred to the Pellas group that was able to maintain its retail store for Suzuki motorbikes (Casa Pellas) functioning during the Sandinista period.

The Sandinista period in power came to an end with the electoral victory of the opposition candidate Violeta Chamorro in the 1990 election. Her main strategy of recovery after the civil was the liberalization of different sectors (e.g. banking, export of coffee) and privatization of state-owned companies. An important effect of those policies was to open opportunities for the return of Nicaraguan business groups that had left the country during the previous decade. They would not only reclaim the properties that were confiscated by the Sandinistas, but would also invest in newly opened sectors. The obvious example is the Pellas group to be discussed in the following chapter.

To a large extent, the liberalization policies of Violeta Chamorro and her successors Arnoldo Alemán and Enrique Bolaños, represented an opportunity to many Nicaraguan business groups, to return, but also to diversify in new sectors in a country that was in an extreme need for capital and did not attract the attention of most foreign investors. Since most foreign.[15]

[15] Foreign companies normally would operate with local partners as the case of the Spanish Unión Fenosa, who bought the electricity distribution company Disnorte-Dissul in 2000. It has the Pellas and the OCALSA group as minority shareholders from 2001 to 2011.

With abundant opportunities to invest at home, Nicaraguan business groups have been able to diversify using the business and managerial experience acquired abroad.

An example of this trajectory is the Lafise group, owned by the Zamora Llanes family. The brothers Roberto and Enrique initiated their activities in 1985 as a small foreign currency dealer for Central American firms and grew mainly through the trade of sovereign bonds from governments of the region. The group returned to Nicaragua right after the liberalization of the banking sector in 1991, founding the Banco de Crédito Centroamericano (BANCENTRO). Since then, it has expanded in real estate, tourism, and dairy production – after acquiring the assets of Parmalat in 2004. It also became the main trader of agricultural commodities in Nicaragua through the establishment in partnership with other businessmen of the Nicaraguan Commodity Exchange (BAGSA) in 1993.

In general, most local groups have chosen sectors in which they had previous expertise and that did not require the insertion into complex and competitive production chains as in for example textiles.[16] Excluding activities related to food products and beverages, only the Pellas group (house cleaning products) and, recently, the Coen group (paper), no Nicaraguan business group has invested in manufacturing. Therefore, finance, agriculture, and other services (mainly real estate and tourism) have been the main priorities of Nicaraguan business groups in terms of investment.

As will be discussed further in chapter 8, the return of Daniel Ortega of the FSLN to power has ironically been the consolidation of advantages to invest and to diversify at home through the extension of tax exemptions to different sectors, a stable macro-economic situation, and a

[16] Most maquila industry in Nicaragua is textile and is dominated by American and South Korean companies with some investors recently coming from other countries in the region, such as Honduras.

constant dialogue with business groups through the main peak Nicaraguan business association – the Superior Council of Private Enterprise (COSEP).

3.3.5 Costa Rica – Staying in the comfort zone

In table 3.3 Costa Rican groups appear as highly regionalized with eight of the nine groups having investments abroad in at least one sector. However, this regionalization has been a very heterogeneous process, characterized by both geographic expansion of existing activities by some groups and investments in completely new sectors by others. In terms of diversification, Costa Rican groups show strong activities in agriculture, real estate, tourism, and retail/warehousing. Nonetheless, they are slightly below the Central American average in terms of numbers of sectors in which business groups operate. There are two factors that help us to understand the numbers about Costa Rican business groups: first, the political instability that plagued the Central American region during the 1970s and 1980s; and second the slow pace of economic liberalization contributing to maintain a strong State presence in many sectors.

Regarding the first factor, the regional instability reduced considerably the attractiveness to establish direct investments in neighboring countries. While many Central American business groups have invested in Costa Rica (e.g. Nicaraguan groups such as the Pellas and Promérica) already during the 1980s, very few local groups would regionalize before the 1990s.[17] Secondly, the slow pace of liberalization of economic sectors controlled by state-owned companies in Costa Rica narrowed the opportunities to diversify domestically. Contrarily to what happened in the whole region, Costa Rican business groups did not experience the opening of many new profitable sectors to invest. Sectors such as banking, telecommunications, and electricity are still either state monopolies or dominated by state-

[17] As an exception, the Durman Esquivel group opened a factory of PVC tubes in Panama in 1975 as an early process of internationalization that involved opening sales offices in the whole region during the 1980s.

owned companies that resisted privatization. Additionally, when some state-owned companies were privatized during the 1990s, local business groups have not showed interest in invest in sectors that they had no experience.[18]

Although not having the same opportunities to diversify as elsewhere in the region, some Costa Rican business groups were able to build strong and competitive companies that expanded regionally mainly during the 1990s, either by direct investment or establishing partnerships with other Central American groups. The consolidation of regional operations later attracted the interest of MNCs and Costa Rican groups were eager to sell them. Interestingly, for some groups, the sale of these core companies represented the beginning of a new and intense cycle of diversification. Groups like Cuestamoras and Montecristo are the clear examples of this dynamic. The Cuestamoras group, owned by the Uribe family, was the main retailer of Costa Rica (Mas x Menos supermarkets) with large operations also in Nicaragua. The group established Central American Retail Holding Co. in 2001 – a joint venture with Grupo La Fragua (Guatemala) and Royal Ahold (Netherlands) – that was acquired by Wal-Mart in 2005. After the sale, the Cuestamoras group became a private equity company with investments in tourism, real estate, energy, and cable TV providers. As discussed in the next chapter, the the Montecristo group, owned by the Durman Esquivel family, followed a similar path.

The recent process of selling followed by a spree of opportunistic investment showed by some groups stands in contrast to a more organic and related path of diversification trailed by others. In particular, the latter have adapted their strategies in order to explore the shift to a more export-oriented economic model promoted by the Costa Rican government since the 1980s. Many groups have taken advantage of the incentives given to export of non-traditional

[18] The cement company CEPASA, privatized in 1994, was acquired by the Mexican CEMEX, while the fertilizer producer FERTICA was bought by a Chilean-American consortium in 1998 (Hidalgo-Capitán, 2003).

agricultural products and followed a path of diversification of products within this sector, including food processing, and distribution companies. The Numar and Tio Pelón groups are good examples of this trajectory. The first invested heavily in African palm production and other vegetable oils, while the second, despite being a big rice producer, has diversified into tropical fruits and processed food.

The brewery Florida Ice and Farm (FIFCO), in which the Jimenéz Borbón group is an important shareholder, has also adopted a strategy of related diversification with the goal to become a food and beverage conglomerate in Central America[19]. In recent years, it has acquired breweries in Nicaragua (in partnership with the Castillo group from Guatemala and the Agrisal group from El Salvador), Panama (in partnership with Heineken International) and in the U.S., bought processed food and juice factories in Guatemala (Alimentos Kern), and, a chain of bakeries (Corporación Musmani) and the right to distribute products from Pepsico in Costa Rica.[20]

Other groups have developed their strategies based on the attractiveness of Costa Rica to foreign companies that were interested in use the country as an export-platform. The Improsa group, for instance, was originally a real estate company (Inmobiliaria Promotora) that gradually decided to explore the need of foreign companies to transport goods in the country and within the region. Later it would also create a bank institution in order to provide for the needs of their foreign clients. Grupo Zeta, on the other hand, was a pioneer investor in industrial parks to receive foreign companies, with similar properties also in Guatemala and Nicaragua. The group, controlled by the Zingone family, built the first industrial park in Costa Rica in 1985, located in the province of Cartago.

[19] Interview with the director of corporate affairs of FIFCO, Ferbuary 2012.
[20] FIFCO has also invested in real estate activities, particularly the beach resort Reserva Conchal, and in residential projects in the Guanacaste province.

Regarding regionalization, most groups have been expanding abroad through joint ventures with other Central American groups and in some cases they do not even control the operation. Besides the aforementioned partnerships established by FIFCO, the Tio Pelón group runs rice farms in Nicaragua associated with Guatemalan Paíz family. Other example in Nicaragua is the association made by the Montecristo group with the Pellas group to build the Guacalito de la Isla luxury resort. The Cuestamoras group, for instance, have invested in renewable energy projects in the region through the Mesoamerica Energy fund.

There is also significant control in the groups' organizational structure. Groups like Montecristo and Cuestamoras are the typical cases of groups that have been transitioning from a hierarchical structure, in which the families controlled directly most of the companies, to a network or portfolio organization, in which the groups are investors with less direct influence over the management.

Costa Rican groups have also followed the general trend in the region of specializing in the service sector while exploring potential new crops in agriculture (e.g. African palm) and industrialized food (e.g. sauces and juices), while showing little interest in manufacturing. Paradoxically, Costa Rican business groups seem to ignore the local advantages that brought many MNCs to invest in the country: a better educated work-force, combined with political and institutional stability, that attracted high-technology companies to install assembly lines of electronic products and medical devices. A clear result was the shrinkage of the Costa Rican stock exchange.[21] Without experiencing a new wave of incoming companies, the local stock market lost all its main companies during of the process of local groups selling their

[21] The decay of the Costa Rican capital market is the origin of the process of diversification of the Sama group. Founded as a brokerage house and investment bank in 1976, it shifted its strategy to become a private equity company due to the lack of opportunities in the Costa Rican capital markets. During the last years, the group has acquired companies with financial problems from different sectors (e.g. poultry and banana production, advertisement) with the goal to sell after their recovery.

assets to MNCs.[22] This conservative strategy of Costa Rican business groups is summarized by a local financial consultant: "Costa Rican groups prefer the safe route of selling their firms and investing in real estate. They are risk-averse and ignore the great potential for innovation in this country."[23]

3.3.6 Panama: The Central American entrepôt

Panamanian business groups have the highest participation in the financial sector among all the countries in the region, accompanied by a strong presence in the retail and real estate sectors. Looking at the Panamanian history, we perceive that such a profile is not the result of a recent change in diversification strategies, but a traditional orientation of the country's economy to the service sector. It is impossible to ignore the particular trajectory of Panama and its efforts to become a regional entrepôt and international financial center.

Historically, the majority of local business groups relied very little on agricultural production (Zimbalist and Weeks, 1991).[24] The original basis of accumulation for most Panamanian business groups were rather commerce and finance, profoundly affected by the Panama Canal, the related establishment of a free trade zone (Colón Free Trade Zone (CFTZ)) and an early financial liberalization. For that reason the Panamanian groups have experienced less of a shift in sector focus than their counterparts in the region. Several groups emerged out of

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[22] In 2001, the listed companies in the Costa Rican stock exchange reached their historical peak of market capitalization, whose value represented 18.55% of the GDP. By 2011, the listed companies represented only 3.53% of the GDP (Standard & Poor, 2011).

[23] Interview conducted in June 2011.

[24] Only two Panamanian groups present a strong presence in agriculture: the Calesa and Melo groups. The first is a conglomerate that runs sugar and rice farms, shrimp, cattle and pork production, and factories of animal feed. The second is the biggest poultry producer of Panama.

commercial firms established related to (CFTZ), including the Grupo Motta, the Btesh, Fidanque, and Harari.[25]

Another surprising characteristic of Panamanian groups is their low level of regionalization compared to their regional counterparts: only 6 of the 13 groups in our list have investments abroad in at least one sector. Despite the internationalization of the Motta group in recent years, Panamanian business groups historically have not showed a strong interest in expanding their activities to the rest of the region. The main reason for this lack of interest mentioned by businessmen during the interviews was the lack of interest in entering markets that had more regulations and controls than Panama. Only recently, with the liberalization of services in the region, some Panamanian groups have expanded. Examples of this are Empresa General de Inversiones with banking operations in Costa Rica, and the Motta group who controls a bank in Nicaragua (Banco de Finanzas), and has insurance companies in Costa Rica and El Salvador.[26]

Another important aspect is the high number of groups that have assumed a network form, with families controlling some flagship companies while participating as minority shareholders in many types of projects. This pattern represents the common strategy of using joint ventures as a mechanism to pool both resources and expertise in order to enter new sectors. The ownership of Empresa General de Inversiones (EGI), for instance, is shared mainly by three other groups: Motta, Humbert, and González-Revilla. Originally, the Humbert family was the main individual shareholder of EGI. A series of mergers made with the purpose to consolidate the group as an important bank player in Panama, brought the

[25] All these families have a Jewish origin in common. Similarly to the "arab" groups in El Salvador and Honduras, immigrants of Jewish origin were able to establish themselves in Panama initially in the retail and finance sectors and have consolidated in recent years as the most important economic groups of the country.

[26] Interview with Stanley Motta, May 2011.

Motta and González-Revilla groups to the list of EGI main shareholders. As Stanley Motta, president of the Motta group, puts it: "We had merged our bank-institutions in order to keep a strong and competitive Panamanian bank that it is actually owned by Panamanians.[27] The existence of this pattern is also present in the telecommunications sector. The main internet and cable TV provider in Panama (Cable Onda) is controlled jointly by the González-Revilla, Eleta, and Motta families after a succession of mergers of their respective companies.

In general terms, the investment networks established between local business groups have the direct effect of contributing to the establishment of barriers to the entry of foreign competitors, particularly from Central America, as investors in different sectors of the Panamanian economy. Although many Central American groups use the services provided by Panama, there are few groups that actually have invested in the country and those that have invested in the country normally do it in association with local partners (see next chapter for examples).

The data also show that Panamanian groups have a relative high participation in the energy sector compared to other groups in the region. This is the direct result of a widespread process of concession to build hydro-electrical plants in Panama by the Martin Torrijos' government during which many local business groups acquired licenses and that has obtained a new momentum during the recent administration of Ricardo Martinelli.[28] The unexpected consequence of this process, however, has been the increasing number of conflicts involving local populations (mostly indigenous people) who are directly affected by the projects.[29]

3.4. Conclusion

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[27] Particularly for the funding of real estate projects, having a strong domestic bank allows these groups to think about medium to long-term periods of time. They, for instance, can survive downturns in the real estate market without selling desperately the houses and offices built.

[28] http://www.laestrella.com.pa/online/impreso/2012/02/23/intereses-familiares-en-las-hidroelectricas.asp
http://www.laestrella.com.pa/online/impreso/2012/02/23/intereses-familiares-en-las-hidroelectricas.asp

[29] http://mensual.prensa.com/mensual/contenido/2010/05/24/hoy/panorama/2193724.asp

In this chapter we have reviewed the results of the collection of data on 67 Central American business groups in order to respond to the questions posed in chapter 3 on whether economic liberalization and international integration will lead the DBGs to shift their sector focus as a means of specialization or differentiation, whether they will expand abroad or become subordinate to MNCs. We have found that there is a clear tendency of sector shifts that can partly be interpreted as a process of differentiation from MNCs. The DBGs have moved from having a strong focus in agriculture and industry, to services, commerce and construction. In some cases this is a result of transformation of the productive structures of their home countries (such as the decline of agriculture in El Salvador), while in many others it is a result of the sale of enterprises to MNCs, particularly industrial enterprises, but also commercial and service companies. However, we do not see tendencies towards specialization. Groups may keep a stronghold in one or two sectors, but they constantly move in and out of a number of others.

This process of 'opportunity seeking' also characterizes the international expansion of many of the groups. We identified 27 of our sample of 67 groups as regional in the sense that they are present in more than two countries and in more than two sectors. These groups have a regional strategy and management and would most likely stay in this category. However, a number of others have more random and short-term investments abroad and are as likely to expand further as to sell their companies to MNCs and thus to return to the domestic sphere. We also found a significant group that has chosen to pursue strategies to confront a more competitive situation by strengthening their presence at home.

The third section identified a number of partnerships, alliances and joint ventures between Central American DBGs and MNCs. In our sample, 25 of the DBGs can be characterized as strongly linked to a foreign MNC. However, only a few of these could be characterized as

actually subordinate to those MNCs. The most common kind of relationship is to operate franchises. Although these may involve subordination in some cases: for example an owner of a local McDonald will not be able to continue their operation if the franchise is withdrawn, it is less so in other cases. For example, the shift of the franchise of a hotel from Choice to Intercontinental would signify change of concept, but not theseize of the operation. Furthermore, the fact that some of the companies of a group are operating franchises or are involved with MNCs does not necessarily mean that the whole group can be understood as subordinate.

However, the analysis of regional trends also reveals a number of differences among groups from different countries. These were analyzed in more detail in the second part of the chapter. The groups that have gone through the most abrupt shift in sector focus are the El Salvadoran groups that are also the most regionally expansive along with the Guatemalan groups. The Nicaraguan groups have regionalized primarily in finance, while the Honduran, Costa Rican and Panamanian groups are less internationally expansive, but for very different reasons. Although there is a general impression in the region that it is the same groups that are controlling the economy as always, in fact there is a significant shift in most countries and the old agro-export elite has lost much of its old control in all the countries except from Guatemala.

In the following chapters we will move from this qualitative, contextual analysis to singling out specific institutional variables that will be used in the analysis of the strategies of the DBGs and their impact on aspects of economic development. But first a more detailed glimpse into the evolution of some of the most emblematic DBGs in the region.

Chapter 4: From oligarchs to transnational business group leaders? The shifting strategies of key business groups

4.1 Introduction

In this chapter, we will give a face to individual groups that each represents different patterns of internationalization and diversification. They are also among the strongest and most emblematic in the different national contexts. We follow the evolution of the groups from the establishment of the first companies, to large diversified groups. This evolution is related to shifts in the global political economy, but also strongly to the home countries' political and economic history. It is striking that the majority of the groups, did not grow out of the 19th and early 20th century agro-export elite, but rather originates with European immigrants arriving in the early 20th century and setting up small businesses in commerce, services or industry. Another striking feature is that most of the groups have had leaders that in one way or another have been involved in politics – whether as members of government, advisors, or by setting up their own political parties, think-tanks or other kinds of organizations.

This chapter is based partly on personal interviews with leaders of the groups and partly on secondary material. The experience of interviewing these business leaders has brought us to everything from mansions guarded by dozens of security guards, to super-modern skyscrapers and stuffy, old down town offices with fans and heaps of paper. We have been treated to everything from half an hour of well-rehearsed, general answers to our questions, to three hours of anecdotes from the family business. Thus, the amount of information that we have been able to collect differs significantly across the groups. Nevertheless, in what follows we will try to show some of the diversity of the groups that in the following chapters will appear in tables and figures.

4.2 A classical national hierarchy: Grupo Continental from Honduras

Grupo Continental from Honduras is perhaps the most typical example of a diversified, hierarchical business group that has evolved as a result of a combination of weak markets and institutions and the strong importance of different kinds of networks. Currently it has six principal divisions and encompasses approximately 35 companies.

The origins of the group are the companies established by Yankel Rosenthal, a jewish-romanian immigrant who came to Honduras in 1929 and started to work in the company Agencia Barret. Owned by British immigrants, it represented different international brands in Honduras. After their death Rosenthal took over the company since the Barrets had no heirs[30], and he continued in the business of representing international companies and importing goods as a co-owner of the company Comercial Rosenthal & Rosenberg.

After his son Jaime returned from studies in the United States in 1958, he became an important leader of the business, but it was his political interest that was first directing his career. He was imprisoned after having allied with the workers in sympathy of their actions in the Great Banana Strike of 1954 (Posas del Cid 1983), and he soon became one of the leaders of the Liberal Party. It was his political engagement that led him to get involved with the media, and in the beginning of the 1960s, he co-founded the daily newspaper Diario La Prensa. However, after a conflict with the other main investor, Jorge Larach, he split from it and established another daily: Diario Tiempo on the 7th of November 1970 (Torres 2007, p. 161).

His other main interest was insurance. Jaime Rosenthal's return to Honduras coincided with the passing of a law that hindered international capital to enter into the insurance market, a

[30] Interview Jaime Rosenthal, 29 September 2011.

law that created a niche for local companies that the Rosenthal's eventually was able to exploit. In 1968, they established an insurance company, Seguros Continental, as well as a wholesale company Almacenes de Deposito Continental. However, due both to Honduran customs and people's general lack of financial resources, it was necessary to lend people money to pay for insurance. Thus, in 1974, Rosenthal and four other businessmen established Banco Continental, with four employees and a capital of 2 million Lempiras (Torres 2007, p. 161). The year after he created the stock trading company Continental Casa de Bolsa.

In those days, banking regulation was lax, and over time Banco Continental simply took over several companies that were unable to pay their loans to it. Thus, the group expanded into several new sectors: tourism, business services, construction, commerce and agriculture. In 1971, it established a tourism company (Promociones y Turismo, S.A.), in 1975, the leasing company Arrendadora Comercial was created and later Repartos Continental added to the business service branch providing rental services for businesses, etc.

Another main reason for expanding into new sectors was to, complement different businesses. As formulated by Jaime Rosenthal himself:

> When we started the television company, our main competitor was also the owner of the cables. So, we had to set up our own cable company to compete.[31]

Thus, over the course of the 1980s, the group expanded both within sectors and across sectors. For example, after having established a travel agency in the 1970s, it created a hotel chain, Aparthoteles Continental, S.A. de C.V. in 1987, thus being able to buy services from itself and in effect internalizing many transactions. In the midst of the political crisis of the 1980s and the highly volatile economic context of Honduras, Grupo Continental also established an

[31] Interview, Jaime Rosenthal.

investment company in the United States (Inversiones Continental USA Corp. created in 1987) as a means to diversify risk.

While some companies were established due to considerations of complementarity or risk diversification, another driver for diversification was opportunities arising as a result of the contacts that Rosenthal maintained with governments. In the 1970s he established the Alianza Liberal del Pueblo (Alipo), with various other businessmen (including Jorge Bueso Arias). In spite of this radical past, he was Vice president during the presidency of José Azcona Hoya (from 1986 to 1988). and was widely considered to have masterminded his 1986 economic plan which in the local press was called 'reaganomics for Honduras'.[32] In 1996 he established the Movimiento Liberalismo Renovador (LIBRE) as a new current in the Liberal Party, and he has run for being the Liberal Party's presidential candidate at several occasions, until leaving to his son Yani Rosenthal to attempt to run for that position, something he has done twice. He was an ardent supporter of privatization, of among other things, the state holding company CONADI. This encompassed, dozens of companies including two cement factories. In 1991, the government opened for a bidding procedure to sell CONADI's share in one of them (INCHESA), and among the main bidders was Jaime Rosenthal. He lost that bid, and shares were sold under favorable conditions to the Military Pension Institute (IPM) (Brenes and Casa 1998). Rosenthal instead bought Cementos del Norte jointly with his fellow Jewish businessman Gilberto Goldstein in 1992. In order to be able to compete after the competitor INCHESA was bought by the French multinational Lafarge in 1997, Cementos del Norte enterered into a strategic alliance with Cementos Progreso (Grupo Novella) from Guatemala.[33]

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[32] He resigned in 1988 over the unconstitutional extradition of the mythical Honduran drug lord Juan Ramon Matta Ballesteros to the United States after he had offered to pay Honduras' foreign debt.

[33] http://www.cenosa.hn/v1/index.php?option=com_content&view=article&id=1&Itemid=3&lang=en

In 1989, the holding company Inversiones Continental, S.A. de C.V. was established and registered in Panama. It now owns the majority in most of the companies of Grupo Continental, while there is also a significant extent of cross-ownership between the different companies within the group (see figure 4.1). However, although being registered abroad, and having one investment company in the United States, Grupo Continental is mainly a nationally focused group. Jaime Rosenthal explained that it is the group's relative financial weakness that has kept it from expanding abroad:

> We have not had the capacity to expand beyond Honduras. Thus, what we have done is to diversify in the country…. When I get a loan in Lempiras it costs me 14 to 15 percent now that it is relatively cheap. They get loans in dollars for 5 or 6 percent, so it is very difficult to compete. […]- Another problem is the lack of stock markets. So we can't go and buy a company in El Salvador or Costa Rica and pay it with stocks of our own company, because there is no stock market; there are no markets for stocks and no markets for capital.

<Figure 4.1 inn here>

However, in the increasingly tough competition within Honduras, Grupo Continental has turned diversification into a competitive advantage. On the one hand, diversification allows for synergies between the different parts such as when the communication companies run publication campaigns for the other companies in the group. On the other hand, diversification is a way to grow in a situation when it cannot be number one in one single sector due to financial constraints. As again explained by Rosenthal:

> People only want to be first or second. We are not first in anything. In cement we are first or second, because there are only two. In the insurance company there are 13 or

> 14 companies, and we are number eight. In the country there are like 18 banks and we are ninth. But we have better capacity to analyze credits than HCBC; we know the people, we know the market. They have never been able to take a client from us. The reason why we don't win more clients from them is that we don't have more money at our disposal.

In spite of this the sprawling group of Jaime Rosenthal is widely considered to be among the most affluent in the country. It employs according to its own reports directly approximately 8000 persons and indirectly 80 000 (Torres 2007, p. 162). In 2010 it had a capital of US$125,982,561 and employed and reported a profit of US$30,929, 534before tax (Company register of Panama).

Jaime Rosenthal's son Yani Rosenthal, continues his father's combination of business and political careers, being the president of Cementos del Norte as well as several smaller companies, while also having served as minister of the presidency under the Zelaya government and having competed for the presidential candidacy of the liberal party twice. Thus, while competition from transnational companies seems to be a constant threat to various of the group's companies, Grupo Continental continues to grow and spread its presence across the Honduran economy.

4.3 A champion of the regionals: Grupo Poma from El Salvador

Grupo Poma today appears as almost the opposite of Grupo Continental: where Continental is nationally focused and highly diversified, Poma has focused its business in four sectors with significant synergies and it has invested all over Central America as well as the United States, Colombia and the Dominican Republic. However, at a closer look, there are also several similarities.

Similar to Grupo Continental, Grupo Poma was established by a European immigrant: Bartolomé Poma y Genova, an immigrant from Barcelona in Spain. He founded B. Poma Ltd in 1919, a company dedicated to import three brands of cars: Hudson, Essex and Nash. The original company of Grupo Poma is the cardealership B. Poma Ltd. The company survived the 1930s through their agreement as distributor for General Motors and took a new leap in 1952 when it became exclusive distributor of Toyota in Central America. In the1960s, Bartolomé's son Luis brought the company into industry and four manufacturing companies were born, mainly catering to the construction sector producing different kind of metal, glass and wood products. In the 1960s, the group also diversified into construction with the creation of Grupo Roble in 1962, and in the 1970s into hotels and shopping malls.

The Group moved its headquarters to Miami after the kidnapping and assassination of Luis' son, Roberto Poma, during the civil war. However, Poma maintained its business in El Salvador, at the same time as investing in banking, real estate and manufacturing in the United States. More specifically, the group invested in Bain Capital Fund, the International Bank of Miami, the U.S. Can Corp (a metal and plastic container producer), and it constructed the housing and office project, the Transal Park, all of which companies they have a minority share in.

Ricardo Poma, Roberto's older brother, eventually took over the business and is today the leader of the group. He married the sister of the leaders of Grupo Kriete and the group is now run also by their three sons: Alberto, Fernando and Andrés Poma Kriete that have leading positions in the autobranch, the hotel branch and the real estate branch respectively. Ricardo Poma's younger brother Ernesto Poma is in charge of the Miami division that is mainly operating in real estate and hotels. In addition, Grupo Poma's vice president, Carlos Patricio Escobar Thompson must be considered within the core of the Poma leadership. In addition to

his position as vice-president, he is the president of a number of companies, of which the Pomas also have key board positions. He is also the husband of former vice-president of El Salvador, Ana Vilma de Escobar. Thus, these companies are also closely connected to Grupo Poma.

Grupo Poma's strategy over the last years has been focused on regionalization and on strengthening synergies between their different sectors. Although Grupo Poma is clearly to be defined as a diversified group, the sectors in which it is strong are not entirely unrelated, with a partial exception for the automotive division. Grupo Poma has four formal branches: First, it is the automotive division which is now completely regional. Poma started to invest in car dealerships in the neighboring countries in the 1990s under different names. In 2005, all the different regional companies were united under the same name: Excel Automotriz. However, Poma is still also the owner of different import companies and others under different names, for example Lexus, S.A. de C.V. that imports hybrid cars to El Salvador. It now has a near monopoly on car sales in various countries in Central America with 50 sales outlets, distributing 14 different car brands, 41 workshops and 41 outlets of carparts.

The real estate division, Grupo Roble, has different parts. One is focused on building different types of commercial centers: Metrocenters which are the more traditional shopping centers, Multiplazas which are aimed at being 'indoor cities', its 'mid market' variety 'Unicentro', and a form of 'corporate center'. The first of these that the group constructed was the Metrocenter in San Salvador that was opened in 1971. The first investment outside El Salvador was in Costa Rica, where the group entered in 1990 and opened the Multiplaza Escazu in 1992. Now, there are Poma owned malls in all of Central America including Panama and there is a Poma owned corporate center in Bogotá, Colombia. The opening of shopping malls have occurred in alliances with other Salvadoran groups, such as Grupo Simán, and with Grupo Carso from

Mexico (owned by Carlos Slim) that has opened Sanborns and Dorian's stores in their shopping complexes.

The other part of the real estate developer division is focused on housing. It has housing projects mainly in El Salvador, but also in Panama and the United States .

The real estate division operates in many cases in coordination with the hotel division Real Hotels & Resorts. This operates in alliance with three international brands: Marriott International, InterContinental Hotels Group, and Choice Hotels International. It now operates 17 hotels in different segments of the market in Central America, Colombia, Dominican Republic, Mexico and the United States. Several of these hotels are constructed in conjunction with Multiplazas or Metrocentros, also owned and operated by the Pomas.

<Figure 4.2 inn here>

The industrial division still focuses mainly on production of material for the construction sector that is in turn used in the construction of homes and shopping malls. The main companies are Solaire and Unimetal. Solaire is the second oldest company in the Poma Group and produces inputs for the construction sector, and Unimetal produces roofs, isolation and metal walls also for construction.

In addition to these core business areas, Grupo Poma has investments in finance and telecommunications. Poma was among the main investors in the bank Ahorromet, but sold it to Scotiabank already in 1997 (Scotiabank later merged with Banco de Comercio in 2004 before it was taken over completely by Scotiabank in 2008). The real estate division has its

own financial institution Inversiones Roble. In addition to these, the Pomas have inivestments in a number of other financial companies.[34]

The logic of the increase of Grupo Poma is is in great part a matter of entering into sectors with synergies, and doing so mainly through greenfield investments. However, there are exceptions to this strategy, for example as explained by Fernando Poma, leader of the hotel division about how the group entered into that business:

> In the 60s we started the business of real estate and construction and we also started to construct the largest commercial center in the country which today is the metrocentro. Today it is a shopping mall with 90 000 square meters; that is - pretty big. When we were creating this shopping mall, we had a piece of land next to it, and for that reasons we put up a hotel.[35]

Yet, in general Poma has stuck to a relatively limited number of sectors and rather expanded abroad. When preparing for making greenfield investments, it often uses prominent political and business contacts, such as Ricardo Maduro, ex. President of Honduras which is the main partner of Grupo Roble there.

While the political engagement does not appear to have been an equally important motivation factor in the investment strategies for Grupo Poma as for Grupo Continental, also Ricardo Poma has had political involvement. He has been a member of COENA, the board of the ARENA party, and was according to press reports, one of the main funders of Laura Chinchilla's campaign in Costa Rica. Poma founded the Advanced School for Economics and Business, an exclusive business school from which Grupo Poma recruits, in 1994, and he is the head of the charity oriented Poma Foundation. Within the group is also the Salvadoran

[34] According to the CNR, Ricardo Poma is president of the financial company Faralan, S.A. de C.V. whereas Andres is president of Calapa, S.A. de C.V. and Fernando of Masala, S.A. de C.V.
[35] Interview, Fernando Poma, 8th March 2011.

Foundation for Health and Human Development (FUSAL) founded by Luis Poma (Ricardo's father). Moreover, the wife of Carlos Patricio Escobar, de Escobar is a prominent member of ARENA and was Vice-President of the Republic from 2004 to 2009.

In addition to these the group branches discussed above, Grupo Poma has a number of minority posts. For example, it invested in the telecommunication business when it was privatized in El Salvador in 1998, and created the company Mesoamerican Telecommunications. Ricardo Poma owns 49 percent of this company that now has entered into a partnership with Telefonica of Spain. The Mesoamerican Telecommunications later entered into the Grupo Mesoamérica founded as a consulting and investment company by the business scholar Harry Strachan. It manages special funds to invest in strategic sectors, such as telecommunications and energy. The particularity of these funds is its exclusivity since it allows only selected families to participate in it. As Table 4.4 shows, most participants of the recently created energy fund are the heads of DBGs presented by our study, including Ricardo Poma.

<Table 4.1 inn here>

Thus, in sum, Grupo Poma is generally a family run group which is hierarchically organized, involved in a limited number of sectors and that has expanded broadly beyond El Salvador. Also lately, it appears that Poma has invested much more abroad than at home. Thus, whereas weak domestic institutions appear as equally obvious motives for Grupo Poma's investments, lack of trust in the future of the Salvadoran economy has clearly been a motive for expansion. This became particularly obvious after the entering of the government of Mauricio Funes in El Salvador with the support of the former guerilla FMLN.

4.4 The Central American *translatina*: Grupo Multi-inversiones from Guatemala

On the rankings of multi- or translatinas, only one Central American group regularly appear: Corporación Multi-inversiones from Guatemala. Led by the cousins Juan Luis Bosch and Dionisio Gutierrez, Corporación Multi-inversiones is an enormous organization that spreads across three continents and six principal sectors, employing around 30 000 people according to most sources.

It shares some of its history with the two groups presented above, for example the fact that it has its roots in the investment made by a European immigrant in the early 20th century. Juan Bautista Gutiérrez Blanco immigrated to Guatemala from Spain in 1904, and in 1920, he set up a small shop in Totonicapan, selling, among other things, cutlery to the indigenous peoples. In 1936 he established Molinos Exelcsior as the second modern mill in Guatemala.

Juan Bautista handed over his business to his son, also called Juan Bautista, who in turn had three children: Dionisio, Arturo and Isabel. Under Juan Buatista Jrs. leadership, the Granja Villalobos was set up as as the first step in the poultry production that came to be the most important of the branches of the group for years. This was a spin-off of the mill since the first plants were essentially a 'hatchery set up at the mill'[36]. In 1971, the fast-food chain Pollo Campero was established, based on supply of chicken from the Granja Villalobo.

However, in 1974, the company went into a succession crisis as Dionisio and his brother in law, Alfonso Bosch, died in a plane crash. In the following years Arturo ran the poultry business, but the sons of the two deceased siblings – the cousins Dionisio Gutierrez Mayorga and Juan Luis Bosch - played an increasing role.

After Arturo's son Juan Guillermo was kidnapped and held for ransom, Arturo sold parts of his stakes in the companies and moved to Canada in 1982. However, another motivation for

[36] Interview with Juan Guilllermo Gutierrez, The Star, 2.7.2011, and author interview with Dionisio Gutierrez Mayorga, 16th of April 2013.

the move was disagreement with his nephews over the manner in which they run the business, and after an attempt by Dionisio and Juan Luis to take over Arturo's remaining stake in the group, they have been involved in a number of bitter lawsuits.[37]

It was therefore Dionisio Gutierrez and Juan Luis Bosch that brought the group to become the multinational group it is today. Currently it is the latter that is president of the group, a position that Dionisio held for 30 years before resigning in 2011 to dedicate his time to the philanthropic establishments of the group.[38] Also their brothers have top positions: Dionisio's brother Juan José Gutierrez is the CEO of Pollo Campero whereas Juan Luis' brother Felipe Bosch is a board-member of the Group.

The flagship company of the group has been Pollo Campero that started to expand in the region soon after it was established. In 1994, it created its franchise program. It opened its first restaurants in the United States in 2002, and in Spain, China and Indonesia in 2007, although later retiring from China. On November 14, 2007, Pollo Campero signed a deal with Wal-Mart to begin opening outlets in select Wal-Marts in 2008. There are now more than 50 locations across the United States in 15 states and more than 300 Pollo Campero restaurants globally across Central America, in India, Mexico, Ecuador, Spain, and Indonesia.

The finance and construction branches expanded later. Currently Corporación Multiinversiones owns a number of large shopping malls including: Edificio Centro Empresarial, Centro Comercial La Pradera Guatemala, Centro Comercial La Pradera Quetzaltenango y Centro Comercial Pradera Concepción (minority shareholder) as well as housing projects (Palencia Prado 2013). The energy division was the last to be included, with the investment in a hydroelectric plant in 2004. Currently it is the owner of four: Renace I,

[37] Arturo and Juan Guillermo Gutierrez have set up a website with documentation from this lawsuit up until 2008: www.casogutierrez.com. The lawsuits are also covered in a number of newspaper articles in Guatemala as well as the United States. See, for example:
[38] Interview, Dionisio Gutierrez, 16th of April, 2013.

Renace II (socio), Santa Teresa, Agrocomercializadora Agropolochic S.A., Río Las Vacas I y II (Palencia Prado 2013).

Most of the diversification has apparently been the result of opportunities that have appeared for reinvestment and profit. However, the actual purpose and synergies with the construction and finance businesses have been disputed. In the lawsuit filed by Arturo Gutierrez, he accused his two nephews of having set up a large tax-fraud and money-laundering scheme by shipping off large amounts of cash to Miami that had emerged from the sale of among other things, live chicken, and reinvested in real-estate and finance[39].

The sectors above are the ones officially included in Corporación Multi-Inversiones. However, the Gutierrez-Bosch family has a number of investments also in other sectors. It owns three industrial enterprises: Monolit and Acercisa producing plastics and packaging, and Bloteca producing cement and stone products; It is involved in the media through the ownership of Corporación de Noticias and being a shareholder in the newspaper SIGLO XXI and the radiocompany Emisoras Unidas. It is also holds a 40 percent stake in Telefónica Españas mobilecompany Movistar’s Central America operations, a share it acquired as a part of Telefónica’s debt reduction scheme in 2013.[40]

Parallel to the rapid expansion into different sectors and across the world, the Gutierrez-Bosch family has been actively involved in politics and the public debate in Guatemala, although the different family members have chosen different forms of participation. Juan Luis Bosch has been actively involved in business associations as president of the Industrialists Association (1987-1989) and the powerful umbrella organization the Coordinating Committee of Agrarian, Commercial, Industrial, and Financial Associations CACIF (1989). Through these and other

[39] http://www.casogutierrez.com/docs/FederalComplaint.pdf
[40] https://globalmanetwork.com/telefonica-sale-of-interest-to-corporacion-multi-inversiones/

positions, he has exercised significant influence on Guatemalan politics. He was a key member of the more or less informal group Liderazgo Empresarial that played a strong role in the elaboration of economic policy of the first democratically elected governments in Guatemala (later 1980s) (Valdez and Palencia Prado 1998), during which time he participated in the group that restored democracy after the self-coup conducted by Jorge Serrano (McCleary 1999). More recently he has been one of the main figures in the pressure group of billionaires that effectively stopped fiscal reforms in Guatemala during the regime of Alvaro Colom (2007-2011), named the G-8 by former Minister of Finance, Juan Alberto Fuentes Knight (Fuentes Knight 2011).

Dionisio Gutierrez has not played such a large role in organized business or in formal governmental activities, but has been a strong voice in the public debate. He has done this particularly through his television show Libre Encuentro that he had for almost 20 years after leaving the country in 2010, allegedly due to threats from groups associated with the current Colom government. [41] Currently he is most involved in his foundation Libertad y Desarrollo from which he runs a number of programs to influence the government's policies in a conservative and neo-liberal direction. As argued by the Spanish newspaper El Publico:

> This successful businessman is not only admired for his capacity to acquire fortunes, but also for his ability to establish political links and influence in the historical evolution of the country. One has accused him publicly for having been behind at least three coup d'états, all against military goernments, to which he has responded: "In the coup against Romeo Lucas I was close to this process with opposition leaders and I was as well in the civic movement that brought down Jorge Serrano Elias". [42]

[41] http://www.prnewswire.com/news-releases/dionisio-gutierrez-leaves-guatemala-105757368.html
[42] http://www.publico.es/espana/129329/neoliberalismo-como-bandera

This latter point is confirmed by Rachel McCleary who shows how he participated in the shadows (McCleary 1999). Although Gutierrez never has held a formal public position, he is considered to be a shadow that looms behind every presidential candidate in Guatemala. This view of him is confirmed by former president Alfonso Portillo that during his imprisonment for corruption, detailed in a long interview the power that Gutierrez had on Guatemalan politics. In his portrayal, Dionisio Gutierrez is the most powerful actor that governs Guatemalan politics from behind the scences (Gálvez Suárez 2013).

4.5 The discrete networker: Grupo Motta from Panama

Grupo Motta (or Inversiones Baía) can be considered the quintessential network type of business group. The holding Inversiones Baía, currently controlled by the brothers Stanley and Alberto Motta Cunningham, commands a portfolio of investments ranging from retail, cattle, finance, aviation, media, and telecommunications, to distilleries, car dealerships, logistics, tourism, and real estate. Because of the diversity of its investments, the Motta family is usually mentioned as one of the richest in Central America by local newspapers and business magazines.

An important characteristic of the Motta family is that its origins are not related to the traditional elite. Alberto Motta Cardoze, founder of the group, was the son of an American Jewish electrical engineer that came to Panama in 1902 to install its first electrical plant. Alberto Motta Cardoze was only eight years old when his father died, forcing him and his four older brothers to work in order to provide financial support to their mother. From small jobs as salesmen during their childhood and young life, Alberto and his brother Arturo founded in 1936 a shop at the Cristóbal Port. In 1946, the brothers had bought a cattle farm

that it is still active today.[43] A few years later, Alberto Motta would introduce the concept of duty free shops in the region, opening the first store of this type in the Panama City airport in 1949. During the same period, he became one of the main persons behind the establishment of the Free Trade Zone of Colón around the Cristobál Port area.[44]

The consolidation of the duty free shops and the rights to distribute luxury-good brands in Panama and other Latin American countries over the years allowed Alberto Motta to initiate an intense process of diversification into finance (both the insurance group ASSA and the Continental bank), aviation, media, telecommunications, and real estate.[45]

After the death of its founder in 2006, at the age of 90, his son Stanley Motta has been the main public face of the group. As many other current Central American business leaders, he was educated in the United States, obtaining a bachelor degree in management from Tulane University in 1967. However, in terms of strategy, very little has changed under the new leadership. Stanley Motta has participated in the board of directors of most companies in which the family had invested while his father was alive. The main difference regarding the leadership of Stanley Motta it is his more active public role, participating as a permanent member in business forums, such as the Inter-American Dialogue, the Aspen Action Forum, or as president of corporate social responsibility organizations, such as the Panamanian foundation SumaRSE.

To a large extent, the dynamic public life of his current leader reflects the collaborative nature of the diversification process conducted by Grupo Motta. The search for new investments has been intimately connected to the establishment of partnerships. In many of the group's

[43] The place Hacienda Hermanos Motta became a meeting place for all the generations of the family and it is the only business in which all the descendants have a common ownership.
[44] http://www.panamaamerica.com.pa/notas/245618-tenemos-todo-para-ser-exitosos
[45] In some cases some of his brothers would be partners in the investment, but not always. Therefore, the current Grupo Motta is defined as the portfolio of companies and investments managed by the sons of Alberto Motta Cardoze.

investments (e.g. Copa Airlines, Banco General, Grupo ASSA), the Motta family has an important participation and often its members seat at the board of directors, but rarely has the exclusive control of the company. In the case of Copa Airlines and the financial institutions of Grupo ASSA, for instance, the control is shared with the Heilbron family.

The talent for establishing partnerships, not only made the Grupo Motta a highly diversified group in Panama, but also allowed it to become one of the few Panamanian groups that are truly regional players. Through individual investments, the group has regionalized its retail operations opening duty free shops not only in Central American countries (i.e. El Salvador and Nicaragua) but also in Mexico, Venezuela, Colombia, and Ecuador. Through partnerships, the group has expanded its insurance and mortgage banking business (Grupo ASSA to El Salvador, Nicaragua, and Costa Rica. Additionally, Copa Airlines acquired a flight operator in Colombia (Aerorepublica) and it is the one of the few Central American companies listed in the New York stock exchange.

This process of internationalization also made the Grupo Motta establish strong connections with other Central American business groups. The network of personal contacts consolidated mainly by Stanley Motta during the last decades represented the possibility to make important investments in partnership with other regional giants such the Pellas from Nicaragua and the Poma from El Salvador. Jointly with Grupo Pellas, the Grupo Motta has been a partner since 1991 with GBM – a company that represents IBM in the Central American region – and has been one of the partners in the construction of a luxury resort in the Nicaraguan area of Guacalito de la Isla. It also has a close relationship to Grupo Poma. Stanley Motta was the

main responsible to convince the El Salvadoran group to build the Multiplaza Pacific shopping mall in Panama City in 2004.

The organizational form of Grupo Motta is a clear break from the traditional model of a hierarchical business group whose founding family controls directly most of the firms within the group. As opposed to for example Grupo Continental, Grupo Motta controls directly very few companies. As Stanley Motta puts it, the main core activities of the group are the retail and finance sectors, over which companies they have the *de facto* control. In most of the other companies they participate only in strategic decisions at the board level and leave the management to other more experienced partners and hired executives.[46]

This also signalizes the importance of personal networks to a diversification and regionalization strategies in a region that corporate transparency and minority shareholder's rights are systematically weak. Trusting your partner and choosing the ones that are able to take the leadership of investments in an efficient way are crucial aspects that have been shaping the group's diversification strategy. Besides the prospects of economic returns, the investment decisions of the group have been guided by the capacity of identifying investments that consume the less amount of time. As Stanley Motta explains: 'Besides profit considerations, I select investments considering the amount of time they demand. For example, currently, one of my best investments is the car dealership. It takes three hours of my time every year during the annual board meeting, since the business is very well managed by our partner'.[47]

The business strategy of the Motta family has been followed by a very discrete political life. Contrarily to other the business groups in Central America, the Mottas have not trailed a path of entering in politics or establishing active links with specific parties. Adopting a clear

[46] Interview Stanley Motta, nterview, May 2011.
[47] Personal interview, May 2011.

pragmatic approach, they have adopted a strategy of always building bridges with sitting presidents in countries where they operate. It is ironic, however, that in recent years, the biggest hurdles faced by the group are found in their home country. The importance of the group in the Panamanian economy has been a constant subject raised by current president Ricardo Martinelli in his attacks to business leaders that oppose the reforms he wants to implement.[48] As detailed in chapter eight, the identification of Stanley Motta as a supporter of the traditional bipartisan system in Panama and the desire of President Martinelli to consolidate his own party are the main reasons behind the recent attritions.

<Figure 4.3 (Motta) in here>

4.6 The resilient moguls: Grupo Pellas from Nicaragua

As others business groups reviewed on this chapter, the Grupo Pellas does not have its origins in the traditional elite with roots on the Spanish colonial times. The founder of the group, Francisco Alfredo Pellas Canessa, was an Italian immigrant that came to Nicaragua in 1875, to manage a shipping company that transported goods across the San Juan river. Before the inauguration of the Panama Canal in 1914, the company owned by Francisco Alfredo Pellas was responsible for most of the trade between the Pacific and Atlantic coasts in the region, managing 23 ships at its peak.

Currently known as one of the biggest producers of sugar and ethanol in Central America, the investments in agriculture started as an initial diversification process with the acquisition of the San Antonio Sugar Mill in 1890. With the competition from the Panama Canal, the descendants of Francisco Pellas family divested from the shipping business and began to diversify into other activities. In 1913, the family became the first distributor of GM vehicles

[48] In a controversial interview given to the magazine America Economia in 2010, President Martinelli bragued about calling Stanley Motta and asking why he has declared only one dollar as income to tax authorities (America Economia 2010).

in Central America with the still existing Casa Pellas. Decades later, in 1937, the family would initiate the production of the rum Flor de Caña. In 1952, the family invested in the financial sector, founding the Banco de America with other local partners.[49] By the end of the 1970s, the Pellas family was one of the most prominent business groups in Nicaragua (Strachan, 1976).

As discussed in chapter 2, the end of the Somoza dictatorship in 1979 by the leftist guerrilla led by the Sandinistas brought important structural changes in the Nicaraguan economy that impacted directly core sectors of the Grupo Pellas. With the nationalization of its rural properties and financial institutions, the group was at a crucial crossroads. At this period, the current leader of the group, Carlos Pellas Chamorro, assumed the command of the family business and opted by a strategy of internationalization mainly through the acquisition of banks in the U.S. and Costa Rica. The decision of going abroad as a response to the domestic turbulence in Nicaragua proved itself right as the Banco de América Central (BAC) has grown gradually into a regional operation. In addition, the capitalization of the group would allow it to invest heavily in Nicaragua after the liberalization of the economy during the 1990s and restart previous activities that were interrupted during the Sandinista period.[50]

The profile of Carlos Pellas Chamorro easily explains why he was chosen to be the leader of the group in 1985 at the age of 32. Following the steps of his father, Carlos Pellas was educated at Stanford, where he acquired a bachelor degree in economics, a master in food research, and a MBA. The experience abroad allowed Carlos Pellas to invest into new financial services, such as credit cards, into the region. He survived miraculously from a plane

[49] Through a marriage between the grandson of Francisco Alfredo Pellas, Francisco Alfredo Pellas Chamorro, with Carmen Chamorro Bernard, the daughter of Ernesto Chamorro, the family descendants had also acquired stakes in manufacturing and food processing companies, under the umbrella of the E. Chamorro Industrial (ECISA) found in 1969. The current leader of the group, Carlos Pellas Chamorro has unified the companies under the Grupo Pellas Holdings.

[50] According to Carlos Pellas Chamorro, between 1990 and 2000 the group has invested approximately US$250 million in Nicaragua (Bogan 2009).

crash in 1989, and after that he continued a relentless process of diversification and modernization of the activities abandoned during the 1980s. Not only the sugar mill and rum production were reinitiated, but the group also modernized them, aggregating to it both ethanol production and electricity generation.[51] It also has diversified into cable TV channels, advertisement agencies, logistics, real estate, orange farms, health services, and sports centers. After the complete sale of its regional banking operations (BAC) in 2010 to the Colombian Grupo Aval, Grupo Pellas started an aggressive expansion of its sugar mill business, acquiring properties in Panama, Honduras, and Guatemala. The group also turned its rum Flor de Caña into an international brand that is distributed in more than 43 countries. Additionally, it also began ambitions projects to build luxury touristic resorts in Nicaragua (Guacalito de la Isla), Costa Rica (Santa Elena Preserve), and Panama (Santa Maria Golf and Country Club).

In terms of organization, the group can still be considered a relatively hierarchical group with most of the companies under control of the members of the Pellas family. The group, however, has experienced an increasing process of professionalization of its management hiring executives outside the family in order to conduct the daily activities of its 25 companies.[52] In some cases, executives of the group achieve a status of business partners after achieving a good performance conducting companies of the group and leave the group to create its own business groups.[53] As Carlos Pellas puts it, each company has a professional management capable of conduct business even after his death (Labadia 2005).

In parallel, many new investments have partners that go beyond the traditional family circle and other Nicaraguan business families. The Grupo Pellas has established partnerships with

[51] The thermal plants are fueled by burning the sugar cane bagasse and during the harvest period the electricity provided by the group represents almost 7% of the national consumption.

[52] The interest in form qualified managers in the region, is reflected in the support Carlos Pellas Chamorro has been giving to the Instituto Centroamericano de Administración de Empresas (INCAE) during the last decade. Many of its managers come from the institution and currently Carlos Pellas is the vice-president of its board.

[53] Ernesto Fernández Holman (Grupo Ayucus) and Ramiro Ortiz Mayorga (Grupo Promerica), for instance, were former executives of Banco de América Central (BAC).

businessmen from Costa Rica in its orange farms, and has attracted many regional groups, such as the Mottas from Panama and Grupo Montecristo from Costa Rica, to its new projects of touristic resorts. The group is also a major investor in the renewable energy fund managed by Mesoamerica Investments – an investment bank found by the former Bain & Co consultant Harry Strachan – in partnership with other important regional groups such as the Poma from El Salvador, and Multi-Inversiones from Guatemala.

The resilience of the group consists not only in the successful strategy of internationalization and its ability to reinvigorate old business. To a large extent, the group prospered because of its flexible political positions and preferences. While traditionally aligned with the Conservative and Liberal parties opposing the Sandinistas, Carlos Pellas has never ended his dialogue with the revolutionary leader Daniel Ortega. After the election of Daniel Ortega for president in 2006, Carlos Pellas has adopted a pragmatic attitude towards the leader of the leftist FSLN. Despite constant requests of opposing parties and politicians to condemn, president Ortega's maneuver to secure the right for a reelection and the opaque management of Venezuelan aid, Carlos Pellas has always emphasized how he had more points of convergence with the government than disagreements. As he recently said: 'Nicaragua is an open country. We have elections, and the elections clearly show who is the winner' (Potosme e Navas 2013).

4.7 From specialized regional company to a portfolio manager: Grupo Montecristo from Costa Rica

Grupo Montecristo has its origins in the importing company for plastic tubes and PVC pipes, established in 1959 by Arturo Durman. The company Durman Esquivel quickly stopped

importing products from abroad and inaugurated its own production plant in Costa Rica in 1962. The activities of the group gradually expanded from Costa Rica to other countries of the region with the opening of a plant in Panama in 1975. Since then, under the leadership of Arturo's sons, Francis and George Durman, the group expanded its activities to the whole Central American region and beyond, with plants and sales offices in Mexico, Peru, Colombia, Puerto Rico.

The accelerated plan of expansion had not only the objective of increase market power and presence in order to compete in a market that was increasingly dominated by big players, but also to attract the attention of MNCs. In 2006, the plan was successful after the acquisition of Durman Esquivel by the Belgian Aliaxis that maintained the family Durman Esquivel as executive managers of the company and as minoritarian shareholders.

The Grupo Montecristo is the only group analyzed here that has its origins and core activity in manufacturing. The diversification was used as a strategy to reinvest profits in some sectors with high potential of return and followed the logic of establishing partnerships without having direct control of the new activities. The portfolio of participations owned by the Grupo Montecristo was diverse as cattle, mango production, logistic, real estate, and hotels. Along this process, the group has also divested from many sectors, such as banking, where they have a participation in the BAC-San José, controlled by the Pellas family. The participation finished when the Nicaraguan group decided to sell the bank to General Electric Finance in 2005. This strategy has continued after the sale of Durman Esquivel as the group started to expand its real estate activities (particularly in the construction of office buildings), and to invest in industrial parks and health care providers. Although controlling some companies, both Francis and George Durman have been maintaining distance from the direct management of the new companies, leaving the daily administration to professional managers or other

partners. In terms of regionalization, the group has maintained a cautious strategy focusing resources in Costa Rica and has not showed much interest in investing abroad. Nonetheless, the group established a partnership with the Nicaraguan Grupo Pellas to develop the luxury resort Santa Elena preserve on the Pacific coast of Costa Rica.

The history of Grupo Montecristo displays the dilemmas that some Central American business groups face in reinventing themselves after the loss of thei core activity. With its core company being increasingly absorbed by the structure of the MNC Aliaxis, the Durman Esquivel brothers lost importance inthe executive management. Now the group is at a crossroads, trying to define what is going to be its new profile. This is a destiny it share with other Costa Rican groups such as Grupo Cuestamoras that was formed after the Uribe family sold its regional retail operation to Wal-Mart. As Grupo Cuestamoras, also the Durman Esquivel family has adopted safe strategy of investing mostly in real estate. Particularly in the case of Costa Rica, with few other options available due to the strong presence of the State in sectors such as telecommunications and energy production, it seems that Costa Rican business groups have found limitations to diversify or even to make innovative investments that go beyond real estate and tourism.

Politically, such accommodation reflects the lack of public engagement of the family Durman Esquivel in business organizations or forums. However, they keep close links with the ruling National Liberation Party (PLN). Particularly, Francis Durman has been a frequent donor to presidential candidates from PLN and frequently offers his private jet to the President to use it in official trips. To some extent, the proximity to the power might be a way to find opportunities to transmit to the government a lack of contentment with the current trajectory of the Costa Rican economy.

4. 8 Concluding remarks

These brief histories of six of the most emblematic groups in Central America shows a diversity of strategies they have applied confronted with a number of contextual changes. They range from national diversification to ventures towards being global players. While both sector focus and strategies of internationalization differ, with a partial exception for Grupo Cuestamoros, all have developed through personal and family networks, and all have established close relations to politicians and governments as a part of their business strategies. Through that they have managed to invent and reinvent themselves also after political upheavals and economic shocks, again with a partial exception of the Costa Ricans. In the last two chapters we will relate such strategies to the institutional contexts, but first look deeper into the development impact of the economic activities of the groups discusses above and their peers.

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