Technology, Innovation, Finance and CRM: Repercussions on Competitiveness

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FONDO EDITORIAL UNIVERSITARIO

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Universidad de Guadalajara

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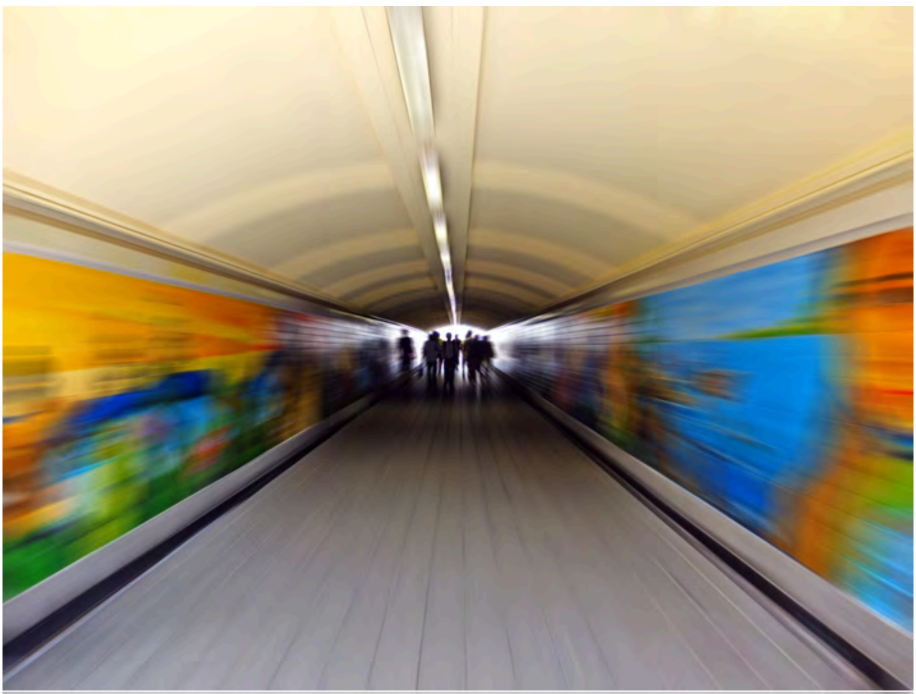
Primera edición, 2017

ISBN 978-84-17075-56-9

Impreso y hecho en México
Printed and made in Mexico

Chapter 3



Impact of Cronyism in Mexican Multinationals

By Jorge Pelayo-Maciel, Manuel Alfredo Ortiz-Barrera and Tania Elena González-Alvarado

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INTRODUCTION

This work seeks to analyze how the cronyism, even known as friendship networks, can affect the Mexican multinationals. This is because the importance of having partner networks to develop a synergy to consolidate resulting businesses from such networks. The term has its origin in “social exchange, whose main analysis are relations between the actors” that can be defined as well like a “reciprocal exchange transaction, where agent “A” shows a favorable action to agent “B”, based on shared membership in a social network at expense of agent “C”; where a valuable resource is claimed (Khatri, Tsang & Begley, 2006).

Authors explains that cronyism must exist if “there are a reciprocal exchange where agent “A” gives some value to “B”, and this agent will give something to his partner in the future. In second place, exchange could be tangible or intangible, and third, members in group are based in kinship, friendship, ethnicity, religion, school, workplace, mutual interest, among others; all these forms are basic in favoritism”. To contextualize, a social network is a perspective where agents, seen as individuals, groups and organizations, form a set of interconnected relationships where the behavior of their members is established (Granovetter, 1985; Adler & Kwon, 2002; Borgatti & Foster, 2003; Brass el at., 2004; Inkpen & Tsang, 2005; Begley, Khatri & Tsang, 2010); also the concept can be defined as a “set of agents with one or more relations between them. These actors can be any kind of meaningful social unit, including individuals, collective entities, companies, organizations, [...] such relationships can be formal, affective (friendship or respect), social interactions, workflows, As not commercial materials and alliances" (Contractor, Wasserman & Faust, 2006).

A business group is therefore a social network (Goto, 1982; Keister, 1998; Yiu, Bruton & Lu, 2005; Chacar & Vissa, 2005; Carney et al., 2011) where it can generate a cronyism (Mathews, 1998; Claessens & Fan, 2002; Chang & Shin, 2006; Carney, 2008; Keles, Özkan & Bezirci, 2011; Chen & Miller, 2011; Barnett, Yandle & Naufal, 2013), since this term as "a set of companies that are controlled by a small group of majority shareholders, usually members of a family or a group of associates with Social or ethnic nexuses "(Chavarin, 2011: 194). The family having ownership or possession of capital of the enterprise implies having the authority or the control to establish the policies of the organization (Cheffins & Bank, 2009). There is no precise data in Mexico when family business groups began, but it can be mentioned that this type of organization began with the industrial revolution in the late nineteenth century (Chavarin, 2011).

1. MEXICAN CONTEXT.

In Mexico the context can be understood as a vast majority of family owned corporations with structures known as business groups; these can be identified as a strategy that comes from 19th century, which consist in develop a business group through an structured known as market concentration (Chavarín, 2012; Shleifer et al., 2000).

Moreover, this is something common in the world; since 19% of the listed companies in different stock exchanges are controlled by familiar business groups, which seek to obtain the profits of the subsidiaries and in turn to have a control without need of capital contribution (La Porta et al., 1999). Although there may theoretically be disadvantages in family ownership, there are studies that argue that when such structures exist, managers will seek long - term strategies to ensure the wealth of their family (Leff, 1978; Granovetter, 2010; Miller et al., 2008; Minichilli, Corbetta & MacMillan, 2010).

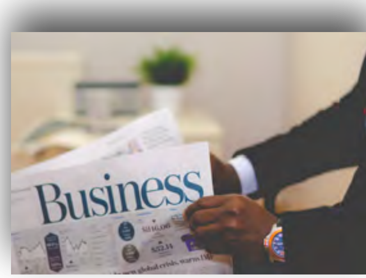


Table 1. The thirteen largest Mexican multinationals in 2015.

Ranking	Companies	Sales (mdd)	Earnings (mdd)	Assets (mdd)	Market Value (mdd)
125	América Móvil	63,700	3,500	85,200	74,500
379	FEMSA	20,900	1,300	25,500	33,800
519	Banorte	8,100	1,100	74,500	16,900
556	Grupo México	9,300	1,800	20,600	23,700
794	Grupo Inbursa	4,000	1,400	26,200	17,700
846	Cemex	15,800	-510	34,900	12,400
1,003	Grupo Televisa	6,000	405	15,800	20,400
1,036	Alfa	17,200	-170	15,800	11,000
1,068	Grupo Bimbo	14,200	287	12,000	14,000
1,163	Liverpool	6,100	583	7,100	16,200
1,419	Grupo Elektra	5,600	551	13,300	6,500
1,446	Grupo Carso	6,200	427	6,200	10,100
1,557	Arca Continental	4,700	489	5,400	10,300

Source: Forbes (2015).

It can also be mentioned that family property exists because there is a conflict between the one who controls the company and the shareholder (Castillo Ponce, 2007). When analyzing business groups in emerging economies, the family establishes a pyramid-owned structure to control its multiple affiliated companies (Almeida & Wolfenzon, 2006; Claessens et al., 2000; La Porta et al., 1999, 2002). In other words, they have a certain percentage of ownership sufficient to exercise control over them, in addition to which business groups are the structure that prevails at the global level (Masulis, Pham & Zein, 2011). Within this scope, it is estimated that by 2015 in Mexico there were thirteen of the 2,000 multinationals with the highest income and market value in the world (Global 2000, cited by Forbes, 2015), of which are part of Mexican family-owned business groups are: América Móvil, Inbursa Group and Carso Group (Slim family); FEMSA (Fernández family); Grupo México (the Mota-Velasco family); Grupo Televisa (Azcárraga family); Alfa (Fernández Garza family); Grupo Bimbo (Servitje family); Liverpool (Suberville family); Grupo Elektra (Salinas family) and Arca Continental (Barragán family), the economic importance for Mexico is high, as can be seen in Table 1, these thirteen companies generated global sales of US $ 181,800 billion, which is equivalent To 22% of Mexican GDP generated in the fourth quarter of 2015.

2. THEORETICAL FRAMEWORK.

Multinational companies are those that generate direct investments abroad, which, control activities of generation of value in these international markets, these corporations have been object of study in different parts of the world, which they have analyzed from industries of commodities like are The industrialization of the oil sector in Chile and steel in India (Bucheli, 2010; Ganguli, 2007), to high technology industries such as TATA (Gaur, 2010); Have also generated studies analyzing their success in countries such as China and India (Carney & Dieleman, 2001); As well as the creation of strategies to diversify its business portfolio to the global level, to take advantage of market failures in emerging countries (Carrera, Mesquita & Perkins Vassolo, 2003; Gaur, 2009; Kumar, Gaur & Pattnalk, 2012). It also deals with this issue from the perspective of transaction costs, strategic management, institutional theory and resource-based theory (Göksen & Üsdiken, 2001; Li, Ramaswamy, & Pettit, 2006). Has served to understand the different strategies that multinational companies have sought in their international expansion, it has also been seen that Latin American multinational companies develop a type of organization called business groups (Sargent & Ghaddar, 2001), and it has also been seen how this faces to market imperfections (Yiu, 2010), but to date, little has been studied of the business and friendship networks generated by such companies.

For the development of the present study it is taken as the basic theories of agency and institutional, the first one analyzes the motivations and behaviors of the agent and the main one (Jensen & Meckling, 1976), this seen as a contract by which one or more people (The principal), designates another person (the agent) to perform some service on his behalf, which involves delegating to the agent some authority for decision making. While the second, it can be seen simply as the rules of the game, which include institutional changes over time which may be formal or informal, which, on the one hand, are laws and standards planned humanely and on the other, are moral norms and culture, of which in both cases determines the behavior of both individuals and companies (North, 1993). For this research is taken as an informal institution the behavior that follow the directors and advisers when creating links with other people from different organizations and different industries.

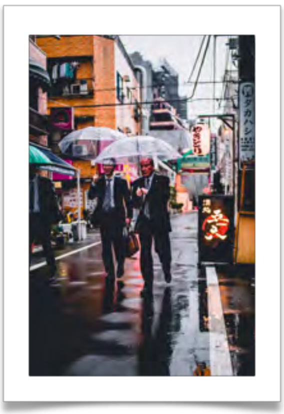
With this, we seek to support the behavior of the agent consistent with the generation of wealth of the principal. It is believed that changes in the structure or process of having a board of directors independent of the control or management of the organization leads to greater efficiency in monitoring and therefore leads to the interests of the principal (Anderson, Melanson & Maly 2007). However the empirical findings show mixed results (Kang, Zardkoohi, 2005), in fact it has been argued that the closeness between the board of directors and the management of the company can enhance the financial benefits, or in other words, the duality between Ownership and control leads to better financial performance (Anderson et al., 2007).

Based on the above, we study an investigation made with information from the Taiwan Stock Exchange (Chung & Luo, 2008), where it finds that business groups are created to reduce agency costs and that in addition these are taken for granted Institutional context. Based on a study done in Canada, however, (Chung & Luo, 2008) mention that when generating such structures there are agency costs for small shareholders and the benefits exist for the controlling family, Financial performance than companies that are totally independent.

In another study by Kuhnen (2009), he mentions that business groups can mitigate agency conflicts by facilitating the transfer of information efficiently, suggesting that the effects of a pyramid structure give better oversight of the board of directors and Increase the possibility of collusion of the same, but does not find relevant that this can improve the results for shareholders.

In emerging economies, external monitoring institutions aimed at the supervision of management are only beginning to be created, this is usually solved with the concentration of ownership and direct management of the company, especially through controlling families (Khanna & Palepu, 1999). Another reason why firms concentrate ownership is for cultural reasons of a society, understanding this as the set of shared beliefs that condition the behavior of individuals (Smircich, 1983). These cultural elements are socially created and, therefore, it cannot be assumed that the corporate governance structure is entirely a product of rationality and the explicit design of individuals. For the above, different studies were analyzed where the term cronyism or cronyism was studied in the corporative as well as its relation with the performance of the company.

It begins by saying that the studies have focused on the crisis that occurred in that continent in the late 1990s, where Dieleman and Sachs (2008), where they analyze business groups in emerging economies, particularly in Indonesia, where Institutional context analyzes the increase in the resources and capacities of a family business group for the friendships generated during the regime of President Suharto, to achieve this, the company was studied for 20 years through the information available from the Jakarta Stock Exchange and Where 56 interviews were made. On the other hand, in Malaysia, Gul (2006) verified by means of a linear regression and with information from the Worldscope database that during 1996 to 1998 the fees paid to audit firms increased more in the companies with political ties of the Which did not have, in addition that in 1998 imposed capital controls that in the end turned out to be a financial subsidy that favored the companies with political ties with which the risks derived from the crisis were reduced.



This represented a gain of five billion dollars in the stock market (Johson & Milton, 2001). In this same line of research, but in China, Allen and Li (2011) analyzed the long-term impact of the recovery on the compensation of managers in the banking sector in China, where through a linear regression they find evidence that The existence of political cronyism in the main four Chinese banks, find the existence of preferential loans, the same happened in Romania where during crisis the companies of nationality of that country had access to preferential loans unlike foreign investors, resulting in low Levels of indebtedness of the former (Valsan, 2005).

This theme of cronyism, not only covers issues of political ties with companies, has also been studied through organizational relationships (, such as Begley and Khatri (2010), who analyze these networks in a context of change Social, where two types of networks identify comrades (clique) and business networks, in addition to two forms of competition, inter and intra net, in each of them it is shown that network competition increases the cronyism that is something natural In family ties, among friends, business partners, but in any case must be analyzed to avoid acts of corruption, which have caused financial crises such as those in Asia and the United States (Khatri & Tsang, 2006). Also from the business perspective, it can be mentioned that they work in networks and that in this 21st century are quite sophisticated, based on friendship, family ties or business networks (Contractor, Wasserman & Faust, 2006). Similarly, organizational cronyism reflects the reciprocal exchange and is found to be the most important factor for the generation of confidence on the part of the managers.

As a result, it is clear that this issue is broad and can be exploited further, previous research has focused on issues of political friendship (Dieleman & Sachs, 2008; Gul, 2006; Johson & Milton 2001; Khatri & Tsang, 2006; Contractor, Wasserman & Faust, 2006), but not only cronyism occurs in these spheres is also held in the business or organizational domain. Therefore, the present research aims to increase the knowledge of this subject in a greater extent in the business networks, it is analyzed the general managers and the chairmen of council of the business groups in Mexico the following hypotheses are proposed:

H_{1a}: The level of existing relations of the CEO with members of the board of directors is positively related to the performance of the company.

H_{1b}: The level of existing relations of the CEO with other organizations is positively related to the performance of the company.

H_{1c}: The level of the CEO's existing relationships with other industries is positively related to the company's performance.

H_{2a}: The level of existing relations of the chairman of the board of directors with members of the board itself is positively related to the performance of the company.

H_{2b}: The level of existing relations of the chairman of the board of directors with other organizations is positively related to the performance of the company.

H_{2c}: The level of existing relations of the chairman of the board of directors with other industries is positively related to the performance of the company.

3. METHODOLOGY.

To test the hypotheses, we used information from the 143 companies listed on the Mexico Stock Exchange, completing the information with the ISI Emerging Markets and Bloomberg database, of the companies with information available only 87, since the remaining 56, did not have complete information. The present research is developed with an analysis of variance (ANOVA), this tool seeks to analyze the differences between means of different groups in this case investigates if there are differences between both the directors and the presidents of the companies In the relationships they have with members of the board, with other companies and with companies from other industries.

3.1 Variables Measurement.

To measure the dependent variable, as already mentioned, secondary databases were taken, "relations of the director general with board members, with other organizations and other industries" was developed as a continuum and what Bloomberg published as the number of Identified connections exist with board members, connections with different organizations and connections with different industries. In the same way the relations of the chairman of the board of directors were analyzed.

The independent variables were developed through financial indicators such as return on assets (ROA), which is obtained by dividing net profits over total assets; The return on shareholders' equity (ROE), which is obtained by dividing post-tax earnings on the total capital of the shareholders; The net return on sales, which is calculated by dividing earnings after tax on income; The gross profit margin (UOB) is obtained by dividing the income minus the cost of the goods between the income and finally the net profit margin (OU) which is calculated by dividing the profit after tax between the income.

4. RESULTS.

This section analyzes the relations of both the CEO and the CEO of the company and in the first case analyzes the results generated between the CEO and the board members generates a good performance of the company by throwing the information that Of advice shedding the indicators return on assets (ROA), return on equity of the shareholders (ROE); Which can not be significant with the F statistic; (ROS) results in a .10 level of significance, while the gross profit margin (UOB) and net profit margin (UO) indicators result in a significance level of .01, In addition it can be seen that the return on sales is the one that has the most impact by the sum of squares of inter-groups (Table 2), in this case you can see the ties in the intra or intra-organizational relationships can generate A better performance of the company (Begley & Khatri, 2010).

Table 2. One way ANOVA of the relations of the general director with members of the council

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	4.711	44	.107	.267	1.000
	Intra-grupos	16.445	41	.401		
	Total	21.156	85			
ROE	Inter-grupos	1.720	44	.039	1.446	.116
	Intra-grupos	1.136	42	.027		
	Total	2.856	86			
ROS	Inter-grupos	78.669	44	1.788	1.976	.015
	Intra-grupos	37.101	41	.905		
	Total	115.769	85			
UOB	Inter-grupos	32.741	44	.744	9.323	.000
	Intra-grupos	3.352	42	.080		
	Total	36.093	86			
UO	Inter-grupos	70.110	44	1.593	48.564	.000
	Intra-grupos	1.378	42	.033		
	Total	71.488	86			

Table 3. One way ANOVA of the relations of the director general with other organizations

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	.413	9	.046	.168	.997
	Intra-grupos	20.743	76	.273		
	Total	21.156	85			
ROE	Inter-grupos	.069	9	.008	.211	.992
	Intra-grupos	2.787	77	.036		
	Total	2.856	86			
ROS	Inter-grupos	4.198	9	.466	.318	.967
	Intra-grupos	111.571	76	1.468		
	Total	115.769	85			
UOB	Inter-grupos	1.011	9	.112	.247	.986
	Intra-grupos	35.082	77	.456		
	Total	36.093	86			
UO	Inter-grupos	1.655	9	.184	.203	.993
	Intra-grupos	69.832	77	.907		
	Total	71.488	86			

When analyzing the relations of the director general with other organizations and other industries, ie the interorganizational part, you can see that the return on sales has a greater impact on the performance of the company, cannot be said to exist a relationship Significant, since in Tables 3 and 4 a very low value can be seen in the F statistic, so it can be said that there is no relation between the company's performance and the relations that the CEO has with other organizations as with others Industries.

Tabla 4. ANOVA de un factor de las relaciones del director general con otras industrias

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	1.030	9	.114	.432	.914
	Intra-grupos	20.126	76	.265		
	Total	21.156	85			
ROE	Inter-grupos	.283	9	.031	.942	.494
	Intra-grupos	2.573	77	.033		
	Total	2.856	86			
ROS	Inter-grupos	11.477	9	1.275	.929	.505
	Intra-grupos	104.292	76	1.372		
	Total	115.769	85			
UOB	Inter-grupos	2.128	9	.236	.536	.844
	Intra-grupos	33.965	77	.441		
	Total	36.093	86			
UO	Inter-grupos	5.630	9	.626	.731	.679
	Intra-grupos	65.858	77	.855		
	Total	71.488	86			

The following analysis was made of the chairman's relationship with other directors, other companies, and other industries, it is appreciated that there is no level of significance to say that there is an impact on the chairperson's relations with other counselors in the Generating a good financial performance of the company (Table 5). However, observing the levels of significance of the board chairman's relationships with other companies and other industries identifies that the financial indicator called return on assets has a significance level of 0.05 and .010 respectively, but not the same In the other dependent variables, where we can see that there is no relation to the independent variables, with the above it can be said that relations based on friendship or business networks are quite sophisticated for this first analysis and a study is needed where Reflects the reciprocal exchange that may exist both inside and outside the company (Contractor, Wasserman, Faust, 2006).

Table 5. One way ANOVA of the chairperson's relations with other counselors

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	10.322	45	.229	.847	.707
	Intra-grupos	10.834	40	.271		
	Total	21.156	85			
ROE	Inter-grupos	1.624	45	.036	1.201	.277
	Intra-grupos	1.232	41	.030		
	Total	2.856	86			
ROS	Inter-grupos	29.393	45	.653	.302	1.000
	Intra-grupos	86.376	40	2.159		
	Total	115.769	85			
UOB	Inter-grupos	9.199	45	.204	.312	1.000
	Intra-grupos	26.894	41	.656		
	Total	36.093	86			
UO	Inter-grupos	15.656	45	.348	.255	1.000
	Intra-grupos	55.832	41	1.362		
	Total	71.488	86			

Table 6. One Way ANOVA of the relations of the president of the council with other companies

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	6.849	11	.623	3.220	.001
	Intra-grupos	14.307	74	.193		
	Total	21.156	85			
ROE	Inter-grupos	.245	11	.022	.640	.789
	Intra-grupos	2.611	75	.035		
	Total	2.856	86			
ROS	Inter-grupos	11.842	11	1.077	.767	.672
	Intra-grupos	103.927	74	1.404		
	Total	115.769	85			
UOB	Inter-grupos	1.717	11	.156	.341	.974
	Intra-grupos	34.377	75	.458		
	Total	36.093	86			
UO	Inter-grupos	2.477	11	.225	.245	.993
	Intra-grupos	69.011	75	.920		
	Total	71.488	86			

Tabla 7. One Way ANOVA of a factor of relations of the president of the council of other industries

		Suma de cuadrados	gl	Media cuadrática	F	Sig.
ROA	Inter-grupos	6.928	15	.462	2.272	.011
	Intra-grupos	14.228	70	.203		
	Total	21.156	85			
ROE	Inter-grupos	.524	15	.035	1.065	.404
	Intra-grupos	2.331	71	.033		
	Total	2.856	86			
ROS	Inter-grupos	11.855	15	.790	.532	.914
	Intra-grupos	103.914	70	1.484		
	Total	115.769	85			
UOB	Inter-grupos	3.947	15	.263	.581	.880
	Intra-grupos	32.146	71	.453		
	Total	36.093	86			
UO	Inter-grupos	4.752	15	.317	.337	.989
	Intra-grupos	66.736	71	.940		
	Total	71.488	86			

The results show a contribution to understand the behavior of networks of friendship generated by managers of business groups in Mexico and it can be seen that organizational relationships in the form of friendship is a way to generate greater entrepreneurial skills that benefits them to generate a Positive effect on performance (Begley & Khatri, 2010; Contractor, Wasserman & Faust, 2006).

CONCLUSIONS

Therefore, within the findings of the present investigation it is considered that the one part of the performance of the company is associated with the relations that have the director general with other members of the council, which contradicts the theory of the agency, which Mentions that the agent (director of the company) must be an independent person so that it can be monitored by the members of the board, the previous thing can be logical if one takes into account that the majority of the companies studied are of familiar origin and is Something common that arise this type of relations.

So you can check the hypothesis 1a, but not the 1b and 1c. With respect to hypothesis 2a, 2b and 2c, it can be tested only partially because it only seems to have relations with the performance of the assets, which can be logical when analyzing that one of the most important functions of the president of the council is to help To establish the investment objectives of the company and to see how the performance generated by the amount of relationships that such person achieves is an interesting finding in this research.

One of the limitations of the present investigation is that it would be necessary to complete the sample with all the companies of the Mexican Stock Exchange to analyze the behavior of the companies that are not part of business groups. Issue in terms of investment decisions in different countries where managers have generated friendly relations and can also be analyzed in different institutional contexts and longitudinally over time.

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