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Strategic management in Latin America: Challenges in a changing world

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ABSTRACT

The Seventh International Conference on Strategic Management in Latin America (SMLA), co-sponsored by Universidad Adolfo Ibáñez and the *Journal of Business Research*, was held on January 5 and 6, 2017, in Santiago, Chile. The theme of the conference was *Challenges for Latin American Firms in a Changing World*. Technological innovation, digital networks, in addition to changes in national business settings, have led to significant transformations in business models, innovation processes, corporate strategy, and global strategy in Latin America. The scale and scope of these changes question the traditional notions of strategic management research and practice as we know them. Naturally, these changes require that organizations in the Latin American region develop new resources and capabilities for their success and survival. With the objective of increasing our understanding about how organizations from Latin America can leverage their competitive position in a changing world, this article reflects on the theme of the conference and introduces some of the best research that was part of the conference's program.

1. Introduction

During the last three decades, the Latin American region has experienced significant transformations as important changes have occurred worldwide (Lowenthal & Baron, 2014). There has been an awakening of some Latin American nations that has led to crucial transformations in trade, financial markets, labor markets, tourism, and technology (Oyewole, 2009; Vendrell-Herrero, Gomes, Mellahi, & Child, 2017). The old North-South divide—where the North represented a few rich countries and the South represented many poor countries—has slowly started to disappear (De La Torre, Didier, Ize, Lederman, & Schmukler, 2015). The growth in the Southern hemisphere has brought about a modernization process that has led to the rise of Latin American emerging markets (Martinez & Kalliny, 2012).

With a population over half a billion, a growing middle class, and a GDP of approximately US$6 trillion, Latin America is an important economic region in the world (World Bank, 2018). After a period of import substitution industrialization that started in the 1950s (Toye & Toye, 2003), Latin American countries experienced a process of economic liberalization in the 1980s and 1990s that increased foreign competition (FAO, 2003). In order to survive, leading Latin American companies were forced to start strengthening their levels of competitiveness. The professionalization of many Latin American companies during the last three decades has also led to internationalization processes and the emergence of Latin American multinationals (Martínez, Paulo Esperança, & De La Torre, 2005). An increasing number of Latin American firms are now among the world global players in several industries (Deloitte, 2014; Cuervo-Cazurra, 2008).

Unfortunately, economic activity in Latin America has decreased in the last few years and, at the same time, growth prospects have weakened (Economist, 2017). The region has gone through several years of slow economic growth (WTO, 2018). Although the majority of Latin American countries have become more open to inward and outward foreign investments, companies are still struggling to operate internationally and face the challenge of responding to increasing levels of technology and automation that are taking place in advanced economies and other emerging market regions (Autor & Solomons, 2018). Countries such as Argentina, Venezuela, Ecuador, and Bolivia have even reversed economic liberalization processes that took place in the 1980s and 1990s. In these countries, new tariffs and government subsidies, state interventions, and price controls have become more frequent during the last few years.

In terms of competitiveness, the situation across the region is highly heterogeneous. According to the World Economic Forum (2017), large differences in all of the dimensions associated with competitiveness continue to exist, especially in institutions, infrastructure, labor markets, and innovation. Countries like Chile, Panama, and Costa Rica receive the highest scores within the region for the different dimensions of the Global Competitiveness Index (GCI) 2017–2018. On the other hand, countries like Venezuela, Paraguay, and El Salvador have the

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lowest scores in the region. The intra-regional differences in terms of competitiveness are astounding. While Chile ranks 33 out of the 137 nations included in the GCI, Venezuela ranks 127. Considering all the regions around the world, Latin America is the one with the highest intra-regional differences. In addition to this situation, Latin America's average competitiveness has decreased in the last few years. In order to improve this situation, the region "must strengthen its capacity to adapt to changing international conditions and rediscover new sources of sustainable growth based on a coherent competitiveness agenda that enables entrepreneurship and new innovative businesses to emerge" (World Economic Forum, 2017: 29).

Regarding foreign direct investment (FDI) and internationalization, FDI flows into Latin America have been contracting during the last three years. FDI inflows in 2017 were approximately 20% lower than those in 2011 (ECLAC, 2018). While the decrease of FDI inflows into natural resources has been especially dramatic, they have increased in services and manufacturing. The automotive industries in Mexico and Brazil have been particularly successful in attracting foreign investments (ECLAC, 2018). It is also interesting to point out that China has increased significantly its investment activity in the region. Meanwhile, Latin American governments have increasingly been facilitating outward FDI. However, no systematic promotion or industrial policies have been implemented (Casanova & Miroux, 2017). The exception is Brazil through its Brazilian National Development Bank (BNDES). Even though the Brazilian policies to promote outward FDI have not been as proactive as in countries like South Korea or China, some national champions have emerged—for example, the oil company Petrobras, the iron-ore producer Vale, and the aircraft manufacturer Embraer (Casanova & Miroux, 2017).

Despite the increasing interest, FDI outflows from Latin American nations have decreased significantly during the last three years. In the case of non-extractive industries, it is especially worrisome the lack of international operations of Latin American MNCs outside the region. While MNCs from other emerging market regions have been increasingly entering developed markets, non-extractive multilatinas have mostly remained inside Latin America. In general, the development of capabilities to compete outside the region has been slow. According to the World Bank, "multilatinas are less innovative, less well managed, and less productive than similar multinationals from other regions" (World Bank, 2014: 3). Recent increases in trade barriers and tariffs could potentially deepen this problem. However, despite the deficiencies of the typical Latin American company operating overseas, a set of elite multilatinas has been able to achieve outstanding growth and profitability (BCG, 2018). It is expected that these companies will help to increase productivity and innovation throughout the region. Changes in the composition of the top 100 multilatinas are encouraging: there is a higher percentage of consumer product and services companies (BCG, 2018). Despite the low level of technological innovation activity in the region, some of these top Latin American companies have been developing interesting innovation networks and increasing R&D investments.

A changing world implies that Latin American companies must reformulate their growth strategy. Dependence on the extractive sector, natural resources, and foreign capital must be replaced by new growth strategies to increase firm productivity. This requires a thorough examination of economic and public policy, especially regarding factors that contribute to company productivity and growth, such as entrepreneurship, innovation, and investment in human capital. Currently, many of the problems relate to resources being assigned in a suboptimal way, informality in the workplace and productive operations, excessive export concentration in a few products, little international exposure, and low support to small entrepreneurs (Ruiz-Arranz & Deza, 2018). Up to now, Latin America's economic growth has been pushed by high prices of natural resources and the strength of extractive activities. A changing world requires Latin American companies to reformulate their growth strategies, which should derive from improving efficiency in production and investing in human capital, innovation, and internationalization. Otherwise, the region will not be able to reach the productivity levels achieved by advanced economies.

From a scholarly perspective, Latin America's current situation not only poses new challenges for organizations and managers but also offers ample opportunities for new academic research. In fact, there has been an increasing interest in Latin America management research (Martinez & Kalliny, 2012; Nicholls-Nixon, Davila-Castilla, Sanchez-Garcia, & Rivera-Pesquera, 2011). Recent studies on Latin America have addressed topics such as *multilatinas* (Cuervo-Cazurra, 2016; Vendrell-Herrero et al., 2017), internationalization commitment and performance (Bianchi & Wickramasekera, 2016; Borda, Geleilate, Newburry, & Kundu, 2017), distance and private investments (Jiménez, Salvaj, & Lee, 2018; Mingo, Junkunc, & Morales, 2018), driving factors of real investments (Fernandez, 2011), funding sources of innovation activities and R&D (Fernandez, 2017; Khoury, Junkunc, & Mingo, 2015; Mingo, 2013), and the role of technology on international market growth (Bianchi & Mathews, 2016).

The Strategic Management Latin America (SMLA) International Conference is a regional bi-annual event that brings together scholars from the most prestigious academic institutions in Latin America. The conference focuses on research in strategy and management that is relevant to the Latin America region. Since its creation, seven conferences have taken place: Costa Rica 2005, Santiago 2007, São Paulo 2009, Bogotá 2011, Mexico City 2013, Costa Rica 2015, and Santiago 2017. The last conference took place in January 2017 and was attended by a total of 32 scholars from Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Spain, United Kingdom, and the United States. Researchers presented a total of 24 papers at the conference. The event also included a keynote speech by Alvaro Cuervo-Cazurra from Northeastern University's D'Amore-McKim School of Business. This special issue is one of the main outcomes of the conference. The seven articles included in this special issue—selected from the conference's scholarly program—went through a rigorous double-blind review process. The next section provides a brief summary of each of the articles.

2. Contributions

The articles included in this special issue investigate different aspects of strategic management that are not only relevant for Latin American businesses but also for firms operating in other emerging market contexts. The papers cover issues related to export performance, firm performance, the timing of internationalization, strategy execution, outsourcing decisions in startups, company valuation in the presence of inflation and taxes, and the role of business networks in dealing with financial constraints.

2.1. Geographical co-location on Chilean SME's export performance

The first paper of this special issue is co-authored by Brache and Felzensztein (2018). This work attempts to understand why there are mixed results on previous literature when measuring the impact of co-location in export performance, and what are the components of the effect of co-location on SMEs' export performance in a particular Latin American context. The authors develop a conceptual framework and propose that specific positive externalities are the principal components of the co-location effect on export performance. Data is drawn from a pooled cross-section database from the National Institute of Statistics in Chile. Results indicate that the effect of co-location on export performance is affected by the specific environment of firms. In the context of Chile, the results show that the net effect of co-location on export performance is negative.

2.2. The timing of internationalization - drivers and outcomes

The second paper, by Ciravegna, Kundu, Kuivalainen, and Lopez

(2018), addresses two main research questions: (1) what are the drivers of the timing of internationalization?, and (2) do they form specific strategic types of internationalization linked to the outcomes of the timing? Based on data collected from Costa Rican information technology (IT) producers, the authors propose a categorization of internationalization timing drives and their related evolutionary implications for the firms. The authors argue that the timing of internationalization stems from complex combinations of drivers, and provide a typology of strategic types of internationalization in relation to these drivers: entrepreneurial, serendipitous, and strategic internationalization. They discuss how these strategic types affect the subsequent outcomes of internationalization. For example, strategic internationalizers choose markets and entry modes using economic rationale, often becoming multinational enterprises. Entrepreneurial internationalizers expand using entrepreneurial features, which may lead them to become multinationals. Serendipitous internationalizers may not be ready for international expansion and may de-internationalize after an initial spurt or continue a learning process and grow as exporters.

2.3. Conceptualizing and measuring the "strategy execution" construct

In the third paper of this special issue, De Oliveira, Carneiro, and Esteves (2018) argue that there is still scant academic research regarding how to conceptualize and measure strategy execution. Through a deductive approach – review of the literature, with an inductive approach – in-depth interviews with academic specialists and top-level executives, this study proposes a conceptual and operational model of the strategy execution construct. The authors empirically test the model with a sample of top-level executives of 276 Brazilian firms. The findings suggest that a second-order structure better represents this strategy execution, and identify two major dimension: actions ("causes"), which are those efforts taken by managers to translate the strategic plan into actionable activities, and results ("consequences"), which are the effects or outcomes that show how the strategy is being executed.

2.4. Managing institutional voids: a configurational approach to understanding high performance antecedents

The fourth paper, co-authored by Brenes, Ciravegna, and Pichardo (2018), examines how organizational configurations in emerging markets, and their impact on performance, vary under different levels of institutional voids. Understanding this issue is of great importance for firms operating in emerging markets that are experiencing significant changes in their institutional contexts. The study argues that there are multiple ways in which firms from emerging markets can achieve high performance—firms can combine different sets of mechanisms to offset the problems associated with institutional voids. Using fuzzy set qualitative comparative analysis, the authors examine a sample of 200 small and medium-sized agribusiness firms based in 12 Latin American countries. The study focuses on the role of family management, vertical integration, firm size, internationalization and collaboration with other organizations.

2.5. Strategic choices: accelerated startups' outsourcing decisions

Internalizing versus externalizing firm activities are two important strategic choices amid the globalization of emerging markets, including the case of Latin America. The fifth paper, by Bustamante (2018), integrates transaction costs, the resource-based view, and institutional theory to examine the impact of contracting capabilities and institutional distance on the decision of insourcing versus outsourcing. The issue of dealing with host markets that can have significantly different institutional configurations to the ones present at home plays a central role in the theory developed by the author. The study uses the setting of domestic and international startups participating in Startup Chile, a leading accelerator program funded by the Chilean government. Based on a panel of 261 firms, the author finds that firm and country-level characteristics are relevant predictors of outsourcing decisions. The empirical evidence shows that (1) higher levels of institutional distance is associated with more outsourcing, and (2) more developed contracting capabilities are also associated with more outsourcing decisions.

2.6. Inflation, tax integration and company valuation: the Latin American case

This sixth paper by Zurita, Castillo, and Niño (2018) extends the standard formulas for company valuation used in developed countries by incorporating personal- and corporate-tax structure, the effect of inflation on depreciation and interest expense tax shields when computed under real versus nominal taxable earnings regimes. In particular, one main contribution of this paper is to provide a new methodology to compute an equivalent corporate tax rate. Such a rate incorporates into its calculation the degree of integration between personal and corporate taxes, and it is lower than the statutory rate due to the recovery of corporate taxes at the personal level. The second main contribution of this paper is to provide a general formula to valuate firms under either nominal or real tax basis, and under any degree of personal- and corporate-tax integration.

2.7. Interlocking directorates, access to credit, and business performance in Chile during early industrialization

The last paper of this special issue, by Braun, Briones, and Islas (2018), uses primary corporate data of 252 corporations and more than 1800 board seats as of 1922, network techniques and regression analysis, to explore the role of interlocking directorates with banks as a way for Chilean companies to enjoy more favorable credit conditions. In particular, Braun, Briones, and Islas (2018) conclude that firms connected to banks had higher leverage, higher valuation, and a higher probability of survival. Altogether, this paper shows that business networks, through interlocking directorates, can play a valuable role for Latin American companies in dealing with an environment of financial constraints. Moreover, as a policy implication, Braun, Briones and Islas' work shows that the potential welfare gains from interlocking may outweigh its detriment to competition.

3. Final remarks

Latin America has been experiencing significant changes during the last few decades. At the same time, significant developments that are occurring worldwide are affecting the countries and companies in the region. Technological innovation, digital networks, artificial intelligence, and automation represent considerable challenges to Latin American companies, especially those that are—or hope to become—-world-class champions. Unfortunately, the levels of political and economic stability and competitiveness have remained highly heterogeneous across the region for decades. Also, the continued focus on natural resources and extractive activities makes very difficult to devote resources and attention to R&D and innovation. We hope that the articles included in this special issue will help, either directly or indirectly, to tackle some of these issues.

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