

A Work Project presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA – School of Business and Economics

*Portuguese Business Groups at the
beginning of the 21st century
Trends, characteristics and configurations*

Ana Cláudia Patrício de Oliveira Santos
1246

Under the supervision of Professor Álvaro Ferreira Silva

Lisbon, May 30, 2014



Abstract

This study considers the literature on the persistence of business groups in developed economies and analyzes the Portuguese case. The reconstruction of the largest business groups assembles information relevant to define characteristics that enable them to thrive. Increasing internationalization, more specialization in core activities and family control define these types of big businesses. New sectors also emerge as a characteristic of these business groups when compared to the ones existing 40 years ago.

Keywords: Business Groups; Diversification; Family Business; Internationalization, Portugal.

Table of content

1. Introduction	3
2. Business groups: second-rate organizational form for business diversification?.....	4
3. Methods and sources	9
4. The largest Portuguese business groups: configurations and business profiles	10
5. How different they are? A long-term perspective on Portuguese BGs	15
6. Conclusion	19
7. References	21
8. Appendixes	22

1. Introduction

The persistence of business groups (BGs) in developed economies is not yet well understood by scholars. Previous studies on the existence of this organizational form set a framework not compatible with developed economies, such as Western European.

Besides the results presented by those studies, there are several family-owned BGs that have survived across Europe. One good example is Agnelli's family-owned businesses in the food, agriculture, real estate, cement, tourism and automobile sectors (Colpan and Hikino, 2010:50), that constitute a well-succeeded Italian BG.

This attitude of "empire building" (Buysschaert et al., 2008:4) has prompted explanations for BGs existence as rent seeking, and market and institutional failures, for example. In addition, Carney et.al (2011) have found possible causes for BGs persistence in developed economies, such as network advantages for business activities (as they provide formal and tacit information about all the players, contract enforcement and the recognition of opportunities) among the key market players (6) or even strategic changes that mandate a refocus on core activities - while remaining on the 'less relevant industries' too.

The present work paper approaches the existence of BGs in a developed country. Portugal was the chosen country, as it is a particularly interesting case. Like many other countries, it had BGs in a developing phase of the economy that were suddenly eradicated by widespread nationalizations movements in 1975. Contrary to what might be expected, as soon as the market was liberalized, new BGs appeared in a mature phase of the economy. Therefore, the aim of this study is to characterize current BGs, their profiles and importance. To illustrate the differences between developing and developed economy BGs, an endeavor of comparison is done with the BGs existing before the 1975 nationalizations.

2. Business groups: second-rate organizational form for business diversification?

2.1. Definition

“Typically consists of legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g., equity) and informal (e.g., family) ties. Varying degrees of participation by outside investors characterize many business groups around the world.” Khanna and Yafeh (2007)

There are several definitions for BGs, which are sometimes confused with other organizational forms. *Figure I* illustrates the conceptual differences between BGs and network-type forms. The latter relies on the cooperation of several independent firms, which would share a long-term goal without the persistent formal ties, as it has been identified by Khanna and Yafeh. In this study, only hierarchy-type groups are considered – in which a holding controls legally independent subsidiaries or affiliates by “equity ties and other economic means such as interlock directorates, budget allocation or intra-group transaction” (Colpan and Hikino, 2010: 20).

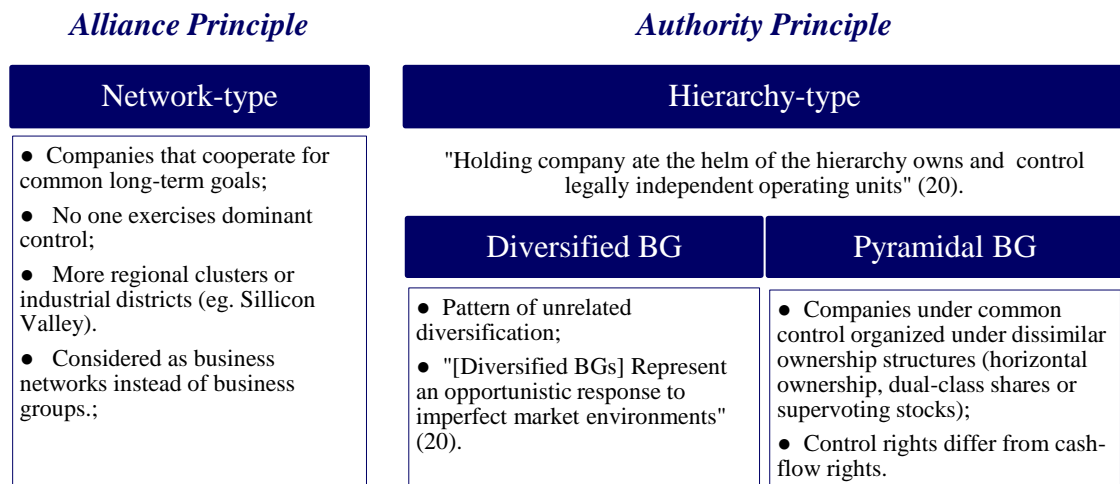


Figure I: Categorization of groups [based on Colpan and Hikino (2010)]

Alternative Business Models

Conglomerates and multidivisional firms have formal characteristics similar to BGs, sometimes leading to confusions between them. Highlighting the main differences will

make it possible to have a clearer idea about how BGs are defined. According to Colpan and Hikino (2010), the differences and similarities between these organizational forms can be summarized in the following way:

- (1) All these business forms are under the unitary principle, “characterized by unity of ownership, functional integration, centralization of management and economies of scale” (US Legal), with a formal or informal holding running the subsidiaries.
- (2) M-form enterprises are based on related-product categories portfolio, which means that there is no unrelated diversification among subsidiaries.
- (3) Both conglomerates and BGs have unrelated-product portfolios.
- (4) What makes conglomerates differ from BGs are the equity ties between holdings and subsidiaries (level of ownership). While conglomerates have full ownership of subsidiaries, in BGs there are different levels of shareholding, usually below 100%. This difference of ownership levels creates the possibility for BGs’ ultimate owners to exert control rights in a significantly stronger way than their ownership ones, leading to the phenomena of tunneling (Morck, 2010). This is typical of markets with weak law enforcement as it has been referred by Riyanto and Toolsema (2004).

2.2. Reason for the existence of BGs

Khanna and Yafeh (2007) and Morck et. al. (2005) have presented several reasons for the emergence of BGs. Underdeveloped markets of labor, capital and products are some of the reasons which may explain why this organizational structure came up as a solution to overcome market failures. Institutional failures, such as the one related to difficulties in contract enforcement, have also triggered companies to cluster into BGs. As a result, companies started filling in market gaps by diversifying activities and creating intra-group markets for goods, capital and services.

According to Montgomery (1994), this diversification into different business areas exists for three reasons: market-power, towards profit maximization; resource view, for an efficient allocation of resources, as it has been argued that “rent-seeking firms diversify in response to excess capacity in productive factors [or resources]” (167); and transaction costs view, where the creation of an intra-groups market lowers transaction costs (Khanna and Yafeh, 2007).

Both market and institutional failures may explain the emergence of this organizational form in developing economies, whilst developed economies are unlikely to have BGs in their business framework. This latter fact derived from an increased efficiency, resulting from improved markets and institutional conditions which originated a diversification discount. Scharfstein (1998: 1) has concluded that “they [diversified groups] trade at discount of comparable stand-alone firms”. Nonetheless, a study on the US economy by Martin and Sayrak (2003) counters this argument. When analyzing this discount across several corporate groups, the authors conclude that the diversification discount could occur as a result of inaccurate measurements. Moreover, there is a possibility that it could be unrelated to diversification altogether and, in some cases there could be a diversification premium. Continental Europe still has diversified BGs, hinting that market conditions deemed characteristic of this organizational form should be further reviewed.

European evidence

A significant part of European BGs are family-owned which suggest that family businesses are the basis for the formation of this organizational form. Another important characteristic that promotes the creation of this type of business structure is the corporate environment. Buysschaert et. al (2008: 3) have developed the following categorization for governance types: market-oriented systems, common in Anglo-Saxon

countries (UK); network-oriented systems, frequent in Latin countries (Portugal, Spain, France, Italy and Belgium); and Germanic systems (Germany, Switzerland, Scandinavia, Austria and the Netherlands). They have also found that BGs were more common in Latin systems. However, this taxonomy has an important limitation which should be addressed. It has to do with the fact that Scandinavian firms are known for their important BGs and, yet, are not included in the Latin countries' category.

Portuguese corporate ownership also suggest the existence of BGs according to the characteristics discussed above: large Portuguese firms are not likely to be widely held which suggests that large corporations are owned by an ultimate owner, such as a family; and “the top 15 families control 36.77% of the total market capitalization in Portugal” (Faccio and Lang, 2008: 391) which points out the predominance of large family owned businesses.

The present study attempts to (1) identify the largest BGs in Portugal, (2) highlight their main characteristics (dimension, diversification, ownership and internationalization) and configuration, (3) compare them with the Portuguese BGs before 1975, and finally (4) contribute to the existing literature regarding BGs in developed countries.

2.3. The Portuguese Case

Portugal, as most of the European countries, passed through different political-economic phases during the 20th century which had a direct influence on business organization. The emergence of BGs in Portugal is similar to many developing countries. The *Estado Novo* period (1931-1974) was the period when BGs developed. At the time, government policies were based on corporatism, a highly regulated economy, and on a developmental policy for promoting growth (Confraria, 2005).

Measures applied by the Portuguese government 1933-1974

- strong regulation of business activities (corporativism and market regulation, industrial licensing, foreign investment);
- trade protectionism;
- limitations to industrial action and trade unions.

Development strategy shared by the government

- development policy for the promotion sectors considered drivers of economic growth .

Figure II: Economic institutions and policy under the *Estado Novo* (Confraria, 2005)

These groups were either industrial or financial BGs, family-owned (with the exception of Banco Nacional Ultramarino and Banco Português do Atlântico) and widely diversified, mostly after the 1960s (Silva, Neves and Amaral, forthcoming). Furthermore BGs were “inward-oriented organizations, segregating affiliate firms from more inclusive partnerships with firms outside the groups” (Silva and Neves, forthcoming). Eric Baklanoff (1996: 927-928) has also added the high concentration of companies controlled by family-owned groups (usually financial-industrial groups). This study has revealed that, in 1971, 0.4% of the Portuguese companies detained 53% of the market commodities.

Pre-1975 Characteristics: financial and industrial; non-related portfolio of activities; very different strategies among them; family-owned; devoted to domestic market (mainland and colonies); inward-oriented (very few inter-group joint-ventures).

In 1974, a democratic revolution has drastically changed the economic environment, and it has opened up a round of nationalizations in 1975 destroying the most important groups. The nationalization of the financial sector decapitated the largest Portuguese BGs. During the 1980s and 1990s, the economic liberalization and privatization led to the emergence of new BGs, when the Portuguese economy was more mature. The sudden institutional shock emerging from 1975 nationalizations and the creation of new BGs afterwards, gives the opportunity to experience two different business group-types:

one typical of developing economies; and another one characteristic of more mature markets and institutions.

3. Methods and sources

A snapshot of the configuration and characteristics of the BGs was taken for the year of 2012, at the end of a development process since the late 1980s. The following template was used to gather information on present-day BGs.

1. Group Selection: the seven largest BGs were selected by total turnover, based on the ultimate owner: Amorim, Espírito Santo, Jerónimo Martins, José de Mello, Mota-Engil, Semapa and Sonae.
2. Data Collection: to reconstruct the BGs, data was collected according to the following indicators: date of group foundation, dimension, diversification, level of ownership and internationalization. The main sources were: the Amadeus BvD, Annual Reports, other institutional information and press.

Dimension	Measured by total assets and operating revenue.
Diversification	NACE classification (sector of activity) for each company, according to the source. For a group overview, companies' individual total assets are used as proportion of the total assets of the holding responsible for the consolidation of accounts. By this means, the sectors are weighted according to the companies' relative dimension.
Level of Ownership	Only direct participations – from holding to subsidiary – above 10% were considered.
Internationalization	Institutional information reports the internationalization of the group by business volume, sales and/or exports.

Figure III: Drivers for Data Collection

3.1. Limitations of the study

Once this study relied mostly on a private database (Amadeus BvD), with no complete access to all the companies' information, it is fair to say that there exist some limitations that need to be taken into account when interpreting results. Several companies did not have available information (particularly non-European and private firms) and for that reason some information relevant for the analysis is not included. To minimize possible

gaps of information, other sources, as annual reports and other institutional information, are used. Moreover, only direct levels of ownership were considered, thus indirect ownership by means of other intermediate companies is not included. Finally, for the sake of the available time, other information interesting to analyze BGs characteristics was not covered by the study, including governance and voting rights.

4. The largest Portuguese business groups: configurations and business profiles

4.1. Américo Amorim Group

Interfamilia II, SGPS. S.A.

The Amorim Group started in 1870 on the cork business. In the 1960s, it initiated a process of verticalization and internationalization of activities. Overall, the BG is in six business units: energy, cork, forestry, finance (being shareholder of some banks in Portugal, Angola, Mozambique and Brazil), real estate and luxury. Its scope is now very wide, covering five continents and several businesses.

Group Foundation	1960s
Number Companies	24 companies
Dimension	Operating Revenue = 568 M Total Assets = 2 266 M
Diversification	8 Sectors: Agriculture and Forestry; Manufacturing; Energy; Waste Management; Wholesale and Retail; IT systems; R&D; and Shared Services. Core sector(s): Manufacturing; Energy; Waste Management.
Level of Ownership	62.5% of the companies are fully owned by the group. Only 12.5% are owned below a threshold share of 50%. There are no stakes below 20%.
Internationalization	The group has operational units spread by more than 100 countries. Regarding the core business of the group (cork), only 5% of the sales go to the national market. The remaining go mostly to European Union (55%) – including Norway and Switzerland –, and USA (18%).

Figure IV: Amorim Group Profile

4.2. Espírito Santo Group

Espírito Santo Control, S.A.

The banking house was created in the 19th century, and it has been kept under family control since then. During the 1930s, Espírito Santo family started having minority

stakes in other businesses. In 1975, the banking sector was nationalized and the family relocated its activities outside of Portugal, starting its internationalization process. Over the time, the BG diversified into other sectors, besides its core activity (banking), creating two main holdings responsible for Financial and Non-Financial Activities. The financial activities are headed by Espírito Santo Financial Group, in Luxembourg, controlling several banking and insurance subsidiaries, internationally. The non-financial activities are headed by RioForte running participations in agriculture (Portugal and South America), health (Portugal), real estate and construction (Portugal, America, Asia and Africa), and tourism (Europe and Brazil).

Group Foundation	1930s
Number Companies	63 companies
Dimension	Operating Revenue = 975 M Total Assets = 19 254 M
Diversification	10 Sectors: Agriculture and Forestry; Mining and Quarrying; Manufacturing; Construction; Tourism; Real Estate; Business Consultancy; Travel Agency; Financial and Insurance; and Health and Social Work. Core sector(s): Financial and Insurance
Level of Ownership	64.5% of the companies are fully owned and 12.9% are owned below a share of 50%.
Internationalization	ES financial activities do not have available information quantifying international income. However the annual report refers that most of the insurance activities are held in Portugal. Regarding non financial activities, it has the highest presence in European Southwest (Portugal and Spain – 74% of the business volume) and also in South America (22% of business volume).

Figure V: Espírito Santo Group Profile

4.3. Jerónimo Martins Group

Sociedade Francisco Manuel dos Santos, SGPS, S.A.

Jerónimo Martins was born in 1792, with a store in Lisbon, initiating the activity of retailer. The BG emerged in 1949, by a joint venture with Unilever in the sectors of manufacturing and distribution. As it grows, its strategy gained complexity. In the mid-1990s, the group identified Poland as a target to internationalize, initiating activities in the country. Later, in 2011, Colombia was also identified as the third host country.

Being recently re-organized, the group reduced its shareholdings on the least profitable sectors of activity. By this means Jerónimo Martins was able to filter the successful businesses, to diminish the debt, and to get more focused in its original core industry. Today, the group is mostly devoted to manufacturing and mass retailing, operating in the distribution, industry and service sectors. It is composed by joint ventures (with Unilever PLC and Gallo), as well as other associate companies (partly owned by other company or group), which allow it to move into other sectors of activity.

Group Foundation	1949
Number Companies	28 companies
Dimension	Operating Revenue = 3 410 M Total Assets = 5 850 M
Diversification	6 Sectors: Manufacturing; Wholesale and Retail; Food services; Distribution; Business Administration; and Education. Core sector(s): Wholesale and retail; Mass Retailing distribution; Manufacturing.
Level of Ownership	53% of the companies are fully owned and 16% are owned below a share of 50%.
Internationalization	Most of the sales of the group come from Poland (62%), while Portugal sells only 38% of it.

Figure VI: Jerónimo Martins Group Profile

4.4. José de Mello Group

Sociedade Francisco Manuel dos Santos, SGPS, S.A.

The project of a new Companhia União Fabril (CUF, chemical firm) was launched by Alfredo da Silva in 19th century. At the beginning of the 20th century the BG was formed – when it entered into colonial agriculture, shipping, tobacco, manufacturing and banking. After the 1950s, the diversification process increased, transforming the BG into the largest Portuguese one when it was nationalized in 1975. Reconstructed in the 1980s, the group created its own bank (Banco Mello), and acquired an insurance company in the 1990s (Império), which would be later part of other Portuguese bank (BCP). It is present in several industries: the infrastructure industry (a stake of 52.8% of Brisa), in the chemical industry (81.5% of CUF), the health/service industry (65.9%

of José de Mello Saúde), energy and environment industry (50% of EFACEC), real estate industry (100% of José de Mello Imobiliária), and it also detains a small, although significant, participation of EDP.

Group Foundation	1910s
Number Companies	51 companies
Dimension	Operating Revenue = 1 560 M Total Assets = 6 975 M
Diversification	9 Sectors: Manufacturing; Energy; Construction; Wholesale and Retail; Transportation; Real Estate; Accounting, Consultancy, Engineering and Maintenance and Exploitation of Highways; Shared services; and Health and Social Work. Core Sector(s): Engineering and Maintenance and Exploitation of Highways; Manufacturing; and Health and Social Work.
Level of Ownership	60% of the companies are fully owned, and 16% are owned below a threshold of 50%.
Internationalization	Brisa: USA, India, the Netherlands. EFACEC: Austral Africa, Latin America, USA, Central Europe, Iberia, India, Maghreb. The group shows high internationalization in some core subgroups: Brisa has a total of 25 418 Km of highways abroad; CUF exports 31% of its sales; and 70% of EFACEC's output is international.

Figure VII: José de Mello Group Profile

4.5. Mota-Engil Group

FM – Sociedade de Controlo, SGPS, S.A.

Mota-Engil was created in 2000 with the acquisition of Engil, SGPS by family Mota. The merger of the family-owned company (Mota & Companhia) with the acquired one formed a BG present in three main business units: engineering and construction, environment and services, concessions and transport.

Group Foundation	2000
Number Companies	67 companies
Dimension	Operating Revenue = 1 147 M Total Assets = 899 M
Diversification	12 Sectors: Mining and Quarrying; Manufacturing; Energy; Waste Management; Construction; Wholesale and Retail; Transportation; Tourism; IT Systems; Engineering; Shared services, environmental landscape and water services; Entertainment. Core sector(s): Shared services, environmental landscape and water services; Construction; Waste Management; Transportation; and Engineering.

Level of Ownership	Only 40% of the companies are fully owned and a total of 29% are owned below a threshold of 50%.
Internationalization	64% of the business volume respects to international activities. The main geographic areas are Portugal (36%) and in Africa (32%). It is also present in Central Europe and Latin America.

Figure VIII: Mota-Engil Group Profile

4.6. Semapa Group

Semapa - Sociedade de Investimento e Gestão, SGPS, S.A.

Constituted in 1991, Semapa was a group born from the privatization of Secil – Companhia Geral de Cal e Cimento, S.A. and CMP – Cimentos Maceira e Pataias, S.A. In 2000 the company started to internationalize its activities and in 2004, with the buy-out of 30% of Portucel, it was established as BG. Few years later, in 2008 the group acquired ETSA diversifying into environmental and waste management activities. Nowadays, the BG is split into three wide business units: paper and paper pulp (detaining 80.84% of Portucel), cement and cement derived products (99.99% of Secil) and environment (96% of ETSA) – all under the control of Semapa.

Group Foundation	2004
Number Companies	61 companies
Dimension	Operating Revenue = 3 236 M Total Assets = 4 307 M
Diversification	10 Sectors: Agriculture and Forestry; Mining and Quarrying; Manufacturing; Energy; Waste Management; Wholesale and Retail; Data Processing; Real Estate; Public Relation and related services, and consultancy; Business Support and Shared services. Core sector(s): Manufacturing; and Waste Management.
Level of Ownership	79% of the companies are fully owned and only 7% are owned below a threshold of 50%.
Internationalization	It is present in every continent, mostly with activities of Portucel and Secil subgroups. 51% of Portucel sales of paper are to foreign markets. Secil exports 42.1% of output.

Figure IX: Semapa Group Profile

4.7. Sonae Group

Sonae SGPS, S.A.

The group began with a single business area in 1959, the decorative laminate. Few years later, it employed Belmiro de Azevedo who is the actual ultimate owner of the group. In

the decade of the 1970s Sonae started its verticalization, acquiring a wood company. Diversification started in the 1980s, through the acquisition and creation of several businesses. Over time the BG has been managing its business portfolio, and nowadays it is present in the following areas: the consumer goods retail sector (Sonae MC – Modelo and Continente – and Sonae SR – Worten, SportZone, Zippy, Loop and Modalfa); the shopping center specialized sector (Sonae Sierra); telecommunications, software and information systems and media (Sonaecom); real estate (Sonae RP); and other investments (Gestão de Investimentos). Since the year of 2000, the BG has been internationalizing its activities.

Group Foundation	1970s
Number Companies	134 companies
Dimension	Operating Revenue = 18 041 M Total Assets = 10 545 M
Diversification	14 Sectors: Agriculture and Forestry; Manufacturing; Energy; Sewerage; Construction; Wholesale and Retail; Transport; Tourism and Food services; Media and Telecommunications; Insurance; Real Estate; Engineering and Consultancy services; Travel Agency and Business Support services; Health and Social Work; and Entertainment. Core Sector(s): Wholesale and Retail; and Manufacturing.
Level of Ownership	71% of the companies are fully owned and 13% are owned below a threshold of 50%.
Internationalization	The group is present in 53 countries, having more visibility in Europe and South America. The most internationalized business units are Sonae SR (28% of business volume is international) and Sonae Sierra, where 58% of the turnover coming from abroad.

Figure X: Sonae Group Profile

5. How different are they? A long-term perspective on Portuguese BGs

5.1 A new era of BGs

The profile of the largest Portuguese BGs may be summarized according to the following five characteristics: sectoral cores organizing these clusters of firms, ownership and control, levels of diversification and internationalization, emergence and internal configuration.

Sectoral Cores

There is one sectoral area characterizing BGs both before and after 1975, which is manufacturing. Currently, though, the services sector is also greatly present in BGs. Such has occurred as the result of the process of “tertiarization” of the economy which began in the 1960s and has, progressively, gained prominence. Consultancy in multi-disciplinary areas, R&D and innovation centers, distribution, shared services, human resources, information and technology, media, and expertise of scientific and technical areas are example of new sectors of activity.

With the exception of Espírito Santo, no group, currently, has the financial sector as its core one. This may have to do with the maturity of the globally-integrated capital market. Moreover, groups with nonfinancial core activities needed to redefine their strategy as competition increased along with internationalization, and thus minimize or even eliminate the financial stakes (e.g., Amorim’s minority interests on Portuguese, Angolan, Brazilian and Mozambican banks). On a different matter, due to increasing economic development, sectors which supplied essential services to the population, and were once integrated into the public sector, made their transaction towards the market economy. This is, indeed, what happened to the sectors of waste management and energy. It is also important to note that Portugal’s economic development triggered a strong development in the sectors of construction and mass retailing, constituting core sectors to other BGs.

Ownership and Control

Nowadays family-ownership characterizes the largest BGs, as a result of well-managed succession processes over the decades. This may suggest high levels of shareholding and a pyramidal configuration, as families detain a great part of the ownership rights. Moreover, it can also be argued that the high involvement in decision-making process

gives families proportional controlling rights. Yet, as mentioned in the limitations of the study, this information is not covered.

Level of Diversification and Internationalization

Even though the BGs are present in several areas, in average, only about 20% of their sectors are core. Although the verticalization of activities (which began in mid-20th century) is still seen today, it could be argued that the relative importance of vertically integrated activities has decreased. Indeed, there is a tendency for groups to target core sectors, continuously managing and restructuring portfolios, with the primary goal of creating synergies among sectors and/or attaining financial results. A big novelty for the 21st century BGs is the international footprint. In fact, most BGs have a larger share of business in foreign countries, rather than in the Portuguese market. An independence from the national market may constitute an advantage for BGs – with a small domestic market, big organizational forms cannot develop, as they are constrained to a small demand and a saturated market. The integration in a European Economic Community in the 1986 supported this internationalization process as it allowed for easier access to other European markets, which prompted BGs to expand. With the establishment of an open economy in the country, BGs took advantage of other markets, expanding its scope of development. Competing internationally also brought more competition, obliging BGs to become more dynamic and take risks in regards to both new markets and products.

Emergence and Internal Configuration

Every current BG has its origins in the 18th or 19th centuries (with the exception of both Sonae and Semapa, created only in 1956 and 1991, respectively). However, they were not BGs at the time they were created, as they operated only in one sector. From the seven BGs, only two of them had economic relevance before 1975, Espírito Santo

and José de Mello, all the others were founded afterwards. It is important to note the fact that the more recent BGs did not follow the same patterns of configuration: apart from the case of Espírito Santo, there were no BGs headed by a large bank, whilst the pre-1975 BGs were mostly financial. When it comes to configuration, it is important to refer the pyramidal hierarchy of BGs. In addition, as the market expands and its complexity increases, BGs start to introduce sub-holding companies dedicated to different business sectors.

21st century BGs characteristics: industrial and tertiary; new sectors of activity such as construction, waste management and mass retailing; sectoral cores; hierarchical; family-owned; international.

5.2 Comparison with 1930-1975

Portuguese BGs have suffered changes over time. The analysis of these changes suggests possible reasons for the persistence of BGs in developed economies, contributing to the debate on this major issue.

The first topic of discussion has to do with the role of financial institutions. Whilst in the past, several BGs had integrated a bank as a means to finance their operations, nowadays, it is not frequent to combine nonfinancial with financial activities. For instance, José de Mello group had its own bank in the early 1980s (Banco José de Mello) which disappeared, giving more relevance to manufacturing, engineering and other activities in services.

Additionally, the development of the tertiary sector in the 1960s characterizes current BGs. This investment in the services sectors as core activities for the BGs (such as the mass retailing distribution activity by Jerónimo Martins, or the engineering and maintenance and exploitation of highways by José de Mello) is a clear sign of economic modernization.

The openness of the economy permitted corporations to search for new markets. This has been one of the most visible changes in BGs – the domestic market is now surpassed by activities abroad. As a result, it has allowed companies to combine diverse sectors of activities according to geographical regions. Moreover, such progress in developed markets decelerated some sectors of activity, such as that of construction, whilst the opposite occurred in emerging markets. This international experience has also introduced more competition, promoting market dynamism that did not exist previously, thus accelerating business development. According to Pordata (2014), in the 1960s, the Portuguese GDP was around € 497 million, equivalent to € 25 billion today. When compared with Sonae's operating revenue of € 18 billion, one can see the clear difference in the development of BGs – the dimension of BGs is not comparable with the present-day values. This added dimension and complexity conveyed new organizational tools, as the creation of specific holdings responsible for a number of subsidiaries.

Families are the key players of BGs control and ownership, suggesting that they provide specific characteristics to BGs which enable their existence. Indeed more than 50% of the companies in BGs are fully owned by families, which reduces the differences that have existed between Portuguese BGs and the definition of conglomerates.

Finally, the overall scope of activity was narrowed to core sectors with a relatively larger size, revealing a tendency for increasing business specialization.

6. Conclusion

The privatizations in the 1980s and 1990s changed the Portuguese business environment. In the last decades, there was an emergence of new BGs, with different core sectors of diversification, including construction, mass retailing, and waste

management. From the seven groups studied, only two existed before 1930, and were important players during the period of the *Estado Novo*.

The strategy that characterized the formation of BGs before 1975 was different from today's strategy. Previously, domestic and colonial markets were at the core of BGs' emergence and development, leading to widely diversified portfolios. Whilst, currently, this strategy was replaced by a more focused one, isolating financial groups from the industrial ones and, thus, restricting unrelated diversification. The increased competition from the presence in foreign markets obliged BGs to specialize in core activities.

Moreover, in the past, BGs were constrained to a small domestic market. Therefore, the only possibility for expansion was to enter in different sectors. In the present time, BGs found the necessary conditions for development with internationalization, replacing the expansion to other domestic business areas by a geographical expansion. This fact enables BGs to manage business portfolios according to the most profitable activities.

In addition, expanding to different economies, including emerging economies (in Latin America, Asia and Africa) characterized by high population density and low development, allows it to explore less profitable activities in developed economies.

Regarding common features among the two versions of BGs, it is important to refer that all BGs are family businesses.

As a last remark, it is important to emphasize that it is dubious to interpret BGs in a steady state, as it demands the establishment of steady conditions for existence. The organizational form that exists in developing countries may appear to be the same as in developed economies, notwithstanding different dynamics, presenting a set of different strategies. This proves that there was a transformation and, therefore, the previous conception is somewhat outdated. This study leads to the consideration of the existence

of different types of BGs, with different characteristics according to the type of economy in which they are operating.

7. References

- Amatori, Franco and Colli, Andrea. 2008. "European Corporations: Ownership, Governance, Strategies and Structures. A Review of Five Countries: United Kingdom, Germany, France, Italy and Spain" in *The European Enterprise – Part I*, ed. Harm G. Schroter. Berlin: Springer Berlin Heidelberg, pp. 23-36.
- Baklanoff, Eric N. 1996. "Breve experiência de socialismo em Portugal: o sector das empresas estatais." *Análise Social*, Vol. 138: pp. 925-947.
- Boyd, Brian K. and Hoskisson, Robert E. 2010. "Corporate Governance of Business Groups" in *Oxford Handbook of Business Groups*, eds. Asli M. Colpan, Takashi Hikino and James R. Lincoln. Oxford: Oxford University Press.
- Buysschaert, An *et al.* 2008. "Is Group Affiliation Profitable in Developed Countries? Belgium Evidence" in *Corporate Governance: An International Review*, Vol. 16: pp. 504-518. doi: 10.1111/j.1467-8683.2008.00712.x.
- Carney, M., Gedajlovic, E. R., Heugens, P. P., Van Essen, M., & Van Oosterhout, J. H. 2011. "Business group affiliation, performance, context, and strategy: A meta-analysis" in *Academy of Management Journal*, Vol. 54(3): pp. 437-460.
- Colpan, Asli M. and Hikino, Takashi. 2010. "Foundations of Business Groups: Towards an Integrated Framework" in *Oxford Handbook of Business Groups*, eds. Asli M. Colpan, Takashi Hikino and James R. Lincoln. Oxford: Oxford University Press, pp. 15-66.
- Confraria, J. "Política económica." *História económica de Portugal* (2005): 1700-2000. P. Lains and A. Silva (eds.), vol. III, Lisboa: ICS, pp. 397-421.
- Faccio, Mara and Lang, Larry H. P. 2002. "The Ultimate Ownership of Western European Corporations" in *Journal of Financial Economics*, Volume 65: 365-395.
- Instituto Nacional de Estatística - Banco de Portugal. "PIB e rendimentos em Portugal". Pordata.pt. <http://www.pordata.pt/Portugal/PIB+e+rendimentos-2412> (accessed May 20, 2014)
- Jones, Gareth R. and Hill, Charles W. L. 1988. "Transaction Cost Analysis of Strategy Structure Choice" in *Strategic Management Journal*, Vol. 9: pp. 159-162.
- Khanna, Tarun and Yafeh, Yishay. 2007. "Business Groups in Emerging Markets: Paragons or Parasites?" *Journal of Economic Literature*, Volume 45: 331-372.
- Martin, J. D., Sayrak, A. 2003. "Corporate diversification and shareholder value: a survey of recent literature" in *Journal of Corporate Finance*, Vol. 9(1): pp. 37-57.
- Montgomery, C. A. 1994. "Corporate diversification" in *The Journal of Economic Perspectives*, Vol. 8: pp. 163-178.
- Morck, Randall. 2010. "The riddle of great pyramids" in *Oxford Handbook of Business Groups*, eds. Asli M. Colpan, Takashi Hikino and James R. Lincoln. Oxford: Oxford University Press, pp. 602-628.
- Morck, Randall; D. Wolfenzon and B. Yeung. 2005. "Corporate Governance, Economic Entrenchment, and Growth." *Journal of Economic Literature*, 43(3), 655–720.
- Riyanto, Y. E. and Toolsema, L. A. 2008. "Tunneling and propping: A justification for pyramidal ownership" in *Journal of Banking & Finance*, Vol. 32.
- Scharfstein, D. S. 1998. "The dark side of internal capital markets II: Evidence from diversified conglomerates" in *National Bureau of Economic Research*, No. w6352.

Silva, Álvaro F. and Neves, Pedro. Forthcoming. “Business Coalitions and Segmentation: Dynamics of the Portuguese Corporate Network (1910-2010)” G. Weserhuis and T. David, *Power and Corporate Networks in Historical and Comparative Perspective*. London, Routledge.

Silva, Álvaro F., Neves, P. and Amaral, L., “Business Groups in Portugal in the Estado Novo Period (1930-1974): Family Power and Structural Change” in *Business History*.

US Legal. “Unitary Business Law and Legal Definition”. USLegal.com. <http://definitions.uslegal.com/u/unitary-business/> (accessed April 11, 2014)

Reference to the analyzed Annual Reports in Appendix VIII.

8. Appendixes

Appendix I. Configuration of Amorim BG



Mr. Américo Amorim				
Interfamília II, SGPS, S.A.				
20% Amorim Energia	51% Cork	53% Forestry	Financial	Real Estate
38,34% of Galp Energia	Raw Materials Manufacturing R&D and Innovation Distribution	Agriculture Manufacturing Tourism	Shareholder of Banco Popular, BIC, Banco Único and Banco Luso Brasileiro	Construction
25% Luxury				
Shareholder of Tom Ford				

Appendix II. Configuration of Espírito Santo (ES) BG



Espírito Santo Control				
Espírito Santo International				
Non Financial Activity: Rio Forte				
100% Real Estate	100% Tourism	ES Resources and Rio Forte Holding Brazil		25% Health
ES Property ES Property Bazil	ES Viagens ES Hoteis Herdade da Comporta	Agriculture and Cattle Raising	Energy	ES Saude
49% Construction and Engineering		Agriculture Manufacturing	Energias Renováveis do Brasil Georadar Luzboa	
OPWAY				
Financial Activity: ES Financial Group				
Private Banking & Assets Management	Insurance	Commercial & Investment Banking	Health	
99% Banque Privée ES 95% ES Bankers Dubai 66% Banco BEST	25% BES Vida 21% BES Seguros 58% Tranquilidade	25% BES and BESI 49% BESV	25% ES Saude	

Appendix III. Configuration of Jerónimo Martins (JM) BG



Sociedade Francisco Manuel dos Santos				
Jerónimo Martins				
Distribution	Manufacturing	Services	Restaurant	Education
100% Recheio 51% Pingo Doce 51% Hussenl 100% Biedronka	40% Unilever JM 10% Gallo Worldwide	100% JM Distribuição de Produtos de Consumo	99% JM Restauração e Serviços	51% Escola de Formação JM

Appendix IV. Configuration of José de Mello BG



JOSÉ DE MELLO

SOGEFI				
100% CUF				
Manufacturing and Wholesale and Retail	Services	R&D and Product Innovation	Restaurant	Education
Industrial Chemicals Ammonia	Maintenance - <i>Assistência e</i> <i>Serviços para a</i> <i>Industria Quimica</i>	Nanotechnology Research - Innovovnano	99% JM Restauração e Serviços	51% Escola de Formação JM
53% BRISA			66% José de Mello Saude	
Infrastructure	Services	R&D and Innovation	Clinics and Hospital Units	Senior Housing and Services
Operations and roads maintenance Brisa Engineering and Project Management	Travel Assistance – MCALL Concessions Via Verde ControlAuto	Charging Solutions among others	CUF Descobertas Hospital Braga among others	Hospital do Mar Home Care Services
53% EFACEC			100% José de Mello Imobiliária	
Energy	Engineering Environment and Services	Transportation	Real Estate	Construction
Energy generator Electronics manufacturing	Engineering consulting services	Transportation and Storage activities	Real Estate investments and promotion	Real Estate construction

Appendix V. Configuration of Mota-Engil BG



FM – Sociedade de Controlo			
Engineering and Construction	Environment and Services	Concessions and Transports	Tourism
60% Engineering services Construction Real Estate Energy generators Manufacturing Wholesale & Retail Information Systems	70% Water & Waste management Architectural Rehabilitation Operational Services and other multi-services	60% Ascendi Group	Entertainment activities (Golf) Accommodation (Largo do Paço)

Appendix VI. Configuration of Semapa BG



SEMAPA			
81% PORTUCEL			
Manufacturing and Wholesale and Retail	Forestry	Energy	R&D and Innovation
Paper and Pulp – Industrial activity	Resource Management wood and wood supply	Energy supply	Product Innovation
99,99% SECIL		96% ETSA	
Manufacturing and Wholesale and Retail	Environment	Manufacturing and Wholesale and Retail	Environment
Cement and by-products	Industrial waste	Animal Products	Industrial waste

Appendix VII. Configuration of Sonae BG



Mr. Belmiro de Azevedo				
EFANOR				
53% SONAE SGPS				
Media and Information	Manufacturing and Wholesale & Retail	Real Estate		
SONAE COM – information systems, telecommunications, newspaper	SONAE MC – retail of consumer goods SONAE SR – retail of clothing and electronics	SONAE RP – retail support activity		
63% SONAE CAPITAL				
Tourism	Fitness	Energy & Environment	Real Estate & Construction	Insurance
Accommodation & Food service and Entertainment & Recreation activities – Marina de Troia	Entertainment and Recreation activities – Solinca Health & Fitness	Energy generation – SPRED group	Real Estate investments – SC Assets Construction – Sistavac group	Investment in Insurance companies – MDS
Transportation				
Operscut				
20% SONAE INDUSTRIA				
Waste	Manufacturing	Forestry		
Industrial Waste Management	Laminates manufacturing	Wood supply		

Appendix VIII. Annual Reports analyzed

- Sonae Sierra. 2012 in Review. <http://www.sonaesierra.com/uploadfiles/reports/3c89c413-2ea1-4ee9-9a31-20b48a7b1331.pdf> , accessed May 21, 2014.
- Sonae Sierra, 2012 Consolidated Reports and Accounts. Dec. 31, 2012. <http://www.sonaesierra.com/uploadfiles/reports/a82af8e6-528a-40ea-ab9b-41babf3e1ffd.pdf>, accessed May 21, 2014.
- Grupo Banco Espírito Santo. 2012 Annual Report. <http://www.bes.pt/sitebes/cms.aspx?plg=53423244-85fc-4381-b48d-6a9be92dcc1f>, accessed April 14, 2014.
- BESPAR Sociedade Gestora de Participações Sociais, S.A. Relatório e Contas 2012. <http://www.esfg.com/LinkClick.aspx?link=2013%2fBESPAR+Financial+Statements+2012.pdf&tabid=242&mid=1264>, accessed April 14, 2014.
- CorticeiraAmorim. Relatório e Contas 2012. <http://www.esfg.com/LinkClick.aspx?link=2013%2fBESPAR+Financial+Statements+2012.pdf&tabid=242&mid=1264>, accessed April 24, 2014.
- SonaeCom. Resultados Consolidados 2012. <http://www.google.pt/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0CEIQFjAC&url=http%3A%2F%2Fother.static.sonaecom.pt%2Fmediagallery.clix.pt%2F2013%2F03%2F08%2FEA2012PORT%2FEA2012PORT.pdf%3Fdownload%3D1&ei=9J2EU73qG5HmsASayYCACw&usq=AFQjCNEmc0iY6664IHUqAjj2iX0WjXakRA&sig2=swWFwdecqNww4Yfblzola&bvm=bv.67720277.d.cWc>, accessed May 22, 2014.
- ES Bankers (Dubai) Limited. 2012 Annual Report. <http://www.esbd.com/ESBD-AnnualReport-2012.pdf>, accessed April 16, 2014.
- Espírito Santo Financial (Portugal) Sociedade Gestora de Participações, S.A. Relatório e Contas 2012. http://www.esfg.com/LinkClick.aspx?link=2013%2fESF%28P%29_Relat%C3%B3rio+e+Contas+2012.pdf&tabid=245&mid=1296, accessed April 14, 2014.
- Espirito Santo Financial Group S.A. Relatório Anual e Contas Consolidadas 2012. <http://www.esfg.com/LinkClick.aspx?link=2013%2fESFG+Consolidated+Management+Report+2012+%28Portuguese%29.pdf&tabid=82&mid=902>, accessed April 14, 2014.
- ESFIL – Espírito Santo Financière S.A. 2012 Annual Accounts. <http://www.esfg.com/LinkClick.aspx?link=2012%2fESFIL+Financial+Statements+2012.pdf&tabid=235&mid=1257>, accessed April 14, 2014.
- Jerónimo Martins. 2012 Annual Report. http://www.annualreport2012.jeronimomartins.pt/assets/en/full_report.pdf, accessed May 20, 2014.
- Jerónimo Martins. Relatório e Contas 2012. http://www.annualreport2012.jeronimomartins.pt/assets/pt/custom_report_6.pdf, accessed April 29, 2014.
- JerónimoMartins. Demonstrações Financeiras Consolidadas 2012. http://ir2.flife.de/data/jeronimo_martins/igb_html/pdf/download_01_03_pt.pdf, accessed April 29, 2014.
- José de Mello Saude. Relatório e Contas 2012. http://www.google.pt/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC8QFjAA&url=http%3A%2F%2Fwww.josedemello.saude.pt%2FResourceLink.aspx%3FResourceName%3DJMS%25252b2012_small.pdf&ei=waSEU_ZH-KH0AWduYDoAQ&usq=AFQjCNEHLmxA3hBvu8TZ-3zzaN8-IJY0Wg&sig2=iWywamh2c2ZnGlwK5CAXfw, accessed April 29, 2014.
- José de Mello. Institutional Presentation. <http://www.josedemello.pt/resources/documents/ApresentacaoGJM.pdf>, accessed April 29, 2014.
- Mota-Engil. Relatório e Contas Consolidadas 2012. http://www.mota-engil.pt/images/content/2582_1_G.pdf, accessed April 30, 2014.
- Grupo OPWAY. 2010 Annual Report. http://www.opway.pt/documentos/RG_consolidado_SGPS_Opway_10_site.pdf, accessed May 2, 2012.
- PARTRAN Sociedade Gestora de Participações Sociais, S.A. Relatório e Contas 2012. <http://www.esfg.com/LinkClick.aspx?link=2013%2FPARTRAN+Financial+Statements+2012.pdf&tabid=226&mid=1187>, accessed April 14, 2014.
- BES Vida. Relatório e Contas Consolidadas 2012. <http://www.bes.pt/sitebes/cms.aspx?plg=145f2572-1649-4e10-a89b-64315a5c0ecf>, accessed April 15, 2014.
- Semapa. Relatório e Contas 2012. <http://web3.cmv.mt/sdi2004/emitentes/docs/PC44810.pdf>, accessed May 6, 2014.
- BESV. Rapport Annuel 2012. <http://www.besv.fr/wp-content/uploads/2011/11/Rapport-annuel-2012.pdf>, accessed April 14, 2014.
- Portucel S.A. Relatório e Contas Consolidado 2012. <http://www.portucelcorporcel.com/relatorio-contas-2012/>, accessed May 25, 2014.
- CUF Consultoria e Serviços, S.A. 2012 Annual Report. http://www.cuf.pt/irj/go/km/docs/wpccontent/Sites/Cuf%20-%20SGPS/Site%20Content/CUF/docs/rc2012/RC2012_CUF%28PT%29.pdf, accessed May 21, 2014.
- CUF Innovnano, S.A. 2012 Annual Report. http://www.cuf.pt/irj/go/km/docs/wpccontent/Sites/Cuf%20-%20SGPS/Site%20Content/CUF/docs/rc2012/RC2012_INNOVNANO%28PT%29.pdf, accessed May 21, 2014.
- CUF- Químicos Industriais, S.A. 2012 Annual Report. http://www.cuf.pt/irj/go/km/docs/wpccontent/Sites/Cuf%20-%20SGPS/Site%20Content/CUF/docs/rc2012/RC2012_CUFQI%28PT%29.pdf, accessed May 21, 2014.
- EFACEC. Relatório e Contas 2012. <http://www.efacec.pt/PresentationLayer/ResourcesUser/Relat%C3%B3rios/Relat%C3%B3rio%20e%20Contas%20web%202012.pdf>, accessed May 21, 2014.
- Ferreira, Cristina. “Grupo Espírito Santo já está em mais de 400 empresas” in *Publico*, March 3, 2010. Available in: http://www.opway.pt/documentos/080310_Publico_OPWAY.pdf.