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# Are Latin American entrepreneurial families and their Family Firms different from those present in other STEP regions?

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## ***Are Latin American entrepreneurial families and their FFs different from those present in other STEP regions?***

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The STEP project (Successful Transgenerational Entrepreneurship Practices) has allowed comparative studies amongst regions. Having focused on the Entrepreneurial Orientation of families and their 'familiness' resources and capabilities, using a common methodology, their transgenerational potential has been studied. That is, why and how entrepreneurship is transmitted and developed in next generations.

The first unifying booklet: STEP Global Booklet

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At the time it brought together the experiences and knowledge of 75 families world wide, and 33 universities whose researchers together with family members make a thriving community. Such community, it is hoped, will draw knowledge and practical guides about how material and social wealth is cultivated, developed, grown and extended not only for the benefit of the families and their firms, but for the benefit of the communities they are imbedded in. After all, the number of FFs are well above the number of all firms in the world and contribute to more than 3/4 of GNP in all countries. I will comment on findings of this Booklet in order to build my argument and hopefully approximate an answer to the question just formulated.

Firstly, the booklet does establish common themes: 1) Attitudes and practices related to entrepreneurship performance 2) Resources of 'familiness', that is financial and social capital that somehow help explain the said performance 3) Corporate governance and planning 4) Family capabilities manifested in formal and tacit knowledge.

For the first theme, attitudes and practices, the Venezuela and Costa Rica's STEP members demonstrate the importance of how special character traits, I would risk calling them virtues, of the founders and following generation are needed in order to survive in such adverse conditions. The Venezuelan firms are living many of the hostile environments Guatemala firms went through 150 years ago, or Salvador firms lived just 3 decades ago. Hostility here doesn't refer only to competitive markets, or technological breakthroughs, nor to dramatic changes in the industry. It refers to direct threats of expropriation, legal insecurity, discriminatory red tape and even threats to the life of family members.

So when the European and Asian cases referring to entrepreneurial orientation (EO) of Swiss, Italian and Hong Kong firms, respectively speak of being wise enough to monitor

such orientation in order to last 175 years, as one of the Swiss FFs did, we are in the face of different time dimensions. Europe lived two World Wars of exponential cruelty in comparison to ours. And Hong Kong survived the Communist Revolution whose casualties are still to be duly documented. Ironically, now they are all Human Rights champions.

While the Italian case speaks on need and ways to sell out on time because of market reasons in order to preserve and even grow the family's wealth, plus the Hong Kong case can speak of several generations planning, ours -i.e.LA- is a situation of sheer survival excepting cases like Brazil and Chile. Political regimes in our region will be unpredictable in the coming years, so not only entrepreneurship will be needed but wise management of FFs too, plus adequate public policy and wise and determined execution.

With respect to the second theme: Resources of 'familiness', that is, financial and social capital -leadership, family culture, networks, decisions, knowledge and CG- that somehow help explain the social and financial performance of the FFs, only Asian and Irish cases were considered. I don't think this is symptomatic of LA families not sharing the contributions of 'familiness', rather, it can be interpreted as researchers not paying much attention to this variable at that stage of the project.

I would bring out from the Malaysia case the fact they offer a very detailed comparative analysis on how 'familiness' together with their EO influences their performance. Ranging from a positive to a neutral 'familiness' the reader can observe how the family influence becomes less influential with time in the cases considered. When compared with LA, Malaysia's cases confirm the FFs attention to paying fair salaries plus being concerned about suppliers, in order to pay them on time too. The latter is not the general practice of non-FFs.

The Irish case within this theme brings out 'reputation' as a key intangible resource, proving how it allows to reduce costs, increasing prices when needed and lifting barriers for new players. We have seen this happen too in LA cases, where financial capital provided by banks is not readily available for startups, the exception being FFs' hard built reputation in time.

The Taiwanese four case study offers too a comparative analysis of different size FFs in different stages of their life-cycles, in order to conclude that the more mature and advanced the large FFs are, they will need hiring non-family professionals to enhance their innovation capabilities. In LA we have found this true, not only for large but for small size FFs too, bringing in external board directors.

As our summary advances one can observe more facts in common among different FFs proceeding from different countries than otherwise. Let's proceed to the last themes in order to advance a more definite conclusion. The third theme refers to Governance and Planning. A comparative analysis of three German FFs offers guidelines on how to deal with the inevitable conflict entrepreneurs have to deal with between exploring new ventures and stabilizing these in order to grow. The need of the former to accept his/her limitations and have to call in management professionals who can set a productive

course to comply with the latter. Conflict usually surfaces and so respect and sincerity have to set in. What deters a good manager from working in a multinational public corporation rather than in a FFs? Will familiar labor relations, better professional development and possible participation in revenues explain such a decision?

The two Indian cases demonstrate the importance of having explicit agreed-to governance arrangements in order to set the course for following generations. A few LA cases can illustrate the danger of not having such arrangements set in place. Family Protocols not always offer the detailed governance structure for the FF, nor do they set a course like strategic planning of the FF does, still better: if it includes parallel strategic planning of the family too.

But then come the fascinating cases documented by the University of Edinburgh teamed with University of Makerere in Uganda. The more than 100 year old Scot family with a diversified portfolio of construction and real estate activity that has lived through two world wars. And too, the more than 100 year old Uganda family that went through the ordeal of having lost all their assets to Idi Amin's dictatorship and having to flee the country but returning after the fall of the regime. Both cases are proof of a deep-seated entrepreneurship spirit amongst generations plus alertness to new opportunities over and above a very hostile context even in face of loss of assets. So, someday or other we find that what we are living in LA is not unique, probably with a time lag, but can rely on the endurance of other entrepreneurial families. I will return to this just after mentioning the last common theme.

That is capabilities and knowledge. Here, both LA cases delve around the importance of knowledge sharing amongst generations. If the Mexican contribution documents the importance of formal and informal knowledge, the Colombian team concentrates on tacit knowledge. That is, how family table conversations, sayings amongst relatives, visits to factories, stores, and offices and finally, the example of elders and peers influence the growth or deters the entrepreneurial spirit. There are no essential differences amongst entrepreneurial families in this respect in all countries, in spite of some minor cultural diversity.

This summary proves that past and presently there really aren't many regional differences amongst entrepreneurial families. There are more common qualities than otherwise. Future wise, LA context will be different and so those qualities will have to be exerted to its upmost expression.

It is intellectually impossible for me **not** to take a personal stance on the subject. You might interpret it as political, social and even spiritual standpoint if you may. But observing my surroundings while being a member of the STEP project (Colombia, Mexico, Ecuador, Europe, USA and now Brazil) speaking to colleagues and family members I cannot help but expressing my concern and hopes.

My concerns deal with political regimes. For those of you who are puzzled about what generation I belong to: I belong to the hippie generation or the sixties. I am UC Berkeley graduate. Starting in the 60s Castro was kind of a hope for some of us. Too, liberation theology, originating in Belgium, developed then by Peruvian priests and Brazilian Bishops, signaled a way in those upsetting times. Five decades after, Castrism is

responsible for a collapsed economy amongst the most educated and health served Latin American population. Excepting Brazil and Chile, whose wise recent socialism was the exception in the region, Chavez and Evo seem to hail a course that Argentina's government seems to be following. A very debatable course of bountiful foreign financed collapsing economies while the Venezuelan oil prices keep on the rise. Mexico's neighborhood will aid her course as long as drug lords aren't allowed free rein. And Colombia's course is just as debatable and puzzling. In theory democratic, in practice elitist. After a harsh blow on paramilitary, guerillas and drug lords that brought some peaceful working conditions in spite of its very unjust social and economic situation for low income families, the government opened the door to new peace negotiations with the longest lasting guerilla in the region. Suffice to say that such guerilla is Castrism inspired and its leaders live in Venezuela under Chavez's protection.

Those are my concerns. Now my hopes. Castro somehow managed to expatriate all family entrepreneurs. It was a prerequisite for his social, political and economic experiment. The economy seemed to grow while Soviet resources flowed into the country. And somehow this is Chavez's model where the equivalent of the Soviet Union is today's Venezuelan oil.

I have been positively surprised to find out through the STEP project the importance of FF's contribution not only to the region's economy, but to the world's too. Only recently do economy text books somehow recognize their importance. Business history and entrepreneurship has documented the role of entrepreneurs, but too its only until recently that the family group's contribution has called the attention of researchers.

So the project and its findings have provided me with thoughtful arguments for hope. A hope not only about understanding the past but a deep hope on the resources and capabilities of such families facing the very complex circumstances that lay ahead for them. And of course, for all citizens...

Even though most STEP cases refer to FFs in the higher income bracket of members who can and have provided employment to tens of thousands employees, plus paying due taxes and having access to privileged information, the fact is that the family group plays a crucial role not only providing to society's social consistency, but contributing to wealth creation in ways that, in the cases we have documented, have shown: integrity, responsible citizenship, good and fair labor relations, concern for the environment.

How generalized is this template? We do know that half of the population of our region, belonging to the informal sector, is too, entrepreneurial, each individual trying to make a living for her/himself and family. Under very adverse conditions. An adversity in some ways equivalent to those of the above mentioned families. Expropriation of a factory or a farm, impacts employees, taxes, loss of value. Expropriation of the street corner vendor's meager inventory means not putting food on the family table for a few days.

Public policy that is blindfolded to these realities and erodes private initiative of the well to do together with that of the street vendors derives in demagogic social services of food stamps that create homes where dinner tables and living rooms do not exist anymore, nor where grandchildren have ever seen their grandparents nor parents work.

Public resources (education, health, credit) extensive to the street vendor in order to enhance his entrepreneurial capacities has its equivalent in legal and corporal security where a well regulated market, fair taxes that promote sound investments, government expenditures monitored not only by established state agencies, but by ordinary citizens and industry and commerce associations, will help navigate a reasonable course.

My experience in education tells me that entrepreneurial families need to educate their children and grandchildren not only in disciplines that will enhance the FFs ' material and social capital, but in knowledge and practice that will provide them with an understanding of the public realm. No reasonable public policy is going to come out of politicians and technocrats that haven't understood how to promote and provide to the private initiative, motivation and endurance that only entrepreneurial families have demonstrated.

The political landscape of our countries is quite foggy. Leadership and statesmanship are lacking, political parties don't exist. Only coalitions of power seekers are established when in need. Ideas about on how to deal in a democratic fashion with societal needs are lacking too. Those that have demonstrated in time how to create wealth through hard work, perseverance, austerity, promoting fair labor conditions, paying due taxes, complying with environmental regulations, embedded in the institutional framework of the country, and long term vision: will have to keep doing so, but now with more care, I insist, about the public realm. Only when public policy promotes private initiative, originating in all income groups, supporting each according to its needs, can we be confident of a relatively peaceful society.

Government and state officials will have to recognize the importance of such initiatives. Entrepreneurship and innovation are too ideals that can breathe life into gigantic government structures in order for processes and regulations to be more effective and serviceable to citizens. On the other hand, FFs and other economic organizations have to be conscious of their public role and not only of their market share. When a banking system sets conditions that enable a handful of its members to disappear economic value in the trillion dollar bracket, and lay off more than 50 million workers, we are speaking of private initiative needing to be regulated, but too of the public effect of their 'private decisions'. Such privacy is now being called into public accountability.

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