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Latin American firms competing in the global economy

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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 226 papers submitted to the BALAS 2012 conference, which was hosted by the Pontifical Catholic University of Rio de Janeiro (PUC-Rio), 22 were pre-selected to run for publication in this special issue — and only 14 actually were accepted after the demanding three rounds of a double blind review process that was run after the conference. This introduction to the special issue of the *JBR* on the BALAS 2012 conference brings an overview of the changes that have taken place in the business environment of Latin America, the evolution of the internationalization behavior of Latin American firms and the changes in their strengths to compete both domestically and abroad.

1. Introduction

This JBR special section is the result of a cooperative relationship between the *Journal of Business Research* (*JBR*) and the Business Association of Latin American Studies (BALAS) and features the best papers of BALAS 2012 conference, hosted by PUC-Rio in Rio de Janeiro.

BALAS (www.balas.org) is an academic organization focusing on management research in Latin America and has over 500 members from all over the region and also outside Latin America.

Although Latin America has relevant participation in the world economy and three of its countries figure among the world's thirty largest by GDP (Brazil as 6th, Mexico as 14th and Argentina as 25th, cf. World Bank, 2012), Latin America has been a neglected region in management literature and Latin American researchers publish little (Pérez-Batres, Pisani, & Doh, 2010). In fact, "In the first half of this decade [2000s], less than 3% of IB articles dealt specifically with Latin America" (Pérez-Batres et al., 2010:3). Fastoso and Whitelock (2011:436) contend that Latin America "has largely been neglected both in the international business and marketing areas," a complaint also voiced by Samiee and Athanassiou (1998) more than 15 years ago as well as by other more recent studies (e.g., Birnik & Bowman, 2007; Fastoso & Whitelock, 2007). According to JBR's Associate Editor Sergio Biggemann, this picture has changed very little and as of today only "3.93% of publications in IB Journals and the *Journal of Business Research* are from Latin American authors or about a Latin American company" (Biggemann, 2013:3).

The cooperation between BALAS and the JBR is contributing to bridge this gap: The JBR has already published seven special issues on Latin America, while another one (related to the BALAS 2011 conference) is under way, besides the present one; all papers in these special issues focus on Latin American firms and environment, and the majority was written by Latin American researchers:

- Vol.38, No1 (1997) — New International Enterprise in Latin America
- Vol.50, No.1 (2000) — Case Studies on the New Global Strategies of International Business in Latin America
- Vol. 59, No.11 (2006) — Strategic Management in Latin America
- Vol.62, No.9 (2009) — Special Issue on BALAS (Business Association for Latin American Studies)
- Vol.64, No.3 (2011) — Strategic Management in Latin America: Issues and Assessment
- Vol.65, No.12 (2012) — Best Papers Business Association of Latin American Studies 2010
- Vol.66, No.3 (2013) — Advances in Business Research in Latin America Studies

The BALAS 2012 conference was hosted by IAG Business School of the Pontifical Catholic University of Rio de Janeiro (PUC-Rio, www.iag.puc-rio.br). A total of 226 papers were submitted to the conference, of which 122 (54%) were accepted for presentation and 94 were actually presented. Of the papers presented, 22 were pre-selected to run 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 on comments and rankings by the conference reviewers and track chairs and also on the comments and feedback received from session moderators and BALAS Executive Committee members. The pre-selected papers underwent two rounds of a double blind review process, by two experienced independent reviewers each, plus a final round of reviews by the two guest editors.

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This intense interaction between authors, reviewers and editors makes us confident that the final selection of 14 papers (out of the 22 initially pre-selected and the 94 presented at the conference) for this special issue will make a relevant contribution to literature and management practice.

This introductory paper presents threats and opportunities faced by Latin American firms competing in the global economy. We start with an overview of the changes in the economic and political environment of Latin America, then discuss aspects of the internationalization behavior of Latin American firms, and finally address some changes firms have made in order to compete in the global economy. At the end, we introduce each of the papers included in this special issue and give a special "thank you" to the 44 expert reviewers who participated actively and insightfully in the double blind review process.

2. Changes in the economic and political environment of Latin America

Latin America is facing major economic and political changes. In fact, over the last few years it has been one of the most dynamic economies in the world, growing on average 6.3% per year between 2009 and 2012, exceeding the average global growth of 5.7% for the same period (International Monetary Fund [IMF], 2013). Inward foreign direct investment in Latin America in 2011 was $ 169.1 billion (World Bank, 2012), which amounts to an annual compound increase of 16.3% per year since 2009.

Politically, the region has become polarized insofar as some countries are clearly democratic whereas others have long-lived populist and dictatorial practices. Unfortunately this state of affairs has resulted in some countries not having taken full advantage of economic opportunities, thus undermining their growth potential. Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Guatemala, Mexico, Panama, Paraguay, Peru and Uruguay all exemplify free-market economies. On the other hand, Argentina, Bolivia, Ecuador, El Salvador, Honduras, Nicaragua and Venezuela tend to show economic protectionism and political populism. The former countries are growing at a greater average rate than the latter. However, Ecuador and Nicaragua, although not among the free market examples and with an uncertain political climate going forward, are growing at a good pace and generally have good development prospects for a medium term.

The overall business environment for entrepreneurs in Latin America remains a major challenge. There are problems in terms of infrastructure and excessive bureaucracy. Companies in the region still have to deal with several obstacles to competitiveness, such as poor infrastructure and expensive logistics, cumbersome government bureaucracy and procedures, high electricity costs (with frequent outages), limited supply of trained professionals, illiquidity of capital markets and political and economic uncertainty in some countries (Brenes & Haar, 2012).

Although the recent and intense rise of the middle class (notably, in Brazil and Peru, but also in some other Latin American countries) has laid way to opportunities for sales and profits in the domestic Latin American markets, challenges remain as regards marketing, logistics, financing and infrastructure in order to properly cater to the needs and particular buying behavior of this new upcoming consumer.

3. Internationalization of Latin American firms

Around twenty years ago, Latin American companies still operated mainly in their domestic markets. Today, many have succeeded in expanding into the region and beyond. Over the last 10 years or so, significant changes have taken place at the firm level as a result of new domestic and international growth strategies and due to fierce competition from abroad. Competition in the region is growing more intense, not only due to local firms' interests in exploiting the growth of the economy and the middle class, but especially since many global companies are looking for growth paths in emerging markets in view of the crisis they are currently facing in the developed world.

The recent expansion of Brazilian firms is particularly interesting. Although Brazilian firms have, in general, been late entrants to the international arena (Fleury & Fleury, 2009), they seem to be catching up and some have even become global champions (Carneiro, 2012). Three main deterrents have until recently contributed to the low level of internationalization of Brazilian firms (Da Rocha, 2003; Da Rocha & Da Silva, 2009; Da Rocha, Da Silva, & Carneiro, 2007): lack of firm-specific advantages, rupture of the establishment chain (cf. Johanson & Vahlne, 1977), and absence of a global mindset. The lack of firm-specific advantages was due mainly to institutional disincentives (e.g., political instability) and environmental turbulence and to the possibility of catering to a large and (in the past) protected domestic market. Most Brazilian firms that ventured abroad in the past did so solely by exports — thereby interrupting the establishment chain. This inward-looking behavior was a consequence of macroeconomic deterrents (e.g., foreign exchange volatility, high interest rates, and lack of long-term financing sources), poor logistics infrastructure (which increased the costs of exports and led to low-scale sales abroad and, therefore, little incentive to serve foreign customers through FDI). Also, several Brazilian firms had vertically integrated business models, which made it difficult to replicate their mode of operations abroad (Cyrino & Tanure, 2009). The third obstacle to internationalization was the lack of a global mindset — a result of the combination of high geographical barriers (even to neighboring Latin American countries, because of the natural obstacles represented by the Andes mountain range, the water lands (*Pantanal*) and the Amazon Forest), cultural differences, and liability of origin (that is, a sense of being inferior to Americans and Europeans).

But there have been important changes in the environment which have driven Brazilian firms' recent appetite for international markets (Carneiro, 2012; Cyrino & Tanure, 2009; Da Rocha & Da Silva, 2009): economic, fiscal and institutional stability; the wave of globalization; overvalued currency (1994–1998; 2007–2012), which favored FDI; undervalued currency (1999–2006), which favored exports; saturation of the domestic market (for some firms); economic liberalization and openness to foreign competitors on Brazilian ground; productive reconfiguration and increase in competiveness by several Brazilian firms; privatization; management professionalization; higher export intensity, which led to FDI in order to support foreign operations (in commercial, warehousing and distribution facilities, but seldom in production); establishment of the Mercosur trade bloc; change in managerial behavior (younger managers with language skills, personal experience abroad and a global mindset); client following; network pressures; and availability of long-term funding from BNDES (the national development bank) which has led to an acquisition spree abroad.

Companies in the region have different reasons to go abroad. These include limited room for growth in the domestic market (either because they have reached a strong leadership in their market or because the market is small or because domestic and foreign competition alike are getting fiercer); a wish to diversify country risk; or a need to learn from experiences outside and be able to better compete with new players in their own domestic arena (Anand, Brenes, Karnani, & Rodriguez, 2006); or a way to exploit competences developed in their own domestic market (Fleury & Fleury, 2011).

Several business firms in Latin America now regard the regional market as an opportunity. Companies from emerging markets have been gradually substituting exports and FDI to more developed countries for "South–South" trade and investment (Ramamurti, 2009a). Thus, Mexican firms now see Central America as a natural extension of their activities. Many Central American companies are also expanding operations to all countries in the region and sometimes South America. While Colombian and Ecuadorian firms are seeking investment opportunities mainly in