Large Portuguese firms from the Marshall Plan to EFTA: Early stirrings of Managerial Capitalism?

— Eugenia Mata

The second half of the 1940s and the 1950s was simultaneously the period of impact of the Marshall Plan on the Portuguese economy and the epoch of take-off of modern economic growth in Portugal. This process has been studied from a macroeconomic perspective, but not from a business point of view. This is the purpose of this paper, which examines the formation of new firms, and studies the scale, scope, performance, ownership, structure and strategy of a sample of the largest firms. It shows how the Marshall aid and the government commitment to promoting economic growth and sovereignty over a vast colonial empire led to cooperation with family firms through regulation, subsidies and planning. The related and unrelated diversified-business character of informal business groups escapes Chandler's model and his scale and scope economies, but succeeded in providing safety and mutual assistance among firms to face an increasingly competitive world.

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1. Portugal in the Golden Age of economic growth

The period of the Marshall Plan was a crucial moment for the take-off of modern economic growth in Portugal. This is true from a macroeconomic perspective, as the evidence of national accounting shows, and also from a microeconomic perspective, as this paper seeks to demonstrate. Several industrial sectors flourished, and family groups prospered. The paper discusses if the period between the Marshall Plan and EFTA accession may be envisioned as the first moment of managerial capitalism in Portugal. This was the opportunity for experiencing rates of growth that were higher than ever in the past, paving the way to an exceptional performance during the 1960s.

Although in the Usa the managerial revolution took place in the period between the 1880s and the Great Depression, bringing giant industrial corporations to the forefront of American capitalism, in the large European countries the First World War interrupted similar paths for different national profiles of managerial capitalism[1]. Occasionally conclusions from Chandler's

[1] A. Chandler Jr., 1990.

corporation model were advanced as a universal truth, while the structural contingency theory was presented as the instrument for the global and irreversible convergence of national economies that would adopt or implement such a powerful rational logic for businesses[2]. Abundant literature examines the distinct British, French, German and Italian types of ownership and management before 1914, in the inter-war period and in the aftermath of Second World War, while recent works approach these issues from a comparative perspective, particularly to discuss the so-called «types of coherent business system» of the twentieth-century capitalism, which include the American, German, French, and even Scandinavian varieties[3]. According to Djelic (1998) and Guillen (1994), Italy and Spain escaped the framework because of their political regimes. To what extent did diversified and multidivisional corporations touch such a small and under-developed country, as was Portugal[4]? In presenting the Portuguese case to the academic community, this paper raises the discussion on small national cases. It introduces the period from the end of the Second World War to EFTA adhesion as the first experience of modern economic growth, and presents the Portuguese firms of the 1940s-1950s as the main actors of the successful performance. In trying to put Portugal in the agenda of the Chandlerian discussion, this paper focuses on the Strategy, Structure, Ownership and Performance analysis (SSOP) of the main Portuguese firms of the time, in comparison with papers on the Usa or developed European countries, using their annual reports and accounting as main sources for this purpose. As Judt (2005) reminds us, «In 1945, most of Europe was still pre-industrial. The Mediterranean countries, Scandinavia, Ireland and Eastern Europe were still primarily rural and, by any measure, backward»[5].

This paper concludes that the first steps into industrial growth occurred after the Second World War, benefited from the Marshall Plan aid, and prepared the Portuguese economy to join the European Free Trade Association in the 1960s, a commitment with European integration that still protected the national economy from the adoption of a common external tariff, but which already opened the national market to the industrial competition coming from the EFTA partners, while a managerial revolution was erupting in the largest firms. The instruments for this successful path toward the European economic integration were the business groups, which must be studied as hampering

2 On the limits to such an extension see L. Donaldson, 1996.
3 The whole issue of *Business History*, 49, 4 (July 2007). R. Whittington and M. Mayer, 2000, pp. 78-79.
4 M.L. Djelic, 1998. M.F. Guillen, 1994.
5 T. Judt, 2005, p. 327.

related and unrelated-diversified business strategies in order to impair the difficulties to business growth in a small less-developed country such as Portugal in the 1940s and 1950s.

It was during the late 1940s and the 1950s that Portugal's modern economic growth definitively took off. According to Maddison (2001), in 1950 Portuguese per capita gross domestic product was still slightly below the World average (98%) and by 1973 it already exceeded the World average by almost 80%[6]. Portugal, with a Gdp per capita of 2,068 dollars (G-K,1990), her closest Oeec partners were two more Mediterranean countries (Greece and Turkey) – in a group of relatively low-income countries. All other partners were above 3,000 dollars (G-K,1990). Gross domestic product figures published by the Bank of Portugal covering the years from 1953 on (Pinheiro, 1997) show real growth rates between 3.1% (1955) and 6.1% (1958) for the rest of the decade, allowing for real per capita Gdp growth rates between 2.4% (1955) and 5.2% (1958). Less sophisticated estimates for earlier years also published by the Bank of Portugal (Baptista *et al.*, 1997) show that significant growth dated back from the immediate post-WWII years, with the only hiccup in the year 1952[7].

It is consensual among Portuguese economic historians that consumption, standards of life and welfare improved a great deal for the Portuguese in the next two decades, bringing increasing urbanization, particularly along the Atlantic coast, and a transfer of labor force from agriculture to industry. This was also a period of colonial development. Portugal ruled a vast empire, comprising extensive territories in Africa coming from the international agreements of the Berlin Conference in the 1880s, and small territories in Asia (India, Macao and East Timor) coming from the previous Portuguese empires. Although the homeland was a small strip of land in Iberia and some islands in the Atlantic Ocean, the empire was a vast field of opportunities for colonial businesses. It is pointless to deal extensively with these macroeconomic aspects once more, as they have been the subject matter of several studies[8]. However, none of these studies examines the process in terms of the population of firms and the largest firms in the economy, their businesses, structure, profile and performance. This paper seeks to fill this gap.

[6] A. Maddison, 2001.
[7] M. Pinheiro (ed.) (1997). D. Baptista *et al.*, 1997.
[8] A. Marques, 1988; A. Mateus, 1998; J.C. Neves, 1994; V.X. Pintado, 1964; M.E. Mata and N. Valério, 2003; P. Lains and Á.F. Silva (eds.), 2005.

2. Birth and death of firms in the Golden Age of Portuguese economic growth

The formation and extinction of corporation and partnership firms in Portugal, which are available from the beginning of the 1930s on, is an important indicator of business dynamics. Table 1 summarizes this process from the early 1930s to the mid-1970s. Although individual firms are missing, it is possible to say that this provides a fair picture of entrepreneurial dynamism in the Portuguese economy.

Data show that gross and net formation of firms was sluggish during the 1930s, experienced a peak during the 1940s, slowed down during the early 1950s, and then gradually gathered speed until 1974, with a hiccup in the early 1960s. The unexciting situation of the 1930s may be related to the relative stagnation of the Portuguese economy during the decade of the Great Depression. Although it was not too bad a performance in the international perspective, the prices of colonial raw materials were greatly hurt by the decreasing global demand. The activity of the 1940s may be related to the speculative wave generated by the very peculiar situation of the Portuguese economy during the Second World War. As the country was neutral throughout the conflict, there was an exceptionally high positive overall balance of payments resulting from several elements. On the one hand, Portugal was a gathering point for refugees looking for emigration opportunities to the Usa and significant invisible inflows,

Tab. 1. **Formation and extinction of corporations and partnerships**

Period	Formation of corporations and partnerships		Extinction of corporations and partnerships		Increase of corporations and partnerships	
	Number	Capital (10^6 escudos)	Number	Capital (10^6 escudos)	Number	Capital (10^6 escudos)
1930-1934	5,914	412	2,467	234	3,447	178
1935-1939	6,230	414	1,798	179	4,432	235
1940-1944	9,383	1,277	1,790	188	7,593	1,089
1945-1949	13,643	2,109	2,562	336	11,081	1,773
1950-1954	9,191	1,479	2,562	339	6,629	1,140
1955-1959	10,103	2,258	1,998	388	8,105	1,870
1960-1964	10,080	3,964	2,662	792	7,418	3,172
1965-1969	17,575	17,088	2,899	7,762	14,676	9,326
1970-1974	19,582	25,422	3,147	4,490	16,435	20,932

Note – Exchange rates: stabilization at 1 dollar = 22.5 escudos in 1931; slight depreciation of the escudo until 1933; significant appreciation of the escudo until 1940; 1 dollar = 25 escudos between 1940 and 1949; 1 dollar = 28.75 escudos between 1949 and 1971; slight appreciation of the escudo between 1971 and 1975. Valério N., *Portuguese Historical Statistics* (Lisbon, INE, 2001), Table 10.6-B, 738.

Source: Estatísticas Monetárias e Financeiras*, INE, various years* especially from the American Jewish community to refugees flying from Nazi occupied Europe. Some of them remained in Portugal and the influx of savings and capital was a significant factor. On the other hand, the non-belligerency was coupled with high exports of crucial commodities, such as tungsten ore, to both sides in the conflict[9]. The gradual take off from the early 1950s to the mid-1970s mirrors the macroeconomic performance of the economy, the hiccup of the early 1960s being attributable to the hesitations generated by the outbreak of the colonial wars in Angola (1961), Guinea-Bissau (1962) and Mozambique (1964). The net increase in the number of firms in Portugal, from the Marshall Plan to the European Free Trade Association, was more than 25,000, with almost 175 million dollars of capital.

3. A sample of the largest firms

As no list of largest firms is available for the aftermath of the Second World War, such a list was constructed using a three-pronged approach. First used was the earliest available official ranking of firms, which was published in the early 1970s[10]. Second was the list of the largest Portuguese non-financial firms on the eve of the First World War, recently built by Pedro Neves in his doctoral dissertation[11]. Third, firms mentioned in texts of the 1947-1960 period as being among the largest Portuguese firms were added, to avoid the risk of missing important firms which were not in the 1914 and 1970s rankings.

Table 2 presents the list of the largest Portuguese non-financial firms in 1972, published by the official statistical office. They are ranked according to three criteria (revenue, net worth and labor force). The list includes the ten largest, to which were added firms larger than 90% of the tenth largest, according to each criterion.

The largest Portuguese non-financial firms by assets on the eve of the First World War are listed in Table 3. As above, the list includes the ten largest and those with assets greater than 90% of the tenth largest.

Affiliates of foreign firms (Mobil, Plessey, Shell, and SE – Standard Electric) were excluded, as well as the firms present in the early 1970s list that were created during the 1960s (the electricity CPE – Companhia Portuguesa de Electricidade, the ship-repair Lisnave, and the engineering CT – Construções Técnicas), and the firms present in the 1914 list which had become extinct in the post-Second World War years (two railroad companies, CCFBA and CNCF, absorbed by another railroad company, CP, in 1947), or no longer

9 T. Judt, 2005, p. 83.
10 Principais sociedades. Lisbon, INE [National Institute of Statistics], various years.
11 P. Neves, 2007.

Tab. 2. **Largest Portuguese non-financial firms in 1972**

Revenue	10^6 escudos	Net Worth*	10^6 escudos	Labor Force	Workers
SACOR	5,554	CPE	8,569	CP	24,121
TAP	4,009	CUF	3,566	TAP	8,140
CUF	3,682	SACOR	3,109	CUF	8,014
Shell	2,892	CCT	1,686	Lisnave	7,107
SN	2,883	ECL	1,384	CPE	4,534
Mobil	2,847	TAP	1,323	SN	4,203
CPE	2,311	Soponata	1,322	Plessey	4,16
Lisnave	2,044	CRGE	1,295	CT	4,131
CRGE	1,666	CNN	1,277	EFACEC	3,54
CNN	1,656	Shell	1,206	SACOR	3,332
SONAP	1,553	SN	1,204	SE	3,231
CP	1,491	Lisnave	1,126	CRGE	2,959

* Net worth is an important determinant of the value of a company, considering it is composed primarily of all the money that has been invested since its inception, as well as the retained earnings for the duration of its operation. It may be used to determine creditworthiness.

Source: Principais Sociedades *(Lisbon, INE, 1972)*

Tab. 3. **Largest Portuguese non-financial firms in 1914**

Firm	Assets (10^3 escudos)
CP – Companhia dos Caminhos-de-Ferro Portugueses	73,367
CCFBA – Companhia dos Caminhos-de-Ferro Portugueses da Beira Alta	18,336
CAL – Companhia das Águas de Lisboa	14,451
CRGE – Companhias Reunidas de Gás e Electricidade	14,346
CNCF – Companhia Nacional de Caminhos-de-Ferro	8,914
CTP – Companhia dos Tabacos de Portugal	6,712
CCFP – Companhia de Carris de Ferro do Porto	6,294
Nacional – Nova Companhia Nacional de Moagem	6,033
CPF – Companhia Portuguesa de Fósforos	5,938
CUF – Companhia União Fabril	5,174

Source: Neves (2007), p. 373

ranked among the others in the list (CCFP and CPF). At the same time three firms that appeared as larger than some others in the sample were added (the shipping CCN, the oil CPP and the electrical UEP). The list in Table 4 thus obtained of 20 domestically-owned firms should be considered.

The most striking feature of this list is perhaps the fact that a significant number of these firms were quite recent. As a matter of fact:

a. Six had been created during the period under consideration (that is to say between 1945 and 1960) – the air company TAP (1945), the oil prospector

Tab. 4. **Largest Portuguese non-financial firms (1948-1960)**

Firm	Sector	Creation
CAL – Companhia das Águas de Lisboa	Water distribution in lisbon	1868
CCN – Companhia Colonial de Navegação	Maritime transportation	1922
CCT – Companhia de Cimentos Tejo	Cement production	1894
CNN – Companhia Nacional de Navegação	Maritime transportation	1870
CP – Companhia dos Caminhos-de-Ferro Portugueses	Rail transportation	1860
CPC – Companhia Portuguesa de Celulose	Paper and paper pulp	1948
CPP – Companhia dos Petróleos de Portugal	Oil prospecting	1947
CRGE – Companhias Reunidas de Gás e Electricidade	Gas and electricity distribution in lisbon	1891
CTP – Companhia dos Tabacos de Portugal	Tobacco manufacturing	1891
CUF – Companhia União Fabril	Chemical industry	1865
ECL – Empresa de Cimentos de Leiria	Cement production	1925
EFACEC – Empresa Fabril de Máquinas Eléctricas	Electric machinery production	1948
Nacional – Companhia Industrial de Portugal e Colónias	Food industry	1919
SACOR – Sociedade Concessionária da Refinação de Petróleos	Oil refining	1938
SN – Siderurgia Nacional	Iron and steel	1955
SONAP – Sociedade Nacional de Petróleos	Distribution of oil derivatives	1933
SOPONATA – Sociedade Portuguesa de Navios Tanques	Maritime transportation	1947
Tabaqueira	Tobacco manufacturing	1927
TAP – Transportes Aéreos Portugueses	Air transportation	1945
UEP – União Eléctrica Portuguesa	Electricity production	1919

Source: Tables 2 and 3. Historical Archive of the Bank of Portugal

CPP and the maritime company SOPONATA (1947), the pulp and paper manufacturer CPC and the electric machinery producer EFACEC (1948), and the iron and steel SN (1955).

b. Seven had been created during the inter-war period – the food industry Nacional and the electricity producer UEP (1919), the maritime company CCN (1922), the cement producer ECL (1925), the tobacco manufacturer Tabaqueira (1927), the oil distributor SONAP (1933), and the oil refiner SACOR (1938).
c. Seven had been created before the First World War – the railway company CP (1860), the chemical industry CUF (1865), the water distributor CAL (1868), the maritime company CNN (1870), the gas and electricity CRGE and the tobacco manufacturer CTP (1891), and the cement manufacturer CCT (1894).

If the fact is taken into account that two firms which dated back to the 1960s – the electricity production CPE and the shipyards Lisnave – already featured in the list of largest firms of the early 1970s, it becomes clear that the period under consideration and the 1960s were very favorable to newcomers in the population of large firms in Portugal.

The balance sheets and current accounts of most of the firms that belong to the sample identified were sourced in the archives of the Portuguese central bank, the *Banco de Portugal*. Unfortunately, there are no data available for EFACEC, SONAP, SOPONATA, and Tabaqueira. Thus, the sample of largest Portuguese firms used hereafter is reduced to 16 firms.

4. Scale

These firms were quite large in the Portuguese context. In 1950 the aggregate equity (share capital) of the sample represented 9% of the equity of all firms in the economy, and the average equity in the sample was 160 times the average equity of firms in Portugal. These ratios increased during the 1950s, especially due to the formation of the new iron manufacturer SN, and the privatization of the air company TAP[12]. In 1953, the first year for which Gdp is available and the mid-point of the period, the sampled firms (0.07% of the universe of 21,336 corporate firms in the economy) assembled revenues amounting to 1% of Gdp, and the 12 industrial firms (0.3% of the universe of 5,107 industrial firms) aggregate revenues amounting to 4.2% of the Industrial Gdp[13]. However, although the sampled firms were the top Portuguese units, they were small-scale firms by international standards. In 1956, for example, the last Usa firm ranked in Fortune 500, had six times the sales as the top selling Portuguese firm, SACOR.

If the annual revenues are taken as the major indicator for scale, the largest firm in 1948 was the electrical CRGE followed by the navigation CNN and the oil SACOR, all of them approaching 3 million dollars. The shipping CCN, the water-supply CAL and the rail CP were above 1 million dollars, followed by the food NACIONAL and the electrical UEP. All the remaining firms were below half a million dollars, as Figure 1 shows.

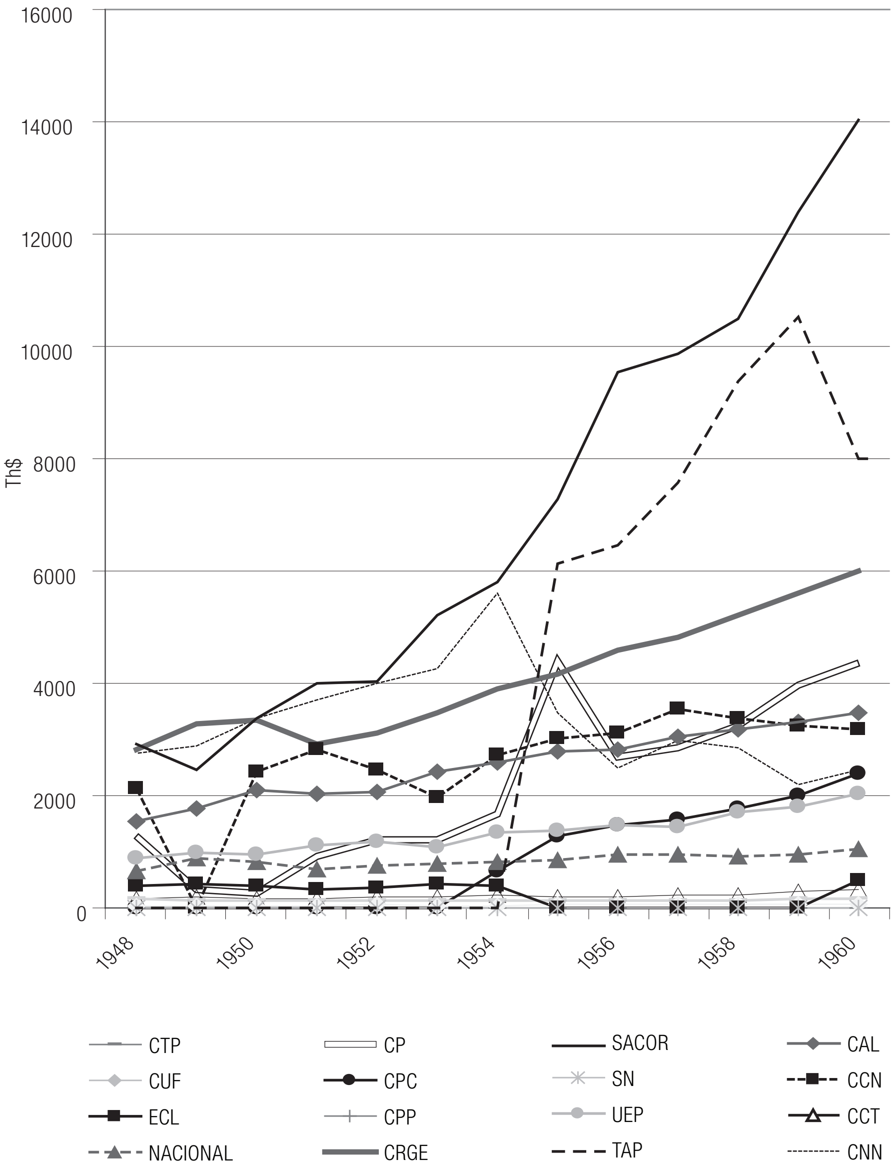
The varied degree of success led to some reversals in this ranking and to a particular hegemony of the oil SACOR with a clear take-off in the mid-1950s parallel to the newly-founded airline TAP.

For a general glimpse of the period, Figure 2 provides the average revenue of each of the firms in the 1947-1960 period, ranking them according to this criterion.

[12] Equity is the only variable available for the whole industry and economy. *Estatísticas das Sociedades* (Lisbon, INE, several years).

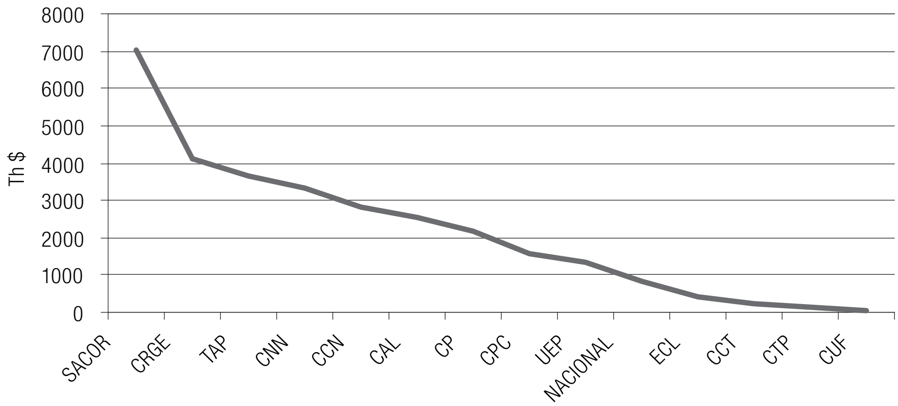
[13] N. Valério (ed.), 2001, Table 10.6-B, p. 520.

Fig. 1. **Revenues**



Source: Annual Reports, 1947-1960. Historical Archive of the Bank of Portugal (AHBP). Missing reports for the year 1949 for CCN. Revenues for CPP and SN are not available in the annual reports of the companies. Unit: Thousand dollars.

Fig. 2. **Average Revenue (1948-60)**



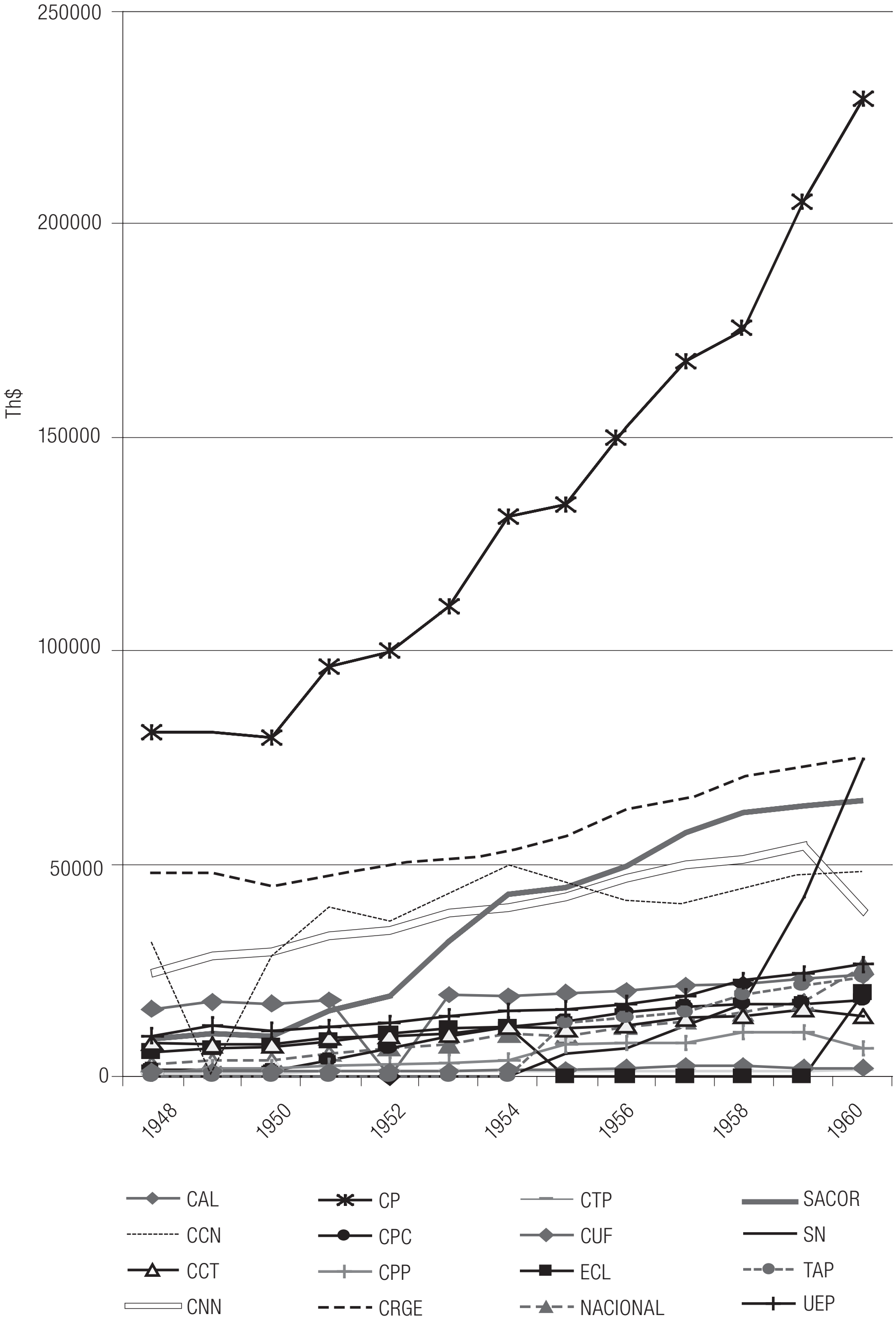
Source: Annual Reports, 1947-1960. Historical Archive of the Bank of Portugal (AHBP). Missing reports for the year 1949 for CCN. For the newly-founded airline TAP the average covers the 1955-1960 period. Revenues for CPP and SN are not available in the annual reports of the companies.

Data on revenues is abundant, but the conclusions from these figures must be downgraded. As there was no harmonization in the way how corporations presented their accounts, the revenues criterion is unsafe and capital or equity are more reliable aspects. Note that lists of largest corporations in the mid-twentieth century for other countries were constructed using mainly these indicators, for this same reason. So, if we take assets as the criterion for scale, the largest firm was, by far, the rail CP. The 1948 Report says that «CP is far and away the largest Portuguese firm, for the number of employees (over 30,000), for the spread of collector and distribution centers (800 stations and stops) throughout the whole country, and for the volume of its budget»[14]. The company was connected with all economic sectors, and presented, as any railway firm, industrial complexity and commercial management, particularly to face the increasing competition from road transportation.

As Figure 3 shows, the electrical CRGE was the second largest firm in terms of assets, followed by the shipping companies CCN and CNN. Shipping was followed by the oil SACOR, soon outstripped by the success of the iron and steel SN. In spite of starting production so late, SN deserves to be present in the sample not only because of its capital-intensive character, but also because it was considered a vital producer in designing a Portuguese strategy for economic growth and development.

[14] Page 7 of the annual Report of 1949, Historical Archive of the Banco de Portugal (AHBP). For a theoretical perspective, A. Chandler Jr., 1977, pp. 79-121.

Fig. 3. **Assets**



Source: Annual Reports, 1947-1960. Historical Archive of the Bank of Portugal (AHBP). Missing values for the year 1949 for CCN, and for the year 1952 for CAL. Unit: Thousand dollars.

5. Scope

It is worth observing that, comparing this 1972 Portuguese sample of top firms with the American, British, German and French lists, there is an almost complete coincidence of sectors, with the exception of the automobile industries, which is not a top position in Portugal[15]. This was the rule in the small and less-developed European partners (with the exception of Volvo at Sweden). This fact is very significant for the scope of businesses, because it may be responsible for a larger complexity in the transfer process of the American business system to these countries (as Ford's trajectory in automobile production was a top channel for its diffusion)[16].

The rise of the activities directly and indirectly linked to electricity and oil explains the modernity of the sectors and the openness to new management practices. These were two new sectors that everywhere were being developed, as they represented the spread of the new technologies that began shaping the world before WWI, but reached the peak of their use and application only after WWII[17]. In Portugal there were four large firms linked to the oil business: SACOR was an oil refiner, SONAP an oil-derivatives retailer, SOPONATA an oil-shipping manager, and CPP an oil prospector. Even LISNAVE, one of the rising-star firms created in the 1960s, was a ship repairer, whose main customers were tankers. There were three firms directly linked to electricity: EFACEC was a producer of electric machines, UEP a producer of electricity, and CRGE a distributor of gas and electricity, whose electricity component was gaining importance as against its gas component, which was clearly dominant in the early days of the firm. Even the main foreign firms were linked either to oil (Mobil and Shell), or to electricity (Plessey and SE). The expansion of cement producers, CCT and ECL, was also mainly the consequence of demand resulting from the peak of construction of dams for generating hydro-electric power.

At the same time, the Portuguese economy was catching up in some traditional industrial branches. The most important case was steel. The heavy iron-industry firm SN (Siderurgia Nacional) was created in 1954 to lead off the Portuguese iron and steel sector. It started production only in 1961. In comparison with the world economic leaders, Portugal was late in the iron-steel sector, where «modern factory management was firstly fully worked out»[18].

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[15] Compare with M. Smith, 1998, pp. 46-85, 61, and with *Fortune 500* several years.
[16] On the Method-Time-Measurement system in the automobile production in the 1940s and the difficulties to apply it in Volvo, see M. Kipping and O. Bjanar, 1998, pp. 1-17 and 133-149.
[17] N.L. Madureira, 2007, pp. 595-615.
[18] A. Chandler Jr., 1977, p. 258.

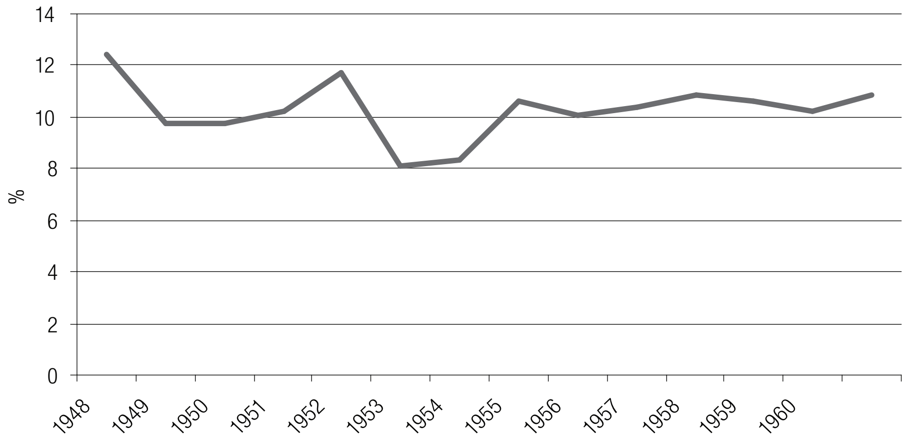
In the 1913-1919 period metals accounted for 20% of the largest firms in the Usa, 19% of those in Britain, 34% in Germany, and 34% of the largest firms in France[19].

The other half of Portugal's largest firms were established in traditional industrial sectors dating back to the nineteenth century (food, tobacco, and chemicals), transportation (rail and shipping), and utilities (water supply), to which the new paper industry was added in the inter-war period, and air transportation was added at the beginning of the period under consideration.

6. Performance

Most of the firms in the sample were profitable. The exceptions were two public transportation companies, the rail CP and the air TAP, which routinely posted negative results and survived on the basis of government subsidies. Disregarding these two companies and also SN (for missing data), the average profit rate (defined as the ratio between profits and net worth) was in the 8-12% range, as Figure 4 shows. 1953 and 1954 were difficult years from a domestic and global perspective.

Fig. 4. **Average Profit Rate**



Source: Annual Reports, 1947-1960, Historical Archive of the Bank of Portugal (AHBP). Missing values for the year 1949 for CNN, and for the year 1952 for CAL. Missing values for SN and TAP's net worth.

[19] A. Chandler Jr., 1990, Table 3.

Figure 5 shows that the profit rates of some companies were in the range of 3 to 10%, but one of the maritime transportation companies (CCN), the oil SACOR, the paper CPC, the tobacco CTP, the cement production CCT, and the chemical CUF, after 1955 were all above the 10% threshold.

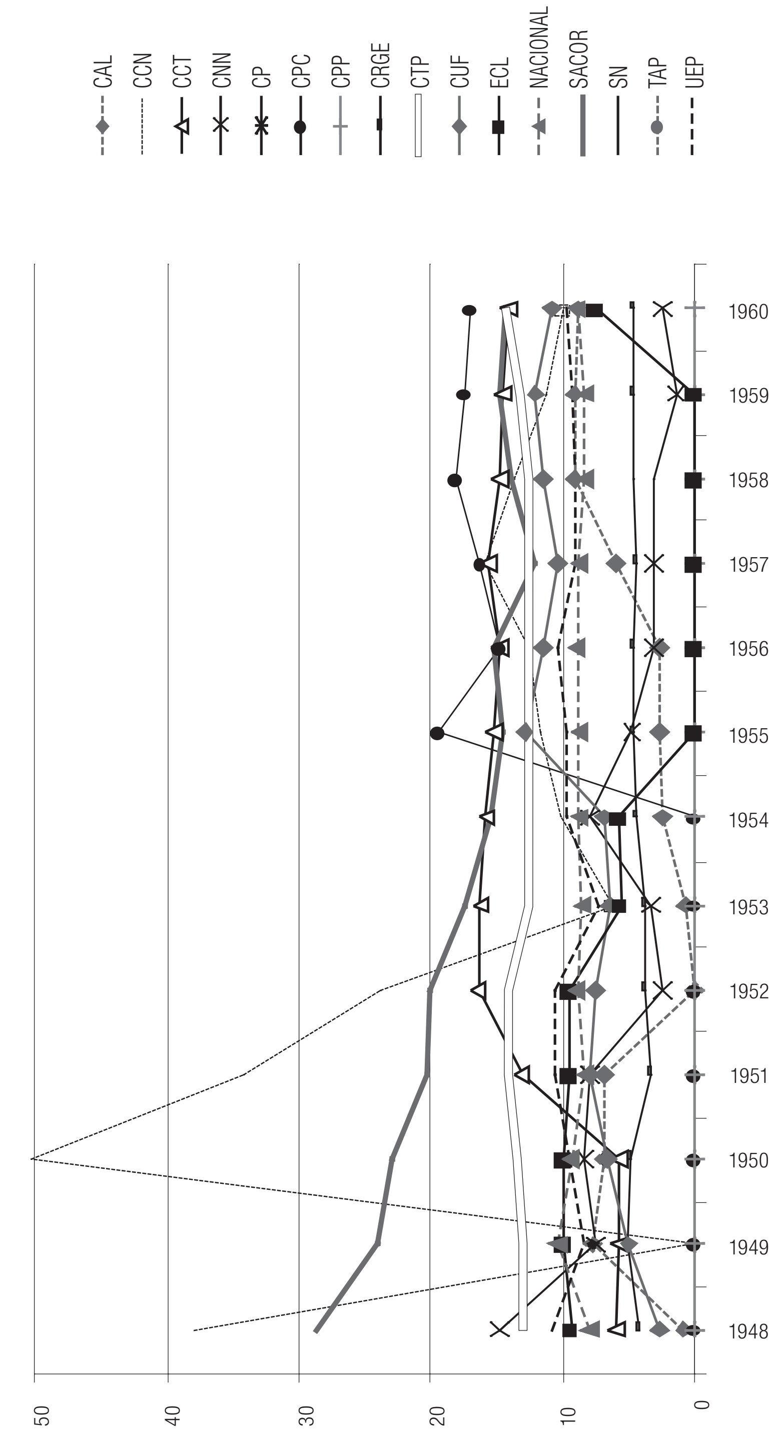
The most stable profit-distribution firms were the traditional ones, the gas and electricity CRGE (from 3.3 to 5.1%), the tobacco CTP (from 12.4 to 14.3%) and the food industry Nacional (from 8.0 to 10.3%). The more recent electrical UEP also showed stable profitability but at higher standards (from 7.2 to 10.8%). The oil refining SACOR moved from very high profit rates (about 30%) to high standards (above 10% to 15%), which means that after the early exceptionally favorable results, refining became a more normal business. The paper CPC was beginning its activity to provide newsprint and wrapping paper to the shopping market, and white paper later on, then having profits above 15%. The cement ECL posted modal (and irregular) profits between 5 and 10%, the same occurring with the other cement firm CCT which, however, increased its distribution by close to 15%. The water supply of Lisbon CAL was quite irregular. The chemical CUF had a positive trend from less than 5% to above 10%. The failed case was the oil prospector CPP, as no oil was discovered in national territories, in spite of the large prospection efforts that were developed in mainland Portugal and Timor, according to the annual reports of the company. In performing a highly risky sector, the company could not succeed commercially. As a consequence, prospecting was abandoned in 1963. The inclusion of the company in the sample, thanks to the presented methodology, stresses the fact that success and failure are the alternative results for business endeavors, and both must be considered.

The maritime transportation CCN saw a negative trend in the mid-1950s. CNN performed regularly, but the profit rates in 1953 and 1954 were hurt. According to the CNN annual reports, there was an East line (to Portuguese India, Macau and East Timor) that was unprofitable, and had to be supported by the Government, arguing for the public-service character of this line. The situation worsened when the political situation in Portuguese India deteriorated in the mid-1950s[20]: the number of voyages had to be increased, obliging the firm to re-allocate resources from more profitable lines to this «national» mission.

Setting the rail CP and airline TAP aside, scale was important for performan-

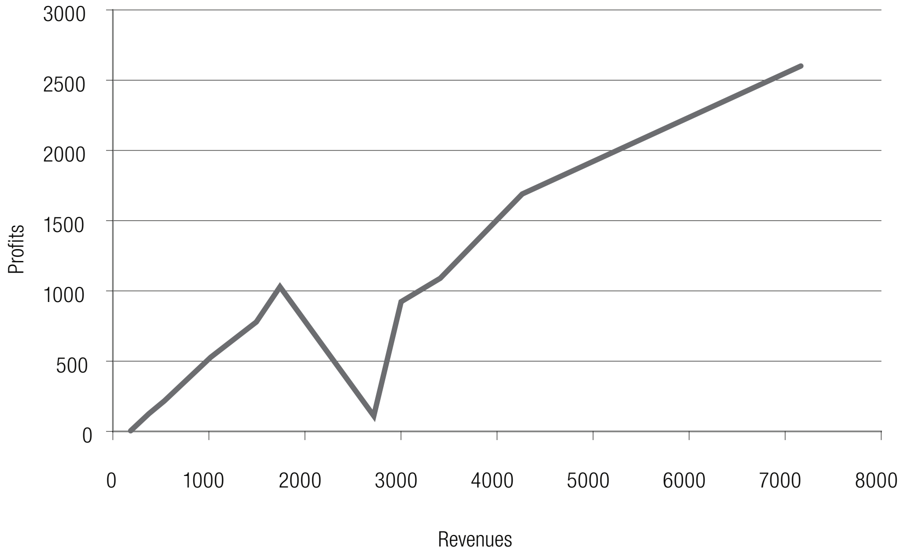
[20] Recall that Portuguese India was occupied by India in two steps: Dadrá and Nagar Aveli were occupied in 1954, and Goa, Damão and Diu were occupied in 1961.

Fig. 5. **Profit Rates**



Source: Annual Reports, 1947-1960, Historical Archive of the Bank of Portugal (AHBP). Missing reports (and missing values) for the year 1949 for CCN, and for the year 1952 for CAL. Missing data for SN and TAP.

Fig. 6. **Average revenues and profits of top Portuguese firms (1947-60)**



Source: Annual Reports, 1947-1960, Historical Archive of the Bank of Portugal (AHBP). Missing values for CPP. Unit: Thousand dollars.

ce, as seen in Figure 6, which suggests a positive correlation between revenues and profits, as expected[21].

As for performance, Chandler says that technological progress and appropriate organizational structure are the most decisive aspects for domination in any industrial sector[22]. Significant technological developments had not touched Portugal until WWII, while constraints to industry were evident in the scarcity of laboratories, modern machinery and energy[23]. From the technological perspective, this was a period of significant innovation and sophistication in all these Portuguese firms, as their annual reports take care to mention, although firms depended on foreign technology most of the time.

Cement introduced new technologies, particularly new ovens. In 1958 CCT claimed to have the world's largest cement oven in the Alhandra factory[24]. Shipping companies replaced old ships and bought modern ocean-going vessels to connect the country to all continents, particularly destinations in the

[21] R. Whyttington, ibid., 50, 51. R. Giannetti and M. Vasta, 2006, p. 165.
[22] A. Chandler Jr., 1990.
[23] C.H. Sousa, 1948, pp. 4-37, 23-24, and 26.
[24] Companhia de Cimentos Tejo, *Annual Report*, 1958, Historical Archive of the Bank of Portugal AHBP. E.F. Clemente, 2002, p. 11.

colonial empire and Brazil. All the modern and elegant ships that still remain in the passengers' memory (cruiseliners such as the *Pátria*, *Santa Maria*, *Vera Cruz* and *Infante Dom Henrique*) were built at this time, mostly in Belgium. Air travel became the top technology of the time. TAP's first aircraft were Skymasters, but in 1955 three Super Constellations were introduced for the line to Africa and three DC-3s for domestic and Iberian lines. The rail company electrified some lines and received new equipment, particularly diesel locomotives[25]. Chemical manufacturing adopted sophisticated technologies, namely in the nitrate fertilizers' plant (Amoníaco Português SARL) located near Oporto, participated by CUF. The most striking technological improvement, however, occurred in the electrical sector in building hydro-electric plants[26] and infra-structures for electricity distribution. The effects on the cement sector were quite direct, as the needs of cement provision to these engineering projects required high output. The paper factory CPC was built in 1952-1953 near Oporto with American equipment and technical assistance by the Albert E. Reed & Co, going into production in 1954[27]. The water distributor CAL used Candy Filter Co technologies to smooth the flow in the water supply to the Portuguese capital city. The iron SN was built by a German/Belgium consortium made up of the German Demag, Rhensthall and Still firms and the Belgium Sybetra. Engineers and labor force were trained in Germany. The Marshall Plan funding supported a significant part of this technological modernization in the 1940s-1950s[28]. According to the Reports to the Technical Commission of the European Commission Administration ECA, the hydro-electric equipment, the chemical industry (particularly CUF factories, Amoniaco Português and União Fabril do Azoto), the cement industries (ECL and CCT), the paper sector (Companhia Portuguesa de Celulose), the rail CP and the oil refining industries (Sacor and CPP), were supported[29]. According to Oeec reports «the Usa provided in the Marshall help a large part of the equipment» for the refining industry[30].

[25] *Reports from the Technical Commission of the ECA, European Commission Administration on the Applications for release of counterpart funds including the Portuguese applications to the Counterpart Fund (Historical Archive of the Bank of Portugal (AHBP) box number 65), complaining about the old age of the existing rolling material: thirty locomotives were over 10 years old, 7 from 10 to 20 years, 137 from 21 to 30, 76 from 31 to 40, 86 from 41 to 70, 41 from 51 to 60, 72 from 61 to 70, 34 from 71 to 80 and 23 over 80 years old.*

[26] Carrapatelo, Castelo de Bode and Salamonde dams were the most important.

[27] Annual Reports of the Company, Historical Archive of the Bank of Portugal. See also J.F. Alves, 2000, pp. 153-182.

[28] M.F. Rollo, 1994.

[29] Smaller firms also were supported. A good example is electrical machinery (Companhia Portuguesa de Fornos Eléctricos). Source: *Reports to the Technical Commission of the European Commission Administration*, ECA, on the use of the direct help, Historical Archive of the Bank of Portugal AHBP, box 67.

[30] OEEC, p. 124.

7. Ownership

In considering ownership, the largest Portuguese firms may be divided into four main categories, as inferred by data in annual reports and Martins (1975):

a. Those controlled or participated by the Mello family, usually known as the CUF group – CUF, CNN, EFACEC, SOPONATA and Tabaqueira (to which Lisnave, the shipbuilding firm created during the 1960s and already one of the largest Portuguese firms of the early 1970s might be added).
b. Those controlled by the Champalimaud family, usually known as the Sommer or Champalimaud group – the cement firms CCT and ECL, the food producer Nacional, and the iron and steel SN[31].
c. Those controlled or participated by the government – the rail company CP, the oil refining SACOR, distribution of oil derivatives SONAP and the airline company TAP.
d. Those controlled by other smaller business groups – including the water supplier CAL, the maritime company CCN, the paper manufacturer CPC, the oil prospector CPP, the gas and electricity-distribution in Lisbon CRGE, the tobacco manufacturer CTP, and the electricity producer UEP[32].

Government control of transportation and oil sector firms resulted from two different circumstances. In the case of transportation firms, they were non-profitable firms which were considered to provide decisive services: rail and the emerging new sector of air transportation. Maritime companies presented balanced accounts, but they also depended to a great extent on the government, because of public demand for transports to ensure the connections among the various territories under Portuguese sovereignty. The oil firms were profitable, but it was intended that regulation and surveillance was necessary, because they were strategically decisive for the country's security and economic growth.

Of course, the government assumed a central role in distributing the direct help and in electing who received the Marshall and government support, as the American administration included the country in the offer of the *European Recovery Plan* (ERP) along with the rest of Europe. Although the amount of $54 million in direct help and $18,3 million in indirect aid may be considered

[31] M.B. Martins, 1975, p. 100. For the iron and steel industry, H.P. Pereira, 1960. M.F. Rollo, 2005.
[32] With links to the American ITT, according to M.B. Martins, 1975, pp. 33, 65. The Fonsecas & Burnay group also participated in the electric-machinery-production EFACEC.

small, the Marshall Plan was an important source of subsidies[33]. Co-ordination of this distribution to private firms and public works gave rise to a specialized agency for this purpose (FFN, *Fundo de Fomento Nacional*). After the Marshall period, this agency, headed by the Minister of Finance, gave origin to the first Portuguese bank for investment, in 1959[34]. At the same time, indicative planning, under the form of lists of public investment for several years, was also implemented[35]. The government's discretionary power of allocating scarce Marshall funding to alternative aims, choosing the industrial actors, trusting in certain companies that were elected for achieving the government's targets and purposes, was an important factor in the consolidation and development of private groups. It may seem paradoxical that the champion of market rules and competition offered an instrument, the Marshall aid, which may be seen as an American impulse to cartelization and planning, particularly in small European partners[36].

This does not mean that the largest Portuguese business groups of the epoch emerged from the Marshall Plan or the government support during this period. As in other European countries they come from the past[37]. The CUF example is quite clear. The firm started as a soap and fats manufacturer in the 1860s and got into trouble during the 1880s. As another soap firm fell under the control of a bank (Banco Lusitano) that went into bankruptcy during the early 1890s Baring crisis, it was purchased from the bankrupt bank by the entrepreneur Alfredo da Silva, who made it the basis of a diversified chemical firm. In the immediate post-WWI years, he used the firm as a basis to build a conglomerate to which were eventually added the Sociedade Geral de Comércio, Indústria e Transportes (a transportation firm) in 1919, the banking house José Henriques Totta and the Casa Gouveia (a colonial firm) in 1921, the Tabaqueira (a tobacco firm) in 1927 and the Companhia Seguradora Império (an insurance company) in 1942. Around WWII, shipbuilding and repairing, insurance, electrical material, and oil transportation and refining were added to the scope of the group. In 1948, a subsidiary was created to

[33] *Reports from the Technical Commission of the ECA, European Commission Administration on the Applications for release of counterpart funds including the Portuguese applications to the Counterpart Fund* – AHBP boxes 61, 65 and 67. N. Andresen-Leitão, 2003, p. 67.

[34] Decree-Law nº 37354 of 26 March 1949 for the creation, Decree-Law nº 37724 of 2 January 1950 on the administration, and Decree-Law nº 41957 of 13 November 1959 for its transformation into an investment bank.

[35] Portuguese indicative planning was much less sophisticated than indicative planning in other European countries at the time. See J. Klausen, 1998, pp. 45, 47, 101, 102, 108, 114-116, 149, 178, 195, 199, 251, 253, 255, 258.

[36] The total American help amounting to 15.6 billion dollars represented 4% of the European Gdp (excluding the regions under the soviet influence). For the Norwegian case see the role of the Norwegian Productivity Institute NPI and the policy for mergers at R. Amdam and O. Bjanar, 1998, pp. 91-111.

[37] G. Jones, 2000.

produce ammonium sulphate, the União Fabril do Azoto. In 1953, the banking house José Henriques Totta was transformed in the Bank Totta. During the 1960s, the group would diversify into unrelated businesses such as real estate, construction, hotels, restaurants, casinos and tourism, having its own hospital and its own project firms. It already involved more than 100 firms in 1972 and developed international connections[38].

As for the Sommer group, its roots went back to the activity of the entrepreneur Henrique Sommer (1886-1944), owner of Casa Sommer and of an important firm of metallurgical manufacturing and trade (Vulcano & Colares). In the interwar period interests were focused on the rising cement manufacturing activities, becoming the leader of two important firms in the sector, ECT and CTT. After Sommer's death, leadership of the group was taken over by his nephew, António Champalimaud, who became involved in unrelated-diversified business in starting up the Portuguese iron and steel firm SN, as well as the food industry NACIONAL, during the 1950s, and would extend his interests to the financial sector in 1961 (both to banking – Banco Pinto & Sotto Mayor – and insurance – Companhia de Seguros Mundial and Companhia de Seguros Confiança)[39].

Other groups such as the Espírito Santo and Fonsecas & Burnay had financial origins: they started as banking firms in the nineteenth century and gradually obtained participation in some of the large industrial firms[40].

8. Structure

In analyzing firms' structures, Whittington and Mayer (2000) extend Chandler's theory to a message coming from his disciples, a real school of business thought, the *Chandlerism*, visualizing that multidivisional corporation «is a theory of economic development, in which economic progress more generally depends upon international acceptance of the efficiency, professionalism, and innovativeness of the large corporations» (p. 24). A perusal of Portuguese administration reports reveals that the largest Portuguese firms of the period under consideration were strictly functional (sector-specialized). CUF was a conspicuous exception to these rules, as it developed into a multidivisional-holding firm (the M pyramid structure) by the end of the 1950s. In the

[38] For details on the CUF group see M.B. Martins, 1975, pp. 21-30.
[39] For details on the Champalimaud group, see M.B. Martins, 1975, pp. 37-41 and J. Antunes, 1997.
[40] For details about these and other smaller groups see M.B. Martins, 1975, pp. 43-65. For international comparisons R. Morck, 2005, pp. 2-10.

immediate post-WWII years it already had chemical and shipyard divisions. In 1958 it was operationally decentralized in a divisional structure made up of Agricultural Goods, Fats and Soap, Industrial Goods, Metallic-Mechanics, Textiles, Shipbuilding and Repair, adding to functional departments of Finance, Research, and Social Services (including hospital care). The centralized managerial control was implemented in the cement and the electrical sectors, but only through functional divisions that included Production and Planning, Finance, Human Resources, Research and Juridical Questions. So, it is possible to say that personal ownership was not synonymous with anti-divisional perspectives in Portugal. Other firms remained functional, or at least they did not announce any divisional control over decentralized operations structures in their annual reports. Note that the functional structure and the holding character of firms were also the dominant firm profiles elsewhere in Europe in the 1940s and 1950s. According to Whittington and Mayer, 45% of the German firms and 56% of the French were functional, while 45% and 44% were holding or functional-holding firms, respectively[41]. Only from the 1960s onwards did European firms begin to adopt a divisional structure, but the ownership conditioned such a path, as firms under concentrated ownership were less likely to adopt the multi-divisional form and «state-owned firms were more likely to have resisted the multi-divisional»[42]. In France, particularly, families and entrepreneurs «dislike the decentralization and accountability involved» while in the UK «it does not seem that personal ownership interests offer significant opposition to the multidivisional anymore»[43].

Moreover, the Portuguese firms were small-scale firms by international standards. Structured in this way, it is possible to understand the connections among some firms, grouping through cross-share-holding in business groups, as a pursuit of scale structuring. The strength of economic groups did not involve the rise of formal or informal holdings (meaning holding or functional-holding firms). The group's holding remained an informal family business. As for managerial aspects, it seems clear that CEOs and Boards were made up of well-known names of the time, frequently educated (in any field, from Law to Engineering, Commercial Administration, or Finance). In family-owned firms the rule was to have a president from the family and invited administrators[44]. The chemical CUF group belonging to the Mello family and the cement production ECL and CTT belonging to the Champalimaud group are

[41] R. Whittington and M. Mayer, 2000, pp. 164, 168, and 174.
[42] Ivi, p. 209.
[43] Ivi, p. 203.
[44] As was usual in British family businesses. G. Jones, 2000, p. 196.

excellent examples. It is frequent that annual reports express regret over one or more deaths among the administrators or the upper staff of the firms, meaning that long experience, aged respectability, or past political functions providing good political relationship with the political regime were praised values.

This model seems to have been replaced by one of executive education from the mid-1950s on. Two aspects deserve to be mentioned. The studies that are available for this period attribute a large role to a new generation of economists from the mid-1950s on, and death regrets or reference to the long years of service and personal devotion to the firm, even in illness, and until the last moment of life, become unusual. This new generation of CEOs was conscious of the benefits of reaping scale and scope economies for modern industrial enterprises in producing for larger markets, and strongly influenced the political regime (and Prime Minister Salazar) to open the Portuguese economy to foreign competition and join the European Free Trade Association[45]. They were a first wave of graduates from the Lisbon High Institute of Economic and Financial Studies following the 1949 curricula reform that made teaching and training much more modern[46]. The eclectic traditional teaching based on classical and institutional views, ideologically dominated by corporatism philosophies was replaced by neoclassical microeconomics and Keynesian theories that were fully taught, while a second school of Economics was created in Oporto, the northern Portuguese industrial pole, in 1953[47]. Most of these new graduates got jobs in the largest firms, participated in the departments of research and strategy, as well as in the investment bank (Banco de Fomento Nacional), or in the government central department for planning. The CUF leader (Jorge de Mello, a founder's grandchild) also graduated in the Institute at this time and recruited many of his colleagues to head the CUF divisions[48].

In comparison with other European countries, Portugal was late in adopting the modern American entrepreneurial structure[49]. The American consultancy firms were main actors in recommending and spreading the American firm model in the large European countries, particularly Britain, Germany and France, as well as in the small Northern-European partners: Consultancy firms «were powerful advocates of the reorganization of European businesses into multi-divisional, or M-form structures»[50]. According to McKenna (2006), by

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45 F.P. de Moura, 1969.
46 N. Valério (ed.), 1990, p. 425.
47 Decree nº 39227 from 28 May 1953. C. Bastien, 2001.
48 The only available study is A.A. Caetano, unpublished paper (CD-rom, XXIII Annual Meeting of the Portuguese Economic and Social History Association, 2003.
49 A. Chandler Jr., 1990, p. 621.
50 G. Jones and P. Miskell, 2005, pp. 113-139. R. Whittington and M. Mayer, 2000, p. 74.

the early 1970s the American consultancy firms had «decentralized most of the large companies in Europe», with the exception of Spain. Only then, when «the market was saturated» with their consultancy services, could they «no longer casually turn down marginal European clients»[51]. Portugal, as well as Spain, belongs to this last group of European clients. In the annual reports the first reference to American consultancy firms at work with Portuguese firms is found in 1972, although it is usually said that Mackinsey started its rendering of services in Portugal (to CUF) in 1970[52].

Training of Portuguese economists at Harvard also began only in the 1970s. It is worth mentioning, however, a student from Portugal registered in 1951[53]. So, improved managerial abilities were changing in Portuguese firms from the mid-1950s on, although mainly by better domestic training of Portuguese economists.

9. Strategy

Firms' co-operation with the government may be seen as a strategy for their survival in an environment of domestic and international predatory competition at the ground level of development. First of all, a co-operative game between government and firms was at work. Government intended to maximize the longevity of the political regime, in promoting the administration, sovereignty and economic growth of the country and its empire, while firms wished to maximize their profits and enlarge their businesses in the historical context of the available opportunities[54]. The application to subsidies is a good example, namely in the Marshall Plan context. In such a small and less-developed country (as Portugal was in the 1940s) there was a small pool of firms in each industrial sector, most of them having a family-business character. As in auction mechanics, the proposals of the strongest candidates (those which had proven their industrial expertise and effectiveness for implementing the government's aims for the sector) assumed the role of the highest bid and bidder in the spectrum of project proposals. Note that if a business has positive externalities for the economy, a socially optimal outcome may be possible if the subsidy compensates the positive externality resulting from the move of the

[51] C. McKenna, 2006, pp. 186-187.

[52] Standard Electrica annual report, 1972, Historical Archive of the Bank of Portugal (AHBP) quoting Arthur Andersen & Co.
McKinsey began consulting in Portugal in 1973-1975, http://diferencial.ist.utl.pt/edicao/24/galamba.htm (accessed 20 October 2007), (re)opening office in Lisbon in 1985. E.H. Edersheim, 2004, pp. 95, 252.

[53] Information from the Harvard Business School Academic Historical Archives.

[54] P.C. Ordeshook (ed.), 1978.

supply curve to the right[55]: having cement available for the construction of a government-planned hydroelectric plant (such as *Castelo de Bode* for example), may explain the attribution of funding to a cement-making sector.

The strategic aspects for the Portuguese firms seem mostly to fall into the realm of solving the «domestic market / colonial market / European market» equation, which represented the main challenge of the time. The point is that by 1950 Portugal had fewer than 10 million people and a Gdp of around 1.5 billion dollars, the empire amounted to more 15 million people and less than 0.5 billion dollars, but the OECE zone provided a market with 320 million people and a Gdp of 1 trillion dollars[56]. However, to tap into the OECE market implied shifting from an import-substitution strategy that was dominant in Portugal, and almost everywhere, to an export-lead strategy for a free-trade zone involving the whole OECE.

Protection of the domestic market was ensured by rather high tariffs, and a system of entry barriers (*Condicionamento Industrial*) for new producers that had been created in 1926 and enlarged in 1931 to fight firms' failures and unemployment in the context of the Great Depression, but which survived until the post WWII years, considering that competition was not always benign[57]. The established producers benefited from this constraint against new domestic producers, a factor very favorable to domestic large firms' strategies. Of course a different perspective must be referred in considering the long-run national growth and modernization, under a counterfactual earlier-liberalization hypothesis.

In spite of the small mainland territory, firms could interact with the colonies in many ways. The CUF, Champalimaud, Fonsecas & Burnay and Espírito Santo groups were quite connected to the African empire. As for the CUF, connections with African territories dated back from at least the 1920s. Tropical oils were used for vegetable food fats, soap and detergents production in competition with the multinational branch of Unilever Portugal[58], and African fibers were used for producing bags to pack its own fertilizers (or to be sold to other industrial sectors, particularly cement). Cement subsidiary factories were at work in the two large colonies of Angola and Mozambique, through acquiring and improving a cement factory in 1944 in Mozambique,

[55] J. Gruber, 2005, p. 130.
[56] R.T. Guerra, 1959, pp. 71-93.
[57] J.M.B. de Brito, 1989; J. Confraria, 1992.
[58] For the soap/detergent production at the CUF by the affiliated SONADEL (Sociedade Nacional de Detergentes), see M.B. Martins, 1975, p. 93. For Indústrias Lever Portuguesa (Unilever Portugal), belonging to the Dutch Unilever, G. Jones, 2005.

and creating a cement factory in Angola in 1949. SACOR had an affiliated refiner in Angola, ANGOL, which was reorganized in 1956. In one way or another all large firms participated in the government policy of settlement to implement the Portuguese sovereignty and administrative rule over the whole empire in creating jobs, trade networks and multiplier effects. However, in spite of imperial preference schemes, there was no free trade, or monetary union between Portugal and its colonial empire. This reduced the impact of the colonial link for the Portuguese economy in general.

Other family groups such as Espírito Santo and Fonsecas & Burnay had financial origins in banking and insurance and obtained participation in some of the large industrial firms. Espírito Santo's strategy illustrates the related and unrelated product-diversification strategy, as it included the oil sector both in the mainland SACOR and the colonial affiliates, as well as colonial real estate and small local firms[59]. Literature indicates that it is possible to maximize performance along dimensions such as horizontal diversification, vertical integration, and group heterogeneity in the presence of a group-specific banking institution. Intra-group coordination, given the extensive cross-ownership ties among member firms in different industries, or *liquidity smoothing* through intra-group transfers among group members, may enable investment smoothing, which does not necessarily lead to smoother profit rates. It also happens that risk sharing is especially important in periods of shocks, and the intervention of the group's bank can assist distressed firms in their inability to meet fixed obligations or fulfill investment plans, bringing important advantages for any firm to belong to a financial-origin group, particularly in the presence of capital market imperfections, which are so prevalent in small economies. Credit-constrained firms have to rely on adequate internally available resources or within-business-group internal capital markets, which may provide the best solution. Such constraints are especially severe in emerging markets, a condition that prevailed in the Portuguese economy throughout these decades[60].

As for the European market, plans for a free trade area among the member countries of Oeec were put forward during the 1950s, but failed. Portugal, as a relatively less-developed country, feared participation in a free trade area with highly developed European partners, but accepted in principle to become a member with some restrictions, contrary to other countries in the same situation – Greece, Ireland, Iceland, and Turkey. However, Portugal was opposed to any customs union and economic sharing of colonial territories, such as

[59] C. Damas, 2004.
[60] T. Khanna and Y. Yafeh, 2005.

those put forward in the context of the emerging European Communities. In practical terms the Portuguese European policy «was similar to other British-led Oeec members»[61].

The contradiction between benefiting from colonial endeavors and aiming at a European partnership in the ongoing integration process was a paramount issue. Large firms were supportive of the European idea, as were big businesses in all other countries, but also supportive of colonial businesses[62]. So it is understandable that in the firms' annual reports, boards expressed the need for implementing a free trade area among Portugal and its overseas possessions, a goal that began to be implemented in 1960, while also frequently expressing their hopes in the early steps toward European integration.

The compromise of the 1960s was to join a free trade zone in Europe, the European Free Trade Association, and create another free trade zone including Portugal and her empire. The European free-market zone EFTA , headed by the UK and including Portugal, was only an inter-government entity, side by side with the supra-national entity of the European Communities, an important distinction in terms of sovereignty. After two decades of protectionism thanks to the government policy of *Condicionamento Industrial*, Portuguese firms were already robust enough to face some foreign competition. Moreover, a special statute was negotiated with the European Free Trade Association partners in 1959 in Annex G of the Stockholm agreement. EFTA was a success, proving the Portuguese firms' ability to enter large-demand markets, while the so-called Portuguese economic space collapsed in the early 1970s. The more open was the Portuguese economy thanks to alleviating protection and the rules of the *Condicionamento Industrial*, the more impressive was growth, urbanization and modernization, as Table 5 shows.

The stagnant urbanization rate of 14% in the 1930s-1940s improved dramatically to 23-26% in the 1950s and 1960s, and rose to over 30% thereafter, while total population stagnated, due to the appeal of jobs in the European labor markets (especially France, and Germany). Such an urbanization rate responded to the decline of jobs in agriculture, which was particularly important after joining EFTA (from 43% in the 1960 Census, this sector declined to 33% in 1970). Finally, Portugal signed a free trade agreement with the European Communities in 1972 and employment in agriculture declined again (this time to 19%), while in industry it improved to 44% and in services to 37 % (1981 Census). The European market became, after several hesitations, the

[61] N. Andresen-Leitão, 2003, p. 13.
[62] For multinationals this is clear in G. Jones and P. Miskell, 2005, pp. 116-117.

Tab. 5. **Macroeconomic indicators for the Portuguese economy**

Year	Population*	Urban Population**	Urbanization Rate (%)	Labor Force in the Primary Sector (%)	Labor Force in Industry (%)	Labor Force in the Tertiary Sector (%)
1911	6004	715	12	57	25	18
1920	6084	779	13	?	?	?
1930	6812	946	14	51	22	27
1940	7758	1095	14	53	24	23
1950	8512	1964	23	49	28	23
1960	8891	2285	26	43	33	24
1970	8657	2679	31	33	33	34
1981	9884	3496	35	19	44	37

* Thousands of persons
** Thousands of persons living in centers above 10 thousand people
Sources: M.E. Mata and N. Valério, 2003, Statistical Appendix.

definitive strategic option of the Portuguese economy, following those days when the government umbrella had been a decisive support. The issue cannot be studied properly without considering the decisions of the 1940s. Although it is often overlooked, Portugal's acceptance of the Marshal Plan was a crucial move in the country's long-run business policy.

10. Conclusion: a Portuguese pattern?

For many years Portuguese propaganda suggested that the ERP had been a minor episode, and many people ignored the fact that in receiving the aid, Portugal also gained admittance to the European Economic Community (EEC). The Marshall Plan represented a very important step in the definition of Portugal's long-run alliance with the Usa, Nato and overall European integration. In fact, accepting ERP aid was a watershed event in leading Portugal towards the European post-war negotiations and international openness, in general.

In an international context it is worth observing that the Portuguese experience in the period going from the Marshall Plan to EFTA does not fit perfectly into the general pattern of growth through business diversification and multidivisional firm. This means that Chandler's pre-condition of large three-pronged investment in production, distribution and management, requiring a strong socialization of modern capitalism in the society, was not met[63]. Is it

[63] A. Chandler Jr., 1990.

possible to identify a Portuguese pattern – in comparison with other economies during the same period or during similar processes?
The Portuguese case illustrates the importance in the 1940s and 1950s of three factors coming together for implementing business groups and industrial growth. One was the opportunity to benefit from favorable post-WWII foreign markets and colonial sources of raw-material; the second was the availability of an initial stimulus through financial support coming from the Marshall aid; and the third was the government commitment to promote economic growth through targeted achievements and planning using new industrial sectors (electricity, oil, and iron and steel among others) and implementing regulation, more precisely, entry barriers. Such a convergence of factors strengthened firms and family businesses in groups that behaved as first movers in the Portuguese twentieth-century modernization, a case scenario that does not fit into the Chandlerian pattern performed by the «competitive managerial capitalism» of the Usa, the «personal capitalism» of the UK dispersed ownership, the co-operative cartelization model in Germany, or even less the multinational precocious capitalism of other small but developed European countries (such as Belgium, the Netherlands, Switzerland and Scandinavia)[64]. As far as government is so involved in regulation, entry barriers, principal-agency decisions for the allocation of subsidies, and even public provision, the so-called «political capitalism» that prevailed in Mediterranean countries (particularly in Spain and Italy) may be recalled[65]. Similarities with these countries, however, deserve to be carefully examined. It may be confidently said that political impulses in core sectors were designed to overcome under-development «as a Gerschenkronian substitutive factor», but the success in implementing huge conglomerates under a unified control of state-owned holdings by specialized government agencies such as the INI in Spain or the IRI in Italy cannot be claimed[66]. On the contrary, in Portugal groups were the way to enhance business opportunities in a small economy facing the international post-war context. As informal agglomerations of firms, established from firm-to-firm connections, the successful performance they reaped, both in terms of profitable businesses in a microeconomic perspective, and domestic economic growth in a macroeconomic perspective, lead us to consider that they were main actors of the Portuguese industrialization and integration in the European Free Trade Association.
Although Chandler's *Scale and Scope* supports the superior character of diver-

[64] A. Chandler Jr., 1990, pp. 47-592. R. Whittington and M. Mayer, 2000, p. 94. N.M. Kay, 2002, pp. 199-207.
[65] A. Franco, 1997; R. Giannetti and M. Vasta, 2006. A. Carreras and X. Tafunell, 1993, pp. 127-175).
[66] F. Amatori, 1997, p. 3.

sifying under a related-business strategy, empirical studies for less-developed regions do not confirm that this is the only rational strategy[67]. Unrelated diversification may be a first-step strategy in business, «contrary to the wisdom, conventional in advanced economies that unrelated diversification depresses profitability»[68]. Groups composed of several unrelated businesses (conglomerates) may respond better to competitive shocks by having the possibility of weighting the relative importance of each business in the group through restructuring or providing mutual assistance by reallocating resources among affiliates, minimizing risks thanks to the diversified character of businesses[69]. Moreover, the operating profitability variance is lower for group-affiliated companies than unaffiliated firms, because group firms whose profits are very low can obtain inexpensive inputs and other forms of group assistance, so that their profitability may not be as low as it would have been otherwise. The British created diversified business groups to operate in developing countries in the nineteenth century, many of which survived into the 1980s and beyond[70]. They were «robust forms of business organization […] in the conditions of the booming world economy before 1914. […] Then and afterwards they provided a mechanism for information gathering, interpretation, and dissemination between collections of firms»[71]. Interdisciplinary studies show they continue to flourish up to the present day in Europe as well[72]. Joining a group (through mergers, acquisitions or shareholding partnerships) provided more safety and offered more insurance functions[73]. Membership could thereby offer more stability by belonging to a larger organization where mutual arrangements were possible. So, «diversified business groups dominate the private sectors of most of the world's economies»[74]. Conglomerates perform quite well and respond better to high transaction costs, inadequacy of services or inefficient enforcement of contracts, typical of emergent markets, «although a strategy of diversification to reduce risk is thoroughly unfashionable in a climate in which focus in "core" products is regarded as the optimal business strategy»[75]. Diversified-business groups were certainly the result of strong

[67] G. Jones, 2000.
[68] T. Khanna and J. Rivkin, 2001, pp. 45-74, 45, in studying 14 currently emerging economies (Argentina, Brazil, Chile, India, Indonesia, Israel, Mexico, Peru, the Philippines, South Africa, South Korea, Taiwan, Thailand, and Turkey).
[69] P. Ghemawat and T. Khanna, 1998, pp. 35-61, 35. A. Chandler Jr., 1977, p. 482.
[70] G. Jones, 2000.
[71] Ivi, p. 194.
[72] G. Jones and T. Khanna, 2006, pp. 453-477, 457. T. Khanna and R. Fisman, 2004, pp. 609-628. For Europe see R. Whittington and M. Mayer, 2000, pp. 87-121.
[73] T.K. McCraw, 1988, p. 376.
[74] T. Khanna, and K.G. Palepu, 2000, pp. 268-285, as a case study for the 1988-1996 Chilean groups.
[75] G. Jones, 2000, p. 348.

market imperfections, in the past or even today: «Focus is good advice in New York or London, but something important gets lost in translation when that advice is given to groups in emerging markets»[76]. Surely firms' stability and success are useful to all stakeholders for maximizing joint-utility. Both the employees, managers and shareholders have benefits if negative outcomes can be smoothed[77].

Chandler's contribution may seem overrated in this paper. His analysis does not always apply and each country has got its own path to economic development, which often shows original features, and very few countries fit perfectly into the general pattern of growth through business diversification and multidivisional firm.

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[76] T. Khanna, and K.G. Palepu, 1997, pp. 41-51.

[77] T. Khanna and Y. Yafeh, 2005, pp. 301-340 investigates this conclusion for affiliated and unaffiliated firms in a crossed analysis.

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