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Indigenous Management Practices:
Insights from Latin America

La gestión autóctona: una mirada
a la experiencia latinoamericana

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Indigenous Management Practices: Insights from Latin America

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Abstract

Management realities in Latin America are rarely examined against the region's changing social, economic, and political backdrop. Managers must reckon with economic volatility, a weak institutional framework, and limited state governance in a diverse organizational landscape where large corporations do not play center stage. Institutional shortcomings, ingrained privilege and exclusion, and rising social demands have bred a flourishing "informal economy" in which more than one-half the labor force earns a living. Together, these circumstances make for a challenging business context where enterprising organizations craft home-grown management practices.

This study revisits management practices drawn from in-depth studies of organizations, in Venezuela and Colombia, often deployed by individuals with no formal management training. Hands-on, versatile, and resilient management, strong creative leadership, perseverance and commitment, and keen understanding of the local business context stand out as factors that lead individuals to achieve success for their organizations, regardless of the odds.

Keywords

Indigenous management, management practices, business context, competitiveness, family-owned business.

La gestión autóctona: una mirada a la experiencia latinoamericana

Resumen

Rara vez se examinan las realidades de la gestión en América Latina a la luz del cambiante contexto social, económico y político en que operan las organizaciones. El gerente se desempeña en un paisaje organizacional de gran diversidad y debe lidiar con volatilidad económica, un marco institucional débil y deficiente gobernabilidad por parte del Estado. Las limitaciones institucionales, la exclusión social y el privilegio arraigado, así como cada vez mayores demandas por parte de la sociedad han generado una floreciente "economía informal" en la cual trabaja más de la mitad de la fuerza laboral. Tales circunstancias se combinan para crear un contexto de negocios desafiante, en el que la organización emprendedora confecciona sus propias prácticas de gestión.

Este trabajo reexamina las prácticas de gestión aplicadas por personas que a menudo carecían de formación gerencial alguna, según sendos estudios de organizaciones en Colombia y Venezuela. Destacan el liderazgo creativo y fuerte, la persistencia y el compromiso, una gran flexibilidad, la gerencia de brazo arremangado y un conocimiento a fondo del contexto en el que se desenvuelven los negocios, como factores que deben enfrentar quienes, no obstante las dificultades, dirigen organizaciones que alcanzan el éxito.

Palabras Claves

Gestión autóctona, prácticas de gestión, el contexto de los negocios, competitividad, empresas de familia.

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Introduction

In the 1970s, Japanese companies gained a competitive edge in global markets and the world realized that organizations could be managed in ways that differed from those prescribed by Western experience (Mendoza, 1991: ii). Also, leading management schools based in Latin America and Asia questioned prevailing technology transfer approaches in probing management development needs of their societies (Korten, 1979: 13ff). Demands for addressing region-specific management knowledge were made in 1989 at a global conference of deans and directors of management schools from 58 countries held in Montreal¹. Marsden (1991:36) echoed this concern and called attention to the appeal of indigenous management, defined as the “utilization of ... local, folk or vernacular knowledge and organizational methods”.

To learn from successful organizations based in Latin America and other world regions where conventional management wisdom holds that good management is rare, the authors, under the auspices of the International Management Development Network (Interman), undertook an ambitious project that examined over 400 experiences of “home-grown” management practices (Gómez and Dávila, 1995), of which 104 were based in Latin America. This experience led to scores of studies of organizations in Colombia, Mexico and Venezuela².

This study revisits management practices drawn from the Interman and other projects in Latin America,

focusing on small and medium-sized organizations, chiefly family-owned enterprises, in Colombia and Venezuela. Home-grown management practices deployed by each organization draw on local culture and values, and deal successfully with challenges posed by a business context currently being reshaped by a weak institutional framework of long standing, battered by rising demands for social change.

Research on management realities in Latin America remains scarce. Rarely are management and organizational insights examined against the region’s social, economic, and political context. Clearly, managers must reckon with economic volatility, deficient public services, and limited state governance. Management practices must also adjust to a traditional privilege-seeking society that spawned ingrained prejudices towards much of the population, together with social and economic exclusion. Today, more than one-half the region’s labor force seeks to earn a living from a flourishing “informal economy”, dominated by atomized business units that include some cottage industries and a profusion of services. These challenging contextual circumstances have led enterprising local firms and organizations to tap opportunity by crafting home-grown practices.

Consider first the overall guideline employed by the aforementioned Interman studies to examine management practices: management innovation in successful organizations.

¹ For example, a Japanese view advocated developing principles that are “workable in the international community” (Kobayashi, 1989: 28). A noted Canadian scholar warned “not to leapfrog over the realities of organizational life into its abstractions” (Mintzberg, 1989:40). A Chinese speaker felt management education should address “multi-disciplinary and comprehensive development (Yingluo, 1989:55). Francophone African educators counseled “globalization does not mean ‘uniformization’” (von Zur-Muehlen, 1989: 61). Former Eastern bloc specialists advised against the transfer of “knowledge from western or far-eastern experience (von Zur-Muehlen, 1989: 64), whereas those from Southeast Asia favored studies on how “people can be motivated in different cultures” (von Zur-Muehlen, 1989: 69. Latin Americans sought to adapt management knowledge to “social, economic, and political turbulence as part of everyday reality.” (Gómez, 1989:75-6).

² Colombian studies of organizations that followed the Interman work include two dealing with rural savings and loan cooperatives (Dávila and Silva, 1996; Dávila, 2004); a rural peasant solidarity organization (Pérez, et al., 2000), and a rural development project (Avila, 1998). Venezuelan studies include successful management practices in 100 Venezuelan public, private, and non-governmental organizations (Gómez-Samper, Vethencourt, and Armas, 1999); and in-depth studies of eight organizations (Gómez, Leal, Vivas, and Márquez, 1998). Mexican studies focus on global vs. local issues in municipal administration reform (Arellano, Cabrero, del Castillo, 2000; and Cabrero, 2002). More recent studies led by colleagues of the authors include management of social initiatives by business and civil service organizations in several region countries (Austin, Reficco et al. (2004); and SEKN (2006a).

1. Breaking ground: the Interman studies

To discover examples of home-grown, successful management practices, Interman employed an iterative methodology (Hammond, 1994:665-7). First, “islands of excellence” were identified in each participating country. Project leaders coached teams of local researchers who followed up leads and discussed their findings with local business leaders and academics. Second, detailed studies of selected organizations described management practices. Third, an exchange of learning was made to compare findings at the regional level. In two years’ time, 104 successful business and non-business (i.e., private, public, hybrid, community-based) organizations, employing innovative strategies and practices that were deemed to have contributed to their success, were examined in six participating countries: Brazil, Chile, Colombia, Mexico, Peru and Venezuela (Dávila and Gómez, 1994:673).

The concept of innovation is relative: innovation in management practice occurs in particular contexts, given the kinds of economic, social, and political challenges that organizations confront. Innovative strategies and practices identified in Latin America encompass a variety of processes dealt with in the innovation literature: the functional level examined by Damanpour et al. (1989), Daft (1982), and Porter (1990); the structural level reviewed by Mintzberg (1989) and Mintzberg and Quinn (1991); and the behavioral level studied by Feldman (1989), Drazin

(1990), and Drucker (1985). Practices found include novel organizational structures, participative management approaches, non-conventional property arrangements, planned change processes, strategies employed to deal with social and political turbulence, non-conventional organizational missions, solving perennial problems, and deliberate adaptation of cultural specificities (Dávila and Gómez, 1994: 672).

The Interman studies uncovered valuable insights (Gómez and Dávila, 1995: 35ff). An obvious but often overlooked point is that effective management is a powerful tool for generating social and economic change, for many of the organizations examined energized a human network made up of socially disadvantaged people who had become measurably better off as a direct result of the organization’s work. Additionally, it was shown that a rich storehouse of management knowledge stands to be drawn from a wide variety of organizations beyond large industrial corporations. Lastly, innovative organizations examined by the studies were found to employ a variety of management strategies that drew on local cultural traits; indeed, strategies that shaped success were often built on informality, family ties, mutual trust, and fun. In sum, Interman findings underscored the need for deepening knowledge of home-grown management practices and their relevance to the local business and organizational context.

2. The social nature of organizations

Organizations are a social invention, designed to enlist human cooperation in order to address specific goals. Leaders of organizations examined pursued success with uncommon zeal, akin to passion. Most human beings spend so much time working for organizations (be they public or private, corporate, small business, civil society, religious, or other) that, as Vives and Leal (1998:9) view it, individuals become who they are largely because of what they have or have not contributed to an organization’s success and sustainability.

Unlike organizational performance, assessed by competitiveness and results attained, individual success derives from intangible social perceptions – a construct that is not easily measured or amenable to mainstream research traditions, i.e., quantitative hypothesis testing. Hence Vives and Leal (1998:25) hold that the choice of management practices made by such leaders (who seek to do it right, avoid failure, and view their work as a life-span career) entails a process of reflection, weighing alternatives drawn from what is socially



and culturally understood to mean good performance.

Indigenous management practices are inextricably linked with cultural values. In *The Latin Americans*, Dealey (1992) asserts that the region's people, rather than accumulate wealth, seek personal relationships and social status. Vives and Leal, drawing on studies of 120 public and private Venezuelan organizations considered successful (1998:13), hold these aims shape performance in organizations, noting that individuals respond avidly when touched by signals that suggest a tightening of personal bonds (1998:33). Moreover, González (2007) cites evidence from Colombia showing how similar aims shape the makeup of political parties (Martínez, xxxx), and infers the country's social, political, and economic shortcomings frustrate attaining such goals and fuel the country's subversive movements³. We will return to personal bonds and social status as we assess management practices in particular organizations.

Marsden (1991:36) spelled out the appeal of indigenous management in terms of "finding mechanisms that can produce a neater fit between those doing the managing and those being managed." Indirect evidence to support his view of the inadequacy of management principles applied in a "universalistic and seemingly systematic way", based on essentially American practice, is provided by Granell (1997:14, 20-22). Granell's research drew on over 2,000 questionnaires distributed to both mana-

gers and employees of 20 Venezuelan medium- to large-size organizations where conventional (i.e., Western) management practices may be assumed to have prevailed. (Managers who facilitated her study were enrolled in executive education courses at a leading management school.) According to her findings, employees resent power structures manned by managers they view as incompetent. Interestingly enough, no sign of such disdain was found in eight Venezuelan organizations where "home-grown" practices were in place (Gómez and Márquez, 1998:34). The kinds of participative, 'hands-on' management practices identified in these eight organizations are consistent with the "neater fit" advocated by Marsden. In a similar vein, Colombian rural cooperatives in the financial sector offer evidence of management controls deployed by egalitarian, collective leadership in organizations that have operated for decades (Dávila, 2005: 30-45).

Also considered by Marsden was the 'indigenization' process of transferring ownership, control, manpower and technology from foreigners to local nationals, giving rise to demands for indigenous management (1991: 26-7). A recent study of the management of multinational a mining company in Colombia lends support to the superiority and sustainability of home-grown practices crafted over a span of twenty years. Once local managers and professionals staffed the foreign-owned company, past difficulties were overcome and a sense of commitment emerged among employees (Dávila et al., 2006:19-23).

3. Latin American Organizational Landscape

Mainstream management theory, together with management education and development, has largely focused on large-scale corporations – i.e., "the most powerful institution of the American economy..." (Chandler, 1977: 1) – paying only marginal attention to organizations in both the public and not-for-profit "third sector" (Salamon, 1999; Deucher, 1990). Organizations – corporate and other – are widely considered to play a key role in the contemporary world

(Leavitt, 1973), even to the extent they are credited with shaping a "stable organizational society" (Perrow, 1972). Nonetheless, Organization Theory (OT) and Organization Behavior (OB) have been predominantly concerned with private business. Worse yet, organization studies seldom examine realities other than those of the American corporate world. Such geographical, cultural, temporal, and conceptual parochialism has been noted (Boyacigiller and Adler,

³ Leading scholars who describe the region's culture also highlight the importance of personal ties and social networks that include extended families, as for example Lobo (1982) in Peru, Lomnitz (1977) in Mexico and, in Venezuela, Naim (1989) and Moreno (1995).

1991), and represents a drawback to the study of indigenous management practices.

Studies of management practices in Latin America and other emerging economies show a compelling need to also consider the broader scope and diversity of the organizational setting. Dealing with macro issues of economic and social development (e.g., persistently slow economic growth, rampant poverty, inequality) inevitably leads to matters that must be resolved at the micro, organizational level.

Latin America's organizational landscape combines a jumble of private, public, third sector and related civil society organizations. An overwhelming majority of privately-owned business units operates without fulfilling legal requirements; this "informal economy" spans both licit and illicit activities, and displays swifter response to social and economic demands than government. Formal private enterprise in Latin America features its own organizational mix; domestic conglomerates (chiefly family-owned) are significant players in key manufacturing and service industries, while family-owned small- and medium-sized firms prevail in most economic sectors. Hence in Latin America, "family capitalism" has not given way to Chandlerian "managerial capitalism" (Chandler, 1977)⁴.
OJO FALTA NOTA PIE DE PÀGINA

Besides private and public organizations, the region features a complex array of hybrid (public/private), "third sector" not-for-profit and civil society organizations (Salamon, 1999), ordinary as well as loosely run cooperatives, community-based organizations, and non-governmental organizations. In one way or another, these organizations deal with issues related to economic growth, and mobilize efforts to combat poverty, reduce inequality, promote democracy, and improve living standards (Oxhorn, 1995). As one team of region management scholars puts it, "conventional business organizations are no longer 'the only game in town' " (Arias, et al., 1997:469).

Given these circumstances, undertaking the study of indigenous practices represents a formidable challenge. Not only must the organizational landscape at large begin to be explored. For management actions to be labeled as "practices", some incidence of organizational persistence and routine must also be established (Malavé, 1999).

We now consider the context in which organizations operate in Latin America, noting the kinds of social, political, and institutional limitations that often discourage using certain commonly employed management practices in industrialized countries.

4. Latin America's business context

In Latin America, the gap between rich and poor is wider than in any world region; whereas the richest tenth of the population in the region earn 48 percent of total income, the poorest tenth earn only 1.6 percent (World Bank, 2003). Poverty levels in some countries reach 80 percent, with high levels of unemployment and informality. Profound differences exist between the educated middle and upper class groups who are linked to an increasingly global economy, and those left behind in both rural and urban areas. Such cleavages are relevant to the study of management practices employed by region organizations, for they shape the social, economic, and political context in which organizations operate and foster intricate and complex attitudes between managers, employees, and laborers.

Other context shortcomings that impact management practices include the region's fragile democratic institutions and civil society organizations, a history of economic volatility and political instability, weak measures of political influence and voice, and the growing complexities of urban life (De Ferranti, 2004). State agencies that often boast sweeping powers operate haphazardly in one sector or another, with little efficiency, varying coverage and, for the most part, poor accountability. In some countries, property rights are poorly defined, and the prevailing institutional framework allows wide political discretion in administering the law.

Not surprisingly, transaction costs in Latin America are considered inordinately high (Holden &

4 XXX



Rajapatirana, 1995: 90f). According to this study (1995: 18, 56):

The legal system does not function well and is inadequate for enforcing contracts; property registries do not function well enough to allow assets to be pledged as security for bank loans; and law enforcement is sporadic at best and venal at worst... The absence of a well-functioning judicial system has been particularly detrimental to the private sector... Laws often are not based on sensible economic criteria and are frequently contradictory and confusing. The courts suffer from poorly trained judges, long delays, and corrupt practices.

The above business context conditions make for a wide gap between written rules and organizational

behavior not abided by law. Indeed, the judicial system in Colombia (and neighbor countries) seems not to work properly even for elites. Businessmen, for example, generally prefer conciliation and arbitration to going to court (Kalmanovitz, 2001: 133). Significantly, a recent study that compares the region's entrepreneurship patterns with those in Southeast Asia suggests that such conditions also breed mistrust, thus hindering business development in Latin America (Kantis et al., 2002).

Given the organizational landscape described earlier and underlying features of the local business context, consider now the management practices uncovered in a select number of successful not-for-profit organizations and family-owned firms.

5. Not-for-profit organizations as models of management effectiveness

Striking examples of innovative, home-grown management practices may be found in organizations that address social and economic goals by drawing on grassroots democracy to shape management practices. The following capsule illustrations suggest that organizations seldom examined with a management lens represent a source of untapped information on indigenous practices. Each draws on informal behavior patterns to build mutual trust and solidarity. The first experience, drawn from Colombia, shows how an overriding social goal – community survival amidst armed conflict – was achieved under the most unpromising conditions by strong leadership addressing economic objectives (Gómez and Dávila, 1995:11):

The **Carare Peasant Workers Association** was launched in the late 1980s in a region beyond the reach of government by squatters who farmed or grazed cattle in undeveloped public land that was threatened by the crossfire of opposing factions. The community was called to meet with military, guerrilla, and paramilitary forces, and given four options: to join the militia, join the guerrilla, leave the region, or die. The community rejected all options and decided instead to form its own civil organization, and unarmed, reach agreements

with all armed groups. Following the lead of 12 peasant leaders, more than 5,000 peasants met with the military to guarantee peace. Six years later the area boasted a highly successful economy, based on improved technology in agriculture, road and river transport, and produce marketing.

This grassroots organization grouped members from all backgrounds, beliefs, and inclinations, including guerrilla sympathizers. Less moving and dramatic, but richly grounded in traditional values and customs is the experience of **Ascardio**, a hybrid, public-private organization that delivers health services in a Venezuelan city (Gómez, 2003; Malavé, 1995).

Ascardio provides organization, staff, physical plant, and financial support to operate the Ministry of Health's Cardiovascular Regional Center. A not-for-profit association that dates from 1976, Ascardio combines the goals of a private foundation with the public objectives of a national bureaucracy. Management features include Ascardio's staff compensation system, which supplements the public payroll; a participative approach to decision making; staff recruitment that draws on family and friendship ties; fee charges based on ability to pay; skillful

deployment of information controls; and a wide-ranging support network, which spans private sector medical and public health linkages as well as business, civic, political and religious groups, and a volunteer corps.

By providing management and financial support to a public health unit, Ascardio, in effect, co-opted a government agency and multiplied the service coverage delivered to the public. The Ascardio model stands to provide novel guidelines in the current attempt to reform seriously deficient health services throughout Latin America.

A third non-profit experience is Multicoop, a savings and loan cooperative in rural Colombia founded in 1962 under Church auspices (Dávila, 2005: Ch. 4). Management practices based on mutual trust, solidarity and associative principles are employed to shape business performance. Multicoop's experience challenges the idea that the mission of cooperative organizations is incompatible with competitiveness. Other notable features include respect for dissent, wide membership participation in governing bodies, and the important role played by women despite a *machista* context.

For 30 years, **Multicoop** was a consumer cooperative of poor peasants in a tradition-bound municipality. An initial membership of 36 grew slowly to about 400 at the turn of the nineties. In 1992, a young, experienced, and enterprising manager was brought in to deal with issues posed by market driven reform under way in the country as a whole. New members (mainly schoolteachers) were recruited from nearby communities, and by 2004 membership climbed to 1900. Financial services were introduced, and improved economic performance strengthened the cooperative's sustainability.

Multicoop's leader was prepared to address changing economic and political conditions. His grassroots

origin and leadership skills came together with pursuing a social cause as a career, rather than simply serving as manager.

These three experiences show that effective leadership, combined with the exercise of authentic democratic values that power collective action, enable people to think and decide for themselves. Yet forging such egalitarian, participative decision-making may require years of organizational learning.

Little is known about management practices of not-for-profit organizations operating in Latin America, but it's almost certain that those described above are exceptional in terms of leadership and organizational aims. One study holds that in recent years the management of not-for-profit organizations in the region has markedly improved (Vernis et al., 2005: 23). Another study describes civil society organizations in several countries that run ambitious social enterprises (SEKN, 2006a). Nonetheless, not-for-profit organizations in the region have generally been known for their shortcomings as respects several key management functions, including fund-raising, marketing of services offered, working with volunteers, leadership, accountability, strategic planning, and capability to contribute to and address the governance of society (Vernis et al., 2005: 24-5).

Shortcomings notwithstanding, learning from these organizations and disseminating knowledge of best practices to achieve success could hold the promise of speeding Latin America's social and economic development. Tapping community-based and other kinds of not-for-profit organizations operating across the region can help improve the delivery of health, education, and other public services to disadvantaged communities (Navarro, 1994; González, 2007). Similarly, cross-sector linkages between these kinds of organizations and the business community at large could serve as a powerful force to bridge Latin America's social and economic divide (Gómez, Márquez, and Penfold, 2006); SEKN, forthcoming in 2008).



6. Versatile, innovative, and resilient management in family-owned firms

We turn now to home-grown management practices in family-owned firms, where the influence of local cultural nuances may be noted. Also in evidence is a keen need for management resilience, for operations must continually adjust to the economic and financial volatility that is characteristic of Latin America – exacerbated, in some countries, by an unstable political and institutional context. A common thread in all examples is strong leadership, evidenced by the degree of commitment shown by the founding entrepreneur. Consider first the experience of a Venezuelan medical supplies firm launched in 1984 by a skillful woman who sought to generate income following the break-up of her marriage (Auletta, 1998a):

Sulcagel was founded by a chemist who had worked in the new products laboratory of a resin manufacturer and, for years, wanted to start her own business. She began making gels in her home kitchen. To move ahead, she joined with two more experienced partners – all three working part-time – from whom she learned start-up production and marketing steps. Customers resisted switching from an imported product, but exchange controls in the mid-80s slowed imports and enabled Sulcagel to promise reliable supply. Once sales rose the founder saw opportunity, devoted full time to the business and sought a similar decision from her partners, who dropped out. One of the partners owned the small plant, so she had to build stock to maintain sales while setting up facilities elsewhere.

Sulcagel in 1995 made several gels and lubricants employed to administer electro-graphic and ultrasonic tests. The firm employed 11 staff working side by side with the jack-of-all-trades founder: she purchased raw material, supervised output, tested new products, invested surplus working capital in short term securities, dealt with customers, and negotiated terms with distributors in Venezuela and export markets abroad. Moreover, she sought to disguise levels of authority by wearing the same gown as staff – a

practice she noted was used by Japanese automakers. Exchange control coupled with double-digit inflation once favored Sulcagel, but in later years forced the company to sell below cost in order to quote stable dollar prices and hold on to export customers.

Management practices that may be gleaned from the above description of Sulcagel include hands-on, egalitarian, and swift decision-making. Parallel management practices may also be noted in the following description of Dolca, a family-owned shoe-making firm in western Venezuela (García, 1998).

Dolca grouped five small firms, plus 25 independently owned micro workshops, that manufactured and marketed several styles of shoes, providing employment for some 250 persons. In the mid-70s the founder supported himself at university by crafting home-made leather belts and sacks sold in outdoor markets, a skill learned from a craft teacher that became his partner. Starting out with little capital, they hired a salesman; in one day he brought in orders that would take three months to fill, and soon became a second partner. The founder serves as marketing and new product designer, but holds no equity in non-shoe leather goods companies set up by one or another partner or their offspring; and the 25 workshops are owned by former employees who were trained by the founding partners to craft heels, soles, and other shoe components. Despite efforts to build export markets, sales abroad were erratic.

Dolca's founder was a visionary, skillful, and keenly versatile manager; he served as virtual CEO but focused largely on "external" functions: designed new models and styles, subcontracted parts to independent workshops, shaped marketing strategy at home and abroad, and attended to a trade association he helped set up in order to deal with volatile government regulations, such as restrictions on key imports that sometimes halted output.

An eastern Venezuela tuna fishery that evolved a distinctive management style provides another family-owned business example. Fipaca was founded in 1978 by two experienced fishermen, a Spanish immigrant and his son, who partnered with an Italian immigrant owning a grocery store that supplied fishing vessels with foodstuffs for sea-faring excursions lasting several weeks, and married into the family (Elarza, 1998). To start the business all three partners took out mortgages on their homes. Their first boat, acquired with a down payment made to an established local fishery where the partners were well known, was paid off in only eight months' time.

Fipaca, in the late 90s, provided employment for 336 workers. Some 200 were crewmen paid only when at sea; others, descendants of the founders. The company operated a fleet of 12 boats at sea for 30 or more days at a time, ran a complex maintenance and repair operation for vessels featuring refrigeration, hydraulic, and mechanical equipment, and contracted repair and maintenance functions to 10 independently-owned micro enterprises (with a workforce that varied from 23 to 45 depending on the season). These in-house "outsourcers", led by former employees who worked year-round in Fipaca's own boatyard, were provided with equipment needs and parts procurement. Company growth had been a slow, step-by-step process. Export sales, largely via a Spanish middleman long known to the partners, accounted for a major share of earnings.

Fipaca's initial success may be attributed to the know-how shared by all three partners before the firm was launched. Nonetheless, years after operations expanded the partners never lost sight of their complementary skills; the original partner and his son remained in charge of activities at sea, whereas the third partner oversaw the largely administrative activities on land. As the business became (by Latin American standards) medium-sized, an organizational structure was conceived to maintain the identity of a single enterprise despite handing over responsibilities to independent firms set up by former employees. Clarity of purpose was assured, and organizational learning enhanced, by employing written communications with in-house contractors. Each contractor was required to arrange for insurance protection, and the operational efficiency made possible

by a novel organizational structure enabled Fipaca to lower its own insurance charges. Other factors that contributed to efficiency were overall teamwork, assessment of day-to-day activities, and special attention to preparing the next generation of managers.

We now review **CARST**, Venezuela's oldest and largest rum distiller, a 200-year old family business that confronted the kind of social, economic, and political threats increasingly being made on firms operating in Latin America. Based some 45 miles outside Venezuela's capital in a sprawling hacienda, CARST was the largest employer in a municipality with a population of about 50,000 where the rate of extreme poverty was almost twice the national average of 13 percent, and unemployment among youth topped 35 percent (González and Márquez, 2005). In 1999, the company was doing poorly and the CARST Board was about to decide to sell out to a multinational. The 30-year old, fourth-generation son of the chairman challenged the board and persuaded his father to name him CEO. Product line and payroll were slashed as first steps to recovery; but one year later the young CEO faced the following dilemma:

At dawn on February 26, 2000, company property was invaded by 256 families who sought to erect shacks. Land invaders surmised that, during an election year, they could press regional authorities standing for reelection to speed public housing. The takeover was led by a former army sergeant who had followed President Hugo Chávez during the aborted February 1992 coup. Days later, an additional 223 families led by an opposition party community leader entered the disputed land.

CARST and the land invaders began a complex negotiation process. The CEO and company managers concerned with community relations handled the crisis cautiously and with a sense of opportunity. On several occasions President Chávez had delivered speeches calling on the poor to invade the "unproductive" land of large estates.

The CEO mediated between the authorities, the community, and the two groups of invaders, proposing that the company donate the land conditioned on project design. He met with the state governor, who agreed to enlist public agencies to finance water and sewage. Land



invaders would be required to share in building their homes. A civil association to run the housing complex was set up, headed by a company representative, with both political leaders represented.

In April 2004, the invaded area featured 100 plots of land with single-family homes. Other invaders were promised public housing built elsewhere. The civil association was to serve as a condominium board; its chief hurdle was to help residents earn a living, for most were unemployed and unable to pay fees.

The land invasion prompted a bold CARST decision to assure the company's survival by undertaking to develop the community of which it had been a part for 200 years. New business ventures were launched to hire some of the unemployed, maintenance functions were outsourced to micro entrepreneurs, and part of the handsome hacienda was turned into a tourist attraction. Nonetheless, CARST soon faced new challenges:

Three juvenile gang members entered company grounds. In lieu of jail, the CEO and security manager offered the youths an opportunity to work three months without pay. The youths accepted on condition fellow-gang members join

them. CARST set up a program featuring talks in values, drug abuse, and community work; in afternoons the youths would play rugby (a sport that would allow them to drain energy and require teamwork, without any one holding advantage over another, as would occur with baseball and football). The project was symbolically named "Alcatraz", after the famed San Francisco prison, from which the youths should be liberated. As of April 2004, three cohorts totaling 76 youths had enrolled in the project, and 61 completed three months of training. State Police data showed that from 2002 to 2003 the number of crimes reported in the town nearest CARST had dropped by 35 per cent.

Implementing the Alcatraz project was fraught with difficulties. Many a company manager or employee had been a crime victim of one or another of the youths that were being protected from justice. On the other hand, CARST security costs declined as it was no longer necessary to raise walls, add guards, and install more alarm devices. One manager, recalling the land invasion, said of the project: "Once more the crisis had to be turned into an opportunity"⁵.

Consider some of the management features that the four family-owned firms described above had in common.

7. Common management practices

All family-owned firms discussed above display hands-on management, creative leadership, and skills for reckoning with Latin America's business context.

In subsequent studies, examples of sophisticated management practices such as benchmarking, outsourcing, and just-in-time procurement were identified in Venezuelan organizations led by individuals with no formal training in management (Gómez and Márquez, 1998: 328-40); and path-

breaking measures deployed by companies that faced daunting social challenges were documented (González and Márquez, 2005; Gómez, Márquez, and Penfold, 2006). Interestingly enough, the companies described together with those examined in subsequent studies undertaken in Venezuela appear to mirror findings drawn from other world regions: family businesses are distinctive in entrepreneurial activities undertaken, performance, and perceptions of environmental opportunities and threats (Sharma, 2004: 5).

⁵ In June 2006 CARST was about to recruit a fifth cohort for the Alcatraz project. Under company auspices, a crew of project "alumni" served as crime know-how counsel for the police and prison system of two Venezuelan states (SEKN, 2006).

Hands-on management

As noted earlier, a major human resources management study in Venezuela (Granell, 1997) revealed organizational flaws linked to a need, to use Marsden's words, for "finding mechanisms that can produce a neater fit between those doing the managing and those being managed" (Marsden, 1991: 36). Elena Granell found (1997: 14, 20-22):

Venezuelans tend to view and understand organizations as a hierarchical structure with clearly defined levels of authority and power... Workers apparently accept the power structure, albeit resenting it, and wish their opinion would be better heard... They consider the abuse of power by others unacceptable... They respect those who possess knowledge irrespective of level.

Sulcagel, Dolca, Fipaca and CARST show no evidence of labor unrest, at times the outcome of a company's hierarchical, detached leadership – as may apply to Granell's sample of firms. On the contrary, all four companies feature flat, participative structures, where authority derives not from power but from the manager's own knowledge and skills, together with direct, hands on, resilient. Sulcagel's founder proved uniquely capable of performing all management functions previously undertaken by her partners, even as she directly supervised manufacturing tasks; moreover, she disguised hierarchy by wearing a gown identical to that used by plant workers. Dolca's founder and his senior partner passed on craft skills to laborers who set up their own workshops. Fipaca partners, skilled at fishing and operating a fleet of vessels at sea, turned former employees into in-house contractors and trusted them with equipment and tools. In his first year of office, the CARST CEO led a successful turnaround of his ailing firm; he then personally negotiated ambitious deals with both land invaders and public agencies, and played rugby with the former juvenile delinquents he helped coach to practice his favorite sport. Companies that are run by hands-on, resilient like these deter the emergence of attitudes that, as noted by Granell, hinder motivation at the workplace.

The versatility displayed by Sulcagel and Dolca managers, no less than by the CARST CEO, merits comment. Sulcagel could perhaps be viewed as small

enough for its founder to perform as many tasks as she did; but Dolca's operations were far more complex, involving dozens of product lines and styles, seven brands, and several distribution channels. Limited resources, and a shortage of labor skills in the local market, may also explain why so many functions were performed by the founders. The CARST CEO displayed similar versatility, but was backed up by a team of professional managers that in Latin America are mainly available to larger firms.

Hands-on, resilient, as practiced in the above organizations, is a vigorous entrepreneurial behavior pattern more likely attributable to the vast surge of new businesses that account for North America's economic growth in recent decades (Drucker, 1985:3), than to Latin American firms generally. Vigorous entrepreneurial behavior certainly abounds in the informal economy, which spawns vast numbers of new business ventures; unhappily, operating limitations shaped by the region's social, economic, and political context bar them from spearheading economic growth (Márquez and Gómez, 2001).

Creative leadership

Family-owned firms described reveal remarkable management resilience and creative leadership over several years. Sulcagel's founder literally transformed a part-time workshop that she learned to run with her two partners, into a thriving, multi-product business she came to manage on her own. Dolca's founder continually searched out models and styles of shoes that could be produced and priced competitively for both the local and export markets, yet also set up a trade association to counter government regulations that hindered industry operations. Fipaca founding partners succeeded in designing a simple, unconventional, and cost-effective organizational structure once the management of operations on land and at sea became increasingly complex. And the CARST CEO not only undertook drastic cost-cutting measures to swiftly turn around his failing company; he led bold and innovative actions to counter eroding social conditions in the surrounding community that threatened the company's future.

Paternalism is generally held to be a feature of Latin American companies, with both positive and negative outcomes (Martínez, 2005). Given the low turnover of Sulcagel personnel, researcher Auletta (1998a: 61)



probed the issue with the founder. Her response is revealing:

You must be aware of all the problems being faced by the staff. I ask them how their children are doing, if what they earn is enough to cover needs, or any other aspect of their lives that is personal. But I do not allow for transcending the ambit of the firm; i.e., we trust each other, but there is no friendship.

Similar rapport is also evident in the CARST CEO's relationship with long-time managers, let alone second- and third-generation laborers. Ironically, overly strong emotional bonds that suggest unhealthy paternalism have emerged among some Alcatraz youths vis-à-vis both the CEO and the Security Manager, who spends a good part of his time overseeing the project. Thanks to Alcatraz, so grateful are the enrollees for the turn taken by their lives (compounded by gratefulness voiced by their mothers), that in press interviews and other statements some deify the CEO as their savior (González and Márquez, 2005). Interestingly enough, the kind of paternalism reflected in the Sulcagel founder's statement quoted above is consistent with strategies now emerging in human resources management (*Harvard Business Review*, 2005).

Overcoming limitations in Latin America's business context

To overcome these and other business hurdles, top managers of Sulcagel, Dolca, and Fipaca employed

Latin America's business context confronts managers with formidable challenges, so great they appear to threaten the region's prospects for attaining competitiveness in a global economy. For a local business to succeed, onerous structural and institutional limitations must be overcome, some of which harbor social, economic, and political angles that exact uncommon willpower and creativity. Sadly, half a century ago the world viewed Latin America as uniquely poised for development vis-à-vis other emerging economies where an apparently friendlier

management practices deemed unwise in the industrialized world, and certainly not recommended in mainstream management textbooks. For example, they did business only with those they knew well; acquired inputs not from the lowest bidder, but from suppliers they trusted; dealt formally or informally with former employees or associates they considered would play fair; avoided complex, impersonal, and long-term commitments; limited decision-making to a few individuals; based company growth on personal and family ties (Gómez and Márquez, 1998: 364-5).

Other business context burdens faced by companies examined concerned limited access to bank loans, dealing with shortcomings of a labor force with little basic education, and overcoming bureaucratic regulation. Three of the four companies started out by drawing on the founder's savings, or borrowing funds from their respective families; Dolca was unable to obtain a working capital loan to produce goods even after presenting the bank a written order for shoes from a U.S. department store (García, 1998: 209). Measures taken by a medium-sized, family-owned manufacturing firm to overcome the poor quality of local labor included intensive training in basic skills, drilling in values - e.g., integrity, punctuality, and respect for others - and operating a health clinic for plant workers (Auletta, 1998b: 86-9). CARST, to avoid bureaucratic red tape in Venezuela and expedite sales abroad deemed essential to ensure growth, opted to run export operations in Florida and bypass marketing, customer relations and logistical support available from headquarters at presumably lower cost (SEKN, 2006b).

Conclusions

business context has, during this period, spurred competitiveness and growth.

Context-related limitations such as those described help explain management practices deployed by family-owned companies examined, such as avoiding business relationships outside a trusted social circle, a practice dismissed by conventional knowledge as unwise or even "backward". Nonetheless, these companies operated successfully and displayed patterns of distinctiveness observed in family-owned firms outside Latin America.

This study suggests the reason why firms examined attained success owes not so much to home-grown management practices as to uncommon perseverance, combined with common sense, to deal with such issues as continued turbulence, instability, chaos, and poverty. Such perseverance leads individuals to achieve success for their companies even against overwhelming odds. Critical factors for achieving success in such firms include committed, hands-on, resilient management, and creative leadership.

Home-grown management practices in Latin America, as deployed by individuals with no formal training in management, are nonetheless worthy of study. Knowledge of these practices will gain in value as research is produced on the broader organizational landscape - outside the realm of small- and medium-

size enterprises that operate in a modern economy. Overcoming the region's institutional and structural limitations - let alone entrenched social prejudices - will take decades, exacerbating demands for social and economic change. As societies become more complex and sprawling metropolitan areas are further engulfed by an extra-legal economy, business firms will likely become more inclined to explore and experiment with cross-sector business arrangements - a route leading firms in Latin America are already taking (Rangan, et al., 2007:193-206). Building business ventures that cross sectors foretells the need to examine vernacular, indigenous management practices deployed by backwater organizations - including, among others, networks of aligned micro enterprises that operate successfully in the informal economy.

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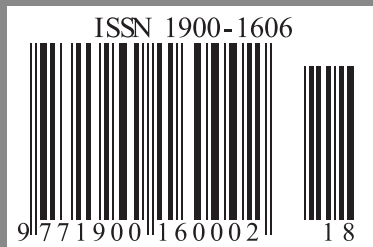
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Indigenous Management Practices: Insights from Latin America

La gestión autóctona: una mirada
a la experiencia latinoamericana

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Management realities in Latin America are rarely examined against the region's social, economic, and changing political backdrop. Managers must reckon with economic volatility, a weak institutional framework, and limited state governance in a diverse organizational landscape where large corporations do not play center stage. Institutional shortcomings, ingrained privilege and exclusion, and rising social demands have bred a flourishing "informal economy" in which more than one-half the labor force earns a living. Together, these circumstances make for a challenging business context where enterprising organizations craft home-grown management practices.

This study revisits management practices drawn from in-depth studies of organizations, in Venezuela and Colombia, often deployed by individuals with no formal management training. Hands-on, versatile, and resilient management, strong creative leadership, perseverance and commitment, and keen understanding of the local business context stand out as factors that lead individuals to achieve success for their organizations, regardless of the odds.

Rara vez se examinan las realidades de la gestión en América Latina a la luz del cambiante contexto social, económico y político en que operan las organizaciones. El gerente se desempeña en un paisaje organizacional de gran diversidad y debe lidiar con volatilidad económica, un marco institucional débil y deficiente gobernabilidad por parte del Estado. Las limitaciones institucionales, la exclusión social y el privilegio arraigado, así como cada vez mayores demandas por parte de la sociedad han generado una floreciente "economía informal" en la cual trabaja más de la mitad de la fuerza laboral. Tales circunstancias se combinan para crear un contexto de negocios desafiante, en el que la organización emprendedora confecciona sus propias prácticas de gestión.

Este trabajo reexamina las prácticas de gestión aplicadas por personas que a menudo carecían de formación gerencial alguna, según sendos estudios de organizaciones en Colombia y Venezuela. Destacan el liderazgo creativo y fuerte, la persistencia y el compromiso, una gran flexibilidad, la gerencia de brazo arremangado y un conocimiento a fondo del contexto en el que se desenvuelven los negocios, como factores que deben enfrentar quienes, no obstante las dificultades, dirigen organizaciones que alcanzan el éxito.