AgroAraucania

TEMUCO, CHILE

Case Description

Commercial AgroAraucania is a retailer that sells agricultural products to wheat farmers and distributors. They face a variety of human resource issues. Employee morale is low and turnover high, and the reward system is confusing and disappointing. The company is implementing a new quality program that has thus far met with mixed results.

Teaching Purpose and Objectives

Reading the latest news headlines, one gains an appreciation for the rapid growth of the "global economy." Countries once considered to be "third world," stigmatized with poverty, political instability and cultural strangeness, are rapidly coming to play the free-market game.

Neighboring countries to the South should be of particular interest to U.S. business people. Chile has already surfaced as a market force leading South America in its progress toward a free market economy. In 1993, it was listed as a "dragon" among emerging markets around the world. It is expected that Chile will be the next country after NAFTA with which the U.S. will negotiate free trade. The U.S. foreign commercial officer formerly stationed in Mexico was in Chile at the time this case was written to start work on an expanded free trade agreement.

The purpose of this case is to challenge the student to think about the following issues:

- Total Quality philosophy as it applies to other cultures;
- 2. The impact of U.S. practices on other cultures.

Position in the Course

The case focuses on the company's attempts to implement a Total Quality Management (TQM) environment. It could be used to enhance the analysis of this philosophy and its application in another culture, as well as to enhance the teaching of the following:

- 1. International Organizational Behavior
- 2. Culture and Change
- 3. Business in Developing Countries
- 4. Organizational Development
- 5. Human Resource Management.

The case should:

- Give the student an appreciation for cultural differences between Chilean and U.S. organizations;
- 2. Demonstrate the influence of developed countries' business practices on developing countries;
- 3. Illustrate the special challenges facing businesses in developing countries to change and implement new management techniques and business practices, often imported from developed countries.

AUTHOR'S NOTE

While it may seem from the case that doing business in Chile is very different from the U.S., this author

found many similarities, perhaps more than differences. Chilean culture has many familiar aspects when compared to the U.S. However, one purpose of this case is to bring out cultural issues. The author hopes that this focus does not mislead the student. For example, while the *machismo* aspect of Chilean culture does affect certain situations, Chilean men can be very receptive to new ideas. In the author's experience, Chilean managers were often more accepting of new ideas and not as committed to old paradigms as their U.S. counterparts. One sees a drive to do whatever works to increase their role in world markets.

SUGGESTIONS FOR ANALYSIS

- I. Identify elements of the situation described in the case that seem different from U.S. approaches.
- 2. Use some current quality philosophy (e.g., Deming, Juran, Crosby) as a basis for analysis.
- 3. Ask students to list their current perceptions of Latin American/Chilean culture. Contrast these with what appears in the case.
- 4. Examine the issues and problems U.S. companies experience with TQM implementation. Compare these with AgroAraucania's experience.
- 5. Ask students to read "Background Notes on Chile" published by the U.S. Department of State for a brief summary concerning the people, history, government, economy, and foreign relations of Chile.

TOTAL QUALITY MANAGEMENT IN DEVELOPING COUNTRIES

Why should students be concerned with the study of TQM in developing countries? From an economic development perspective, TQM advocates profess that continuous improvement will create more jobs over the long haul. The following circular model illustrates this point:

→increase quality→decrease costs→improved productivity→capture market share→grow the business→provide more jobs→improve products→increase quality→etc.

Industrialization remains a fundamental objective of economic development for many developing countries. One sees shifts in the international distribution of industrial production, particularly as traditional industries decline in the older economically-advanced countries and rise in emerging countries. Labor-intensive opera-

tions have moved from high-wage to low-wage countries, while capital-intensive and knowledge-intensive operations have remained in place. To sell its manufactured goods overseas, domestic manufacturers from every country increasingly must compete against world class quality producers. Thus, adoption of TQM practices may be essential to future job growth.

Rapid technological change poses a major challenge to all nations. Countries trying to "catch up" as well as "keep up" face enormous challenges, especially in adopting new technology and management practice. Most industrializing countries seek to gain access to overseas markets; they are aware of how new technologies affect their ability to build a modern industry that can compete on world markets. The spread, assimilation, and future development of new technologies greatly shape the evolution of competition, growth, and trade.

The U.S. has responsibilities as a world business leader. Countries look to the U.S. as a source of financial and developmental support, and as a source of new ideas. Chilean business people are increasingly exposed to American management practices and beliefs, and Total Quality Management is commonly discussed. Some companies, mainly larger firms, have started TQM implementation programs. As citizens of the leading industrial nation, Americans have a responsibility to manage this power and influence to make the world a more prosperous and peaceful place in which to live.

TQM Considerations in Developing Countries

TQM is a relatively new concept in most developing countries, hence, relatively little research is available on the subject. Most examples of TQM in developing countries can be found in the "newly industrialized" or "emerging market" countries such as Mexico. Chile fits into the "emerging" category. However, the author found few research findings on TQM in Chile.

Based on her analysis, the author believes there are four critical areas to assess when considering a TQM program: cultural milieu, technology transfer, human capital, and macro environment.

CULTURAL MILIEU

For many, culture is probably the most significant component to the success of TQM environments. Some

experts in comparative management place a great deal of importance on culture and its special influence on this type of program, while others argue that we are moving toward a "global culture" and that individual cultures will no longer have the impact they did in the past. Undeniably, until this "global culture" comes into existence, cultural differences will play a role.

Research in comparative management is helpful when trying to understand the significant ramifications of TQM philosophy on different sociocultural environments. The importance of management in the whole TQM process is undeniably pivotal to its success. Much has been written on the impact of sociocultural variables on management practices and effectiveness. However, there is still no clear-cut answer to the issues of applicability, transferability, and utility of advanced management techniques and practices.

TECHNOLOGY TRANSFER

TQM environments typically require a good deal of technology. The transfer of this knowledge creates a major challenge for those considering TQM implementation. Not only is this a costly venture, but a time-consuming one as well. For these reasons, most technology transfer efforts in developing countries occur in multi-national corporations and the largest national companies. Chile is no exception; the TQM movement currently centered in these types of organizations.

HUMAN CAPITAL

Another important problem facing many developing countries organizations is human capital and how to balance the goals of high quality with job creation for the local work force. Localization is achieved when the organization fills its local job needs with members of the local labor force. Obstacles to effective localization include: lack of a trained work force, inappropriate job specifications, and local attitudes towards work.

In developing countries, increased job opportunities draw in workers who had previously not been in the industrial labor force, people with little training and skills relative to the job requirements. More and more women are entering the work force in these countries, creating cultural and structural changes at every level of society.

Education is critical in the development of human capital. Technical skills for technology transfer along with management skills are essential, specifically in TQM environments. A constant problem for many developing countries has been an appreciable lack of experts in quality and other management areas. As countries continue down the path of industrialization, this lack becomes even more critical.

MACRO ENVIRONMENT

Another major area which has a significant impact on a country's ability to industrialize and create opportunities for the practice of TQM is the macroeconomic environment. Factors such as the government's role in the economy, the level of corruption, the legal system, and the orientation and efficacy of its policies on trade, investment, competition, and intellectual property greatly affect the business situation.

Assignment Questions

The following assignment questions are complex and have no definitive answers. The comments below should be considered "food-for-thought" designed to stimulate class discussion. The four points discussed above provide a good framework for analysis.

I. What should management do the following week?

Consider the following options:

- A. Take another look at their plan for implementing TQM and consult with an expert on the subject. Unfortunately, there were no such experts in Temuco and the expense would have been prohibitive for the company to contract someone from Santiago.
- B. Assign someone in the organization to be responsible for learning more and teaching others about TQM. Materials would have been difficult to get in Temuco. However, this would have been a less expensive option than hiring an expert.
- C. Continue communicating with the employees. They need to see that the company is serious about its endeavors to change the environment of the company. In the absence of professional help, they should stress the fact that they are learning and

- reinforce the company's need for employee assistance to help the company improve and grow.
- D. Consider the need for individual performance feedback. Refocus on an individual performance feedback system or combine this plan with the existing plan.

2. Was the problem-solving group effective? How should management react to the recommendations of this group?

By some standards, the problem-solving group was not effective. However, the employees were brought into the problem-solving process, which was a key first step.

We can see many similarities in the difficulties facing both U.S. and Chilean companies when challenged with changing to a TQM environment. The problem, as in most cases, is mainly with management. Steadfast commitment from management is critical to the success of TQM. The management in this company believed in the concept but lacked the management skills to lead the employees to their own empowerment. The key is to sustain participation and let change take its course.

Management should continue to encourage employee participation. The continuity of the message is important in order for the employees to start to believe in the TQM philosophy. Even though the employees lacked skills needed to work together effectively in a group, they could gain those skills over time.

3. What are the issues affecting the TQM situation as they relate to (A) cultural milieu, (B) technology transfer, (C) human capital, and (D) macro environment?

CULTURAL MILIEU

There are many cultural issues to consider in this case. Examples are given after each issue.

- A. There is a definite class structure in Chile. People of European decent are considered to be at the top, while the indigenous population is considered to be at the bottom. We see several examples of class influence in the case.
 - The production employees were not invited to participate in the TQM kick-off BBQ.
 - There are only two employees who are Mapuche.

- B. The existence of the *machismo* mentality. This has an impact on male/female interaction.
 - The women leave the BBQ after the meeting while the men stay behind to socialize.
 - The women are expected to wear uniforms.
 - Farmers typically talk deals while their wives go shopping.
- C. Personal relationships are very important.
 - · Farmers do business in the plaza, a social setting.
 - Large customers deal with branch offices only if there is a personal relationship involved.
 - There is high turnover because of an unacceptable personnel environment in the workplace.
- D. Group acceptance and solidarity is very important.
 - There is a rite of passage into the workgroup with the pagar el piso ritual.
 - Workgroup stability is very important to morale.
- E. The distinction between management and labor.
 - Formal language such as Don and Usted is used with management.

TECHNOLOGY TRANSFER

Full use of the company resources was not realized. Computers were a new technology for the company and information management, although a priority, was a very new concept. Statistical applications were not part of their immediate plan. However, over the long-term they would have been a consideration.

Access to technology was more limited in the South than it would have been in the capital.

HUMAN CAPITAL

Human capital is an important consideration for AgroAraucania. There was a large deficiency in human resources. The management of the company did not have the background and skills needed to deal with many areas of management and lacked the focus needed to implement this strategy.

The employees lacked skills in many technical areas and needed more information about TQM. While management thought they were training their employees,

there were many areas in which the employees lacked training. Among others, training for Total Quality should include problem-solving skills, team building, and statistical skills. The company had just started using computers and training employees to use them.

MACRO ENVIRONMENT

While some of the background and history of Chile was covered in Appendix A, the student will need to bring knowledge about Chile to the case from outside sources. The government of Chile is making a serious effort to establish an environment where free markets prevail and trade barriers are reduced. They have made impressive economic strides over the past 10 years. Relative to other governments in South America, the government of Chile is efficient and corruption is uncommon.

Centralized government poses one problem: most government resources are not available to the company and the region. Since regional problems and limitations affect the business environment, and since these issues must be addressed by the national government, the macro environment must change before improvements can be made.

Chile has made a major conversion to a free market economy in the last two decades, but their socialist history cannot be ignored. Its implications are hard to fully understand, but it continues to have an impact. Examples in the case include:

- The use of in-house asistente social to deal with employee needs.
- The bien estar (in-house insurance) fund that the company wanted to implement.

4. What would you recommend for AgroAraucania? Is AgroAraucania ready for TQM, or should it try some interim step first?

This author believes TQM is appropriate for AgroAraucania, however, more training and planning is needed. For Chilean businesses in general, TQM could be appro-

priate but the country needs more training in the concept to make it successful. Companies that plan to embark on the long, never-ending TQM journey, which start to change their corporate cultures now, will be better prepared as more information and resources concerning TQM become available.

In fact, Chilean businesses may be in a better position to implement TQM than some U.S. businesses. As Chile endeavors to make its mark on world markets, they accept and adopt many things from the macro environment, something some U.S. companies are slow to do. TQM philosophy is one of them. Chileans see its popularity all over the world and want to learn more about it. They often try to emulate U.S. trends because the business community wants to do everything it can to prepare itself for a free trade agreement with the U.S.

Chileans have a greater desire for group cohesiveness than U.S. workers. Relationships are very important in Chilean culture. It is very important for them to get along with others and have a pleasant group with which to work. Teamwork is a concept that fits well with Chilean culture.

Union activity is minimal, relative to the U.S. While there are struggles between management and labor, the differences are not as great as those found in many U.S. industries.

Another major difference between the environment in Chile and that of the U.S. is that Chile is still an agriculturally based economy. However, industrialization is increasing. Small industries are popping up all over Chile. Many are in small towns where people still maintain relatively traditional values (i.e., family and home are more important than careers and work). Managers who adopt this philosophy and start the cultural change process now (which takes a *long* time) could facilitate the industrialization process of the country.

The author believes that we have a great deal to learn from Chileans. Their spirit and good-naturedness make them a pleasure to work with and their openness to new ideas is refreshing. What they lack in resources, they make up for in drive.