Doing business in Latin America: What makes it different?

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In the shadow of the Asian economic miracle, the social change in and economic growth of Latin America (LA) often being overlooked, or even ignored. The region’s GDP has almost tripled since 2000 and is now roughly on the same level as that of China. The same is true of foreign direct investments. With its solid economic growth of 3-5%, LA is the second most important emerging region in the world after Southeast Asia, even though growth slowed a bit in 2012. The growth in exports has, however, made the local economies more relevant. Furthermore, over the last years, a growing middle-class with increasing purchasing power has emerged. A World Bank study shows that between 2003 and 2006, the middle-class grew by about 50% to more than 150 million people of the 600 million who live in Latin America. Simultaneously, the percentage poor people decreased from 44% to 30%. Roughly another third of the population seems to lie between these two classes.

A foreign investor wanting to take advantage of these positive developments and wanting to operate successfully in these countries requires a deep understanding of their very specific contexts. But what common and pan-regional contextual features and attributes, which have shaped and are still shaping the development of the emerging economies in LA, need to be considered in the development and application of management theory? We distinguish between six dimensions: historical, political, economic, social, cultural, and geographic.

The economic boom

What caused the economic boom in LA? First of all, Asia’s growing demand for commodities like oil, gold, copper and iron ore, but also for agricultural products like cacao, coffee and soya beans. China is now the biggest single trading partner of many of the LA countries. The prices of their products, which depend heavily on the economies of the major importing countries, increased strongly, which led to higher state incomes. This enabled the governments to spend more on traffic infrastructure, education, health, etc. Some, for example Colombia, used the opportunity to drive important structural and political reforms. After five decades of civil war, a peace treaty is being negotiated with the FARC guerrillas in Colombia.

Latin America: The region includes 20 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. LA accounts for about 8% of the world economy (a GDP of more than USD 4 billion; the top 2: Brazil and Mexico) and 8% of the world population (almost 600 million people).

But many of the involved countries have also used this increasing prosperity to undertake economic reforms. In many of the countries, inflation and unemployment are at historically low levels. Better credit ratings and easy external financing are two of the consequences. In 2011, Mexico, Colombia, Peru and Chile founded the Pacific Alliance, which encourages, for example, free trade and economic integration between the member states, as well as a visa-free travel area and a common stock exchange. The four founding nations represent about one-third of Latin American GDP. In addition, all Latin American countries are democracies, which seem to be strengthening despite the weakness of many of these democracies.
In spite of all these positive developments, the region is still faced with many challenges. For example, how can the still very feudal structure be transformed into a more permeable society that will allow the poor better access to an outstanding education? And how, given the high crime and corruption rates, can law enforcement be improved? But let us examine LA more systematically.

**Contextual features**

We next describe some of the common contextual attributes that distinguish LA and shape its specific business environment, relying mainly on the research by Nicholls-Nixon et al. (2011) and Vassalo (2011).

(1) **Historical context**

The colonisation of LA by Portugal and Spain, which began in the 1500s, shaped the region’s contemporary history. Many of the structures that the colonists imposed laid the foundation for the challenges with which the region is still faced: weak law enforcement (e.g., regarding corruption and protection of property), insufficient investments in infrastructure (e.g., energy supply) and human capital (e.g., access to education for the poor) as well as low productivity compared to other emerging economies and protectionism (e.g., anti-trade policies). Even after the transition to independent republics in the 1800s, and later to democracies, LA remains feudal (clientelism), authoritarian and elitist at its core. At the beginning of the 19th century (Monroe Doctrine) and later in the 1980s (the Washington Consensus), the USA pursued a policy of hegemony in the region. Between the countries there were, however, almost no wars and rivalries when compared to many other regions of the world.

(2) **Political context**

Most of the countries have adopted a federalist form of government like that of the United States. However, in many of the countries in LA, there is a low level of trust in the judiciary and the political system. There is a wide spread assumption that other rules apply to the elite and that achieving something depends on one’s personal contacts. A strong and reliable law enforcement is still lacking, for example, in terms of corruption and bribery. Such forms of political distrust weaken the democracies of many of these countries and make management quite incalculable and dependent on the political context.

(3) **Economic context**

From the beginning of the 20th century until the 1970s, entrepreneurial activities were focused on developing products and services to substitute foreign imports. Politics of protectionism safeguarded these companies from global competition. Although this system failed during the huge debt crisis of the 1980s, we still find traces of it today. To solve the region’s monetary crises, the International Monetary Fund (IMF), World Bank and the US Treasury Department developed a reform package (the Washington Consensus) based on macroeconomic stabilisation, opening of the economies (trade and investment) and the expansion of market forces within the domestic economy. The results were mixed, however, and did not lead to a better distribution of the national wealth. In some countries, foreign corporations simply took control of the exports.
Today, a few very diversified business groups (“grupos”), as well as their families (and friends), still dominate the economies of the Latin-American countries. Their portfolios often consist of more or less unrelated businesses. Entrepreneurial activities outside these groups are improving, but are still very limited. Very many poor people run very small and informal “businesses” to survive.

(4) Social context

The rate of functionally illiterate adults is still very high. In many of the LA countries, student performance in standardised tests lag behind that of other developing countries. There are also major doubts about the efficiency of the capital allocation to the educational system. With few exceptions, access to the top schools is still limited to the elite. This limits the availability of appropriate human capital for companies and creates a competitive disadvantage on the global markets.

(5) Cultural context

Each of the 20 countries in LA has its specificities. However, their shared colonial history, their common language and religion, as well as their common legal structure (the Napoleonic Code, etc.), mean they are culturally very homogenous. Their societies’ rather authoritarian and feudal structure is the most common feature. Furthermore, the population’s values and attitudes are formed by the Catholic Church, although religion is no longer as relevant in many people’s daily life. The family is very important for most people, also as protection in an incalculable and sometimes violent environment. People are not solely focused on their work and on the future; they focus more on their life in the here and now – perhaps one of the reasons for burn-out being an unknown phenomenon here. All these cultural features have to be considered in foreign companies’ leadership style.

(6) Geographic context

The close proximity of the United States had and has a strong impact (as a source of foreign direct investments, as a trading partner, in terms of the labour markets, corporate governance structures, etc.) on almost all of the dimensions of the LA economies’ contemporary development – with all the associated advantages and disadvantages.

Many of the countries are very rich in natural resources. However, the frequent occurrence of natural catastrophes such as earthquakes, volcanic eruptions and hurricanes, which destroy major assets, also characterises many of them.

We think these contextual factors have to be considered, for example, in strategy making, in the choice of leadership style, the way in which management development is undertaken, when organising and controlling, etc. in LA companies. Therefore, we need more knowledge of their contexts’ influence on management, although scientific research has already provided some insight into general management in this regard. An example is the overview that Nixon et al. (2011) give in their review.
Summary: Key challenges for sustainable growth in LA

We have seen that LA’s historical conditions have formed an obstacle to important changes and reforms. However, LA currently comprises greatly improved economies. Nevertheless, a great deal remains to be done to capture the full potential that these countries offer, which is linked to their unique conditions, and to ensure sustainable development. Other developing countries – for example, South Korea and Singapore – are improving much faster. The challenge right now is to take advantage of the still favourable external conditions to anchor Latin America’s progress over the last decade and to lay the foundations for sustainable growth.

As previously mentioned, typical challenges for all these countries are: How can the still very feudal structure be transformed into a more permeable society that will allow the poor better access to an outstanding education and welfare? How, given the high crime and corruption rates, can law enforcement be improved?

A serious economic challenge is Latin America’s persistent dominating role as the world’s commodities supplier. How can these countries increase their share of the profit pools of the industries for which they provide resources? And how can they extend their value chain? To date, many firms’ advantages lie in their access to natural resources (comparative advantages), but they need to develop capabilities with which they can realise competitive advantages in industrial and service businesses. And what else should change to allow more than just a handful of LA companies to compete successfully globally?

The obvious answer is that corporate governance too has to be improved. To be globally competitive, companies have to organise their structures and processes for more efficient operations to increase their productivity. But they also have to ensure their compliance and integrity (Enrione 2013).

Business groups have to focus their often conglomerate portfolios on businesses with which they have a chance of competing globally. Only by expanding their market reach can they realise the economies of scale that they need to be competitive. But such a restructuring of the “grupos” will only work if they can trust in efficient markets that will provide them with resources like capital, labour, infrastructure, etc. (Colpan/Hikino/Lincoln 2010). In this regard, the political institutions should offer their economies a reliable and efficient environment, which includes proper law enforcement based on a modern legal framework. They have to adjust their policies to ensure macro-economic and financial stability. In addition, more investments are urgently needed in the infrastructure and human capital. Without a large, skilled labour force, sustainable growth is not possible.

Entrepreneurial activities have to be fostered to explore business opportunities and deconsolidate the economy. In this regard, the politicians face challenges, but also the business schools, which have to offer far more courses that will help their students start their own businesses (Nordqvist et al. 2013). They have to educate and inspire young people to use new technologies to build innovative global business models based on their home countries’ rich resources.

Business research and education have an important role in the mastering of all these challenges. They have to deliver management theories, knowledge and insights which not only reflect an average global situation, but also the very specific context of each case. Solutions can only be developed on the basis of a true understanding of the LA business
context. Strategies also need to be tailored to the specific circumstances of each country. In spite of all the similarities, these countries are not monolithic; they are significantly diverse and are each in a different development phase.

References