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Free markets and social inclusion: Toward a common goal

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ABSTRACT

As part of a cooperative effort between the *Journal of Business Research* (*JBR*) and the Business Association of Latin American Studies (BALAS), this special issue brings updated research on the Latin American business environment. Out of 107 papers submitted to the BALAS 2013 Conference, which was hosted by ESAN Graduate School of Business, in Lima, 25 were pre-selected to be reviewed for publication in this special issue — and only nine were accepted after the demanding process of three rounds of double blind review that was run after the conference. This introduction to the special issue of *JBR* on BALAS 2013 Conference brings an overview of the changes that have taken place in the Latin America, regarding the relationship between free markets and social inclusion. The articles accepted for publication in this special issue address several aspects of the Latin American business environment.

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1. Introduction

The BALAS 2013 Conference was hosted by ESAN. A total of 107 papers were submitted to the conference, of which 75 (70%) were accepted for presentation and 60 were actually presented. Of the papers presented, 25 were pre-selected to undergo review for publication in this *JBR* special issue, based on their quality and relevance to management literature and to the Latin American business environment. The pre-selection process was based in comments and rankings by the conference reviewers and track chairs and also in the comments and feedback received from session moderators and BALAS Executive Committee members. The pre-selected papers underwent two rounds of double blind review process, by at least two experienced independent reviewers each, plus a final round of reviews by the two guest editors.

The final selection of nine papers that compose this special issue helps fill out the dearth of research papers and teaching cases on Latin America.

After this brief introduction, we discuss how social inclusion has been dealt with in Latin America. Then, we introduce each of the papers included in this special issue and finish by acknowledging the 40 expert reviewers who participated actively and insightfully in the double blind review process.

2. Harnessing markets for social inclusion

One of the basic assumptions of the free market system is that efficient markets are essentially indifferent to the distributional consequences of economic growth (Atkinson, 1997; Kanbur & Lustig, 1999). Nevertheless, recent evidence throws serious doubt on this assumption by demonstrating ways in which economic growth can be hindered by economic inequality (Aghion, Caroli, & García-Peñalosa, 1999). As a result, economies need to develop in ways that benefit all, not just a few elites. Social inclusion becomes an imperative if free markets are to grow sustainably.

By social inclusion, we refer to policies and practices to assure that the benefits of economic growth reach all people, by opening access to basic services and building capabilities among vulnerable populations (Sen, 2000). Silver (2010) sees it as an approach to understanding and responding to disadvantage. In the European Union and Australia, the social inclusion approach has sought to support improved economic performance in a globalized economy, often with particular emphasis on the integration of disadvantaged groups into the market economy as a means to achieve this goal.

In some ways, Latin America provides a perfect site to examine new and innovative ways by which free markets are being harnessed to generate social inclusion. Undoubtedly the continent's acute inequality and extreme poverty make these innovative initiatives a necessity. Latin Americans have never been wildly enamored of the market system and the region's electorates can be quite volatile (Castañeda, 2006), so firms need to act.

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Surprisingly the role of the firm in generating social inclusion has been minimized by academics, policymakers, and business leaders. Most solutions look to government as the primary promoter of social inclusion, and the business firm is seen as reactive, responding to the directives of the state.

In this section, we take a closer look at the state of inequality in Latin America and the role of the firm in bringing about greater social inclusion. We begin by examining economic inequality in the region during the 2000s. We then look at how private firms have contributed to inequality in the region. Finally, we examine some of the new ways in which firms are addressing this issue, either alone, or in collaboration with the state and civil society, to include all sectors of society in the benefits of economic growth.

2.1. The current situation

Inequality has historically plagued Latin America and continues to do so (Lopez & Perry, 2008). Only sub-Saharan Africa rivals Latin America in terms of its levels of inequality. By some estimates, if Latin America had the same distribution of income as Asia, its levels of poverty would be cut in half (Szekely, 2001). As a result of these extreme levels of inequality, every major Latin American city has experienced social disintegration, resulting in crime and violence (Hofmann & Centeno, 2003). Although the region has grown, large segments of the population have been excluded from this growth with enormous differences in access to clean water, public health, credit, and education, even within the same city. These differences in access are magnified by gender, race, and class (Hofmann & Centeno, 2003).

Recently, there has been some good news with respect to inequality in Latin America. At least during the last decade of the 2000s, there are examples of a few countries that have experienced both growth and decreasing inequality to such an extent that some observers have begun to speculate about a turning point in inequality in Latin America (Gasparini, Cruces, Tornarolli, & Marchionni, 2009). In the cases of Argentina, Brazil, Mexico, and Peru, the decrease in income inequality over the last decade appears to be due to a decrease in the premium paid to skilled labor and more progressive governmental transfer payments (e.g., through programs like *Progresa*/*Opportunidades* in Mexico, *Bolsa Familia* in Brazil, and *Juntos* in Peru) (Kakwani, Neri, & Son, 2010; Lustig, Lopez-Calva, & Ortiz-Juarez, 2013; Perova & Vakis, 2009). In addition, growth has been broad-based, reaching a diverse spectrum of disadvantaged groups (Neri, 2011). Yet these tendencies may be unsustainable in the long run as government policy changes over time and the opportunities for a quality education remain unequally distributed (Lustig, Lopez-Calva & Ortiz-Juarez, 2013).

2.2. The firm and inequality in Latin America

Yet the story told so far hides the contribution of the firm to social exclusion. Work by dependency theorists has focused on how elites generate income inequality. For example, Cardoso and Faletto (1979) argued that multinational enterprises in alliance with the public sector and domestic elites (and their firms) extracted wealth from Latin American countries to the detriment of the majority of the local population. Yet an extended discussion of the firm, as it either fosters or reduces social exclusion, is largely absent from the literature.

The absence of the firm in the discussion of the causes of social exclusion is glaring given that the firm is clearly implicated in the creation of inequality. For example, Latin America's high levels of inequality co-exist with some of the lowest levels of employment concentration in the world (Davis & Cobb, 2010). Employment concentration refers to the percentage of the labor force employed by the largest 10, 25, or 50 firms (Davis & Cobb, 2010). The relationship between inequality and employment concentration is complex. Generally, equality fosters trust (Stiglitz, 2012), which in turn leads to larger organizations (LaPorta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). In what is referred to as the "paradox of hierarchy," large organizations act to curb extremes in compensation (Davis & Cobb, 2010). However, given the reputedly lower levels of trust in Latin America, the ability to engage in large-scale organizing may be limited (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 1997). These limits to organizing may inadvertently reduce potential checks on inequality or at least income inequality. Although the picture is yet fuzzy, the firm and its decisions, whether in terms of alliances with multinationals, or through decisions regarding organizational structure and compensation, are closely related to inequality. If the firm is part of the problem of inequality and social exclusion, it needs to be part of the solution.

2.3. What can firms do?

Firms are beginning to wake up to the role that they can play in promoting social inclusion and alleviating poverty (Bruton, 2010). These activities constitute corporate social strategies that seek to internalize the social costs generated by firm activity (Husted & Allen, 2011). There are numerous ways in which Latin American firms are beginning to take issues of social inclusion seriously, including obtaining sustainability certifications, facilitating access to credit, developing base-of-the-pyramid initiatives, and collaborating with local governments and civil society in broad-based community initiatives.

Sustainability certifications provide a concrete way in which firms can respond to social inequity. Firms can either decide to purchase from certified suppliers or become certified themselves in order to demonstrate that they are socially responsible. For example, Fair Trade certifications in Latin America ensure that producers organize in co-operatives and employees are paid just wages for numerous agricultural products ranging from coffee and chocolate to bananas and handicrafts. Costa Rica's Certification for Sustainable Tourism ensures that businesses in the sector "comply with a sustainable model of natural, cultural and social resource management" (Turismo Sostenible, 2014; see also Rivera, 2002). Certification provides one way of assuring that value is distributed equitably along the value chain.

Access to credit is one of the most serious barriers that prevent impoverished consumers from obtaining goods related to well-being and keeps micro-entrepreneurs from starting up their own ventures (Sen, 2000). Microfinance began with Mohammad Yunus' Grameen Bank in Bangladesh to provide the poor with greater access to credit and has now inspired numerous related initiatives in Latin America (Weiss & Montgomery, 2005). For example, microfinance institutions in Bolivia, ranging from not-for-profit organizations to commercial banks, now account for US$ 4.8 billion in loans to 1.3 million low-income borrowers (MixMarket, 2014).

Base-of-the-pyramid initiatives seek to design and market products or services tailored to the needs of low-income consumers as well as develop the poor as producers (Prahalad, 2010). A notable Latin American initiative is that of the Mexican cement company, Cemex, which through its program, *Patrimonio Hoy*, combines microfinance with the base-of-the-pyramid concept of helping the poor meet their needs to build and improve their housing (Prahalad, 2010).

Possibly of greatest importance is the decision of many firms in Latin America to work collaboratively with local governments and civil society to build more inclusive communities. In a study of violence reduction in Bogota and Medellin over the last twenty years, Gutierrez, Pinto, Arenas, Guzmán, and Gutierrez (2013) found that the key to a successful reduction in violence was the active participation and support of all sectors of society, including the business community. Although cross-sector collaborations represent a challenge for business in practice, they provide an especially relevant way to contribute to social inclusion.

Certainly this brief summary of corporate initiatives and strategies to foster social inclusion does not exhaust all the possibilities. In addition, each one has its critics. Nevertheless, they provide a sense of the variety of programs in which the business sector is involved. Despite some

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