

THE ALFA GROUP: THE DECLINE AND RESURGENCE OF A LARGE-SCALE INDIGENOUS BUSINESS GROUP IN MEXICO

TAEKO HOSHINO

INTRODUCTION

DURING the past two decades in Mexico, indigenous business groups have experienced spectacular growth. In 1982, in the midst of this rapid growth, the problem of Mexico's accumulated foreign debts came to a head shaking the entire economy. Commercial banks in the developed countries, especially those in the United States, had lent abundantly to Mexico's indigenous business groups which now experienced crises of management because of their accumulated foreign debts. However, as the Mexican economy restructured itself during the 1980s, these troubled business groups were able to reorganize, and by the end of the 1980s most were able to overcome their foreign debt problems which enabled them to once again get back onto the road of growth. This study will focus on the example of Mexico's largest indigenous business group, the Alfa Group, to examine the past two decades of growth experienced by these groups. It will examine in particular their efforts to overcome their foreign debt problems and to restructure themselves.

Before moving into the main discussion of this work, we need to know the position occupied by indigenous business groups, particularly that of Alfa, in the Mexican economy. The author studied the process of rapid expansion experienced by indigenous business groups from the early 1970s to the early 1980s, and this study showed that during that decade indigenous business groups grew into economic entities important and strong enough to cope with foreign enterprises [14]. This is reflected in the 1986 figures for the top one hundred business groups and enterprises with the largest sales in Mexico's mining and manufacturing sectors: sixty-two (58 per cent in sales) were indigenous Mexican, twenty-five (26 per cent) were foreign, and twelve (16 per cent) were state-owned (this last figure excludes the giant state-owned oil company, *Petroleos Mexicanos*).¹ Alfa stood at the top of the list of the sixty-two indigenous business groups or enterprises in sales [13, pp. 38-39].

¹ The one hundred largest business groups and enterprises were gleaned from the rankings of the "five hundred largest individual enterprises in Mexico" and "largest groups in Mexico" carried in the business magazine, *Expansión* [9, August 19, 1987] [9, September 2, 1987]. The figures were calculated by the author. The classification of indigenous, foreign, or state-owned is based on who owns a majority share of capital, or in the case of no majority ownership, who holds the control of management.

The major indigenous groups can be divided into two broad categories depending upon the location of their headquarters. One category is made up of those business groups based in the capital of Mexico City. Most of these groups have been set up since the 1950s when Mexico began concerted efforts to industrialize; only a few of them have been set up by and remain under the exclusive control of founding families (their founders and descendent families). The other category is made up of business groups based in regional cities, and the core of these groups is centered on the northeastern city of Monterrey. The history of these groups is older than those in Mexico City, and most of them still remain firmly under the control of their founding families [13, p. 44]. Alfa's origins are in the Monterrey Group (Grupo Monterrey) which, as its name implies, is based in the city of Monterrey, its founding dating back to 1890. Having its origin in the Monterrey Group, Alfa still remains firmly under the control of the same founding families. Thus Alfa continues in the pattern of the second category of business groups.

The two broad categories are also separated by the nature of relations between the business groups and the central government. For those groups centered on Mexico City, their economic growth has been closely connected with the favored position they have held in the government's industrialization policies, and for this reason they have been cooperative, even compliant, with the government. By contrast, the regionally based business groups have built up their operations with relatively less reliance on the central government, and they have been uncooperative with, even defiant of, the government. There have been any number of times in the past when relations between government and business have deteriorated and anti-government movements have welled up. These movements have invariably been supported by the regionally based industrialists, and the Monterrey Group's founding families have always quickly stepped forward to spearhead these movements [15, pp. 6-7].

The past two decades of growth experienced by Mexico's indigenous business groups can be divided into the following three periods. The first runs from the beginning of the 1970s until the year 1982. During this period indigenous business groups achieved far more rapid growth than did the foreign-owned enterprises in Mexico. This rapid growth was made possible by the government's policy of fostering indigenous business groups, by the advent of the oil boom, and by an abundance of foreign loans. The second period runs from 1982 until the end of the 1980s. During this period business groups expended a great deal of effort restructuring their management and overcoming the foreign debts they had accumulated during the first period. They were generally successful in this effort. The third period is still in progress running since the end of the 1980s. Business groups that restructured during the second period now began to experience renewed growth, this time based on exports. As this period continues, it could witness the establishment of the North American Free Trade Agreement (NAFTA), which will confront these business groups with new challenges.

The above three-phased time frame is applicable to the Alfa Group, and in the course of examining Alfa's business growth, this paper will focus on the following

three main points. The first is the connection between Alfa's business expansion and its foreign borrowing. It has frequently been pointed out that the cause of Alfa's management crisis at the start of the 1980s was its reckless business expansion, and foreign loans were an important source of funds for this expansion. In the past when this foreign borrowing has been scrutinized, there has been the tendency to emphasize only its negative aspect. But was this borrowing wholly or mostly negative? Through its restructuring process of the 1980s, Alfa carried out a thorough business rationalization. By examining what remained part of Alfa and what parts were eliminated through this process, we can better evaluate the role which foreign loans played in Alfa's business expansion. The second main point is whether or not there has been any change in the family-centered control over Alfa. In the agreement between Alfa and its creditor banks resolving the debt crisis was a clause requiring 45 per cent of Alfa's stock to be transferred over to the creditor banks. Did this very substantial transfer mean the end of control by the founding families which has characterized Alfa since its founding? Tracing the changes that have taken place in Alfa's ownership and management will give us a better understanding of this point. The third main point is the relationship between the government and the Monterrey Group from which Alfa originated. The Mexican government extended an active helping hand to Alfa as it was grappling with its foreign debt problem and its restructuring. As noted above, historically relations between the Monterrey Group and the government have not been cordial, and many researchers highlight the attacks on the government by the Monterrey Group's founding families carried in the mass media and the families' support since 1982 of Partido Acción Nacional (PAN, the National Action Party), the opposition party. But probing into the relationship between Alfa and the government concerning the former's foreign debt settlement and its restructuring can provide a new view of these relations which is not possible by only analyzing their political aspect.

The following sections form the main discussion of this study. Section I examines up to 1974 the distinctive features of and reasons for the development of the Monterrey Group. Such an examination will make it easier to understand the economic and political power of the Monterrey Group before Alfa separated off from it, and will likewise make the changes that have taken place since 1974 much more clear. Section II will look at Alfa's rapid business growth from 1974 to 1982 when it ran into its debt crisis. Section III will trace the course of the group's restructuring process from 1982 to 1988. Finally the Conclusion will set out the changes which have occurred in the course of Alfa's rapid growth, its collapse then restructuring, and will close with an examination of the significance which these changes have had for the Alfa Group.

I. ANTECEDENTS TO THE ALFA GROUP

The Alfa Group was set up in 1973 in the wake of the death of the Monterrey Group's leading figure, Eugenio Garza Sada, who was killed by left-wing guerrillas. Following Eugenio's death, a struggle ensued within the founding families over

naming a successor which resulted in the breakup of the Monterrey Group. The Garza Sada branch of the founding families headed by Bernardo took over the steel and paper manufacturing operations from among the Monterrey Group's affiliated enterprises, and it was around these businesses that the Alfa Group was set up. This breakup was the final outcome of a process which had already been ongoing whereby the powerful branches of the founding families had been gradually laying claim to the businesses they had principally been in charge of.² Like steel and paper manufacturing which the Garza Sada family branch took over, the beer brewing operations and related businesses integrated under the holding company Valores Industriales (VISA) were taken over by the Garza Lagüera family branch headed by Eugenio, the glass operations integrated under the holding company Vitro were taken by the Sada Treviño family branch led by Adrián, while the chemicals segment integrated under the holding company Cydsa was taken by the Sada Zambrano family branch led by Andrés Marcelo [19, p. 286]. Although in terms of management the Monterrey Group was separated into four independent business groups, these four groups still maintain the informal network through the mutual holdings of stock and the exchange of board members among these family branches [16, pp. 143–44].

Alfa and its establishment are not to be understood as something detached from the Monterrey Group. A brief look at the development of this group will help clarify this point.

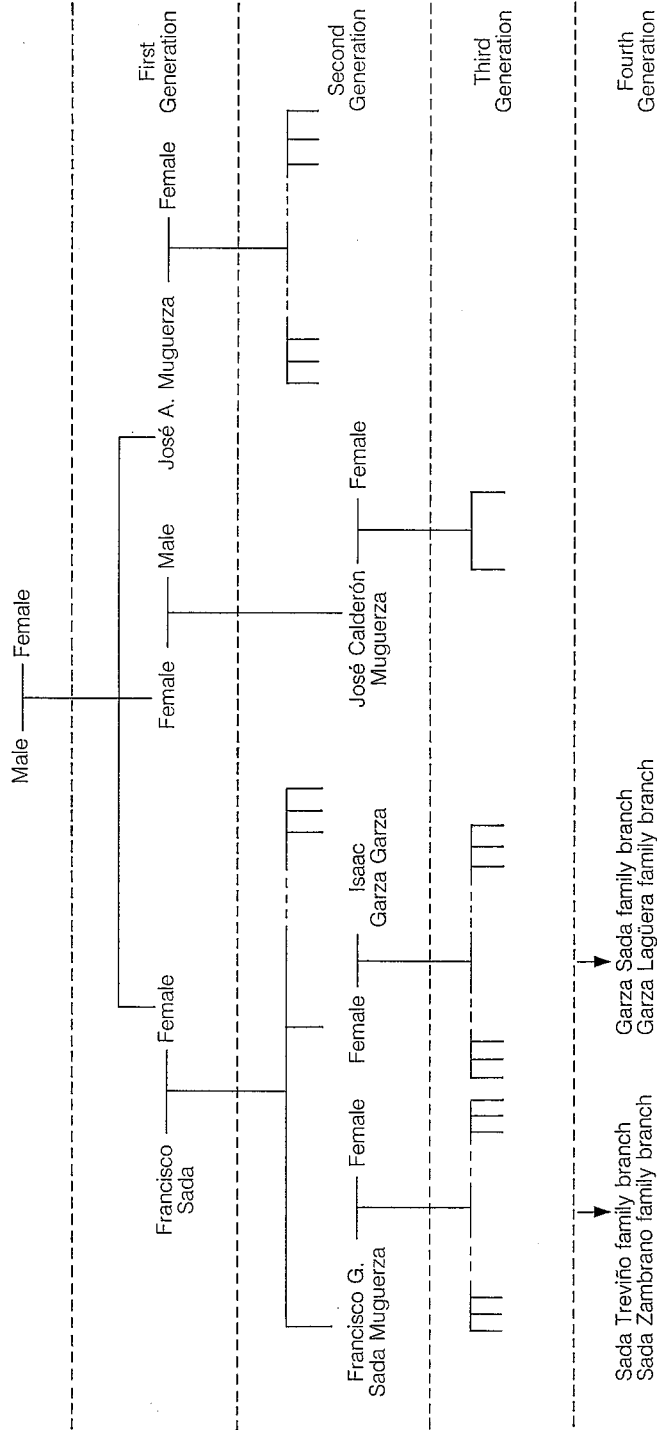
A. *Establishment of Cervecería Cuauhtémoc (the Cuauhtémoc Beer Company)*

The birth of the Monterrey Group goes back to the founding of Cervecería Cuauhtémoc in Monterrey in 1890. The founders of the company were Francisco Sada, Isaac Garza, José A. Muguerza, José Calderón, Francisco G. Sada, all merchants who had come together to form the then very prosperous Casa Calderón y Cía. (Calderón & Co.), along with a German-American brewer named Joseph Schnaider [12, p. 285]. Except of Schnaider the other five men were related by blood or by marriage and formed the core of the founding families around which the Monterrey Group was ultimately to center. Their relationship to each other as well as to the present-day powerful family branches is shown in Figure 1. In 1896 Schnaider relinquished his stockholdings and withdrew from the company [21, p. 66]. Thereafter Cervecería Cuauhtémoc developed as a family enterprise.

The new beer company was set up in the midst of a time of economic development that Monterrey experienced from the second half of the nineteenth century onward. Ten years after the founding of the beer company, Monterrey also became the site of the first modern steel foundry in Latin America, Cía. Fundidora de Fierro y Acero (Fundidora), which was set up by other Mexican entrepreneurs. Important about both the beer company and the steel foundry is that they were Mexican businesses.

² Already in the 1930s with the third generation claims were beginning to be made among the branches of the founding families to the businesses they were in charge of. The children of Isaac Garza had taken total charge of the beer operations, and those of Francisco Sada the glass operations.

Fig. 1. Relationship of the Founders of Cervecería Cuauhtémoc and the Influential Present-day Family Branches of the Monterrey Group



Sources: Compiled from information in Editorial Revesa, *Quién es quién en Monterrey* (Monterrey, 1970) and other source material.

Studies by other researchers indicate that the following four points were the principal reasons for Monterrey city's economic development and the growth of indigenous capital [21] [23].

The first was Monterrey's position as the commercial center in northeastern Mexico for trade with the United States. Particularly during the American Civil War when the North maintained a naval blockade of the South, cotton from the southern states was exported via Mexico, and Monterrey, which was involved in the transporting and forwarding of this cotton, profited enormously from this trade. All of the founders of *Cervecería Cuauhtémoc* were merchants, and this was certainly related to Monterrey's rising prosperity.

The second point was the state government's policy of fostering industrialization. During the governorship of Bernardo Reyes (1889–1909), policies such as preferential tax treatment, high tariffs, and regulations controlling labor were carried out to foster new industries, and efforts were made to get capital accumulated in the commercial sector to be invested in the industrial sector.

The third point was the boom in the construction of smelters in Mexico's Northeast following enactment of the McKinley Tariff by the United States in 1890. This tariff raised the duty on metal ores from Mexico which at the time were a very important Mexican export to the United States. In response metal ores began to be smelted in Mexico then exported to the United States in the form of processed goods which carried a low import tariff. Smelter construction brought about an economic boom in Monterrey.

The fourth point was that the foreign capital investment that flowed into Mexico in great quantities at the time remained limited to the export sector, and opportunities for investing in the production of goods for the domestic market were left to Mexican capitalists. Also the knowledge and experience that merchants had about fostering markets and promoting manufactured goods made it easier for them to enter into the manufacturing sector.

B. Distinctive Features of the Monterrey Group's Development

The first distinctive feature of the Monterrey Group's development was that beer production stood at the center of business operations, and the company endeavored to expand related business activities as circumstances required. In chronological order the main events in this process were as follows. In 1909 *Vidriera Monterrey* (Monterrey Glass), the original enterprise from which the future Vitro Group arose, was set up to manufacture beer bottles. This same company later pressed ahead with diversification moving into the manufacture of glass plate and crystal goods, into the raw materials sector, and into the glass manufacturing machinery sector. Through these moves Vitro grew to become an business group which now monopolizes the manufacture of glass in Mexico [20, September 24, 1983]. In 1929 Malta company was set up to produce malt for the brewing of beer. Today this company is one of the subsidiaries of the VISA Group. In 1936 *Empaques de Cartón Titán* company was set up to produce labels and corrugated cardboard boxes for beer bottles. This company became the core of the Monterrey Group's paper manufacturing operations, and

in 1974 with the breakup of the group, this company was taken over by Alfa. In 1943 Hojalata y Laminas company, forerunner of today's Hylsa company, was set up to produce the steel used to make beer bottle caps. This company was set up when exports of rolled steel from the United States were suspended due to World War II. To cope with the situation, Hojalata y Laminas began using the direct reduction method to produce sponge iron from scrap iron which could be obtained domestically, and the company developed its technology up to world-recognized standards. It acquired patents for its technology, and today it still is exporting its technology to countries around the world [19, p. 287]. This company, now known as Hylsa, was taken over by Alfa. In 1945 Celulosa y Delivados was set up to manufacture chemical raw materials. This company later became the core around which the Cydsa Group was formed.

The second distinctive feature of the Monterrey Group's development was that simultaneous with its efforts to expand business in the manufacturing sector, it was also working to augment its position in the financial sector in order to procure capital. In 1932 the group set up its own bank, Banco Industrial de Monterrey (the Industrial Bank of Monterrey); then in 1936 it set up its own investment company, Cía. General de Aceptaciones. In a separate move in 1934 the group acquired a share of the stockholdings in Banco de Londres y México (the Bank of London and Mexico), a bank with a nationwide network. Thereafter this share was gradually increased until ultimately the Monterrey Group acquired a majority stockholding in the bank. These three financial operations along with other small and medium-sized financial operations that the group set up were all later integrated into Banca Serfin (the Serfin Bank) [10, pp. 62-67]. This latter bank was, until nationalized in 1982, an affiliate of the VISA Group and could boast of being number three in Mexico in the amount of its deposits. Meanwhile financing for Vidriera Monterrey was provided until 1937 by Cía. General de Aceptaciones. In that year Financiera del Norte was set up specifically to provide financing for the group's glass operations. The Monterrey Group's founding families did not simply push its own aggrandizement. They also joined with the other leading Monterrey entrepreneurs in actively participating in the establishment of financial organizations. The best representation of this was the establishment of Unión Financiera (the Financial Union) in 1939. This financial organization was set up as a holding company, and two years later it brought four large-scale financial organizations under its affiliation [12, pp. 288-90].

C. Major Reasons for the Monterrey Group's Development

The distinctive features discussed above of the Monterrey Group's development also operated as the major reasons for this development. The first was the process of developing business by advancing through vertical integration into a related sector. Generally for an enterprise to continue developing, the three factors of markets, capital, and technology are required; for the Monterrey Group these three factors could be fulfilled by developing business through vertical integration. More specifically, the major markets were the enterprises within the group, and these were already secure when the group started to advance into a new sector.

Then business advanced by stages becoming more sophisticated as it moved from producing consumer goods, through intermediate goods, finally to capital goods. Specifically the Monterrey Group moved from beer brewing, through glass, paper, and steel manufacturing to chemicals, each stage becoming technologically and in the scale of capital more highly advanced and sophisticated as the capabilities of the group advanced.

The second major reason for the group's development was the abundance of its capital resources. The sources for this capital were firstly business profits, starting with the prosperous Calderón & Co., then from the profits accumulated by the group as a whole after it was founded. From 1930 onward greater additional capital could be procured through the financial organizations that the group set up or acquired. Finally there was the financing that could be obtained from beyond the Monterrey Group itself, from outside financial organizations where the founding families were participants.

Still other important reasons for the group's development were the human network that the founding families built up and the enormous political strength that the Monterrey Group's economic power was able to support. The human network formed between the founding families and the other elite families of Monterrey through socializing and marriage functioned at the same time as the business and financial network. A good example of the Monterrey Group's political power was demonstrated when a government sponsored labor union supported by the Cardenas regime (1934–40) sought to advance into Monterrey city. This effort was resisted and finally thwarted by the entrepreneurial elite of the city led by the Monterrey Group's founding families. Even today in Monterrey, government-sponsored labor unions are weak; and also exceptional for Mexico, labor unions known as *sindicato blanco* which are tame and submissive to their enterprises are Monterrey's mainstream unions.

II. RAPID GROWTH THEN DECLINE, 1974–82

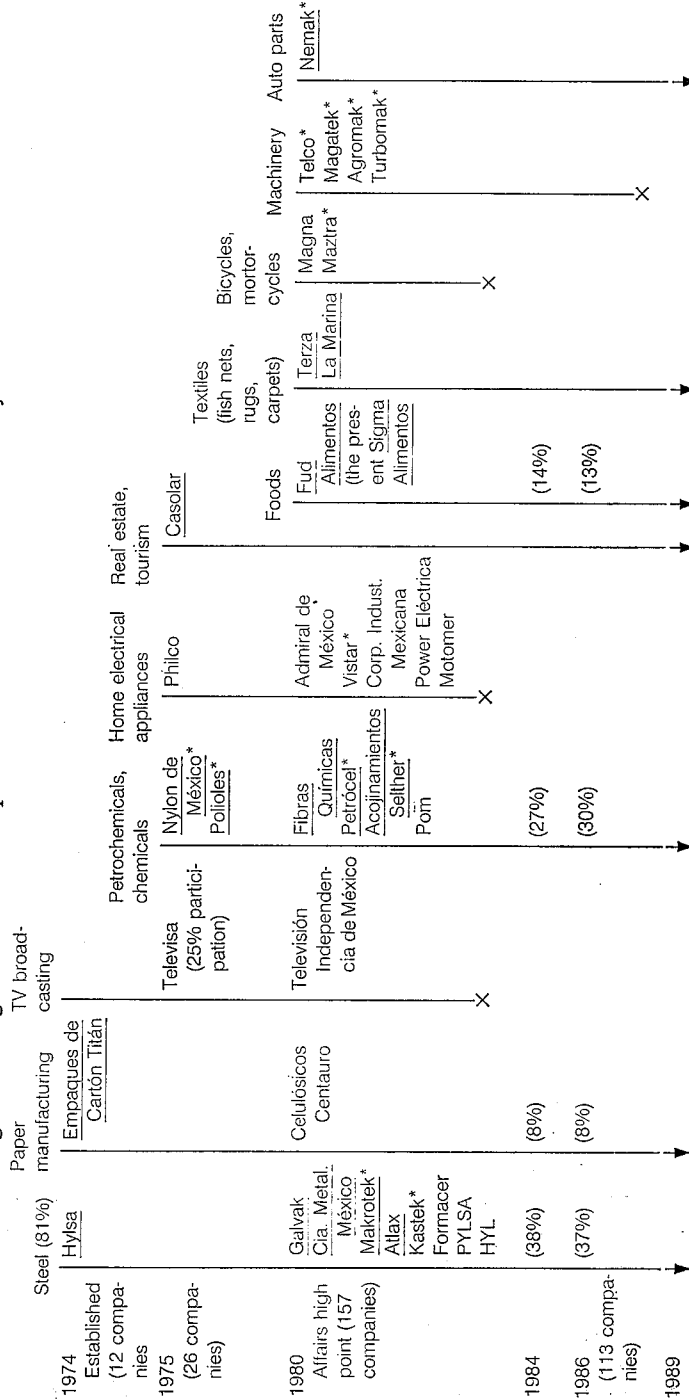
A. *Rapid Growth*

The Garza Sada family-controlled business group that separated from the Monterrey Group was integrated under the holding company Grupo Industrial Alfa (hereafter referred to as Alfa Holdings) set up in 1974. Generally speaking the term "Alfa Group" indicates the group of enterprises under this holding company's affiliation. Immediately from the time it separated from the Monterrey Group, Alfa began to grow rapidly. The next two sub-sections will examine this growth looking at (i) the group's expanding fields of business activities, and (ii) the number of its subsidiaries, and the increase in the number of its employees.

1. *Expanding fields of business activities*

Figure 2 shows the major fields of business activities and the major subsidiaries of the Alfa Group from 1974 to 1989. As shown in the figure, the fields of activities after the group was initially set up were those it took over from the Monterrey Group: steel, paper manufacturing, and regional television stations.

Fig. 2. Changes in the Alfa Group's Fields of Business Activities and Major Subsidiaries



Sources: Compiled from [4, p. 29] [11, 1981, 1985, 1987 eds.]; Mercamétrica Ediciones, *Industridata empresas grandes 1988-1989* (Mexico City, 1989); "Los grupos más importantes de México," *Expansión*, August 29, 1990.

Notes: 1. Names of subsidiaries that are underlined are still part of the Alfa Group in 1989; those without an underline were sold off.

2. Enterprises marked with an asterisk have minority capital participation by or technological tie-ups with foreign capital. The author did not obtain data on all of the group's enterprises, therefore it is highly likely that there are other subsidiaries with foreign capital involvement.

3. The figures in parentheses are the percentages of total group sales for each sector.

During 1975, the group's second year, it added on petrochemicals and chemicals, home electrical appliances, and real estate and tourism, and acquired a minority holding in a nationwide television broadcasting station. Thereafter the group continued to expand its fields of activities until by 1980, when Alfa was at the height of its prosperity, it had added foods, textiles, bicycles and motorcycles, machinery, and auto parts to its list of affiliated businesses. The very big difference between this expansion and that followed by the Monterrey Group was that most of Alfa's advances were into fields unconnected with its original business and manufacturing interests.

2. *The number of subsidiaries and the increase in the number of employees*

When moving into new fields, Alfa would set up new enterprises or acquire existing ones and bring these under its umbrella as subsidiaries. As a consequence the number of Alfa's subsidiaries increased rapidly as the group expanded its fields of business activities. In 1974 the number of subsidiary companies stood at 12; in the following year this jumped to 26 [4, p. 29]; by 1978 they numbered 53 and by the next year 84; finally in 1980, at Alfa's peak, the number reached 157 companies [11, 1980 ed.]. A noteworthy feature that can be pointed out about the large subsidiaries, whether newly set up or acquired, was that many of them had minority foreign capital subscriptions and/or technological assistance from foreign capital. In Figure 2 showing the major affiliated enterprises, the number of those known (and there were most likely more) to have had foreign capital participating in them through capital subscriptions and/or technological assistance are marked with an asterisk. The large number of enterprises with foreign capital subscriptions can be attributed to the government's policy regulating foreign investment. In 1973 the Mexican government enacted a foreign investment law requiring that 51 per cent or more of the capital invested in a new enterprise had to be Mexican capital. This law turned foreign capital toward forming tie-ups with Mexican indigenous business groups.

The number of Alfa employees likewise rapidly rose as the group's fields of business activities expanded and the number of subsidiaries increased. By 1976, two years after its establishment, Alfa employed 16,560 workers; by 1979 this had leaped to 32,865; and at its peak in 1980 the number reached 49,019 workers [11, 1980 ed.].

B. *Reasons for Alfa's Rapid Growth*

The period of the 1970s and the beginning of the 1980s was one when not only Alfa but indigenous business groups in general achieved rapid growth, and the primary reasons for this growth were applicable generally as well as to Alfa specifically. The first principal reason was the government's policy of fostering indigenous business groups. This began in earnest during the Echeverría regime (1970-76) with preferential tax measures toward indigenous business groups directed at promoting industrial production and with the already mentioned regulations on foreign investment. These were followed by the López Portillo government's (1976-82) "alliance for production" policy. The Echeverría gov-

ernment's preferential tax policy came about as a result of efforts to influence the government carried out by the Monterrey Group and a number of the large business groups based in Mexico City. The second principal reason for the rapid growth was the economic prosperity that Mexico experienced during the latter half of the 1970s and the early 1980s led by oil exports and the rapid increase in foreign loans. The third reason was that indigenous business groups were able to tap sources of capital that had not been available to them before. One was the securities market whose organization moved forward during this period achieving rapid growth and making it possible to procure capital on this market. Alfa Holdings was able to take advantage of this source when its shares were listed on Mexico's securities exchange market in 1978. But the main new source of capital was loans from commercial banks in the developed countries especially from those in the United States. Alfa had planned to carry out its expansion primarily by reinvesting profits but the process of expansion advanced so rapidly that this financial source quickly became insufficient and attention was soon shifted toward loans from commercial banks. The financial capacity of domestic banks was limited, and the cost of financing was higher than compared with that abroad; also it was expected that the exchange rate would continue to be stable. All these factors induced Alfa to borrow from commercial banks in the developed countries [19, p. 294].

C. *Decline*

In 1981 Alfa's business performance took a downturn. In October of that year an incident occurred involving Banco Nacional de Obras y Servicios Públicos (BANOBRAS) substantiating reports of this downturn.

1. *Alfa's huge financing from BANOBRAS*

In 1981 the government bank BANOBRAS provided Alfa with financing worth 12 billion pesos.³ Three points were exceptional about this financing. The first was that BANOBRAS's essential job was to provide financing for public works to build infrastructure. Providing financing to private enterprise deviated from its expected duties [8, October 30, 1981]. The second point was the huge amount of the financing. The funds provided Alfa were worth 7 per cent of the total financing that BANOBRAS had extended during all the forty-eight years since it had been established [22, November 10, 1981]. The third point was the exceptionally favorable terms of the financing. According to one report, 7 billion of the 12 billion pesos were lent at the market interest rate, but the remaining 5 billion pesos were lent at a preferential rate although conditions were attached [8, October 30, 1981] [8, November 6, 1981]. This financing was attacked as a dishonest transaction resulting from the close ties between the government and Alfa, and it was slammed in the mass media and in the lower house of the national

³ There were also claims that the amount was 17 billion pesos. This figure was put forward by the opposition Partido Socialista Democrático (PSD, the Socialist Democratic Party) in the lower house when the party attacked the government saying the financing from BANOBRAS was improper and illegal [9, June 23, 1982, p. 18].

TABLE I
ALFA'S SALES, PROFITS, FINANCING COSTS, AND SALES
PER EMPLOYEE, 1975-88 (AT 1980 PRICE)

| Year | Sales (Million Peso) | Profits (Million Peso) | Financing Costs (Million Peso) | Sales per Employee (1,000 Peso) |
|------|-------------------------|---------------------------|--------------------------------------|---------------------------------------|
| 1975 | 11,339 | 923 | 728 | |
| 1976 | 12,665 | 920 | 817 | 764.8 |
| 1977 | 16,021 | 1,127 | 1,221 | 821.4 |
| 1978 | 19,061 | 1,551 | 1,565 | 857.9 |
| 1979 | 25,389 | 2,277 | 1,717 | 772.5 |
| 1980 | 30,958 | 2,500 | 2,440 | 631.6 |
| 1981 | 32,364 | -3,281 | 5,721 | 784.1 |
| 1982 | 26,886 | -10,601 | 48,270 | 791.9 |
| 1983 | 24,805 | -5,157 | 9,958 | 782.0 |
| 1984 | 26,342 | -453 | 3,391 | 853.2 |
| 1985 | 24,968 | -2,697 | 7,526 | 820.1 |
| 1986 | 23,528 | -10,095 | 9,713 | 829.9 |
| 1987 | 27,545 | -7,295 | 11,542 | 932.1 |
| 1988 | 26,704 | 9,375 | -6,057 | 915.1 |

Sources: [1, various issues] [2, 1980, 1984 eds.] [9, September 2, 1987] [9, August 30, 1989] [9, August 29, 1990]; Mercamétrica Ediciones, *Industridata, empresas grandes, 1985-1986* (Mexico City, 1986); for consumer price index, Nacional Financiera, S.A., *Economía Mexicana en cifras, 1988* (Mexico City, 1989), p. 346; for number of employees, [11, 1980 ed.].

Note: The deflator = 100 at the 1980 national consumer price index. The producer price index should have been used, but these have been published only since 1980; therefore the consumer price index was used. Since 1980 there has been little difference in the two indices.

assembly by the opposition and by members of the ruling party from labor backgrounds. BANOBRAS contended that the funds were for investing in projects contributing to Mexico's economic development, therefore they were not a deviation from its expected business. But the mass media reports prevailed saying that Alfa had suffered a shortage of liquidity because of the rising burden of repayments on its foreign debts and had therefore sought help from the government [8, October 30, 1981]. Despite the huge injection of funds from BANOBRAS, after experiencing nothing but wide-ranging profit and success since its founding, Alfa Holdings in 1981 saw its books tumble into the red for the first time.

2. Reasons for the worsening business performance

The second column in Table I shows Alfa Holdings' profits from 1975 to 1988. As can be seen from the table, the losses experienced for the first time in 1981 swelled enormously in 1982. From the figures provided in the table, one can see that the cost of financing, shown in the fourth column, was a major cause for this huge rise in losses. Central to these financial costs were interest payments and exchange rate losses. The increase in the absolute cost of financing between 1980

and 1981 was 3.281 billion pesos (at 1980 price); 69 per cent of this was due to the increase in interest payments, and 31 per cent to exchange rate losses. Interest rate payments increased because of the increase in gross debt and the rise in interest rates. The increase in the absolute cost of financing from 1981 to 1982 rose to 42.5 billion pesos; 90 per cent of this was due to exchange rate losses, 10 per cent to interest rate increases. The rise in interest rates⁴ and the exchange rate losses incurred because of the peso's devaluation⁵ were aspects of the general economic situation. However Alfa's poor business performance was not due solely to external causes, and many researchers have pointed out that conditions within the group itself were also a major cause.

J.L. Manzo has pointed out three reasons for Alfa's collapse. (1) The group acquired enterprises in fields it knew nothing about; then despite this lack of experience, it carried out a general reshuffling and rearrangement within executive ranks in order that its management policy would permeate into the new subsidiaries. (2) As Alfa grew corpulent with personnel in the course of its rapid expansion, middle-ranking managers appeared who did not adhere to the controls of the group's central management; during the heydays of expansion, such middle management people readily acquired enterprises without sufficient prior investigation. (3) To cope with the great expansion of business, a large number of salaried managerial people were hired on exceptionally favorable terms, and this greatly inflated costs [19, pp. 293-95].

R.A. Camp's conclusions overlap with much that Manzo has shown, but two things he has pointed out need to be noted. (1) Alfa utilized a large amount of salaried management staff in order to expedite the conversion from family control to a bureaucratic system of control by specialized management personnel. (2) The ballooning costs to secure this personnel was a situation that Alfa brought upon itself. In 1974 at the time the Monterrey Group broke up into four parts, a tacit rule had been accepted that the newly formed groups would mutually refrain from raiding each others' directorship ranks. But Alfa broke this understanding, isolated itself from the other three groups, then used high salaries to entice directors into its ranks which at the same time threw the directorship salary market into confusion [3, pp. 215-16].

Yet another reason for the poor business performance was that many of the new businesses were ones requiring a long gestation period, and they ran into Mexico's bad general economic conditions even before they started operation. Examples of such businesses from among the new affiliated enterprises added to Alfa by 1980, shown in Figure 2, were Atlax and Kastek in the steel sector, Telco and Turbomak in the machinery sector, Nemark in the auto parts sector, and Maztra in the motorcycles sector; all were enterprises expecting to start operation in 1981 or 1982. Thus their period of getting started overlapped with Alfa's period of poor business performance. Most of these enterprises were soon

⁴ A substantial part of the foreign loans contracted around 1980 were short-term loans with floating interest rates [13, p. 294].

⁵ During 1982 the exchange rate fell from 26.23 pesos to 96.53 pesos to the U.S. dollar [17, June 25, 1984].

sold off, but some like Atlax and Nematik remained with Alfa, and would later grow into core subsidiary enterprises of the group.

The movement of sales per employee, shown in the fifth column of Table I, parallels and supports the points presented above. From 1978 to 1980 the figures declined, showing that the growth of sales fell very far behind the expansion in the scale of personnel.

III. RESTRUCTURING, 1982-88

Alfa's restructuring was carried out on two fronts: settling the problem of the group's accumulated foreign debts and reorganizing its overstuffed and inefficient business structure.

A. *Alfa's Accumulated Foreign Debts*

In April 1982 Alfa informed its foreign creditor banks that it was unable to meet payments on its foreign debts. Thereafter until April 1988 negotiations took place between Alfa and its foreign creditors to work out a solution for its accumulated foreign debts.

Because of an accumulation of interest on arrears and a wholesale devaluation that the peso suffered during negotiation, the total amount of Alfa's debts varied depending on the point in time and in which currency, pesos or U.S. dollars, it was calculated. According to Alfa Holdings' annual report for 1986, as of the end of that year, the accumulated debt for the entire group came to U.S.\$2.67 billion, U.S.\$943 million of this was owed by Alfa Holdings, U.S.\$1.135 billion was owed by Hylsa, the group's steel operations and largest subsidiary. The remainder was owed by the group's other subsidiaries [11, 1986 ed.]. In April 1982 an agreement was reached between Alfa and its foreign creditor banks whereby repayments on the principal were temporarily deferred and interest payments were to be made only by those subsidiaries able to pay [5, June 25, 1984]. Thereafter the two sides got down to serious negotiations to work out a solution to the debt problem. The following sub-sections will briefly outline these negotiations and their results for Alfa Holdings, for the subsidiaries other than Hylsa, and finally for Hylsa company itself.

1. *Alfa Holdings*

Alfa Holdings' foreign creditors involved some sixty banks. The negotiations with all these creditors were handled for the most part by the large U.S. banks centering on the Chase Manhattan Bank [6, March 24, 1987]. The agreement between Alfa Holdings and its group of creditor banks concerning the company's foreign debt was signed in December 1987. The reason given for the long time from the start of negotiations until the agreement was signed was that approval of the draft had to be obtained from all of the creditor banks concerned which took a long time.

The main points of the agreement were:

1. Payment in cash of U.S.\$25 million and an amount equivalent to interest in arrears since October 1986.

2. Payment of U.S.\$200 million with Mexican government bonds (*Deuda Directa de los Estados Unidos Mexicanos*) issued by the government specifically as a mechanism for resolving the Mexican debt problem. The capital enabling Alfa Holdings to purchase the needed Mexican government bonds was to be provided by the bank Bancomer nationalized in 1982 [6, November 6, 1987].

3. The remaining portion of the debt was to be liquidated using 45 per cent of Alfa Holdings' stock. The company was to carry out an increase in capitalization, and the stock from this capitalization increase was to be delivered over to the creditor banks which in effect meant the capitalization of the company's foreign debt.

4. Alfa Holdings' statute of incorporation was to be revised with the addition of the clause stating that matters such as wide-ranging changes in the company's organization, new loans, the sale of subsidiaries, and the like had to have the approval of the creditors.

5. The number of board members (*consejero*) was to be increased from nine to fifteen people. Of these fifteen, five were to be selected from the preexisting stockholders, one by the government, and the remaining nine were to be selected by agreement between the preexisting stockholders and the creditors. All of them were to be Mexican.

6. The creditor banks were to set up a trust organization in the United States to which their 45 per cent share of the company's holdings was to be entrusted while the company's preexisting stockholders were to entrust a 31 per cent share of their holdings to a trust organization to be set up in Mexico. American fiduciants could sell their shares to a third party, but when doing so they had to inform the Mexican fiduciants of the terms of the sale, and only if the latter did not express within thirty days an interest in purchasing the shares under the same terms could these shares then be sold to the third party. The preferential purchasing rights of Mexican fiduciants were to last until June 30, 1991.

2. *Subsidiaries other than Hylsa*

Turning to the subsidiaries other than Hylsa company, which Alfa Holdings was the guarantor of these subsidiaries, the creditor banks chose to (i) relinquish their rights to make claims against the guarantor and chose to negotiate directly with the subsidiaries or (ii) transfer their debts over to those of Alfa Holdings. Where the debts were those of subsidiaries that had contracted directly with banks without Alfa Holdings' guarantee, negotiations to defer repayments were undertaken with the individual subsidiaries. Nearly all of the negotiations with the major subsidiaries were completed by 1986 [11, 1986 ed.].

3. *Hylsa company*

Hylsa's foreign creditors involved some forty banks, many of whom were also creditors to Alfa Holdings. The final agreement between Hylsa and its group of creditor banks concerning the company's accumulated foreign debts was signed in April 1988. The explanation given for the belated conclusion was that the draft deferring debt repayments agreed to during the first half of 1984 could not be executed because of the acute recession of 1985-86, and a new draft for

deferring payments had to be studied [11, 1986 ed.] [9, October 26, 1988, p. 46].

The final agreement was composed of two resolutions. The first was known as the orthodox plan; it gave Hylsa a five-year reprieve on half of its debts with each of its creditors and fifteen years to repay, one-third to be paid as the company's financial circumstances permitted, the remainder to be liquidated with Hylsa stock. The second resolution provided for payments in Mexican government bonds which have already been mentioned above; these were set at a rate of 49 cents in government bonds for each dollar of debt. Financing when the time came for Hylsa to purchase the necessary government bonds was to come from Banca Serfin nationalized in 1982 [6, April 27, 1988]. Each creditor could choose the first or second resolution or could combine the two. Seventy per cent of the creditors selected the second; the remainder took the first, and through the provision in this resolution for liquidating debt with stock, 21 per cent of Hylsa's total shares were transferred over to creditors [9, October 26, 1988, p. 48].

Through the above provisions and procedures, the Alfa Group succeeded in greatly reducing its foreign debts.

B. *Reorganizing the Overstaffed and Inefficient Business Structure*

Reorganizing Alfa's overstuffed and inefficient business structure began in 1981. This essentially entailed the withdrawal from loss-making sectors, the liquidation, integration or sale of loss-making subsidiaries, and personnel retrenchment.

Looking at Alfa's withdrawal from loss-making sectors, as can be seen from Figure 2 showing the group's major subsidiaries, between 1981 and 1984 it sold off its operations in television broadcasting, home electrical appliances, and bicycles and motorcycles, and by 1986 it had also sold off its machinery business. As of 1989 the group still retained its operations in steel, petrochemicals and chemicals, foods, paper manufacturing, real estates and tourism, textiles, and auto parts.

The liquidation, integration, or sale of loss-making subsidiaries was not limited to the sectors that Alfa withdrew from but was carried out as well in those areas that remained part of the group. In Figure 2, those names without an underline were subsidiaries that disappeared from the Alfa Group. There were also many small and medium-sized subsidiaries not shown in the figure which disappeared. The outcome of this restructuring was that the number of Alfa subsidiaries decreased from 157 in 1980 to 114 by 1987 [17, pp. 12-14] [11, 1980 ed.].

Turning next to personnel retrenchment, from its high point in 1980 until 1989, the number of Alfa employees declined from 49,019 to 28,507 [11, 1980 ed.] [9, August 29, 1990, p. 39]. The period of greatest reduction was between 1981 and 1983. Retrenchment was not only due to the removal of loss-making sectors and subsidiaries, but also to the rationalization that was carried out in Alfa's remaining subsidiaries. The number of employees at Hylsa, Alfa's largest subsidiary, dropped from 8,933 people in 1980 to 6,542 in 1986, nearly a 27 per cent reduction in the work force [11, 1980 ed.] [9, August 19, 1987, p. 101]. These efforts to restructure business operations led to an upturn in the level of sales per employee. As shown in Table I, this went from a low of 631.6 thousand pesos

TABLE II
 PERCENTAGE OF ALFA HOLDINGS' SHARES HELD BY THE FOUNDING
 FAMILIES AND TWO LARGE STOCK BROKERAGE HOUSES
 (AS OF APRIL 23, 1985)

| | (%) |
|--|-------------|
| Garza Sada family branch [Armando, Bernardo, Dionisio, Margarita, Roberto] | 45.9 |
| Garza Sepulveda family branch [Lorenzo, Javier, Isaac, María Aurora; Gentor, S.A. (holding company), Gentor Industries, S.A. (holding company)] | 9.5 |
| Other branches of the founding families [José Calderón Ayala, Camilo G. Sada; Fundación Martínez Sada (foundation)] | 6.1 |
| Total | 61.5 |
| Two large stock brokerage houses: | |
| Operadora de Bolsa | 1.2 |
| Casa de Bolsa Inverlat | 0.9 |
| Total | 2.1 |

Source: Compiled from the name list of attendees at the ordinary general stockholders' assembly of Alfa Holdings (Grupo Industrial Alfa, S.A.) held on April 23, 1985.

(at 1980 price) per employee in 1980 up to 915.1 thousand pesos in 1988, around a 45 per cent increase. This improvement along with the resolution of the group's foreign debt problem brought about a turn for the better and in 1988, eight years after first falling into the red, the Alfa Holdings once again closed its books in the black.

C. *The Effects of the Foreign Debt Problem on Family Control*

Alfa had been liberated from its oppressive foreign debt burden but only at the expense of transferring to its creditor banks a substantial portion of its stock and much of its right to appoint members to its board of directors. One could expect this to bring about a substantial retreat in the influence of the founding families which had held sway over both the ownership and management of Alfa since its establishment. Should one perceive in this new situation the end of control by the families? This question will be examined more closely below.

1. *Changes in the major stockholders*

Table II shows the percentage of stock held by the founding families in Alfa Holdings as of April 1985 prior to the agreements with Alfa's foreign creditors. As can be seen from the table, at that time the Monterrey Group's founding families held at least 61.5 per cent of the shares in Alfa with close to half in the hands of the Garza Sada family branch. The remainder of the shares were dispersed among a large number of small stockholders. But the increase in Alfa's

capitalization which was stipulated in the agreement with the company's creditors led to the capitalization of the company's foreign debt, and this reduced the percentage of the shares held by the founding families from 61.5 to 33.8 per cent. Stock worth 45 per cent of the group's capital after the capitalization increase was transferred over to the creditor banks, and the percentage of stock held by the founding families was less than this. However this did not mean that the creditor banks as a group continued to maintain their position as the largest stockholders. Their 45 per cent was divided among numerous banks, and as shown in point 6 of the agreement with Alfa Holdings set forth above, when a creditor bank intended to sell its stockholdings, preexisting Alfa stockholders had preferential rights in purchasing these shares. Thus while the percentage of the shares held by the founding families had been cut by half, there remained the opportunity to regain its lost position, and moves to recover this position began in mid-1989.

A majority of the 45 per cent of shares held in trust in the United States returned to Alfa Holdings in the following way. In May 1989 an enterprise named Desarrollo Inmobiliario Privado (DIPSA) acquired 26 per cent of the entrusted 45 per cent shares. The price of a share transacted was 38 per cent lower than the nominal value. DIPSA had capital participation from two large stock brokerage houses based in Mexico City, Casa de Bolsa Inverlat and Operadora de Bolsa. More will be said about these two companies later. In June 1989 DIPSA was absorbed into Alfa Holdings, which made it possible for the latter to recover this 26 per cent share. The remaining 19 per cent of entrusted shares was sold to a large number of individual and institutional investors on the secondary stock exchange market at a largely discounted price [9, June 19, 1989, pp. 71 and 74]. In 1989 Alfa Holdings reduced its paid-in capital by 26 per cent [1, 1990 ed., p. 261]. This reduction was seen as an adjustment in response to its 26 per cent share acquisition.

Acquiring information about stockholders and their holding in the Mexican private sector is for the most part no easy task, and unfortunately the author has not yet been able to obtain a list of principal stockholders in Alfa Holdings since June 1989. Assuming that the founding families have continued to hold the share of stocks held in April 1985, the percentage of ownership after the reduction of paid-in capital in 1989 would amount to 45.7 per cent, a percentage which is more than sufficient to give the founding-family virtual control of the group considering that the rest of the shares are dispersed among a large number of small stockholders. It is also possible that the founding families have recouped its majority ownership of shares by acquiring Alfa Holdings' stocks on the secondary market at a largely discounted price. An analysis of the list of stockholders will be needed to verify this estimation.

2. *Changes in the membership of the board of directors*

Table III shows the changes from 1980 to 1991 in the membership of Alfa Holdings' board of directors (Consejo de Administración), the highest decision-making body of the Alfa Group. Until 1986 the board of directors was composed

TABLE III
CHANGES IN THE MEMBERSHIP OF ALFA HOLDINGS'
BOARD OF DIRECTORS, 1980-91

| | 1980 (9) | 1984 (11) | 1985 (11) | 1986 (11) | 1987 (15) | 1988 (15) | 1991 (17) |
|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Garza Sada family branch: | | | | | | | |
| Bernardo Gaza Sada | | ○ | ○ | ○ | ○ | ○ | ○ |
| Armando Garza Sada | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Dionisio Garza Sada | ○ | ○ | ○ | ○ | ○ | ○ | |
| Dionisio Garza Medina | | | | | | | ○ |
| Other branches of the founding families: | | | | | | | |
| Adrián Sada Treviño | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Alberto Fernández Ruiboa | ○ | ○ | ○ | ○ | | | |
| Andrés Marcelo Sada Zambrano | ○ | ○ | ○ | ○ | | | |
| Diego Sada | ○ | | | | | | |
| Eugenio Garza Lagüera | ○ | ○ | ○ | ○ | | | |
| José Calderón Ayala | ○ | ○ | ○ | ○ | | | ○ |
| Roberto Garza Sada, Jr. | | ○ | ○ | ○ | | | |
| Mauricio Fernández Garza | | | | | | | ○ |
| Non-founding-families board members: | | | | | | | |
| Rafael Roberto Paez Garza | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Francisco F. Maldonado, Jr. | | ○ | ○ | ○ | | | |
| Agustín F. Legorreta Chauvet | | | | | ○ | ○ | ○ |
| Agustín Santamarina Vazquez | | | | | ○ | ○ | ○ |
| Claudio X. González | | | | | ○ | ○ | ○ |
| Julio Gutiérrez Trujillo | | | | | ○ | ○ | ○ |
| Antonio Madero Bracho | | | | | ○ | ○ | ○ |
| Alejandro Cumming Soliveras | | | | | ○ | ○ | ○ |
| Enrique Rojas Guadarrama | | | | | ○ | ○ | ○ |
| Ramón Palacios Ortega | | | | | ○ | ○ | ○ |
| Rubén Aguilar Monteverde | | | | | ○ | ○ | ○ |
| Ernesto Fernández Hurtado | | | | | ○ | ○ | ○ |

Sources: [1, various issues] [2, various issues].

Note: Figures in parentheses indicate the numbers of members.

of nine people from the founding families and two people closely associated with these families. Then in 1987 this composition was changed with the board's membership being increased from eleven to fifteen people.⁶ The new fifteen-member board had five directors held over from the previous board who in accordance with Alfa's agreements with its creditors were preexisting stockholders in the company; one director was selected by the government (shown in the bottommost row of Table III), and the remaining nine directors were selected by agreement

⁶ In the agreement with the creditor banks concerning Alfa's debts, the membership of the company's board of directors was increased from the previous nine to fifteen people; however the yearbook of the securities exchange says that the membership had already been raised to eleven people before 1986.

between Alfa's creditors and the preexisting stockholders. In 1990 the board's membership was increased once again from fifteen to seventeen. Six directors were from the founding families and their ratio of board membership increased, although only slightly, from five to fifteen to six to seventeen. During these years, Bernardo Garza Sada continued as the president of Alfa Holdings, and until 1981 he was also the company's director general with the final responsibility for Alfa's management. He was succeeded in this latter capacity by Rafael R. Paez, who came from the ranks of the company's salaried manager and was a true-blue Alfa man.

Most of the nine directors who were selected in 1987 by agreement between the creditors and Alfa's preexisting stockholders were owners or managers of indigenous business groups or large enterprises based in Mexico City, in short businessmen who represented the Mexican business community. A.F. Legorreta and the three people listed below him (in Table III) head a business group centered on the stock brokerage house, Casa de Bolsa Inverlat, which has experienced remarkable growth in recent years. A. Madero, a little further down the list, is a businessman involved with the business group centered on the stock brokerage house, Operadora de Bolsa, that Legorreta's younger brother founded. The Legorreta family controlled Banco Nacional de México (BANAMEX), one of Mexico's two largest banks, until it was nationalized in 1982. After nationalization they shifted their activities to the securities brokerage field.

Two stock brokerage houses, Casa de Bolsa Inverlat and Operadora de Bolsa, have been long-time stockholders in Alfa Holdings; as of April 1985 the former held a 0.92 per cent share while the latter had a 1.2 per cent share. Both companies increased their holdings to assist Alfa's founding families in recouping its transferred shares, probably by purchasing shares themselves on the secondary market. But even with their increased holdings, control over Alfa's management still appears to be held by the founding families, at least as of 1991, because the number of directors on the board from the founding families was more than that from the two stock brokerage houses, and the primary posts of president and general director were occupied by members of the founding families. These points will also have to be verified by an analysis of the stockholders list when one becomes available.

The following conclusions can be drawn from the above examination. One is that the dominance of the founding families over the Alfa Group is still secure. Although the shares held by external groups has increased in both the areas of ownership and management, the founding families still remain the largest and most powerful interest group, and it may have already recovered its sole control over the group by reacquiring a majority ownership.

The second conclusion is that although the dominance of the founding families is secure, the fact that members of powerful business groups based in Mexico City have gotten seats on the board of directors is far reaching. A beneficial influence on management that can be pointed out is the spectacular increase in financial resources and Alfa's business network. But the larger this increase in board seats, the more difficult it will be for the founding families to ignore the

opinion of external groups. It has become more difficult for the founding families to conduct business as they wish based on its majority ownership of shares.

CONCLUSION

What sort of changes occurred within Alfa as it passed through the process of rapid growth to collapse and then to restructuring? What significance have these changes had? In concluding this study, I would like to go back and reconsider the three points set out in the Introduction in light of the various different facts elucidated in this study.

The first important change that took place during the twenty years after 1974 was Alfa's attainment of diversified and efficient business operations. In the course of restructuring quite a few loss-making sectors and enterprises had to be eliminated, a sure indication that there was a reckless aspect to Alfa's diversification. However, rather than being concerned with this aspect, I would like to concentrate here on those businesses that remained part of Alfa after its restructuring process. From 1982 onward, because of the domestic recession and because of the need to repay its foreign debts, Alfa put its energy into exporting. This effort has continued to prove successful with the ratio of exports to total sales rising from 13 per cent in 1983 to 21 per cent in 1989 [11, 1984 ed.] [9, September 26, 1990, p. 84]. Holding up one side of this export drive have been the enterprises that Alfa newly set up or acquired during its expansion of the late 1970s.⁷ Also after 1982, as Alfa endeavored to restructure and turned to exporting, the De La Madrid government followed by the Salinas government turned Mexico's economic development strategy 180 degrees away from import substitution and toward export-oriented industrialization. Already having diversified and possessing export-oriented enterprises, Alfa was able to adjust swiftly to the requirements of the government's new economic strategy. This diversification had been made possible by foreign loans, and in this sense Alfa's foreign debt played an important role in the group's development. Its efforts to promote efficient business operations were achieved by retreating from loss-making sectors, by integrating, liquidating, or selling off loss-making subsidiaries, and by retrenching personnel in the business sectors the group retained. This thoroughgoing rationalization also strengthened Alfa's international competitiveness which was another reason it could expand its exports.

The second change concerns control by the families. Through the transfer of 45 per cent of Alfa's shares to creditor banks, it had been supposed that the founding-family control over the Alfa Group might be weakened. The fact is however that Alfa Holdings, which can be equated with the founding families, recovered a majority of the transferred shares within two years with the assistance of business groups centered around two stock brokerage houses. As a result, the

⁷ Among the companies newly set up or acquired during the late 1970s, those holding top positions in *Expansion's* "ranking of exporting enterprises" included Petrócel (ranked 12th), Fibras Químicas (27th), Nemark (40th), and Galvak (130th) [9, September 26, 1990, pp. 36-41].

founding families recouped its dominance over both the ownership and management of the Alfa Group, although it had to accept an increase of influence over management from external business groups. Resolution of the accumulated foreign debt problem ultimately brought about for Alfa a wholesale reduction in its foreign debt principal and for Mexico City's entrepreneurial groups opportunities for new business ventures. The result has been the overall strengthening of indigenous capital and a demonstration of the tenacity of Mexico's entrepreneurs.

Alfa's experience points out another matter concerning family control which is that as a business group controlled by families expands, the separation of ownership and management becomes unavoidable. The main cause for the failure in Alfa's management operations was the effort to move too rapidly from family control to a bureaucratic system of control by managerial specialists. Aggravating the situation was the insufficient supply of experienced managers which could not keep up with demand, a characteristic of the environment surrounding enterprises during periods of rapid growth. Until 1981 positions responsible for daily business affairs at Alfa were occupied by Garza Sada family members.⁸ Thereafter however, they withdrew from daily business affairs, and policy shifted so that as directors on the board they were concerned only with mapping out and setting management and operational strategy.

The third important point concerns the Monterrey Group's relations with the government. The Mexican government provided what can only be called exceptional assistance to Alfa while it was in the process of restructuring. The best example of this was the exceptionally favorable terms of the financing from the state-run bank BANOBRAS and loans from nationalized banks to purchase Mexican government bonds. Up to now studies have pointed out the confrontational nature of relations between the government and the Monterrey Group, or they have pointed to the distance that has always prevailed between the two. The confrontation between the two was made all the more acute, especially politically, when private banks were nationalized in 1982. How is one to comprehend the gap between the supportive, cooperative relations on the economic side juxtapose with the confrontational, uncooperative relations existing on the political side? Three things can help explain this seeming contradiction. One is Alfa's great importance to the Mexican economy which has compelled the government to provide assistance. Alfa's bankruptcy would cause great confusion in the national economy; it would also cause a great loss of external trust in Mexico's economy. The government has wanted to avoid both of these. Secondly the founding families of the Monterrey Group are not a single monolithic entity. For the most part it has been the Sada Zambrano family branch, controller of Vitro and Cydsa, which has led the way in criticizing the government. Members of

⁸ Until December 1981, Bernardo Garza Sada held the post of director general having final responsibility for all of Alfa Group's business affairs; Armando Garza Sada was the director of finance and engineering, and Dionisio Garza Sada was the director of the group's paper manufacturing operations. In December of 1981 they withdrew from these posts and as directors on the board they turned the whole attention to the planning and setting of business strategy [6, December 3, 1981].

Alfa's Garza Sada family and VISA's Garza Lagüera family branches have not outwardly carried on activities critical of the government. The reasons for this could be interpreted in various ways one being a difference in political thinking among the latter families, another could be their desire get assistance from the government. Thirdly the government extended assistance in order to win over the Monterrey Group's founding families and appease it as a force critical of the government. According to one newspaper report the decision to extend financing from BANOBRAS came largely at the same time as the announcement by the ruling Partido Revolucionario Institucional (PRI, the Institutional Revolutionary Party) of its candidate for the 1982 presidential election. This suggested some ulterior motive at work on the part of the PRI which wanted to carry out a peaceful presidential election [7, October 19, 1981]. Whatever the case may be, by concentrating only on the confrontations arising in the political sphere, one can greatly misunderstand relations between the government and the Monterrey Group. The Alfa Group as one example shows how tenacious and steadfast Mexican entrepreneurs can be in their relations with the government.

REFERENCES

1. Bolsa Mexicana de Valores. *Anuario financiero* (Mexico City).
2. ————. *Anuario financiero y bursátil* (Mexico City).
3. CAMP, R. A. *Entrepreneurs and Politics in Twentieth Century Mexico* (New York: Oxford University Press, 1989).
4. CORDERO, S., and SANTIN, R. *Los grupos industriales: una nueva organización económica en México*, Cuadernos del CES 23 (Mexico City: El Colegio de México, 1977).
5. *Diario oficial*.
6. *El financiero*.
7. *El sol de México*.
8. *Excelsior*.
9. *Expansión*.
10. FRAGOSO, J. M.; CONCHEIRO, E.; and GUTIERREZ, A. *El poder de la gran burguesía* (Mexico City: Ediciones de Cultura Popular, 1979).
11. Grupo Industrial Alfa. *Informe anual* (Mexico City).
12. HAMILTON, N. *México: los límites de la autonomía del estado* (Mexico City: ERA, 1983).
13. HOSHINO, T. "Mekishiko no minzokukei daikigyō gurūpu, I" [Structural change in Mexico's big business groups during the seventies, I], *Ajia keizai*, Vol. 29, No. 9 (September 1988).
14. ————. "Indigenous Corporate Groups in Mexico: High Growth and Qualitative Change in the 1970s to the Early 1980s," *Developing Economies*, Vol. 28, No. 3 (September 1990).
15. ————. "Echeberria seikenka ni okeru zaikai to seifu no kankei" [Government-entrepreneur relations during the presidency of Echeverría], *Ajia keizai*, Vol. 33, No. 11 (November 1992).
16. ————. "Mekishiko ni okeru kin'yū gurūpu no keisei to hatten" [Financial groups and privatization of banks in Mexico], in *Hatten tojōkoku no bijinesu gurūpu* [Business groups in developing countries], ed. K. Koike and T. Hoshino, Kenkyū sōsho No. 435 (Tokyo: Institute of Developing Economies, 1993).
17. *Información financiera trimestral* (Bolsa Mexicana de Valores), No. 623-BIS, November 9, 1987.

18. *Información sobre asambleas* (Bolsa Mexicana de Valores), No. 25, February 20, 1987.
19. MANZO, J. L. "Expansión y estrangulamiento financiero 1978-1981, Apéndice: El caso del Grupo Monterrey," in *La banca: pasado y presente*, comp. J. M. Quijano (Mexico City: Centro de Investigación y Docencia Económicas, 1983).
20. *Más noticias*.
21. SARAGOZA, A. M. *The Monterrey Elite and the Mexican State* (Austin: University of Texas Press, 1988).
22. *Universal*.
23. VIZCAYA CANALES, I. *Los orígenes de la industrialización de Monterrey: una historia económica y social desde la caída del segundo imperio hasta el fin de la revolución (1867-1920)*, 2nd ed. (Monterrey: Librería Tecnológico, 1971).