The Role Of Guatemalan Crisis Management Attitudes In Foreign Direct Investment Initiatives

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Abstract

Improvements in communication, transportation, and technology continue to drive business globalization. Foreign Direct Investment (FDI) is one way in which firms can globalize. Although firms seeking FDI opportunities may investigate the commercial, economic, political, and natural resource environment of the potential host country, cultural issues including crisis management attitudes are sometimes overlooked. This study reviews crisis management considerations, investigates attitudes of indifference displayed by Guatemalan businesses with respect to crisis management, and discusses the implications for firms seeking FDI opportunities in Guatemala.

Introduction

Improvements in communication, transportation, and technology continue to drive the globalization of the world economy. "There can be no doubt but that globalization is a wave of the future, and that the trend of the 21st Century will be to witness an ever-increasing degree of international cooperation on both a regional and a world-wide basis" (Le Veness & Fleckenstein, 2003, p. 65). One way in which firms choose to participate in globalization is through use of foreign direct investment (FDI) initiatives. Taylor defines FDI as "investment that creates a lasting management interest, often defined as more than 10 percent of voting stock in a company" and documents the strong growth of FDI by noting, "Annual global flows of [FDI] rose from $200 billion in 1990 to nearly $900 billion in 1999" (2002, p. 24).

Ramirez (2002) summarizes Dunning's explanation of the primary competitive advantages regarding FDI. He notes that first, the establishment of transnational corporation (TNC) subsidiaries give the parent firms exclusive rights to patents, trademarks, and commercial and production secrets, effectively denying access to both foreign and domestic competitors. Second, these subsidiaries generate location-related advantages such as direct access to growing markets and lower unit labor costs, reduced transportation and communication costs, avoidance of tariffs, and direct access to raw materials and intermediate products. Finally, TNCs derive advantage from internalizing certain research, development, production, and marketing operations because utilizing some market mechanisms such as leasing licenses and advertising agencies can be relatively burdensome and costly.

Although FDI can provide significant strategic advantage to TNCs, the decision to pursue FDI opportunities should not be taken lightly. Serious consideration must be given to the commercial, economic, political, natural resource, and cultural environment of the potential host country. One region enjoying increased attention related to many of the factors conducive to potential FDI is Central America.

Festervand (2002) notes that FDI in emerging Central American countries has tripled over the past decade, influenced in part by initiatives such as NAFTA, the Reciprocal Protection of Investment Treaty between the U.S. and Nicaragua in 1995, the Caribbean Basin Initiative (CBI) and other trade fostering agreements. Within Central America, Guatemala is drawing the increased attention of TNCs seeking FDI opportunities. Festervand created a perceptual mapping by professionals from U.S. industrial organizations of ten emerging Central American countries.

Respondents ranked Guatemala high in strategic opportunistic position based on the dimensions of market opportunities, advantageous business requirements, and relative economic and political stability.

Guatemala is the largest and most densely populated country in Central America, with an economy built on two major sectors: agriculture and retail. Both sectors provide tremendous potential for economic development and are comprised primarily of small businesses. Guatemala is rich in minerals, oil, and other natural resources, and boasts low labor costs. The nation has a fast growing light industry sector and the largest industrial base in Central America. Guatemala is considered an important manufacturer of pharmaceuticals, chemicals, clothing, wood, and food products (Mahler, 1999). Given its rich resources, low labor costs, large industrial base, ample market opportunities, and relatively high degree of economic and political stability, there is little doubt that TNCs will continue to consider Guatemala an attractive source of FDI opportunities.

Yet TNCs seeking successful FDI opportunities need focus on more than commercial, economic, political, and natural resource factors. To create truly valuable FDI, TNCs must investigate the cultural implications of potential opportunities. Proffit et al. (1997) detail a difficulty faced by TNCs seeking FDI opportunities in Russia as a result of decades of communist enculturation. The cultural remnant relates to the communist doctrine that all citizens have the right to work; this belief causes tremendous difficulties for free marketers attempting to implement employment-at-will practices which give managers significant latitude to fire and discipline employees. So far, Russian law has not sanctioned employment-at-will practices, further adding legal complexity to the already culturally sensitive subject.

One cultural issue sometimes neglected in evaluating FDI opportunities relates to attitudes of firms in the host country with respect to crisis management. Crisis management aims to minimize the impact of an unexpected event in the life of an organization (Spillan & Hough, 2003). Many large organizations, hopefully including TNCs with sufficient sophistication to pursue FDI, have highly developed crisis management plans and teams that are ready and rehearsed for crises. The supply chains of these firms, often consisting largely of small businesses, may lack a sufficient degree of sophistication with respect to crisis management philosophies, or may have cultures in which crisis management practices are considered unnecessary.

Even TNCs which otherwise are thorough in assessing major risk factors of potential FDI opportunities may fail to assess the viability of small businesses in the potential supply chain with respect to their crisis management attitudes. Sheffi (2001, p. 6) notes that "more than ever, corporations should realize that their long-term fate is intertwined with that of their suppliers, customers, and even their competitors." Not only must managers of TNCs engaging in Guatemalan FDI initiatives prepare for potential internal crises, they should also be sufficiently familiar with the crisis management philosophies of the primarily small businesses that are a critical component of the Guatemalan supply chain.

This study will investigate the cultural climate that TNCs seeking FDI opportunities in Guatemala may encounter with respect to crisis management. The study first will review current literature related to the crisis environment and crisis management, including attention given it by small businesses. Next, the authors will relate the methodology and results of their crisis management survey conducted in Guatemala. Finally, we will discuss the implications of our findings with respect to TNCs seeking FDI opportunities in Guatemala.

Literature review

Crisis environment

A wealth of management literature suggests that organizations are naturally reactive concerning potential future crises, perhaps because managers believe crises are unlikely to happen to them (Mitroff, Pauchant, and Shrivastava, 1989; Pearson and Mitroff, 1993; Penrose, 2000, Shrivastava, 1993). As shown in Table 1 however, crises do occur despite businesses' beliefs that they are somehow immune. Crandall, et al. (1999) broadly group crises into five categories: operational, public image, fraud, natural disaster, and legal crises. These crises can devastate wherever they occur, but their effect can be magnified in an unfamiliar environment.

Table 1
Crisis Classification Framework

Category	Impact	Crisis Events
Operational	Short-term or long-term disruption of organization's daily activities	Loss of records permanently due to fire Computer system breakdown Loss of records permanently due to computer system breakdown Computer system invaded by hacker Major industrial accident Major product/service malfunction Death of key executive Breakdown of a major piece of production/service equipment
Public Image	Negative public perception	Boycott by consumers or the public Product sabotage Negative media coverage
Fraud	Loss of stakeholder confidence, reduced employee morale and productivity	Theft or disappearance of records Embezzlement by employee(s) Corruption by management Corporate espionage Theft of company property Employee violence in the workplace Asset misappropriation
Natural Disaster	Temporary or permanent disruption of daily activities, destruction of facilities or equipment, loss of life	Flood Tornado Hurricane Earthquake
Legal	Negative public perception, loss of stakeholder confidence, bankruptcy due to cost of legal representation or payment of fines and penalties	Consumer lawsuits Employee lawsuit Government investigation Product recall

Adapted from Crandall, et al. (1999).

Ptaszynski (2000) notes that companies operating in less familiar environments may not be aware of the severity and frequency of earthquakes, hurricanes, or other forces that make common risks potentially more severe. He indicates that buildings in many foreign locations may be constructed to what can be considered substandard codes and that in some countries, there are few central station monitoring companies for fire or burglary alarms. Weak water pressure and a lack of apparatus or trained professionals can hamper firefighting efforts, and political instability may increase losses due to graft and corruption, theft, or property damage from civil unrest. Further, the consequences of inadequate preparation are severe: Fink (1986) and Offer (1998) found that 50 percent of businesses experiencing crises do not survive without an adequate mitigation and recovery plan, and Pedone (1997) notes that 90 percent of businesses without a disaster recovery plan will fail within two years of the occurrence of a disaster.

Crisis management and small businesses

The potential damage wrought by any of the crises listed in Table 1 is significant, but their impact may be magnified with respect to small businesses that traditionally are more limited in the capital and human resources needed for effective mitigation. As such, it might be expected that small businesses, generally defined as those having fewer than 500 employees, would be more proactive with respect to managing crises since the consequences are potentially more severe.

Spillan & Hough's study of small businesses in Pennsylvania and New York, however, found that small businesses place little emphasis on planning for crises and that only the actual occurrence of a particular crisis impels businesses to plan against its reoccurrence. Further, only 11 percent of businesses surveyed had crisis management teams, even though multiple studies (Barton, 1993; Caponigro, 1998; Hickman & Crandall, 1997; Pearson & Clair, 1998) provided compelling arguments for the creation of such teams, and Fink (1986) found that organizations with no crisis management team reported that crises lasted two and a half times longer than those crises occurring in organizations with established teams. Spillan & Hough further note small business managers justify their indifference toward crisis management with reasons such as lack of time, low probability of crises occurring, management's perceived abilities to work their way through crises without plans or formal teams, and the often-false sense of security provided by insurance.

Businesses operating in Guatemala, the majority of which are categorized as small, are not exempt from experiencing crises. At certain historic points, political controversy and an unequal distribution of income have created serious vulnerabilities including sporadic guerilla attacks, kidnappings, and high profile murders (Rarick, 2000). The unequal distribution of income has exposed businesses to problems of internal corruption, robbery, and extortion. These factors create an environment where managers must be prepared for any of the variety of crises that may emerge in the conduct of business (www.latinsynergy.org).

Guatemalan crisis management study

Impetus

Since Guatemala exhibits many of the characteristics conducive to attracting FDI initiatives but still presents an environment vulnerable to potential crises, this study seeks to document prevailing attitudes found in Guatemalan businesses toward crisis management. Central to this effort is determining if surveyed businesses have crisis management teams, and if the existence of such teams influences crisis management attitudes; examining how concern is generated regarding potential crisis events; and evaluating whether concern is generated more from the formation of a crisis management team or from the experience of a crisis event. The hypotheses and survey instrument used in our 2003 study of U.S. businesses were extended to this work to provide a basis for comparison.

Research Questions

To gain insight into the crisis management philosophies of Guatemalan businesses, a study was conducted around the following hypotheses:

Hypothesis A – There is a higher degree of concern toward potential crises among Guatemalan businesses with crisis management teams than in those businesses with no such teams.

Hypothesis B – Guatemalan businesses that have experienced crises are more concerned for those crises than those businesses that have not experienced crises.

Hypothesis C – The degree of concern for a crisis event is dependent more on the actual occurrence of the crisis event than by the formation of a crisis management team.

Survey instrument and data collection

Data were collected using a survey instrument adapted from the instrument used by Crandall et. al. (1999), and based on the crisis events listed in Table 1. The survey solicited basic information such as the type of business, number of employees, number of years in business, and if the respondent's organization had a crisis management team.

Related to the crisis events listed in Table 1, respondents were asked to rate the organization's degree of concern for the occurrence of each event using a five-point Likert scale ("low" to "high"). Respondents also were asked to indicate whether their organizations had experienced that event in the past three years. Additionally, a letter was attached to the first page of the survey described the study and providing specific instructions regarding survey completion.

The study's participants consisted of business owners and managers from 212 Guatemalan enterprises located in the cities of Coatepeque, Guatemala City, Mazaltenango, Quezaltenango, Retalhuleu, and San Marcos. All respondents were recruited on the basis of convenience and participated voluntarily.

Data analysis

T-tests and analyses of variance were used to evaluate the three hypotheses in an attempt to remain methodologically consistent with both the 1999 Crandall et al. and the 2003 Spillan & Hough research. The first analysis examined the mean differences in degree of concern between businesses that had crisis management teams and those that did not. The second analysis focused on analyzing the mean differences in degree of concern between those businesses which had experienced a particular crisis event and those which had not experienced that event. The third analysis assessed degree of concern as the dependent variable with the occurrence of an event and the existence of a crisis management team as the independent variables.

ANOVAs and descriptive statistics were collected for the entire data set following testing for mean differences using t-tests. Analyses were supported with a Scheffe post-hoc analysis to test for significant differences between levels of the independent variable.

Results

The majority of Guatemalan participant organizations are small based on the measurement criterion number of employees. Of the respondent companies, 189 (94 percent) indicated they had fewer than 50 employees while 11 (5 percent) employed between 50 and 499 workers. Overwhelmingly, the responding organizations lacked crisis management teams. Only 19 (9 percent) respondents acknowledged the existence of a crisis management team, while 183 (86 percent) indicated they had no such team. Ten organizations, or 5 percent, provided no response to the question.

Results of analysis show that, for the most part, Guatemalan businesses with crisis management teams had no greater concern for potential crises than businesses without crisis management teams. Table 2 ranks in descending order by $\underline{t}$ value the mean concern scores for businesses with crisis management teams to the mean scores for businesses lacking these teams for the crises detailed on the survey. Of the 26 events listed, only computer system breakdown ($\underline{t}$ = 2.672, p=. 011) and death of key executive ($\underline{t}$ = 2.040, p=. 037) showed a significant difference in means at the .05 level. Because only two of the 26 events (8 percent) displayed a significant difference in mean concern scores, hypothesis is not strongly supported.

Table 3 illustrates the results of a comparison of mean concern values for Guatemalan businesses that had experienced a given crisis event to the mean concern values for those businesses that had not experienced the event. The crisis events are ranked in descending order by $\underline{t}$ value. The results show significantly higher concern for a given crisis by businesses that had experienced the crisis as compared to concern for the event by businesses that had not experienced it. So, only after experiencing the devastating aftermath of a fire would concern be generated regarding future fires. Businesses that experienced 23 of the 26 crisis events listed in the survey (88%) were significantly more concerned about those events at the .05 level than businesses that had not experienced those events. Of the 23 events where significant differences occurred, differences for 21 events were significant even at the p=.01 level. These findings confirm Hypothesis_b, that those businesses that have experienced crises are more concerned for those crises than businesses that have not experienced the crises.

Finally, an analysis was conducted using the degree of concern regarding a potential event as the dependent variable and the occurrence of a crisis event and the existence of a crisis management team as independent variables. This procedure was performed to determine which factor is more critical regarding concern in respondent businesses: the occurrence of a given crisis event or the existence of a crisis management team.

Table 2
Comparison of Mean Concern Scores: Organizations With and Without Crisis Management Teams

	Crisis Management Team?					
	Yes		No			
Concern for:	n	Mean	n	Mean	t	*p*
Computer system breakdown	28	3.14	95	2.01	2.672	0.011
Death of key executive	31	3.19	103	2.36	2.040	0.037
Hurricane	29	1.60	94	2.38	2.017	0.051
Earthquake	29	2.52	94	1.81	1.759	0.086
Loss of records – fire	30	1.53	102	2.14	1.684	0.095
Theft/disappearance of records	34	3.35	116	2.72	1.619	0.108
Flood	30	2.33	99	1.74	1.555	0.128
Corporate espionage	31	2.29	101	1.87	1.188	0.237
Product Recall	29	2.38	97	1.95	1.154	0.286
Negative media coverage	29	1.55	92	1.91	1.044	0.299
Employee Lawsuit	31	2.16	98	1.86	0.869	0.386
Boycott by consumers or public	33	1.97	102	2.28	0.832	0.407
Management corruption	34	2.53	103	2.26	0.718	0.474
Employee violence in workplace	35	2.26	105	2.01	0.717	0.474
Government investigation	30	1.93	99	1.73	0.621	0.535
Breakdown of production/service equipment	31	1.77	96	1.60	0.584	0.561
Major industrial accident	33	2.94	102	2.73	0.534	0.594
Tornado	28	1.57	93	1.43	0.509	0.612
Theft of company property	34	2.65	103	2.49	0.419	0.676
Loss of records - computer	30	1.67	96	1.79	0.378	0.706
Consumer lawsuit	29	1.69	97	1.58	0.368	0.713
Major product/service malfunction	29	2.10	95	1.97	0.365	0.716
Product sabotage	29	2.10	95	1.97	0.365	0.716
Asset misappropriation	33	2.58	102	2.46	0.296	0.768
Computer system invaded by hacker	31	2.03	98	1.98	0.147	0.884
Employee embezzlement	33	3.06	105	3.02	0.103	0.918

Table 4 illustrates that for 21 of the 26 crisis events (81 percent), the occurrence of the event significantly affected the level of concern for the event at the .05 level. Results were significant even at the .01 level for 19 of the events. The presence of a crisis management team did not significantly affect concern for any of the 26 events. Further, no significant interaction was found among the independent and dependent variables. As a consequence, these findings strongly support Hypothesis$_c$, that the degree of concern for a potential crisis event is dependent more on the actual occurrence of the event than on the formation of a crisis management team.

Discussion

Consistency of results

FDI opportunities in Guatemala appear attractive given the country's rich resources, low labor costs, large industrial base, and perceived strategic opportunistic position. Interested TNCs, however, may find significant disparity between their well-developed crisis management philosophies and the indifferent attitude displayed by the Guatemalan businesses surveyed with respect to crisis planning initiatives.

The results of this study show that few of the primarily small Guatemalan businesses surveyed have crisis management teams. Additionally, the majority of responding businesses are indifferent to the importance of crisis planning. The primary impetus to generate concern for a potential crisis event appears to be the occurrence of that actual event, and presumably a desire to avoid a reoccurrence of the event. The few respondent firms that had crisis management teams had no greater concern for potential crises than those with no teams, indicating that simply requiring suppliers to create crisis management teams will not effectively address the difference in crisis management attitudes.

Table 3
Comparison of Mean Concern Scores: Organizations That Have Had and Have Not Had A Crisis

	Has Crisis Occurred?					
	Yes		No			
Concern for:	N	Mean	n	Mean	t	*p*
Computer system breakdown	28	4.43	94	1.55	9.562	0.000
Asset misappropriation	37	4.03	92	1.71	7.509	0.000
Major industrial accident	46	4.04	80	1.90	6.826	0.000
Employee embezzlement	49	4.18	81	2.09	6.693	0.000
Corporate espionage	21	4.05	105	1.53	6.229	0.000
Theft of company property	37	3.92	92	1.88	6.165	0.000
Product sabotage	16	4.00	105	1.61	5.969	0.000
Boycott by consumers or public	23	4.09	100	1.60	5.702	0.000
Product recall	22	3.91	100	1.56	5.688	0.000
Management corruption	21	4.05	108	1.83	5.675	0.000
Flood	10	4.20	114	1.56	5.638	0.000
Death of key executive	44	3.64	81	1.79	5.437	0.000
Hurricane	10	4.20	113	1.60	5.407	0.000
Theft or disappearance of company records	52	3.92	88	2.23	5.292	0.000
Employee lawsuit	22	3.55	103	1.47	4.740	0.000
Earthquake	9	4.11	110	1.69	4.542	0.000
Computer system invaded by hacker	11	3.91	114	1.74	4.341	0.000
Tornado	2	5.00	119	1.44	4.005	0.000
Employee violence in workplace	26	3.31	100	1.65	3.930	0.000
Government investigation	25	2.92	102	1.47	3.390	0.002
Loss of records - computer	9	3.67	115	1.56	3.107	0.013
Loss of records – fire	5	4.20	123	1.88	3.054	0.003
Breakdown of production/service equipment	6	3.67	116	1.48	2.563	0.049
Major product/service malfunction	9	3.22	111	1.79	1.988	0.079
Negative media coverage	13	2.54	103	1.62	1.582	0.137
Consumer lawsuit	3	1.00	124	1.61	0.731	0.466

While these findings are consistent with Spillan & Hough's previous work, the implications for TNCs seeking FDI opportunities may be more significant. U.S. firms making supply chain decisions typically enjoy numerous alternatives and relatively low switching costs. If the crisis management philosophies of a supplier differ too greatly from those of the firm, it is likely that the firm can find a substitute supplier with minimal replacement cost.

In contrast, TNCs developing FDI opportunities may be constrained by a limited number of viable suppliers and could face cultural, legal or economic consequences related to substitution. These potential limitations emphasize the importance of investigating the crisis management attitudes likely to be encountered in firms operating in the host country.

Cultural complexities

Some of the greatest opportunities and challenges of globalization relate to differing cultural perspectives. Understanding the cultural environment in which businesses operate is imperative in identifying FDI initiatives with a high probability of success. Ball & McCulloch (1999) stress the importance of understanding culture since it shapes perspectives and influences how managers address issues.

Table 4
Analysis of Variance

Independent Variables: (1) Existence of crisis management team (2) Occurrence of crisis event.
Dependent Variable: Mean concern score regarding a crisis event.

	Crisis Occurrence *(A)*		Crisis Team *(B)*		A X B *Interaction*	
Concern for:	F	*p*	F	*p*	F	*p*
Loss of records - computer	10.85	0.00	1.96	0.15	3.76	0.06
Management corruption	7.25	0.01	2.40	0.10	2.84	0.06
Product sabotage	35.93	0.00	7.57	0.47	3.10	0.08
Employee violence in workplace	0.84	0.36	0.24	0.79	2.24	0.11
Theft/disappearance of records	26.91	0.00	1.46	0.24	2.13	0.15
Major product/service malfunction	3.05	0.08	0.87	0.42	1.95	0.15
Computer system invaded by hacker	5.61	0.02	2.56	0.08	1.64	0.20
Hurricane	26.50	0.00	2.38	0.10	1.61	0.21
Asset misappropriation	7.16	0.01	2.17	0.12	1.54	0.22
Flood	31.41	0.00	1.41	0.25	1.38	0.24
Loss of records - fire	8.55	0.00	1.39	0.25	0.86	0.36
Major industrial accident	4.09	0.05	2.09	0.13	0.65	0.52
Boycott by consumers or public	28.52	0.00	1.22	0.30	0.36	0.55
Product recall	20.77	0.00	0.21	0.81	0.60	0.55
Negative media coverage	2.90	0.09	0.94	0.39	0.18	0.68
Theft of company property	30.06	0.00	0.57	0.57	0.57	0.69
Death of key executive	2.63	0.11	1.73	0.18	0.36	0.70
Employee embezzlement	32.39	0.00	0.88	0.42	0.15	0.70
Employee lawsuit	31.42	0.00	0.32	0.73	0.12	0.73
Computer system breakdown	69.19	0.00	1.34	0.27	0.12	0.73
Earthquake	17.50	0.00	0.37	0.69	0.06	0.80
Corporate espionage	23.36	0.00	0.31	0.74	0.05	0.82
Tornado	15.60	0.00	0.38	0.69	0.00	0.96
Government investigation	14.75	0.00	0.23	0.79	.001	0.97
Breakdown of production/service equipment	14.19	0.00	0.19	0.83	0.00	0.99

In Guatemala, family and tradition are powerful cultural themes. The nuclear family and involvement in family activities are very important. Many businesses are family-owned and passed down from generation to generation. As such, family issues sometimes take precedent over business concerns. While business viability is important to the economic well being of Guatemalans, it is not necessarily a top priority.

The strong orientation toward tradition dictates that business is often conducted using the same principles and infrastructures that were prevalent fifty years ago (www.state.gov). Change is slow and managers generally have a short-term orientation with respect to decision-making, rather than the longer-term orientation traditionally necessary to engage in strategic thinking initiatives including crisis management. The Latin tendency to deal with issues “tomorrow” is quite evident (Roman & Cordova, 1998), and may contribute to a predisposition not only to delay planning activities, but to discount potential crisis signals. These cultural proclivities contribute to an environment where little emphasis placed on crisis management and make it unlikely that crisis prevention activities will ever be regarded seriously.

Implications for TNCs considering Guatemalan FDI initiatives

As the study results illustrate, Guatemalan businesses are not immune to crises. All 26 crisis events from Table 1 actually occurred to some percentage of the businesses surveyed. Although only two businesses (1 percent) experienced tornadoes, 52 businesses (25 percent) experienced theft or disappearance of company records and 49 businesses (23 percent) were victims of employee embezzlement.

Clearly, Guatemalan businesses are no less immune to potential disasters than their counterparts elsewhere. In Guatemala, however, cultural themes such as family, tradition, and a short-term orientation may influence attitudes counterproductive to crisis management. TNCs interested in investing in Guatemala should consider these factors when evaluating potential FDI opportunities.

Suggestions for future research

Both Spillan & Hough's 2003 study of small businesses in Pennsylvania and New York, and this study of primarily small Guatemalan businesses conclude that, although crisis management activities can be critical to a firm's survival, scant attention is afforded them. Further study is warranted to determine if these indifferent attitudes toward crisis planning are universal among small business owners, and to assess whether external factors such as governmental regulation, commercial pressure, and training can positively influence perceptions regarding the value of crisis management activities.

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