Strategic management in Latin America: Introduction to a special section

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ABSTRACT

This brief introduction seeks to guide the reader through the best papers presented at the Strategic Management in Latin America Conference, held in Bogota, Colombia, in January 2011. These papers develop interesting insights for business scholars and practitioners, based on the analysis of problems and situations encountered in Latin America: integration decisions, participation in merger waves, nonmarket strategies, the water problem, the financial return to corporate governance, overtime decisions, the importance of brands and consumer behavior.

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1. Introduction

The Fourth Strategic Management in Latin America SMLA Conference took place at the Universidad de los Andes School of Management, in Bogota, Colombia on January 13 and 14, 2011.

The late Professor Werner Ketelhohn chaired the first SMLA conference at INCAE Business School in Costa Rica in January 2005. A select group of scholars spent two days discussing strategy, location advantages and environmental issues, with single sessions on the first day and concurrent sessions on the second. The Journal of Business Research published the best papers. The Pontificia Universidad Católica de Chile hosted the second SMLA in Santiago, Chile, in 2007, and the conference venue for the third SMLA in Sao Paulo, Brazil, in 2009 was Fundação Getulio Vargas. The Journal of Business Research also published the best papers of each of these conferences.

Professor Derek Abell, founding president of the European School of Management and Technology, was our keynote speaker at the fourth SMLA conference. Following his address, scholars of Latin American business issues presented 50 papers during three concurrent tracks over two days.

Based on discussion at the conference, the Editors selected 23 papers for review for this special issue. Each of these papers underwent at least two blind reviews. Ten papers, written by scholars in 12 institutions, passed the review process.

Six of these papers deal with strategy issues, developing useful insight about integration decisions, growth through mergers, nonmarket strategies, water policy, corporate governance and overtime decisions. The other four papers emphasize functional sophistication, developing important ideas for marketing strategy: brand familiarity and the attraction effect, the use of exemplars in advertising, online consumer behavior and demand forecasting.

2. The papers

The first paper, "The Emergence of World-Class Companies in Chile: Analysis of Cases and a Framework to Assess Integration Decisions" (Tarziján, 2013–this issue), examines the corporate strategy decisions of three extremely successful Chilean companies.

Our analytical understanding about the boundaries of the firm rests heavily on the seminal work of Coase (1937) and Williamson (1985). The appropriate balance between centralized direction within firms and markets depends on relative costs, the degree to which assets are specific, and the ability to write contracts. These conditions, in turn, depend on technology and the level of institutional development. Tarziján (2013–this issue) analyzes three extremely successful Chilean firms – LAN, Falabella and Arauco – that leverage resources across businesses more than the main theories predict for an economy as open as that of Chile and, to a greater extent, than firms in the same industries in developed markets. This paper contributes to our understanding of why world class companies sometimes emerge in unusual locations.

Mergers and acquisitions are an alternative avenue for growth. The second paper, "When Waiting is Strategic: Evidence from Colombian
M&As 1995–2008” (Andonova, Rodríguez & Sánchez, 2013–this issue), analyzes mergers and acquisitions in Colombia. Mergers and acquisitions often occur in waves, a well-known phenomenon for economists who study anti-trust. Of particular interest from a strategy viewpoint is whether early movers in such waves have better performance than late movers. Carrow, Heron, and Saxton (2004) and McNamara, Haleblian, and Dykes (2008), using data sets for developed countries and an event study methodology, find clear first mover advantages, and poor returns for firms that enter the wave at the peak of the acquisition frenzy. Andonova et al. (2013–this issue) conjecture that in countries with poor information about targets and where contracts are difficult to enforce, as in Colombia, “strategic waiting” is often a better course of action. They analyze a unique database of mergers and acquisitions of privately held Colombian firms between 1998 and 2003, and find that first movers do not perform better, but that experienced later movers do. This finding is important for the literature on merger and acquisition waves.

The third paper, “Nonmarket Strategies of Media Enterprises in the Mexican Television Industry” (Vázquez-Maguirre & Hartmann, 2013–this issue), analyzes how the TV duopoly in Mexico can gain by influencing policy makers. Many scholars and practitioners believe that the institutional environment for doing business in emerging markets is different to that found in advanced economies. This paper shows how Televisa obtained a first mover advantage in the Mexican television industry by combining an information strategy, a financial incentive strategy and a constituency building strategy (Hillman & Hitt, 1998). Televisa, and later TV Azteca, were thus able to exclude rivals from the market and maintain high levels of profitability. This study provides insights for managers doing business in industries and locations where something besides the market is clearly at play.

The fourth paper, “Estimating Willingness to Pay and Financial Feasibility in Small Water Projects in El Salvador” (Pérez & Quintanilla, 2013–this issue), shows how quantitative techniques apply to evaluating investments in water and sanitation. Environmental goods are crucial for competitiveness, but quantifying their monetary value is difficult. The authors use contingent valuation to estimate the willingness to pay for improved water and sanitation in two rural communities in El Salvador. The researchers apply the methodology of Cameron and James (1987) to the responses the dwellers of these communities give on whether they would connect to an improved system at randomly assigned prices. Average willingness to pay depends on a number of economically important variables, and is considerably higher than often assumed. A detailed financial model shows that investment in the water and sanitation system appropriate for those two communities is financially viable without subsidies, contradicting the view of many development agencies. The policy implication is that a private firm can profitably supply water to these villages allowing the country to redirect scarce international aid and public revenues to other uses.

The fifth paper, “Good Corporate Governance: Does it Pay in Peru?” (Fuenzilda, Mongrut, Arteaga & Erausquin, 2013–this issue), considers whether the financial markets reward good corporate governance. Corporate governance, in the narrow sense, or corporate social responsibility in the broader sense, has attracted a lot of interest. A substantial academic literature asks whether financial market investors care about such issues, and generally finds a positive answer using very different methodologies. Fuenzilda et al. (2013–this issue) show that the stock price of a company reacts in a significant way when included in an index of good corporate governance in Peru. The study also finds that a portfolio investing in companies with high scores in corporate governance has a higher risk adjusted return than companies with lower scores.

The sixth paper, “Listening to Workers: the Overtime versus Hiring Dilemma” (Singer & Obach, 2013–this issue), considers the conditions that are more propitious for a cooperative solution between factory work teams and management. Overtime and headcount have important effects on productivity, but are usually analyzed as managerial optimization problems. Singer and Obach (2013–this issue) study the overtime and headcount decisions of firms in a game theoretic setting with asymmetric information. In their strategic interaction with managers, work teams often have the local knowledge to induce overtime and, indirectly, to affect staffing decisions. This game may or may not reach a cooperative Nash Equilibrium where the workers are honest and the managers are trustful. This paper identifies the conditions under which managers should “listen” to the workers when making headcount decisions.

The seventh paper, “Attraction and Superiority Effects in the Chilean Marketplace: Do They Exist with Real Brands?” (Celedon, Milberg & Sinn, 2013–this issue), draws attention to the importance of brand familiarity for consumer choice in Chile. Marketing research has found that the addition of products to a choice set changes consumers’ preferences and choice shares of alternatives in this set. Studies based on unbranded alternatives find clear evidence of the attraction and superiority effects. Celedon et al. (2013–this issue) consistently find the attraction and superiority effects in the Chilean market when the dominated entrant is unbranded or when its brand is relatively less familiar than the target brand. When real brands are included, however, the attraction and superiority effects are moderate, even when the branded alternative has an inferior product attribute tradeoff. The paper supports the notion that brands matter and that attribute tradeoffs among product alternatives may not be as strong a determinant of consumer choice as previous research in this stream suggests.

The eighth paper, “The Impact of Exemplars in Marketing Communication Campaigns” (Uribe, Manzur & Hidalgo, 2013–this issue), shows the power of using personal experiences or exemplars to convey an advertising message. Previous research on exemplification persuasiveness finds that exemplars are more powerful in the formation of attitudes and beliefs than base-rate information, usually in the form of quantitative data about an issue, because exemplars are often easier to attend, code, remember, and comprehend. Uribe et al. (2013–this issue) use the issue of organ donation to analyze the power of exemplars in the context of marketing communications, specifically in print advertising. The authors show that participants exposed to exemplars demonstrate higher behavioral intention, emotional arousal, and credibility than those individuals exposed to statistical arguments. In addition, they find that the use of photographs has a greater impact than the use of quotations.

The ninth paper, “Consumer Internet Purchasing Behavior in Chile” (Andrews & Bianchi, 2013–this issue), explores the drivers of continued Internet purchasing. The theory of reasoned action (Fishbein & Ajzen, 1975) is the basis for several research articles that seek to explain consumer acceptance of a new technology and a few use it to explain consumer behavior post adoption. Andrews and Bianchi (2013–this issue) belong to the second group. They use the theory of reasoned action to develop a consumer centric study that explores the factors that influence an individual’s continued use of the Internet for purchasing: consumer beliefs, perceptions of risk, and subjective norms about continued purchasing on the Internet. Their results show that the consumer’s attitude towards purchasing on the Internet is an influential factor on intentions to continue Internet purchasing.

The tenth paper, “A Forecasting System for Movie Attendance” (Marshall, Dockendorff & Ibáñez, 2013–this issue), applies quantitative techniques to predict movie attendance. The cinematographic industry has some unique characteristics – a short product life cycle, high advertising costs, and highly uncertain demand – which make accurate demand forecasts particularly valuable. Marshall et al. (2013–this issue) model total demand and the dynamic behavior of box-office attendance for a movie at different stages of its life cycle using two models. The Bass model results in two effects that explain
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