Latin American 2007 Observations Booklet

Robert Nason
Babson College, rnason@babson.edu

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The prosperity of our communities and countries are related to the strength of family businesses. In many of our most productive countries families control up to 90 percent of the businesses and contribute more than 50 percent of the gross domestic product. They also represent an often overlooked pool of resources for entrepreneurial activity. Family controlled firms are a vital link to the health of our world economy today and into the future.

Until now, the focus on ensuring prosperity through family businesses was primarily to help them preserve wealth and survive from one generation to the next. Through the STEP Project, families will come to understand the entrepreneurial requirements for long-run growth and productivity that can generate prosperity for many generations to come. We refer to this as Transgenerational Entrepreneurship. We believe that the real power and opportunity exists in unleashing the entrepreneurial potential of the family across the generations.

The STEP Project is a unique applied research study that examines the successful transgenerational entrepreneurship practices of business families worldwide. It conducts in-depth cases and surveys of family members and business leaders focusing on how they create social and economic wealth across many generations. By better understanding the entrepreneurial mind-set and methods of families, the STEP Project will provide families with benchmarks for success and continuity.

“Successful • Transgenerational • Entrepreneurship • Practices

"The STEP Project is addressing one of the greatest challenges faced by business families today – growth and continuity that can span many generations”

Timothy G. Habbershon
Institute for Family Enterprising
Babson College

Enabling families to continue
Entrepreneurial

Successful

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Transgenerational

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Entrepreneurship

We are interested in “the new” – how families generate new opportunities, business models, processes, products, companies, and new entrepreneurs. We do not believe that this has to be the domain of solo entrepreneurs or large global corporations. The “familiness” of family organizations creates a distinctive pool of resources which can be exploited as an entrepreneurial competitive advantage across time.

Practices

The STEP Project is a unique applied research study that examines the successful transgenerational entrepreneurship practices of business families worldwide. It conducts in-depth cases and surveys of family members and business leaders focusing on how they create social and economic wealth across many generations. By better understanding the entrepreneurial mind-set and methods of families, the STEP Project will provide families with benchmarks for success and continuity.
How do business families generate and sustain entrepreneurial performance across generations?

Q2: How does entrepreneurial performance relate to continuity and the transgenerational potential of family groups?

The STEP Summit is a distinctive part of the STEP Project’s applied research design. It is through the summits that the STEP Project delivers immediate value back to the families participating in the research.

The summit is not a seminar. It is an applied research dialogue between academics and an elite group of family members. Academic partners invite the families that have participated in their research to join them in a summit environment for dialogue around each other’s cases, findings from the research and shared-learning opportunities.

The STEP Summit at INCAE, Costa Rica in 2008 demonstrated the power and impact of the Summit model. Academics from 9 institutions joined members from 12 families to assist them in further developing their entrepreneurial legacies. The following profiles the participating families and gives an insight into the topics which were discussed.

Carmen Ureña– MAU, Dominican Republic

Participating in the Latin-American STEP Summit has been one of the most enriching experiences of my professional life as a company’s executive. The intense strategies’ exchange that took place during every session enabled me to relate principles and methodologies already known to its practical uses.”
<table>
<thead>
<tr>
<th>Institution</th>
<th>Members</th>
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<tbody>
<tr>
<td>BABSON, USA</td>
<td>Timothy G. Habbershon*, Mattias Nordqvist, Robert Nason</td>
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<tr>
<td>IAE, Argentina</td>
<td>Paula Caputo</td>
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<tr>
<td>DOM CABRAL, Brazil</td>
<td>Maria Teresa Roscoe, José Antônio de Sousa Neto</td>
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<tr>
<td>Aldofo Ibanez, Chile</td>
<td>Gonzalo Jiménez, Carolina Pérez-Íñigo, María Pía Bartolomé</td>
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<td>UniAndes, Colombia</td>
<td>Ana Cristina González, Maria Lorena Gutierrez, Diego Vélez, Luis Díaz Matajira, Luis Chavarro</td>
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<tr>
<td>PUCMM, Dominican Republic</td>
<td>Iluminada Severino, Cecilia Pérez</td>
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<tr>
<td>USFSQ, Ecuador</td>
<td>Thomas Gura, Gonzalo Mendieta</td>
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<tr>
<td>ITESM, Mexico</td>
<td>María Fonseca Paredes, Marcela Ramírez</td>
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<tr>
<td>INCAE, Nicaragua / Costa Rica</td>
<td>Esteban Brenes*, John Ickis, Pavel Molina</td>
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<td>IESA, Venezuela</td>
<td>Federico Fernández, Patricia Monteferrante, Aramis Rodríguez, Susana Chu, Rebeca Vidal</td>
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<td>Centrum, Peru</td>
<td>Luis Chang Ching, Jamie Salomon, Juan Manuel Aguilar</td>
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<tr>
<td>InterAmerican, Puerto Rico</td>
<td>Juan O. Rivera Algarin, Marcos Menendez</td>
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*Co-chairs of the 2007 Latin American STEP Project
Argentina:
Lacau: Pedro A. Lacau e Hijos SRL operates in Argentina’s agribusiness sector for 4 generations, currently with 6,450 hectares in five farms and sows a total area of 40,000 hectares in wholly-owned and third-party lands.

Brazil:
Mesquita: L’acqua di Fiori produces perfumes, make up and body, face and the hair care products, sun screening and children’s lines and bathing products of international quality.
Soares: PIMEX is a business group that has been active for 47 years in the wholesale and retail market of storage, transportation and export of sugar and alcohol

Chile:
Köster: Kacinco Investment Holding is a second generation business family from German origins involved in computing, agriculture, building and construction, real estate, retail and distribution.

Colombia:
Saab: Independence Drilling was founded in 1980 to explore, perforate and maintain water and oil wells.
Stenz: Covinoc was founded in 1952 and is dedicated to credit logistics and collection management.

Dominican Republic:
Ureña: Manuel Arsenio Ureña C. por A. (MAU) was founded on in 1962 as a wholesalers’ business in goods.

Ecuador:
Vargas: La Ibérica is a 3rd generation cold cuts and cured meat producer in southern Ecuador.
Guggenbühl: Calzado Pony S.A., is a 2nd generation shoe manufacturing company and was founded in 1978 by Austrian and Swiss immigrants.

Mexico:
Garcés: Tiendas Garcés is a regional company founded in 1959 which currently operates over 33 supermarkets called Super Kompras, an office and a distribution center.
San Román: Founded in 1990, Grupo Necs is a recognized leader in geotechnical construction, specializing in deep foundation works.

Guatemala:
Herrera: The Pantaleón Group is a 6th generation Guatemalan company that has grown to become a leader in the sugar industry, having expanded operations to Nicaragua and Brazil.
Mansilla: CONSULTEC S.A. is a diversified holding company with operations in the fast food industry, motorcycles and bakery products among others.

Venezuela:
Hellmund: Casa Hellmund was founded in 1862 and over its 5 generation history has entered a variety of markets from exporting coffee and cocoa, importing foodstuffs, retailing sporting goods, and more recently photo imaging.
Maldonado: The Maldonado Economic Group is an organization which owns a number of business undertakings in the insurance, livestock, agroindustrial, industrial trade and real estate sectors.
<table>
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<tr>
<th><strong>VALUES</strong></th>
<th><strong>STRATEGY</strong></th>
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<tbody>
<tr>
<td>• High degree of social entrepreneurship and community value creation</td>
<td>• Adoption and adaptation as innovation strategies</td>
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<td>• Clear family vision for continuity and survival from the beginning</td>
<td>• Renewal as entrepreneurship in older firms</td>
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<td>• Family, cultural and religious values were seen as historical resources</td>
<td>• Emergent opportunities through networking</td>
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<td>• Self-awareness of need to be entrepreneurial</td>
<td>• Differentiation in the face of scale</td>
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<tr>
<th><strong>GOVERNANCE</strong></th>
<th><strong>CULTURE</strong></th>
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<tr>
<td>• Internal and external autonomy</td>
<td>• Founder-centric cultures set the organizational tone</td>
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<td>• Portfolio family entrepreneurship key to growth</td>
<td>• Family myths and stories had an enduring impact</td>
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<td>• Family life stage as defining characteristics for organizational development</td>
<td>• Relationship between family and non-family managers as a key challenge</td>
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<td>• The impact of life-stage interruption on entrepreneurial leadership of next generation</td>
<td>• Entrepreneurial mind-set institutionalized in the business</td>
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<tr>
<td>• Paternalistic senior generation influence and control</td>
<td>• Personal connection to customers as drive to add value</td>
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Institutionalizing Entrepreneurship: From a Serial Entrepreneur to an Enterprising Family

Family businesses are often characterized by having a strong founding entrepreneur, however, some enterprising families are able to institutionalize the entrepreneurial mind-set and skills in their family. When successful, enterprising families demonstrate amazing growth and entrepreneurial performance.

Case Example: Holding Kacinco, diversified holding company, Chile.

Edgar Köster, the son of a German immigrant, demonstrated outstanding engineering skills and a “doer” vocation. He began his own constructing business that undertook in record time the building of series of sugarbeet mills in the early 50s. Such a successful track record and Edgar’s enthusiasm, vision as well as his engineering genius and congeniality made him an ideal partner for business-savvy friends who invited him to lead new ventures. Thus Edgar became a serial entrepreneur developing new businesses based in engineering skills in real-estate, mining, retail and even agriculture. Later on Edgar served in the public service, leading the construction of Santiago’s Metro System and chairing Chile’s main non-profit clinic. Edgar’s 3 children did not get much involved in his businesses until they were in their late forties/fifties and had developed their professions independently. This second generation, soon after joining realized their reality as a family in business and begun making efforts to professionalize their joint ownership. Building on Edgar’s profitable business basis, and after overcoming a major financial crisis, the second generation has been able to professionalize their diversified investment holding company. And they are committed and keen on playing their role as a business family enabling their Next Gen to grow new entrepreneurial ventures and to continue as a united family.

Driving Question: How does a succeeding generation institutionalize their father’s success and project an entrepreneurial spirit among their next generations?

Adoptive Innovation: Setting new regional standards by being early adopters

Many family businesses feel that they cannot compete as innovators with large companies who can invest much more in R & D. What some realize is that innovation does not have to be ex nihilo, rather family businesses can take their regional industry to a new level by recognizing and implementing global innovations before their local competitors.

Case Example: L’Acqua di Fiori, perfume and cosmetics, Brazil

Mr. Leopoldo Mesquita founded L’Acqua di Fiori in 1980 and has grown it to 830 exclusive shops, selling more than 370 items in perfumes, aromatherapy, make up and body, face and the hair care products, sun screening and children’s lines. L’Acqua di Fiori has set the standards for the Brazilian perfume and cosmetics industry by recognizing and implementing processes and standards which were not new to the world, but new to their Brazilian market. They became the first to franchise in their industry, raise cologne concentration to international “Eau de Toilette” standards and use innovative bottle designs. These adoptive innovations have made L’Acqua di Fiori industry leading in their region.

Driving Question: How can families use adoptive innovation to become industry and regionally leading?
Non-family advantage? Family constitution as facilitating or constraining entrepreneurship

Some family businesses rightly fear that nepotism and the promotion of inexperienced family members to top management will have a negative effect on their entrepreneurial performance. But what if there are plenty of well educated, experienced and committed family members that would be able to develop the firm? Is it advantageous to have a general policy and protocol that makes this potential pool of entrepreneurial resources unavailable for operating positions in the family business?

Case example: The Pantaleón Group, Guatemala.

Pantaleón was founded as a diversified agricultural enterprise in 1849 by Manuel María Herrera and has grown to be the leading sugar mill in Guatemala, with operations in Nicaragua and Brazil. Pantaleón has remained in the family, with 142 shareholders now in the third to sixth generations. Leadership followed a traditional pattern of centralized control until the business was on the brink of failure. The current president, Julio Herrera, turned the company around by installing a professional management team. Soon afterwards, the family-run board of directors passed a rule that family members should not be allowed to work in the business. Many of the 142 family members are highly educated with successful international careers. However, the only way that they can contribute to the company’s future success, under the current rule, is through selection by merit to a board position.

Driving question: What are the consequences for entrepreneurial performance of a professionalization policy that excludes qualified family members from top management involvement?

Family disadvantage? A human resource constraint to growth and expansion

In contrast to the above example, another type of family business fears and distrusts having non-family members in top management. These family businesses prefer to have only family members in the top management positions and drive the firm’s development based on a family agenda, rather than risking tensions between the family’s agenda and hired top managers personal priorities and interests. However, sometimes the entrepreneurial opportunities outnumber the available family members that can seize and pursue these opportunities, making the family human resource pool a constraint to growth.

Case Example: La Iberica, Ecuador

La Ibérica Cia Ltd, producers of cold cuts and cured meat products, was founded in 1920 in Ecuador. The company has been experiencing steady growth over the past few years and has been focusing on internal operational efficiency, process documentation, best manufacturing practices and hygiene. At the moment, the company is in the hands of the third generation. The company is pursuing a strategy of maximum quality in all products to the final consumer. There is a desire for the company to stay in family control and that no operations of significance should be controlled by anyone not directly related to the family. Even in-laws are not allowed to hold job titles. Despite growing interest in entrepreneurial growth, this dedication to family-only in upper positions currently limits the company’s ability to expand.

Driving question: How can families balance the desire for control and the pursuit of entrepreneurial growth through time?
Women’s Leadership: Cultural challenges for women to leading innovation and growth
As in many other spheres of society, women face challenges when trying to reach the top in family businesses. However, many family businesses, even in socially constraining societies, realize that it does not make sense to exclude fifty percent of the family human resource pool and that empowered women entrepreneurs can lead their companies to the next level.

Case Example: Independence Drilling, Colombia
In 1980 Independence Drilling was founded by Mr. Miguel Saab, a second generation Lebanese immigrant with a pronounced entrepreneurial profile. Independence is still owned by the Saab Family - Mr. Saab’s widow, Laila Faour, and their six children. With different entrepreneurial and risk taking profiles, every member of the family has been involved at some period of time in the management of the company. Colombia has a culture traditionally dominated by men, and so does the Lebanese society from which the family originates, but the Saab family has been very proactive involving their daughters in the family’s businesses. Currently, one female family member heads Independence Drilling, and a second is CEO of another of the family’s businesses. While often having to fight values working against their involvement in business, both women have played prolific and unquestionably valuable leadership roles for the Saab family’s entrepreneurial ventures.

Driving question: How can families empower female entrepreneurial leaders despite cultural opposition?

The Vision Resource: Leveraging the inimitable family dream for success and continuity
Vision plays an important role in every company, but can be a unique resource for families to leverage as a driver for continuity. The key is to build a clear vision and actively transmit the vision through generations.

Case Example: Tiendas Garcés, Supermarket stores, Mexico.
Tiendas Garcés was founded in 1959 by Don Jorge Garcés upon the vision for creating a company with a commitment to community and family. Tiendas Garcés has grown from a small miscellany in Tenancingo, Mexico to 33 stores with over 900 employees. Don Jorge’s ability to articulate the family vision through storytelling has been a tremendous vehicle for passing on the values and dreams to the next generation. Don Jorge’s son Jorge Garcés Domínguez is poised to leverage the family vision resource as he leads Tiendas Garcés in the next generation.

Driving Question: How can families leverage their inimitable vision resource to drive growth across generations?

Reputation and networks: Unique family resources for entrepreneurial growth
Families have the ability to build reputation and networks which can be uniquely transmitted over many generations. These two family resources can facilitate opportunity recognition and be leveraged in launching new businesses.

Case Example: Hellmund, diversified holding company, Venezuela
Over the course of their 145 year history the Hellmund family has developed a reputation for open and favorable business partners. This reputation has expanded their network and created many new opportunities for entrepreneurial endeavors. As a result, the Hellmuns have been able to leverage their networks and reputation to enter many different lines of business, from exporting coffee and cocoa, representing a steamship line, importing food-stuffs, retailing sporting goods, and imaging and photography.

Driving Question: How does family reputation and networks impact entrepreneurial growth?
The pilot year for the STEP Project in Latin America has been a fantastic learning opportunity. With a great team of researchers exploring very diverse and open family businesses, we have begun building our world class body of knowledge from the region. We have applied this knowledge with our innovative Summit model and opened exciting new avenues for exploration.

In 2008 we will expand STEP Latin America by inviting additional families to participate in the research. Families who participate in the research are invited to attend an annual regional Summit. The 2008 STEP Summit is at ITESM in Mexico City from November 7-8, 2008.

The STEP Project is a global research study. STEP now has partner universities and families in Europe, Latin America, Asia Pacific and North America. The new families and cases in these regions will provide valuable cross-cultural insights. The resulting data will allow for fruitful international analysis and global dialogue.

Transgenerational entrepreneurship is a complex subject to study, but one that is critical to the enduring success of business families, local communities and the global economy. The STEP Project is committed to providing deeper understanding and high impact solutions for the business families of the world.

For more information on being a part of the STEP Project research please visit www.STEPProject.org or contact Robert Nason at rnason@babson.edu

Babson College
231 Forest St.
Blank Center 201
Babson Park, Ma 02457
781.239.4332
Latin American STEP Partners