

"Unpublished text, do not quote without author's permission"

Evolution of the Peruvian large family business 1890-2012

Martín Monsalve Zanatti
Center of Research of the Universidad del Pacífico

First World Conference of Business History Monday 17 March 2014

Panel Markets, politics and specialization of family business in an international perspective,
18th-20th centuries

Part I: Pathways of change in the evolution of family businesses in the 20th century

Evolution of the Peruvian large family business 1890-2012

Martín Monsalve Zanatti
Center of Research of the Universidad del Pacífico

"Unpublished text, do not quote without author's permission"

THIS paper analyzes the evolution of Peruvian large family businesses from 1896 to 2012. The variables that guide this study are changes in the investment strategies of the large family firms, the relationship between the family firms and the financial system, and their capacity to react and adapt their investments to the challenges represented by government economic policies. Taking these variables into account, the aim of this paper is to show which factors have determined the evolution of Peruvian family firms, the longevity of some of them, and their capacity to face the current challenge of the industrialization process of their businesses.

This study is divided into three periods that correspond to characteristics of the Peruvian economy and politics: a) the formation of the large family businesses (1896-1960), b) family business and the formation of new economic groups during State-driven development (1960-1990), and c) restructuring of the Peruvian large family business (1990-2012). The proposal of this paper is that economic-political changes generate in family businesses different types of managerial attitudes and that the longevity of a firm depends on the skill of its leaders to interpret the periods of change, and the capacity of the company to adapt to them.

In methodological terms, this analysis is based on the annual reports of the companies, journalistic sources for the different periods, and secondary sources. For the first period it is harder to obtain statistical sources, which is why the study is more qualitative than quantitative. In addition, following the guidelines of the editors, included within the term 'family business' are firms 1) that are owned by one or more families, or one family is majority shareholder, and 2) where representatives of the same family hold decisive positions on the executive board and in the company's management.

In the case of Peru, especially after the 1960s, entrepreneurial families diversified their investments, sometimes randomly, forming what we call economic groups. These we can define, following Guillen, and Kana and Yafeh, as interdependent firms, operating in multiple industries, frequently unconnected to each other, unified by formal and informal links (Guillen 2000; Khanna and Yafeh 2007). Generally, Peruvian economic groups operate through a company under majority control of the family, constituting its core business. For this reason, when the occasion demands, Peruvian large family businesses will be studied in the context of the economic group of which they form part.

12.1. The formation of large family businesses, 1896-1960

It was only around 1896 that the Peruvian economy managed to recuperate from the economic consequences of the Pacific War (1879-1883) and the subsequent civil wars. The recuperation was linked as much to the new political stability as to the boom in export based on the diversification of exported products (minerals, sugar, cotton, rubber and oil). Here begins a long period in Peruvian entrepreneurial history, characterized by: 1) the predominance of direct foreign investments in extractive industries, 2) economic policies that favoured free foreign trade, and 3) the creation of large family businesses that preferred to invest in sectors of high profitability (agro-industry, real estate and finance).

Only in the period between 1930 and 1948 were policies developed, albeit inconsistently, that favoured the growth of the internal market, but they did not significantly damage the export sector nor direct foreign investment. Likewise, the action of the government did not effect the land ownership system and the financial system retained its structure throughout this period. Therefore, there were no radical changes to the way family businesses in Peru were managed at this stage.

During this period, the majority of family businesses were to be found in the agro-industrial sector (sugar and cotton), in trade, and a smaller group was in industry. In addition, it is important to point out that 23% of family businesses in this time originated from abroad, mostly from Europe (Portocarrero, 2010, pp. 41- 43). Even if businesses of single ownership predominated, it was not unusual for families to form alliances; nor to find partners from outwith the family context.

The running of agro-industrial businesses was the responsibility of the patriarch of the family, who took all the decisions relating to the business directly. On his death, it was common for his heirs to form a new company responsible for managing the acquired assets. In this way, the division of the company was avoided, but also allowed the brothers to make their own investments. For example, the Aspílliga Anderson Brothers Company owned the Negociación Agrícola Cayaltí y Palto. The brothers invested the surplus from their sugar exports in the financial sector (the Italiano, Popular and Internacional banks, and the insurance firms Internacional and Rímac) and in the real estate sector in the city of Lima (Portocarrero, 2010).

Investments in the financial sector and in the trading houses were aimed at ensuring the families had access to a rare asset: credit. For this reason, around the end of the 1920s the majority of companies dedicated to sugar and cotton production owned shares in the Banco del Perú y Londres, the most important financial institution in Peru until 1930 (Quiroz, 1989).

Similarly, the cattle ranchers of the central mountain range invested the surplus of their businesses in the financial sector. For example, the Olavegoya brothers, founding partners of La Sociedad Ganadera del Centro S.A. (later Laive S.A.) invested considerable sums in insurance companies Rímac, Compañía Internacional de Seguros, and Compañía de Seguros Italia. But their most important investment in this sector was in the Banco Italiano, of which Domingo Olavegoya became chairman (Portocarrero 2010; Quiroz 1989). The agro-industrial entrepreneurs also invested their surplus in textile manufacturing. The most emblematic case was with the Fábrica Nacional de Tejidos La Victoria (1899), owned by the Pardo family, landowners of Tután. The Prado family were very important in the political sphere, their leader José Pardo being president of Peru on two occasions (1904-1908 and 1915-1919). Nevertheless, despite their social and economic influence, they did not manage to maintain control of their textile factory, Fábrica Nacional de Tejidos la Victoria, and ended up selling the majority of their shares to the US firm W.R Grace & Co. in 1903. The agro-export families preferred to invest in shares of industrial companies rather than manage them themselves (Monsalve, 2011).

However, this does not mean that there were not families who used industry as the basis for their business. The Prado family, to name one, another family with presidents in

their history, had as core business the Fábrica Nacional de Tejidos de Lana Santa Catalina, 1899. Originally, the factory was founded by an Italian immigrant, Bartolomé Boggio, and a US citizen, Enrique Price, in 1889. One year later, Juan Manuel Peña y Costas, and Mariano Ignacio Prado decided to invest in the factory by buying out Price and creating a new company with Boggio. According to Felipe Portocarrero, the positive business results encouraged Peña and Prado to make a greater investment and expand their business to include cotton textile production and flour production (Portocarrero, 1995).

The modernization of the business included substituting hydraulic power with electric. This brought with it the creation of the Empresa Transmisora de Fuerza Eléctrica and the construction of the Santa Rosa power plant. These two companies subsequently became the Empresas Electricas Asociadas, one of the few listed companies at this time (Portocarrero, 1995, pp. 71-73). As well as the textile factories and energy production, the Prado family controlled the Banco Popular (1898), which guaranteed them access to commercial loans and attract finance from foreign investors. This advantage allowed them to expand their interests to the cement sector through the founding of the Compañía Nacional de Cementos Portland (1916). This diversification in their investments allowed the family to raise capital from other family groups who in turn were looking to expand their financial horizons.

The history of the Prado family's investments was closely linked to the leadership of the heads of each generation. Mariano Ignacio Prado Ugarteche, the founder of the group, managed the consolidation of the businesses acquired from 1889 until the 1930s in the industrial sector (textile, energy and cement). This economic power allowed the leader of the second generation, Mariano Ignacio Prado Heudebert, to have almost unlimited influence in the business world, which he was able to compliment with a rise of influence in the political sphere, thanks to his uncle Manuel having been twice president of Peru (1939- 1945, 1956-1962). Taking advantage of this favourable environment, Prado Heudebert used the privileged access to credit that the Banco Popular provided him, to accelerate a disorganized process of business expansion that included real estate. Ultimately, between 1960 and 1970, Mariano Ignacio Prado Sosa was running the family business in a very irresponsible way, at a time when the financial crisis of the Banco

Popular prevented this institution from being the core business of the family; the family was then forced to take refuge in real estate (Portocarrero, 1995).

Apart from the Prado family, the greatest group of industrialists comprised Italian immigrants. For example, the textile factory "San Jacinto" was founded in 1896 by Gio Batta Isola in partnership with fellow Italian Giacomo Gerbolini. The company is one of the few that still exist under the control of the same family.

Despite representing only a very small part of the population of Lima (less than 3% according to a survey from 1908), Italian immigrants were particularly active in the process of the launch of industry. By 1906, immigrants had formed 975 companies, of which 624 were dedicated to trade, while 131 formed part of the industrial sector, the majority manufacturing noodles, some producing wine (Durand, 2004). But the "comparative advantage" of the immigrants lay not in their "entrepreneurial" or "innovative" spirit that the sociologist Francisco Durand contrasted with a traditional and rentier "criolla" elite. Their advantage was that they were a social group organized around a financial institution, the *Banco Italiano* (1888). For this reason, the traders and industrialists of Italian origin had a comparatively more secure access to bank loans, a great privilege in the late 1900s. Thus it is essential to analyze the consequences of the restructuring of the financial system in the early industrialization of Peru.

Beside the Italians, other European immigrants arrived, among them the Englishman José R. Lindley who in 1910 established the Fábrica de Aguas Gasificadas Santa Rosa. At the beginning it produced beverages similar to those found in England (lemon squash, orange squash, etc.). By 1928, the elder son José was in control of José R. Lindley e Hijos S.A. and under his management Inka Kola was created in 1935. He died not long after and was replaced by his brother Nicolás (Chumpitazi & Rodríguez, 2010).

In the trade sector the presence of immigrants can also be seen, such as the Wiese brothers, originating from Austria. They began working in the Casa Wagner, later creating Casa A. y F. Wiese S.A. When Peru entered the Second World War, there was a change in the investments of the Wiese brothers: they acquired Banco Trasatlántico Alemán, that in 1943 received the name Banco Wiese (Portocarrero, 2010, p. 138).

Peruvian family businesses at this time had their basis in agro-industry, in the financial sector and in their influence on political power. The entrepreneurial families with greatest

access to financial capital and/or political power specialized in the industrial sector that provided no short-term profits and needed constant investment. This is how the Italian immigrants were able to concentrate on the industrial sector. But it was the combination of political and financial power that made the textile business of the Prado family the most important in Peru.

Due to the weakness in the financial sector, the networks between families and trading houses became the most important method of obtaining capital for the development of the company. This made the patriarch of the family the center point of the family's social and financial network. It was a "señorial" style of management in which the fate of the business was linked to the type of investments made by the patriarch, as shown in the case of the Prado family.

This period reached its end when the dictatorship of the Military Junta expropriated the lands of the agro-industrialists and a large part of the banking sector came under the control of the government, thus leaving the family businesses without their economic base. Nevertheless, in this period emblematic companies were formed that still remain under family ownership and management, such as the textile factory San Jacinto (Isola family) and the bottling plant José R. Lindley e Hijos S.A. (Lindley family)¹. Similarly, other family groups were created at that moment that would have a central role in the following phase, for example, the Wiese, Romero and Brescia families, among others.

12.2. The formation of new family groups and the development towards the interior 1960-1990.

The years between 1968 and 1990 were particularly complicated in the political and economic panorama of Peru. The country went from military dictatorship, that transformed the system of ownership and State intervention in the economy, to a fragile democracy that had to deal with a global economic crisis, hyperinflation, and the threats of the subversive guerrilla group, Shining Path (Thorp y Bertram 1985; Parodi 2000).

During these 22 complicated years, entrepreneurial families that were considered second tier in the previous period, took on a central role; such was the case of the Brescia

¹ The company Laive S.A., from this period, is no longer under the control of the Moreyra family since the majority shareholder is a Chilean company. A similar case is represented by the brewery Compañía Nacional de Cerveza Backus y Johnston that now belongs to SAB Miller.

and Romero families. Likewise, faced with economic difficulties and political instability, the entrepreneurial families developed a "reactive" style of management that consisted in designing investment strategies that would protect them from the risks that the implementation of economic policies could bring. An important part of these risk aversion tactics was the diversification of investments and a link to financial capital in order to cope with the liquidity crises that were so common at this time.

Thus through the 1980s the investments of entrepreneurial families became increasingly diversified while those of the State diminished. For this reason it should be of no surprise to find that in the ranking of top 500 businesses in Peru in 1989, 346 firms were family-owned and only 47 State-owned (Campodónico, Castillo, & Quispe, 1994, p. 116). The majority of the former type of company was linked to what we at the beginning of this paper call an Economic Group. This is why it is impossible in this period to separate the study of the family business from the group of which it forms part.

The most important family groups operating in Peru numbered thirteen. Among them, three were foreign: 1) the Grupo Fierro from Spain, 2) La Fabril of the Bunge y Born group from Argentina, and 3) the Hochschild group from England².

Among the Peruvian groups, the Romero and Brescia families owned the largest number of businesses, followed by the Ferreyros group. Likewise, the diversification in the groups was quite high, half of them investing in more than three economic sectors. The most diversified are the Romero (6 sectores), Brescia, Nicolini and Wiese (5 sectores), and Backus-Bentín and Ferreyros (4 sectores) (Campodónico, Castillo, & Quispe, 1994, p. 125).

The majority of the economic groups of this period have their origins in family businesses that were founded by the patriarchs, most of them immigrants, in the previous phase. This was the case of the Brescia and the Romero. At that time, as suggested by the research of Enrique Vásquez and Francisco Durand, the family was fundamental in the founding of the company or companies that then became the core of the business (Durand 2003; Durand 2004; Vázquez 2000 A).

² This latter group generated mixed feelings because its main source of accumulation was found outside Peru, but its political and social interests were within the country. Currently, the group is managed by a new generation with Peruvian nationality and has the majority of its investments in the country, criteria enough to call it a local group.

During the period 1960-1990, the majority of the companies that were considered the core of the family business were found in the industrial or trade sector. The center of economic activity of the family group could change if better investment perspectives appeared in other sectors, or if the family needed to protect itself from some action by the Peruvian State. But in general, what the families were looking for was to increase the market participation of their principal business in order to thus improve their negotiating power with the government of the day in the implementation process of economic policies (Vázquez, 2000 A).

The economic and political uncertainties made access to financial resources a very important issue for all large family businesses. This has given rise to very significant debate among Peruvian academics. For Ludovico Alcorta, Eduardo Anaya and Humberto Campodónico, the economic power of family groups can be measured by the control they have over financial capital (Anaya 1990; Alcorta 1990; Campodónico, Castillo y Quispe 1994). For this reason, their research emphasizes the study of investments made by entrepreneurial families in banks and insurance companies. Meanwhile, for Enrique Vásquez, economic groups organize themselves around a family business that constitutes the core business, and from there it expands to the financial sector as a way of guaranteeing access to capital (Vázquez, 2000 A)

The following table shows the connection of entrepreneurial families with banks or finance companies; in some cases more than one name is shown to be associated with an institution, in which case the first name given represents the most important shareholder. It should also be underlined that only in the case of the Wiese family is the banking institution also the core of family business.

TABLE 12.1: Financial institutions and family groups, 1983

Financial institution	Financial Group
Banco de Crédito del Perú	Banco de Crédito, Romero, Brescia, Nicolini, Raffo
Banco de Lima	Benavides, Bentín
Banco Wiese	Wiese
Banco Latino	Levy
Surmeban	Chiappori, Cogorno, De Ferrari, Moya
Banco del Sur	Lucioni
Banco Mercantil	Gildemeister, Lantta
BIC	León Rupp
Banco Comercial	Bertello
Financiera Crédito	Banco de Crédito, Romero, Brescia, Nicolini, Raffo
Financiera Comercial	Bertello
Financiera Andina	León Rupp

Financiera Progreso Financiera Sudamericana Financiera Nacional Promotora Peruana	Chiappori, Cogorno, De Ferrari, Moya Diamante Muncher, Piccini, Vera Gutiérrez Diamante
--	--

Source: Alcorta (1990, 180)

According to Alcorta, through financial control the economic groups developed a pyramidic structure to their businesses, which allowed them access to cheap loans for their companies and to make internal transfers between them. The bigger their financial capacity, the more the groups could benefit from tax exemptions and access to cheap loans that the government was giving out at this time to companies established in the economic sectors and/or geographical regions it was interested in developing (Alcorta, 1990, p. 134 y 213).

Enrique Vásquez, for his part, focuses more on the company (or companies) that functioned as core business of the economic group. This type of company was usually managed by the family and could take the form of a holding company. In the period 1960-1990, the majority of core businesses were to be found in the manufacturing industry (textile, food or beverages) and were commercially oriented to the internal market (Vásquez, 2000 A, p. 273).

The move from one core business to another depended on many factors: from generational changes in the running of the company, to the drying up of the business itself, expropriations and/or sudden changes in the economic policies of the government of the day. Thus, for example, the Romero family went from the production of cotton to edible oil; the Brescia family from real estate to mining, then to textile, returning towards the end of this period to real estate; the Wiese family replaced their commercial activities with banking, and the Ferreyros went from consumer goods to capital goods, etc. (Vásquez, 2000 A, p. 275).

Using the core business as a base, the families managed their investment portfolio. The level of diversification depended often upon the reaction to changing policies of the government in power, which meant that it was a diversification that sought to minimize risks and insure the liquidity of the family group. This required an organizational flexibility in the companies that would allow them to adapt to new investments and expand their participation in the markets (Guillen, 2000). For Vásquez, family groups expanded towards the financial sector to obtain access to funds and information, but also

to expand social and political networks (Vázquez, 2000 A, p. 283). These networks, combined with the size of the core business' market share, allowed the economic groups to increase their capacity of negotiation with the government in power.

Towards the end of this period, some important changes began to appear in the business structure of the large family groups. It was the start of a process of professionalization of the family members in charge of the companies, and there was an increase in holding companies that would ensure family control of the firms despite a rise in the contracting of managers or the incorporation of new shareholders not linked to the family.

12.3. Restructuring of the Peruvian large family business, 1990-2010

In the 1990s, there was another another sudden shift in strategy, oriented towards a market economy that gave priority to free trade of food and the consequent price "justification", the privatization of State companies, the reincersion of the country into the global financial market, and the control of inflation. The adjustment policies increased the recession that the Peruvian economy was undergoing and inflation was not fully brought under control. It wasn't until 1993 that the economy began to recover and GDP grew 6.4%; inflation was maintained at 39.5% to fall the following year to 15.4%. This growth continued in the following years but generated an overheating of the Peruvian economy, which raised the deficits in the balance of trade and made the Peruvian economy very vulnerable to the "Asian Crisis of 1998" (Parodi, 2000). Nevertheless, after the year 2000, an economic cycle driven by the rise in price of raw materials brought sustained growth in the Peruvian economy, reaching an average yearly GDP growth rate of 5.7% for the period 2000-2010.

After almost thirty years of being accustomed to a reactive management style, to a diversification based on risk aversion, and to negotiation with the government to obtain tariffs or tax exemptions, it is valid to ask oneself how the large family businesses adapted to the changes in economic policies.

For Francisco Durand, the first years of market reform strengthened foreign companies; they benefited from privatization and invested directly in the primary export sector, above all in mining. The national family groups became junior partners to the

multinationals through the process of acquisition of private companies (Durand, 2007, p. 149).

In the following table, elaborated by Francisco Durand, one can see the evolution of large family businesses as they faced the competitive adjustments that the 1990s market reforms signified.

TABLE 12.2: Evolution of Peruvian economic groups from 1986 to 2007

Economic Group	1986	1996	2007
Banco de Crédito del Perú (BCP)	Principal bank of the country. Controls insurance and finance companies	Principal bank of the country. Credicorp is formed as holding company of BCP	Principal bank of the country. Acquires Shell, the chain of service stations Primax and creates AFP Primax (2005) Acquires subsidiary of Banco Santander in Peru (2006)
Benavides	Principal national mining group (Minas Buenaventura) and mining engineers	Participates in privatization of mineral deposits. Becomes partner of Newmont Mining in Yanacocha S.A.	Growth of gold exports of Yanacocha
Bentín (Backus)	Principal brewery conglomerate (Cerveza Crsital, Lima)	Takes over Compañía Nacional de Cerveza (and Compañía Cervecera del Sur). Participates in AFP	Bought buy Grupo Bavaria (Colombia) and then the brewery company is sold to SAB Miller
Brescia	Diversified Group (mining, trade, industry, hotels, land)	Liquidates various industrial companies and participates in privatizations	Becomes partner of BBVA in order to buy Banco Continental (the second most important of the country) Subsequently buys fishing conglomerate Sipesa.
Ferreyros	Imports consumer goods and machinery, owns pharmaceutical industries	Sells the pharmaceutical companies	Continues growth thanks to mining boom
Galski	Is created in order to consolidate privatized fishing companies (Sipesa)	Expands to fish meal by buying State companies. Buys CPN Radio and creates Banco NBK	Sells CPN and NBK goes bankrupt in the crisis of 1998. Then sells Sisepa to Brescia group in 2006
Graña y Montero	Group that grows around the construction industry	Expands into IT and grows thanks to winning tenders for construction of infrastructure	Is weakened in the crisis of 1998 and the decline in construction. Forms an alliance with Brazilian group Oderbrecht
Lucioni	Trade establishments for durable consumer goods (CARSA)	Forms the Banco Orión aimed at consumer credit	Banco Orión goes bankrupt during the 1998 crisis and CARSA ends up being sold.
Nicolini	Number one mill complex in the country	Overwhelmed by debt, sells mills to Romero group	Is minority shareholder of Alicorp
Olaechea	Wine growing and Banco de Lima	Sells its participation in Banco de Lima	Concentrates on production of wine and pisco
Piaggio	Number two brewing facility of the country	Taken over by the Bentín group	----
Piazza	Construction of public works and Engineering. Expands with	Diversifies abroad, creates companies in Chile and	Suffers in the 1998 crisis and then recovers. With Bechtel

	Cosapi Data	Venezuela. In 1995 forms a subordinate alliance with Becthel (EUA) for mining projects in Peru	participates in improvements to Lima airport.
Picasso Salinas	Diversified Group (wine, hotels, mining and banking)	Expands into finance. Invests in sugar and hotels	Bankruptcy of Banco Latino and financial sector in 1998. Retains investments in wine and sugar.
Raffo	Textiles and construction. Minority participation in BCP	Industries oriented towards foreign market. Invests in construction (Los Portales)	Managerial restructuring
Rodríguez	Becomes majority shareholdaer of Gloria S.A.	Buys remaining shares of Gloria S.A. Buys cement works of the south (Cementos Yura) and enters the business of electrical companies in the north of the country	Sells some companies, loses the electrical companies. Consolidates itself in dairy and cements. Enters chemical production
Romero	Directs BCP, strong in foods, textiles, customs services	Enters the AFP, buys Grupo La Fabril and creates Alicorp. Creates Credicorp. Participates in privatization of Matarani and others	Alicorp consolidates itself as principal food company. Port export business grows.
Wiese	Number three bank of the country. Investments in trade, construction and fishing	The banking business becomes modernized	Banco Wiese goes bankrupt in 1998. The remaining investments stay with the group.
Wong	Takes advantage of the bankruptcy of the old Lima supermarkets to expand its market share	The Wong supermarkets expand through the city of Lima. Creates Metro supermatkets. Buys the agro-industrial company Paramonga	Sells the supermarket business to Cencosud
Wu	Sale of electronic products and liquors. Production of detergents	In consolidated in the import trade and sells its detergent business to Procter and Gamble	Crisis in the family succession is solved with the appointment of Oscar Lauz as head of group.

Source: Durand (2007, 153-154)

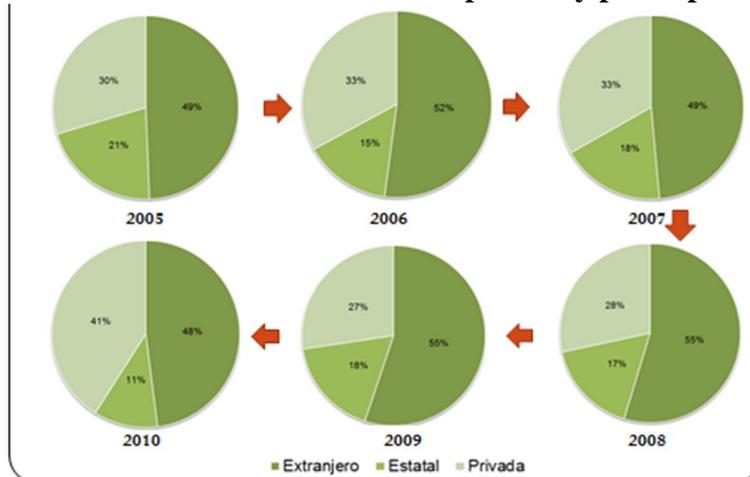
The data in the table shows a weakening of the family groups. Five of them went bankrupt (Galski, Lucioni, Nicolini, Picasso Salinas, Wiese), two were taken over by foreign companies (Bentín and Wong), and three (Piaggio, Piazza and Wu) saw their economic positions downgraded. This process of diminishing economic power of the important entrepreneurial families is what leads Durand to argue that there is a process of foreign take-over in the Peruvian economy (Durand, 2007).

Our sample on the participation in the total sales of the first 65 companies in Peru seems to confirm this position. For example, in 2005 the participation of Peruvian family businesses reached only 35% compared to 49% by foreign companies. The years 2008

and 2009 were the hardest for Peruvian family firms, their participation sinking to 27 and 28% respectively. However, around 2010 a process of rapid recovery began, with 41% participation in sales (Peru Top , 2010).

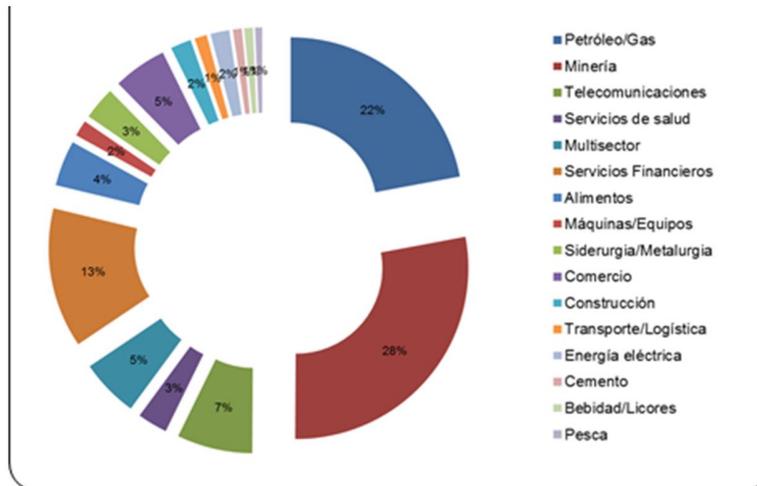
For its part, the sectorial analysis for 2010 shows that the mining sector represented 28% of turnover, the hydrocarbon sector 22%, and the finance sector 13% [See Graph 2]. It should therefore be of no surprise that the four companies that registered the largest turnover and profits were Petr leos del Per  S.A., Refiner a La Pampilla S.A.A., Southern Peru Copper Corporation, and Compa a Minera Antamina S.A. The first is a State-owned company and the other three foreign-owned (the last with a small participation of national capital). The only companies owned by Peruvian families that appear in the top 10 are the financial holding companies linked to the Rodr guez Pastor family (IFH Per  Ltd.) and the Romero family (Credicorp), both with head office in the Bermudas (Peru Top, 2010)

GRAPH 12.1: Distribution of 65 companies by participation in sales



Source: Own elaboration based on (Peru Top , 2010)

GRAPH 12.2: Distribution of sectors by participation of sales



Source: Own elaboration based on (Peru Top , 2010)

- Oil/Gas
- Mining
- Telecommunications
- Health services
- Multisector
- Financial Services
- Food
- Machinery/Equipment
- Steel/Ironworks
- Trade
- Construction
- Transport/Logistics
- Electric Power
- Cement
- Beverages/Liquors
- Fishing

In this general panorama, it does not signify that the Peruvian large family groups have lost their competitiveness. Quite the contrary; many of them, since the start of the new century, have initiated a process of internationalization. The questions that immediately arise are: What were the strategies followed by the family groups that successfully coped with changes initiated in the 1990s? Have new family groups emerged?

The families in mining, like the Benavides group, began in the 1990s to implement policies of strategic alliances or joint ventures, with the aim of obtaining capital for large mining projects such as Yanacocha with the *New Mont* company.

The Brescia group also established alliances with foreign companies in order to guarantee access to capital so that it could expand its investments. The most important of

these companies was the one it formed with BBVA bank in order to participate in the privatization of Banco Continental, one of the most important of Peru. This allowed them to enter the business of Private Administration of Pensions (Administradoras Privadas de Pensiones), AFP Horizonte, and to strengthen its investments in the insurance company Rímac Seguros. The revitalization of its financial portfolio allowed the Brescia to buy in 2005 the Sipease company from the Galsky group, and to manage it together with the company Tecnológica de Alimentos S.A. (TASA), one of the world's largest producers of fish meal and fish oil, as well as canned food. Similarly, the family continued the expansion of its mining investments through Minsur S.A., a company involved in the exploitation of tin (Vásquez, 2000 B). The Brescia family maintained its pattern of diversification of investments, expanding in the last years into the Chilean market with the acquisition of companies manufacturing cement and paints, as well the acquisition of Chilean real estate.

The Romero family, that along with the Brescia family continues to be the most influential group, concentrated firstly on strengthening its core business in order to launch, in recent years, an aggressive process of internationalization. The changes in economic policies coincided with the transfer of the control of the business from the third to the fourth generation, a smooth and well-planned process that culminated in 2001.

The initial strategy of the Romero family in the face of economic policy changes was to merge the companies it owned in the food processing sector, and acquire the companies of its competitors who had become weakened through being unable to adapt to these changes. In this way, it took over part of the business of the Nicolini and bought the company La Fabril. By 1997, it had founded a new company called Alicorp S.A that had as its base Calixto Romero y Cía. and Industrial Perú Pacífico Company, in addition to the recently acquired companies. In the following years, Alicorp became consolidated while the family diversified into other businesses such as the production of biofuels and the acquisition of Repsol's service stations that went on to form the Primax company (Revista Poder, 2012).

The Alicorp company began a more aggressive internationalization process. In 2008 it bought *The Value Brand Company (TVB)*, the third most important company in the production of household products and personal care in Argentina after Procter & Gamble

y Unilever. On the basis of this company, Alicorp Argentina was established, and continued to grow in the next years with the acquisitions of Sanford (giving it access to the cookie market through Okebon) and of Italo Manera and Pasta Especiales. The founding of Alicorp Argentina signified the diversification of the Peruvian company into other areas and the control of a distribution chain that covered 25 countries. That year, Alicorp Peru bought Productos Personales S.A. (Propesa) and Eskimo, both with good distribution chains, and from there it has founded Alicorp Colombia and Alicorp Ecuador respectively (Revista Poder, 2012).

The other important groups, for their part, formed alliances with companies from abroad. For example, Ferreyros S.A. specialized, through partnership with Caterpillar Co., in the sale of capital goods and services for the large scale mining industry. The Lindley family sold the Inka Kola brand to Coca Cola Co. in exchange for a percentage of the sales and the role of bottler and distributor of the US company in Peru. The construction company Graña y Monetero S.A. diversified considerably and established an alliance with Odebrecht of Brazil. Finally, Aceros Arequipa of the Cillóniz family and Cementos Lima S.A. (today UNACEM) of the Rizo Patrón family have also increased the range of their operations and begun processes of internationalization.

But most extraordinary event in this period is the consolidation of new family groups such as the Rodríguez family from the Gloria S.A. group, the Añaño family of AJE Group, and the Belmont family of Belcorp y Yambal. In addition, there are also the Rodríguez Pastor brothers from the Interbank group. Using financial capital, the brothers have successfully expanded into the retail sector, supermarkets, cinema chains, fast food, pharmacies, hotels, and education - both basic and superior.

The most interesting entrepreneurial families from this period, however, are the Rodríguez Rodríguez and the Añaño Jerí, because they come from a middle-class sector from the south of the country and accumulated capital that allowed them to make a fortune at the worst economic and political moment in the country, the second half of the 1980s. In addition, their companies had undergone a rapid process of internationalization. These families represented the opposite case to that of the Nicolini or Wiese families, who lost their core business during the process of market opening.

The Rodríguez Rodríguez family are the leaders of the Gloria group, a holding company that includes dairy production, cement plants, paper works, and sugar plantations destined for the production of biofuels. The business of the family began with the father, José Rodríguez Banda, who had a small company of freight forwarders that his son transformed into a company for the transport of materials for the mines of Arequipa. The business, José Rodríguez Banda S.A.C (Jorsa) still exists and acts as a holding company for the family businesses in dairy production.

One of the elements that characterize the Gloria group is that, in the 1990s and 2000s, it underwent a process of diversification very similar to that of a classic economic group. That is, on some occasions it invested in businesses linked to the dairy company; on others it took advantage of the opportunities that presented themselves. For example, during the process of privatization, it decided to buy Cementos Yura and Cementos Sur. However, there are four areas in which it concentrates the majority of its investments: dairy, paper, sugar and cement. Each of these areas is organized around a holding company.

The expansion into the area of dairy products and articles for daily use started very early with the acquisition of the Sociedad Ganadera Luis Martín, which allowed them to enter the production of ready-to-eat processed foods, and yoghurt. Only two years later, they bought the factories of Pil Andina in Bolivia. Subsequently, at the start of the new century, they begin an aggressive expansion policy in the region, buying Suiza Dairy Co. (Puerto Rico), Compañía Regional de Lácteos Argentina S.A. (Argentina), Algarra S.A. (Colombia), Lechera Andina S.A. (Ecuador) and Ecolat S.A. (Uruguay). The expansion into cement, as already commented above, was more a reaction to the opportunities offered by privatizations rather than a strategic plan. The acquisition of the paper works, and carton and box factories, on the other hand, does correspond to a project for gaining independence in the production chain and improving the packaging of their products (Revista Poder, 2012, p. 27). The investments in sugar were a result of the constant search for diversification and the opportunity that the production of biofuels could represent for the future.

The case of the Añaño family has some similarities with the previous case. The Añaño family had no links with the government or foreign multinationals, nor did it have

financial capital; nevertheless, it managed to create two firms that today compete in the local and international market against large multinationals. The two companies in which the family is involved are: a) Industrias San Miguel, founded by two married couples, Eduardo Añaño-Mitha Jerí, and Jorge Añaño-Tania Alcázar; and b) Aje Group formed by the other Añaño Jerí brothers.

As with the Rodríguez Rodríguez case, the Añaño family's process of raising and accumulating capital happened not only in the worst moment of the Peruvian economy, but also in the geographical center of the armed conflict that shook Peru in the 1980s and 1990s. Industrias San Miguel was founded in Huamanga, Ayacucho in 1988 thanks to the company of the afore-mentioned spouses Añaño Jerí y Añaño Alcázar. The first brand, Kola Real, was sold in five flavours all over the Ayacucho region, using recycled beer bottles. The internal war restricted the distribution capacities of bottling plants based in Lima, raising the demand for trade in low-cost drinks in the southern and central mountain range. This resulted in the growth of Industrias San Miguel in 1991 towards Andahuaylas (Apurímac) in order to supply the Cusco region. It was at this moment that Jorge Añaño reached an agreement with his brothers for them to set up a plant in Huancayo in the central mountain range. This factory was the beginning of the Aje Group, trading in the same products as Industrias San Miguel. Both companies had the same strategy of remaining a low-cost company, but the markets they chose for expansion marked the difference in their evolution.

The market in the southern mountains was bigger but also needed more working capital to remain competitive, and the next step after being established in the south was usually to put a plant in Lima, as the Rodríguez family had done with Gloria milk. Indeed, in 1993 Industrias San Miguel opened a plant in Huara, to the north of the capital with the aim of competing in the largest Peruvian market. Aje Group continued a different strategy; it was not concerned with expanding its participation in the Peruvian market, but rather in consolidating its operations. For this, it sought to repeat the experience of Ayacucho and Huancayo in a smaller market, but also a much cheaper one in terms of working capital and transaction costs. This was how it decided to open a second plant in the small town of Bagua in the northern Peruvian Amazon. The geographical location of Bagua offered various advantages. The first was that the entire

Amazonian region was exempt from both income tax and value added tax. The second was that from Bagua one could reach the mountains and the northern Peruvian coast and establish a small regional market; which is what effectively happened with the plant set up by the Aje Group in Sullana (Rivera, 2011).

Towards the end of the 1990s, the Añaño brothers of the Aje Group decided that, in order to maintain their growth in the long term, it was not worth competing to get a greater participation in the Peruvian market, and decided to take their production and commercialization model to Venezuela. Their strategy of internationalization consisted in setting up their own plants and not competing for large market participation, but rather, once they had consolidated the business, to move on to another country. But the most important step for the company was the entry to Mexico where reaching 7% of the Mexican market gave them more profit than the whole of their Peruvian businesses put together (Rivera, 2011).

Once the objectives in Mexico were reached, the Añaño brothers proposed a greater challenge: to enter with the same model into the Asian market. But since this implied a greater growth of the company, they could not do this by themselves, and for the first time they contracted a manager from outside the family to be in charge of operations. The first test was done in Thailand and the success they achieved encouraged them to put a plant in Vietnam and Indonesia, and recently they have opened another in India. The Asian investments enabled the Aje Group to establish an office in Spain in order to have a management "bridge" between the American continent and Asia. In addition, the expansion brought with it the employment of a greater number of high-ranking members of staff from outside the family, even though the family continues being in control of ownership and administration. As in the case of the Gloria Group, Aje made no capital increases using external funds, thus avoiding the entry of non-family partners, and for the same reason neither are they listed on the stock market. The biggest novelty in this respect was the issue of corporate bonds in 2012 (Rivera, 2011).

Industria San Miguel, for its part, successfully continued its strategy of ensuring its participation in the Peruvian market, and in the last years has initiated a process of industrialization with the construction of a plant in the Dominican Republic and another very large one in Salvador de Bahía, Brazil.

The cases briefly described in this section allow us to demonstrate that, after a difficult period of adaption to reforms in the market, Peruvian family groups began a new process of diversification and internationalization, the latter constituting the main difference with the two previous phases. The tendencies that prevail are that the large entrepreneurial families have a greater participation in the sectors linked to the extraction of natural resources (mining and fishing), sugar cane production, finance, cement, and the beverage and food industries.

The groups whose fortune originated in the previous phase tend to keep a close connection with finance capital as a way of strengthening their investments. In contrast, the new groups, such as Belmont, Añaño and Rodríguez Rodríguez, tend not to be too interested in investments in finance capital; in fact, only the latter group owns companies that are listed. Likewise, these families are reticent about making capital increases that would involve the entry of partners from outwith the clan, reason for their preference to issue corporate bonds when they are in need of greater access to capital.

The internationalization of the companies and the growth of their operations have led Peruvian families to found holding companies in order to maintain family control of ownership as well as of the administration. This by no means contradicts the increase in the use of professional managers that have no family links with the owners of the company. It is precisely the structure of holding companies that allows the combination of family-based administration and the "managerial revolution".

12.4. Conclusions

One of the first curious facts is that large Peruvian family companies seem to be relatively short-lived. The only two companies that have lasted longer than a hundred years and are still in the hands of Peruvian entrepreneurs are the Corporación Lindley and Tejidos San Jacinto (Isola family). For this reason it is important to emphasise that, despite none of their businesses (Banco de Crédito del Perú brings together various groups) being older than 100, the Romero family has managed to remain active in the Peruvian business world for four generations. Interestingly, one of the oldest family firms is Gloria, that in the 70 years of its existence was first a transnational company with minority participation of Peruvian capital, then a family business after its acquisition by

the Rodríguez brothers in 1986. Backus & Johnston followed an inverse path, being bought up by foreign companies.

A possible explanation for the relatively short life of the companies could rest with the sudden changes in economic policies of the governments, especially in the 1970s and 1990s. But it could also be due to generational changes in the leadership of the businesses established at the beginning of the 20th century. The companies founded in the second half of the 20th century have laid much more importance on the professional training of their members and to the mechanisms of transition.

Another important element in understanding the history of large family businesses is their relationship to foreign capital and the sectors in which they specialize. With the exception of the second period, foreign investments have dominated the most productive sectors of the Peruvian economy. For this reason, in the early 20th century as well as in the early 21st, Peruvian family businesses have established joint ventures with multinational companies in order to guarantee the necessary capital for their investments or for allowing access to new technology. Likewise, Peruvian businessmen used to invest in the economic sectors that foreign companies were not interested in or where legal matters made their participation difficult, such as insurance companies.

Nevertheless, in the third period we have seen an important change in this respect. The Rodríguez family buys a company from a multinational and uses it to compete in other markets. In the same way, Alicorp begins to enter areas that were generally controlled by Unilever or Proctor & Gamble, and the Añaño family also represents a similar case. This is not to say that the majority of extractive industry is not still controlled by multinationals. The sectors in which the more solid family businesses are specialized tend to be linked to finance, food and beverage processing, agro-industry, mining and fishing and, to a lesser extent, textiles.

Another element that stands out from the three periods is the forms of diversification of the investments of Peruvian large family businesses. There are three basic patterns. The first, represented best by the Brescia family, is based on a diversification that seeks different opportunities for investment in order to protect it from changes in the Peruvian economy. This diversification is possible thanks to links with financial capital. Another

style is that of the Romero family, or Gloria Group, that from a core business looks for investments with which it can control an important part of the market. Only in the last period have very specialized industrial groups appeared, like the Belmont in beauty products, and the Añaño in beverages.

Finally, an element that characterizes all three periods is the close links to the financial system and family groups. Banco Italiano, later Banco de Crédito del Perú, played a fundamental role in this story since it was, and is, the financial arena in which many entrepreneurial families interact. Since the 1970s it has been under the control of the Romero family, which has allowed the family to retain a certain predominance in the financial world. The acquisition of part of Banco Continental by the Brescia family, together with its participation in the insurance company Rímac, have been fundamental for the expansion of the family's business and its internationalization.