

Business in Emerging Latin America

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Business in Emerging Latin America

Business in Emerging Latin America provides students with a comprehensive overview of the business environment of this emerging, dynamic region.

Driven by expanding domestic markets and exports of natural resource commodities, Latin America has recently come into focus as an economic force in the international arena. The book begins at the macro level, focusing on the region's geopolitical, technological, social, competitive, and economic environments. It then moves to the micro level, illustrating that Latin America is a mosaic of countries with distinct cultures and political economies. This book aims to:

- Provide a comprehensive overview of the business environment in this region
- Identify major drivers of emerging market expansion
- Analyze the strategies of companies both within and outside of the region

The book includes examples and cases from across the region, as well as chapters on entrepreneurship, leadership, HRM, sustainability, income inequality, social responsibility, and transparency. Capturing the dynamism of this region, the book will appeal to students of international business who have a special interest in Latin America.

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To Carol and Natalie for their quest for clarity of my ideas.

F.R.

To Ryan, Marisa, and Max, I missed you during all those weekends away.

N.W.

To Larry, Andrea, Derek, Jen, and Diana for all their support.

G.T-B.

Introduction

A book about the business environment in Latin America and the Caribbean is long overdue. After a long period of relative macroeconomic stability and sound economic growth, the region is enjoying prosperity, optimism, and progress. The main purpose of this book is to document this evolution and to provide a foundation to study business conditions and how firms react to the opportunities and challenges that this region offers.

To accomplish this purpose, we look first at the external factors affecting the region, focusing on the macroeconomic, competitive, and consumer environments. With this foundation in the key environmental factors, we explore in the second part of the book the business strategies and corporate culture of the region. The last part addresses future challenges and provides a glimpse of the future of business in Latin America.

Chapter 1 “sets the stage” for the book by reviewing Latin America’s importance in the world economy. The recent economic history of the region is reviewed, as are the new trade and investment linkages that developed from 2000 to the present, most notably with China. The past decade has also seen marked increases in outward foreign direct investment flows by Latin American firms into new world regions—in both developing and developed markets alike.

Chapter 2 explores the impact of globalization on Latin America and how it continues to shape a polarized region. The new global economic order of stagnation in advanced developed economies and the growth and rising affluence in emerging countries is mirrored in Latin America. The region shows strong evidence of regional economic polarization, which creates structural economic and market differences in the two regional hubs: Brazil and Mexico. Chapter 2 provides a better understanding of the extent of regional polarization across different economic sectors and its impact on the business environment and strategies of firms in Latin America.

Chapter 3 reviews Latin American competitiveness in the world economy. The competitive landscape in Latin America has evolved significantly over the past 30 years. Formerly protected markets, which were dominated by a few large family groups and state-owned enterprises, have been replaced by open

markets. Although large family-controlled domestic conglomerates still play an important role, there is now a stronger presence of multinational corporations from developed and emerging economies, as well as a more vibrant small and medium-size business sector. This dynamic competitive environment will require firms to leverage the unique opportunities offered by the region's macro-environment (e.g., abundant natural resources, growing consumer markets), while managing its many risks (e.g., regulatory bureaucracies, weak infrastructure). This chapter provides a better understanding of the competitive structure in Latin America and the drivers and barriers to competitiveness for firms operating in the region.

In Chapter 4, we look at Latin American consumers. Today's Latin American consumers look very much like any other consumers in developed countries. As the Latin American consumer market has grown in size and purchasing power, it has also become increasingly segmented and sophisticated, while remaining distinctive from other markets around the world. This chapter provides an overview of the size and growth of Latin American consumer markets and their current and evolving consumption patterns. Competing for this growing and increasingly affluent market will require that firms from inside and outside the region develop a deep understanding of consumers' characteristics and expectations.

As a follow-up to our discussion of consumer markets, in chapter 5 we discuss how firms should develop propositions that meet consumer values and build brands that resonate with these values. We also discuss how firms should position their brands in the marketplace to target particular market segments and utilize media to reach these consumers. The chapter ends with a discussion of two particular channels to reach these markets: grocery retailing and fast-food franchising.

Chapter 6 provides an overview of Latin American business culture and its influence on managerial behavior. Latin America's colonial legacy has created organizational and decision-making styles characterized by the concentration of power, multilevel hierarchical structures, strong networks of relationships, and paternalistic leadership. As a result, however, of the region's insertion into a globalized world, firms have adopted efficient and effective managerial systems. Business culture in the region is not homogeneous, and substantial differences exist across different countries. In particular, we explore business culture differences between two economic clusters, led by Brazil and Mexico, respectively. A solid grounding in Latin American business culture provides the foundation to elaborate on more specific managerial topics in the following chapter.

Chapter 7 covers managerial issues in the region. Competition for talent is now a reality for firms around the world, and the ability to recruit, develop, and retain skilled employees and effective leaders can be a significant source of competitive advantage. For Latin American organizations, acquiring this capability will be essential as they pursue global positioning. For foreign firms, the challenge will be understanding that in Latin America, culture is central to

managing people. This chapter describes and analyzes issues related to leadership, organizational behavior, talent management, and negotiation, focusing on the influence of cultural norms and values in the management of organizations in the region. We argue that adopting culturally appropriate practices will have a direct impact on organizational performance.

The next two chapters take a more strategic view of the region. Chapter 8 analyzes how multinationals outside the region formulate their Latin American strategies. These firms bring formidable advantages to play in the region but also suffer from the disadvantages of not being native to Latin America. The examples provided in the chapter illustrate how multinationals assess the importance of opportunities in Latin America in relation to those in other emerging markets, allocate resources to build their presence in the region, identify key country markets in which to concentrate their investments, and adapt their global strategies to local managerial styles.

In chapter 9, we look at multinationals from the region. The chapter analyzes the evolution and competitiveness of Latin America-based firms that expanded intraregionally—"multilatinas"—and a few "global latinas," or Latin America-based firms that have a strong presence in at least one other world region outside Latin America. The chapter examines the historical and economic drivers that led to their creation, as well as their present competitiveness and prospects for growth in the years to come. In the final section of the chapter, we identify the sectors in which multilatina and global latina firms tend to predominate and their home-based advantages.

Chapter 10 turns its attention to small companies and the critical role of entrepreneurs in the creation of new businesses. Entrepreneurial spirit can be found in nearly every country across the globe, yet the challenges facing entrepreneurs vary greatly across countries, including within Latin America. The chapter addresses the nuances of being an entrepreneur in Latin America by first providing an overview of attitudes toward entrepreneurship in the region. Yet, as is noted in most if not all of the chapters of this book, in order to truly understand the entrepreneurial climate in the region, individual country differences must be taken into account. We distinguish between different types of entrepreneurial ventures and describe various programs that countries have implemented to attract new business ventures within their borders, with particular emphasis placed on a program aimed at attracting technology entrepreneurs. The chapter also looks at the interests and concerns of specific groups of entrepreneurs, including local entrepreneurs, entrepreneurs from outside the region, and women entrepreneurs. A final topic is social entrepreneurship.

As the book has shown, Latin America has emerged as a growing and stable regional market. Yet, challenges remain, primarily in the areas of natural-resource management, corruption, and poverty alleviation. Chapter 11 highlights the key challenges in Latin America's business environment and identifies windows of opportunity that these challenges may represent. We first focus on the importance of natural resources to the region's competitiveness

and assess current efforts by firms and governments to engage in responsible resource management. Corruption represents a significant risk to potential foreign investors and is a major deterrent to growth for all firms operating in the region. We examine governmental and managerial responses to this challenge. Finally, issues of income inequality and poverty continue to represent social and political risk, but they also represent significant opportunities. We end the chapter by focusing our attention on corporate social responsibility as a strategically viable alternative for managing and leveraging these risks.

Chapter 12 looks to the region's prospects for future growth. The region is still poised for growth; however, the strides made in growth in gross domestic product (GDP) and prosperity at the consumer and firm levels from 2000 to 2008 will likely not be seen for quite some time. This chapter discusses some of the region's highly visible firms and describes the strategies that they will likely pursue while maneuvering through a more precarious economic climate.

Acknowledgments

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Part I

The Emerging Latin American Region

1 The Economic Turnaround

Introduction

This chapter reviews the fundamental macroeconomic changes that Latin America has undergone since 2000 and also chronicles the new trade and political affiliations in the region. This chapter “sets the stage” for the rest of the book and also steps back to assess whether the growth experienced in the first decade of the 21st century is sustainable, an issue that will be discussed in greater detail in the last chapter of this book.

The first part of this chapter provides an overview of macroeconomic growth in the 21st century—for the region overall and for key individual countries. This section is then followed by a discussion on regional economic integration efforts and a section on the proliferation of bilateral and multilateral trade agreements between Latin American countries and other economic powers worldwide. The subsequent sections focus on the drivers of the growth that the region has experienced. The chapter closes with an assessment of the challenges that the region faces at present.

1.1 Latin America’s Economic Performance from 2000 to the Present

As Latin America looks back on the first years of the 21st century, some will likely be satisfied with the progress that the region experienced over that time, while others will be quite disappointed. This underscores the significant heterogeneity in performance across individual Latin American countries during this period. From 2003 to 2008, Latin America experienced average gross domestic product (GDP) growth rates per year of about 6.6%, prompting some to refer to this prosperous time as the region’s “Golden Years” (Talvi & Munyo, 2013). As pointed out, however, growth levels were uneven across Latin American countries. What accounts for this heterogeneity in performance within the region? At the 2013 conference on Latin America at the Wharton School of Business, Alberto Ramos, Goldman Sachs’s head of the Latin American economic research team in the global investment division, indicated that Latin American countries can be classified into two distinct groups and that the economic