# CENTRAL AMERICA: Family businesses grow and diversify

OxResearch Daily Brief Service. (Sep 25, 2015).

Oxford Analytica Global Strategic Analysis



## Abstract

Family groups are key players in national and regional business environments and are increasingly open to international collaboration.

Family business groups in Central America vary greatly from country to country in their attitudes, investment strategies and relations with their states. They have nevertheless been highly successful and politically influential across the region for decades. In recent years, new challenges have seen the groups go through a process of reinventing themselves, diversifying their activities and building new links to multinational companies.

## Full Text

SUBJECT:Family groups are key players in national and regional business environments and are increasingly open to international collaboration.

SIGNIFICANCE:Family business groups in Central America vary greatly from country to country in their attitudes, investment strategies and relations with their states. They have nevertheless been highly successful and politically influential across the region for decades. In recent years, new challenges have seen the groups go through a process of reinventing themselves, diversifying their activities and building new links to multinational companies.

ANALYSIS: Impacts.

The relative dynamism of business groups will partly determine opportunities for economic growth in the future.

Foreign investors will forge close relationships with family business groups to facilitate their entry into the region.

Groups that are heavily invested in agriculture could suffer in the coming year, due to drought.

Costa Rican and Honduran groups will be forced to transform their activities, diversifying and expanding outside the region.

Family business groups -- networks of firms in different sectors of the economy that are owned by the same family through diverse shareholding arrangements -- are a feature of many developing countries and have been influential in Central America since the beginning of the 20th century.

Recent changes.

They have long adapted to evolving business environments, and are currently facing a range of challenges, including political changes, growing foreign competition and the recessionary environment in the United States. Their diverse responses can be classified across four variables:

Level of diversification. While some family business groups have focused on specific sectors, others have a broad portfolio of activities. In particular, participation in agriculture and manufacturing varies significantly across countries.

Degree of internationalisation. While some groups concentrate on their domestic markets, branch out in a few activities, or invest regionally, others invest internationally (often in the United States and Spain).

Relationships with multinational corporations. Some groups have sold their businesses to international firms, becoming managers or minority shareholders. Others have created strategic alliances (through licences, franchises or distribution agreements) while a few still compete with foreign firms.

Ties to the financial sector. Many business groups have participation in at least one bank, which constitutes a vital source of funding. Others have moved away from the financial sector.

National differences.

These different responses partly depend on group-level characteristics, including the personality of the owners, their origins and their funding situations. However, they are also influenced by country-level differences in history, economics and politics. Business groups in El Salvador, for example, have traditionally been more dynamic than in Guatemala or Nicaragua.

The impact of the countries' civil wars was also quite asymmetric. While in Nicaragua many large business owners were forced to leave the country, in El Salvador they moved away from agriculture. Guatemalan business groups suffered much less than in the other countries.

Relations between business groups and the state are therefore diverse, and depend on the strength of state institutions, the characteristics of the party system and the ideological preferences of those in power.

The size of the domestic market is another important factor, as is the importance of traditional agriculture and each country's ability to create new comparative advantages.

These factors partly explain the role and characteristics of family business groups in each of the countries.

Costa Rica.

Costa Rican business groups have traditionally been smaller than in neighbouring countries due to better income distribution and a strong state. Although in the last two decades they have expanded, they still remain less diversified than in Guatemala or Nicaragua.

Businesses in the country have adapted to the process of liberalisation in a range of ways. While some groups sold their retail and manufacturing activities to foreign companies and reinvested their profits in less risky activities (see COSTA RICA: Development strategy needs rethink - May 19, 2014) -- such as real estate -- others have benefited from state incentives to become regional exporters.

Most families have limited participation in the financial sector, which is still dominated by state-owned banks.

El Salvador.

Most Salvadoran groups invest in emerging activities. A recent study by Benedicte Bull and collaborators found that 87% of those surveyed have invested in trade, while only 37% have interests in agriculture and only 17% in the financial sector.

Most Salvadoran banks were sold to foreign investors in the 2000s in response to dollarisation and growing international interest.

Business groups have increasingly invested in neighbouring countries and in the United States, especially since the victories of the left-wing FMLN in the presidential elections of 2009 and 2014 (see EL SALVADOR: Narrow FMLN victory increases challenges - March 18, 2014).

Business elites have supported the modernisation of the state over the last two decades and have even accepted some increases in (primarily indirect) taxes.

Guatemala.

Guatemalan business groups remain the most traditional in the region. Most of them still produce agricultural and manufacturing goods, even if they have also diversified into trade, finance and real estate.

In many cases, they are junior partners of multinational companies, helping them to deal with a weak institutional environment.

The main groups participate in at least one bank, which supports their diversification strategies.

Many Guatemalan groups are still focused on domestic markets and few have invested outside Central America. Elites have not supported economic modernisation or the strengthening of the state.

Honduras.

The key sectors of the Honduran economy (bananas and mining) were historically in the hands of foreign investors, leaving the domestic elites comparatively weak.

Family business groups in the country are now less diversified and internationalised than in neighbouring countries. There are two principal business communities:

those groups located in San Pedro Sula, which invest primarily in manufacturing, finance, services and mass media; and

those located in the capital, Tegucigalpa, which have traditionally built close ties to the government and which benefited from the privatisation of energy, telecommunications and other activities.

Some groups were involved in the 2009 coup that has contributed to institutional weakening and growing instability.

Nicaragua.

Family business groups in Nicaragua are highly diversified and internationalised. As in Guatemala, they have invested in services, real estate, agriculture and, to a lesser extent, manufacturing activities.

Forced to invest abroad (mostly in Costa Rica and the United States) after the Sandinista revolution of 1980, many maintained their international interests when they returned to the country.

They have since benefited from the privatisation of the financial sector and now control most banks.

The majority of these family-run groups have built pragmatic, constructive relations with the Sandinista government since 2007.

Such pragmatism -- common to all Central America's diverse family business groups -- will likely lead to more national and international relationships in the coming years, presenting opportunities for foreign and local businesses alike.

CONCLUSION: Despite the increasing weight of foreign investors, family business groups will not disappear. They will continue their process of diversification at the local and regional levels, with particular focus on the non-tradable sectors. Their contribution to economic upgrading and research and development will be small. Differences between countries with regard to business strategies and political influence will further expand over the next decade.



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## Details

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| Subject | Economic conditions;<br>Industry;<br>Politics;<br>Social conditions & trends;<br>Agriculture;<br>Banking industry;<br>Employment;<br>Foreign investment;<br>Investment policy;<br>Manufacturing;<br>Private sector;<br>Privatization;<br>Family owned businesses |
| Location | Central America, Latin America, Caribbean area |

| | |
|---|---|
| Classification | 9173: Latin America<br>9520: Small business<br>1300: International trade & foreign investment |
| Identifier / keyword | Central America, Latin America, Caribbean area, Economic conditions, Industry, Politics, Social conditions & trends, Agriculture, Banking industry, Employment, Foreign investment, Investment policy, Manufacturing, Private sector, Privatization |
| Title | CENTRAL AMERICA: Family businesses grow and diversify |
| Publication title | OxResearch Daily Brief Service |
| Pages | n/a |
| Publication year | 2015 |
| Publication date | Sep 25, 2015 |
| Year | 2015 |
| Publisher | Oxford Analytica Ltd |
| Place of publication | Oxford |
| Country of publication | United Kingdom |
| Publication subject | Business And Economics |
| Source type | Reports |
| Language of publication | English |
| Document type | News |
| ProQuest document ID | 1716286050 |
| Document URL | http://libproxy.nps.edu/login?url=http://search.proquest.com/docview/1716286050?accountid=12702 |
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|---|---|
| Last updated | 2015-10-12 |
| Database | ProQuest Central |