



Business: Problem or Solution in Latin America?

HBSWK Pub. Date: Apr 12, 2004

Developing a climate that supports commerce and improves the lives of the millions who live in poverty in Latin America remains a challenge, according to the speakers at the Development Initiatives and Challenges panel. by Julie Jette

What is the best role for business in Latin America? Marcela Escobari, a manager with On the Frontier Group, a consulting group that helps clients become competitive in global markets, asked the audience how they would measure success in an enterprise. Answers included return on investments, performance improvements, and growth in shareholder value. But Escobari proposed a measure that may have surprised some in the audience.

"Let me propose that the best measure of success is high and rising wages," she said. Such is not the case in many Latin American countries, and Escobari said that should be cause for alarm.

"As wages deteriorate, progressive human values deteriorate," she said. Those values include a productive attitude toward authority, tolerance for others, and satisfaction with one's own life. These are the things that, along with the wages in our countries, are deteriorating, she said. "I come from Bolivia...and only a few months ago there was an indigenous insurgency that overthrew our elected president."

The only way to combat falling wages and societal deterioration, Escobari continued, is through increased economic competitiveness.

"It is really about creating products that can be sold to a sophisticated consumer for a premium," she said. OTF Group, she said, tries to tackle the issue of non-competitiveness by working with individual firms in clusters to help them find opportunities for high-value products or services.

"When we work with clusters, we work with all the entities around the value chain that need to work together to get to that final product," she said. Instead of working just with hoteliers in Jamaica, for example, they worked with hoteliers and tourist agencies and other tourism-related companies.

Danger of commodity exports

A major failure of most Latin American economies, she said, is the over-reliance on the export of commodities. The value of most commodities shipped from Latin America is currently 20 percent of what it was in 1845, she said.

"At the end of the day, in the commodity market you compete on cheap labor. You compete on how much you can depress the salaries of your people until your society explodes," she said. "It's not how much you export; it's what your country is exporting. The more commodities we export, the more sugar we're exporting, the more green beans and coffee that you export, the poorer your country gets."

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— Gonzalo Verdomar Weiss, BBVA
Banco Frances

OTF Group even found commoditization in the Caribbean tourism industry. A few years ago, as it was doing a project in Bermuda, the team posted a list of attributes Bermudans said they were using to sell their country as a tourism destination. The list included things like "blue water," "freedom from the ringing

phones," and "crime is not a problem."

"People in the audience were nodding; they said, 'Yeah, that's our strategy,'" but OTF had lifted the exact phrasing from a marketing campaign by the Cayman Islands. It was pretty much the same as the Dominican Republic's strategy, and Cancun's strategy, and so on.

The company encountered a similar phenomenon in Jamaica. Industry officials thought tourism was improving because arrivals were increasing over time; what they missed was that spending by tourists was decreasing.

"They were becoming the low-cost destination of the Caribbean, and that's the commodity trap," Escobari said. OTF Group helped Jamaica upgrade its services and direct them at adventure travelers who were willing to pay more for unique experiences.

Gonzalo Verdomar Weiss, corporate director of institutional relations at BBVA Banco Frances, asked the audience members to put themselves in the position of a CEO and consider what their responsibilities are to the social environment of their country.

"It's not conceptual, Mr. President. It is directly related to the bottom line of a company. It's not an academic issue," he said. "We are all part of a problem or part of a solution in this game."

In considering that question, Verdomar said, CEOs should ask themselves who the stakeholders in the company are—and think beyond the shareholders, customers, and employees.


"The temptation is to shorten the list," he said. "You have to deal with the feelings of a people. The needs, the worries, the fears, the frustrations, and the reasons to be happy," he said. "We have to deal with them because we have to interact with them."

Social contract needed

"It isn't enough to maximize the profitability of a company," he said. "Also a new social

contract has to be planted, which incorporates the concepts of CSR" or corporate social responsibility.

CSR has been embraced by many companies in Europe, where consumer awareness is high, but Verdomar said it is needed even more urgently in Latin America, where 45 percent of the population lives below the poverty level.

He said BBVA Banco Frances has embraced CSR by granting more than 1,000 awards to small- and mid-sized entrepreneurs over the last fifteen years, by supporting seventy-one non-governmental organizations that provide services, and by promoting art and culture. "CSR is an opportunity for a new corporate culture, a real opportunity. We can show a change in the behavior of companies," he said. "If this cultural change doesn't take place ... we are running another risk." 

Julie Jette has been a business reporter for seven years.