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# AgroAraucania<sup>1</sup>

TEMUCO, CHILE

**T**he smell of the charcoal grill filled the office of this local Chilean farm supply company as the work force prepared to finish the day's work. The light mist falling from the gray sky threatened the pending social event, but a feeling of anticipation was in the air. The employees buzzed around the office speculating about the meeting they had been invited to attend. "What do you think of all this?" asked Paula, a new employee.

"I have no idea," replied Rodrigo, one of the most senior employees. "We have never had a meeting like this before. This kind of thing usually happens when someone pays the *plato*."<sup>2</sup>

"I hope this meeting is good," said Diana, the general manager's new secretary. "This place could use some good cheer. Everyone has been so down lately and so many people are leaving. I wonder who will be next, or if it will be me!"

The company had invited the employees to a general meeting with an *asado* (a typical BBQ with beef and sausage, where wine and beer are usually served). The production workers were excluded, however, as management felt that they tended to drink too much and would not understand the purpose of the meeting. Management planned to use the opportunity to introduce a new initiative into the company, a Total Quality Management program, which they believed would help improve morale in the office.

## The Company AgroAraucania

Commercial AgroAraucania was a retail business selling a full line of over 2,500 different agricultural products, including fertilizers, herbicides, insecticides, fungicides, seeds, tractors, hardware items and veterinary supplies. They also had a seed selection plant where they processed and sacked wheat, oats and clover seed for resale for planting purposes. Seeds were the only item that they processed themselves; all other products were purchased for resale. The majority of AgroAraucania's customers were wheat farmers. However, they also sold a full line of products to some small distributors in the region. They sold seeds throughout the country with the majority being sold in the southern half of Chile. (See Appendix A for background information on Chile and the local region.)

Commercial AgroAraucania was an outgrowth of AgroAraucania Limited, a set of retail meat outlets. It began in 1977 in Temuco, founded initially to supply AgroAraucania Limited with the agricultural products it needed to operate grain and cattle farms. Eventually, it began to sell products to other farmers. Sales increased and the company grew to a US\$3 million retail operation.

The company was started by four Chilean agribusinessmen. Each invested equal amounts of money, 10,000,000 Chilean pesos (approximately US\$27,000). Elías Jiménez, one of the four owners, was actively

involved in the daily operations of the company and served as the Commercial Manager. The other three owners lived and worked in Santiago, the country's capital, but all three had farms in the area and came to Temuco once a month for the company's board meeting.<sup>3</sup>

In 1984 they bought the property located at the edge of town near the airport. They purchased a seed selection machine and began buying local wheat crops to process and resell the seed. They now purchased not only local wheat crops, but also imported wheat, processing a total of 6,000 to 7,000 tons of seed annually.

In 1985, they opened a branch site, Mackenna, in a relatively poor section of Temuco. This office mainly made small sales to the Mapuche Indian community in the area. The manager of this office was himself a Mapuche and one of the two indigenous people employed by the firm. Many of the customers who came to this office purchased needed goods using credit slips distributed by the government agency, INDAP.<sup>4</sup>

At present, the company had branch offices in two other communities, Carahue and Victoria. Carahue was located 25 kilometers from Temuco in the heart of Mapuche territory. This area was fairly famous in Chile for having the highest rate of alcoholism in the country. The owner of the building AgroAraucania rented often stood in front of the store reciting poetry and talking of the glory days when Allende<sup>5</sup> was in power. The Victoria office was 35 kilometers to the north of Temuco, and many of the farmers in that area were of English descent. Branch offices dealt primarily with small farmers except for a few big customers who had personal relationships with the managers of these locations.

AgroAraucania's main office was located in downtown Temuco. Almost all of the competition was located on the same street. Management rented a building owned by three of the company's owners (the three that lived in Santiago). They had recently doubled the rent. Rents in this district were going up, and several banks had approached the owners offering to pay considerably more than Commercial AgroAraucania's rent for the use of the building. Management was thus considering moving its main office to the seed selection plant.

## AgroAraucania and Total Quality

### IDENTIFYING THE PROBLEM

For the past year, management had been perplexed by the low morale and high turnover in the company. Although sales had increased, they felt something was not quite right in the organization. Eleven of the 42 employees had been with the company less than four months, and four others had been employed less than a year. In September 1992, they hired a psychologist to study the company and make some recommendations.<sup>6</sup> Using a questionnaire, she interviewed each employee, including management. During the interview with Roberto Gutenschuiger, General Manager, the psychologist asked about AgroAraucania's future (for more information about the company's management team, see Appendix B). He replied:

We've been thinking about doing many things. We think the plant will make a good sight for a large farm and garden superstore. The market is moving outside of town; besides, the company rents the main office building and the owners could decide to sell it at any time. We are also thinking about putting in equipment at the plant to process frozen fruits and vegetables. Exports to American markets are really growing. We also want to try to capture as much of the forestry market as we can to make up for the loss in the traditional wheat farmer market. Seed sales are very important to us and we want to increase our market share nationally.

When asked what he felt was causing the company's problems, Gutenschuiger responded:

Our salesforce has too much power. They are running their own mini-companies out there. We try to give them flexibility and autonomy but all they do is complain and take advantage of their freedom. We needed someone to manage and control their activities, so we created the General Sales Manager position. We need someone who will hold the sales force to quotas.

Each employee was asked what they would like to see changed in the organization. Over 80% responded that they would like more information about changes in the organization and greater participation in decision-making.

One month later, the psychologist returned to AgroAraucania to submit a report. Here are excerpts from her presentation:

AgroAraucania has experienced rapid growth over the past 10 years. Because of this growth, many new positions have been created to support the needs of the organization. But these job duties and responsibilities were not clearly organized. Jobs were created without definition. People in these new positions don't have clearly defined job descriptions. The older employees also do not understand the new responsibility structure. As a result, there is a great deal of misunderstanding within the organization.

AgroAraucania lacks structure and has poor communications. Nearly all communications are verbal and very sporadic. In general, the management style is very patriarchal and centralized, with almost all decisions made by Elías Jiménez (one of the four owners). There is a general lack of focus on any long-term goals and objectives; almost all of the day-to-day activities are focused on meeting immediate needs and dealing with crises.

The internal environment is uncooperative. Employees with seniority are protective of their positions and they do not always help the new people. The new people perceive an unfriendly environment where everyone looks out for themselves and no one cooperates with anyone. Now, no one is willing to work together because they don't know how long others will be around. Relationships are very important to Chileans. We do not want to get emotionally attached to fellow employees if they are not going to stay with the organization.

Employees feel they do not have any say in decision making and feel very unsure about their performance. There is no feedback system, formal or informal. The employees also expressed a desire to become involved in the decision-making process and they want to be informed about decisions.

The high turnover at AgroAraucania is caused by these problems. Many of these problems can be resolved by introducing more structure into the organization. I submit the following recommendations:

1. Develop a company mission.
2. Create an organization chart.
3. Write job descriptions.
4. Implement an evaluation program.
5. Develop an incentive program.

After she left the office, Roberto and Elías were not convinced that her suggestions were the answer to their problems. "We have always operated on an informal basis," Elías said. "The company is too small to

worry about all that formality. We have to be able to react and change with the market. We don't want to pin ourselves down to anything."

"I think you're right," said Roberto, "I'm not sure this is the solution. We always tell the people they can come to us with their problems. We do have an open door policy. And besides, we have an incentive program. Look at the trips we give to the salespeople every year."

Each year the company provided an incentive program to motivate the salespeople. For the past two years, they had offered vacation trips to neighboring South American countries. The program was based on the level of operating profits earned during the year at each location. "We think that trips are a good idea because it is good for people to travel to see other parts of the world," said Roberto Gutenschuiger. "It is good for their development as people." In 1992, the salespeople at the main office earned trips to the capital cities of Argentina, Brazil and Uruguay. In general, the salespeople were not happy with the premium. One salesman commented, "I'm really not interested in this trip. It will end up costing me more money to spend one week in Argentina with my wife than it would to spend three weeks in Chile with my whole family."

Roberto and Elías continued to discuss the turnover situation and the psychologist's report. They decided to put the matter on hold. "Let's think about this for awhile," said Elías.

## The Solution

Several months went by and no action was taken to change the situation. The turnover rate continued to be a problem; two more people left the company. In January 1993, Juan Fernandez, the company controller, returned from his summer vacation.<sup>7</sup> He had spent part of it in Santiago where he visited several colleagues. "Everyone's talking about Total Quality Management (TQM) in Santiago," he told Roberto on his first day back. "All the gringo companies use it.<sup>8</sup> I think it's the way of the future and could help us with all our problems. I brought back this book, *Using the Deming Method in Practice*, by Mary Walton (translated into Spanish).<sup>9</sup> I think it makes a lot of sense."

He gave the book to Elías to read. A week later, Elías came back and said, "I really like this book. Though I

don't understand the whole thing and the call for single suppliers really doesn't make sense for us, the North Americans and the Japanese use it and they are good enough examples for me. Let's do something with it. Isn't this the same thing as Quality Circles?" he asked.

After Roberto read the book, he, Elías, and Juan got together to talk about it. Elías explained his enthusiasm for the idea to the group. Roberto spoke up and said, "I don't think we are ready for statistics here. We just started using computers last year. That stuff is complicated. Our employees will never understand it. I think we need a profit-sharing program. That is very popular in the United States and they say it really works."

"According to my friend in Santiago, there are stages to implementation. He says that the organization culture is the hardest to change and that we need to work on the attitudes of the employees and the work environment first," said Juan. "You know how our people think. They won't take the initiative to change anything and besides, everyone is out to protect their own space. This working-together concept will be difficult for them. Moreover, they are accustomed to the top-down style of management."

"What else did your friend tell you?" asked Roberto.

"He said commitment to the idea and formulation of a mission statement is the first step," explained Juan. "He also told me that training, and lots of it, is very important."

"We do plenty of training," said Roberto. "It seems to me that we need to organize ourselves first. Maybe we should reconsider what the psychologist said a few months back," he said. "Her recommendations seem to fit in with all this."

After much discussion, they all agreed that, at the conceptual level, TQM was a philosophy in which they all believed. They also agreed that the company would have to address the psychologist's recommendations to achieve a TQM environment. In addition, they decided to start using *Comisiones* or problem-solving groups to encourage participation in the decision-making process. They felt that this plan would start them down the road towards an effective TQM environment.

Roberto thought about the situation for the next several weeks. He formulated and wrote the company

**Exhibit I**

**TRAINING AND DEVELOPMENT PROGRAM 1993**

In 1993, AgroAraucania employees took the following courses:

Name	Course
Juan Fernandez	Fluency in English
Diana, Olivia, Lana and Julia	Basics of WordPerfect
Diana, Olivia, Lana and David	Basics of QuatroPro
All salespeople	Selling Skills II
Olivia	Managing a Warehouse
Lana	Labor and Legal Procedures
Julia and Olivia	Customer Service

AgroAraucania takes full advantage of the government tax incentive program. They spend the maximum allowable tax credit on training each year.

mission and determined the company's top five priorities. He also thought about how the employees could help by participating in the problem-solving groups. He wanted to give them a problem that would interest them and that they could solve themselves. He decided the first group problem would be the uniform problem.<sup>10</sup> The company had so much turnover that none of the women had uniforms. These women were concerned because they were told, when hired, that the company would provide uniforms. Olivia, the only woman with enough seniority to have a uniform, had stopped wearing hers.

**The Asado (The Barbecue)**

Everyone gathered in the graveled patio area behind the main building with a glass of wine in one hand and a shish kebab in the other. Elías busied himself making sure everyone had wine. The mist had stopped but the sky was still cloudy.

Roberto cleared his throat to signal the beginning of his speech. He thanked everyone for coming and encouraged them to continue eating and drinking. He explained that the company was concerned about the negative atmosphere in the office and that this negativity was due to the company's disorganization as a result

of growth. He explained that they needed to address their growing pains. “We feel the best way to do this is with your help,” he said. He asked for each employee’s participation in the process, then read the company mission and the top five priorities.

*Company Mission: Commercial AgroAraucania*

Our mission is to develop ourselves with the productive sectors of the Ninth Region, forming a company that benefits the economy of the region while providing the best products and services to the forestry and agricultural sectors, stable and rewarding jobs to our collaborators<sup>11</sup> and reasonable profits that permit the company’s continued growth.

The needs of our clients are our principal concern. We should seek excellence in everything we do to provide them with the best products and services.

The people that work in the company are its principal and most valuable capital. The development and progress of each one of them will translate into further development of the company, the region and the country. We wish to work in an environment of mutual respect and cooperation, working in teams to solve problems. To accomplish the mission, we solicit the participation of everyone to develop and grow the company.

He went on to read the priorities.

*The Priorities*

1. Establish a company structure that complements the mission and that will permit us to have good communication and cooperation among all employees of the company.
2. Improve our information systems and decision-making processes.
3. Analyze and choose the best business activities.
4. Increase our client base and improve the coverage of the market area.
5. Investigate new markets or new business opportunities.

Next, he presented the organization chart awkwardly, explaining with hand gestures the tasks and responsibilities of the people in each box. Then he gave each employee a copy of the mission, the priorities and the organization chart. Blank-looking faces stared back at Roberto. They did not fully grasp the meaning of these documents.

Next, Roberto explained that management wanted each employee to get involved in the decision-making

process by participating in problem-solving groups. “The first problem we need to solve is the uniform problem,” he stated. “Do we have any volunteers?” The employees all stood there looking at each other. No hands went up. Privately, Roberto had already asked Juan Fernandez to volunteer. Pedro Larrain, the outspoken Branch Manager from Carahue, volunteered first. Jose Soto stuck his hand up, too.

Someone commented, “We have all men in this group, yet the uniforms are for the women. We need some women on this committee.” After a little coaxing, three women volunteered.

Someone else yelled, “Why should only the women have uniforms? What about the men?”

Roberto explained that the idea was to talk about the problem, examine all the alternatives, and come up with a recommendation. “We should talk about uniforms in general: men, women, management, non-management, etc. The idea is for you who know the problem to find the best solution.”

After the meeting was adjourned, the women left in a mass exodus and the men stayed behind to finish off the rest of the good Chilean wine.

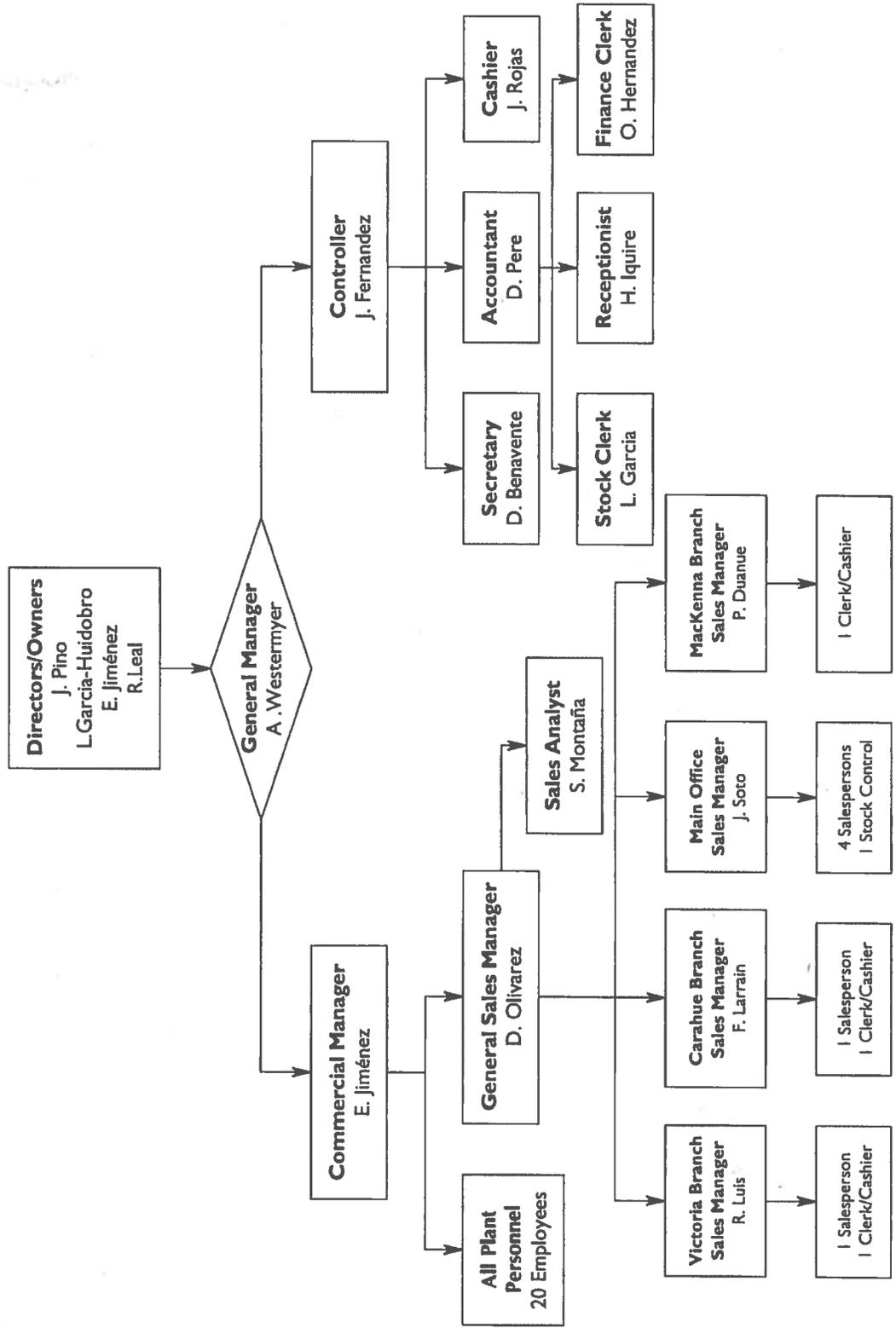
The following day at the office, employees huddled together in small cliques to discuss what Roberto had said the night before. “I really don’t believe any of it means anything,” said Olivia. “They (management) are big at saying things, but they never follow through.”

“Well, I think they are giving us a real opportunity here,” said Diana, Roberto’s secretary. “Not many companies would allow their employees to give input like this. Half of it is up to us to give them the input they need. I agree with what they say; we have the information to help them. Don’t we all want to participate in what happens around here?”

## **The Empowered Group**

In mid-February the first meeting was to be held immediately after work.<sup>12</sup> Everyone finally showed up at 8:00 pm.<sup>13</sup> The meeting started out with everyone talking at once. They started talking about everything except the uniforms. Juan, the company’s plant in the group, tried to focus the group and suggested that they assign roles: president, secretary and others. They all looked

Exhibit 2  
AGROAUCANIA ORGANIZATION CHART



at him as the logical choice for president. “Let’s make Diana the secretary, that’s her job anyway,” said Pedro.

“No, that’s not the idea, everyone is on equal footing here—worker and management alike,” explained Juan. About that time Elías, not officially part of the group, stepped out of his office and joined the group.

They continued to throw out ideas about the benefits of uniforms. Suddenly, Elías started talking about the *asistente social* that worked at the company several years back.

“Don<sup>14</sup> Elías, do you remember the *Bien Estar* fund that she tried to implement?” asked Olivia.

The meeting transformed into a discussion of ideas and suggestions that had nothing to do with the uniform problem. However, everyone was excited they had the opportunity to be heard and felt good about the meeting. They assigned responsibilities for researching uniform options and agreed to meet again four days later.

The next day, Elías met with Roberto and told him about the meeting. “It was a good meeting. We talked about all kinds of things. They (the employees) have

good ideas to improve things around here. I think we need to hire an *asistente social* and start a *Bien Estar* fund,” explained Elías. “The last time we had an *asistente social* at the company was one of the best periods we’ve had as far as people being happy.”

“What about the uniforms?” asked Roberto.

“We didn’t get into that very much,” Elías explained. “They are going to meet again soon to talk about it.”

They talked more about Elías’s suggestion for an *asistente social*. They agreed to start the *Bien Estar* fund, but waited until they had some money built up in the fund to tell the employees. They contacted Juan Pere, an *asistente social* currently working part-time at another company, and contracted him to start visiting AgroAraucania’s employees at their homes.

The Uniform *Comision* met several more times throughout the month of January and talked about alternatives. After several meetings they decided that they didn’t necessarily have to stick with the traditional uniform for women only. They decided to break the employees into groups (men, women, management, production) and ask their opinions. After all, this was a “democratic” process.

The women of the company got together to talk about options. In the winter, the office was very cold as there was no central heating.<sup>15</sup> “Personally, I would prefer to wear jeans and a sweater to work,” said Julia. “It’s freezing in the office in the winter season.” They all agreed that would be nice.

“They will never accept that,” said Diana. “Women are expected to wear skirts to work. You know what *machistas* Chilean men can be!”<sup>16</sup>

“I think that we should just wear whatever we want to work,” said Lana. “I’ve been wearing a uniform almost all my life, since my school days. Frankly, I’m getting tired of it.”

After much discussion, the women decided to go with the traditional uniform. They felt it would be what management was looking for from them. They wanted Roberto and Elías to be pleased with the group so they could continue to participate in the problem-solving process.

The following week, the problem-solving group met to discuss their findings. Diana told the group about the

### Exhibit 3

#### ASISTENTE SOCIAL (SOCIAL WORKER)

Some companies in Chile contract social workers to work with their employees as a form of in-house social assistance program. They work with each employee, visiting their homes and determining their individual needs. They complete a worksheet (see example in Exhibit 4) and work with management to improve the standard of living of each worker.

They focus on the worker’s living conditions, health issues of the entire family and any other personal problems the worker might have, such as alcoholism or parental difficulties. They try to help the worker obtain available benefits from the company and government social programs to resolve these problems. One of the main functions today is to facilitate the purchase of a home. Typically these persons have degrees in social work.

The idea of these private social workers grew out of the socialist regime and carries over into today’s organizations. During the Pinochet years, these professionals were considered leftist and were not very popular in companies. In recent years, however, the profession is regaining respectability, filling in part of the human resource gap that exists in most companies.



**Exhibit 5****THE BIEN ESTAR (WELL BEING)**

This is a type of in-house insurance policy administered by the company. Typically, the company contributes a fixed amount of money per employee, and the employee either contributes a fixed amount or a percentage of his/her salary. It is an optional benefit that the employees manage. They elect a management committee and decide what benefits they would like to have. Often the fund covers medical expenses not covered under the company's other insurance policies. It may include special benefits for employees who have short-term cash flow problems or who face an extreme financial situation and need assistance. The fund is usually managed with the help of an *asistente social*.

women's desire to wear pants, but that they had decided to go with something more traditional. The men in the group reported that the other males did not really care whether they had a uniform or not. Since all managers were men, they decided management should not have uniforms. In the end, the group agreed that the women should have uniforms and the men should continue to wear what they wanted.

The following week, the group presented their recommendation: uniforms for the women—one jacket, two blouses and two skirts.

**Management's Quandary**

Management, along with the psychologist, got together to talk about the results of the group and the progress on the TQM program. "I'm really surprised and frustrated by this group," said Roberto, "It's a real disappointment. They decided to go with the same old thing, and I know that's not what they really wanted. I heard that the women really preferred jeans and sweaters. I'm not opposed to that idea; after all, we do work with farmers in the agriculture business, and besides, it would be a lot cheaper for the company."

"I know," said Juan, "this was a real mistake. Our employees just don't have the capacity to participate in this kind of thing."

The psychologist explained that Chilean workers, in general, are not accustomed to giving their opinion. "Most have never been given an opportunity like this," she said. "The majority of workers at AgroAraucania have worked most of their lives under a military dicta-

torship where speaking out was strictly out of the question. However, if you recall their reaction at the first meeting, there was a flood of ideas and suggestions. There were many unaddressed issues that the employees were able to talk about. That doesn't mean that the workers aren't interested in the problem you gave them. I believe in that informal environment they were more open and were able to talk about their true feelings and perceived needs. You must keep in mind that half of your staff is relatively new to the organization. This is relevant because they are trying to please management. They really need more training on working in groups and possibly a facilitator to help the process.

"At this point, I think we need to work with the individual's performance and job before we work on group behavior. They don't have much feedback concerning their own performance so they don't yet feel confident enough to give you opinions on other issues. Considering the lack of individual feedback, I think we really should work on an individual performance/feedback system before we focus on group efforts."

They all agreed to think about it and meet the following week.

**Questions**

1. What should management do the following week?
2. Was the problem-solving group effective? How should management react to the recommendation of this group?
3. What are the issues affecting the TQM situation as they relate to:
  - a) cultural milieu?
  - b) technology transfer?
  - c) human capital?
  - d) macro environment?
4. What would you recommend for AgroAraucania? Are they ready for TQM, or should they try some interim steps first?

**APPENDIX A****Background on Chile and the Temuco Region**

AgroAraucania operated in the Ninth Region of Chile, known as "the bread basket of Chile" (bread consump-

tion in Chile is one of the highest in the world), located 780 kilometers from the capital, Santiago (see map on page 13). Temuco, home of the main office, is a relatively young city founded in the late 1800s. The region was home to the mighty Mapuche Indians who were the only tribe in South America able to stop the colonialization of their land. They maintained control until 1881, when they finally came to an accord with the now independent Chilean government. The Mapuche culture maintains a strong presence. One can see horse-driven carts moving down the main streets of the city alongside the cars, buses and taxis that now dominate the roadways.

The combination of the Humboldt currents from the ocean and the Andes mountains produces the region's rainy climate. The annual rainfall within the region varies dramatically from 800 mm to 2,500 mm north to south (in comparison, average rainfall in Ohio is 700 to 1,000 mm annually). This has a significant effect on the business situation. While Temucanos generally are not hindered from going out in the rain, it does slow down commercial traffic of all types. Farmers are greatly affected by the climate from year to year.

Temuco is touted as the third fastest growing city in Latin America. Many people have migrated there from the surrounding farmlands to work in the growing business sector, and from Santiago to escape its smog.

**POPULATION STATISTICS**

	1960	1970	1982	1992
Temuco	103,644	139,243	189,994	240,880
Victoria	26,874	28,356	31,530	32,966
Carahue	26,639	22,246	24,564	25,184

Source: National Institute of Statistics (INE), Chile.

New construction is on the rise with eight new office buildings going up in the downtown area, with several apartment high-rises, a second mall, a clinic, a juice plant and a brewery among the new construction. The cause of growth in Temuco is subject to debate. Some people believe it is due to the retail business activity flooding into the region. Others believe it stems from the growth of the forestry sector. However, most people believe the economy is still based on agriculture.

Some claim it is in for a shock due to declining prices for traditional crops on the world market and increasing costs of supplies. There is no doubt that agriculture is very important in the region; over half the population is employed in that sector.

A study completed at the end of 1991 by the Regional Secretary of Planning and Coordination cited the following problems and limitations of the region:

1. Inefficient and degrading use of land by the small producer;
2. Insufficient and inadequate business management capability, limiting access to financial resources and technological advancements;
3. Limited ability of the region to manage itself due to the centralization of government activities in Santiago;
4. A poorly trained work force and disorganized training efforts relative to the real requirements for the work available;
5. An insufficient education system.

**EDUCATION**

At 90%, Chile has one of the highest literacy rates in the world. Almost all children—except those in the very rural communities—go to school. However, by U.S. standards, the education system lacks the resources and program content needed to deal with the new technology now entering the country.

High school students can take one of two routes through school: the college preparatory program or the vocational program. Most students take the vocational track; many enroll in the business and administration section designed to prepare them for clerical jobs.

There are a few state universities in Chile. In recent years, private universities have opened all over Chile. Temuco is no exception; there are several universities in the area. However, only one is recognized for its business program. Most schools offer programs in business, but many are not very good.

There are vocational institutes offering all kinds of courses, many focused on business. The Chilean government offers employers tax rebates for training programs. The employer is allowed to deduct the value of courses up to a certain percentage of the total income

tax they paid for each employee. Approved training programs are very general in nature and are offered by a number of technical institutes. Because of the flood of new technology and easy access to public funds, institutes have been popping up all over town. There are over 20 institutes in Temuco offering courses in English, wordprocessing, computation, programming and sales skills, to name a few.

## AGRICULTURE

Almost half of Chile's farmers are involved in wheat production. Traditionally, nearly 50% of total planted crop area is dedicated to wheat. The region produces over 30% of the total Chilean wheat crop.

Government agriculture policies in Chile have remained relatively stable with little intervention. Chile, for the most part, has a free market policy. However, there is a price band for wheat, sugar and vegetable oils which encourages production and discourages imports.<sup>17</sup> Due to the market price of wheat and increasing production costs, production has been declining over the past several years. There was talk that the government might lift the price band in the future. This would cause a flood of imported wheat; U.S. wheat farmers are anxious to sell to Chile.

In general, there are two types of farmers in the region. The Agribusiness farmer typically has several hundred to one thousand hectares (one hectare = 2.47 acres) employing many people. These farmers are some of the wealthiest people in the region. They often drive new cars and live in U.S.-style suburban homes.

The second category is small farmers, mainly Mapuches, that use traditional techniques. They farm for subsistence and often work together on reservations.

There has been a notable conversion of traditional wheat land into pine forests in the region. The region contains over 230,000 hectares of pine forest. Some feel that forestry will replace agriculture as the primary economic activity within 10 years. Farmers who worked marginal land for wheat production no longer find it profitable. They have begun planting trees or selling off their land to anxious large forestry companies.

This area of Chile is known as one of the best places in the world to grow pine and eucalyptus. Trees that take 12 to 30 years to harvest in Europe and the United

States can be harvested in 8 to 10 years in this region. The forestry industry is expected to grow and play an increasingly important role in the Chilean economy. Chile already exports large quantities of wood products to Japan and Argentina.

## BUSINESS ACTIVITY

Commercial activity in Temuco is centered downtown. All banks are located there. Most farmers with large farms come to Temuco from the surrounding areas to do their business, even though they can buy their supplies from the small towns near their farms. They come to Temuco to do their banking and other shopping. There is status associated with shopping in Temuco. Farmers can be found in the *Plaza de Armas* negotiating deals and talking about the weather.<sup>18</sup> Their wives can be found in coffee shops talking about their children or their latest small business venture.

At the beginning of the year, a new mall had opened up on the northern edge of town. Many people thought that the mall was the beginning of the commercial exodus to the suburbs. They compared it to the life cycle of many U.S. cities. However, many downtown merchants believe that Temuco is at a different stage of development. They feel most people still depend on public transport and that the market is not ready to move outside the city.

Chile tends to be very centralized. Banks and national companies have their headquarters in Santiago along with all governmental organizations. Most decisions are made there. This often causes delays in business transactions. There is a growing constituency supporting decentralization, particularly governmental decentralization.

Chileans are famous for their love of law and order. Some joke that they tolerated the Pinochet government, the military dictatorship, from 1973 until 1988 because they wanted to oust him in an orderly fashion. Chileans lived under strict rule for 17 years. Free speech and expression against the government were forbidden; at least 2,500 people were killed and many were detained without trial, exiled or imprisoned. Many are still believed to be missing. In October 1988, the Chilean people voted on a referendum to decide whether Pinochet would remain in power until 1997, at which time free presidential elections would take place. The elec-

torate rejected Pinochet by 54%; the Temuco region was one of the only regions to vote for the referendum to keep him in power. Temucanos, in general, are very conservative. Big land owners remember the days of the Socialist leader, Allende, when in the 1970s their land was taken by the state and given to small farmers. They feel Pinochet did what was necessary to get the country “back on track.” Of course, the repatriation of their lands had a lot to do with this.

Older managers remember the intrusive socialist government and the battles with strong unions and syndicates. They also live in an environment with abundant labor supply; there are people waiting in line for jobs, and the general attitude is that people are extremely expendable. Everyone remembers the long lines waiting for essential food goods and the scarcity of nearly everything.

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## APPENDIX B

### The People at AgroAraucania

There were 42 people working at AgroAraucania, half of whom worked at the main office. The key management team included:

*Roberto Gutenschuiger, General Manager*

Roberto, the only agronomist working at the company, came to AgroAraucania eight years ago from a dairy plant in the southern part of Chile. Roberto had fourteen years of management experience in the agriculture industry but had no formal business education. His father farmed in the area for many years and he knew many local people.

He was a very reserved and quiet man, but was accessible and took a great deal of time to listen to employees—if they approached him. He had a very democratic style and could be persuaded to change his opinion after listening to others.

*Elías Jiménez, Owner and Commercial Manager*

Elías had a high school education and 25 years experience in agriculture. He worked in the dairy business before he started the company with the other three owners. Elías loved to work in the company, but had a strong dislike for paperwork and written details, preferring to work on what he liked to do and only when he wanted to do it. He occupied his time doing every-

thing from negotiating large fertilizer deals with the company’s suppliers to deciding what type of replacement toilet seat the company should buy. Occasionally, his authority conflicted with that of Roberto; employees manipulated them like parents (“If mom won’t let me, dad will!”) Although the Commercial Manager was formally under Roberto’s supervision, Elías made many of the final decisions. Elías’s greatest love was talking. He could talk for hours without stopping and sometimes kept employees in his office for long periods of time discussing everything from the day’s business to social events.

*Juan Fernandez, Controller*

Juan had worked for the company for eight years. He had the equivalent of a bachelors degree in business. He started with the company as a clerk and studied at night for eight years to get his degree. He had been serving as controller for four years, but Roberto still managed some financial matters such as bank loans. Juan started his career with AgroAraucania and had no other outside experience. He was fairly conservative and believed in traditional “top-down” management style which he was taught at school until he learned more about Participative Management and Total Quality.

*David Olivarez, recently promoted, General Sales Manager*

David had been with the company for four years. He had a high school education and no formal training in business. He came to the company from Anasac, the company’s largest competitor, where he worked for two years. He brought with him a considerable amount of information, including a client list. He was hired as a Sales Manager for the main office to supervise the four-person salesforce. As Sales Manager, he earned a higher base salary than the other salespeople, but did not complete any distinct tasks or perform any supervisory duties. The company recently created the General Sales Manager position to coordinate and manage all the sales activities for the company, the main office as well as the branch offices. Roberto and Elías previously split all sales management responsibilities.

Two days after David was promoted to General Sales Manager, he had a talk with the secretaries and told them that they should use the *Usted* form with him because customers needed to know that he com-

manded respect and, furthermore, they should use the same formal language with all the salespeople.<sup>19</sup> During this same two days, David started using the informal *tú* form with Elías and Roberto. Soraya, his Sales Assistant was heard talking to one of the secretaries, "I don't know whether I should use *Usted* with him or not. He was always like a friend before, now he's my boss. I just don't know."

## APPENDIX C

### Total Quality Management Summary: Deming's 14 Points

Total Quality Management (TQM) is a model that focuses on continuous quality improvement, based on employees' problem-solving ability and empowerment to control work processes, in order to develop a sustainable competitive advantage.<sup>20</sup>

Experts, such as Deming, Juran, Crosby and Feigenbaum, emphasize:

1. Management commitment to quality control;
2. Creation of a structure and a strategy to guide the quality improvement process;
3. Education and training;
4. Quality measurement;
5. Removing sources of problems;
6. Instilling ongoing improvement.

Deming, whose quality philosophy AgroAraucania read about in Walton's book, heralds 14 key points in a TQM environment. They are:

1. Create a constancy of purpose.
2. Adopt a new philosophy.
3. Cease dependence on inspection.
4. Cultivate a long-term relationship to one supplier.
5. Improve constantly and forever.
6. Institute training on the job.
7. Institute leadership.
8. Drive out fear.
9. Break down barriers between departments.
10. Eliminate slogans.
11. Eliminate quotas and management by objective.
12. Remove barriers to pride of workmanship.
13. Institute a vigorous program of education and self-improvement.
14. Everyone works together to accomplish transformation.

## MAP OF CHILE



## Notes

<sup>1</sup>This case was written by Amy Anderson of Wright State University. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Special thanks to Robert F. Scherer, Ph.D., Department of Management Chair at Wright State University, for his help and guidance in the development of this case.

<sup>2</sup>It is a Chilean tradition for any new employee to *pagar el piso* (pay the floor) when they receive their first pay check. The event is akin to a rite of passage in an organization. Typically, the person buys a cake and champagne and shares a little with all the employees. Managers usually do something more extravagant such as a luncheon or a BBQ. The employee makes a toast asking for the support and help of colleagues as he or she adjusts to the new position.

<sup>3</sup>The evening before a board meeting, the directors/owners invited several people to dinner to discuss various issues concerning the business. Traditionally, they invited people involved in agriculture. Recently, they started to invite other members of the business community to talk about other issues, such as training, human resources and marketing techniques. This was almost unheard of in small- or medium-sized Chilean businesses, particularly outside Santiago.

<sup>4</sup>The government agency INDAP (Institute for the Development of Small Farmers) provided technical and financial assistance to small farmers. They advised these farmers on modern farming techniques and gave them a voucher to purchase necessary products.

<sup>5</sup>Salvador Allende was Chile's President from 1970 until the military coup led by Augusto Pinochet toppled him in 1973. Allende was a socialist and aimed for a massive redistribution of income to benefit the poor.

<sup>6</sup>Human Resource or Personnel Departments are usually not present in Chilean companies, particularly outside the capital city. Psychologists are commonly used by companies to assist in the human resource function, most commonly in selecting and hiring personnel. Chilean companies typically contract with a psychologist to evaluate potential employees and often rely heavily on these evaluations to make their final selections.

<sup>7</sup>January and February are vacation months in Chile. During these two months, nearly the entire country shuts down and nothing much gets accomplished. Even if a person is not on holiday, the other parties needed to complete any given task are likely to be absent, preventing work from getting done.

<sup>8</sup>*Gringo* is the Spanish word for North American.

<sup>9</sup>Mary Walton, *The Deming Method in Practice*, Spanish Edition (Barcelona: Grupo Editorial Norma S.A., 1992). See Appendix C for a brief description of TQM and Deming's 14 points.

<sup>10</sup>In Chile, many women have uniforms that they wear to work. These are usually provided by the employer, and they

usually consist of a business suit (a jacket and two skirts) and two blouses. Most women prefer to use uniforms to save their own money and reduce the competition among women trying to out-dress each other. Typically there is a calendar of combinations; everyone wears the same articles specified for any given day.

<sup>11</sup>This writer has never heard a Chilean manager refer to employees as *collaborators*. The Deming book uses this term.

<sup>12</sup>In most retail businesses, the work day starts at 9:00 am and runs until 1:30 pm when they break for an hour and a half long lunch, the biggest meal of the day. They then open again at 3:00 pm and remain open until 7:00 pm.

<sup>13</sup>Punctuality is not a strict rule. Most meetings start late. Employees are expected to participate without overtime pay.

<sup>14</sup>*Don* is used before a man's name as a title of respect. All the employees use *Don* before Roberto and Elías. When speaking to a woman, *Señora* or *Señorita* is used. *Doña*, the feminine equivalent of *Don*, is not commonly used before a woman's name.

<sup>15</sup>Central heating is very rare in Chile. Most homes and offices are heated with wood stoves and/or portable gas heaters. Relative to U.S. standards, buildings are cold and drafty. Small space heaters are often used under desks to keep feet warm.

<sup>16</sup>*The Latin American Political Dictionary* defines *Machista* (adjective) or *Machismo* as: "A cultural trait that stresses male pride, virility and aggressiveness in social and political relations. The *machista* is an active man who displays strength, courage, self-confidence, daring and sexual prowess. He is an extremely competitive man of action, proud of his manliness, ready to exploit weaknesses in any social relationship. In his self-image he combines the roles of Don Juan, the *conquistador*, the solitary hero, the risk-taking adventurer and the revolutionary fighter. The origins of machismo have been traced to both Spanish and Latin American sources. It is related to Spanish pride, to personal honor and dignity, to the Indian-*mestizo* fatalistic view of life and to emotional self-expression encouraged in Latin culture. Some writers project that as social, economic and political systems become more modern and as the movement for women's rights becomes more widespread, the influence of *machismo* will decline."

<sup>17</sup>Set by the government on an annual basis, the price band specifies a minimum and a maximum price at which a given product can be imported. In Chile, the *piso* or floor effectively prevented wheat from being imported. For example, wheat prices in the U.S. market were lower than the floor price of the band. However, in order to import into Chile, it was taxed to raise the price to the price floor.

<sup>18</sup>*Plaza de Armas* is the central square found in every Chilean community, large or small. It is usually located in the center of town and bordered on one side by the Catholic church. Many activities are centered around the plaza and it is often a central meeting place.

<sup>19</sup>There are two commonly used ways of saying *you* in Spanish. The familiar singular form, *tú*, is used in speaking to friends, young children, and family members. It corresponds roughly to “first-name basis” in English. The *Usted* form is used in more formal situations, such as with older people, people you do not know or people in authority. In some families, children use the *Usted* form with their parents all their lives. The general rule is that one uses the formal form when in

doubt and until the person says “*tutéame, por favor*” (use the *tú* form, please). Some company managers ask their employees to be informal, but the majority still follow the traditional rules. Employees at AgroAraucania used the informal *tú* form with each other and the *Usted* form with management.

<sup>20</sup>Charles A. Barclay, “Quality Strategy and TQM Policies: Empirical Evidence,” *Management International Review*, Vol. 33, 1993, pp. 87–98.