

The Importance of Institutional Knowledge for Expats Working in Latin America

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Introduction

Firms from the developed world operating in emerging markets confront a variety of challenges in adapting their operations to the institutional contexts in these countries. However, most of the preparation provided to expats from these companies focuses on general cultural differences and not institutional differences such as how to work with suppliers or unions in emerging markets. In order to work effectively in these countries, expats need a framework for identifying critical institutional differences that shape how institutions impact the implementation of best practices. The most common framework is the theory of institutional voids. It argues that institutions in capital, labor and product markets are weak or missing in emerging markets causing firms to have to rely on vertical integration (Khanna & Palepu, 1997). The claim that institutions are weak or missing does not enable expats to gain an in-depth understanding of how institutions actually shape the behavior of firms in these countries. This article suggests that the varieties of capitalism framework is a more appropriate means for understanding this topic because it specifically focuses on how organizational practices are shaped by institutions. It compares five critical institutions, namely governance, industrial relations, training and education, supplier relationships and employee relations, across nations (Hall & Soskice, 2001).

Given the relative similarities in the cultural underpinnings of countries in Latin America, this region represents an excellent case to examine potential institutional differences throughout emerging markets. If they are discovered here, we can also expect to find important differences between countries within other emerging-market regions. This article uses the varieties of capitalism framework to explore major institutional differences between Argentina and Brazil by examining how an Argentine and a French MNC attempted to implement best

practices in each of these countries. The former company failed in Brazil because the practices that proved critical to the success of this firm in Argentina could not be adapted to employee relations and relations with suppliers in that country. By contrast, the latter company was successful in both of these countries because the practice it implemented could be adapted to the institutions of industrial and employee relations. If institutions in these areas were weak or missing in these countries, as presumed in the institutional voids framework, no adaptations would not have been necessary.

Institutions and Best Practices in Emerging Markets

Best practices transferred from one country to another often prove ineffective because they do not suit the institutions of the receiving one (Ansari, Fiss, & Zajac, 2010). Some best practices are more difficult to transfer than others because they depend extensively on a certain set of institutions (Jensen & Szulanski, 2004). For example, human resource practices that depend on high employee turnover are difficult to implement in countries with strong unions and labor laws that require workers to be financially compensated upon termination. Expats pay particular attention to the transfer of best practices because they are customarily the source of their companies' competitive advantages in foreign countries. Nevertheless, multinational corporations are just in the early stages of understanding how institutions shape their ability to transfer best practices to their subsidiaries in emerging markets.

The ability of expats to understand what type of best practices can be implemented in a particular country depends on their

ability to correctly evaluate its institutions. Kostova, Roth and Dacin (2008) argue that multinational corporations are immune from pressures to make their policies accord with different national institutional contexts. They believe that these companies can choose whether or not to adhere to local institutions. In some countries, some institutions simply cannot be ignored. Friel (2011) points out that although laws and regulations are not enforced for smaller companies in Argentina, larger companies are forced to comply with them. Even if these companies can ignore local institutions without violating the law, it is unclear to what extent such behavior is advisable. In some emerging markets, the local populace, and sometimes even governments, will not tolerate such behavior even if it is legal. For example, companies in Argentina can try to ignore unions or undermine their power. However, if they do so, they can face stiff resistance not only from the populace at large but also potentially from left-leaning national governments.

The Case of Los Grobo¹

Los Grobo is the largest farm management company in Argentina. At its peak in the 2009-2010 fiscal year, it had 900 employees, worked with 5,000 farm owners and had 4,100 suppliers. During that same period, the company oversaw the production of 2.6 million tons of grain and generated a revenue of US\$ 550 million. At that time, the company managed farms in Argentina, Uruguay, Paraguay and Brazil. This company has expertise in every part of its value chain, while simultaneously relying on an extensive network of registered suppliers that work almost exclusively for this company (Bell & Scott, 2010).

Los Grobo CEO Gustavo Grobocopatel believes that paying his suppliers in percentages of the crops harvested and having them compete against each other based on their past performance and availability provides the firm a competitive advantage. Although the company encourages its suppliers to work for others to improve their knowledge, it seeks to retain them in order to build on their experience working with the company. In order to retain them, the firm offers guaranteed trusts for buying their equipment, thereby reducing their financial costs substantively. This type of financial help is particularly useful in emerging markets because interest rates are prohibitively high due to economic and political uncertainty. The company also offers its suppliers training on the latest farming techniques as a way to retain them and improve their productivity. The company CEO believes that this business model works particularly well in Argentina because it is in accord with a cooperative management style typically used in this sector in Argentina. According to Gustavo Grobocopatel, the firm's network-style business model was possible in Argentina because Argentina's work culture is not hierarchical.

Los Grobo began operations in Brazil in 2007. The Los Grobo CEO argues that shortly after beginning its operations there,

the company began having problems using its network-based organizational structure. One of the principle problems, according to his assessment, was the hierarchical work culture in the Brazilian agricultural sector. He mentioned, for example, that in Brazil, the company has to book two different hotels, one for workers and one for managers, whereby the hotel for the latter had to be better than the one for the former. In Argentina, he contended that it was not uncommon for managers and workers to even sleep in the same room. At the same time, the type of contracts he had with suppliers in Argentina was simply illegal in Brazil. It was considered a type of slavery. Consequently, Los Grobo ended up using the employees of the land that was rented to it. This form of contracting was in contradiction to this company's business model as it did not allow the firm to create the type of competition between the suppliers that existed in Argentina. At the same time, the company CEO could not motivate workers by paying them in percentages. For all intents and purposes, Los Grobo became a financial company in Brazil because it merely used the existing resources of the farm owners and advanced them money for renting their land. This type of operation did not justify Los Grobo being in Brazil. In 2013, the company sold its Brazilian operations to Mitsubishi.

The Case of Danone²

Danone is the world's largest maker of dairy products, representing 52% of the company's sales. It also sells baby nutrition, water and medical nutrition. Sixty percent of its US\$21.14 billion in sales in 2012 came from emerging markets. Out of its workforce of almost 100,000 people, 27% of them are employed in the Americas. Executives at Danone are aware of the benefits of adapting best practices and generally empower their local managers to determine which best practices are best for their subsidiaries. Nevertheless, every year it requires all of its subsidiaries to adapt a set of best practices or explain to the company's headquarters why a particular practice will not work in their country. At the same time, the firm allows its subsidiaries extensive leeway in adapting these practices to their local contexts. One of these best practices was DaMaWay, a lean production program. It envisioned creating teams responsible for a variety of activities previously performed by management, thereby enabling the firm to function with fewer managers.

In Argentina, levels of middle management were eliminated but teams were not created. Instead, each individual worker was given responsibility for a machine or part of it and assigned duties previously performed by managers. Workers at this factory would not accept working in teams. They took pride in doing individual work and not that which could be done in a team. To reinforce these feelings of individual pride, management put a picture of the worker responsible for a machine or a particular part of it above his or her work area. The union at this company did not allow the firm to terminate even a

single worker. It also secured significant raises for its members, enabling the highest paid workers to receive more money than the lowest paid managers. So workers did not want to be promoted and managers were unmotivated. Hence, lean production that empowered individual workers made sense because it enabled the firm to fire underpaid, unmotivated managers and give more responsibilities to well-paid workers.

The situation in Brazil was the opposite in many regards. The introduction of DaMaWay changed little in this factory. The only part that did change was the ability of workers to be promoted to managers. Before this never happened. This was a significant source of motivation for workers because an entry-level worker received a salary of approximately US\$300 a month, while top floor managers received a salary of US\$3,000. Hence, workers were motivated to get promoted and not work together. New positions became available roughly every three months. At the same time, employee turnover ranged between 16% and 18%, making teamwork practically impossible. The weakness of the union at this facility undermined the ability of the firm to reduce this figure. The nature of labor laws in Brazil also limited the ability of this firm to reduce the turnover rate. In this country, firms put 8% of a worker's salary into an escrow account that a worker can access only after being fired. Consequently, firms face no real cost when firing workers. Moreover, workers would often ask to be fired so that they could access this money. It was one of the few avenues open to workers to access additional funds as banks would not lend to them money and black market loans were prohibitively expensive.

Conclusion and Ramifications

The cases of Los Grobo and Danone demonstrate that institutions in Argentina and Brazil are radically different and that these differences have a dramatic impact not only on how a best practice needs to be adapted but also occasionally on whether it can be adapted at all. Expats need to be aware of these differences so that they can avoid making potentially costly mistakes. This article also demonstrates that executives also cannot assume that even two neighboring emerging market countries from a similar cultural background have similar institutions. They cannot rely solely on general overviews of institutional settings in regions such as Latin America because they tend to overlook important differences such as the nature of labor laws. Although both Brazil and Argentina are said to have strong labor laws, this article demonstrates that the laws in each country have a dramatically different impact on the best practices firms can implement.

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Endnotes

- 1 All information cited in this section except in the first paragraph is based on interviews this author conducted with the company CEO.
- 2 The information contained in this section is based on an article by Friel and Pinot de Villechenon (2018).

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