rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

E X C H A N G E

Managing in Latin America:

Common Issues and a Research Agenda

by Roberto S. Vassolo, Julio O. De Castro, and Luis R. Gomez-Mejia

Executive Overview

Latin America is a paradoxical region. It has unique conditions that make it one of the most attractive contexts worldwide for doing business, but it also faces serious challenges that severely underscore these opportunities. We apply a simple framework of analysis to describe the Latin American business environment and detect research opportunities. For that, we focus on four aspects of the region: (1) the institutional context, (2) the macroeconomic environment, (3) the consumer profile, and (4) the natural resource endowments. We summarize firms' strategic choices that result from this context and analyze their consequences for new business creation, incumbents' survival and growth, and sources of competitive advantages. We conclude by outlining a management research agenda.

Bio

Latin America is a paradoxical region. The land is endowed with abundant natural resources, and the population density is relatively low. It has a relatively strong cultural homogeneity, with most of its inhabitants speaking either Spanish or Portuguese and belonging to a Christian religion. Relatively few military or religious conflicts have happened there, compared with regions such as Africa and Europe. There is only one remaining non-democratically elected government in the region, the smallest number for any region in the world, including the European continent if Eastern Europe and the Near East are included. Rapid population growth over the past 50 years has resulted in a total population in 2011 of nearly 600 million (Population Reference Bureau, 2011), which is roughly that of all of Europe combined.

Economically, Latin America is the second most important emerging region in the world, after Southeast Asia, with an aggregated gross domestic product (GDP) roughly that of China's and three times larger than India's. Brazil, the largest economy in the region, has the second-largest capital market among emerging economies after China (World Bank, 2008). Even though per capita income in Latin America is much lower overall than the median per capita income in the European Union and the United States, total purchasing power in Latin America has increased faster than in most developed and emerging economies since the 1950s.

Despite these incredibly favorable conditions, the business environment still presents important challenges both for companies trying to carry out business in the region and for local companies trying to internationalize their operations. This conundrum not only challenges daily managerial activities but also generates important research opportunities. In this article we summarize the most salient characteristics of the Latin American

** **Roberto S. Vassolo** (rvassolo@iae.edu.ar) is Associate Professor at IAE Business School, Department of Business Policy, Universidad Austral, Buenos Aires.*

***Julio O. De Castro** (Julio.castro@ie.edu) is Professor at IE University, IE Business School, Department of Entrepreneurship, Madrid.*

***Luis R. Gomez-Mejia** (lgomez-mejia@mays.tamu.edu) is Benton Cocanougher Chair in Business, Department of Management, Texas A&M University.*

Copyright of the Academy of Management, all rights reserved. Contents may not be copied, emailed, posted to a listserv, or otherwise transmitted without the copyright holder's express written permission. Users may print, download, or email articles for individual use only.
http://dx.doi.org/10.5465/amp.2011.0129

business environment and their implications at the firm level, and outline a plausible research agenda.

Briefly, the most salient characteristics of the Latin American business environment are:

1. Despite marked improvements in the last decades, the institutional context is still vulnerable, and the region presents institutional voids and a weak market infrastructure. This context of less than effective institutions favors the existence of high levels of corruption and informal business activities. Informal markets, in particular, are a key element of Latin American economies.
2. The macroeconomic environment has one of the highest levels of volatility worldwide. This means there are frequent collapses and fast recoveries, with the consequent pressures to the input-output relationships of firms' value chains.
3. The inequality of income distribution leads to the existence of a large mass of customers at the bottom of the pyramid; informal businesses both serve those customers and emerge from those individuals, generating different business models (formal and informal) to attend to the fragmented society.
4. The region offers an abundance of natural resources and a relatively low amount of highly qualified labor, biasing the industries that emerge and grow in the region toward the commodity and low-value-added sectors. Even the trendsetting countries in the region in the last decade suffer from those problems. Most of the rapid growth of Chile, Peru, Brazil, and Argentina, for example, can be attributed in great measure to price increases for natural resources, both renewable (Brazil and Argentina) and nonrenewable (mining in Chile and Peru).

In determining a plausible research agenda, we focused on what makes Latin America unique from a research perspective: the duality of homogeneity mixed with significant heterogeneity across countries, plus variables such as institutions, education, market characteristics (volatility, informality, management of market liberalization programs, etc.), and the role of family. Firms adapt to this environment by taking multiple strategic directions. At the ownership level, they tend to form economic groups with fairly unrelated business portfolios. This structure helps fill institutional voids and helps in bargaining with the government and coping with macroeconomic volatility. Lack of institutions and levels of corruption, for example, affect and are affected by the role of family, which becomes both a source of protection in markets with a lack of institutions and something to be tolerated even at the cost of nepotism and corruption. In addition, successful firms not only pursue product-market strategies but also need to heavily undergo asset reconfiguration initiatives due to drastic changes in the input-output of relative prices. These firms not only have to attend to high-income customers who are similar to those in more developed countries, but often need to adapt their value propositions to the large mass of consumers located at the bottom of the pyramid.

Finally, firms are more inclined to follow comparative advantages that emerge from access to natural resources than to develop competitive advantages in the industrial and service sectors. This is probably one of the key factors explaining why the economies of some Asian countries, such as South Korea and Singapore, have leapfrogged the economies of Latin American countries in recent decades. These Asian countries have grown through an aggressive export program of manufactured goods, while practically all Latin American countries have remained wedded to an export model based on primary sectors (such as mining and agriculture). Furthermore, with few exceptions (such as the small aircraft industry in Brazil), most manufacturing exports consist of assembled products that require unskilled labor and that are part of the supply chain of multinational organizations.

Overall, the environment and the strategic choices have unique consequences for new business creation, incumbents' survival and growth, and sources of competitive advantages. Entrepreneurial activity is high in the region, but unlike in countries such as the United States, entrepreneurial efforts tend to be motivated more by necessity than the existence of growth opportunities (Global Entrepre-

neurship Monitor, 2000–2005). Survival is more difficult, but for those firms that are strong enough, competition seems easier and sustainability of abnormal returns higher (Diaz Hermelo & Vassolo, 2010). The sources of competitive advantage are more static and more oriented to comparative advantages that emerge from Ricardian or static rents (Vassolo, Etiennot, & Diaz Hermelo, 2011).

In the remaining part of this article we expand on these ideas. First, we review the main characteristics of the region. Second, we provide a general framework connecting antecedents and consequences of firms' performance and summarize the literature that addresses these relationships in Latin America. Finally, we identify opportunities for future research: We call for interdisciplinary studies, bringing examples of opportunities for cross-fertilization with other disciplines such as economics, marketing, and finance.

Latin America in the World

Latin America encompasses the territory between the Rio Grande and Tierra del Fuego. It is relatively unpopulated: It represents 14% of the world's land mass, but its nearly 600 million inhabitants are only 8% of the world's population (Nicholls-Nixon, Davila Castilla, Sanchez Garcia, & Rivera Pesquera, 2011). In 2011, the most populated countries in the area were Brazil (197 million), Mexico (111 million), Colombia (almost 47 million), and Argentina (41 million). Compared with developed countries, its population is younger and has a faster growth rate (1.12%) (CEPAL, 2011).

Education is a significant concern in the area. Roughly 8 percent of the region's population over the age of 15 is illiterate (CEPAL, 2011), but with important variations among countries. Overall, education levels lag more developed regions and even some emerging regions such as Southeast Asia. The average educational attainment in the region is six years of schooling, compared to 9.5 years in Organisation for Economic Co-operation and Development (OECD) countries (Nicholls-Nixon et al., 2011). In addition, higher education appears to be stymied by a lack of resources. A recent survey of 323 management professors in 188 public and 93 private universities in Latin America showed that more than 80% hold another job to supplement their low salaries (Rivera & Gómez-Mejia, 2006). The same survey showed that fewer than half have traveled abroad, only a small percentage have received recognized doctorates, and publication rates in refereed journals are low. Executive education is limited and pedagogical methods are outdated, emphasizing lectures over pedagogies designed to develop interpersonal skills, applications, and analysis (such as role playing, business games, and internships).

Empirical studies suggest that despite regional differences Latin America is relatively homogeneous compared with other parts of the world (see, for instance, Gómez-Mejia, 1984; Gomez-Mejia & Palich, 1997). One of the particularities of Latin America has to do with commonality in language and religion. A majority of the people in the region speak Spanish or Portuguese and are Christian, mainly Roman Catholic. The similarity between Spanish and Portuguese (spoken in Brazil, the largest economy) makes it possible to communicate across all major national borders. Most of the countries share a common legal structure, whose origins lie in the Iberian Peninsula and the Napoleonic Code. Also unique to the region is the relative lack of cross-country wars and rivalries. (The wars that occurred mostly in the 19th century have resulted in very few spillover effects today.)

Another common factor across most Latin American countries is the strong influence of the United States; this influence was formalized at the beginning of the 19th century by the Monroe Doctrine, which signaled to European nations that any further colonization in the Americas would be seen as an act of aggression resulting in American intervention. Frequent U.S. military interventions and close U.S. involvement with right-wing governments during the Cold War evolved into a love/hate relationship with the United States that still exists today (deep feelings that left-wing governments in countries such as Venezuela, Cuba, and Nicaragua have tried to exploit over the years to justify their existence as bastions against *el imperialismo Yanqui*).

Political issues aside, another bonding factor across Latin America is the existence of immigration from the south to the north, which is quickly

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

changing the demographics of the United States. As noted by Gomez-Mejia, Balkin, and Cardy (2012, p. 141):

> People from Latin America have traditionally used cultural self-definition to distinguish their cultural identity from that of non-Latino North Americans. There are at least 46 million Latinos in the United States, with some estimates as high as 50 million. The boom in the Latino population, 60 percent of which is native born, continues to be the driving force in U.S. demographics. Latino immigrants have birthrates twice as high as those of the rest of the U.S. population. The United States is now the largest Spanish-speaking country in the world, except for Mexico. Between now and 2020, Latinos are expected to account for about half of the growth of the U.S. workforce.

While most Latino immigrants in the United States come from "next door" (Mexico), a large proportion come from a variety of other countries. Once in the United States, though, prior national identity (for instance, Dominican or Venezuelan) begins to fade and a common Latino identity (because of the contrast with the larger Anglo culture) starts to emerge.

By contrast, evidence suggests that these homogenizing characteristics lead some to overlook important differences within and across Latin American countries. While a majority are virtually monolingual, in a number of Latin countries native languages are spoken by significant segments of the population (e.g., Peru, Guatemala, Paraguay, and Mexico). Moreover, those native languages are spoken mostly by indigenous populations at the bottom of the pyramid and are a significant source of social and economic exclusion in those societies.

In addition, Latin American countries present significant differences in the way employees respond to situations when cultural traits are at stake. Certain countries present higher uniformity and are different from the rest. For example, Argentines and Chileans have a stronger orientation toward tradition, a preference for more hierarchically defined institutions, and a more overt gender bias. By contrast, Brazilians and Colombians are similar when it comes to flattening not only hierarchical but also gender lines, while Mexicans oscillate between these two extremes (Friedrich, Mesquita, & Hatum, 2006). In short, it is important to recognize that despite similarities the region is not monolithic and that significant diversity exists within and between Latin American countries.

Democracy is the most common political system. For most of the countries, experience with democracy was intermittent, alternating democratic with authoritarian governments. As in most countries once associated with the Iberian Peninsula, fear of chaos and anarchy has in the past resulted in *mano dura* (authoritarian) right-wing governments that legitimized their existence based on the need to impose order, which democracy presumably could not guarantee. General Augusto Pinochet in Chile, for instance, used the slogan "politicians no more" to justify his regime. Fortunately, over the past two decades there has been a steady consolidation of young democracies, and the figure of the *caudillo* (a charismatic strongman who intervenes to save the country from anarchy) seems to have become a thing of the past. Almost unique among continents, Latin America had one non-democratically elected government (Cuba) at the time of this writing. Corruption, however, continues to be a significant concern; the level of corruption is still high (Transparency International, 2009), and large segments of the economy remain underground.

After being the global laggard in the latter part of the 20th century, the average economic performance of Latin America has been outstanding in the first decade of the 21st century. Both Latin firms competing globally and firms that have extended regionally are a new addition to the business environment in Latin America. During the last two decades, the GDP of the seven largest economies of the region has grown faster than that of the United States yet with higher volatility. This pattern is heterogeneous, with some countries growing very fast (Chile, Peru, and Argentina have annual growth rates above 4%); some countries have very high volatility (particularly Argentina and Venezuela), and other countries have lower growth and volatility (Brazil and Mexico). Table 1 summarizes key macroeconomic factors. T1

However, in spite of this economic progress,

Table 1
Macroeconomic Indicators, Latin America and United States, 1990–2008[1]

Country	GDP size 2008 (US$ year 2000 constant dollars)	GDP growth (average annual growth) 1990–2008	GDP volatility (Witten deviation) 1990–2008
Argentina	394,792.1	4.1	7.8
Brazil	857,470.3	3.0	2.6
Chile	105,226.2	5.4	2.6
Colombia	139,795.5	3.5	4.2
Mexico	770,113.9	3.0	2.4
Peru	84,312.7	4.9	5.2
Venezuela	162,355.9	3.1	6.6
United States	14,526,500.0	2.9	1.2

[1] Own elaboration based on the Economic Commission for Latin America (Spanish acronym is CEPAL) and International Monetary Fund information. United States measured in current US$.

capital markets still lag behind their counterparts in developed countries. In the United States, the average ratio of stock market capitalization to GDP was 133.8% between 1995 and 2003. In Brazil, which has the largest stock market in the region, the ratio was only 29.8%. For Chile, with the most developed capital market, average stock market capitalization to GDP was only 87.4% (Lazzarini & Musacchio, 2011).

Despite the positive figures of macroeconomic growth in Latin America, firms competing in the region still face many challenges. The combination of weak educational systems, corruption, and government meddling in the economy remains a concern for firms operating in a significant number of countries.

The Latin American Business Environment—Key Aspects and Salient Research

The business environment is a broad term that characterizes multiple aspects of the context in which companies carry out their activities. In our study, we focus on four important aspects of such context: the institutional context, the macroeconomic environment, the consumer profile, and the availability of natural resources. These four elements are important antecedents of managerial actions and have important implications for new business creation, incumbents' survival and growth, and sources of competitive advantages. In each part of our analysis we will describe the generalities of emerging market regions and then specify the particularities of Latin America.

Institutional Context

The institutional perspective represents the most used view for understanding differences in the business environment among developed and emerging countries. Emerging economies are usually characterized as having a weaker institutional context, with four differentiating aspects compared with developed countries: (1) the existence of institutional voids, (2) the abrupt and arbitrary alteration of the "rules of the game," (3) privatization and liberalization, and (4) the existence of a large proportion of informal economic activity. We address these aspects below.

Institutional Voids

Traditionally, emerging markets face *institutional voids* that prevent the development of effective markets in capital, labor, goods and services, and technology (Khanna & Palepu, 1999). For example, financial markets in emerging economies lack adequate disclosure, have weak corporate control (Khanna & Palepu, 2000), and are frequently inhibited by poor legal protections and high transaction costs (North, 1990; Peng, Li Su, Pinkham, & Chen, 2009). With poorly developed financial markets, investment is severely constrained, especially when firms need to undertake

large-scale projects with long time horizons (Lazzarini & Musacchio, 2011).

In response to the absence of such fundamental markets, some firms in emerging economies have evolved into business groups: legally independent firms bound together by a constellation of formal and informal ties that are used to take coordinated action (Carrera, Mesquita, Perkins, & Vassolo, 2003). The rationale is that large and diversified economic groups can smooth out income flows and thereby ensure access to internal finance (Khanna & Palepu, 2000). Moreover, business group affiliation can provide firms access to substantial tangible and intangible resources that are typically unavailable to independent firms (Chang & Hong, 2002).

The advantage of belonging to business groups for competing emerging economies is still a matter of debate, and Latin America is not the exception. Khanna and Palepu (2000) analyzed the extent to which firms benefit from their affiliation to *grupos económicos*. In studying a sample of Chilean companies from 1988 to 1996, they observed that, in contrast to the situation in developed countries, unrelated diversification is not always bad. More interestingly, they found weak support for the argument that as institutional voids are eliminated at the national level the value of group affiliation decreases. Instead, Carrera and colleagues (2003) examined the corporate strategies of the largest Argentine business groups longitudinally, and found that major shifts in the institutional context associated with Argentina's economic opening from the early to the late 1990s favored firms with strategies more focused on core competencies, rather than risk diversification.

Hoskisson, Cannella, Tihanyl, and Faraci (2004) went beyond the analysis of performance implications by examining whether business group affiliation leads to lower or higher levels of restructuring in response to environmental opportunities and threats. They found that Latin American and European firms might restructure their assets during changes in their country's development, competition, and deregulation. They observed two things: (1) a relatively stronger relationship between change in country development and asset restructuring for group-affiliated firms and (2) a stronger effect of competitive change on asset restructuring for independent firms. They hypothesized that the combination of complementary resources, such as capital, know-how, distribution, and the ability to win government favors, may help group-affiliated firms to cope with the uncertainties resulting from increased competition and deregulation. Independent firms, by contrast, are more likely to restructure their assets under these environmental pressures.

Guillen (2000) complemented this institutional perspective, proposing a resource-based view advanced for the existence of diversified business groups. In particular, they are regarded not as substitutes for markets that fail, but rather as an organizational form in competition against foreign multinational enterprises (MNEs) and non-diversified firms lacking the capability to enter multiple industries. These two other types of firms are disadvantaged when foreign trade and investment are asymmetrical. In a recent and comprehensive meta-study that included several Latin American countries, Carney, Gedajlovic, Heugens, van Essen, and van Oosterhout (2011) found that affiliation diminishes firm performance in general, but also that affiliates are comparatively better off in contexts with underdeveloped financial and labor market institutions.

As stated, emerging markets favor the existence of minority government ownership of corporations. Lazzarini and Musacchio observed that having the Brazilian National Bank of Development (BNDES) as a minority owner leads to increases in firms' return on assets (2011). They speculated that this positive effect was due to the reduction in capital constraints provided by BNDES's long-term equity, without the downside of outright governmental interference. They also observed that the effect of BNDES's equity was reduced when it was associated with full state-owned and private-domestic pyramidal business groups.

Rules of the Game, Regulation of Competition, and Corruption

The competitive context in emerging economies is also particular in two aspects: *arbitrary alterations of the rules of the game* and *poor regulation of competition*. Since governments of emerging

markets are more prone to arbitrarily alter the institutional context, with the consequent risk of expropriation, local firms need to increase their lobbying activities to secure government favors and protect their business positions. These kinds of lobbying activities tend to be less transparent in emerging markets than in developed economies. Antitrust regulation tends to be insufficient and industries to be more concentrated than in developed countries. The risk of arbitrary changes in the rules of the game and the existence of poor regulatory institutions reinforce the value of economic groups. Larger corporations have proved to be better prepared to bargain with governments and defend their interests. Therefore, the rationale for such diversified groups should not be sought from traditional market strategies but from non-market ones (Baron, 1995).

A complementary strategy to the development of economic groups has been direct governmental involvement. Governments can act as lenders or venture capitalists in conditions where private sources of capital are scarce (Lazzarini & Musacchio, 2011). As mentioned, several companies have government participation in their ownership. Such contexts generally produce higher levels of corruption than more market-oriented institutional settings. Finally, in areas that are deemed important for national security and independence, such as the oil industry, the government can own the companies and restrict competing firms from entering the market.

The End of Government as Manager: Privatization and Liberalization

The role of governments in running state-owned enterprises has changed markedly since the privatization and trade liberalization wave that swept Latin America in the 1990s, putting pressure on governments to significantly reduce the number of state-owned firms in the region (Lora, 2001).

Although critics have faulted the privatization process, both for cronyism in some instances and for resulting in less than expected improvements,[1] trade liberalization has prompted major changes in the Latin American business environment. Import substitution, a generally used economic model for several decades well into the 1990s, has been discredited as a means to spur industrialization. This model was based on the notion of imposing high tariffs on imported goods to allow domestic industry to compete against foreign producers and to offer an incentive for local businesses to "make at home" those products being purchased by consumers from other countries. Tariffs fell from an average level of 48.8% in 1990 to 10.7% in 1999, and in 1999 only two countries had average tariffs of over 15% (Lora, 2001). Likewise, non-tariff restrictions went from affecting 37.6% of imports to affecting only 6.3% by the mid-1990s (Lora, 2001).

Privatization also had a profound effect on the role of the public sector in Latin America. Sales and transfers of government-owned property to the private sector between 1986 and 1990 represented over half of the value of privatization operations in developing countries. The majority (57%) of privatizations in the region were in the area of infrastructure (electricity, telecommunications) and financial services. As a result, foreign investment increased significantly, with 36% of foreign direct investment due to privatization, and that is not counting investment triggered by privatization to capitalize firms or to invest in complementary activities. All in all, a number of countries in Latin America engaged in more privatization activities and liberalization policies in this very short period than all the East Asian countries combined did in three decades (Rodrik, 1996).

The privatization and liberalization trends discussed above have brought much closer linkages between Latin American countries and *la madre patria* (the motherland), as many of these investments were made by Spanish firms. These firms now own major portions of several industrial sectors in Latin America, including utilities, banking, and hospitality. A growing number of expatriates from Spain are now in Latin America. Combined with high unemployment rates in Spain (hovering around 21% at the time of this writing), the presence of Spanish firms in the region is facili-

[1] McKenzie, Mookherjee, Castañeda, and Saavedra (2003) provide a long list of points raised by critics of Latin American privatization programs with point-by-point answers.

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

tating a renewed inflow of highly qualified labor from the Iberian Peninsula to Latin America; the last time this occurred was right after the end of the Spanish Civil War, in 1939, when millions of Spaniards left as exiles. Ironically, the demographics of Spain have also changed significantly in recent years as Spain experienced an extended economic boom from 1998 to approximately 2007 and received a large number of Latin American workers, taking Latin Americans from a negligible percentage of the population in the mid-1990s to at least 5% of Spain's population a decade later (Vicente Torrado, 2005).

Informal Economy

The role of *informality* in Latin America is of particular relevance from a firm's perspective. As in any region, one finds informal firms that deal with illegal goods, but more particular to Latin America is the key role of informal firms that conduct market-based activities with legal goods produced and/or distributed without regard for taxation or regulation (de Soto, 1989; Portes & Castells, 1989; Portes & Haller, 2005; Schneider, 2005). The proportion of informal firms in the region varies widely, from 19.8% in Chile to 67.1% in Bolivia (Gasparini & Tornarolli, 2009). In the United States the informal sector is relatively small, about 9% of total employees. But the informal sector in Latin America accounts for over 50% of all employees (World Bank, 2008), and business informality is the norm, particularly among the poor (de Soto, 1989).

Part of the reason for this informality relates to the institutional environment. For example, to properly register and license a business in Latin America, it takes on average 67 days. In contrast, in OECD nations the same process takes an average of 14 days. The cost of forming a business is also high in Latin America, requiring on average 36.6% of the gross national income per person to get the required licenses; in OECD nations it requires 5% (World Bank, 2008).

Moreover, the institutional setting of informality in Latin America can be characterized by the limited enforcement, and even tacit complicity, of the legal framework. Thus, formal firms competing in this environment have to account for informal firms as possible competitors, customers, or distributors playing with a different set of rules. In addition, alliances and long-term relationships have little or no legal or contractual protection; Mesquita and Lazzarini (2008), for instance, found that over 98% of the vertical and horizontal relationships among small and medium-sized enterprises (SMEs) in the Argentine furniture business are based on interpersonal commitments and word of mouth, as entrepreneurs disclosed they distrust the speed and reliability of their legal system. The existence of economic cluster in some countries reinforces the existence of informal linkages in the form of interdependent networks (Rocha, 2006).

Democratic governments prefer not to rile up the informal sector by increasing enforcement of tax laws and regulations. By contrast, the sheer size of the informal sector contributes to fiscal and taxation problems in Latin America, because the inability to collect taxes from these firms and individuals in the past has led to increases in duties and import taxes, which are easier to collect, and to significant increases on consumption taxes, which disproportionally affect the poor, as well as representing an unfair competitor in many circumstances to formal firms. From the informal firm perspective, informality results in problems of financing and growth and an overemphasis on family employment, which could result in a less than optimal repertoire of management capabilities and affect growth prospects.

In fact, informality interacts with the role of families, as the informal economy makes significant use of non-contractual but binding relationships, with family relationships playing a significant role in those agreements. Families also find in the informal economy the employability, accessibility, and flexibility that individuals, in particular those at the bottom of the pyramid, cannot find in the formal economy (Roberts, 1994). Informal businesses clearly play a positive role in Latin America as they are a significant source of employment and wealth creation in many countries. Evidence also indicates that a microbusiness with its origins in the informal sector may be a steppingstone to a formal business (Bennett, 2010).

Formal firms have to compete with informal

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

ones, especially when they want to reach the bottom of the social pyramid, and paying taxes might result in significant cost disadvantages. By contrast, informal firms are often the conduits and distributors of the products of formal firms to consumers at the bottom of the social ladder, so formal and informal firms need each other and also compete among significant segments of the population.

Overall, evidence seems to support the value of group structure for increasing the odds of firms' survival and growth in Latin America. Diaz Hermelo and Vassolo (2010) analyzed the effect of the competitive context on sustainability of abnormal returns. They observed that in Latin America, levels of sustainability are more than double those in the United States. This evidence supports the existence of a less competitive environment and indirectly justifies the existence of economic groups.

Macroeconomic Environment

Another important difference between emerging and developed countries is the macroeconomic environment. Macroeconomic variables are heavily influenced by institutions, and in some empirical studies they are considered part of the institutional context (Chan, Isobe, & Makino, 2008). However, the macroeconomic environment has its own laws and changes faster than institutions. For that reason, we opt to differentiate it from the institutional context.

One of the most salient characteristics of the emerging economies' macroeconomic environment has been its volatility. Macroeconomists coined the terms Sudden Stop (SS) and Phoenix Miracle (PM) to characterize the bust and boom shifts, respectively, in emerging economies (Calvo, Izquierdo, & Talvi, 2006; Calvo & Mendoza, 2000). More precisely, an SS is a sharp contraction in the GDP; a PM is an event in which country economic output bounces back relatively quickly from an SS collapse. These events differ from typical economic recessions in their severity and frequency. Calvo and colleagues (2006), for instance, detected 33 contraction episodes in 31 emerging economies between 1980 and 2004. While nearly one third resembled developed-world economic recessions, more than two thirds qualified as genuine collapses, with an average 10% decline in GDP per country. Full recovery occurred, on average, three years after SS events but without the accompanying recovery in credit, investments, or capital inflows.

Volatility and First-Mover Advantages

Management research on the consequences of macroeconomic volatility on firms' behavior and performance is scarce. Recently, García Sánchez, Mesquita, and Vassolo (2010) analyzed the effect of the existence of SS-PM on first-mover advantages. Based on a mathematical simulation, they showed that sharp macroeconomic movements represent abrupt discontinuities that dramatically alter an industry's carrying capacity in the short run but induce durable effects along the industry evolution pattern in the long run. On this matter, although ordinary intuition would lead most to see economic shocks as harmful, the study highlights the fact that they instead create conditions to increase first-mover advantages, thereby affording pioneers valuable growth opportunities over laggards.

The basic argument is that these shocks induce industry shakeouts, but such temporarily constrained market conditions allow survivors to build barriers to entry and thus increase and sustain their lead on late movers for long after the effects of the economic shock are gone. Therefore, managers having to choose between making irreversible commitments or keeping it flexible in such contexts must focus not only on understanding the evolution of pioneer advantages in these contexts but also on combining this knowledge with their expectations regarding the macroeconomic context.

Volatility and Financial Distress

As already noted, during an SS event a country is excluded from international capital markets, and as a result, the context is subject to a sharp increase in interest rates. Worse, financial markets temporarily disappear. The likelihood of individual countries suffering SS events amplifies depending on *domestic* vulnerabilities, such as bank fragility or even a surge in the short-term ratio of

foreign currency denominated liabilities relative to reserves.

Not surprisingly, the field of corporate finance has shown a growing interest in understanding the consequences of such phenomena. It has been observed that firms with higher leverage ratios are in a more fragile position at the moment of the macroeconomic collapse (Love, Preve, & Sarria-Allende, 2007). When firms enter financial distress, their ability to raise financing is severely curtailed as the fear of default prevents investors from extending additional financing. Trade credit, the financing provided by suppliers in commercial transactions, is a usual source of short-term financing and is largely employed by corporations. Consequently, firms with a more vulnerable financial position are more likely to cut their supply of credit to customers and increase their use of credit from suppliers. But this credit conflict with the market share position of the company presents firms with a difficult strategic choice. Empirical findings in emerging economies confirm that companies might try to buy market share when they face profitability problems but cut their trade receivables in an attempt to get cash when they experience serious cash flow problems (Love et al., 2007). Therefore, they face conflicting strategic objectives: increment market share and increment liquidity positions during the crisis.

Molina and Preve (2009) showed, using a Latin American sample, that firms that can exert market power are more likely to succeed in buying market share by increasing trade receivables and obtaining cash by reducing the terms of trade receivables without paying a large penalty in terms of a sales drop. Therefore, macroeconomic collapses generate a situation in which firms have competitive strategic objectives and only firms with enough market power can simultaneously achieve both objectives. That is, the performance of firms in financial distress is significantly weaker when the firm increases its use of trade credit as a source of financing unless it has substantial market power.

Volatility and Arbitrage

Another important dynamic of macroeconomic volatility in Latin America has to do with assets' relative prices. After macroeconomic collapses, the cost of capital rises with no upper bound and aggregate demand severely contracts, producing a temporary but sharp decline in prices of durable assets. Not all the assets are equally affected, and this opens the opportunity for asset reconfiguration. That is, beyond the competitive opportunities that emerge from day-to-day activities, firms in emerging economies face episodic arbitrage opportunities.

Performance Implications

Macroeconomic volatility is particularly relevant for Latin America given that Asian countries have suffered less volatility and have received larger financing inflows in the last decades. This environmental condition emerges when analyzing performance. In a recent study, Vassolo and colleagues (2011) found, paradoxically, that competitive advantages are on average more sustainable but also more subject to unexpected changes in Latin America than in developed countries. This finding is consistent with an environment with lower competition but with higher macroeconomic volatility.

From an entrepreneurial perspective, the effect of the existence of an SS-PM environment is twofold. On one side, the changes in the relative prices that follow an SS, together with the impoverishment of a large part of the population, create important opportunities for launching new businesses. Frequently, during the collapse period, new companies emerge that offer low-quality/low-differentiation products. Similarly, large established companies use crisis periods to launch new lines at a cheaper price.

On the other side, the disappearance of the capital markets has devastating effects on new entrepreneurial ventures, enhancing the mortality rate. At the same time, the volatility in the environment raises significant concerns for growth decisions, for infrastructure investments, and for long-term hiring—issues that are of great concern to entrepreneurial firms. Informal firms are also quick to fill the void in situations of rapid decline or growth, complicating the problems for formal entrepreneurial firms. It is thus not unexpected that while large firms that are part of business

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

groups are able to weather these boom and bust periods, newer entrepreneurial firms are both a result of the growth periods and disappear at faster rates during the bust periods. Over time this tends to result in an overrepresentation of firms belonging to large business groups in large sectors of Latin American economies.

Consumer Profile

The consumer profile in the emerging economies of Latin America differs dramatically from that of developed countries. In particular, there is a huge number of consumers currently at lower income levels who are pushing hard to move into the ranks of the middle class. Interestingly, the most attractive opportunities are not necessarily at the top tier of the consumer profile. D'Andrea (2007) reported that low-income households collectively represent most of the purchasing power for fast-moving consumer goods in Latin America. However, taking advantage of this opportunity demands non-trivial adjustments to firms' strategies since emerging consumers are not just "more basic" versions of the middle- and higher-income segments. In particular, they do not have the same needs or emotional drivers as their developed counterparts, and demand value propositions customized to their particular situation.

For example, Kola Real (called Big Cola in Mexico and other markets) started in Peru with a strategy targeted to the bottom of the pyramid and quickly moved to other Latin American countries targeting the same market (*Economist*, 2003). The company has significant market share positions in Peru, Ecuador, Colombia, Brazil, Venezuela, Mexico, Central America, and the Caribbean (in some cases over 20%, including in Mexico, the second-largest market in the world in terms of per capita consumption of soft drinks), and is using the knowledge gathered in those markets to compete in Indonesia, Vietnam, Thailand, and India, countries with significant bottom-of-the-pyramid populations and distribution concerns.

Ajegroup, the parent company of Kola Real, is at the vanguard of Latin American companies using knowledge gathered in their local markets and targeting specific populations to spread their operations to other Latin countries. Other companies in Latin America following suit are engineering giant Odebretch from Brazil, retailers Cencosud and Falabella from Chile, and Mexican retailer Grupo Electra and telecommunications giant Claro. They and other firms have been particularly good at moving their businesses from local to regional and in some cases global arenas (e.g., Cemex, Ambev). The value propositions may vary depending on the companies. However, in a study of retailers in Latin America, D'Andrea, Zemborain, and Lopez Aleman (2011) found that all of them shared the value/cost core strategy, regardless of the individual approach of each firm.

The particular consumer profile has important entrepreneurial consequences. The lack of employment and education opportunities pushes individuals at the bottom of the pyramid toward necessity entrepreneurship, mainly at the informal level. Evidence of this last point is the disproportionate amount of informal employment (around 40%) compared with the percentage of GDP attributable to informal firms (Chen, 2007). Thus, the bottom of the pyramid in the social structure relies on informal firms for employment and survival in the absence of alternatives.

Natural Resources Availability

Finally, the abundance of natural resources also provides important differences when understanding the business environment in Latin America. Even though trade of production factors has increased in recent years, Latin American firms still source most of their resources locally (Ghemawat, 2003). They hire local labor and local management who remain subject to local culture and habits. Additionally, most raw materials are originated locally. Therefore, firms in their quest for a superior combination of resources are all subject to local specific endowments of potentially unique resources. They can extend these endowment boundaries by trade and outsourcing components and processes and technology; however, this alternative is still limited by both the cost of transportation and communication and the existence of regulations on international trade and technology exchange (Diaz Hermelo, Etiennot, & Vassolo, 2009).

The emerging economies of Latin America dif-

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

fer widely with developed countries on their resource endowments. Most of them have a short supply of "soft" or "created" resources such as human capital, education and training, financial resources, and infrastructure (World Bank, 2008). Instead, many of them are wealthy in natural resources. This mix results in the proliferation of commodities industries in emerging economies.

Access to natural resources is not free from political and institutional problems since the risk of expropriation is usually higher in some sectors, such as utilities and natural resources, than others, such as services (Bucheli & Salvaj, in press). Governments in Latin America have also tended to maintain their grip on "strategic natural resources" even at the peak of the privatization boom, and in some cases where natural resources were privatized, they have moved to renationalize those firms.

Access to natural resources sets the conditions for firms to obtain so-called Ricardian rents (Ricardo, 1817). Competition based on Ricardian rents is more static than competition based on Schumpeterian rents (those that emerge from entrepreneurial activity) and more willing to generate comparative advantages (Porter, 1985).

Research Opportunities in Latin America

In this final section we examine unanswered questions about Latin America and identify opportunities for cross-fertilization of research. Institutional contexts eventually change to form a better fit with national needs, but this process is not necessarily smooth (Peng, 2003). Latin America is evolving but still on an unclear pathway. In recent years, Latin countries have split between those pushing market openness and institutions (e.g., Chile, Brazil, and Peru) and those advocating a return to nationalistic policies (e.g., Venezuela, Ecuador, and Nicaragua). Thus, even though most countries in Latin America are following the market openness and trade liberalization approach, there is always the specter of the return of nationalistic policies. Since institutional changes are often traumatic (Peng, 2003), Latin American countries are likely to face significant tensions in the coming years. This generates important research opportunities looking at how these changes affect competitive rivalry and the opportunities for value creation and appropriation.

Within the institutional perspective, an area of great importance is the effect of the different initiatives on regional economic integration. Countries in the region have started several integration initiatives, such as MERCOSUR, Andean Community of Nations, and NAFTA, among others.[2] However, regional integration lags behind Europe, North America, and Asia. For example, in 2007, the intraregional trade (measured as percentage of exports) was 74% for Europe, 51% for NAFTA, and 50% for Asia but only 25% for South America and the Caribbean (World Trade Organization, 2007). These lagging advancements on regional integration hamper the ability of multinational corporations to take advantage of Latin America's high level of cultural homogeneity.

As noted earlier, families play a fundamental role in the Latin American business sector. Surprisingly, little systematic family business research concerning the region has been published. Yet there is mounting evidence (mostly from Asia, Europe, and the United States) that family control exerts a major influence on how firms are managed, including corporate governance, product and international diversification, stakeholder relations, and the like (for an extensive review of this literature, see Gomez-Mejia, Cruz, Berrone, & De Castro, 2011). This seems like a fruitful and critical research area to explore within a Latin American context.

The abundant macroeconomic literature on shocks in emerging economies has not been paralleled in studies in strategic management analyzing the implications of these shocks on competitive advantages. For example, we discussed above that leverage positions have a disproportionate performance effect on firms competing in Latin America. It would be particularly important to analyze the interaction between leverage and other competitive strategies and sources of competitive advantages. Also, recent studies have

[2] MERCOSUR is an economic and political agreement between Argentina, Brazil, Paraguay, and Uruguay; the Andean Community of Nations (formerly Pacto Andino) is a trade bloc among Bolivia, Colombia, Ecuador, and Peru.

called attention to the problem of asset reconfiguration in emerging economies and detected that weak institutional contexts inhibit this process (Chakrabarti, Vidal, & Mitchell, 2011). This opens an important research opportunity since firms in Latin America face the worst institutional context for asset reconfiguration but, simultaneously, higher arbitrage opportunities due to the volatile context.

There is a fairly large theoretical and empirical literature in the management field that has examined how firms respond to risk as a function of managerial perceptions of internal and external risk. Perceived environmental risk (read volatility) influences a wide range of strategic choices made by senior management (Fiegenbaum & Thomas, 1988; Gomez-Mejia, Welbourne, & Wiseman, 2000; Larraza-Kintana, Gómez-Mejia, & Wiseman, 2011; Larraza-Kintana, Wiseman, Gómez-Mejia, & Welbourne, 2007; Miller, Wiseman, & Gómez-Mejia, 2002; Wiseman & Gómez-Mejia, 1998). Given the high environmental volatility that firms face in Latin America it would be interesting to examine how managers cope with that uncertainty.

The international management literature shows that countries around the world differ markedly in terms of cultural values, but much less is known about how these differences influence organizational practices. When it comes to Latin America, published research on these issues is almost nonexistent. About 20 years ago Gomez-Mejia and Welbourne (1991) suggested that Hofstede's dimensions of power distance, individualism, uncertainty avoidance, masculinity, and long- versus short-term orientation may be used to predict a wide range of organizational practices such as centralization, worker involvement, control systems, performance-based pay plans, and the like. It would be interesting to develop testable hypotheses, for instance, as to how high-power-distance countries (such as Mexico and Venezuela, according to Hofstede's data) use managerial practices that are congruent with the prevalent value system and the implications this may have for firms that are operating there or that are trying to enter these markets.

Last, very little is known about how the large population of Latin Americans living in the United States represents a source of entrepreneurial ventures in Latin American countries. Remittances from these immigrants, which may be as high as US$100 billion annually, may be used by relatives back home as an important capital source to start new businesses. Also, many immigrants are a significant source of entrepreneurial activity in those countries, both those who fulfill the common dream of accumulating sufficient capital in the United States to open their own small businesses back home and those who become entrepreneurs or help family members become entrepreneurs through the *remesas*, monthly money transfers Latin immigrants abroad send back home to help their families. At the same time, there is very limited research on how Latin Americans living in the United States use their connections in the region to foster their own entrepreneurial ventures there. In places like South Florida and Southern California, for instance, these connections are an important element in supporting the exporting activities of U.S.-based Latin American entrepreneurs (Gómez-Mejia, 1988).

Conclusion

Because research on emerging economies in general, and Latin America in particular, has put a great emphasis on taking an institutional perspective, other aspects have lagged behind. We believe that a future research agenda should incorporate more studies on competitive rivalry, value creation and appropriation in the informal and formal sectors of the economy, asset reconfiguration, arbitrage opportunities, the influence of families as dominant principals, firm response to high levels of environmental volatility, the influence of cultural values on managerial practices, and the regional business implications of Latin American immigration to the United States. This agenda would require researchers to take a more holistic perspective, relying not only on various business disciplines such as finance, economics, management, and marketing but also on other social sciences such as sociology and cultural anthropology. We are confident that such an approach would result in a richer and more relevant academic dialogue.

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

References

Baron, D. (1995). The nonmarket strategy system. *Sloan Management Review, 37*(1), 10–62.

Bennett, J. (2010). Informal firms in developing countries: Entrepreneurial stepping stone or consolation prize? *Small Business Economics, 34*(1), 53–63.

Bucheli, M., & Salvaj, E. (in press). Multinational corporations' obsolescing political legitimacy. *Business History Review*.

Calvo, G., Izquierdo, A., & Talvi, E. (2006). Sudden stops and phoenix miracles in emerging markets. *American Economic Review,* 96(2), 405–410.

Calvo, G., & Mendoza, E. G. (2000). Capital market crises and economic collapse in emerging markets: An informational-frictions approach. *American Economic Review,* 90(2), 59–64.

Carney, M., Gedajlovic, E. R., Heugens, P., van Essen, M., & van Oosterhout, J. (2011). Business group affiliation, performance, context and strategy: A meta-analysis. *Academy of Management Journal, 54*(3), 437–460.

Carrera, A., Mesquita, L., Perkins, G., & Vassolo, R. (2003). Business groups and their corporate strategies in the Argentine roller coaster of competitive and anti-competitive shocks. *Academy of Management Executive, 17*(3), 32–44.

CEPAL. (2011). Statistical annual report. Retrieved November 11, 2011 from http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp

Chakrabarti, A., Vidal, E., & Mitchell, W. (2011). Business transformation in heterogeneous environments: The impact of market development and firm strength on retrenchment and growth reconfiguration. *Global Strategy Journal, 1*, 6–26.

Chan, C. M., Isobe, T., & Makino, S. (2008). Which country matters? Institutional development and foreign affiliate performance. *Strategic Management Journal, 29*, 1179–1201.

Chang, S. J., & Hong, J. (2002). How much does the business group matter in Korea? *Strategic Management Journal, 23*, 265–274.

Chen, M. A. (2007). *Rethinking the informal economy: Linkages with the formal economy and the formal regulatory environment*. Working Paper No. 46. New York: U.N. Department of Economic and Social Affairs.

D'Andrea, G. (2007). Beating the paradox of emerging markets: Strategies for reaching the consumers at the base of the pyramid. In R. Grosse, & L. F. Mesquita (Eds.), *Can Latin American firms compete?* (pp. 340–375). New York: Oxford University Press.

D'Andrea, G., Zemborain, M., & Lopez Aleman, B. (2011). *Strategic foundations to access emerging consumers: Lessons from emerging retailers (Working Paper)*. Buenos Aires: IAE Business School.

de Soto, H. (1989). *The other path: The economic answer to terrorism*. New York: Harper and Row Publishers.

Diaz Hermelo, F., Etiennot, H., & Vassolo, R. (2009, August). The persistence of abnormal returns in emerging economies: Evidence from Latin America. Presented at the Academy of Management annual meeting, Chicago, IL.

Diaz Hermelo, F., & Vassolo, R. (2010). Institutional development and hypercompetition in emerging economies. *Strategic Management Journal, 31*(13), 1457–1473.

Economist. (2003, October 9). Mexican soft drinks. Cola down Mexico way: A new bottle on the block in the world's second-largest soft-drinks market. Available from: http://www.economist.com/node/2131415

Fiegenbaum, A., & Thomas, H. (1988). Attitudes toward risk and risk return paradox: Prospect theory explanations. *Academy of Management Journal, 31*(1), 81–106.

Friedrich, P., Mesquita, L., & Hatum, H. (2006). The meaning of difference: Beyond cultural and managerial homogeneity stereotypes of Latin America. *Management Research: The Journal of the Iberoamerican Academy of Management, 4*(1), 53–71.

García Sánchez, J., Mesquita, L., & Vassolo, R. (2010, August). Industry evolution and the sustainability of advantage in conditions of macroeconomic turbulence. Presentation at the Academy of Management annual meeting, Montreal, Canada.

Gasparini, L., & Tornarolli, L. (2009). Labor informality in Latin America and the Caribbean: Patterns and trends from household survey microdata. *Desarrollo y Sociedad, Primer Semestre*, 13–80.

Ghemawat, P. (2003). Semiglobalization and international business strategy. *Journal of International Business Studies, 34*, 173–184.

Global Entrepreneurship Monitor (2000–2005). Studies from 2000 to 2005. Retrieved November 11, 2011 from http://www.gemconsortium.org

Gómez-Mejia, L. R. (1984). Effect of occupation on task-related, contextual, and job involvement orientation: A cross-cultural perspective. *Academy of Management Journal, 27*, 706–720.

Gómez-Mejia, L. R. (1988). The role of human resources strategy in export performance: A longitudinal study. *Strategic Management Journal, 9*, 493–505.

Gomez-Mejia, L. R., Balkin, D. B., & Cardy, R. L. (2012). *Managing human resources*. Upper Saddle River, NJ: Prentice Hall.

Gomez-Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. (2011). The bind that ties: Socioemotional wealth preservation in family firms. *Academy of Management Annals, 5*, 653–707.

Gomez-Mejia, L. R., & Palich, L. (1997). Cultural diversity and the performance of multinational firms. *Journal of International Business Studies, 3*, 420–441.

Gomez-Mejia, L. R., & Welbourne, T. (1991). Compensation strategies in a global context. *Human Resource Planning, 14*(1), 29–39.

Gomez-Mejia, L. R., Welbourne, T. R., & Wiseman, R. (2000). The role of risk sharing and risk taking under gainsharing. *Academy of Management Review, 25*(3), 492–509.

Guillen, M. (2000). Business groups in emerging economies: A resource-based view. *Academy of Management Journal, 43*(3), 362–380.

Hoskisson, R. E., Cannella, A. A., Tihanyl, L., & Faraci, R. (2004). Asset restructuring and business group affiliation

in French civil law countries. *Strategic Management Journal, 25*, 525–539.
Khanna, T., & Palepu, K. (1999). The right way to structure conglomerates in emerging markets. *Harvard Business Review, 77*, 125–134.
Khanna, T., & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *Journal of Finance, 55*(2), 867–891.
Larraza-Kintana, M., Gómez-Mejia, L. R., & Wiseman, R. (2011). Compensation framing and the risk-taking behavior of the CEO: Testing the influence of alternative reference points. *Management Research: The Journal of the Iberoamerican Academy of Management, 9*(1), 32–55.
Larraza-Kintana, M., Wiseman, R., Gómez-Mejia, L. R., & Welbourne, T. (2007). Disentangling compensation and employment risks in a behavioral agency model of managerial risk taking. *Strategic Management Journal, 28*(10), 1001–1019.
Lazzarini, S. G., & Musacchio, A. (2001). *Leviathan as a minority stakeholder: A study of equity purchases by the Brazilian National Developmental Bank (BNDES), 1995-2003* (Harvard Business School working Paper No. 11-073).
Lora, E. A. (2001). *Structural reforms in Latin America: What has been reformed and how to measure it* (IDB Working Paper No. 390). Washington, DC: Inter-American Development Bank. Available at http://ssrn.com/abstract=1817262
Love, I., Preve, L., & Sarria-Allende, V. (2007). Trade credit and bank credit: Evidence from recent financial crises. *Journal of Financial Economics, 83*(2), 453–469.
McKenzie, D., Mookherjee, D., Castañeda, G., & Saavedra, J. (2003). The distributive impact of privatization in Latin America: Evidence from four countries [with comments]. *Economía, 3*(2), 161–233.
Mesquita, L. F., & Lazzarini, S. G. (2008). Horizontal and vertical relationships in developing economies: Implications for SMEs' access to global markets. *Academy of Management Journal, 51*(2), 359–380.
Miller, J., Wiseman, R., & Gómez-Mejia, L. R. (2002). The fit of CEO compensation design and firm risk. *Academy of Management Journal, 45*, 745–756.
Molina, C., & Preve, L. (2009). Trade receivables policy of distressed firms and its effect on the costs of financial distress. *Financial Management, 38*(3), 663–686.
Nicholls-Nixon, C. L., Davila Castilla, J. A., Sanchez Garcia, J., & Rivera Pesquera, M. (2011). Latin America management research: Review, synthesis, and extension. *Journal of Management, 37*(4), 1178–1227.
North, D. C. (1990). *Institutions, institutional change and economic performance*. New York: Cambridge University Press.
Peng, M. (2003). Institutional transitions and strategic choices. *Academy of Management Review, 28*(2), 275–286.
Peng, M. W., Li Su, S., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives, 23*(3), 63–81.
Population Reference Bureau. (2011). America—Latin America and Caribbean. Retrieved October 22, 2011, from http://www.prb.org/DataFinder/Geography/Data.aspx?loc=313
Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: Free Press.
Portes, A., & Castells, M. (1989). *The informal economy*. Baltimore: Johns Hopkins University Press.
Portes, A., & Haller, W. (2005). The informal economy. In N. Smelser, & R. Swedberg (Eds.), *Handbook of economic sociology* (2nd ed.) (pp. 403–428). New York: Russell Sage Foundation.
Ricardo, D. (1817). *Principles of political economy*. Cambridge, UK: Cambridge University Press.
Rivera, J., & Gómez-Mejia, L. R. (2006). Management education in Iberoamerican countries. *Journal of World Business (previously the Columbia Journal of World Business), 41*(3), 205–220.
Roberts, B. (1994). Informal economy and family strategies. *International Journal of Urban and Regional Research, 18*(1), 6–23.
Rocha, H. (2006). The entrepreneurship and clusters foundations of development: Theoretical perspectives and Latin American empirical studies. In A. Cooper, S. Alvarez, A. Carrera, L. Mesquita, & R. Vassolo (Eds.), *Entrepreneurial strategies: New technologies in emerging economies* (1st ed.) (pp. 114–159). Malden, MA: Blackwell Publishing Ltd.
Rodrik, D. (1996). Understanding economic policy reform. *Journal of Economic Literature, 34*(1), 9–41.
Schneider, J. (2005). Getting beyond the training vs. work experience debate: The role of labor markets, social capital, cultural capital, and community resources in long-term poverty. *Journal of Women, Politics and Policy, 27*, 41–53.
Transparency International. (2009). Retrieved November 11, 2011, from http://www.transparency.org/publications/gcr
Vassolo, R., Etiennot, H., & Diaz Hermelo, F. (2011, August). *Behind the scenes: The sources of performance heterogeneity in different nationals' competitive landscape*. Presentation at the Academy of Management annual meeting, San Antonio, TX.
Vicente Torrado, T. L. (2005, November–December). *La inmigración Latinoamericana en España*. Paper presented at Expert Group Meeting on International Migration and Development in Latin America and the Caribbean. Population Division, Department of Economic and Social Affairs, United Nations Secretariat, Mexico City.
Wiseman, R., & Gómez-Mejia, L. R. (1998). A behavioral agency model of managerial risk taking. *Academy of Management Review, 1*, 120–144.
World Bank. (2008). *World development report*. Washington, DC: Author
World Trade Organization. (2007). World trade report. Retrieved November 11, 2011 from http://www.wto.org/english/res_e/publications_e/wtr07_e.htm

rich5/zol-aome/zol-aome/zol00411/zol3010d11z | xppws | S=1 | 12/9/11 | 13:09 | Art:

AUTHOR QUERIES

AUTHOR PLEASE ANSWER ALL QUERIES 1

A—2011 has been inserted per reference list. Please verify.

B—original MEROPS query - References: This citation was changed to match the reference list.

C—original MEROPS query - References: This citation was changed to match the reference list.

D—The reference being an unpublished article has been deleted from the reference list per journal style.

E—original MEROPS query - References: This citation was changed to match the reference list.

F—original MEROPS query - References: This citation was changed to match the reference list.

G—original MEROPS query - References: This citation was changed to match the reference list.

H—original MEROPS query - References: This citation was changed to match the reference list.

I—original MEROPS query - References: This citation was changed to match the reference list.

J—original MEROPS query - References: This citation was changed to match the reference list.

K—original MEROPS query - References: This citation was changed to match the reference list.

L—Please provide a volume number for this reference.

M—Please check whether volume number is correct.