1. Business groups in nineteenth and twentieth century Argentina

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I. INTRODUCTION

From the mid-1800s to the early twenty-first century, the Argentine economy passed through several phases in terms of performance, economic structure and institutional framework. Argentina shifted from an open, deregulated economy (1870–1914) to one that was more closed and state-regulated (1914–75), and after a halting transition to greater liberalization (1976–90), the country plunged into a pro-market reform process in the 1990s that, in turn, came to an end with a major crisis in 2001.

Throughout these major political and economic shifts and crises, diversified business groups have remained the prevailing organizational pattern adopted by large local private companies in the country, as in many other late-developing countries in and outside of Latin America. Although they co-existed as business groups with stand-alone domestic firms, multinational enterprise (MNE) affiliates and state-owned enterprises, they have remained prominent and sometimes pre-eminent features of the Argentinian business landscape.

This chapter will explore the circumstances that led to the emergence and development of business groups in Argentina, identifying prevailing types at specific periods, and exploring the determinants of their predominant role among domestic private large firms. It draws upon new research conducted over recent decades, and offers case studies on several large business groups. As such, this chapter contributes to the comparative study of business groups in emerging countries, by offering empirical evidence that helps test existing hypotheses on why business groups exist, what their salient features are, and the types of capabilities that enable them to compete satisfactorily in several markets. A historical perspective provides a useful corrective to contemporary cross-sectional studies typically produced by economists and other social scientists by identifying changes over time.¹

Discussion in this chapter has been divided into the following sections.
Section II provides definitions associated with the business group notion, and introduces the parameters to analyse and compare Argentine groups in the long term. Section III explores the emergence and development of a first generation of business groups during the booming export-based economy of 1870–1914. Section IV focuses on the interwar period, while Section V looks at the 1945–90 phase, with the creation and expansion of a second generation of groups, during both the peak of import-substitution industrialization and early attempts to introduce pro-market reforms. Section VI delves into the effects of the 1990s’ pro-market reforms and the 2002 crisis on Argentine business groups. Finally, the concluding remarks in Section VII provide an overview of the evolution of Argentine business groups.

II. BUSINESS GROUPS AS AN ORGANIZATIONAL PATTERN

There is no universally accepted definition of a business group. There remain significant disagreements over the reasons behind the growth of business groups, as well as their impact on economic performance and on the societies in which they operate. This chapter uses the definition of business groups provided by Khanna and Yafeh of business groups as sets of legally independent companies operating across (often unrelated) industries and bound together by persistent formal and informal ties.

The chapter will focus on two issues. First, it will examine the types of settings where business groups emerged in Argentina, building on the insights of previous literature which has emphasized the role of market imperfections (primarily in capital and managerial resources markets), institutional voids (information problems, inadequate regulation, inefficient judicial systems), regulatory frameworks favorable to business group emergence that allowed or condoned agreements among companies, and public policies that contributed to their emergence and growth.

Second, the chapter will trace the most significant features of the business groups that emerged in Argentina in its history. The focus is on case studies of three groups dating back to Argentina’s export-led growth stage (Bunge y Born, Tornquist, and Devoto) and on three other groups that emerged in the middle decades of the twentieth century, during the import substitution industrialization phase and early pro-market reforms (Techint, Arcor, and Pescarmona). In each case, we shall explore five parameters – group structure (integration and diversification levels, including their diversification into financial operations or not); ownership and control (family business or not, existence of holding companies);
competitive strategies and capabilities; the role of social networks in their emergence and dynamics; and, finally, their relations with the state.8

III. BUSINESS GROUPS IN ARGENTINA DURING THE EXPORT-LED BOOM, 1870–1913

Diversified business groups emerged in Argentina during the export-led expansion period between 1875 and 1913. This period was marked by high per capita gross domestic product (GDP) and high growth rates that placed the country among the world’s wealthiest nations as result of its open, deregulated economy based on agricultural and livestock commodity exports. Argentina exhibited many typical traits of emerging economies, such as institutional voids, factor market imperfections, and high transaction costs, but in other areas – such as the development of business law, banking system, stock market, and credit reporting agencies – the country made substantial progress by early twentieth-century standards.9 Argentina’s educational system expanded considerably and achieved superior quality, though the supply of local professionals did not suffice to meet the growing demands for qualified labor.

The financial system also had big limitations. Credit access was still restricted for small and medium-sized industrial companies.10 The domestic financial system was largely unregulated. There was no lender of last resort. The number of companies listed in the local stock exchange was limited as was the number of transactions. Many potential investors harbored qualms about corporate governance, transparency, and the protection of minority shareholder rights.11 Domestic savings rose to international standards but varied with the country’s economic condition and remained below the savings level of European nations and other countries of recent settlement.12

The fact that Argentina was so engaged in international trade, however, offset many of these shortcomings. Until World War I, it was one of the leading recipients of foreign investment – with funds coming mostly from the United Kingdom, but also from nations in Continental Europe, like France, Belgium, Germany and Italy. Argentina’s high population growth rate (as a result of massive immigration), its rapidly expanding economy, and its gradual diversification provided numerous business opportunities that those with preferential access to funding could best leverage. These signs indicated that diversification incentives stemmed not only from market imperfections but also from ongoing market growth. It should be noted that investing in several sectors was a way to mitigate risk in an ever-changing environment that was highly vulnerable to external crises, as a
result of Argentina’s open economy. Additionally, with a growing domestic market that was still comparatively small (Argentina’s population totaled 8 million in 1914), diversification seemed to be a virtual requirement for maintaining high investment levels.

In this setting, early diversified business groups emerged. In a pioneering work, Carlos Marichal identified five groups, outstanding ‘not only for their mixed activities but primarily for their successful efforts to build diversified business empires, turning medium-sized trading (importing and/or exporting) firms into large companies with increasing involvement in financial and, later, industrial operations’.13 Three of these groups – Tornquist, Bunge y Born, and Devoto – have been the subject of major published histories.14 The chapter draws on these studies alongside more general works to show how business groups originated in Argentina during the export boom period.15

In the large company universe, business groups shared the market with foreign firms – which were mostly free-standing companies – as well as with domestic stand-alone companies and a few state-owned companies. A recent ranking of the largest firms in this period demonstrates that companies owned by business groups were among the largest firms in markets where they operated.16 Some sectors, like roadroads, meat packing, and utilities, were dominated by foreign companies. In others, undiversified domestic large and medium-sized companies prevailed (for example, cigarette, wine, glass and shoe manufacturing, as well as leather processing).17 It should be noted that, at this time, some of the largest companies were rural businesses that mainly belonged to Argentine families.

These three groups shared some general features that, taken together, outline a profile for business groups emerging at this point in time.18 First, these groups were built by foreign businessmen (Ernesto Bunge and Jorge Born), immigrants (Antonio Devoto) or Argentine entrepreneurs of foreign origin with strong ties to their ancestors’ communities (Ernesto Tornquist). This trait illustrates the significant role of immigration in the creation of Argentina’s business community.

Second, these groups networked with European companies and businessmen, sharing family and friendship ties with them, as well as close business relationships. Bunge y Born relied on an organizational scheme with two headquarters – one in Buenos Aires and one in Antwerp – and operations in several international markets.19 Tornquist was based in Buenos Aires but conducted a large share of its business with Belgian investors, mostly from Antwerp, and other European companies. Devoto was the most local business group, but it maintained strong ties with Italy through its international trade operations and its partnerships with Italian companies and businessmen. Thus, personal networks (based on
family and friendship ties) and shared national identities played a central role in the birth and development of the three groups, as these features supported both the groups’ interactions abroad and their partner and manager recruiting efforts in Argentina. The fact that group founders were foreigners, or of foreign descent, made it easier to forge ties with investors and businessmen in their respective communities – both inside and outside Argentina.

European partners viewed strategic management decision-makers at all three aforementioned groups as guaranteeing the reliability of the local ventures in which they engaged. The group leaders’ personal reputations, as well as their contacts in local social and political circles, mitigated the uncertainty involved in doing business in new markets. Argentina’s Bunge y Born group was part of a network of Bunge companies around the world, and communications among family members flowed constantly. As a result of his personal contacts, his talent, and his frequent trips to Europe, Ernesto Tornquist gained access to top-tier financial circles in Belgium, Germany, France, and Britain, turning into an intermediary between European investors and the Argentine market. In 1912, the Banco de Italia y Río de la Plata, in which the Devoto family and other Italian investors held an equity interest, became the sole intermediary for Italian immigrants’ remittances transfer to Italy. The Devoto family’s involvement in the Compañía Ítalo Argentina de Electricidad was used by its founders as proof of the new company’s feasibility. Ties to European nations then guaranteed these groups’ preferential access to funding and information, as well as enhanced their ability to recruit new partners, managers, and technicians. For Bunge y Born and Tornquist, the founding families’ former trading experience provided another highly valuable intangible asset.

Third, all of these groups featured broad investment diversification in trade, financing, farming and ranching, industrial, and other activities. In all three cases, they were involved in the ownership and management of banks and financial firms, had direct ties to European banks (even representing some of them in Argentina), and served as liaisons between European investors and Argentina’s market. The Sociedad Ernesto Tornquist y Cía. was founded to export Argentine primary goods and to import textiles and machinery, but it started to diversify soon after its inception. The company not only acted as a trading firm but also as a financial institution, granting loans, discounting bills of exchange, and handling other operations. Revenues from trade and finance, partnerships with foreign investors, and access to local loans enabled the company to participate in numerous ventures. By the onset of World War I, the group held interests in 34 companies, including financial, trading, industrial,
farming and ranching, transportation, real estate, tourism, mining and fishing activities. Seven of these (mostly financial and land exploitation ventures) had been established in Antwerp, while the others were founded in Buenos Aires. Ernesto Tornquist y Cía. engaged in this diversification process primarily to enter several markets in pursuit of emerging business opportunities. Only in a few cases, like sugar production, did new investments represent a vertical integration strategy, since the group in this case owned cane growing lands, sugar mills, and a refinery. In other cases, there was a synergy between the group’s financial and commercial operations and its other ventures. Otherwise, a clear synergy joined the group’s financial and trading companies with its other businesses.

In the case of Bunge y Born, the early activities in South America included trade (since 1876, Ernesto Bunge had served as an agent for Antwerp-based Bunge & Co.), financial endeavors (the company participated in the creation of a bank with other European stockholders) and farming (they purchased land for cattle breeding). With the creation of Bunge y Born in 1884, international grain trading became the group’s core business. By the early 1900s, Bunge y Born ranked among Argentina’s top four exporting firms. The company continued to diversify its investments in farming and finances, and it also ventured into industrial operations with flour milling and burlap bag manufacturing activities (burlap bags were used to pack grain for exports). Most of these ventures involved European partners, led by Edward Bunge, the president of Bunge & Co. from Antwerp. In 1905, the group initiated its early internationalization process, crossing borders to other Latin American countries first, with an affiliate in Brazil (Sociedad Molinos Santista) that manufactured flour. While diversification drove this business group to engage in unrelated activities, such as trade, finance, and real estate, its industrial investments largely followed an integration rationale. Like Tornquist, Bunge y Born’s other businesses complemented its financial investments.

Antonio Devoto arrived in Argentina in 1854 as an immigrant from Northern Italy. At first he was employed by a trading firm in Buenos Aires but, a few years later, he started his own retail business. In the 1860s, Devoto began to diversify his businesses, moving into imports and exports, partnering with his brothers to create Devoto y Cía., and also venturing into urban real estate. In the following decades, the Devotos invested in financial ventures, farming, manufacturing, extractive activities and electricity, pursuing a diversification strategy based on integration and synergies among financial and non-financial investments. A key venture was Compañía General de Fósforos, a match manufacturing outfit that grew and increasingly integrated and diversified starting in the early twentieth century, and expanded into the chemical, textile, paper and
The group’s bank and insurance company provided services to its other ventures, further demonstrating the synergistic benefits to diversification.

Fourth, ownership of these groups remained largely in the hands of their founding families, supported by a small group of outside shareholders who had strong friendship and trust ties to the families. Family members, their closest partners and some professional managers – virtually all of whom were recruited in Europe – shared business management responsibilities.

From its inception to 1906, Ernesto Tornquist y Cía. was organized as a limited partnership. Ernesto Tornquist and some of his most trusted associates were responsible, as general partners, for the company’s obligations and assumed leading management responsibilities. While at first, limited partners held a 75 percent interest, by 1906 their share had shrunk to 25 percent and Ernesto Tornquist had become the majority stockholder. That year, the company became a corporation but one that the Tornquist family continued to control as its majority shareholder. Beginning in the 1880s, as the group diversified its investments, European and Argentine partners joined as minority shareholders in its new ventures. With regards to the group’s structure and its management scheme, Ernesto Tornquist y Cía. served as a holding company, in charge of strategic planning and resource allocation. In this company, Ernesto Tornquist played a decisive role, supported by his partners and closest associates. After his death, one of his sons, Carlos, took over as president and served in that role for nearly 40 years. The group relied on a team of professional managers, largely German or Belgian, who were employed on the boards of several firms. For the most part, group companies maintained some measure of autonomy when it came to operating decisions.

Bunge & Co. was owned by the European branch of the Bunge family, while Bunge y Born’s ownership rested with four families – the Bunges, the Borns, the Hirschs, and the Osters – who shared the group’s strategic management, sitting on the boards of companies located in several continents. Also involved in company management were minority shareholders and individuals who had married into these families. As the group expanded, its subsidiaries gained greater operating independence, but major decisions remained in the hands of owner families. Like in any family business, they could be volatile and dynamic. Antwerp served as the group’s operating hub until 1927, when Edward Bunge died and the Latin American branch of the family took over. Since the 1920s, the Hirschs and Borns have grown stronger at Argentina’s Bunge y Born.

The Devoto group belonged to Antonio Devoto, his brothers and some Italian businessmen and professionals who, in addition to sharing the Devotos’ ethnic and national identity, were close friends of the family.
Unlike Tornquist and Bunge y Born, the boundaries of this business group were less clear, since it lacked a vertical structure and instead consisted of a network of companies held together by loose ties, shared stockholders and interlocked directorates, and strong personal links between shareholders and managers. The center of the network was Banco de Italia y Río de la Plata (with the Devoto brothers and their partners at other ventures) and Devoto y Cia. (a company owned by Antonio Devoto and his siblings). Around these two core and strongly connected businesses, a number of other companies in a variety of sectors operated. Accordingly, group members revolved around Antonio Devoto. Some firms were solely owned by the Devoto brothers (Devoto y Cía., rural establishments and real estate outfits), while, in others, the Devotos held the controlling interest and engaged a small group of Italian businessmen and managers to work with them. In some ventures, like Banco de Italia y Río de la Plata, and Compañía Ítalo Argentina de Electricidad, they partnered with European investors and other Italian businessmen who had settled down in Argentina. The Devoto brothers, their partners and professional managers – mostly Italian – managed the group’s companies. Intertwining stockholders and board members was a common practice in this group, as it was with the other two groups.30

Fifth, all business groups built and managed companies that largely proved competitive in their respective industries. The information available on the firms controlled by these groups revealed that they made significant investments in technology and management. While Argentina’s food industry enjoyed comparative advantages, other domestic industries, like match manufacturing or steel, lacked any such benefits. In addition to investing in cutting-edge equipment, these firms hired mostly foreign professional technicians who served in more than one company at a time. They also acquired foreign patents both for product and process technologies, paying royalties or partnering with European companies.

Not all ventures initiated by business groups turned out to be profitable, even with world-class technologies and management. For example, Tornquist’s Refinería Argentina, oversized for local market requirements, and Devoto’s Frigorífico Argentino, unable to compete with British and American meat packers, both failed.31 For most business groups, investment diversification provided a means to cross-subsidize, as businesses yielding more profits (like trade and real estate ventures) helped support less profitable ones.

Sixth, while group venture success rode largely on these business groups’ competitive capability, political contacts and advantages provided by Argentina’s institutional setting also bolstered their market position. In the agricultural export boom years, Argentina’s economy remained open
and deregulated, with foreign investment playing a decisive role in the absence of specific state policies intended to favor domestic companies, except in the sugar and wine industries. The lack of restrictions on foreign capital proved beneficial for the three groups discussed here, as a result of their close ties to investors abroad. The groups also benefited from the lack of a regulatory framework restraining conglomerates or business concentration. In grain trading, the absence of public programs – for instance, to build a silo network that would allow farmers to store their crops – provided large trading companies with significant opportunities to fill these voids. While Argentine tariffs were high by international standards, mostly as a result of taxes, this stage ending in World War I was characterized not only by a lack of industrial policies, but also by the growth of domestic industries and manufactured goods’ imports at similar rates. Business groups relied largely on their political contacts and on their leaders’ standing in local society to lobby for policies that would contribute to their businesses.

IV. BUSINESS GROUPS, 1914–45

Like all other countries involved in the world market, Argentina was deeply shaken by the external shocks caused by World War I, the Great Depression and World War II. Amid a far more complex international situation, the economy became more closed than it had been in preceding decades, as evidenced by restricted foreign investment flows and dwindling immigration. Economic growth slowed, and manufacturing became the most dynamic productive sector, outperforming agribusiness. Although it was not until the early 1940s that industrial policies came into force, starting in 1930, the combination of the overall economic condition and state policies (exchange control, tariff raises) quickly caused locally produced goods to be substituted for imported manufactures.

No new business groups emerged in this new setting, but existing groups expanded. While institutional voids and market imperfections remained, some of the circumstances that had favored the emergence of these groups – primarily, their ability to work closely with European partners – disappeared and conditions that would promote the creation of new groups did not arise. In this period, the composition of large companies operating in Argentina changed gradually, as a result of new, large state-owned enterprises, the arrival of MNE affiliates, and the inception of some domestic private companies that expanded rapidly, seizing dominant positions in several industries (metal mechanics, steel, cement). Business groups created before 1914 also grew during this period.
The three groups analysed in the preceding section expanded their industrial investments intended to supply Argentina’s domestic market and managed to maintain both their ownership structure and their rank among large local companies. Bunge y Born was the most active; its manufacturing operations gathered momentum in the 1930s when its core business, grain trading, took a severe hit from the falling international prices and volume of trade, in addition to greater state intervention that curtailed large trading companies’ leeway. Accordingly, Bunge y Born diversified into food production, while entering new markets, like the textile and chemical industries (paints, synthetic fibers, industrial inputs). The group’s new investments were characterized by a higher degree of vertical integration and related diversification. For more technologically complex operations that strayed farther from its core capabilities, such as its ventures in the chemical industry, Bunge y Born built alliances with foreign firms like British-owned Imperial Chemical Industries and US-owned Dupont. The group’s industrial companies ranked among the largest players in their respective fields, remaining at the top until the late twentieth century, when the group eliminated them as part of a massive reorganization. During the interwar period, Bunge y Born also increased its operations in other South American countries, making new investments in Brazil (oils, textiles), Uruguay (oils, chemicals), and Peru (trade, financing, flour industry). Throughout this period, the group continued to be a part of Bunge’s international business network, but the Argentine affiliate and its operations in South America increasingly took the spotlight after Edward Bunge died in Antwerp in 1927. New international market conditions created by the events of the 1930s and onset of World War II emphasized the autonomy of the group’s South American branch, which grew increasingly focused on industrial operations, while Bunge’s European companies suffered. Bunge y Born’s controlling interest remained in the hands of its four founding families, with the Hirsch and the Born families taking on more central roles.

The Tornquist group also adjusted to the new conditions. During the interwar period, it continued to diversify its investments, although it incorporated fewer companies during those years, largely because available outside funding dwindled and the group’s financial businesses were severely compromised during the Great Depression. This forced the Tornquist group to reduce its investments, shrinking some operations and liquidating some assets. It then focused on real estate and industrial operations. For some of its manufacturing ventures, it partnered with foreign companies that brought funding and know-how. For example, Luxembourg’s Arbed group joined the Tornquist group to build TAMET, a steel company, and US-owned toothpaste and soap company Colgate Palmolive entered into
The impact of globalization on Argentina and Chile

a joint venture with Compañía de Productos Conen.41 Between 1919 and 1928, ten new firms were created to operate in the industrial, agribusiness and service sectors, but the Tornquist group also liquidated some businesses, either because their lifecycle had come to an end (as was the case with *quebracho*, a tropical South American tree with very hard wood) or because they had proven unprofitable (as was the case of the group’s investment in the petroleum industry).42

Ernesto Tornquist died in 1908, and, as noted earlier, his son Carlos served as chairman from 1913 to 1953, successfully retaining group leadership for the family’s second generation. While the Tornquist group gradually lost dynamism after its founder’s death, it did manage to keep its standing as a major local business group, with some of its companies dominating their respective markets. Following World War I, its role as an intermediary for investors based in Antwerp and other European cities declined, and the group grew increasingly dependent on its own ability to generate resources and to access credit or state support.

The Devoto group underwent significant changes after Antonio Devoto’s demise in 1916, because his presence had been instrumental to the group’s investor network, and because its businesses ceased to be immediately associated with his name. As a result of a consolidation and diversification process at one of its companies, Compañía General de Fósforos, the group reorganized itself under the Fabril o Fabril Financiera name,43 with close ties to Banco de Italia y Río de la Plata and other companies in which Devoto had originally been involved.44

Compañía General de Fósforos (CGF) had been created in 1889, after the Devotos joined other sector businessmen who needed more capital. Its vertical integration process started early; by 1914, the company already owned printing workshops and a paper factory. During World War I it began to produce chemical supplies, and it moved into the cotton textile industry in the 1920s. CGF also crossed international borders early on, building a match factory and a printing workshop in Uruguay. In 1929, the group created a new holding company, Compañía General Fabril Financiera to control its paper, textile and printing ventures and to shed its original match manufacturing plant.45

Over the next 15 years, Grupo Fabril continued on its consolidation and diversification path, propelled by import substitution and sourcing difficulties caused by the Depression and World War II. Its investments included paper, chemical, textile, publishing, and industrial machinery ventures. The group also invested in real estate and other, unrelated businesses.46 Grupo Fabril’s ownership was shared by a large number of stockholders, while a team of professional managers oversaw its day-to-day operations; though Devoto family members and trusted friends were
also involved as partners and managers. The group’s ties to Banco de Italia y Río de la Plata, one of Argentina’s strongest private banks, guaranteed its access to funding.

In short, the interwar period did not see the emergence of new diversified business groups. Rather, it fueled the expansion of existing ones. Strong external shocks battered the world economy, and Argentina’s economy closed gradually in response, hindering the emergence of new groups linked to investors abroad. The state did not promote the creation of large, diversified domestic companies. At the same time, local and international conditions offered new opportunities for manufacturing operations as part of an import-substitution industrialization framework. The three groups studied here continued to diversify their investments, turning their focus to more industrial endeavors. Their trajectories grew further apart, as a result of tangible and intangible assets developed both before World War I and during the interwar period. Bunge y Born moved forward with its international expansion project, while Fabril zeroed in on the local market and industrial operations, and Tornquist became more diversified but lost some of its earlier dynamism.

V. BUSINESS GROUPS, 1945–90: INCUMBENTS AND NEWCOMERS

Encompassing the period of 1945–90 in a single section may spark some debate. Those objecting to this choice would mainly argue that, starting in the mid-1970s, economic conditions shifted both internationally, with the end of post-World War II prosperity, and domestically, as a result of policy changes that were a first attempt at openness and deregulation from 1976–81 after the March 1976 military coup. However, a look at the local setting reveals that this attempt was short-lived and limited. In the study of these business groups’ development, these years demonstrate enough coherence to warrant their grouping in a single period – an approach supported as well by one outstanding Argentine historian.47

This period is far more complex and multifaceted than previous ones, though, and its traits prove harder to summarize. From the point of view of economic performance, a first period, spanning from 1945 through to 1974, was marked by rather remarkable growth, albeit at lower rates than international averages. A second period, from 1975 to 1990, was characterized by falling GDP per capita, declining, on average, at 1.3 percent per year.48 Argentina faced periodical crises, with high inflation from the late 1940s to the hyperinflation peaks of 1989 and 1990. With regard to economic policies, the country alternated between populist, development,
Keynesian and liberal policies, with orthodox and heterodox stabilization programs. Constant changes in the rules of the game stemmed from severe underlying political and social conflicts, reflected by a succession of opposing civilian and military governments. Companies operated in a volatile setting that escalated in violence over the course of the 1970s.

Against this backdrop of institutional uncertainty and macroeconomic instability, however, some consistencies may be found. First, Argentina’s economy maintained low openness levels, even during the second half of the 1970s, though it did become more open between 1977 and 1981. Second, industrial support was the cornerstone of most economic policies enacted between 1943 and 1975, which translated into high tariffs, subsidies, beneficial credits, multiple exchange rates, and other policies. Starting in 1976, industrialization ceased to be a top priority of public policy, but most legacy promotion programs either remained in place or were expanded.

Apart from the public policies fostering industrialization, Argentina’s pervasive economic instability and many of its institutional traits hindered the emergence, survival, and development of new companies. Despite the creation of a banking institution for industrial loans, Banco de Crédito Industrial in 1944, and its successor Banco Nacional de Desarrollo (BANADE) in 1969, access to funding continued to be limited for small and medium-sized manufacturing companies. The capital markets remained weak and, for the most part, were deeply affected by local volatility and uncertainty. In the early 1990s, nearly all domestic large private companies in Argentina were still family-owned businesses. In some ways, Argentina’s institutional setting worsened during the post-World War II period, as a result of the country’s political turmoil, its increased violence since the late 1960s, and its lack of an independent judiciary, professional congress or professional state bureaucracy, among other reasons.

Until the late 1960s, there were no explicit state policies favoring the creation of new diversified business groups. During the Peronist years (1946–55), the government primarily supported state-owned large companies. Some existing business groups – notably Bunge y Born and Bemberg – were subject to hostility, while others benefited from industry-supporting policies. Most of the new groups that emerged in the second half of the twentieth century dated from the 1940s and 1950, but they did not begin as conglomerates but rather as medium-sized companies that later expanded, with gradual integration and/or diversification, becoming fully-fledged business groups in the 1970s.

From the late 1950s through to the late 1960s, industrial policies particularly favored foreign companies. After this period, the state started to
support large domestic companies, driving them to invest in basic industries (cellulose and paper paste, oil, aluminum, steel) and other operations (agribusiness, fishing, shipbuilding) by means of special sector programs and preferential access to BANADE loans and international funding with government support (mainly through the International Finance Corporation). A few years earlier, the first regional promotion program had been launched, offering tax benefits to companies settling down in provinces that needed a more dynamic economy – even if they were in mature industries, like the textile or food sectors. There is a substantive literature on the growth of Argentine business groups from the 1960s.54

These promotion policies for domestic companies initiated by a nationalist military government in 1970 were furthered by the 1973–76 Peronist administration and by the new military regime set up in 1976. This government, despite its pro-market orientation, completed most of the industry-specific projects already in place and launched new regional promotion programs.55 These steps, combined with intense state involvement as a buyer (before and after 1976) and the withdrawal of foreign companies’ affiliates in the 1970s (as a result of an international crisis and local economic changes), contributed to strengthening some existing business groups (Bunge y Born, Fabril/Celulosa, Alpargatas) as well as to the creation of new diversified groups (Techint, Fate/Aluar, Arcor, Bridas, Pérez Companc, Pescarmona, Roggio, SOCMA). By the early 1980s, corporate rankings showed the inception and rise of domestic business groups, although, due to Argentina’s economic instability, they also demonstrated the demise or decline of others.56

These phenomena continued during the 1980s, when some groups were besieged by adverse macroeconomic conditions (for example, Celulosa) while others thrived and expanded (Arcor, Bridas, Pérez Companc, Pescarmona, Roggio, Bunge y Born, Alpargatas), favored by state policies, including private external debt nationalization and broadened regional promotion programs.57 The most dynamic domestic business groups (Techint, Arcor, Pescarmona, Fate/Aluar) bolstered their competitive capabilities and turned to foreign markets with exports and direct investments. Diversification was also used as a strategy to mitigate risks. Table 1.1 lists the revenues and exports of the major diversified business groups created before 1990 and still active in 1995.58

It is apparent that by this time business groups were much more heterogeneous than in the past. The chapter will now turn to look at the development of the older business groups in this period before turning to the emergence of the new groups.
Table 1.1 Argentina’s largest diversified business groups in 1995 by annual revenues (US$)\(^1\)

<table>
<thead>
<tr>
<th>Group</th>
<th>Year of inception</th>
<th>Number of companies</th>
<th>Annual revenues (US$ million)</th>
<th>Exports (US$ million)</th>
<th>Core businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bunge y Born Techint</td>
<td>1884</td>
<td>9</td>
<td>13,000.0</td>
<td>353.3</td>
<td>Food, trade</td>
</tr>
<tr>
<td></td>
<td>1947</td>
<td>61</td>
<td>4019.8</td>
<td>565.6</td>
<td>Steel, construction, telecom, engineering</td>
</tr>
<tr>
<td>SOCMA</td>
<td>1954</td>
<td>48</td>
<td>2741.9</td>
<td>373.5</td>
<td>Car manufacture, construction</td>
</tr>
<tr>
<td>Pérez Companc Sociedad</td>
<td>1946</td>
<td>61</td>
<td>1467.0</td>
<td>277.4</td>
<td>Energy, telecom, agribusiness</td>
</tr>
<tr>
<td>Comercial del Plata</td>
<td>1919</td>
<td>42</td>
<td>1200.0</td>
<td>29.4</td>
<td>Energy, telecom, services</td>
</tr>
<tr>
<td>Coto</td>
<td>1970</td>
<td>12</td>
<td>1034.0</td>
<td>121.2</td>
<td>Retailing, food</td>
</tr>
<tr>
<td>Arte Gráfico Argentino</td>
<td>1945</td>
<td>26</td>
<td>987.7</td>
<td>0</td>
<td>Printing and publishing</td>
</tr>
<tr>
<td>Sancor</td>
<td>1936</td>
<td>26</td>
<td>878.3</td>
<td>70.7</td>
<td>Dairy products</td>
</tr>
<tr>
<td>Arco</td>
<td>1951</td>
<td>28</td>
<td>835.0</td>
<td>91.1</td>
<td>Food, agribusiness</td>
</tr>
<tr>
<td>Quinsa (Bemberg)</td>
<td>1895</td>
<td>25</td>
<td>753.0</td>
<td>4.1</td>
<td>Food and beverages</td>
</tr>
<tr>
<td>Roggio</td>
<td>1908</td>
<td>37</td>
<td>720.0</td>
<td>0</td>
<td>Construction, services</td>
</tr>
<tr>
<td>Industrias Metalúrgicas</td>
<td>1907</td>
<td>17</td>
<td>658.3</td>
<td>110</td>
<td>Construction, engineering, services</td>
</tr>
<tr>
<td>Pescarmona</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acindar</td>
<td>1942</td>
<td>17</td>
<td>567.5</td>
<td>117.8</td>
<td>Steel, services</td>
</tr>
<tr>
<td>Fate/Aluar</td>
<td>1940</td>
<td>8</td>
<td>507.8</td>
<td>219.7</td>
<td>Aluminium, tires</td>
</tr>
<tr>
<td>Alpargatas</td>
<td>1884</td>
<td>21</td>
<td>417.7</td>
<td>111.8</td>
<td>Footwear, textiles, fishing</td>
</tr>
<tr>
<td>Fortabat</td>
<td>1926</td>
<td>n.a.</td>
<td>396.7</td>
<td>0</td>
<td>Cement, agribusiness, services</td>
</tr>
<tr>
<td>Laboratorios Bagó</td>
<td>1934</td>
<td>24</td>
<td>395.0</td>
<td>9.2</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>Bridas</td>
<td>1928</td>
<td>6</td>
<td>352.9</td>
<td>109.7</td>
<td>Oil, fishing, services</td>
</tr>
</tbody>
</table>

Note:
1 This list does not include groups created after 1990.

Source: Based on Roberto Bisang, ‘Los conglomerados económicos en la Argentina: orígenes y evolución reciente,’ San Miguel: Universidad de General Sarmiento, Instituto de Industria, working paper no. 11 1998. This table does not include 12 groups (diversified or not) listed in Bisang’s original ranking, with revenues below US$350 million; five groups with revenues exceeding that amount but weakly diversified in the late 1980s; three groups created after 1989; and YPF, which was a state-owned company until 1992 and was acquired by foreign investors in 1999.
A. The Incumbents

As noted earlier, Perón’s presidential administration severely damaged Bunge y Born. In 1946, the nationalization of foreign trade left this group out of grain trading operations, and the group’s investments in new industrial companies were limited in this period. To compensate, Bunge y Born increased its operations in Brazil and Peru. After the fall of Peronism, the group started new ventures, particularly in the chemical industry (partnering with German companies), and expanded the facilities of its other food, textile, and paint firms, diversifying and integrating its operations in those industries. In 1975, five Bunge y Born companies ranked among Argentina’s largest privately-owned industrial firms, placing the group at the top of local business groups. Its investments in new product lines had materialized as a result of plant expansion and building as well as company acquisitions, using, in some cases, industry and regional promotion programs.59

An event that took place in 1974 clearly reveals how, regardless of state promotion programs, local instability and political violence negatively impacted business group operations. Brothers Jorge and Juan Born, sons of Bunge y Born’s chairman, were kidnapped by Montoneros guerrilla members who demanded a hefty ransom (US$ 60 million) for their release.60 The ransom was paid, and both hostages were freed, but, from then on, owner family members moved to Europe and Brazil, where group operations had been expanding since 1945, as noted earlier. While, for all legal intents and purposes, the group’s management remained in Buenos Aires, its headquarters relocated to Sao Paulo.61 After 1976, Bunge y Born restarted its investments in Argentina, broadening its diversification into oil and petrochemicals by exploiting state promotion mechanisms. In the 1980s, the group continued to top domestic business group rankings, but, by then, its operations in both Brazil and the United States had also gathered momentum.

When Carlos Menem took over as president in 1989, he invited Bunge y Born’s senior managers to run the nation’s Ministry of Economy. The group accepted the offer, but its short-lived administration proved unsatisfactory and created internal strife. In the 1990s, Bunge y Born sold its manufacturing companies in Argentina and focused its operations on agribusiness under the Bunge Argentina name (grain and fertilizer production, byproduct manufacturing for exports).62 Finally, in 1999, the group’s headquarters moved to the United States, though the company was formally incorporated in Bermuda as Bunge International.

The Tornquist Group continued to build new companies until the late 1960s, albeit at a slower pace than before 1929. During the Peronist
administration, the group benefited from state loans and other industry-supporting policies. By the mid-1950s, Tornquist owned 17 companies, eight of them in manufacturing industries. In the 1960s, group investments turned to the financial sector, recapturing contacts abroad. Carlos Tornquist’s death in 1953 dealt a severe blow to the group. By then, the family’s third generation was in the process of taking over the group’s management, and related family rifts eventually led to the 1975 acquisition of Compañía Tornquist and its affiliates by a French business group associated with a local businessman.

After the war, Grupo Fabril continued to grow, diversifying and integrating its operations. The group’s relations with the Peronist administration proved uneasy as the government seized one of its companies, but, for the most part, its manufacturing firms benefited from expanded consumption and industry protection policies. By 1965, Grupo Fabril owned 19 companies that operated in the paper, textile, chemical, light machinery, and publishing industries. The group also held interests in nine other companies in other industries. Celulosa S.A., an industry leader by this time (after merging with Papelera Argentina in 1965), received significant public loan support beginning in the early 1970s to develop large cellulose and paper pulp projects, and ranked second among Argentina’s large private industrial companies in 1975. The company, however, suffered greatly as a result of economic opening, and then as consequence of the 1980s crisis after that. Its high indebtedness combined with its ownership and management changes compounded its distress until, in 1991, Citibank purchased Celulosa S.A. for debt capitalization. The new owners closed obsolete facilities, sold off assets in associated companies (publishing house, print shop, and chemical plant) and concentrated on the paper industry, but the company failed to recover its earlier leadership.

As for Banco de Italia y Río de la Plata, which had been managed since 1978 by a new controlling group, Argentina’s Central Bank intervened in its affairs in 1985 and it was later sold to Banca Nazionale del Lavoro.

B. Newcomers

Beginning in the mid-1960s, new companies emerged, laying the groundwork for future business groups. From the 1970s, these new groups started to rank among Argentina’s top 100 industrial companies and continued to experience strong growth throughout the 1980s. As some of them increased both their revenues and the number of firms they controlled, they entered into new product markets and expanded to markets abroad. These new groups were far more multifarious than their predecessors. Most had originated in the 1940s and 1950s and had gradually turned
into groups, starting in the 1960s. While they had largely started off as industrial companies, several began operating in the transportation, construction, engineering, or trade businesses. Their size also varied, as did their diversification level: some groups diversified into many unrelated businesses and controlled a large number of controlled companies, while other groups pursued diversification into related industries and controlled fewer firms.

Another significant difference between older and newer business groups was the latter’s higher volatility and turnover. Traditional groups had managed to adjust to the transition from agribusiness exports to the import substitution era, and, while many of the new groups (most of the largest ones) continued to operate and expand amid the 1990s’ pro-market reforms and the new opportunities brought about by privatization, a significant segment, consisting mostly of smaller business groups, were short-lived. Some went bankrupt or became clearly weaker in the 1980s, while others shrank or disappeared in the 1990s, as the result of purchase by foreign firms, or sale of some of their assets in pursuit of greater specialization. As will be seen in the next section, the 2001–02 downturn deeply affected groups that had outstanding performance over previous decades. Some of these groups were acquired by foreign companies in the 2000s, and others embarked on massive restructuring processes, selling parts of their firms. By the end of the new century’s first decade, only nine of the 18 groups in Table 1.1 had continued to expand while also keeping their core businesses.

Recent case studies on three new groups, Techint, Arcor, and Pescarmona, which were founded before 1990, shed more light on the context leading to the creation of business groups, as well as on their characteristics and strategies. Techint was founded in 1947 by Agostino Rocca, an Italian steel engineer with a noted track record as public manager in Italy since the 1920s. When the war ended, Rocca founded an engineering firm (Techint) in Milan and immigrated to Argentina, where he resided until his death in 1978. In 1947, he created a Techint affiliate in Buenos Aires, which became the company’s headquarters. During the Peronist period, this firm carried out engineering projects in Argentina and other Latin American countries (Brazil, Peru, Uruguay, Chile, Mexico, El Salvador) with government contracts. At the same time, Rocca started developing industry ventures to supply his company’s projects. In the late 1940s and early 1950s, he built a metallic construction company (Cometarsa), a roof tile and ceramic block manufacturing firm (LOSA) and a seamless steel tube manufacturing company (Siderca). In the 1960s, the group continued to integrate and diversify, adding a laminating company (Propulsora Siderúrgica), and in the 1970s the tube factory started to produce steel using the direct reduction system, completing its integration.
Beginning in the 1960s, Techint began to export seamless tubes – an operation that gathered momentum in the 1980s, as the company established sales offices abroad – and its international revenues accounted for an increasing share of its overall sales (75 percent at the end of the decade). The company continued to expand over the next decade, with the acquisition of two formerly state-owned companies – SOMISA (steel) and SIAT (welded steel tubes). In the 1990s, Techint furthered its diversification plans, participating in additional privatizations (transportation, energy, telecommunications), but in the 2000s it withdrew from some of these companies, refocusing on steel operations, capital goods manufacturing and energy (oil and gas). Also in the 1990s, Techint embarked on a production internationalization process that would gradually turn it into a global outfit, the largest Argentine multinational, with US$ 17406 billion in assets abroad by 2008.

Beginning in the 1950s, Techint adopted a group structure, under the Organización Techint name, combining its engineering operations with industrial production to supply its construction projects (roads, bridges, oil and gas pipelines, power lines, oil drilling, port facilities, industrial compounds). This was primarily a process of value chain integration and related diversification, although the group also owned a financial company (Santa María, created in 1948 to support group operations) and ventures in other industries. The lack of local suppliers and the desire to free the group from monopolistic vendors (state-owned SOMISA dominated local steel production) drove integration. The advantages of controlling several phases of production and supplying different markets, as well as Techint's ability to build new companies with multiple partners further propelled its integration. Until the 1990s, the group incorporated new companies by creating them, and, after that time, it largely acquired firms, both in Argentina and abroad. Group expansion efforts hinged on three pillars: first, the existence of an international network closely linking Techint Argentina and Techint Milano; second, the development of competitive capabilities through ongoing investments in production, management, and knowledge creation, and, third, Argentina's state support via protection, loans, and regional industrial promotion plans, in addition to government contracts and purchases.

With regard to the first of these expansion cornerstones, its international network, Techint resembles export-led Argentina groups, with its entrepreneurial engineer who settled down in Argentina, putting his vast steel knowledge and experience to work, supported by a large group of engineers and technicians who had worked with him back in Italy. Also, Techint's strong ties with Italy supported a collaboration strategy, with the Italian affiliate assuming a large share of technical responsibilities.
and its Argentine counterpart securing contracts, training engineers and technicians, and manufacturing industrial goods. In time, the Italian site’s role became less strategic, but it was instrumental at the outset. When Techint moved forward with its production globalization process, starting in the 1990s, it also began to operate as a networked company.

To develop its competencies, Techint initially relied on Rocca’s business acumen and his collaborators’ expertise, while investing constantly in human capital and driving innovation. Early internationalization in engineering paved the way for subsequent industrial internationalization – first through exports, and later, via direct investment, which enabled the acquisition of first-hand knowledge of other markets and spurred technical and managerial learning processes.

Finally, Techint’s relationship with the state proved instrumental both for its engineering operations as well as for its industrial companies. Government contracts, as early as 1947, largely supported the group’s expansion, particularly in periods featuring heavy investments in public works. Techint’s industrial companies benefited from a host of existing protection policies – tariffs, state loans, guarantees to secure loans abroad, state funding, steel industry promotion programs, state purchases, and the 1982 private external debt nationalization. At the same time, industrial policies in place since the 1940s increased the demand for goods produced by Techint to the mid-1970s. It should be noted that Techint’s dealings with the state were not always cordial: some of its group projects (especially its plan to build an integrated steel plant in the 1960s) met strong resistance from Fabricaciones Militares, a state-owned company that monopolized pig iron production until the mid-1970s. As Techint advanced its internationalization process though, it grew more independent of local conditions.

Arcor was founded in 1951 as a small candy manufacturer in Córdoba, a province in central Argentina. Its founders belonged to four families of Italian descent from neighboring towns in the so-called ‘Pampa Gringa’, an area where European immigrants had settled in the nineteenth century. The Pagani family has played a central role since the company’s inception. Even as a startup, Arcor integrated its production to reduce transaction costs, neutralize glucose vendors’ opportunistic behavior, offset the lack of local supply (machinery, electricity plant), and to control its value chain (cardboard, paper, printing, flexible packaging). It also integrated distribution operations early on and started to diversify its product line in order to broaden the assortment offered by its official distributors. As part of a strategy of related diversification, Arcor started manufacturing chocolates and candy bars, eventually moving into other foods and alcohol. It also invested in agribusiness and in other industries that were not closely related
to its core competencies, like construction and hotels. Arcor furthered its backwards integration process to include dairy farms and sugar mills in the 1980s and 1990s. By the mid-1980s, Arcor owned 22 legally independent companies in Argentina, plus affiliates abroad.

In the 1960s, Arcor started exporting its products and its exports grew over the 1970s. By 1991, its sales abroad accounted for 13 percent of its revenues. The company began to globalize its production in the mid-1970s, crossing national borders to Paraguay in 1976, Uruguay in 1980, Brazil in 1981, and Chile in 1989. This trend continued in the 1990s and 2000s (Peru, Mexico). Arcor emerged as a leading Argentine ‘multilatina’. In 2008, it ranked second in total foreign assets, with US$ 491 million, although it lagged far behind Techint (with US$ 17.4 billion in total foreign assets).

Arcor’s expansion hinged on both the development of competitive advantages, and the use of all state-offered resources. To accomplish the former, the group invested heavily and constantly in production, distribution, and management, updating its equipment, developing new products, making sizable investments in research and development, and partnering with universities and MNEs for some projects. It also built a distribution network that gradually broadened its coverage to include other Argentine regions, while also streamlining its organizational structure and management.

Arcor took advantage of several state protection and support mechanisms in place in Argentina at the time. First, Arcor benefited from the country’s low economic openness, which enabled it to move into sectors where it had no experience or advantages. It also used state funding and guarantees to secure loans abroad and export refunds. Taking advantage of regional promotion programs, it pursued geographic decentralization by creating new firms, especially during the 1980s. Like most large companies, it benefited from the nationalization of private foreign debts in 1982. It should also be noted that Arcor was instrumental in the creation of Fundación Mediterránea in 1977, a local think-tank with great lobbying leverage. One of its members, Domingo Cavallo, served as president of the Central Bank of Argentina in 1982 and as Minister of Economy in the 1990s, driving the pro-market reforms enacted by President Menem’s early administration.

The Pescarmona Group (sometimes known as IMPSA) grew from a metal workshop founded in 1907 in Mendoza, a midwestern Argentine province, to a producer of manufactured goods, primarily for the winemaking industry. It operated in this way until the early 1940s (though it was closed between 1931 and 1936), at which time it started to expand its operations, serving as a supplier for both private and public projects,
fulfilling the needs of industrial plants and the army alike. In the 1970s, it began a process of strong growth, focusing on engineering projects, hydroelectric power plants, equipment for primary industries, ports, nuclear and hydroelectric plants, as well as factory construction. In the 1980s, the group began to expand internationally with engineering projects, hydroelectric power plants and port construction, partnering with foreign companies and operating in Latin America, the United States, and China. It continued its diversification and globalization process during the 1990s, and by 2008, IMPSA ranked third among Argentine Latin American multinationals based on its assets abroad, which were valued at US$ 300 million.90

Beginning in the 1970s, Pescarmona worked in two major and complementary sectors: engineering (project design and execution, hydroelectric power plant management) and equipment manufacturing for industries and other activities (ports, power plants). The group diversified further in the 1980s, moving into insurance, environmental services (waste collection and treatment), spare car parts, and transportation. Pescarmona has also owned a winery in Mendoza since 1920.91 The group's diversification efforts serve several purposes: Its insurance company provides services to the group’s companies, like its transportation business. Its environmental service outfit brings cash flow, while its winery is embedded in the family’s and the province’s cultural tradition. In the 1990s, Pescarmona moved into telecommunications, starting a company called IMPSAT that struggled with a heavy debt burden after the 2001–02 crisis and was eventually transferred to its creditors, who, in turn, sold it in 2006.

Like Techint and Arcor, IMPSA expanded as a result of the competitive capabilities it developed from within and its access to resources provided by the state, constantly intertwining both. Its growth in the 1940s and 1950s was closely tied to state demand, but, beginning in the 1960s, Pescarmona started to invest greater resources in innovation and in recruiting and training qualified personnel. Building on those capabilities, the group managed to enhance its role as a large public works’ supplier in the second half of the 1970s. This boosted its know-how and competitiveness as a result of learning processes involved in operations with high quality requirements (especially for nuclear plant equipment) and joint projects with foreign companies (where the company acted as a minority partner). At the same time, IMPSA strengthened its engineering skill set, recruiting world-class professionals with expertise in different fields – many of whom participated in training programs abroad. Leaning on these newly acquired capabilities, IMPSA was able to compete in international markets beginning in the early 1980s when Argentina’s public sector demand shrank. Generally speaking, since its inception the group benefited from protection policies
for the winemaking industry enacted in the late nineteenth century, and
from a number of tariff, public credit, and other government policies
instituted in the 1940s and already described here. However, the group
also experienced some tension with the local government in the 1970s and
1980s over public work project awards or continuation agreements.

These three groups started off as family businesses and remained
so. Although some of the larger firms are listed on both Argentine
and foreign stock exchanges, the founding families (Rocca, Pagani,
Pescarmona) still retained control of their respective business groups
as majority shareholders. In all of these groups, generational succes-
sions have been uneventful and led to sustained or greater growth. Both
Techint and Arcor used ethnic/national identity to build cohesion within
their groups, and the former also exploited this advantage when making
international contacts. Techint started its operations with a combination
of professional managers and family members in key positions, whereas
Arcor and Pescarmona initially relied on family managers and then
gradually hired professional managers. As they grew larger and more
diversified, these three groups organized holding companies to control
their companies.

While significant differences separate these business groups, they do
share some traits. First, they have predominantly pursued a strategy of
integration and diversification into related industries, founded on engin-
eering and/or industrial operations, although they have all invested in
ventures outside their core competencies as well. Two of these groups –
Techint and Pescarmona – have ventured into the financial sector, while
Arcor has not, but they have all enjoyed preferential access to credit.
Second, group ownership rests firmly with the founding families, who also
control and manage, with outside professionals, the holding companies
that encompass other group companies. Third, all three groups combined
their access to state resources with their developed competitive advantages
to embark upon early expansion and internationalization projects that
enabled them not just to survive, but to thrive, in spite of a difficult macro-
economic and institutional setting. Nonetheless, a remarkable difference
sets Techint apart from Arcor and Pescarmona, bringing the former closer
to the business groups that emerged during Argentina’s export-led boom,
because the latter two lacked a network spanning the Atlantic. These
groups also differed in size, as Techint’s total assets in 2008 were US$ 20.6 billion, while Arcor and IMPSA lagged behind with US$ 1.3 billion
and US$ 919 million in assets, respectively.92
VI. ARGENTINE BUSINESS GROUPS FROM THE 1990s: FROM A COMPETITIVE TO AN ANTI-COMPETITIVE SHOCK

The institutional conditions that had favored the emergence and expansion of business groups from the mid-1940s changed dramatically in the early 1990s. During this decade, Argentina launched a swift process of market-oriented reforms that has been defined as ‘competitive shock’, putting an end to a long period marked by a closed, regulated economy, with the state taking an active role to protect and subsidize domestic industrial companies, which promoted business groups’ creation and expansion. To support the new rules of the game that primarily involved opening and deregulating Argentina’s economy, as well as privatizing state-owned companies, the Argentine peso was pegged to the US dollar at a fixed one-to-one exchange rate.

These structural reforms radically changed the local market’s competitive setting, as the world economy grew increasingly globalized, with intense dynamism for MNEs. The new institutional scenario provided expansion opportunities for the business groups that had managed to grow strong during the 1970s and 1980s, but it also brought new challenges, in addition to the much more competitive landscape. The new opportunities notably included the privatization of state-owned companies; economic stabilization and expansion in 1991–98, with growing domestic demand; the creation of the Mercado Común del Sur (MERCOSUR), a regional market bloc built by Argentina, Brazil, Uruguay, and Paraguay; access to external funding with favorable conditions; and the availability of foreign technologies via imports.

In turn, local groups were forced to compete with multinationals, which flocked to Argentina, now lured by business opportunities and an institutional framework that favored foreign direct investment (FDI) by offering equal treatment to both domestic and foreign firms. Foreign investments in Argentina rose from less than US$ 6 billion in the 1980s to nearly US$ 80 billion in the 1990s, and the share of foreign companies ranking among Argentina’s 500 largest firms climbed from 44 percent in 1993 to 64 percent in 2000. The growing number of multinationals among the top 500 firms implied the retreat of state-owned companies and business groups from Argentina’s corporate elite. Most state-owned companies were privatized between 1993 and 1996: by 2004, none ranked among Argentina’s 100 top-selling companies. Furthermore, the number of groups ranking among Argentina’s 200 top-selling shrank from 60 to 39 in 1989–2003. Over the first decade of the new millennium, MNEs continued to prevail among Argentina’s largest firms, displacing not only business groups in general but also large stand-alone domestic companies.
While business groups collectively lost their standing among Argentina’s largest companies, their individual response to environmental changes differed, though the most dynamic and successful groups did share a strategic shift towards international growth. The 1990s’ reforms allowed for globalization to be not only a means by which groups expanded abroad but also a tool they could use to support their domestic market positions.99

In general terms, the early 1990s brought increased diversification as a result of privatization, but, from then on, business groups tended to become more specialized, shedding their non-strategic assets.100 Simultaneously, beginning in 1993, companies were sold to foreign owners, a process that gathered momentum after the 1995 Mexican crisis. Some groups sold businesses after realizing they would not survive direct competition with multinationals; some chose to change their investment focus, shifting towards agribusiness or energy, which leveraged Argentina’s comparative advantages, while others were forced to sell to or partner with foreign companies as a result of funding difficulties.101

Argentina’s macroeconomic conditions started to deteriorate in 1998, when the country began to show signs of a recession that came to a head in late 2001, with the most severe crisis the country had suffered since the mid-nineteenth century.102 Stagnation, breaches of contracts, devaluation, and the unavailability of foreign loans wreaked havoc on companies. Groups focusing on the domestic market and/or those with debts in other currencies were the hardest hit. Between 1999 and 2006, out of the 18 groups listed in Table 1.1, four were sold to Brazilian companies (Quinsa, Acindar, Alpargatas, and Forttabat), and eight were critically distressed, forcing the sell-off of some of their firms (SOCMA, Pérez Companc, IMPSA, Roggio) or most of their stock (Sociedad Comercial del Plata), or forcing partnerships with foreign companies (Bridas, Mastellone) or debt restructuring (Sancor).103

In contrast, the groups that had expanded internationally were better able to navigate the crisis, even though their domestic businesses were hit hard. Techint, IMPSA, and Arcor provide three examples of successful performance during the 1990s and 2000s.

In the 1990s, Techint was one of the groups that took advantage of privatization to acquire state-owned steel companies (SOMISA and SIAT), while moving into other related and non-related businesses. At the same time, it began to globalize, becoming Argentina’s largest MNE and Latin America’s foremost player in the steel industry, as well as one of the world’s leading steel producers.104 Techint’s investments abroad focused primarily on the acquisition of companies in Latin America, North America, Europe, and Asia. Its global expansion brought a need to reorganize the group in order to take better advantage of synergies among
its companies and to boost efficiency. As a result, two new companies were created: Tenaris in 2002 and Ternium in 2005, both listed on the New York Stock Exchange. Tenaris had tube manufacturing firms in Mexico, Italy, Venezuela, Brazil, Japan, Canada, the United States, and Romania; since 2004, the company has also operated a business unit in China. Ternium encompasses the group’s flat steel manufacturing companies in Mexico, Argentina, Brazil, Colombia, the United States, and Guatemala. In 2012, Techint had an overall headcount of 59,196 full-time employees.

IMPSA/Grupo Pescarmona began its international expansion in the 1980s with engineering projects, hydroelectric power plants, and ports, partnering with foreign companies and operating in Latin America, the United States, and China. Argentina’s crisis in the 1980s and resulting cessation of public works projects pushed the group to expand abroad with the support of its IMPSA International affiliate created in Pennsylvania. By this time, IMPSA owned some businesses in Latin America and was starting to operate in the United States. In 1985, it opened a commercial office in Hong Kong, and in the late 1980s it began to distribute slowly its equipment and products in Asia, and it solidified its operations there the following decade with projects in Malaysia, Thailand, Taiwan, Indonesia, China, the Philippines, and Saudi Arabia, as well as branch openings in Kuala Lumpur, Manila, and Shanghai. In the 1990s, IMPSA also forged partnerships with Latin American, Asian, and European firms. These international operations brought in addition access to funding, including the Development Bank of Brazil, where 77 percent of IMPSA’s assets were located by 2012. Beginning in the 1990s, Pescarmona Group began to diversify, turning towards telecom with the creation of IMPSAT, a US-based firm (associated with Morgan Stanley) and to cutting-edge technologies in Latin America. However, this company failed to meet its debt payments after the 2001–02 crisis and was taken over by its creditors.

Arcor managed to successfully navigate Argentina’s economic opening and deregulation in the 1990s. Rising to the challenges of pro-market reforms and the arrival of foreign MNEs, this group continued to expand, increasing its production capacity and acquiring several local firms, expanding its investments in management, marketing, and human resources training, and further globalizing. In the 1990s, Arcor’s exports grew by 454 percent, accounting for 36 percent of its revenues by 2000. At the same time, the group built new production units in Peru, Chile, and Brazil and commercial offices in the United States, Bolivia, Ecuador, Colombia, and Mexico. Argentina’s 2001 crisis presented a significant challenge to Arcor, whose domestic sales plummeted. In 2001–02, its Argentine revenues dropped by over 50 percent, while its revenues overseas grew from 35 percent to 60 percent of its overall sales.
With the worst of the crisis behind it, Arcor strengthened its global operations. It made investments in Latin America with new marketing affiliates (Venezuela), enlarged and new production plants (in Chile and Mexico) and distribution centers, and acquired firms and made partnerships with both global (Danone) and regional (Mexico’s Bimbo) firms. Arcor also increased its market share in North America via agreements with US firms (including contract manufacturing operations) and a new commercial affiliate in Canada. In 2002, it moved its international division to Barcelona in order to promote sales in Europe. The group also expanded operations in Africa and Asia, which, by 2014, accounted for 20 percent of its total exports.113

Arcor has remained Argentina’s leading food manufacturer and the world’s largest candy maker. In 2014, it exported products to over 120 countries across five continents, owned 39 industrial plants (29 in Argentina, 5 in Brazil, 3 in Chile, 1 in Mexico, and 1 in Peru), 13 commercial offices in the Americas, Europe, Africa, and Asia, 19 distribution centers in Latin America, and employed 20,000 employees around the world.

Business groups have not been able to return to the leading role they played before the 1990s. During the 1990s only a few new business groups were created, and those built in the 2000s largely came about through political connections. Meanwhile several former large groups gradually disappeared or shrank in size and scope.

VII. CONCLUDING REMARKS

A number of generalizations emerge from this study of the historical evolution of Argentine business groups. First, it is evident that business groups emerged in quite different historical contexts. In some of the literature, business groups have been associated with a specific type of political and economic context, especially a closed economy and public policies promoting domestic private companies.114 This chapter has shown this view to be erroneous.

In the case of Argentina, some groups emerged during the era of an open and deregulated economy before 1914, and a number of these groups were still active in 1980. Other groups emerged during the closed economy and statist era between the 1960s and the 1980s. In the intervening era of 1914–60, characterized by an increasingly closed economy with greater state intervention, no new groups emerged. This finding contradicts the current literature on Argentina’s business groups which has argued either that Peronism favored their emergence,115 or that their prevalence in the local economy started in the early 1950s.116 Finally, in the
period after 1990, pro-market reforms followed by major economic crisis damaged many groups, although the most competitive were able to expand during this time through globalization.

Why were business groups created in the two specific periods of 1870–1914 and 1960–90? Institutional voids, imperfect markets and favorable regulatory frameworks were dominant features of both eras. The role of the state, though, differed greatly. The state was aloof in the first and actively engaged in the second. In the first stage, it was possible to build strong ties with foreign partners, using them to access several kinds of resources (funding, know-how, information, managers). This is relevant, as it paved the way for a specific type of business group, with links on both sides of the Atlantic, and with transnational traits that the existing literature has largely neglected. Techint displayed some of those traits starting in the 1940s.

During the period when the second generation of Argentine groups emerged, while supportive state policies supporting industries were in place from the 1940s to the mid-1970s, they were combined with periodic crises, high inflation rates and ongoing changes in the rules of the game and macroeconomic policy. This situation worsened after 1976, when institutional shifts became more intense and crises more severe. While the retreat of MNEs and a number of policy actions taken from 1976 to 1989 favored the position of business groups, political changes could benefit or harm them, depending on how new administrations perceived business groups. Chronic political instability hindered groups’ relationships with public officials. Finally, as mentioned earlier, the violence of the 1970s affected some business groups directly. As a result, it is clear that not only the role of the state, but also that of political turmoil and institutional uncertainty, needs to be incorporated into explanations of business group longevity and performance. In Argentina, amid this instability, there were no consistent, pervasive policies intended to build national champions by an efficient state, endowed with a meritocratic bureaucracy, as was the case in other, more successful emerging economies such as South Korea.

Why did no business groups emerge between 1914 and the 1960s, despite continued institutional weaknesses? Part of the answer is that governments were at times more supportive of state-owned companies or MNEs. At other junctures, economic conditions promoted the emergence of small and medium-sized companies. In turn, first-generation groups continued to expand during the interwar period, seizing opportunities created by import substitution, and perhaps crowding out the emergence of new rivals.

The explanation for the weakening of business groups after 1990 is multi-causal. Structural reforms made the market much more competitive.
Both business groups and single product firms suffered. It was lack of competitiveness not the organizational structure which was the problem. Notably, more competitive groups such as Technit did well. Business groups were further hit by Argentina’s 2001 crisis. It was the more internationalized and less indebted groups which survived. In addition, subsequent public policies proved largely unfavorable to groups, except for those close to political power.

A second broad set of generalizations relates to the organizational growth patterns. The three first-generation groups began with trade operations and diversified into finance, agribusiness, real estate, industry and other service industry ventures. Agribusiness investments stand out as a characteristic feature of this stage, reflecting the significant role for the primary sector in Argentina’s economy. These three groups largely chose a path of diversification into unrelated industries, and all relied on their own banks or financial institutions to do so. Unrelated diversification and alliances with partners for specific ventures caused these groups to create legally separate companies instead of large outfits with many departments or divisions. Two of these groups (Bunge y Born and Tornquist) opted for a vertical organization, while the other (Devoto) preferred a more horizontal structure, though the networks connecting these groups to Europe were all horizontal in nature. As for their ownership and control patterns, these groups were family-owned (with one or more owner families); although owner families joined other partners in Argentina or overseas and hired professional managers early on.

These three groups gradually developed capabilities that enabled them to operate in multiple markets, and a sizable share of their companies boasted cutting-edge technologies and strong professional management teams. At the same time, Tornquist and Devoto combined productive investments with more speculative operations in, for instance, real estate. Social networks were important in building corporate capabilities, especially when these networks crossed national borders. Relations with the state did not play a decisive role in the creation and early growth of these groups, but these groups did build personal ties with particular officials.

It is evident that all three groups adjusted to economic changes after 1914, maintaining their leadership in several industries over a number of decades, and using the resources of an increasingly closed and regulated economy in which industrial endeavors proved the most successful. They relied on tangible and intangible assets created before World War I. After 1914, they leveraged their international networks of contacts to partner with foreign companies in several ventures – albeit to a much lesser extent than they had in earlier decades. These business groups also accessed new resources the state began to offer in the 1940s, and two of the
groups – Bunge y Born and Fabril/Celulosa – took advantage of special programs launched in the late 1960s.

The three groups that emerged in the late nineteenth century eventually disappeared during the late twentieth century. Tornquist succumbed to family strife among third-generation family members. It collapsed in the mid-1970s. Devoto, later known as Grupo Fabril/Celulosa, failed to survive the harsh macroeconomic conditions of the 1980s. For Bunge y Born, the decision to sell the group’s industrial companies in the 1990s was part of a globalization strategy, but as early as the 1970s, its businesses in Brazil and the United States were poised to take the lead, leaving Argentina behind.

Second-generation business groups also shared some features with older groups, though other characteristics set them apart. With regard to structure, these latter groups’ diversification followed a different pattern, based more on a rationale of integration and related diversification, albeit with differences in each case. From their starting point in engineering (Techint) or manufacturing (Arcor, Pescarmona), and with investments in several operations that leveraged promotion programs or the strength of other partners, these groups began to create new, legally independent firms that remained under a common control and strategy. All three kept their core businesses in the industrial domain (Arcor) or the engineering and industrial realm (Techint and Pescarmona), regardless of their diversification efforts. The move into financial services was less widespread among these groups than it was with their first-generation counterparts. None of these three groups owned banks, although Techint had some financial investments and Pescarmona had an insurance company.

These three groups operated using a hierarchical organization, with holding companies and owner families in control, but family members and professional managers sharing managerial tasks. All three groups emerged in a closed economy, characterized by strong state intervention and active public policies to support industry, which gathered momentum in the late 1960s. While these three groups grew under the shelter of protection policies, promotional programs, public loans, and state contracts, their successful track records also reveal their ability to build competitive advantages. In addition to developing the skills required to approach public officials, these groups invested in product and process technologies, as well as in technical and managerial human resources, and innovated – to a lesser or greater extent – and forged alliances with companies abroad. Their early globalization – via exports, engineering projects or direct investments – was also noteworthy.

The big takeaway from this historical evidence is the need to move away from simplified views of the drivers of business group formation, and their
organizational characteristics. There are plenty of similarities with groups in other emerging markets, but also differences. Unlike in some other cases, international networking and, more generally, globalization, was important for the emergence and growth of Argentine business groups. All such generalizations, however, need to note that there were significant changes over time in the various actors. For example, as elsewhere, there is a significant role for the state in this story, as all the business groups made use of government relationships of one kind or another, but Argentine government policies also emerge as less consistent and sometimes more damaging than elsewhere, forcing the business groups to deal with a setting riddled with volatility. Despite this, the business groups emerge as viable and broadly productive forms of business enterprise, some of them emerging as internationally competitive groups. While some groups did engaged at times in speculative businesses, rent-seeking strategies did not dominate most of their operations. It should be concluded that as a collective group, the groups were positive contributors to the development of Argentine industry.

NOTES

2. The extensive literature can be approached in Guillén (2000); Granovetter (2005); Khanna and Yafeh (2007); Fruin (2008); Morck and Steier (2007); and Colpan, Hikino, and Lincoln (2010).
3. Khanna and Yafeh (2007): 331. This clarification is significant, as many authors who have studied Argentine business groups include nearly all large domestic private companies in this category. Other scholars have made a distinction between groups with related and unrelated diversification. See, for example, Carrera, Mesquita, Perkins, and Vassolo (2003); Fracchia, Mesquita, and Quiroga (2010).
8. These guidelines were chosen primarily on the basis of Khanna and Yafeh (2007); Morck and Steier (2007); Granovetter (1994); Granovetter (2005); Amsden and Hikino (1995); Guillén (2000) and (2001).
10. Scarzanella (1983); Guy (1982). Fernando Rocchi argued that funding access was not restricted. See Rocchi (2006).
18. While this chapter will focus on the three aforementioned groups, the Bemberg business group shared most of their features. See Barbero (2013).
19. From the early 1900s, the Bunges, of German descent, had established business companies in the Netherlands and Belgium.
23. It also acquired a tin packaging company.
32. Díaz Alejandro (1975).
33. The interwar period also saw the fast integration and diversification of Alpargatas, the largest canvas footwear manufacturer from the late nineteenth century, which expanded into the textile industry. See Gutiérrez and Korol (1998).
34. Argentina’s financial sector became more regulated after the creation of its Central Bank and a new banking law in 1935, but after 1929, the role of internal savings and local banks grew decisive. These banks were more fragile and conservative than their foreign counterparts, which limited the access to long-term credit. Many of them were severely hit by the Great Depression. Argentina’s weak capital market was further weakened after 1929. See Nakamura and Zarazaga (2003).
35. Some companies created in this period later became diversified business groups. It is debatable whether SIAM, a metal manufacturer created a few years before the war that showed strong growth since the 1920s, was a business group or not, as it included several legally independent firms between 1950 and 1996.
36. It should be noted that, between 1920 and 1945, from the Great Depression through to World War II, a significant number of small and medium-sized companies emerged, particularly in the textiles and light mechanical industries.
41. Gilbert (2003); Phelps (1936).
43. Later this venture was also known as Celulosa (Azpiazu, Basualdo, and Khavisse (1986).
44. Barbero (2002).
45. Barbero (2002). A new paper manufacturing firm, La Papelera Argentina, was created after merging with two other companies.
47. Tulio Halperin Donghi has characterized the 1945–89 period as ‘Peronist Argentina’ (Halperin Donghi (1994)).
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53. Such was the case of Techint, Fate/Aluar, Arcor, Bridas, Pérez Companck, Clarín, and SOCMA. Some of these business groups had been formed over earlier decades, but they had grown slowly (Sociedad Comercial del Plata, Roggio), and some even stopped operating for a while, like Pescarmona. Others had a more regional focus.


58. While this list may be biased by involvement in the 1990s’ privatizations, it nearly matches the list of major groups active in the 1980s elaborated by Acevedo, Basualdo, and Khavisse (1990) and is compatible with the 1997 list in Carrera, Mesquita, Perkins, and Vassolo (2003).


60. In 1979, Francisco Soldati, chairman of Sociedad Comercial del Plata, another expanding business group, was murdered by Montoneros guerrillas.

61. Green and Laurent (1988: 113) state that the group’s headquarters were moved to Brazil.


64. Gilbert (2004).


68. Quintela (2005).

69. Few companies created during or after the 1960s turned into business groups before 1990. See Fracchia, Mesquita, and Quiroga (2010).

70. The distinction between groups with related and unrelated diversification was made by Carrera, Mesquita, Perkins, and Vassolo (2003); the definition based on the number of controlled companies was made by Acevedo, Basualdo, and Khavisse (1990).

71. Pescarmona had to sell a telecom company it had founded in 1990.


76. ProsperAr and Vale Columbia Center on Sustainable International Investment (2009).


78. Castro (2007). Assumptions have been made about the role played by Italian investors in Techint’s operations, but they have not been substantiated with evidence.


82. Rougier (2004); Offeddu (1984); Castro (2007).

83. Its two leading companies, Tenaris and Ternium, have been listed on the New York Stock Exchange since the 2000s.

84. This paragraph draws primarily on Kosacoff, Forteza, Barbero, Stengel, and Porta (2007), and more specifically from Barbero’s chapter on the 1951–90 period. See also Barbero (2003) and Ramirez (2000) and www.arcor.com.ar, accessed 1 November 2014.


86. ProsperAr and Vale (2009).
89. IMPSA is the group’s leading company, specializing in engineering, power generation and equipment manufacturing. This section on Pescarmona draws primarily from Gutiérrez (2001) and (2003); Walter (1989): n. 8.
95. See Chapter 4.
98. See Chapter 9.
101. See Chapter 9.
102. Bunge y Born had ceased to be a group by the 1990s after selling off its industrial companies to focus on its agribusiness core operations.
108. See Chapter 9.
109. For example, Guillen (2001).

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