CENTRAL AMERICA: Family businesses keep policy sway

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Abstract

Family business groups and their influence in policy-making in Central America.

Contrary to early expectations, most family business groups in Central America have not disappeared or become more specialised. Thanks to a series of defensive strategic moves and growing alliances with multinational corporations, many have not only survived but also grown. Family business groups are still a central political force in the region, influencing governments through lobbying, campaign financing and exerting pressure on both legislators and the judiciary.

Full Text

SUBJECT:Family business groups and their influence in policy-making in Central America.

SIGNIFICANCE:Contrary to early expectations, most family business groups in Central America have not disappeared or become more specialised. Thanks to a series of defensive strategic moves and growing alliances with multinational corporations, many have not only survived but also grown. Family business groups are still a central political force in the region, influencing governments through lobbying, campaign financing and exerting pressure on both legislators and the judiciary.

ANALYSIS: Impacts.

In El Salvador, family business groups may accept tax expansion and more ambitious social programmes.

In Honduras or Guatemala they will have a more incoherent and regressive influence in development policies.

Identifying key families and their strategies will be crucial for international firms that aim to expand in Central America.

As in many other parts of the developing world, family business groups have traditionally been dominant actors in Central America. Initially focused on coffee and other agricultural products, the main firms expanded into manufactures and services during the 1960s-1980s. However, the process of globalisation was supposed to weaken their influence through different channels:

Foreign direct investment (FDI) has increased all over the world, and multinational corporations (MNCs) were expected to purchase the most profitable businesses in small, middle-income countries.

Trade liberalisation should have forced family business groups to specialise in their core activities.

The internationalisation of finance should have given access to credit to a larger number of entrepreneurs, thus limiting the comparative advantage of diversified business groups.

The process of democratisation was supposed to reduce the economic elite's influence in the government and expand their tax burden.

These predictions have generally not materialised and family business groups remain diversified and economically and politically influential. They have found different strategies to confront the growing domestic and international challenges they face:

Collaboration with MNCs. Family business groups have become partners to the MNCs in global production networks, either as suppliers or distributors of products and services, and have signed partnerships and joint ventures with them.

Niches. Some family business groups have found specific activities where they can be particularly productive and where MNCs have little interest in investing. This is the case of those groups whose main business is related to construction -- Central American markets are generally too small for large international firms -- and real estate.

Regionalisation. Many family business groups have become regional investors either alone or in joint ventures with other Central American firms. Regionalisation has taken place through different channels, including the purchase of other companies, greenfield investment in neighbouring countries and regional exports from their home country.

Sectors. Media, commerce, construction, real estate and tourism are particularly significant for Central American family business groups. Most of them also have a strong presence in finance and banking -- with the exception of Salvadorian groups which sold all their banks during the early 2000s -- but are no longer present in manufacturing.

Re-definition.

The definition of what a family business group actually is has gradually changed, as new organisational structures emerge and family interrelations expand:

Traditionally these groups were understood as a set of interconnected and hierarchically structured firms where a number of subsidiaries were owned by a holding company. This is still a dominant structure for some of the largest family business groups.

Other groups are now constituted by a set of independent firms in various sectors which are owned by different family members.

More complex ownership structures have appeared in recent years, including those in which different families are minority owners of a holding company or of a single firm.

Most Central America elite families currently use a combination of these strategies. They own a holding company and a controlling stake in some firms, but also have minority participations in other companies domestically and abroad.

Policy influence .

Diversified business groups and the families that own them are important political actors across Central America. They exert influence on policy outcomes through different means:

Political parties. Powerful Salvadorian entrepreneurs either fund or directly participate in the rightist political party Arena (see EL SALVADOR: FMLN suffers electoral setback - March 29, 2012). In Nicaragua, members of the economic elite have links to various liberal factions, although they have also built constructive relations with the Sandinistas in power (see NICARAGUA: Politics is vulnerable to external shift - February 12, 2013).

Campaign funding. In the 2011 Guatemalan presidential elections (see GUATEMALA: Perez Molina is poised for the presidency - September 12, 2011), 97% of the campaign spending came from the private sector and there was a positive correlation between the amount of spending and the level of support that parties received.

Lobbying. Economic groups have successfully pressured government officials, civil servants, legislators and even the courts to advance their preferred policy agenda. This is particularly evident in debates on tax reforms: business groups have succeeded in setting exceptions for activities in which they have interests (eg tourism) or stopping reform initiatives altogether -- particularly in Costa Rica.

The policy impact of their influence varies depending on the degree of collaboration between business groups and on their strengthen vis-a-vis other groups in society. For example, in El Salvador, the economic elite tend to work together and have succeeded in promoting a coherent economic model. In Guatemala the interests of the economic elite are more disperse -- with emerging groups in illegal activities becoming increasingly powerful -- and their influence on policy-making strong but rather incoherent.

Outlook .

Family business groups have experienced significant transformations in recent decades as a result of the combined forces of globalisation and liberalisation. Challenges are likely to intensify and some groups may end up disappearing, with their owners becoming portfolio investors. However, the overall influence of family business groups in economic development and policy-making will remain high.

Family networks constitute an effective way to exchange information, confront the lack of protection to minority shareholders rights and create barriers to entry in most sectors. They are also the most important competitive advantage of local groups, which have helped them to become indispensable partners for many MNCs.

The interests of Central American family business groups will remain focused on a range of sectors with relatively low technological content and human capital needs. They have limited incentives to innovate and will not generally demand higher spending in education and in research and development.

Most business groups depend on public contracts, tax exceptions and state subsidies and regulation. Their close ties to the state constitute another competitive advantage, yet this can have negative effects on the coherence and quality of policy-making.

CONCLUSION: Family business groups will face growing challenges as long as the US economy performs sluggishly and multinational corporations continue expanding. They are likely to create new joint ventures with foreign firms and further concentrate on services and real estate, yet will retain a large and contradictory influence in policy-making.

Details

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