1.2 Latin American Family Businesses and Their Role as New Global Competitors

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To understand the role that Latin American business families and their businesses play in the world today we need to address four questions that help us differentiate between them and their counterparts in the rest of the world, analyze challenges and opportunities, and explain their competitiveness. In this introductory chapter I aim to illustrate and summarize what I have learned throughout my career as an advisor to business families and family businesses in this region. At the end of this paper, I want to highlight the factors that I believe make the family groups in Latin America competitive and unique.

What Is Unique About Family Businesses in Latin America?

To understand the role that Latin American family businesses play in the global economy we first need to understand what makes them unique. Historically, we know that by the 1700s, Spanish and Portuguese sailors had discovered and colonized most of Latin America. They were later joined by individuals from Western, Central, and Eastern Europe, Africa, Japan, and the Middle East who were looking for opportunities in the New World. By the 1800s the mixture of all of these cultures with the nates of the region had created a new group of people with a system that reflected a combination of many cultures. Thus, even though we use the term “Latin America” to refer globally to the regions of America that extend from the northern part of Mexico to the southern part of Chile, we have to recognize the large diversity of cultures present in this extensive territory. Each region of Latin America has different traditions and norms that are influenced by the type of settlers that initially came to the specific area. For example, Germans have influenced Chile and Argentina; similarly, the Japanese have influenced Brazil and Peru, and descendants of people from the Middle East have influenced parts of El Salvador, Colombia, and Venezuela. In each of these cases, immigrants brought skills, drive, and resilience that complemented the unique knowledge held by indigenous people to create a different type of entrepreneur. At the same time, it created commonalities between the regions; for example, hard work, the spirit of innovation, and resilience that emerged from starting again in a new world. These commonalities and differences represent some of the main competitive advantages and pressures that affect family enterprises of Latin America nowadays.

In today’s Latin America, most of the big family business conglomerates are one of three types:

1. Descendants of European settlers. This group has a strong influence from European religious tradition, particularly the Roman Catholic religion.

2. Successful entrepreneurs who are either immigrants from Europe and the Middle East, or extremely competent individuals who have managed to succeed in highly rigid societies.

3. Native entrepreneurs who have exploited the creativity of their ideas and seized opportunities through their determination and hard work.

Families from this part of the world tend to be socially responsible and active citizens contributing in visible ways to the social development of their countries. This is an expression of their values but also a way to protect themselves from an environment that can be hostile. The families’ strong religious beliefs promote the need to take care of others in these countries which are characterized by social and economic inequality as well as corruption. Through their social responsibility initiatives, families are able to balance their advantages that come from economic success.

Leaders in these families share remarkable features: confidence, resilience, and high tolerance for environmental uncertainty and risk. They are used to managing the enterprise and leading the family in an environment which is politically, economically, and socially unstable. Power and authority rely on a single individual, the Patriarch, who is the founding entrepreneur or his successor in following generations. Patriarchs have an elevated stature in their family and in their business, but also in the community as a whole. This model of centralized authority poses one of the main challenges of Latin American families: leadership transition to the next generation.

Another characteristic that makes family businesses unique in Latin America is the strong sense of connection between the family and its identity that entrepreneurial families have. These connections are more than those we see in families in business in other regions, such as Europe. For Latin American family members who are involved in the business, family identity is closely intertwined with business identity. This is a positive aspect for those families, as it fosters loyalty and commitment to the family, and the desire in young generations to work and contribute to the enterprise after years of being trained abroad. However, it can also become a challenge. In some families, ownership is an integral part of family membership, thus increasing the number of family shareholders that hold on to ownership for emotional reasons rather than for economic ones. In addition, loyalty and a close and tight-knit family structure can restrain the capacity of the family to disagree, to debate, and have different points of view, promoting groupthink and “consensus at any cost”. This can entail governance challenges in large families with different groups of shareholders who have different understandings about the vision and management of the business, and who may, at a particular time, benefit from the consolidation of ownership that could provide new opportunities for the future of the family enterprise.
What Are the Challenges That They Go Through That Are Different Than Those in Other Areas of the World?

To understand the role of Latin American Family businesses in the global economy we also need to understand the challenges that they face. From my experience, the main challenge of business families in this region is continuity. Even though this challenge is not unique to the family businesses in the region, what is distinctive in these families is how this challenge can be successfully managed. As mentioned previously, leaders of prominent Latin American families have unique characteristics (e.g., strong patriarchal beliefs, tendency for control, and attachment to power). Thus, processes like succession of leadership roles and transfer of ownership control to the next generation represent a gigantic venture that requires working together with their increasingly large family, fragmented ownership, and the management of a shared enterprise.

Family entrepreneurs in this region of the world are likely to be business-centered, single-minded, and highly confident in their own judgment. They are used to leading the business by creating a highly controlled and centralized system of governance. However, as families grow they require a configuration of ownership and control that demands a more “democratic” structure for governing the enterprise. This shift in control depends on collaboration, and a change in how families select or become representatives in the firm. For example, it may require the development of a system that objectively selects and develops family members so they can be competent at fulfilling governance roles, and can be good stewards for other shareholders. Additionally, it may require the development of better systems of transparency and accountability for the family, to enhance trust between individuals so they will effectively perform as a family and as business.

Moving to a collaborative and formal governance system that is institutionalized and structured is the crucial and most difficult step faced by Latin American family enterprises. This is particularly true in the transition to the second and, especially, to the third generation of the business. Collaborative governance requires more time and effort. Governance is an investment in which entrepreneurs do not always see the benefits right away. They enjoy their role running the enterprise and have a tendency to focus on management rather than governance.

Leadership transition is also a sensitive task in Latin American families. For some, respect is deeply embedded in their individual psychology, which makes it difficult to make decisions without consulting present and past leaders of the business. This sense of respect is enhanced by the prevalence of hierarchical systems that are characterized by patriarchal authority and centralized decision-making. Thus, the attempt to begin planning for the succession of the leader is considered an irreverent provocation to them as the established authority. Moreover, when planning for leadership succession, many Latin American families aim to find the new charismatic leader and to replicate this previous leadership model, failing to recognize that continuity will come through shared authority and a participative governance system.

Another challenge faced by leading family businesses in the region is political participation. It is not unusual that families are invited to support a particular party or that family executives are offered political positions. This is due to their social stature within their own country, first because they are considered managerially competent and, second, in some families they are encouraged by the family sense of responsibility and commitment to their country. Political visibility entails different dilemmas, especially in countries where political instability is a constant. While no participation can be seen as unpatriotic, active involvement in politics by any member of the family, on the other hand, exposes the entire family and business, and it can also create significant conflicts of interest. These choices can affect the capacity of the business to respond to government policies, the role that politically engaged family members can have in the business (i.e., in management or in ownership), and the harmony in the family. As families become larger, not everyone necessarily holds the same political views, creating tensions among them.

What Are the Positive Aspects of Latin American Family Firms?

Among the many positive characteristics of Latin American family firms we must highlight the following:

1. The importance that they give to the education of their younger generations. This includes academic education, business knowledge, in addition to the transferring of values, such as social responsibility, innovation, loyalty to the family, and respect for the authority of senior members of the family.
2. Many business families in Latin America show an entrepreneurial and cosmopolitan character. This is manifested through the opportunities that they give to their younger generations incentivizing entrepreneurship and education (in many cases abroad), resulting in these young family members bringing new business opportunities and new management methodologies to the family enterprise that can be adapted to the conditions of their business and their markets. Successful families use entrepreneurial action as a strategy for growth. This is not without its own challenges, when the worldview and the vision and aspirations about the business of the seniors and younger generation grow apart.
3. Diversification of most of these enterprises occurs with the entry of the second generation, developing multibusiness structures. These are typically controlled by a holding structure, with several interrelated family holding companies, which serves to focus on the strategy and coordinates the finances of the group.
4. Undertaking new ventures allows families to train their next generation. This is very important for society, as younger generations from leading family businesses do not have many opportunities to develop in other companies within the country, regardless of their expertise or training, as it is expected that they will return to their own family enterprise.

How Competitive Are They in the Global Market Place?

Since the 1990s, most Latin American economies have reopened to foreign companies. Local companies have had to face competition, which was lacking in the past. This has forced family enterprises to test their resilience. The fact that many leading families place great importance on entrepreneurship and quality education has led to the development of highly talented family managers. Newer generations bring change to the business by adapting what they learn abroad into their own context. The combination of new management capacity with a high tolerance to environmental uncertainty and the dedication to work shown by Latin American entrepreneurs has increased executive competence. Families are also very inclined to promote their members’ entrepreneurial spirit from an early age by encouraging younger generations to bring in new ideas for business development, and providing financial support to help add these new ventures to the family conglomerate umbrella.

Family businesses in the region are well diversified and internationalized. Their larger size relative to their economies allows economies of scale that increase their productive capacity and efficiency. In some respect, diversification protects them from the economic threats that characterize the Latin American environment.

Leading families in the region have dealt with the challenge of succession by institutionalizing formal governance structures and processes that actively address the generational transition pressures and the increasingly complex dynamics within the family and the business. By doing this, they have embraced a more diverse shareholder group. Changes in governance include creating a formal family council to provide a forum in which family members can articulate their values, needs, and expectations in relation to the enterprise. They also develop policies that guard the long-term interests of the family. Additionally, it entails the creation of an independent board of directors that can help balance the institutional polarities that family enterprises face (i.e., open inclusion versus merit selection; forgiveness versus accountability; patience versus decisiveness). Other changes include planning for the retirement of senior family executives, selecting and preparing their successors, and developing training programs to acquire the process skills necessary to function effectively in a more democratized governance system. In these structures, collaboration, compromise, and trust are key.

When taken together, I believe that there are several characteristics that make Latin American business families and family businesses competitive and unique:

1. The characteristics of their people. Latin American families and businesses are characterized by having individuals who are hard workers, resilient, flexible, creative, concerned about social relationships, with strong ties within the local business network, and able to navigate uncertain and dynamic environments. This helps them in their entrepreneurial ventures.
2. Their sense of responsibility toward others, especially their family. This helps them in finding ways to work together and align their interests, even when there are conflicts within the family.
3. Their entrepreneurial spirit. The need to continue the business process, also driven by the increasing demand for creation of wealth for future generations as the family grows.
4. Their capability to adjust and thrive in high risk and volatile environments.
5. Their reputation (some families describe it as credibility and prestige) also plays a critical role in the competitiveness of Latin American family businesses.

As the readers will see in the cases in this book, these strengths can work in favor of the family and the business. However, they can also create challenges that require family business experts to find new ways to help these distinctive family enterprises.