Chapter 6
Entrepreneurship and Innovation in Latin American Family Firms:
The Case of México

Verónica Baños-Monroy
Tecnológico de Monterrey, Mexico

Edgar Ramírez-Solís
Tecnológico de Monterrey, Mexico

Lucia Rodríguez-Aceves
Tecnológico de Monterrey, Mexico

ABSTRACT

This chapter examines the role of entrepreneurship and innovation in the development of family businesses in Latin America. The socio-economic dynamics of such region is an interesting field for research, mainly because: it is a major manufacturing hub with growing importance in retail; it experienced a huge economical shift in the last ten years causing the growth of the middle class (an increase of 50 million people); family firms in the region are the main driver of growth and employment. The authors focused the analysis on Mexico due to its singular characteristics, making it a representative example of the region. Based on secondary sources, a characterization of the entrepreneurship and innovation in family owned and managed firms in the region is reviewed. Moreover, based on the Global Entrepreneurship Monitor database, the authors present some recent data related with entrepreneurship levels in the region and its impact in terms of innovation. Finally, public policy implications are provided in order to encourage entrepreneurship and innovation in family businesses.

DOI: 10.4018/978-1-5225-0953-0.ch006

INTRODUCTION

The growing interest in Latin American economic and social history began in the 1960's and led to the publication of many sectorial studies that became standard reference works. The study of family firms in the same region can be traced to the 1970´s. In the decades of the 80´s and 90´s the economic sectors in which family businesses operated became relevant, because the number of companies starting operations was different in emphasis in each country. For example, in Brazil, family firms involved in coffee, sugar and some specific manufacturing branches were predominantly located in Sao Paulo and Rio de Janeiro. In Colombia, the companies were working in sectors related to coffee, tobacco and banana production, particularly in the Antioquia region (Barbero, 2008).

Potential growth in Latin America has been estimated at between 3% and 4% annually over the past ten years, which is slightly below to the growth recorded during the most recent period of expansion, from 2004 to 2008. However, the slowdown has continued since 2010 as the international situation, which undoubtedly boosted economic activity in the past, has worsened, so the "new normal" for the region may well be lower than previously expected. Latin America's productivity in recent years has been disappointing compared with that of both OECD countries and emerging economies (OECD, 2014).

Moderate poverty fell from more than 40% in 2000 to less than 30% in 2010. This decline in poverty implies that 50 million Latin Americans saw improved living conditions in the first decade of the 21st century. The Latin American middle class grew very substantially: from 100 million people in 2000, to around 150 million in 2012. The emerging middle class differs, of course, from country to country, but there are a number of common threads. Middle class entrants are more educated than those they have left behind. They are also more likely to live in urban areas and to work in formal sector jobs. Middle class women are more likely to have fewer children and to participate in the labor force than women in the poor or vulnerable groups (Ferreira et al, 2013), despite microcredits received by the latter (Gámez-Gutiérrez & Saiz-Alvarez, 2012).

Stronger productivity would lead to more growth and would reduce the significant rates of inequality and poverty found in the region. Education and innovation reforms must ensure equal opportunities for access to a complete, high-quality cycle of education and a workforce with better skills: this can be achieved with better matches to the labor market. There must also be measures to promote formal employment. In Latin America and the Caribbean, 36% of companies operating in the formal economy struggle to find a properly trained workforce, compared to a global average of 21% per country and an OECD average of 15%. Latin American firms are 3 times more likely than South Asian firms, and 13 times more likely than Pacific-Asian firms to face serious operational problems due to a shortage of human capital (OECD, 2014).

Furthermore, Latin America is a major manufacturing hub with growing importance in retail, and is increasingly a supplier of services. Ford, Toyota, VW, General Motors and Renault amongst others, manufacture cars in the region while Rio de Janeiro is the support center for offshore oil exploration. The size and growth potential of the regional market has encouraged global brands such as Nestle, Unilever and Kraft to develop significant local production facilities encouraged by low labor costs. Embraer, a manufacturer of short/medium-haul aircraft, while not privately controlled, also has a presence in the region. It sells its aircraft worldwide and enjoys an excellent reputation for quality. Latin America is also a leader in financial services, suffering no significant impact from the credit crunch of 2008. Banks like Itau Unibanco and BTG Pactual, both privately controlled, have built strong franchises in retail/commercial and investment banking respectively.

Related Content