DOI: https://doi org/10.14210/ alcance.v30n2(maio/ago).p99-119
ISSN - 1983-716X

DEVELOPMENT OF BUSINESS GROUPS IN BRAZIL: A HISTORICAL OVERVIEW

DESENVOLVIMENTO DE GRUPOS EMPRESARIAIS NO BRASIL: UM PANORAMA HISTÓRICO

DESARROLLO DE GRUPOS EMPRESARIALES EN BRASIL: UN PANORAMA HISTÓRICO

Wlamir Gonçalves Xavier
PhD.
Lipscomb University – United States
wlamir.xavier@lipscomb.edu

David Kallás
PhD.
Instituto de Ensino e Pesquisa Insper – Brazil
davidk@insper.edu.br

ABSTRACT

Objective: This work aims to understand and analyze the development of large business groups, or Business Groups (BG) in Brazil.

Methodology: The article is based on a historical analysis focused on the longitudinal analysis of cases from the Brazilian context to uncover the development trajectories of BG.

Results: The historical analysis reveals that BGs in Brazil benefited from institutional failures, some of which were generated in times of crisis, and knew how to take advantage of dynamic institutional arrangements during pro-market reforms, such as the use of government incentives to leverage their participation in the privatization process. Consequences of this capacity include the accelerated growth of several groups without the need for dispersion of capital and control, and the successful implementation of strategies such as vertical integration through acquisitions.

Originality and value: By showing how BGs emerged and developed in Brazil, taking advantage of opportunities offered by local institutional arrangements, the study presents the mechanisms that explain the persistence of BGs' superior performance over a long period of time.

Key words: Business Groups. Historical Overview.

Submitted on: 11/20/2023
Approved on: 12/06/2023

How to cite: Xavier, W. G., & Kallás, D. (2023). Development of business groups in brazil: a historical overview. *Revista Alcance (online),* 30(2), 99-119. Doi: https://doi org/10.14210/ alcance.v30n2(maio/ago).99-119

RESUMO

Objetivo: O presente trabalho se propõe a compreender e analisar o desenvolvimento de grandes grupos de negócio, ou *Business Groups* (BG) no Brasil.

Metodologia: O artigo é baseado em uma análise histórica centrada na análise longitudinal de casos do contexto brasileiro para desvendar as trajetórias de desenvolvimento de BG.

Resultados: A análise histórica revela que os BG no

DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Brasil se beneficiaram de falhas institucionais, algumas das quais geradas em momentos de crise, e souberam se aproveitar de dinâmicos arranjos institucionais durante reformas pró-mercado, como por exemplo o uso de incentivos governamentais para alavancar sua participação no processo de privatizações. Consequências dessa capacidade incluem o acelerado crescimento de vários grupos sem a necessidade de pulverização do capital e controle, e a implementação com sucesso de estratégias como integração vertical por meio de aquisições.

Originalidade e valor: Ao mostrar como os BG surgiram e se desenvolveram no Brasil, aproveitando-se de oportunidades oferecidas por arranjos institucionais locais, o estudo apresenta os mecanismos que explicam a persistência do desempenho superior dos BG ao longo de um longo período de tempo.

Palavras-chave: Grupos Empresariais. Panorama histórico.

RESUMEN

Objetivo: Este trabajo tiene como objetivo comprender y analizar el desarrollo de los grandes grupos empresariales, o Grupos Empresariales (BG) en Brasil.

Metodología: El artículo se basa en un análisis histórico centrado en el análisis longitudinal de casos del contexto brasileño para descubrir las trayectorias de desarrollo del BG.

Resultados: El análisis histórico revela que los BG en Brasil se beneficiaron de fallas institucionales, algunas de las cuales se generaron en tiempos de crisis, y supieron aprovechar los arreglos institucionales dinámicos durante las reformas pro-mercado, como el uso de incentivos gubernamentales para apalancar. su participación en el proceso de privatización. Las consecuencias de esta capacidad incluyen el crecimiento acelerado de varios grupos sin necesidad de dispersión de capital y control, y la implementación exitosa de estrategias como la integración vertical mediante adquisiciones.

Originalidad y valor: Al mostrar cómo surgieron y se desarrollaron los BG en Brasil, aprovechando las oportunidades ofrecidas por los acuerdos institucionales locales, el estudio presenta los mecanismos que explican la persistencia del desempeño superior de los BG durante un largo período de tiempo.

Palabras clave: Grupos empresariales. Panorama histórico.

INTRODUCTION

There is no consensual definition for major *Business Groups* (BG). A general approach considers the adhesion to the Business Group as a bond that can result from direct ownership or any informal bond, such as family relation, ethnic or religious familiarity, or any other type of affinity. Conglomerates are not seen as business groups, especially because their members are legally independent on Business Groups. The wide definition of BG proposed by Khanna and Rivkin (2001) as a synthesis of several studies considers it "a group of companies that, albeit legally independent, are bonded by a constellation of formal and informal ties and are used to taking a coordinated action." This definition is sufficiently wide to encompass any alliances, joint ventures and oligopolies.

BGs have been the target of critical analyses for several years, but, despite several progresses, the literature is skeptical on the benefits of diversification. However, an erratic phenomenon has been observed in emerging countries, mainly caused by institutional factors (Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011). Due to this context, the present article proposes to understand and analyze the development of BGs in Brazil. The country's region (Latin America) is a natural laboratory for studies related to institutional vision, because its countries have gone through pro-market financial reforms that may generate an effect on companies, their decisions and results (Dau, 2012). The sections below aim at describing the historical overview on scholar thinking about major groups, diversification and institutions that justifies the existence in certain contexts; the genesis of the development of BGs in Brazil; market reforms and their impact in Brazil, either through legal frameworks, or through the intense privatization process. Our greatest contribution is to use a historical point of view to increase the understanding on the creation and development of BGs in Brazil, in a way complementary to the institutional theory.

DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

LITERATURE REVIEW: WHY DIVERSIFY? FOUR DECADES OF CONCEPTUAL EVOLUTION

Goold and Luchs (2006) present a historical overview with highs and lows from BGs. In the early 1950s, these corporations were not favorably seen in the United States and Western Europe. They were accused of being too powerful and of self-financing in their different endeavors to force their competitors to exit the market. In the 1960s, a powerful argument justified an unprecedented growth of BGs in the western world: the idea of professional managers having managerial skills that could benefit companies in several industries. If the problems are the same in all companies, people with superior managerial skills could use them in different segments. However, in the end of the decade, it was observed that a series of BGs presented performance problems. For example, General Electric, a symbol of major American BGs, reported between 1965 and 1970 a growth of 40% in revenues and a decrease in its results (Hall, 1978).

In the 1970s, scholars and executives indicated reasons related to assignment of resources as the main issue to be studied and analyzed on BGs. The models and strategic tools were developed until then for business units, not corporations. Therefore, they did not answer the main question, related to assignment of scarce resources in different business units. The answer to this question came from developing portfolio management tools, such as the GE matrix and the BCG matrix (Day, 1977; Hall, 1978). The key concept was the idea of balancing the portfolio, that is, having cash-generating businesses complemented by new promising businesses that demanded investments (Hedley, 1977; Hofer & Schendel, 1978). However, even with the widespread adoption of portfolio management tools, many BGs had trouble trying to balance them (Bettis & Hall, 1983). Companies found out that different types of business must be managed differently, deconstructing the idea developed on the 1960s (Goold & Luchs, 2006).

On its turn, the 1980s were defined by wide skepticism about the companies' ability to manage and add value through groups with diversified portfolios. This decade was marked by initiatives on cost reduction, introduction of value-based management techniques, and focus on related business segments. Consequently, the main issues emerging in the 1990s were related to identifying a central portfolio for the corporation (core portfolio) and how to find ways to add value to these businesses. In this sense, the lines of thinking that received academic and corporate support on the decade were the ones defending that (i) diversification should be restricted to businesses with synergy (Trautwein, 1990); (ii) the focus of the corporation should be on exploring essential competences among different businesses (Prahalad & Hamel, 1990); (iii) successful diversifications depend on the creation of a business portfolio with good fitting between the dominating logic and the managerial style of their top-tier executives (Goold & Campbell, 1991).

On the 2000s, the concentration in business or managerial styles focus seemed to mean different decisions for different situations. However, experience suggests that managers usually overestimate the potentials for synergy and underestimate the challenges of management. After an extensive research effort, it was not possible to see any empirical evidence between diversification and performance strategies (Goold & Luchs, 2006), reinforcing the skepticism on the effectiveness of major groups.

However, a new line of research brings arguments that justify the existence and growth of BGs in certain contexts. It is the Institutional Theory (North, 1990). According to this approach, in addition to the segment and company factors, other elements, such as government and society, must be taken into account by companies when formulating and implementing their strategies (Peng, 2002). According to North (1990), the institutional structure in underdeveloped countries (some of them currently called 'emerging') favors the redistributive activity in detriment to the productive activity, creating monopolies instead of competitive conditions and restricting opportunities instead of expanding them. The differences between institutional models in developed countries (United States and Western Europe) and emerging countries (most noticeably the ones in the BRIC group) led Khanna and Palepu (1997) to propose the use of the term *institutional voids* to denominate flaws, usually related to problems with information, regulation and judicial systems, among others. On their turn, institutional flaws increase the costs of transaction for companies operating in these countries (Williamsom, 1985).

High transaction costs are the most frequently mentioned causes to explain the higher incidence of diversification in emerging economies (Hoskisson, Eden, Lau, & Wright, 2000; Xavier, Bandeira-de-Mello, & Marcon, 2013). If the belief that diversification destroys value is present in American and European economies (Lang & Stulz, 1993), there is strong evidence that benefits associated to BGs exist in emerging economies, such as India (Khanna & Palepu, 2000), Thailand (Laothamatas, 2019) and Indonesia (Dieleman & Sachs, 2008, Joni et al, 2020). This contradiction exists because the frailty of formal institutions, especially in China, makes three aspects increasingly relevant (Peng, 2002). The first are interpersonal relationships. Despite managers invest a considerable part of their time and energy in interpersonal relationships, in Asia this is more important due to the lack of reliable information available. The second is the importance of an external connection between executives and key interest groups, especially government officials (Caldeira, Costa, & Kallás, 2011; Costa, 2012; Schneider, 2009). Due to the need of fighting uncertainty, the fact that managers keep a number of contacts with government agencies un-proportionally higher than in other countries is not unusual. The third aspect is the importance of the reputation of the BG, which works as a strong, but informal, sign to reduce uncertainties from clients and investors. Since consumer protection organizations are rare and the effectiveness of regulatory agencies is low in consumer markets, consumers tend to be more resistant to new brands. For example, internet businesses in Asia are dominated by BGs. Therefore, in emerging markets, diversified BGs compensate the lack of formal institutions, as they execute basic functions, such as capital offer, information harvesting and contract assurance, more efficiently (Peng, 2002). There are BGs in several regions, such as the chaebol in Korea, the business houses in India and the BGs in Latin America (Khanna & Palepu, 1997), a continent of which Brazil is the biggest representative. Research has also shown that the impact of group affiliation is not uniform across industries (Purkayastha & Lahiri, 2016), that foreign institutional investment has a positive influence on the firm performance (Mukhopadhyay & Chakraborty, 2017) and choice of diversification is industry specific and concurrently affected by the environmental conditions prevailing in the emerging economy (Bhatia & Thakur, 2017).

METHODOLOGY

In this scientific inquiry, we adopt a methodological approach centered on the longitudinal case analysis of the Brazilian context to unravel the developmental trajectories of Business Groups (BGs). Utilizing the well-established methodologies of the case study (Hollweck, 2015; Yin, 2018) and historical analysis (Lange, 2012; Mahoney, 2004), our research aims to provide a comprehensive understanding of how major business groups have evolved in Brazil. The case study methodology allows for an in-depth examination of the intricate interplay between BGs and the socio-economic and political dynamics specific to Brazil over an extended period. Through this lens, we seek to discern patterns, identify critical turning points, and analyze the contextual factors that have shaped the emergence and growth of BGs in the Brazilian landscape.

The integration of historical analysis further enriches our investigation, offering a temporal perspective that enables us to trace the historical roots of BGs and their responses to evolving institutional environments. By leveraging the insights gained from both case study and historical analysis, our research aims to formulate hypotheses on the functioning of such economic phenomena in emerging countries. This methodological synthesis not only facilitates a nuanced understanding of the Brazilian case but also holds broader implications for the study of BGs in other emerging economies.

The benefits of employing case study and historical analysis methodologies are manifold in the context of our research. These methodologies allow us to explore the complexities of the Brazilian business landscape, offering a detailed examination of specific instances and their broader implications. The in-depth nature of case study analysis enables us to identify causal relationships, while historical analysis provides a temporal context crucial for understanding the evolution of BGs. Together, these methodologies contribute to the development of hypotheses by providing a rich empirical foundation, facilitating the generalization of findings to other emerging economies and advancing our theoretical understanding of the dynamics governing large-scale economic entities. The synthesis of case study and historical analysis methodologies proves instrumental in unpacking the intricacies of BG development in Brazil, aiding in the formulation of hypotheses that transcend the national context and contribute to the broader discourse on economic phenomena in emerging countries.

In conducting our analysis, we draw upon a rich body of literature available in Brazil, encompassing a diverse range of sources from academic publications, as Musacchio & Lazzarini (2014) and Hu et al. (2019)to other editorial outlets. The foundation of our research rests on a review of the Brazilian scholarly landscape, accessing academic works that delve into the intricacies of Business Groups (BGs) within the country. Additionally, we tap into insights offered by various editorial sources, providing a holistic view that extends beyond academic discourse to encompass practical perspectives and observations. The wealth of available literature in Brazil serves as a valuable resource, enabling us to contextualize our research within the local dynamics of BG development.

GENESIS AND DEVELOPMENT OF BG IN BRAZIL

Some of the main Brazilian BGs were created by a direct government action. During President Getúlio Vargas' administration, the companies Companhia Vale do Rio Doce (currently VALE), Companhia Siderúrgica Nacional (CSN), and Petróleo Brasileiro S.A. (Petrobras) were created, in 1941, 1942 and 1953, respectively. The industries selected - mining, steelwork and energy – reveal the interest of the public manager in limiting the action by foreign capitals in key economy segments, due to the limited capacity of the Brazilian private sector to develop risk activities in capital-intensive industries. The campaign involving the creation of Petrobrás, with the slogan "O petróleo é nosso" ["Oil is ours" in free translation], and the speech by President Vargas when the government-owned oil company was created, clearly reveal the interests and priorities by mentioning patriotic pride and financial independence (http://www.petrobras.com.br). Due to these interests, some government-owned companies were created on behalf of national sovereignty, such as Eletrobrás, in 1962 (project sent by President Vargas and approved by the National Congress ten years later), and Telebras, in 1972. Later, such companies gradually opened several industrial units and expanded their activities, forming BGs. According to Aldrighi and Postali (2010), out of the 29 top Brazilian BGs, 14 were created as government-owned companies, and thrived under the protection of monopolies, market reserve and abundantly available resources.

Among the BGs with government origin, the oldest Brazilian BG, Banco do Brasil, created on October 12th, 1808 by King Joao VI when Brazil was still a Portuguese colony, stands out. Another centennial financial BG of government origin, Caixa Economica Federal (CEF), was created, with the name of Caixa Economica e Monte de Socorro, on January 12th, 1861 by the King John VI's grandson, Pedro II, at that time emperor of an independent Brazil. The nationalistic proposal from the Vargas era, in the 1950s, restricted foreign financing to projects or the participation of foreign capital as direct investments (FDI). The resources for such initiatives came from the high profit rates with the industrial activity, the exchange rate valuation policy, and the transfer of exceeding items from the exporting agricultural segment.

In 1952, the Banco Nacional de Desenvolvimento Economico (currently BNDES) was created, initially financed by an addition to the income tax. This institution became a crucial tool for financing infrastructure projects and, later, any government industrial projects and policies. On the following year, 1953, another institution with an important role for industrial development, Superintendencia da Moeda e do

Crédito (SUMOC), was created. With the purpose of privileging or encumbering imports according to interests from the industrial policy, SUMOC changed the exchange rate to be practiced in imports on currency auctions, on a case by case basis. Such auctions allowed the existence of two importing contracts signed on the same date with different exchange rates. Thus, the government implemented the import replacement policy at the same time it achieved major monetary collection (Lacerda, Bochi, Rego, Borges, & Marques, 2006).

The set of developmental actions by Vargas was interrupted by a political crisis involving simultaneously: workers in the secondary sector, his political support base, who wanted more benefits and share in profits; Brazilian corporation owners, the most benefitted from changes, but who felt harmed by the exchange rate policy that encumbered production goods; the agriculture exporting elite, who held the government responsible for a crisis in coffee production. Vargas' suicide as the end of the crisis had Café Filho become the President and resulted in a sudden change in the industrial policy.

On the short period from 1954 to 1955, Café Filho promoted the control of the monetary and credit issuance aiming at anti-inflation effects, and gave permission again to foreign capital participation through machinery importing by foreign companies established in Brazil. National companies were penalized with the limited credit offer, reduction of public expenditures, and consequent reduction in internal demand. Political forces favorable to national development line, represented by candidates to the Presidency, prevented the exchange rate reform prepared by the International Monetary Fund (IMF) that, in practice, would end the Import Replacement Process (PSI). Juscelino Kubitschek (JK) became President and the turbulent 20th century Brazilian economy took a new path.

JK's administration was characterized by the successful use of State planning, something then unprecedented in Brazil. Projects concerning infrastructure and collection of major volumes of resources were channeled to boost segments with large production chains, such as the automobile, aeronautical and naval construction industries. An important distinction noticed in relation to the previous project by President Vargas was the predominance of foreign capital. The base for JK's Goal Plan was elaborated by the Mixed Group BNDE-CEPAL, presided by economist Celso Furtado, who aimed at focusing on actions in critical areas to make the development of the national industry, such as transportation, communication and energy, feasible. The Goal Plan for the five-year period from 1956 to 1960 was comprised of 31 goals, with highlight to the construction of the new Brazilian capital, Brasilia. Higher interest industries, such as manufacturing of durables, were subsidized and received several types of encouragement for their expansion. The private sector had an active voice in the planning and deployment process on executive groups, which were associations comprised of representatives from corporations and government, responsible for defining the responsibilities of the private sector.

Public and private expenses were financed through a monetarist policy for expanding the payment and credit methods. Loans through the BNDE (currently BNDES) or taken abroad with the government's permission were the most usual ways for the government to help in the buildup of capital. Short-term loans, such as the ones for working capital, were fostered by another economy policy tool from the government, Banco do Brasil. The State action was so prominent in the period from 1957 to 1960 that nearly 48% of the total investments in Brazil were made by the government (Lacerda et al., 2006). One of the consequences of the Goal Plan and of this policy was the GDP growth at an average rate of 8.2% a year, as well as the increase of the national per capita income in 5.1%, but at the expense of an increase in the inflation and the public debt. Within this period, a few companies that would later become major BGs in Brazil expanded, benefited by oligopolies sanctioned by the government, subsidies, tax incentive and low-cost financing. The Odebrecht group, for example, started in 1953 a partnership with Petrobras in the construction of an oil pipeline connecting Catu to Candeias. This group knew how to take advantage of opportunities generated by the growing chemical and petrochemical industry with major infrastructure works.

Despite the foreign capital having entered

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

mainly through financing to specific projects many foreign multinational companies used the opportunity to make direct investments that, in the future, proved to be highly lucrative. German company Volkswagen opened on November 18th, 1959, with a visit by President Juscelino Kubitschek, its first plant outside Germany, Anchieta, at the ABC metropolitan region of Sao Paulo. US-based IBM started in 1961, at its plant in Benfica, Rio de Janeiro, the assembly of the computer line 1401, one of the most successful in the history of data processing. Subsidiaries of foreign multinational companies already established in Brazil were also favorably treated, which allowed their development in a limited competitiveness environment. The automobile industry in Brazil, represented by carmakers Volkswagen, Ford and General Motors, benefited from decades of protectionism, benefits and market reserve, which continued even after the arrival of the Italian carmaker FIAT, in 1973, and were only virtually mitigated with the arrival of other carmakers in the 1990s. The four carmakers initially established in Brazil still represented, in 2010, the biggest shares in the automobile market, with 76% of the national production (http://www.anfavea.com.br/tabelas.html). Some private Brazilian companies equally benefited from this movement. Industries which development was of interest by the government were benefited with incentives such as subsidies, tax exemption, low-cost financing and protectionism.

In the following years, the economy growth decelerates to the point of recession in 1963, when the gross formation of fixed capital, as well as the industrial production growth, was negative. Then, there was a crisis worsened by political instability: the stepping-down of elected president Janio Quadros, failure in attempts of economic stabilization (Three-Year Plan) by his successor, Joao Goulart, and the establishment of a military government as of 1964. This new regime maintained the dependency from foreign capital established on the Goal Plan and, through the Government's Economic Action Program (PAEG), coordinated by economist Roberto Campos, set the bases for the Brazilian 'financial miracle', a period from 1968 to 1973 with major economic growth. Reforms in the PAEG include tax and banking reforms, which partially explains the formation of financial BGs in Brazil. The 1965 banking reform established the bases for the current National Financial System (SFN), when the Central Bank of Brazil (BACEN) and the National Monetary Council (CMN) were created. The functions of Banco do Brasil, BNDES and CEF were also changed in this period, and they became special institutions from the normative subsystem. Until 1986, Banco do Brasil remained as the monetary authority from the SFN. The financial intermediation subsystem was structured, and financial institutions became specialized: commercial banks; investment banks and financial institutions. Monetary correction was instituted with the creation of Adjustable National Treasury Deeds (ORTN), to smooth an annual inflation of 90% in 1964. These changes strengthened oligopolies and fostered a movement of mergers and acquisitions in the Brazilian financial system. For example, Banco Moreira Salles, which in 1964 had 191 branches, started an agglomeration process in 1966 with the creation of Banco de Investimento do Brasil (BIB), in partnership with the brokers Deltec and IBEC (from the Rockfeller group). In May 1967, BIB merges with Banco Agrícola Mercantil under the denomination of Uniao de Bancos Brasileiros S.A. (UBB), with 333 branches, Brazil's biggest banking network. Only two years later, in 1969, the group had become the second biggest private commercial bank in Brazil. In 1975, it changed its name to UNIBANCO.

Another financial group resulting from reforms at PAEG was the Itaú group. Banco Federal Itaú de Investimentos S.A. was the first investment bank established in Brazil, in May 1965. In less than ten years, a process of agglomeration through successive acquisitions not limited to the financial industry, it became Instituiçoes Financeiras Itaú, holding of a group comprised of over 50 companies, operating in metallurgy, computing, ceramics, chemicals, as well as banking. On November 3rd 2008, the groups Itaú and Unibanco announced their merger and create the largest financial group in Brazil and in the Southern Hemisphere, with consent from the Central Bank and CADE (Administrative Economy Defense Council), responsible for analyzing the competition impact of horizontal concentrations.

The period after the PAEG was highly

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

beneficial to the Brazilian economy, with major growth in the global trade and financial flows. Direct investments (FDI) and loans from other countries were intensified especially in the durables and capital goods segments. As it had occurred in Germany and Japan in the 1950s, and in Taiwan in the 1960s, in Brazil there was a period of economic expansion. The financial team led by Antonio Delfim Netto adopted an expansive monetary policy with considerable increase in credit for the private sector, which enabled the growth of several base, agriculture export and even non-durables industries, comprised mostly by Brazilian companies. Brazilian BGs, both government-owned and private, expanded quickly.

A new economy downturn happened in September 1973, with the international oil crisis. The change in the global scenario finds the Brazilian economy with a growing deficit in current transactions, high foreign debt, and inflation. With the purpose of changing the unfavorable scenario, President Ernesto Geisel, empowered in 1974, establishes the 2nd National Development Plan (II PND), coordinated by Joao Paulo dos Reis Velloso. This plan resumes the goals from the Vargas era of strengthening the Brazilian industry of capital goods and intermediate goods, areas that were stagnant and prevented the continuous financial growth. From 1975 to 1979 with the II PND, the government aimed at financing national companies via BNDE, especially capital goods companies, while foreign companies took a secondary role. Foreign multinational companies faced a moment of global crisis and uncertainty, and national capital goods companies had financing subsidized by the Brazilian government and a consumer market generated by the II PND. Government-owned companies, like Eletrobrás, Petrobrás, Siderbras and Embratel, were the actual plan executors, through considerable investments in the country's infrastructure.

Brazilian groups tied to base segments grew considerably, and government incentives include: tax credit for IPI (tax over industrialized products) to purchase equipment items; fast depreciation for national machinery; exemption of II (import tax) for purchasing machinery; subsidized credit; pricing policy that guaranteed favorable prices. Grupo Votorantim, for example, created and expanded cement plants and, in 1977, becomes the shareholding controller of Grupo Industrial Itaú, comprised of cement and lime plants in five Brazilian states. About 37% do of the national cement market became concentrated in the group presided by Antonio Ermírio de Moraes (Lacerda et al., 2006).

The period after the II PND was characterized by political and economic instability, increased inflation, and recession. Externally, the commodity price falls, while the oil price made Brazil's import expenses rise from US$ 4 billion to US$ 10 billion a year. The prime rate goes from 6% to 19% in less than two years, the highest level in the 20th century. Fruitless attempts by different financial teams involved fuel rationing, maxi-devaluation of the currency (in 1979 and 1983), control of imports and incentive to exports. The 1980s became known as "the lost decade," due to the economy stagnation that followed the Brazilian "miracle." The Mexican moratorium in 1982 made it even harder to finance the Brazilian foreign deficit, and net reserves turned negative. The phenomenon of "stag-flation" was observed in this period, combining inflation growth with considerable reduction in the level of the economy activity. The capital goods industry had a decrease of 55% from 1981 to 1983, which represented the loss of all gains from the II PND. The Brazilian per capita income dropped 11%.

Facing this adverse scenario, which made Brazil turn to the IMF in 1982, Brazilian companies once more had help from the government; loans subsidized by BNDE and capital inputs were crucial for some of them not to go bankrupt. Other groups, however, knew how to use the high interest rates and liquidity of short-term public bonds and thrived. In general, the limitation to imports and the exchange rate policy offered market reserve to the national production, which favored especially the durables and non-durables industries. Thanks to their market power and capital surplus, major companies forwarded resources to financial speculation. The union between speculative and productive capital enabled excess profits in recession times. In a few industries, the financial results greatly exceeded the operational results, a process that lasted until the effective inflation control with the Real Plan, in 1994. More than a mechanism

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

for protecting against the inflation effect, the financial speculation by major companies indicated a reaction to the inability of the Brazilian financial system to finance the production sector. Such market flaw was accentuated by the lack of wisdom from the Brazilian capitals market and by the oligopoly formed in the banking system. Paradoxically, contrary to what was seen in other developing economies, the Brazilian financial system had a considerable and growing share in the GDP and was highly sophisticated, in addition to congregating political power (Lacerda et al., 2006). Table 1 indicates that the growth in the financial industry's share on the Brazilian GDP is increasing and more pronounced when the inflation was out of control, in late 1980s. This growth generated major financial conglomerates that later became financial BGs, such as the government-owned Banco do Brasil and CEF, and the private banks Itaú and Unibanco.

Table 1. Share of the financial segment in the national GDP

Year	Share of financial segment in the GDP	Average annual inflation	GDP variation in Brazil
1970 to 1979	6.3 %	31.7 %	5.9 %
1980	7.8 %	47.2 %	5.4 %
1981	9.8 %	53.7 %	0.1 %
1982	9.7 %	55.9 %	-0.5 %
1983	11.3 %	91.6 %	-2.7 %
1984	10.5 %	118.4 %	2.3 %
1985	11.0 %	121.8 %	3.8 %
1986	7.4 %	77.2 %	3.8 %
1987	13.5 %	116.2 %	2.5 %
1988	13.4 %	222.9 %	1.5 %
1989	19.5 %	1782.9 %	3.16%

Source: Instituto Brasileiro de Geografia e Estatística (2010).

The period after the lost decade was characterized by economy stabilization through the Real Plan, after a new recession period, and by political stabilization. However, an economy restructuring aiming at its modernization was also started, as it occurred in a considerable part of Latin America. A set of liberalizing measures suggested by international financial organizations, commonly known as Washington Consensus, was adopted after the President Fernando Collor administration, in 1990. The following administrations reiterated and intensified such measures, which resulted in opening of the economy, deregulation of markets and privatization of many sectors.

MARKET REFORMS IN BRAZIL

The new industrial policy adopted in the Collor administration caused a rupture with previous policies adopted since the Old Republic. The change, focused on productivity, for the first time didn't have the increased production capacity as main priority in government guidelines. The new Brazilian industrial policy, according to Guimarães (1996), achieved uneven results. While the commercial opening policy was successful, the productivity gain goals were limited. The main strategies were preceded by two reforms that reduced tax and non-tax barriers that protected Brazilian companies. The measures to liberalize the Brazilian economy became more clearly defined in 1990, on the Exhibit of Reasons from the Temporary Decree number 158, of March 15th, 1990. The main change observed was the emphasis in the national industry's competitiveness, thus reducing considerably the support to the increase in production capacity through direct incentives and imports replacement program. Other goals included an increase in the salary level and the economy deregulation.

To implement the industry and foreign trade policy, five main strategies were defined: reduction in the tax protection levels; subsidies and incentives with strengthened competition; industry restructuring aiming at competitiveness through lines of credit, strengthening of the technology industry and coordination mechanisms; strengthening of potentially competitive sectors through production specialization; planned exposure of the national industry to foreign competition with attention to oligopoly segments, aiming at increasing the competition; technological qualification of Brazilian companies via tax protection to high-technology segments and technology transfer among sectors. The Industry Competitiveness Program (PCI) and the Brazilian Quality and Productivity Program (PBQP) were created to

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

help implement these changes.

To achieve these goals, the government's development bank, renamed as BNDES in 1982, had a crucial role. The Competitive Integration, name given to the new model adopted by the bank, began channeling its financing lines to companies which practices resulted in increased productivity, in detriment to old industrial policies. BNDES's policies were aligned with the Brazilian Productive Development Policy (PDP), which granted priority to internationalization projects from selected sectors, such as animal protein processing (O Estado de São Paulo, 2010a).

Aiming at innovation, small businesses were granted a line of credit named CONTEC; exports now had a fund named FINAMEX, and the agriculture industry had available to it the FINAME. In 1992, the Corporate Restructuring and Rationalization Program was established, with the main purpose to making corporate mergers and incorporations feasible. Another important role played by BNDES was as manager of the National Privatization Program (PND), commented below.

Legal Framework of the Industry and Foreign Trade Policy

To minimize the power from oligopolies and monopolies established, reforms also needed to reformulate the legislation supporting such structures. The antitrust legislation (Law number 4137 from 1962) was an example of act that was not able to achieve its goals of limiting the action from trusts and fostering free competition. On the first day of the Collor administration, a temporary decree, later endorsed in the National Congress (Law number 8032 from 1990), revoked exemptions and exceptions to charging the import tax (II) and the tax over industrialized products (IPI), only keeping restrictions to computing products, products from the Manaus Duty-Free Zone, and products from export protection zones. The act also eliminated accessory deeds for importing.

Despite initially maintaining the restrictions to importing computing products, the market reserve for these products was gradually eliminated. The Computing Act (law number 7232 from 1984) that established the market reserve was an obstacle to the productivity goals by limiting the access of technologies involving, in addition to computing, correlated areas, such as industrial and commercial automation. In 1989, a PC made at the Manaus Duty-Free Zone cost the equivalent to US$ 8,000, while a technologically superior product could be purchased in the international market for less than US$ 2,000.

One reduction in customs fees in 1990 affected the textile industry, which was considerably impacted. Gomes, Strachman, Pieroni and Silva (2007) indicate the changes resulting from this policy as responsible for the extreme transformation in scope and scale of the Brazilian textile machinery industry. A considerable part of the national machinery manufacturers shut their doors due to difficulties in competing with international market leaders. The remaining companies were repositioned, resulting in the specialization of this industry, in Brazil, in products with reduced technological content, greatly limited to the availability of parts and simple components targeted at maintaining highly sophisticated European and Japanese machinery at lower costs. This is the exact opposite of the effect intended.

The industrial policy worked significant changes in exporting rules through granting credits and benefits to exporting goods and services via PROEX (Exports Financing Program). However, a considerable part of the existing incentives to exports, such as the drawback (Law number 8402 from 1992), was maintained. To incentive manufacturing activities for export, the IPI tax exemption, the maintenance of its credits, and the accelerated depreciation of new capital goods, including the imported ones, was granted (Law number 8191 from 1991).

In October 1992, with the impeachment of President Collor, Itamar Franco took office for a relatively short period of time. The regulatory industrial policy framework did not change much. One of the changes made was reestablishing incentives from the Industrial Technological Development Program, implemented in 1988 during the Sarney administration. Other changes in the regulatory industry and foreign trade policy framework involved during the Itamar Franco administration were the new Competition

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Defense Act (law number 8844 from 1994) and two temporary decrees (MP numbers 616 and 655 from 1994) to adjust the Brazilian legislation on dumping to resolutions resulting from the eighth round of the GATT (General Agreement on Tariffs and Trade), which lasted from 1986 to 1994 and also became known as the Uruguay Round. Figure 1 indicates chronologically the main regulatory acts that changed the industry and foreign trade policy. The reduction in the protectionism to the national industry and the opening to foreign capital and trade stand out.

Figure 1. Regulatory framework for the industry and foreign trade policy 1990-94

Date	Industrial Policy
03/15/90	Reviews Import Tax and IPI and Income Tax (Law number 8032; Law number 8034, Decree 56)
06/26/90	Reviews Import Tax and IPI and Income Tax (Law number 8032; Law number 8034, Decree 56)
02/08/90	Rules for defending the competition (Temporary Decree number 204 = Temporary Decree 246 from 10/13/90 = Law number 8158 from 01/08/91 with modifications)
09/12/90	Support to the Industry's Technology Qualification
09/13/90	Financing to import of capital goods (BC resolution number 1749)
09/21/90	Prior consent to computing imports (Decree number 99541)
01/16/91	Reestablishes regional incentives (Law number 8167)
01/31/91	Implementation of tax reform (Decree number 58)
02/14/91	Regulation of Law number 8158 (Decree number 36) concerning competition
02/27/91	Nationalization index (decree number 126)
02/27/91	Industrial Competitiveness Program, Technology transfer rules (INPI resolution number 20)
04/17/91	Regulation of Law number 8167 (Decree number 101)
06/01/91	Exemption from IPI tax and accelerated depreciation for capital goods (Law number 8191)
06/01/91	Financing to export (Law number 8187)
10/23/91	Qualification of the computing industry (Law number 8248)
12/30/91	Manaus Duty-Free Zone (Law number 8387)
01/08/92	Tax incentives to export (Law number 8402)
02/03/92	Export Processing Zone (Law number 8396)
02/18/92	Review of the tax reform schedule (Decree number 131)
02/18/92	Deadlines for investigating dumping/Subsidies (Decree number 132)
02/18/92	Regulation of Law number 8402 (Decree number 452)
06/26/92	Incentives for computing (Decree number 574)
07/21/92	Regulation of Law number 8387, IPI for products from the Manaus Duty-Free Zone (Decree number 613)
06/02/93	Tax incentives for technology qualification (Law number 8661)
06/10/94	Rules for defense of competition (Law number 8844)
09/11/94	Change in the antidumping legislation (Temporary Decree numbers 616 and 655)
10/01/94	Anticipation of implementation of Common External Fee
10/25/94	Tax credit PIS and COFINS in exports (Temporary Decree number 674)

Source: Adapted from Guimaraes (1996).

Until the beginning of reforms, the industrial policy was managed by countless ministries. The administrative reform during the President Collor administration, which enforced administrative efficiency in public service and dismissed thousands of civil servants, created the Ministry of Economy, Finance and Planning with the purpose of concentrating the enforcers of this policy in a reduced number of organizations. It is worth highlighting the importance of this administrative reform on the political level, because it generated a generalized disarticulation of agents that could offer resistance to changes in the industry and foreign trade policy in force: the extinction of CACEX (Foreign Trade Portfolio); the extinction of the MIC (Ministry of Industry and Trade); the transfer of INPI (National Industrial Property Institute) to the Ministry of Justice; limitation on the assignments of SEI (Special Department on Computing). A weaker resistance from the government's administrative structure helped implement the initial measures, which continuity indicated a reduction in the State intervention on the economy – the privatization program.

The Privatization Program

The most controversial set of measures in the reform period was the privatization program. Until 1990, privatizations were focused on companies absorbed by the government due to financial issues and did not have the function of collecting funds for the Treasury, with the 38 privatizations occurred in the 1980s yielding only US$ 780 million (Lacerda et al., 2006). However, with the creation of the National Privatization Program (PND) through Law number 8031 from 1990, the intention of the Collor administration to reduce the government presence in several

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

economy segments became clear. The National Privatization Council was created, with the assignment of privatizing the 68 companies initially listed on Law number 8031/1990. BNDES was responsible for executing the determinations from the National Privatization Council and for controlling the National Privatization Fund (FND), which gathered the shares to become private. In the execution process, BNDES was in charge of hiring market professionals, auditors and consultants, to assess the companies, disclose and conduct the company sales process. Another relevant role of BNDES was its active participation in the recovery and development of companies through its subsidiary BNDES Participaçoes S.A. (BNDESPar). Its activities include providing risk capital to industries considered strategic with long-term, low-cost financing, also to projects that present positive externalities, such as job generation. During the privatization process, at times BDNESPar enabled offers for buying companies through minority shareholding in consortiums, which, according to bylaw guidance, must be of transitory nature.

Steel mining company Usiminas was the first major government-owned company privatized, yielding to the Treasury US$ 2.31 billion in an auction conducted at the Rio de Janeiro Stock Exchange in October 1991. On the first few months of the program, companies in the chemical, petrochemical and steel mining industries, strategic areas from the previous industrial policies, were privatized. Despite the accrued income being considerable – nearly US$ 4 billion – the negotiations were made with privatization currency, which reduced the actual forwarding of currency to government safes.

In general, privatization currency represented public debt bonds. Some bonds accepted were debentures from Siderbras, agricultural debt bonds, external debt bonds, mortgage payments from Caixa Econamica Federal and a few series of National Treasury Bills. The minimum percentage of currency to be used in each privatization process was defined by the Brazilian President. A few privatization currencies did not have liquidity in the market, such as, for example, foreign debt bonds. Due to this, such bonds were traded in the market with a considerable markdown, which did not occur when they were used on the PND. Despite the government reducing its debt by accepting such bonds, their use represented a considerable reduction in the actual negotiation value under the buyer's perspective. The acceptance of privatization currencies also had the role of facilitating the sale of companies less interesting to the market. Another mechanism used by the government to accelerate the privatization process was to reduce the restrictions to the participation of foreign investors. A future legislation eliminated the distinction between foreign and national investors, which allowed some companies to have their entire capital on the hands of foreigners, which further strengthened manifestations contrary to the privatization program in a few segments of the society.

Table 2 indicates the participation from foreign investors in the entire privatization program, from 1991 to 2002. It is noticed that the foreign participation in the telecommunications industry was quite considerable, while in the PND legal restrictions limited their entrance, especially on the first years of the 1990s.

Table 2. Foreign capital in privatizations – 1991-2002 (US$ million and %)

Country	PND		State		Telecommunications		Total	
	US$ million	%	US$ million	%	US$ million	%	US$ million	%
United States	4,318	15.1%	6,024	21.6%	3,692	12,8%	14.034	16,5%
Spain	3,606	12.6%	4,027	14.4%	5,042	17,5%	12.675	14,9%
Portugal	1	0.0%	658	2.4%	4,224	14.7%	4,882	5.7%
Italy	-	-	143	0.6%	2,479	8.6%	2,621	3.1%
Chile	-	-	1,006	3.6%	-	-	1,006	1.2%
Belgium	880	3.1%	-	-	-	-	880	1.0%
England	2	0.0%	692	2.5%	21	0.1%	715	0.8%
Canada	21	0.1%	-	-	671	2.3%	692	0.8%
Sweden	-	-	-	-	599	2.1%	599	0.7%
France	479	1.7%	196	0.7%	10	0.0%	686	0.8%
Netherlands	5	0.0%	410	1.5%	-	-	415	0.5%
Japan	8	0.0%	-	-	256	0.9%	264	0.3%
Korea	-	-	-	-	265	0.9%	265	0.3%
Argentina	-	-	148	0.5%	11	0.0%	159	0.2%
Germany	75	0.3%	-	-	-	-	75	0.1%
Others	1,815	2.6%	350	1.3%	-	-	2,165	1.3%

DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Country	PND		State		Telecommunications		Total	
	US$ million	%	US$ million	%	US$ million	%	US$ million	%
Foreign share	11,210	36.4%	13,654	48.9%	17,270	59.4%	42,134	48%
Total	30,824.20	100%	27,948.80	100%	29,049.5	100%	87,822.50	100%

Source: Adapted from Banco de Desenvolvimento Economico e Social (http://www.bndes.gov.br).

Initially, privatized companies were connected to industrial segments, especially infrastructure, a phase concluded in 1995, when the program acquired new focus. The new focus of the PND became utilities concessionary companies, especially electric power, transportation and communications. This change aimed at offering higher quality services to the population, since the government's limited investment capacity restricted both the quality and the scope of the services. It was expected that new controlling shareholders made the necessary investments in companies for their refurbishing and consequent enhancement of public services provided. The sum achieved in privatizations was considerable; the value collected in State government-owned companies until 2002 achieved US$ 34.7 billion, close to the US$ 37.8 billion obtained in federal privatizations on the same period. On this second phase of the PND, there was the privatization of Companhia Vale do Rio Doce, the conclusion of the privatization of Rede Ferroviária Federal (RFFSA) and the Container Terminal 1 from Santos Harbor. Table 3 indicates the revenues from PND from its creation to 2008, and Figure 2 lists government-owned companies, per industry, from 1991 to 2002.

Table 3. Revenues from privatizations through PND between 1991 and 2008 (US$ million)

Year	Number of privatizations	Revenues from Sales	Debt transfers	Total revenue	Generator of higher revenue (% of capital sold)
1991	4	1613.6	374.1	1987.7	Usiminas (69.9%)
1992	14	2400.9	982.3	3383.2	Copesul (62.9%)
1993	6	2620.7	1561.2	4181.9	CSN (81.9%)
1994	14	1971.8	348.8	2320.6	Usiminas (16.2%)
1995	8	1004.0	624.4	1628.4	Copene (14.9%)
1996	11	4079.8	669.8	4749.6	Light (65.8%)
1997	6	4264.7	3558.8	7823.5	CVRD (31.9%)
1998	7	1655.6	1082.0	2737.6	Gerasul (51.2%)
1999	3	132.9	0.0	132.9	Datamec (97.9%)
2000	3	767.,2	0.0	7670.2	Petrobras (16.6%)
2001	2	1090.3	0.0	1090.3	Petrobras (3.5%)
2002	2	1976.5	0.0	1976.5	CVRD (20.3%)
2003	-	0.0	0.0	0.0	-
2004	1	26.6	0.0	26.6	BEM (90.0%)
2005	1	316.0	0.0	316.0	BEC (89.3%)
2006	-	0.2	0.0	0.2	Minority shareholdings
2007	-	0.0	0.0	0.0	-
2008	-	0.4	0.0	0.4	Minority shareholdings
Total	82	30824.2	9201.4	40025.6	37.8

Source: Adapted from Banco de Desenvolvimento Economico e Social (http://www.bndes.gov.br).

Figure 2. Privatized companies, per industry, from 1991 to 2002

Industry	Companies
Steel mining	Usiminas, Cosinor, Aços Finos Piratini, CST, Acesita, CSN, Cosipa, Açominas;
Chemical and petrochemical	Petroflex, Copesul, Nitriflex, Polisul, PPH, CBE, Poliolefinas, Deten, Oxiteno, PQU, Copene, Salgema, CPC, Polipropileno, Álcalis, Pronor, Politeno, Nitrocarbono, Coperbo, Ciquine, Polialden, Acrinor, Koppol, CQR, CBP, Polibrasil, EDN;
Fertilizers	Arafértil, Ultrafértil, Goiasfértil, Fosfértil, Indag;
Energy	Light, Escelsa, Gerasul;
Railway	RFFSA-Malha Oeste, RFFSA-Malha Centro-Leste, RFFSA-Malha Sudeste, RFFSA-Teresa Cristina, RFFSA-Malha Sul, RFFSA- Malha Nordeste and Malha Paulista;
Mining	CVRD - Cia. Vale do Rio Doce, Caraíba;
Ports	TECON 1 (Santos), TECON 1 (Sepetiba), Cais de Paul e Cais de Capuaba (CODESA), Terminal roll-on/roll-off (CDRJ), Angra dos Reis Harbor (CDRJ) and Salvador Harbor (CODEBA);
Finance	Meridional, Banespa, BEA, BEG, BEM and BEC;

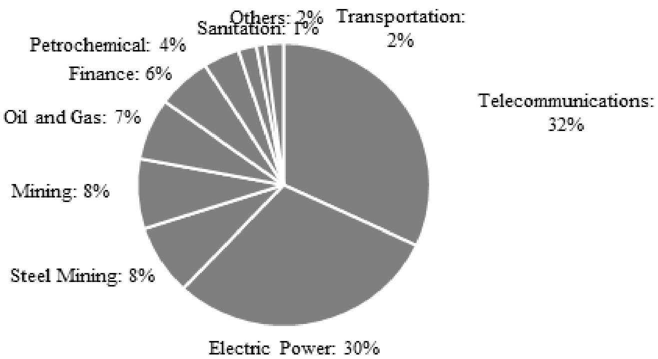
 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Industry	Companies
Other industries	Datamec, Embraer, Mafersa, Celma, SNBP.

Source: Adapted from Banco de Desenvolvimento Economico e Social (http://www.bndes.gov.br).

The industries that contributed the most to the revenues from PND, which achieved US$ 40 billion, were telecommunications, steel mining, mining and energy. State privatizations generated nearly US$ 34 billion, mostly related to utilities service granting and banks. Privatizations in telecommunications generated approximately US$ 31 billion. Figure 3 displays the segment participation in the three spheres, which totaled US$ 105.9 billion.

Figure 3. Industry shares in privatizations – period 1990-2008



Source: Adapted from Banco de Desenvolvimento Economico e Social (http://www.bndes.gov.br).

In general, the foreign trade policy measures were successful. The commercial opening did not generate an excessive increase in the Brazilian import coefficient, and several segments were positively adjusted in the pursuit of competitiveness and efficiency. However, the industrial policy achieved modest results. Guimaraes (1996) indicates three main difficulties found in the implementation of the new Brazilian industrial agenda: the difficulty in letting go of old practices from previous industrial policies and adopting new policy instruments; the lack of legal instruments and institutional framework to implement the new policy, which involves limited enforcement even of the limited legislation in force; and the lack of preparation from government agencies responsible for implementing the new policy, inexperienced technical group, and lack of structure. Due to these factors, both the policy to increase free competition and the policy to increase competitiveness achieved modest results.

One of the direct consequences of these measures was the increased deficit in the checking account of the payment balance, and the considerable increase in foreign debt. These factors made the Brazilian economy more vulnerable to variations in the international economy and dependent on foreign capital to meet its financing needs. Direct foreign investments (IDE) increased, especially after the implementation of the Real Plan, in 1994, and the inflation control, a topic to be addressed next.

On the perspective from Brazilian companies, the PND was an unique opportunity for growth and consolidation. The resolution 803 from 1993 by o BNDES established the interest rates in privatization operations in 6.5% a year (Velasco-Junior, 2010). Due to the availability of financing by BNDES and the high risk represented by Brazil perceived by international players, most privatizations had national groups as buyers (Aldrighi & Postali, 2010). It is worth highlighting that the regulatory framework for a considerable part of the sectors did not exist.

Major pension funds, mostly connected to originally government companies, also used the privatization program to achieve considerable shares in the companies negotiated. Pension funds controlled by the Brazilian government, such as Previ (Banco do Brasil), Petros (Petrobras) and Funcef (Caixa Economica Federal), participated on several auctions and purchased companies through investment funds, participation companies or directly. Some pension funds from privatized companies, such as Valia (CVRD) and Sistel (Embratel), also made considerable purchases. An example is the company 521 Participaçoes, controlled by the pension fund PREVI, which acquired control in the energy industry over CPFL, and also has shares in other companies, such as Neoenergia and Itapebi (Aldrighi & Postali, 2010).

Real Plan and Economic Stabilization

Itamar Franco, successor of Fernando Collor, inherited an economy with a few ongoing processes: commercial opening, privatization program, foreign debt negotiation, and market deregulation. Despite major obstacles to development and national competitiveness, such as the education system and tax structure, having changed little, the main challenges were the economy stabilization and the inflation control. Fernando Henrique Cardoso, then minister of Economy, implemented a new stabilization plan, named Real Plan. Contrary to previous plans, there was no price freezing, the plan was based on balancing public accounts, creating a stable value unit, and changing the currency. The first phase of the plan, in 1993, aimed at sanitizing public accounts, which was achieved by fighting tax evasion, reducing the Union's expenses, equating the states' and cities' debts, and intensifying the privatization program.

The financial system was one of the main beneficiaries of high inflation rates, and a sudden decrease in inflation could result in banking system collapse. From this hypothesis, federal and state public banks were sanitized with the purpose of ensuring a better structure to the banking system. The institutionalized inflation in Brazil had made not only banks, but also countless companies, dependent on financial results for their survival. Other initial measures from the plan included cutting budget in the current year, binding future budgets to estimated revenues, limiting expenses with public servants to 60% of the revenue, and changing the rules for cooperation with states and cities. The legislation that supported these measures forced states and cities to control their expenses and keep the refinancing to the Union up to date, under penalty of no longer receiving federal sums.

The control of public expenses in several public administration levels was constant throughout the plan implementation period. However, only later, in 2000, were the control measures consolidated as a law, with the enactment of the Complementary Law number 101 from 2000, named Tax Responsibility Act (LRF). It is worth highlighting that the Federal Constitution enacted in 1988 was highly generous with targeting tax resources to states and cities, at the same time that it limited how the Union could spend them. Due to this, the Social Emergency Fund was created, with the purpose of balancing the Union budget. As a complement to federal revenues, a new tax was created the Temporary Tax over Financial Transactions (IPMF). This tax, initially limited to the two-year period from 1993 to 1994, was later changed to CPMF (Temporary Contribution over Financial Transactions), and, despite being temporary, was postponed for 16 years until being extinguished, in 2008. It is worth highlighting that the privatization process, which revenues had a considerable increase after 1993, played an important role in the sanitization of public accounts and helped in the entire economic stabilization process (Modiano, 2000).

The next phase of the Real Plan was the implementation of the URV (Real Value Unit), in May 1994. The purpose of the URV was to be a transaction until the new currency was implemented, breaking again the tradition from previous plans that opted for sudden transactions. The URV was a general economy indexer, and it was accepted by the society partly thanks to the concern with avoiding distortions in the financial balance in contracts and in the salaries' power of purchase. The last phase of the plan occurred on July 1st, 1994, through a temporary decree that introduced the currency. The currency value was maintained thanks to a strict monetary policy that limited the power of the National Monetary Council (CMN) to issue currency and to changes in the exchange policy, which had floating exchange rates, but also a maximum limit for the rate, initially established as 1 real per American dollar.

On the following months, the inflation decreased, the GDP grew and most economy sectors expanded, except for activities accustomed with inflation gains. The revenue from inflation represented, in 1993, more than 4% from the Brazilian GDP and nearly one third of the total revenue from the banking system. The end of the financial merry-go-round was partially responsible for the bankruptcy of some Brazilian banks, such as Nacional, Bamerindus and Economico. Controlling the inflation and the

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

trade balance deficit, pressured by the increased demand from a population with higher power of purchase, led the government to adopt measures to restrict credit to consumers, which generated a reduction in the economy growth rates.

The exchange rate became floating and, due to continuously high interest rates, the Real became artificially valued against other currencies. The strong attraction of speculative capitals increases the offer of foreign currency in Brazil, which, on its turn, generates its valuation. Such valuation, which persisted for several years, had direct consequences on the strategy from Brazilian companies, allowing many of them to adhere to internationalization processes. With the success in the economy stabilization, the bases for the macroeconomic policy established on the Real Plan were maintained, even with the change of government, in 2002, when an opposition party won the presidential elections.

Workers Party terms, The Car Wash Operation and the Emergence of the Bolsonaro

Since the election of Luiz Inácio Lula da Silva in 2002, Brazil has undergone significant transformations in its institutional and business environment. Lula's presidency marked a period of economic growth and social programs, with policies aimed at reducing poverty and inequality. However, concerns over corruption and economic mismanagement lingered.

The landscape shifted dramatically with the initiation of Operation Car Wash (Lava Jato) in 2014. This anti-corruption investigation unveiled widespread corruption within state-owned enterprises and major corporations, implicating prominent political figures and business leaders. The operation not only exposed systemic corruption but also triggered a wave of political and economic repercussions, impacting investor confidence and contributing to a recession.

In subsequent years, Brazil experienced political turmoil, including the impeachment of President Dilma Rousseff in 2016. The business environment faced challenges amid economic contraction, but efforts were made to implement structural reforms. The election of Jair Bolsonaro in 2018 introduced a new political era, with promises of economic liberalization and anti-corruption measures.

However, Bolsonaro's presidency also brought controversies and environmental concerns, particularly regarding the Amazon rainforest. Economic challenges persisted, exacerbated by the COVID-19 pandemic. The evolving political and economic landscape has shaped Brazil's business environment, creating a complex backdrop for the development and behavior of business groups within the country. The COVID-19 pandemic, which emerged in 2019, posed a severe test for Brazil. The government faced criticism for its handling of the crisis, and the economic impact further strained the country's financial situation. Despite the challenges, the administration continued its efforts to liberalize the economy and attract foreign investment.

As the 2022 presidential election approached, political dynamics intensified. In this context, Luiz Inácio Lula da Silva, who had previously served as president from 2003 to 2010, re-entered the political arena. Lula's return marked a significant shift, with his candidacy garnering widespread attention. His popularity, coupled with critiques of Bolsonaro's handling of various issues, set the stage for a closely watched and pivotal election. Lula was elected and started his third term in 2023.

Analyzing Brazil after the Reforms

Reforms conducted in Brazil after 1990 have effectively changed the country's economy and its relationship with other countries. In several aspects, reforms achieved the main feature observed in countries that followed suggestions from the Washington Consensus: a decrease – apparent, at least, in the government role in the economy and improvement in the country governance (Williamson, 2004). Under the perspective of improvements in the performance, productivity and technology of Brazilian companies, there are several success stories, but such gains are not seamless in different economy segments.

Critics and proponents of the Washington Consensus agree that the results achieved in several countries were not the ones expected

 DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

(Rodrik, 2006). The World Bank proposed a new perspective by publishing, in 2005, the document *World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform*, defending the diversity in public policies, the implementation of selective, more modest reforms, and experimentation, rather than prescription. An analysis on the effectiveness of reforms in light of the Ten Commandments listed on Figure 4 from the Washington Consensus indicates that not all suggestions were followed in Brazil, but a considerable part of the purposes was achieved.

Figure 4. The Ten Commandments of the Washington Consensus

Commandment	Main guidelines/goals
1. Fiscal discipline	The budget deficit must be reduced to the point of eliminating the inflation tax
2. Priorities in public expenditure	Public expenditures must be taken away from political targets to areas with considerable externalities, capable of enhancing the distribution of wealth, such as education, healthcare and infrastructure
3. Tax reform	Expand the taxing base and marginal taxes
4. Financial liberalization	Interest rates freely determined by the market
5. Exchange rate	Competitive exchange rates to the point of inducing the growth of non-traditional exports
6. Trade liberalization	Non-tax barriers should be extinguished and replaced by fees that, on their turn, must be progressively reduced until achieving levels from 10% to 20%
7. Foreign investments	Barriers that prevent the entrance of FDI should be abolished
8. Privatization	Government-owned companies should be privatized
9. Free competition	Restrictions that prevent the arrival of foreign companies and limit competition should be abolished
10. Property rights	The legal system must ensure property rights without excessive costs and reach the informal economy

Source: Adapted from Williamson (2004).

In Brazil, the budget deficit (1, on Figure 4) was controlled, and the public expenses were equated, especially after funds from the privatization program, the reduced inflation and the implementation of the Tax Responsibility Act. However, the social security system reform may harm these results in the future, as the population's demographic profile increases considerably the number of beneficiaries from social security. Also, the COVID-19 pandemic put a lot of pressure on government expenditures and fiscal equilibrium.

Notwithstanding, the priorities in public expenses (2) still need qualitative and quantitative improvements in the education and healthcare systems. Public expenses in Brazil have remained stable, in about 41% of the GDP (Miller & Holmes, 2011). In addition to public debt services, most expenses are concentrated in payroll and transfers, both the ones from income distribution programs and in legal transfers, greatly increased since the 1988 Federal Constitution. Periods before elections change the expense profile opportunistically, and are generally followed by a temporary reduction in expenses, as new governors, president and mayors take office.

The tax reform (3) aiming at a seamless collection base, system simplification and increased national competitiveness with the reduction of indirect taxes, is yet to be implemented. From 2001 to 2009, the tax burden increased in absolute and relative values, achieving 34.4% of the GDP in 2009. With the purpose of reducing the centralization of decisions in the federal level, the 1988 Federal Constitution increased the volume of transfers to states and cities and reduced the Union's autonomy. To keep its revenues, the Union created new taxes and contributions, such as the CPMF, a cumulative financial contribution. In the state scope, collection disputes through policies related to the value-added tax ICMS generated a fiscal war and maintained the regressive nature of this tax. High rates are still a burden on basic services, such as telecommunications (25%), a few basic food items (18%) and electric power (26%). A new tax reform took place in 2023, also aiming to simplify the complex tax system in Brazil

The liberalization of financial rates (4), or their control by market rules, has not been entirely effective3. Brazil has one of the highest basic interest rates in the world, along with high banking spread. Additionally, the assets from its main financial groups controlled by the government (BNDES, Banco do Brasil and CEF) represent 40% from total assets available in the national financial system. Even with the arrival of international financial groups (HSBC and

Santander), there were not considerable changes in the rates applied.

From 2004 to 2009, there was a considerable movement of capital opening by major Brazilian companies. The cosmetics company Natura started its movement by collecting R$ 678 million in 2004. In the same year, the airline Gol collected R$ 878 million. During this period, there were 115 capital openings, with collection of nearly R$ 99 billion. The highlight in this period goes to businessman Eike Batista, who managed to get 10% from this total, approximately R$ 10 billion, and became the richest person in Brazil when two of his companies became valued in the market. The 2007/2008 financial crisis reduced this momentum, despite having soft effects in Brazil (Lazzarini, 2011). Despite the entrance of funds in the capitals market and the listing of several companies in the stock exchange, companies in Brazil still have a capital market concentrated and not much accessible to smaller businesses.

There was progress in relation to the exchange rate (5) and the trade liberalization (6), although the import fees are still on high levels. Experiences with the Collor Plan indicate that this reduction must be gradual in order to not affect the payroll and national production sectors suddenly.

There was progress in relation to foreign investments (7); FDI flows in Brazil increased considerably, since foreign investors started being treated the same way as local investors. Foreign investors had permission to send to their countries of origin dividends, royalties and the capital invested. The reinsurance market was opened to the private initiative in 2008, which increased interest from investors. However, there still are restrictions dated from the protectionist industrial policy in different segments.

The reduction in the government presence in the economy through the privatization program (8) was small. As indicated on the previous topic, pension funds from government companies and the government investment bank (BNDES) had a dominant role in the privatization of several companies in segments considered relevant by the federal government. The result from this movement, as indicated by Lazzarini (2011, 2014), is that the federal government ends up controlling a considerable part of the economy, whether through government companies or through companies indirectly controlled by pension funds, or through the government investment bank, BNDES.

Free competition in Brazil has advanced considerably with the arrival of companies from other countries, with progress in the antitrust legislation, and with the increased participation of regulation agencies in oligopoly segments. However, there are still many industries with strong concentration, such as oil, steel mining, cement and mining, with a reduced number of companies.

The compliance with property rights (10) in Brazil still needs a faster, more independent legal system. The legislation is modern and encompassing, but legal decisions may take years. The unauthorized use of brands – the so-called piracy – is common in the society and minimally suppressed by authorities. The liberalization in the job market, despite not being explicitly featured in the ten commandments from the Washington Consensus, may represent an obstacle to corporate competitiveness, which in a way occurs in Brazil.

Despite the items that still need improvements in the Brazilian economy, when comparing Brazil's institutional environment with the one in other emerging countries, we notice an intermediate position. Table 4 indicates the economy freedom index by the Heritage Foundation from seven emerging countries in 2023 (*Economic Data and Statistics on World Economy and Economic Freedom*, n.d.).

Table 4. IEF index from some emerging countries

Country	IEF Index – Heritage Foundation 2023	Global Ranking	2022 Score
Brazil	**53,5**	**127**	**53,3**
Chile	71,1	22	74,4
China	48,3	154	48
India	52,9	131	53,9
Mexico	63,2	61	63,7

DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Russia	53,8	125	56,1
South Africa	55,7	116	56,2

Source: The Heritage Foundation, 2023

CONCLUSIONS

It is noticed that Brazilian BGs, from a historical classification, are concentrated in two main types: the ones created in periods with import replacement policies, and a smaller share created from the privatization movement in the 1990s.

The historical analysis enables to make a series of verifications. The first one is that the evolution of Brazilian BGs occurred, as suggested by Khanna and Palepu (1997), with major government influence. One piece of evidence is the barriers to the arrival of foreign companies, such as the ones related to computing products. Another is the creation of fostering entities, such as BNDES and SUMOC. It is also worth highlighting the role of the Brazilian government as major consumer of the products and services offered by the BGs, especially in sectors related to infrastructure, such as civil construction and energy.

The BGs were able to use Brazilian institutional arrangements to grow. This can be noticed, for example, on the growth of financial groups such as Unibanco and Itaú in years of high inflation and reduced offer of credit. The financial industry, as analyzed, is highly dominated by major national groups, whether private or government-owned. Periods of institutional change ended up being more beneficial to BGs than to companies not diversified, such as the ones in the Brazilian textile segment, which industrial park was dismantled with the market opening to foreign companies, which shut the doors of major Brazilian companies. The Brazilian BGs were also the main players in the privatization process, due to the low interest from international groups (except in certain segments, such as telecommunications) and the interest from the federal government in maintaining national control in segments of strategic importance. Changes in the capital market and the movement of mergers and acquisitions starting in the 1990s and 2000s have resulted in further concentration of the BGs, as well as more influence by the government in their actions, whether through pension funds or BNDES (Lazzarini, 2011). Unless there are changes in federal industrial policies, the trend is for a further increase in the concentration of Brazilian BGs in the future.

It was also noticed that, opposite to other countries, such as South Korea, where BGs received incentives to internalize (Porter, 1990), in Brazil the BGs were focused on the internal market. There were few initiatives for internationalization, which had a boost after 1999 with the adoption of floating exchange rate. According to the historical evolution and market conditions, one can expect a late-blooming internationalization movement for Brazilian BGs.

This study presents indications that major diversified BGs may find favorable contexts to settle and expand. The historical evolution of BGs in Brazil shows how they find fertile ground since their beginning, related to industrial and imports replacement industries, to the present days, benefiting from institutional movements on pro-market reforms occurred in Brazil.

REFERENCES

Aldrighi, D. M., & Postali, F. A. S. (2010). Business groups in Brazil. In A. M. Colpan, T. Hikino, & J. R. Lincoln (Orgs.), *The Oxford Handbook of Business Groups* (pp.353-386). Oxford University Press.

Bhatia, A., & Thakur, A. (2017). Choice of Diversification Strategies in an Emerging Market: Evidence from Indian Manufacturing Industries. *Journal of Asia-Pacific Business*, *18*(1), 21–45. https://doi.org/10.1080/10599231.2016.1272994

Bettis, R. A., & Hall, W. K. (1983). The business portfolio approach - Where it falls down in practice. *Long Range Planning, 16*(2), 95–104.

Caldeira, C. A., Costa, M. W. O., & Kallás, D. (2011). *Evidencia dos mecanismos de estratégias políticas entre grupos econômicos brasileiros e governo: uma via de mao dupla*. [Apresentação de trabalho]. Anais do Encontro Nacional da Associação Nacional de Pós Graduaçao em Administração, Rio de Janeiro.

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. *Academy of Management Journal, 54*(3), 437–460.

Carneiro, F. G., & Rocha, C. H. (2000). *A Privatização no Brasil: Reforma do Setor Público na América Latina: Uma Perspectiva Comparada*. BNDES. Accessed in October 15th, 2023, from http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Publicacoes/Consulta_Expressa/Setor/Privatizacao/200002_10.html.

Costa, M. W. O. (2012). *A influência da conexão política na reestruturação de ativos dos grupos econômicos no Brasil*. [Unpublished dissertation]. Fundaçao Getúlio Vargas, Sao Paulo.

Dau, L. A. (2012). Pro-market reforms and developing country multinational corporations. *Global Strategy Journal, 2*(3), 262–276.

Day, G. S. (1977). Diagnosing the product portfolio. *The Journal of Marketing, 41*(2), 29-38.

Dieleman, M., & Sachs, W. M. (2008). Co-evolution of institutions and corporations in emerging economies: how the Salim Group morphed into an institution of Suharto's Crony Regime. *Journal of Management Studies, 45*(7), 1274–1300.

Economic Data and Statistics on World Economy and Economic Freedom. (n.d.). Retrieved December 5, 2023, from //www.heritage.org/index/explore

Gomes, R., Strachman E., Pieroni, J. P., & Silva, A. O. (2007). Abertura comercial, internacionalizaçao e competitividade: a indústria brasileira de máquinas texteis após os anos 1990. *Economia e Sociedade, 16*(3), 405-433.

Goold, M., & Campbell, A. (1991). Brief case: from corporate strategy to parenting advantage. *Long Range Planning, 24*(1), 115–117.

Goold, M., & Luchs, K. (2006). Why diversify? Four decades of management thinking. In A. Campbell & D. O. Faulkner (Eds.), *The Oxford Handbook of Strategy: a strategy overview and competitive strategy* (pp.509-534). Oxford University Press.

Guimarães, E. A. (1996). *A experiencia recente da política industrial no Brasil: uma avaliaçao*. IPEA. Accessed on November 30th, 2023, from http://desafios2.ipea.gov.br/pub/td/1996/td_0409.pdf.

Hall, W. K. (1978). SBUs: Hot, new topic in the management of diversification. *Business Horizons, 21*(1), 17–25.

Hedley, B. (1977). Strategy and the "business portfolio." *Long Range Planning, 10*(1), 9-15.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation: analytical concepts*. West Pub. Co.

Hollweck, T. (2015). Robert K. Yin. (2014). *Case Study Research Design and Methods (5th ed.)*. *Canadian Journal of Program Evaluation*, *30*(1), 108–110. https://doi.org/10.3138/cjpe.30.1.108

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal, 43*(3), 249-267.

Hu, H. W., Cui, L., & Aulakh, P. S. (2019). State capitalism and performance persistence of business group-affiliated firms: A comparative study of China and India. *Journal of International Business Studies*, *50*(2), 193–222. https://doi.org/10.1057/s41267-018-0165-5

Instituto Brasileiro de Geografia e Estatística (n.d). *Contas Nacionais*. Accessed on November 30th, 2023, from http://www.ibge.gov.br/home/presidencia/noticias/20122001contasnacionais.shtm.

Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family business groups and firm performance: Evidence from Indonesia. *Journal of Accounting & Organizational Change*, *16*(1), 93–121. https://doi.org/10.1108/JAOC-09-2019-0091

Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review, 75*(4), 41–51.

Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *The Journal of Finance, 55*(2), 867–891.

Lange, M. (2012). *Comparative-Historical Methods*. SAGE.

Lacerda, A. C., Bochi, J. I., Rego, J. M., Borges, M. A., & Marques, R. M. (2006). *Economia Brasileira* (3rd ed.). Saraiva.

Lang, L. H. P., & Stulz, R. M. (1993). Tobin's Q, Corporate Diversification and Firm Performance. *Working Paper no. 4376*, National Bureau of

DOI: https://doi.org/10.14210/alcance.v30n2(maio/ago).p99-119

Economic Research.

Laothamatas, A. (2019). *Business Associations And The New Political Economy Of Thailand: From Bureaucratic Polity To Liberal Corporatism*. Routledge.

Lazzarini, S. G. (2011). *Capitalismo de laços: os donos do Brasil e suas conexões*. Elsevier.

Mahoney, J. (2004). Comparative-Historical Methodology. *Annual Review of Sociology*, *30*(1), 81–101. https://doi.org/10.1146/annurev.soc.30.012703.110507

Miller, T., & Holmes, K. R. (2011). *2011 Index of Economic Freedom*. Wall Street Journal; The Heritage Foundation.

Modiano, E. (2000). *A Privatização no Brasil: um balanço da privatização nos anos 90*. BNDES. Accessed on November 30th, 2023, from http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/conhecimento/ocde/ocde09.pdf.

Mukhopadhyay, J., & Chakraborty, I. (2017). Foreign institutional investment, business groups and firm performance: Evidence from India. *Research in International Business and Finance*, *39*, 454–465. https://doi.org/10.1016/j.ribaf.2016.09.015

Musacchio, A., & Lazzarini, S. G. (2014). *Reinventing State Capitalism*. Harvard University Press. http://books.google.com/