FAMILIARITY AND THE MULTINATIONAL CORPORATION IN LATIN AMERICA: ACCEPTANCE OR CONTEMPT?

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One cannot help but ask, "Are international businesses, like the fabled Don Quixote, making dragons of windmills?" We have seen a great rise in international business investment. We have also seen a corresponding rise in business attempts to prevent an awareness by local nations of this increased foreign investment. The general feeling is that increased awareness will lead to greater resentment. The question, however, has not been directly asked: What happens to the evaluation of foreign firms in a specific setting in Latin America as the rate of foreign investment climbs and is more keenly perceived? In an attempt to determine if we are realistically assessing the situation in Latin America, a study was conducted in four Central American countries: El Salvador, Honduras, Nicaragua, and Costa Rica. These countries were selected because they have been among the rapidly developing countries of Latin America since the formation of the Central American Common Market (CACM) in the early 1960s, receiving considerable foreign investment.

Some Prior Positions

It is generally felt that as foreign business becomes more widely practiced and known, it becomes more of a threat to local national sovereignty. The consequences of such a threat are restrictions placed on the multinational corporation (MNC). For example, Michael Z. Brooke and H. Lee Remmers state: "The magnitude of foreign investment, particularly that made by United States companies, has created a great deal of worry among Europeans and others in the industrialized world."[1] They refer to an early vague discomfort growing to become a threat. In a special report to the United States Chamber of Commerce, the statement is made: "The U.S. economic presence in Europe is moving into an increasingly hazardous era in which European public acceptance is diminishing while U. S. investment exposure steadily increases."[2] While there is no dispute with the validity of these statements, the problem arises when one attempts to generalize them to other situations. This is the case with many of the warnings of a similar condition existing in the lesser developed countries. There

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are, however, critical differences. The Latin American countries, for example, have a much lower level of industrialization and a much lower level of economic development. Although it remains a matter of degree, foreign investment here is not so much a substitution for local investment as it is an addition to local investment. This is especially true where local governments encourage investment in specific high-need industries. Also, there is a much lower level of U.S. investment here than in the more highly developed European countries—and so it is a concept that is less familiar.

Nationalistic Resentment

There is a second major line of reasoning used to warn U. S. business of the dangers of investing in Latin America. Here the authors cite the increased incidence and manifestations of nationalistic resentment to foreign business and project a trend of increasing resentment.[3] However, one could project a lower *rate* of resentment manifestations when one considers the much greater level of international business operations in the region today than at prior times in its history.[4] Because there is more absolute violent crime in a city of 100,000 population than in one of 2,000 does not mean that it is a more dangerous place to live—the relative rate of violent crime might be much lower. When the absolute level of international business increases, one should expect the number of resentment incidents to increase also. The critical question is, what happens to the rate of resentment incidents?

Business Reaction

Business has reacted to these commonly held beliefs in several ways, many designed to decrease the local perception (if not the fact) of foreign owned and controlled business enterprise.
Avoiding Foreign Operations / The most extreme form reducing the danger of foreign investment is to forego the practice altogether. When companies universally avoid foreign investment because of the danger (rather than because of legitimate business reasons such as lack of sufficient capital, managerial competence, etc.), they are missing a large opportunity because of a much smaller risk. When it is practiced on a selective basis, to avoid areas of relative disproportionate danger to foreign private investment (such as in Chile after the election of President Allende), it is justified.[5]

Participating in Joint Ventures / In those cases where participation in joint ventures is required by local legislation, there is no alternative if the investment is to be made in the country. When it is practiced at the initiative of the investing foreign company in an attempt to avoid the danger of expropriation or adverse selective legislation,[6] to take the sting "out of local nationalist pressures by making the subsidiary look genuinely local,"[7] then there is some question as to

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whether it achieves its intended purpose. As stated by Brooke and Remmers: "Experience has shown that at least in the less developed countries joint ventures have not always fared better than wholly owned subsidiaries in times of crisis."[8]

Disguising Ownership / Some companies have attempted to "contract" ownership in an attempt to disguise their participation. This practice has been noted in Latin America where a not uncommon practice is the use of "straw partners," nationals of the country, who purchase company stock in their name for a second party who may or may not be a local national.[9] One very direct limitation of this approach is that the business community in many of the Latin American countries, is both small and intimate by American standards, and those familiar with it generally know which companies possess a substantial amount of United States capital.[10] Such an effort as the use of straw partners might have an effect opposite than that intended—it might indicate that the company felt it had something to hide. Another attempt at disguising ownership has been through the use of locally identifiable names, logos, etc. This practice, however, is often justified on the basis of facilitating marketing via local identification.

Staffing with Local Nationals / Many companies[11] are finding that the use of local nationals in managerial positions not only serves to orient the firm to local norms,[12] but to assuage the nationalistic feelings within a country. Donald Fink, for example, states: "Recent experience shows that whatever strategy is chosen, it must contemplate the in-depth participation of local . . . managerial personnel."[13] Sandell and Stebbins add: "U. S. industry's planning strategy should consider participation of . . . local management personnel as essential to success in the future."[14] A recent unpublished study by the author indicates that this approach is highly effective in making the evaluation of foreign investment much more positive and the investment more acceptable within the Latin American country. A condition for its success, however, is that the company be sincere in its efforts, giving real decision-making authority to the local management. Anything less than this is almost certain to be ineffective.[15]

Objectives

The primary objective of this study was to determine if the evaluation of foreign investment changes with a change in the familiarity with the investment. A secondary objective was to determine if this process held for more than one investing country and more than one controlling nationality. A semantic differential technique was used with a sample of 145 students. The students, from the disciplines of business administration and economics and attending the major public university of each country, compared the following four classes of firms: (a) a United States firm in their country with United States top management; (b) a United States firm in their country with local national top management; (c) a German firm in their country with German top management; and (d) a German firm in their country with local national top management.

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TABLE 1 *Familiarity/Evaluation Correlation for All Respondents of Each Company Concept*

Firm	*Local Management*	*Correlation Coefficient*	*Significance Level*
U.S.	U.S. National	.4607	P < .01
U.S.	Local National	.0237	NS
German	German National	.5012	P < .01
German	Local National	.5426	P < .01

TABLE 2 *Familiarity/Evaluation Correlation for Each Country of All Company Concepts*

Country	*Correlation Coefficient*	*Significance Level*
Costa Rica	.2144	NS
El Salvador	.3902	P < .01
Honduras	.5635	P < .01
Nicaragua	.5748	P < .01
All Countries	.4390	P < .01

Results

Tables 1 and 2 and figures 1 and 2 show the relationship between the familiarity of the respondents with the four company concepts and their corresponding evaluation of them. In all cases there is a definite positive correlation between the two factors. In the one case where the correlation is very small (and not statistically significant), the cause can be traced to the extremely high evaluation of the company concept. Even at the point where familiarity is totally lacking, there is an exceedingly high evaluation (5.88 on a scale of 0–7) of the United States firm with local national top management. Even where respondents are not familiar with this type firm, the idea of it is appealing. Consequently, there is little room for improvement in the evaluation with increased familiarity.

Conclusions

The most obvious conclusion here is that, at least in Central America, the data indicate we have been reaching hasty and inaccurate conclusions. We cannot extrapolate from the European situation to that in Central America, nor can we just look at the number of adverse business incidents to the exclusion of the rate of such incidents. Instead of trying to disguise the presence of foreign ownership, generally higher evaluations would be forthcoming (accompanied, it is

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FIGURE 1 Familiarity/Evaluation Relationships of Each Company Concept for All Countries

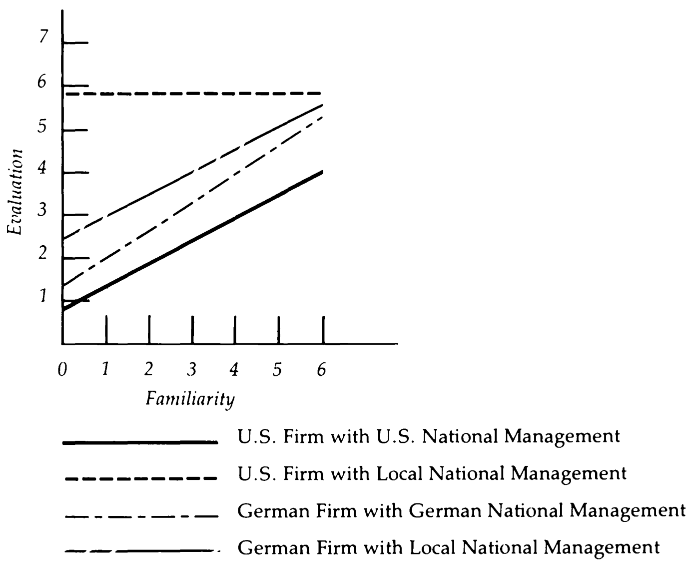
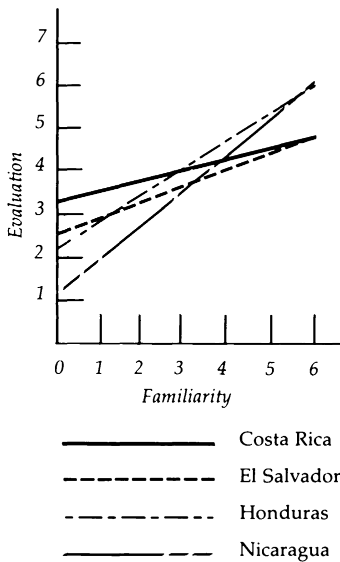


FIGURE 2 Familiarity/Evaluation Relationship of All Company Concepts for Each Country.



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expected, by greater receptivity) if the presence of foreign firms was more widely known.

It is probable that the relationship between familiarity and evaluation is not a totally simple one. It would seem that the relationship could partially be explained as a product of the process: greater familiarity generates greater awareness of the positive economic role played by foreign investment and yields a higher evaluation. The direct causative factor, then, is the greater awareness of the positive role occupied by foreign business. This is consistent with the position taken by Lee C. Nehrt, J. Frederick Truitt, and Richard W. Wright in their excellent book identifying international business research needs. "The fear, mistrust, and outright antagonism shown by many nations toward direct foreign investment by large international companies is rooted largely in ignorance of what such investment is and what its impact is on the host country."[16]

The implications here are direct and simple: international business (as well as foreign governments wanting to create an attitude of receptivity locally) would be well advised to give some concerted attention to an educational program to create awareness of the benefits of international business investment. To some degree there is probably a "built-in" educational process automatically associated with foreign investment and whether there is an overt attempt at projecting the economic development role of foreign business or not, it will occur. Such a role image can, however, be more rapidly and efficiently generated by a conscious effort to achieve this end.

A second partial explanation of the familiarity/evaluation relationship would seem to be related to the psychological concept that holds that lack of knowledge about a situation tends to create a fear of the situation. The problem is compounded in this case by an existing general fear of the potentially dominating power of large foreign-owned business—a fear which in practice today is seen to be largely unfounded. As Roberto de Oliveira Campos has stated: "I am of the opinion that the fear of domination is vastly exaggerated. It is based on the overestimation of the power of the 'sectional command' of an enterprise, and underestimation of the power of 'overall command' of the government."[17]

A first step at improving evaluation in either case, therefore, is an increase in familiarity with the concept of locally operating foreign businesses. This is contrary to the very low profile strategy of many large international companies. The recommendation, however, is not to flaunt the presence of the company (and possibly arouse an ethnocentric sentiment reaction), but to assume the position of an accepted, legitimate, natural part of the local business environment. When this is done, the process of increased familiarity leading to increased evaluation should result in a generally improved political risk business environment.

NOTES

1. Michael Z. Brooke and H. Lee Remmers, *The Strategy of Multinational Enterprise, Organization, and Finance* (New York: American Elsevier Publishing Co., Inc., 1970), p. 251.

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2. Ibid., p. 252.
3. See for example, Richard W. Wright, "Is the Multinational Firm in Danger?," *Business Horizons*, April 1971, pp. 31–34.
4. "Sales of foreign manufacturing affiliates of U.S. based MNC's rose from $23.6 billion in 1960 to $76.8 billion in 1970." David W. Ewing, "MNC's on Trial," *Harvard Business Review*, May/June 1972, p. 130. See, also, Robert C. Maddox, "Problems and Trends in Assigning Managers Overseas," *Personnel*, January/February 1971, p. 54.
5. For a discussion of the evaluation of political risk, see Stefan H. Robock, "Political Risk: Identification and Assessment," *Columbia Journal of World Business*, July-August 1971.
6. See, for example, Wolfgang G. Friedmann and Jean-Pierre Beguin, *Joint International Business Ventures in Developing Countries* (New York: Columbia University Press, 1971), p. 11.
7. "Managing the Multinationals," *The Economist*, 31 October 1970, p. 55.
8. *The Strategy of Multinational Enterprise*, p. 272.
9. Robert C. Maddox, *Wage Differences between United States and Guatemalan Industrial Firms in Guatemala*, Studies in Latin American Business No. 10, Bureau of Business Research, Graduate School of Business (Austin: University of Texas, 1971), p. 3.
10. Ibid.
11. "Problems and Trends."
12. Robert C. Maddox, "Cultural Attitudes: An Obstacle in the Managerial Training of Latin Americans by United States Firms," *Marquette Business Review*, Winter 1964, p. 145.
13. Donald A. Fink, "The Role of the Multinational Corporation in the Economic Development Process," *MSU Business Topics*, Autumn 1972, p. 62.
14. Richard A. Sandell and Owen T. Stebbins, "United States—Latin America: A Time for Reciprocity," *MSU Business Topics*, Autumn 1972, p. 23.
15. Sherwood H. Peres, "Management Pitfalls to Avoid when Moving into Asia," *1973 Proceedings of Southwest Division, Academy of Management*, Division of Research, College of Business Administration (Baton Rouge, Louisiana: Louisiana State University, 1973), p. 129.
16. Lee C. Nehrt, J. Frederick Truitt, and Richard W. Wright, *International Business Research: Past, Present, and Future* (Indiana University: Bureau of Business Research, Graduate School of Business, 1970), p. 275.
17. Roberto de Oliveira Campos, "Multinational Enterprise—Friend or Foe to Latin America," *Interplay*, March 1971, p. 38.

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