Chapter 7. Conclusions and Further Research

This thesis set out to answer the question on what accounts for the consolidation and persistence of business groups in emerging economies during the second half of the twentieth century by studying the case of Colombian business groups between 1950 and 1980. It is a study of the factors that led to changes on how entrepreneurial families led the growth of their businesses and how their strategies of diversification and finance, in turn, shaped the consolidation of an ownership network that persists today.

Using an original dataset, which brings together information from the financial statements of the group-affiliated firms, newspaper articles and previous studies on business groups, this research shows the evolution of the ownership network during an unexplored period by business historians. The three decades studied here, were key for the economic, political, and social development of the country. Between the coffee economy, the dullness of democracy and the later appearance in the market of illegal actors, business groups consolidated, increased in number and the largest group-affiliated firms increased their market power in key sectors. It is during this period when business groups consolidated and performed the expansion strategies that will later be replicated to expand their product portfolio and access to new markets.

By proposing a mixed methodology to reconstruct the evolution of business groups in Colombia, the methodology of this thesis brings the discussion presented by Decker et.al (2015) and Kipping et. al. (2014) on the importance on bring together plurality to business history. Being aware of the restrictions to access the information on business groups in Colombia between the years 1950 and 1980, this thesis promotes the use of newspapers and company archives to reconstruct both qualitative and quantitative data. Moreover, following the research agenda proposed by Austin et al. (2017), this thesis brings the issue of the importance on use different approaches to study business history in emergent economies. Therefore, this thesis is definitely on the side of the business history as an evolving discipline which promotes the understanding of the role of entrepreneurs and firms on the economic development.

Furthermore, as a business historian with the awareness of the need of plurality when asking questions about entrepreneurs and firms, this thesis produces different kinds of knowledge as it is linking the literature on the evolution of business groups, the process of growth of the firm and the importance of understanding the links between finance and entrepreneurship. Therefore, the variety of methodological approaches presented here, ended up promoting a slight jump from the traditional case studies. This thesis finds evidence on a number of business groups that have dominated the Colombian economy, bringing what could be the beginning of a chain reaction to produce new business histories in Latin America that include the use of data from the companies to identify patterns in the development of the business system.

This analysis of an original dataset built under the assumption of the need to bring business history to the business schools, management and organisational studies, yields three major conclusions. First, business groups were the outcome of the progressive growth of entrepreneurial families, who strengthened their economic activities by increasing the creation and acquisition of firms in different industries and regions across the country, while adapting to the context. Second, this diversification tied to investments in new financial institutions, resulted in the creation of internal capital markets and the 'colonisation' of the capital market. Both as an answer to restricted access to capital and the changes in the financial legislation. Third, this thesis offers a typology for the study of the business groups and their group-affiliated firms as a guide for future data collection.

7.1. Adaptability to changes in context

The advantage of business groups is that they are a flexible organizational structure. The affiliation of firms under the same ownership network, allows them to react to changes in the context, first with the creation, merger or dissolvement of affiliated firms, and later, with diversification and finance strategies that in contexts of high uncertainty result in the strengthen of family ownership and an increase in market power. Groups allow the entry and exit of sectors, while controlling the group's profits and protecting the largest group-affiliated firm, usually the one with monopoly power.

In the Colombian case between 1950 and 1980, the reaction of the groups was first product diversification. An increase in the number of group-affiliated firms in sectors other than the core business. As a result of changes in the financial legislation, it meant an increase in investments in financial institutions such as insurance, commercial banking, regional investment funds and building societies. In addition, there was an increase in the number of group-affiliated firms in transport and trade.

The business groups studied in this thesis, maintained three affiliated firms vital for exchanges of capital, resources and managers within the ownership network: the core business expanded in size and market power, commercial companies whose activity was only the distribution of the product in the domestic market, or in some cases, exports, and investment funds that in many cases did not have an economic activity or subordinate companies, but received capital from commercial banks to distribute it across the group-affiliated firms.

The next step was an expansion in the national territory. Business groups went from concentrating their activity in the four main cities (Medellín, Cali, Bogota and Barranquilla), centres of industrialization, to mobilizing their investments to other departments in the south and east of the country. However, this trend only started in the late 1970s. Finally, the groups strengthened the internal capital market, giving way to the colonisation of the stock market transactions and the use of the network as a mechanism to attract more investment and reinvest profits.

7.2. Finance matters

This thesis shows, in a nutshell, that the way how group-affiliated firms finance their investments matters. During these years of changes in the population, increase in the size of the domestic market and new financial legislation, was a result of the interaction between financial variables and the strategies of the entrepreneurial families to persist in the business and increase the size of their firms. However, from the point of view of the business system structure, the changes in the financial legislation promoted by the government did not match the expectations of 'democratising the capital' as the number of groups increased during the period.

The findings agree with the literature on the common characteristics of business groups across Latin America, yet they contradict those scholars who have argued recently on the prevalence of traditional groups or the reduction of the number of groups across time. An important reason this research sees an increase in the number of larger family-owned groups is that it looks at how the links between group-affiliated firms extend to financial activities, whereas case studies either focus on a narrower set of large companies or the manufacturing industry. Moreover, some studies do not pay adequate attention to the size of the group-affiliated firms, yet, in many cases, groups have a medium-sized holding company and have small-sized companies that are special-purposed entities used by the business groups to transfer capital amongst the group-affiliated firms.

The changes promoted by the World Bank Mission, during almost three decades, included financial reforms, a boost to the private sector as 'promoters of change', and the revision of the industrial dynamic. In general, the economic policy evolved based on three pillars: trade, financial, and agricultural policies, coinciding with the problems identified by the World Bank mission. As a result, the changes in the financial legislation, added to the size of the business groups and the entrepreneurial families trust in the ownership network, permitted the flourishing of the business groups as creator of internal capital markets. Moreover, the ownership concentration led to the 'colonisation' of the weak capital market, increasing the use of financial institutions as a tool to increase the sources of capital. Business groups used the stock market to capture the available capital and transfer it across the ownership network.

7.3. A typology for studying Latin American business groups

The realization that business groups are dynamic and change in time comes only after a deep examination of the evolution of different business groups during a long period. This thesis moves away from the case studies, which in the case of Colombia have traditionally focused on the four largest groups (Santo Domingo, Aval, Ardila Lulle and Empresarial Antioqueño), or the few with historical archives (Carvajal, Fundación Social, Manuelita), towards 25 business groups and their 428 affiliated firms between 1950 and 1980.

This, in addition to being a contribution to the Colombian case, brings with it an invitation to continue collecting data on business groups across Latin America in a more systematic way. As a result, this thesis proposes a typology with four dimensions that include a total of 28 variables. The underlying objective of this typology is to understand why entrepreneurial families prefer to expand their ownership network, instead of following the model of the large corporation. The evolution of the business system in the region needs to dialogue with the existence of the Chandlerian big corporation (Chandler, 1962). Undeniably, Latin American markets are inbetween small and medium size enterprises and business groups. Business historians need to consider the fact that there has been a continuous evolution in the administrative coordination, allocation and monitoring, issues noticed by Chandler and Daems (1979) as the triggers for the big corporation. As a result, the typology is a tool that allows the construction of a business demography to understand the tendencies and growing patterns of the ownership network by country and possibly to notice if there have been any changes in the three aspects mentioned before.

There are many lessons learned from the data collection done for this thesis, especially when the archival work includes identifying this organisational structure in countries where groups are not recognised by the commercial legislation or groups are overlooked. By only the fact of identifying the group-affiliated firms, the owners and the links between the firms, the dataset gives a great ammount of information for further inclusion of variables and future adjustments to research questions regarding the business history of an emerging region.

Researchers can use the typology to identify ownership networks, clarify the status of the companies in the economy, discuss how useful are the rankings to understand the impact of the private sector in the economy and to think further on the issue of sources and methodologies. Businesses can see the dataset as a benchmark. The government can collect information to imrpove taxation, regulate the labour market and react to the monopolies. As a result, the typology will continue evolving to include other dimensions and variables not considered here, but that will bring further considerations on the behaviour and evolution od the business groups, the ownership network resulted from their existence and the entrepreneurial families owners of the groups.

7.4. Directions for further research

In the case of Colombia, the perspective of the recent advances in network analysis remains unexplored in studies about the ownership network represented by the business groups and their affiliated firms. Because of this omission, there is still a gap in understanding the close links between the entrepreneurial families and the policymakers, business associations and business groups' owners. Moreover, bringing the network analysis perspective can shed light on the role of the boards of directors and the importance of the interlocking directorates. Some of the groups discussed here had joint ventures between them, especially for investments with high sunk costs. It is possible, that these investments were a result of changes in the family (for example marriage, partnerships, new members of the board of directors) or agreements within the board of directors, therefore, studying further this relationships can help to understand the ownership network between groups, not within as presented in this thesis.

Historical and dynamic perspectives of business groups can enriched the understanding of the impact of ownership concentration on inequality. It would be interesting to develop a measure to assess the role of business groups and their group-affiliated firms in the increasing inequality that affects Latin America. Despite being leaders in employment, innovation, access to markets and adaptability to changes, there is still a need to understand the impacts of their economic activity on the national economy and the society. Although there is no systematic evidence on the question of the negative externalities, maybe findings can show that business groups are not as bad as they have been generally portrayed by Latin American scholars. It could be the case, that changes in public policy could lead to a greater interaction between groups and small and medium enterprises or start-ups.

Finally, there is a close relationship between business groups, politics, and the state. The political capacity of the groups is a differentiating aspect of the region, however, future research can bring to the studies of business groups the perspectives of the history of taxation, including measurements of the impact of taxes on the formation of groups, and the one of the history of corruption, which questions intrafirm transactions and the revolving door between the public and private sector.