Implementing Globalization Strategies in Latin America

John C. Ickis
INCAE

Success in the world marketplace depends upon having a sound strategy that creates a defensible position within the industry, an organization that is responsive to the requirements of that strategy, and resources, particularly technological and human, that produce results. When, in response to changing environmental conditions, new strategic initiatives are pursued, demands are placed upon the organization and the people within it.

These demands have been especially challenging for companies operating in Latin America in recent years. After what has been described as the "lost decade" of the 1980s, national economic policies throughout the region have shifted away from active state intervention to deregulation, the opening of economies, and the invigoration of markets. This has presented both problems and opportunities for Latin American enterprise. New markets have opened, but competition has intensified.

As discussed in the preceding article by Esteban Brenes, most companies throughout the region are abandoning the short-term notion of "national defense" to seek strategic alliances, expand regionally and internationally while they position themselves to compete with multinational rivals in their own countries. And they also have taken steps to improve their internal capacities to compete, as the cases in this Special Issue demonstrate.

Now that we have examined the strategies that companies in Latin America have been pursuing in the new global environment, let us turn to how they have been implementing these strategies and examine the lessons that might be learned from their experience. The way in which a company implements its strategic will depend in large part on the way in which it formulates strategy, as the two activities are inextricably bound in a single process. We shall therefore begin by looking at the strategic decision process as it occurs in the Latin American company, as revealed by the cases presented in this issue. We shall then turn to how Latin American managers convert these decisions into actions through the use of organizational tools of structure and process. Finally, we shall draw some conclusions as to how the strategic process might be improved in the Latin American context.

The Strategic Decision Process

One way to conceive the strategic decision process is to paint two opposite cultural scenarios in business organizations, one totally authoritarian and the other totally empowering. In the first, there is no participation by anyone other than the owner or "patrón," in the second, everyone in the organization is provided with the resources and incentives to fully develop their creative potential. Between these extremes, one might imagine several intermediate cultures, such as a rational planning culture that is basically top-down but allows for some input at middle levels or a culture of negotiation and conflict resolution.

The strong tradition of centralism, inherited from Spanish colonial governors and intensified by personal loyalties, has produced the authoritarian style so often found in the traditional Latin American family firm. This centralist tradition has produced a vicious circle of bosses who refuse to delegate and employees who are unwilling to accept responsibility. Many of the early INCAE case studies described problems of organization and control in this type of firm. Among the cases in this volume, these traditions may be observed in the Mexican air conditioning company prior to its purchase by Carrier and in the paternal authority exercised in Virutex-Ilko, S.A. before the organizational process initiated by the founder's eldest son.

We might expect that the changes in the external competitive environment would obligate Latin American companies to move along this continuum from the authoritarian, directive extreme toward the center. It is reasonable that would be some movement toward opening the firms to participation on the micro level, just as the national economies are opening to competition on the macro level. In part this is true, but the cases in this issue indicate that shifts in culture of strategic
decision making have actually been far more varied and complex.

One reason for the reluctance to abandon directive management is that other approaches have not worked. During the 1970s, some of the more progressive family firms and a few state enterprises sought to adopt the rational approaches of strategic planning and management by objectives only to find entrenched organizational resistance. Those planning systems that were adopted become rigid and bureaucratized. Moreover, there was resistance to the concept of planning scenarios such as those successfully employed in some multinational corporations such as the Shell Oil Co. As a consultant, I can recall the operating vice-president of one state-owned petroleum company in South America shouting at me, "why do you keep asking me for scenarios? This is my projection, take it or leave it."

Just as planning has fallen short of expectations, so have the results-oriented approaches to control, such as management by objectives, that seek to drive responsibility for goal-setting and monitoring to the lowest levels of the organization. Recently, these approaches have surfaced once again in public enterprises and hospitals in the form of "contratos de gestión" or performance contracts in which the enterprise agrees to achieve certain results and the government agrees to provide a specified level of resources. But the vicious circle repeats itself in the unwillingness to accept responsibility at the operating level, which is reinforced by an equal unwillingness by top management to make discretionary resources available. A widely acclaimed decentralization program in a Central American health ministry in fact only gave regional directors the discretion over 15% of the budget, while leaving decisions on the payroll and on the purchase of medicines and equipment at the central level.

The rational approach, which has been at the center of management practice in Northern Europe and the United States since the early twentieth century, has not transplanted well in Latin American soil because it is essentially impersonal. For all the drawbacks of the directive approach, it is highly personalized in the Latin American culture, responding to individual satisfactions and needs in a way that the modern systems do not. It is admittedly a paternalistic approach, at best benevolent and at worst arbitrary and authoritarian. But the directive approach also is tempered by symbolism, which is ingrained in Latin American culture. Some of the most creative leadership has come from those who are unable to delegate or to manage systems but who can create a compelling, almost poetic, vision of the future.

Another approach taken in some Latin American companies has been transactional, in which middle managers are engaged in a continual negotiation among one another over decision boundaries and rules of the game. This approach has become more popular as family firms have grown and developed functional structures, in which the traditional centralist managers have found it increasing difficulty to exercise control. While the managerial response in the United States is to delegate, Latin American managers often delegate, instructing their subordinates to work out problems among themselves. The president of one Central American company described to me how he had given "complete authority" to his production and marketing managers so that he would be free to concentrate on international expansion. Not surprisingly, he soon found himself mediating conflicts. The owners of Mexican family firms have sometimes used such conflicts to their own advantage, the rationale being that if subordinates are embroiled in their own conflicts, they are unable to challenge centralized authority.

Finally, a few companies in Latin America have made the leap to a generative approach, in which the strategic process is driven by empowered employees and by genuine work teams. Perhaps the clearest examples in this issue are found in CECSA, which successfully implemented worker-driven quality techniques from Japan, and in TANIC, which must decide whether to implement a mini-factory concept that relies upon empowered workers making management decisions. Curiously, the TANIC experience would suggest that leaping from a directive to a generative approach may be easier than attempting to move gradually along the continuum to rational or transactional approaches.

TANIC combines a unique blend of Nicaraguan "paternalismo" and British authoritarian business tradition, described in the 1995 case. Moreover, workers have survived nearly two decades of social revolution, civil strife, and economic hardship, in which levels of health and education are abysmally low. It is hard to imagine an environment less conducive to successful worker participation in the management decision making. The company nevertheless took the decision to leap from the comfort of its directive style into the unknown realm of generative management. The 1997 case, which documents the early results of this dramatic change process, will surprise some readers. A similar change process occurred in CECSA during the 1980s, but the initiative has lost some of its steam in the mid-1980s. This suggests that a further challenge of implementing the generative approach in Latin America is to provide for continuous regeneration: to maintain, nourish, and deepen the change process over time.

The leap from directive to generative management is not made on faith; it can only be accomplished through changes in the organizational context. Experience has shown that supporting changes must occur in the communication of a compelling mission and vision, the design of a structures that makes line managers responsible for decisions, and in the implantation of organizational processes that empower rather than control. We shall now examine how each of these levers, or keys, may be used by managers responsible for conducting the change process.
Mission and Vision

One well-known definition of a leader is a person that you follow somewhere that you would not go yourself. Under the directive approach, employees are guaranteed rewards for satisfactorily obeying instructions without concern for the final destination. But once employees are asked to make decisions and to participate in the future of the enterprise, the question of direction becomes a concern. The enunciation of a compelling mission and vision is a requisite for any move from the comfort zone of directive management. If people in the organization are expected to do more than obey, they must understand the direction in which the organization is headed.

Since management studies have shown that companies with a shared organizational vision and a compelling mission have greater staying power, these terms have been widely used and misused. We shall use the term “organizational vision” to embrace the identity of a company—how it conceives of itself, what it believes in, and how it defines its standards of conduct, why it exists, and how this purpose is transformed into a tangible image through the accomplishment of its “mission,” or the goal that drives and motivates the organization over the next five to ten years. In times of change in the external environment, considerable disorientation may occur with regard to the mission, though the fundamental values and purpose should provide guidance and stability. Virutex-Ilko S.A., the Chilean kitchenware manufacturer described in this Special Issue, underwent simultaneously a change from family to professional management and from local producer to world exporter. A Central American manufacturer of washbasins and toilets went from import substitution, with virtually no competition, to world leadership in product quality. In each case, the move from directive management could not be taken until the tangible image of a different future was articulated by company leadership.

But it was not enough to have a tangible image, which is just one part of organizational vision. In each case, leadership had to articulate a mission—a clear idea of purpose and direction that would require the accomplishment of ambitious and motivating goals within a given time frame. The most powerful company mission statements are those that incorporate a profound idea of triumph and that create a sense of urgency. They are clear in their ultimate goals but may be flexible in how these are accomplished. Above all, they are driven by objectives that are worth the effort and personal sacrifice.

The content of the mission statements of the Latin American companies examined in this issue are varied. Some, like BanCrecen, are clearly economic in focus, with measures of economic value a paramount criteria in strategic decision making. Others, like Virutex-Ilko, are driven by a desire to match superior European competitors in technology and quality. Still others, like Carrier in Mexico, are focused on meeting changing client needs. For some companies that we have observed, issues of organizational climate and environmental safety may be paramount. The cases in this Special Issue include rich examples, from the ambitious market share goals of Agroceres to the human empowerment goals in TANIC.

Organizational Design

The leap from directive to generative management is often accompanied by dramatic changes in the lines of authority and responsibility through which key tasks are assigned and in the formal pattern of ongoing relationships. The elimination of organizational units, for example, sends an especially strong signal through the organization, as occurred in CECSA with the elimination of the human resources department. The message was clear: in this organization, growth and development of subordinates is every line manager’s responsibility. The elimination of middle management in TANIC was an even more profound statement. Likewise, the creation of new department, such as customer service, may signal a new strategic priority.

In the directive organization, hierarchy is the channel through which work is assigned and orders are transmitted. As the organization becomes more complex, the triangle grows taller, and the distance between managers and workers increases. A leap from directive to generative management does not simply mean a flatter structure but rather a fundamental changes in its logic. Front-line workers on the shop floor become the decision makers, supervisors become coaches, and the role of top management shifts from command and control to the nourishment of organizational values.

The leap from directive to generative management stands the organization on its head. The conventional organizational chart with its hierarchical relationships is replaced with a structure that is more like a living organism, in which specific resources and skills in technology and people are integrated to support a core competence. This is the trunk of a tree, and branches are sprouted with each new initiative. Management is not perched at the top but embedded in the root structure, providing the nourishment. If this sounds absurd, consider the way in which Roger Duarte envisions his job within Carrier, or the way that the roles of managers and workers change in TANIC as mini-factories are established.

Organizational Processes

The leap from directive to generative management may be likened to crossing a chasm. This cannot be done in two steps; it requires a concerted and integrated effort. The changes in structure described above must be introduced simultaneously with changes in the organizational processes that support and reinforce the intent of structure. It does little good to stand the organization on its head if workers are not rewarded.
for taking initiative or if their is no way to measure their contributions.

Processes are the blank spaces in the organization chart that define the nature of the business or how it is run. The most important are core business processes that cut across such traditional business functions as procurement, manufacturing, and marketing. Examples are product development in Turri, S.A., and production programming combined outbound logistics of window air conditioners to mass retail outlets in Carrier, S.A. For those companies in small countries with few local suppliers like Nicaragua, acquisition is a core process, and it often extends beyond the organizational boundaries of the purchasing department. The interfunctional nature of business processes and the inadequacy of conventional "smokestack" organizations to manage them has made reengineering or BPR (business process redesign) a popular concept. The organizational revolution that accompanies the leap to generative management must include a serious BPR effort. However, this should not be confused, as reengineering often is, with massive layoffs.

Another core process, resource allocation, cuts to the heart of the generative management concept. In the directive company, capital investment decisions are made by the boss, whereas they flow from employee initiatives in the generative company. The presumption is that people are more effective when running their own business units than when simply obeying orders, and that this will be reflected in productivity and performance. Therefore, this must be among the first of the processes to be redesigned.

Empowerment to make resource allocation decisions for business units under one's control is dangerous unless empowered workers have systems that allow them to measure their own performance. Measurement, in turn, must be tied to performance evaluation and compensation. In traditional directive companies, these systems are administered by the personnel department and have no relation to the corporate strategy. Radical changes are required in all three for the generative concept work. If anything is measured in directive family firms in Latin America, it is for purposes of authoritarian control such as the number of work days missed. Generative companies thrive on data because everyone in the organization regularly measures the performance of his or her work unit. In TANIC, shop floor workers continually accessed computer monitors to check such factors as heat of the ovens and compression of the packed tobacco.

Performance evaluation is seldom explicitly conducted in directive companies. The owner may occasionally walk the shop floor and offer words of praise and encouragement, but these slaps on the back should not be confused with a genuine performance evaluation process. In generative companies, performance evaluation is an open, two-way process that involves work teams and management. It is based upon mutually agreed goals. Workers have the opportunity to provide feedback to their immediate superiors.

In many successful Latin American companies like CECSA, the performance evaluation process is conducted among groups of workers jointly responsible for a specific product, further breaking down hierarchical relationships. This is consistent with structural changes that often call for the organization of multifunctional teams to ensure that core processes are performed smoothly. Problems of "hands-offs" and "rework," described in the reengineering literature, are resolved by replacing the model of isolated functional departments with tag teams as in a relay race. More sophisticated variants of multifunctional team effort include the "sashimi model" in which members of the tag team maintain continuous contact at critical interfaces, such as between final assembly and outbound logistics in Carrier. Less common in Latin America is what has been called the "rugby model," where the multifunctional team forms a human wedge to drive a core process through the organization.

The adoption of a generative model requires greater levels of effort at all levels of organization than the comfortable perpetuation of a directive model. Unfortunately for companies unwilling to make that effort, the changing competitive environment in Latin America will allow them no choice. However, as the CECSA case illustrates, the successful introduction of generative management does not ensure its sustenance over the long term. Needed is creativity in the design of reward systems capable of motivating ever higher levels of attainment.

Success with monetary incentives in Latin American companies has been mixed. While useful in focusing employee efforts on key tasks and stimulating short-term performance improvements, incentives have been less effective in building commitment and sustaining long-term improvements. Evidence from U.S. experience suggests that this is best done through some form of employee stock ownership plan. Experience with such plans is still relatively new in Latin America. While stock options have been used by some family firms in the region for 30 years, these are generally preferred shares with fixed rates of interest. Capital markets in most Latin American countries simply do not have the liquidity required to form share prices for any except the largest publicly owned companies. And even if they did, many family businesses would be reluctant to dilute their ownership, or (as in the case of Carrier, TANIC, and CECSA) their foreign partners might raise objections.

One approach, soon to be tested by a Central American manufacturer of construction materials, would involve the creation of "equivalent shares" whose value would be based upon an independent external valuation that would be revised annually. There are still a number of issues to be resolved, but such an approach is consistent with generative management and may address the question of long-term commitment.
Implementing Globalization Strategies

The strong centralist tradition in Latin America does not foster the creative, high-commitment cultures that are needed to implement strategies in world markets, nor is it consistent with rational planning approaches. This tradition, however, does nurture intense personal relationships that can form the basis of a new, generative company culture. The management implication is that strategic processes must build on cultural strengths rather than clashing with its weaknesses. A second implication is that leaping is important: a chasm cannot be crossed in two steps.

The leap to generative management cannot be a leap of faith, however. It must be guided by a clear sense of direction, with communication that is clear and unencumbered by bureaucratic structure. In fact, the traditional hierarchical structure must be stood on its head, with management supporting the front line workers. Finally, attention must be given to organizational processes that strengthen accountability and commitment.

The successful case studies documented in this Issue reveal that Latin American companies can indeed make the leap to generative management and that they are capable of competing in world markets.