Developing the Argentinean market: access and controlling by European companies

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Developing the Argentinean market:

Access and Controlling by European Companies

Jörn N. Leewe

February 2001
To Mònica
Abstract

This thesis is concerned with the issues involved in accessing Argentina as a market and with the experiences of European companies that are doing so, as well as with questions of the control of subsidiary business activity in Argentina by foreign owners or principals.

Although Argentina has the third largest economy in Latin America and is indeed the world's eighth largest country by land area, Western Europeans are not typically well-informed about it. In consequence we have devoted the first two chapters of the thesis to a discussion of Argentina's culture and history, economy and society. This helps both to set the scene, and to highlight the importance of the informal-personal-familial-particularist considerations, even in business life. This discussion is based primarily on the relevant literature and on data in the public domain.

From this socio-cultural overview we move to a discussion of the general question of how European and other foreign companies may access the Argentinean market. A key issue here is the choice between a foreign company having its own sales office or using Argentinean distributors. In consequence the discussion culminates in the presentation of an analytical model to guide the choice between own sales organization or a local distributor. This discussion is significantly fuelled by interviews with a sample of German managers with substantial business experience in Argentina.

The thesis then moves to a discussion of creating and managing the relationship with the Argentinean partner. This discussion is underpinned by a consideration of some of the theory on cultural difference, and serves to reinforce a characterization of the culture of Argentina. This section makes substantial use of interviews with German managers of distributors in Argentina, as well as with the results of a questionnaire survey with a larger sample.
Finally the problem of controlling the distributor or subsidiary in Argentina is addressed. This discussion is informed by the literature, but then relativised by the candidate's empirical research and particularly by the understanding gained from interviews with a sample of controllers of Argentine based operations. This section in particular highlights the tension between business rationality and the personalism of Argentinean society.

Main findings and recommendations are naturally summarised in the final chapter.
Even though I am of Northern European (German) descent, already as a boy I was fascinated by the Spanish and Latin culture and mentality. Later, as a young undergraduate student, I already had an understanding of Spanish culture by studying for my degree at a Spanish business school in Madrid at the beginning of the 1990s. Needless to say, this adhoc knowledge and experience enabled me to do research later in Latin America, driven by my original interest.

It is a commonplace nowadays that Argentina is one of the most important economies in Latin America. Still, before starting the arduous process of research for this thesis, my "business acumen" regarding this country of the southern cone was probably not much different from the managers of many European SMEs, with the ambition to do business abroad. Even though knowing about Argentina's natural resources, and the variety offered by this huge country, there was only a limited amount of knowledge of the Argentinean market and the culture of its people. Yet, in order for business to become profitable in the Argentinean market, it is absolutely imperative that one find out about certain key parameters required in order to be successful in the long run, in this specific Latin American market.

The aim of this study therefore is to focus on the most relevant questions that were surfaced by preliminary research. The intention is to offer a guide to managers, while at the same time investigating and critically analysing strategies concerning how to develop the Argentinean market successfully, especially from the point of view of small and mid-sized European companies. We also hopefully shed light on the success factors regarding ways to access and control the Argentinean market. Moreover, we focus on these two strategic business functions - access and control - as they are believed to have special relevance for a manager throughout the process of the business development of a remote market such as Argentina. Cognizant of the difficulties of many responsible export managers, the investigation draws attention to the pervasive importance of cultural differences, and to the need of understanding the social and historical background of one's business partner.
Answers to these kinds of questions can only be found by extending the research so as to include knowledge and understanding acquired from a variety of sources and samples. Quite honestly, it was due in large part to personal circumstances that research was possible not only in Germany and Argentina, but also in Greater Miami – the hub of Latin American affairs. Throughout an extended sojourn in Ft. Lauderdale, Florida, some interesting interviews were conducted with several managers at the regional headquarters for Latin America.

The present study is the result of four years of research on a fascinating and yet rather neglected international business topic. However, the time and cost involved were not seen as sacrifices. Dozens of interesting interviews, many fascinating books, and quite a few exciting experiences throughout the research were more than adequate compensation. My childhood curiosity about Latin American culture was finally satisfied in terms of a systematic and structured study.

Madrid, February 2001  Jorn N. Leewe
Acknowledgements

In the course of preparing this study, I have benefited from an enormous amount of help from a broad range of sources. My greatest learning has come from a large number of company visits and interviews with managers in many different environments in the USA, Germany and Argentina. I cannot acknowledge the encouragement and time as well as the openness I have received by the many managers of these companies and organizations. I would like to thank Dr. Herberto Hugo Karplus, the General Manager of Karplus S.A. in Buenos Aires and at the same time General Secretary to the International Chamber of Commerce who gave me a lot of support in my research as he himself as a young man was a PhD student in international business.

I would also like to thank my former boss at Lufthansa German Airlines, Mr. Joachim Steinbach, Vice President Central Europe, who gave me all his support to arrange a special office hours agreement to gain additional time for my research. This also applies to Mr. Jurgen Kunze at Fresenius Medical Care Latin America, Inc. who gave me all his support and understanding in order to continue my research. During my sojourn in Miami, USA, I have also been helped by my assistant Todd Swan who listened to the numerous interview tapes and prepared the interview transcripts

Especially I would like to thank my professor at Loughborough University, Peter Lawrence for his continuous support, help and guidance to keep me on the right track throughout the process of structuring and defining the research. Due to his long years of experience he was always a wise sparring partner when my thoughts came to a dead end on how to proceed. Last, but clearly not least, I would like to thank my wife Mônica for assisting me to find numerous research sources on the World Wide Web as well as in the library of the Florida Atlantic University. I am indebted for her understanding and continuous encouragement throughout the four years of research in order to prepare the present study.

Madrid, February 2001

Jörn N. Leewe
Note on Interviews and Translation

Much of the research is based on interviews variously conducted in German, Spanish, and English, and the text makes extensive use of quotations and excerpts from these interviews. Any excerpts from the Spanish and German interviews have of course, been rendered in English – quotations from interviews conducted in English have naturally been kept in the original, but many of these interviewees were not themselves native English speakers. The result is that a lot of the quotations and excerpts are not very idiomatic and the reader is asked to excuse this, and accept my preference for authenticity rather than perfection in quoting my interviewees.
Thesis Access Form
Certificate of Originality
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Summary of terms and expressions

**Acculturation curve:**
A graph introduced by the Dutch psychologist Geert Hofstede that demonstrates the mixture of positive and negative feelings that the individual will experience in the different phases when moving to a new cultural environment.

**Argentina:**
The name *Argentina* is derived from a Latinized rendering of the Spanish word for ‘silver', as Spanish poets from the Renaissance onward used it.

**Austral Plan:**
An economic plan under president Alfonsín that consisted in the introduction of the new currency Austral, freezing all wage increases and connecting the Austral to the dollar.

**Cabildo:**
Municipal council in Argentina at the beginning of the 19th century.

**Capex Report:**
Report of Capital Expenditures.

**Casa Rosada:**
Name of the presidents palace in Buenos Aires (Spanish for pink house).

**Caudillos:**
Local and regional political leaders in Argentina at the beginning of the 19th century.

**Cholo:**
A cowboy as symbol of Bolivia.

**Comptroller:**
Alternative term for Controller.

**Cono Sur:**
The southern region of Latin America including Argentina, Uruguay, Paraguay and Chile.
**Conquista:** The colonialization of Latin America in the 15th century (Spanish for conquest)

**Countercoup:** Formerly used term for Controller

**Creoles:** Spaniards born in America

**Criollo militia:** Militarised Creoles who defeated the English occupants at the beginning of the 19th century

**Desaparecidos:** The disappeared people under the torture and murder of the military juntas of the 1970s (Spanish for disappeared)

**Descamisados:** Denomination of the working classes by Juan Domingo Perón (Spanish for the ones without shirts)

**Dirty War:** Campaign of the military juntas in the 1970s with prosecution of political enemies

**Disintermediation:** Phenomenon using the possibilities of the internet to eliminate the traditional intermediaries

**Dyb.com-teams:** Internal teams created by Jack Welch to put traditional processes and corporate functions into question and redesign them with the possibilities of the internet (dyb = destroy your business)

**Estancias:** In the 19th century the pampas were divided into large properties known as estancias

**FTAA:** Free Trade Area of the Americas as project currently discussed between the states of the Western hemisphere

**FX-report:** Report on risks in foreign currencies
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Gauchos</strong></td>
<td>Hard-riding cowboys who became the symbol of Argentina who roamed the Pampa and were mainly mestizos</td>
</tr>
<tr>
<td><strong>Gleichschaltung</strong></td>
<td>German term used in Nazi-Germany to express the idea that the Nazi government controlled all institutions</td>
</tr>
<tr>
<td><strong>Greenfield start</strong></td>
<td>The process introduced by the Dutch psychologist Geert Hofstede of setting up a foreign subsidiary from scratch by sending a small team of expatriates who themselves hire locals</td>
</tr>
<tr>
<td><strong>Gringos</strong></td>
<td>Argentinean denomination for the new immigrants arriving from Italy</td>
</tr>
<tr>
<td><strong>Grupo de Unificación</strong></td>
<td>Secret military organization in the 1940s of Juan Domingo Perón (Spanish for Unification Task Force)</td>
</tr>
<tr>
<td><strong>Gyb.com-teams</strong></td>
<td>Internal teams created by Jack Welch to put traditional processes and corporate functions into question and redesign them with the possibilities of the internet (gyb = grow your business)</td>
</tr>
<tr>
<td><strong>Handelsgesetzbuch</strong></td>
<td>The German Commercial Code</td>
</tr>
<tr>
<td><strong>IDV</strong></td>
<td>Individualism Index introduced by the Dutch psychologist Geert Hofstede</td>
</tr>
<tr>
<td><strong>Kontrollieren</strong></td>
<td>German for control</td>
</tr>
<tr>
<td><strong>Martinfiernsmo</strong></td>
<td>An international symbol for young writers at the end of the 19\textsuperscript{th} century in their search for a national identity struggling between ‘civilization’ and ‘barbarism’. Martin Fierro was a rebellious character created by the Argentinean author José Fernández</td>
</tr>
</tbody>
</table>
**MAS:** Masculinity Index introduced by the Dutch psychologist Geert Hofstede

**Masorca:** Intensive killings in Argentina under the military juntas in the 1970s

**Menemato:** Political direction called after president Menem who ended the protection of local and state owned industries

**Mercosur:** A common market composed of the countries of southern Latin America like Argentina, Brazil, Uruguay and Paraguay in order to promote the trade of goods and services between its member states (Chile and Bolivia are associate members)

**Mestizos:** Mixed races who became a subculture of colonialism

**Mothers of the Plaza Mayor:**

The mothers of the disappeared during the times of the military juntas in the 1970s who demand every Thursday the return of their missing children at the main square of Buenos Aires.

**NAFTA:** North American Free Trade Agreement = a trade zone build of Canada, Mexico and the USA

**Nunca más:** A report published by president Alfonsín in the 1980s which gave details of the prosecution throughout the previous military junta (Spanish for never again)

**NYSE:** New York Stock Exchange

**Pampa:** The fertile central plains of Argentina with huge expanse of flat grasslands which stretch across the middle of the country, known by their Indian name

**Patagonia:** Area of Argentina
**PDI:** Power Distance Index introduced by the Dutch psychologist Geert Hofstede

**Peronism:** Political movement under Juan Domingo Perón

**Porteños:** The inhabitants of Buenos Aires (Spanish for people of the port)

**Proceso:** Name of the development under the military juntas in the 1970s with prosecution of the political enemies (Spanish for the process)

**PYMES:** Spanish abbreviation for small- and mid-sized firms (Pequeñas Y Medianas Empresas)

**Ronda de negocio:** Spanish for business meeting

**Roto:** A cowboy as symbol of Chile

**Savoir-faire:** French for knowing how to do things

**Tequila-effect:** Denomination of financial crisis that occurred in Mexico at the beginning of the 1990s

**Third Way:** New political understanding between socialism and capitalism under president Perón

**Tierra del Fuego:** Province of Argentina so called because of the native campfires spotted by Spanish sailors crossing through the Straits of Magellan (Spanish for Land of the fire)

**TIT for TAT-strategy:** A strategy developed by Robert Axelrod that enables two opponents to achieve the maximum mutual benefit
**UAI:** Uncertainty Avoidance Index introduced by the Dutch psychologist Geert Hofstede

**US-GAAP:** American accounting principles (Generally Accepted Accounting Principles)

**Wolgadeutsche:** Argentines with German background who emigrated previously to Russia before immigrating to Argentina (German for Volga-Germans)
Chapter I

The historical and cultural background of Argentina

I. 1. A new land to conquer
I. 2. Colonialisation of Argentina: Expansion of the Peruvian viceroyalty
I. 3. Independence and the moulding of the nation
I. 4. The biggest step forward at the turn of the century
I. 5. A European nation in America
I. 6. To govern is to populate
I. 7. German immigration history
I. 8. An immigration culture
I. 9. Peronism
I. 10. The Dirty War and the new democracy
I. 11. Summary on history and culture of Argentina
When dealing with Argentina in business or science one should try to understand the background of one's counterpart in order to adapt to their environment. The following chapter should be considered as a scene setting to the patterns of this research project. Understanding the country's development, its population, political forces or just the beauties of its territory should be considered as the key to understanding and to undertaking research in Argentina. The following chapter is an attempt to explain the highlights of recent Argentine history and its effect on the country's culture.

I. 1. A new land to conquer

During their conquista of Spanish America at the beginning of the 16th century the Spaniards came down from Mexico and Peru and finally reached the Río de La Plata region. However, they did not find a developed culture in what today is the territory of Argentina. They did not find another empire of Incas, Aztecs and Mayas as they had found in northern South America and Central America. Before colonisation approximately fifty thousand Indians lived in the north-eastern Chaco region, where heavy rainfall allowed them to live from fishing, and planting beans and manioc. Elsewhere on the plains there lived around ten distinct Indian groups, of whom the majority were nomadic hunters, fishermen or gatherers of wild roots and fruit. It was only in the north-west of the region where indigenous groups possessed an agricultural economy and made elaborate pottery. Only north-western Argentina had been drawn into the Inca empire. It is generally accepted that the ancestors of these Paleo-Indians migrated downwards from the north, after crossing the Bering Straits from Asia about twenty-five thousand years ago. A close comparison of fishtail points in Central and South America indicate that the Indians migrated along the mountainous spine of western South America. Carbon dates from Fell's Cave in Patagonia suggest that they had reached the southernmost tip of South America by approximately 9000 B.C. 

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1 Caistor, 13
2 Compare also Waldmann 1; Olsen Bruhns, 357 and Scoble 31
3 See Caistor, 13-14
4 Fiedel, 78-82
What the Spaniards found at the *Cono Sur* were varied regions supporting a wide range of animal and plant life. They found whales, penguins and sea lions at the southern coasts, pumas and condors in the mountainous regions, and even monkeys in the northern regions. All kinds of climates from $40^\circ$C during the summer months in the north to temperatures way below $0^\circ$C in the south as well as different kinds of landscapes were represented in this new land. In what is today the territory of Argentina, four general regions can be distinguished: the Andean region covering the whole country from north to south, the windswept southern region of *Patagonia*, the fertile central plains recognised as the *Pampa*, and, the remaining Mesopotamia and the Northeast. The Andean region runs into the *Tierra del Fuego* in the south with impressive peaks and glaciers in the northern Andes. On the same latitude as the Chilean capital, Santiago, lies the centre of Argentina's wine region. The excellent conditions make this area ideal for production of wine and other Mediterranean fruits. Further north the vegetation of the Andes changes to landscapes of cactus and prickly scrub. It is mainly here where most of Argentina's mineral wealth is to be found, with gold, silver and iron ore.

The Northeast and Mesopotamia are dominated by the plains of the Chaco and the river system of the rivers Paraná and Uruguay. The climate is subtropical, with sufficient rainfall and lush vegetation. At the opposite end of the territory the temperatures in Patagonia are rarely above $20^\circ$C and fierce winds predominate. This region, representing a quarter of the nation's territory, has its own desolate beauty created by wilderness and sparse vegetation. Except in the protected valleys of the *Río Negro*, where apples and other soft fruit are grown, sheep farming is the most viable enterprise of Patagonia.

The huge expanse of flat grasslands which stretch across the middle of the country, are known by their Indian name as *pampas*. All of the largest urban centres including Buenos Aires are located here, where it is temperate with a high humidity. The fertility of the Pampa allows for the production of nearly 90% of Argentina's exports.

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5 Including today's Argentina, Uruguay, Paraguay and Chile
6 Apparently so called because of the native camp·fires spotted by Spanish sailors crossing through the Straits of Magellan (Caistor, 8)
7 At 6,958 metres the Mount Aconcagua is the highest mountain in Latin America and outside the Himalayas (Caistor, 9-10)
8 Nowadays, Argentina is the fifth largest wine producer in the world
9 Caistor, 6
including wheat, flax, corn, oats and vegetables, as well as beef cattle and sheep. At the time of the industrial census of 1954, this area included 80% by number and 86% by value of Argentina's industrial establishments, largely concentrated along the right bank of the Paraná River between Buenos Aires and Rosario. Within this region 60% of the railroad network, 70% of the paved highways, and five of Argentina's eight national universities are located.\textsuperscript{10}

Modern Argentina stretches 3,460 kilometres from north to south, and it reaches 1,580 kilometres at its widest point\textsuperscript{11}. It is the world's eighth, and Latin America's second, largest country with a surface area of 2,766,889 sq. km. This does not include the Malvinas or Falkland Islands, nor the Antarctic territory Argentina claims\textsuperscript{12}.

\section*{1.2. Colonialisation of Argentina: Expansion of the Peruvian viceroyalty}

After Christopher Columbus first landed on one of the Bahamas in October 1492, the following Spanish expeditions started their conquest with the occupation of the nearby Antilles in 1508. From there the creation of the Spanish empire expanded west to Mexico with Hernán Cortés in 1519, and then south to Venezuela (1530), Peru (1533) Bolivia (1535 - 1537) and Colombia (1536 - 1539)\textsuperscript{13}. The reason for such rapid Spanish colonialization is best described by Scobie (1971):

\begin{quote}
The conquistador did not come to the New World in order to grub the land, tend sheep, or labour in the mines. It was not hunger for land or the love of adventure or of religion that explains the incredible feats of the conquest. Basic to this golden era of Spain's empire was the ambition to become a lord over others, a dream which bore fruit in the disdain of future generations for manual labour.\textsuperscript{14}
\end{quote}

The first arrival of Europeans in the Río de la Plata region was a small Spanish expedition, headed by Juan Díaz de Solís. He landed on the northern coast in 1516
and was soon killed by the Indians. The Río de la Plata area was named by John Sebastian Cabot on his expedition in 1526, in the belief that extensive silver deposits would be found in the area. The next recorded expedition was made by Pedro de Mendoza. He arrived at the Río de la Plata region in 1535 and founded the city of Santa María del Buen Aire which was named in honour of the patron saint of navigators seeking fair winds. Mendoza died a little later on his way back to Spain; his settlement in Buenos Aires (the new name of the settlement) was soon attacked and destroyed by hostile Indians.

Governor Irala moved the population of Buenos Aires to Asunción in 1541 because there the Indians were more tractable. Forty-five years later Buenos Aires was founded a second time by Juan de Garay as the last settlement on the easiest route from Peru to the shores of the Atlantic. The hope of the people of Asunción that their city would be on the road to Peru was frustrated by this new route. The new city became, as its founder said, "the port of the land". Buenos Aires began to grow and Asunción to decline.\(^\text{16}\)

However, the majority of Spanish settlers came down from Peru, and others over the Andes from settlements in Chile. These settlers established major cities such as Córdoba and Tucumán. The failure to discover precious metals or a thriving native civilisation meant that for many years Argentina\(^\text{17}\) remained an undeveloped part of the Spanish empire. Until 1776, Argentina was part of the viceroyalty of Peru, which meant that all trade with Spain had to be carried out through Lima from where it departed to Panama, where it was finally loaded on boats to Spain. As a result, the population of Argentina grew only slowly through the 17th and 18th centuries\(^\text{18}\).

The Spanish settlers brought their knowledge of farming, and introduced wheat and other cereals to the fertile pampas. The pampas also became the new home of approximately one thousand horses and five hundred cattle, many of which escaped confinement and roamed wild. The animals were brought by Juan de Garay when he

\(^{15}\) Plata is the Spanish word for silver

\(^{16}\) Well, 10-11

\(^{17}\) The name Argentina is derived from a latinized rendering of the Spanish word for "silver", as it was used by Spanish poets from the Renaissance onward. The lure of an empire rivaling that of the Aztecs or Incas drew the Spaniards into the territory. But they found neither. Its only exploitable natural resource was the fertile land and the small number of native Indian population (Rock, 6)

\(^{18}\) Compare Caistor, 15 and Rock 1
reestablished the settlement of Buenos Aires in 1580. The export of beef and wheat eventually became two of the most important items in Argentina's economy\textsuperscript{19}.

At the time of the conquista the society of Spanish immigrants was characterised by:

- the aim to get rich as soon as possible
- the speedy advancement in the social hierarchy by the most capable
- a quickly changing hierarchical order of society\textsuperscript{20}.

This early type of society of Spanish colonialism was subsequently substituted by a comparable one from the motherland Spain. As Jesuit missionaries started to convert local tribes to Christianity, representatives of the church and the crown became the most important individuals in colonial society.

![Social hierarchy in Spanish Colonialism](source: Waldmann: "Die Kolonialzeit", 7)

The administration of the Spanish colonies in Latin America was carried out more and more through administrators and the bureaucracy. In the 18th century vice kings represented the Spanish king in Mexico, Lima, Bogotá and Buenos Aires. As shown in figure 1, the highest officers in bureaucracy were white Spaniards of a pure blood.

\textsuperscript{19} Weil, 11
\textsuperscript{20} Compare Waldmann, 5
Middle and lower responsibilities were taken by Creoles\textsuperscript{21}. Even in this upper-class there was a differentiation between the Creoles and the whites originally born in Spain. The feeling of superiority by the Spaniards over the Creoles was the beginning of a long-lasting enmity between new arriving immigrants and the settled Creoles. The lowest class was made up of a huge number of imported black slaves, Indians and mixed races or mestizos who became more and more of a subculture of colonialism with lesser rights. Foreigners, especially Jews and Protestants, were usually held back from entering the Spanish colonies in order not to irritate the Indians and the Creoles. Spanish policy also discouraged marriage with religiously "impure" individuals such as Moors and Jews. In this way a pure Spanish influence was guaranteed\textsuperscript{22}.

I. 3. Independence and the moulding of the nation

Until 1776 Argentina continued as a dependency of the Peruvian vice-royalty. Buenos Aires was not permitted to use its harbour for trade, or even to trade freely with its South American neighbours. All trade was strictly controlled and moved by land to Lima\textsuperscript{23}. At the beginning of the 18th century the Spanish monarchy was taken over by a new royal family, the Bourbons. Through several reforms, they reorganised the Spanish empire and forced the colonies to deliver raw materials at prices below the world market price. Their aim was to strengthen the Spanish industry in Europe by cheap raw materials and additional markets. At the same time the ideas of political emancipation from Montesquieu, Locke and Rousseau came to Latin America and were discussed with an increasing interest in universities, academies and secret societies\textsuperscript{24}.

The opportunity to throw off Spanish rule came during the Napoleonic Wars. In 1806 Argentina was occupied by British Commodore Popham who sailed into Buenos Aires on June 27 without permission from his government. As the people of Buenos Aires did not accept the English as their masters, the criollo militia defeated the

\textsuperscript{21} Spaniards born in America
\textsuperscript{22} Waldmann, 5
\textsuperscript{23} Weil, 12
\textsuperscript{24} Waldmann, 7-8
English first in 1806 and a second time after their return in 1807 within one day. In 1810, when the French captured Seville and Cadiz, the main harbours of Spanish America, the viceroy’s position was hopelessly weakened. The porteños (people of the port) began to recognise their own strength and the inability of the Spanish crown to protect them. On May 25, 1810, the municipal council or cabildo of Buenos Aires appointed Argentina’s first Creole government and declared its independence from Spain. In 1816 a congress was held in Tucumán and was attended by representatives from each of the provinces that formed the vice-royalty of La Plata.

After much discussion the congress issued a declaration of complete independence from Spain. The Creole leaders recognised that the country could not be fully free from Spanish domination until Spanish military power in Chile and Peru was overthrown. In January 1817 Argentine’s great national hero General José de San Martín (1778 - 1850) moved more than five thousand men across the Andes. On February 12 and April 5 they met and defeated the Spaniards at the battle of Chacabuco (north of Santiago) and Maipu, thus assuming the independence of Chile. Four years later San Martín entered the city of Lima where he met the troops of the Venezuelan libertador Simón Bolívar in a massive movement that was to bring about the independence of most of the South American continent.

After the battles of independence the porteños wished to have Buenos Aires recognised as the centre of political control for the entire country, but they were opposed by local and regional political leaders called as Caudillos, most of whom were self-elected governors kept in power by armed bands and gauchos. The Caudillos came from rich families and clans and concentrated their power in their estancias. New territories were created through battles of rival Caudillos, as one strong Caudillo defeated the others and created his own authoritarian regime.

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25 Well, 12-14
26 Well, 14
27 Well, 8-15
28 At the end of the 19th century, the gauchos, a hard-riding cowboy who roamed the Pampa and were mainly mestizos, formed a large and vigorous segment of the population. They fought in the armies of the caudillos, who rewarded them well for their services (Well, 3)
29 it was only in the 19th century that the pampas were divided into large properties known as estancias (Caistor, 6)
30 Compare Waldmann, 9 and Well, 15
many cases these regimes were the foundation of many states in Latin America\(^{31}\), which still exist today.

It was under Juan Manuel Rosas (1835 to 1852) that the ugly traits of institutionalised dictatorship first appeared in Argentina: the use of secret police and torture; the division of the population into fanatic supporters and those suspected of being disloyal and therefore "subversive"; attacks were made on press and education. As often repeated by following military juntas (mainly in the 1970s) several thousand people are thought to have been killed by Rosas’ thugs, the *masorca*\(^{32}\).

The moulding of the nation started with Justo de Urquiza (1852-60), the caudillo who defeated Rosas in 1852 at the Battle of Monte Caseros. Urquiza invited the provincial governors to agree upon a national assembly to draw up a federal constitution. They also agreed that the military forces of the provinces should be merged into a national army over which Urquiza was given command\(^{33}\).

The subsequent governments under Derquí (1860 - 1862), Mitre (1862 - 1868), Sarmiento (1868 - 1874) and Avellaneda (1874 - 1880)\(^{34}\) set the patterns of the later era known as the period of economic growth and wealth, starting around 1880. These governors effected enormous progress in infrastructure such as bridges, hospitals and port facilities as well as improvements in education through new schools, libraries, books and scientific societies\(^{35}\).

I. 4. The biggest step forward at the turn of the century

An enormous economic expansion and growth period that could never be repeated in Argentinean history began around 1860. During the following seventy years Argentina became a leading nation, and its advancement had few equals throughout

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\(^{31}\) Tendences of regionalization created five new states in Central America and other smaller states like Paraguay and Uruguay. Former Greater Colombia was split-up into Venezuela, Ecuador and Colombia. (Waldmann, 9)

\(^{32}\) Caistor, 19

\(^{33}\) Welt, 17

\(^{34}\) Compilación Cronológica, 15 - 16

\(^{35}\) Crassweller, 43
the world. The pace of development was fastest between the financial crisis of 1890 and the outbreak of the First World War until prosperity finally came to an end during the world depression in 1930\textsuperscript{36}. Rock (1986) describes the wealth of Argentina as follows:

By 1914 per capita incomes in Argentina compared with Germany and the Low Countries, and were higher than Spain, Italy, Sweden and Switzerland. Buenos Aires, with its 1.5m inhabitants, and having grown at an average rate of 6.5% since 1869, was now the second most populous city of the Atlantic sea-board after New York.\textsuperscript{37}

It was the liberal governments after 1852 which laid the social and economic conditions of prosperity. Indeed, an early type of a public development programme to foster agriculture had already been started through the emphyteusis system, by President Rivadavia in 1826. The system leased public land to nationals and foreigners who aimed to farm it instead of using it for grazing. The title to the land was still kept by the state while the farmer was able to use the land\textsuperscript{38}.

As it was mainly European nations which were already superior in production of industrial goods, Argentina specialised its production in selected agricultural goods such as beef and wheat. Various technical improvements including refrigeration, transportation, cattle breeding and meat packing allowed this new era of rapid economic growth. In 1875, the first refrigerated ship sailed from Buenos Aires, and Argentina quickly became one of Europe’s biggest food suppliers\textsuperscript{39}.

The extension of the railway system was to be another important factor to allow the increase in the country’s food production capacity. Between 1880 and 1915 the railway system was expanded from 2,400 to 20,000 which gave Argentina the third largest railway system of the Western Hemisphere, after the United States and Canada. As a consequence the cultivated area expanded between 1888 and 1895 from 2.4m to almost 4.9m hectares and in the 1890s the wheat exports increased from 1m to more than 20m gold pesos.\textsuperscript{40} Sheep farming was constantly displaced

\textsuperscript{36} Rock, "The Argentine Economy, 1890 - 1914: Some Salient Features", 60
\textsuperscript{37} Rock, "The Argentine Economy, 1890 - 1914. Some Salient Features", 68
\textsuperscript{38} Castro, 8-9
\textsuperscript{39} Crassweller, 45 and Weil, 19
\textsuperscript{40} Rock, "The Argentine Economy, 1890 - 1914: Some Salient Features", 61-62
southwards from the fertile pampas to Patagonia and substituted by wheat and cattle production.\(^{41}\)

The development of Argentina attracted many immigrants as well as foreign capital. The British were by far the most influential group on the Argentine economy representing 60% of all foreign capital in 1913. For Great Britain Argentina represented one of the most important markets where 10% of the British capital spent abroad was invested. Caistor (1996) explained that British activities were in part a reaction to their failing in their attempt to invade Buenos Aires in the early 19th century. British banks lent capital to the emerging Argentine institutions, while British industry exported a vast range of manufactured goods. The British built the railways, built and managed most of the meat packing plants and grain silos in the port, as well as running many of the financial services.\(^{42}\) Other nations with some impact on Argentina’s development were the Germans, who dominated the new electricity system, and the French, who participated in the railway construction.\(^{43}\)

Trading activities were mainly influenced and controlled by the new immigrants with whom the British had the strongest influence. Great Britain represented at least 20% of Argentine’s export market and in some years, as in 1907, received as much as 40%. Transatlantic trade to other nations such as Germany, France, Belgium and Italy, rapidly outstripped Argentina’s commercial relations with other Latin American economies. Between 1885 and 1914 Argentina’s trade with Bolivia decreased from 1.4m to 266,000 gold pesos.\(^{44}\)

It needed a financial crisis in 1890 to obtain a strong currency to maintain financial wealth. The foundation of the London & River Plate and the Great Southern Railway made Argentina interesting for European investors. After several years of boom, investors’ enthusiasm and an overheated volume of bank loans resulted in overborrowing from abroad and increasing inflation. In 1891 the gold premium, measuring the depreciation of bank notes against gold, went up from 151% in 1890 to 287%. However, the crisis was solved by negotiations with the main creditors such as the British Baring Brothers, the biggest underwriter of Argentinean state bonds,

\(^{41}\) Rock, „The Argentine Economy, 1890 - 1914. Some Salient Features“, 66 and Crassweller, 46
\(^{42}\) Caistor, 20
\(^{43}\) Rock, „The Argentine Economy, 1890 - 1914: Some Salient Features“, 66
\(^{44}\) Rock, „The Argentine Economy, 1890 - 1914. Some Salient Features“, 64
and postponements on interest repayments. Increasing export prices and growing prosperity enabled the government as soon as 1896, to resume interest and amortisation payments, well before due dates. The gold premium declined and the peso began to appreciate among major world currencies\textsuperscript{45}.

Due to the stability of currency, Argentina again had a time of rapid economic growth that accelerated in part as a result of the First World War. During World War I President Irigoyen held on firmly to Argentina's historical neutrality. Although Argentina had strong economic and political relations with Great Britain, the president resisted strong foreign pressures to be drawn into war and to break diplomatic relations with Germany. During the war Argentina provided almost 50\% of the world's total beef export, while the wartime reduction in imports stimulated domestic industrial development\textsuperscript{48}.

At the beginning of the 20th century exports increased from 100m gold pesos in 1893 to 203m in 1903 and to 519m by 1913\textsuperscript{47}. By selling to the world war nations, Argentina became the fifth richest country of the world. The Third National Census of 1913 only confirmed the enormous changes everyone could see, that had taken place since the previous census in 1895. The population had doubled from 3.9m to over 7.8m and quadrupled its activities in cultivating land. The output of farming had increased exports by seven or eight times in value and volume\textsuperscript{48}. Already at the turn of the century the prosperity had its first effects on the capital. The upper class started to transform Buenos Aires into a cosmopolitan city in the image of the squares and streets of Paris. The mayor of Buenos Aires, Torcuato de Alvear, widened the old colonial streets, created broad avenues and began planning the modern infrastructure, which in the 1890s included the first underground railway system in Latin America\textsuperscript{49}.

The country's development showed not just effects on the face of the capital, but also on the structure of society. Out of the traditional society new middle and working classes arose, that could rarely identify with the political ideas of the traditional parties, dominated by large landowners. The foundation of the Radical party in 1890

\textsuperscript{45} Pohl, 18, 30-32 and Rock, „The Argentine Economy, 1890 - 1914: Some Salient Features“, 60-62
\textsuperscript{46} Weil, 21 and Castor, 34
\textsuperscript{47} Rock, „The Argentine Economy, 1890 - 1914. Some Salient Features“, 64
\textsuperscript{48} Lewis, 30 and Buss, 38
reflected the growing influence of liberal middle class ideas. In 1916 Radical leader Hipólito Irigoyen, during his first presidency\textsuperscript{50}, introduced social security and other measures benefiting the labouring classes. However, prosperity came to an end finally during the worldwide economic crisis of 1929/1930. As was the case with most Latin American countries, Argentina went back to protecting its economy through import quotas, customs duties and foreign currency control. In the following years political achievements were overthrown by some conservatives who relied mainly on the armed forces rather than on democratic principles\textsuperscript{51}.

I. 5. A European nation in America

... mientras los mejicanos descienden de los aztecas y los peruanos de los incas, los argentinos habían descendido de los barcos. [...] as Mexicans are coming from the Aztecs and Peruvians from the Incas, the Argentines came from the boats\textsuperscript{52}

The pure influence of Spanish colonialism and its policy of holding back foreigners from entering the country lasted only until the battles of independence.\textsuperscript{53} At the end of the 19th and the beginning of the 20th centuries literally a new nation was created. The new nation had a lighter skin, a different culture, different workers and the size of its population had exploded. Even today Argentina is known as the white Latin America, whereas the northwestern part of South America is called Indian Latin America and the Caribbean and the Northeast of South America is known as black Latin America.

From an estimated 0.5m at the time of independence, the total population rose to 1.8m by 1869, 4m in 1895, 7.8m in 1914, 16m in 1947, and 20m in 1960, the date of the fifth national census\textsuperscript{54}. Although there was a rising birth-rate and a falling death-

\textsuperscript{49} Caistor, 12-13 and Crassweller, 51-52
\textsuperscript{50} Caistor, 21
\textsuperscript{51} Waldmann, 13
\textsuperscript{52} Jacklsch, 105
\textsuperscript{53} compare previous pages
\textsuperscript{54} Scobie, 32 and Cornblit, 11
rate, population growth was mainly due to massive immigration at the turn of the century. Between 1860 and 1924 a total of 5,466,932 second and third class passengers, who were considered as immigrants, entered the country by boat. As, during the same period, 2,556,473 passengers left Argentina the same way, the net gain of immigrants was registered as 2,910,459 new citizens\(^{55}\).

During the 19th and early 20th centuries Argentina and the United States, as well as Canada, Australia, New Zealand and South Africa were the major receivers of European immigrants. Whereas the absolute number of immigrants was higher in the US, Argentina literally became a country of immigrants when immigrants exceeded the number of the original population\(^{56}\).

Immigrant and emigrant flows were linked to the economic situation. This was particularly true for the Italians who often worked in the Pampa and came in greater number after a good harvest and diminished in number a year after a bad harvest. As every seasonal worker returning to Europe communicated to his relatives and neighbours that even unskilled workers could get well paid jobs at harvest time, more

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\(^{55}\) Jefferson, 197

\(^{56}\) Castro, I and Rock, „The Argentine Economy, 1890 - 1914: Some Salient Features“, 63
and more immigrants came\textsuperscript{57}. In Figure 2 the first peak of immigration can be observed in 1889. The graph shows Argentina's yearly immigration and emigration figures between 1860 and 1924. Due to a financial crisis, there was a first sharp decrease in immigration in 1890 and in 1891 more people left the country than entered it.

The high level of immigration at the beginning of the 20th century was again mainly due to the country's outstanding economic development. The numbers decreased during the two world wars and there was a sizeable renewal of European immigration, lasting in both cases for nearly a decade. After these wars the immigration continued at a high level until the onset of the world depression in the 1930s. Immigration again increased sharply after World War II but again declined after the early 1950s\textsuperscript{58}. Immigrant and emigrant flows were also influenced by seasonal immigration. Due to the fact that the summer in the northern hemisphere is half a year after the summer in the southern hemisphere, many could take advantage of two harvest periods per year. The strongest months of immigration were around harvest time in October, November, December and January\textsuperscript{59}.

It is not just the Argentinean writers, such as the notable Jorge Luis Borges, who consider their country "a province of Europe accidentally set thousands of kilometres from the rest of the continent"\textsuperscript{60}. Even though Argentina has boundaries with five neighbours, the bulk of its population, concentrated in the Pampa, is remote from the population centres of Chile, Bolivia, and Brazil. Only Uruguay and Paraguay are readily accessible. Migrants between Europe and Argentina have come and gone directly, rather than by passing through other Latin American states\textsuperscript{61}.

Before the enormous influx from Europe the Spanish already had a history of immigration in the sixteenth century or rather of colonization in America. Between 1880 and 1914 the highest numbers of immigrants were Italian, followed by Spaniards, Russians (mainly Slavs), French, people from the Middle East and some from Germany, Switzerland, Austria and Hungary. The ones from the Middle East were also known as \textit{turcos} or \textit{sirio-libaneses}. President Menem himself is a son of

\textsuperscript{57} Jefferson, 182 - 183
\textsuperscript{58} Weil, 8-9 and Scobie, 33
\textsuperscript{59} Jefferson, 183
\textsuperscript{60} Caistor, 17-18
immigrants from Damascus. Some immigrants came even from the neighbouring countries such as Uruguay, Brazil or Chile, but were often of European extraction\textsuperscript{62}.

The number of British immigrants was small but very influential. However, at the beginning of the century the biggest British community outside the British Commonwealth was in fact in Argentina. Surprisingly, the British never really integrated into Argentine society and usually just stayed for one or two generations\textsuperscript{63}. Maybe, in part, the English were still considered as the enemy from the previous century.

\textit{Figure 3: Net immigration between 1889 and 1914}

\textit{Source: Solberg, Immigration, 38}

\textsuperscript{61} Weil, 31
\textsuperscript{62} Caisior, 17, Weil, 2
\textsuperscript{63} Crassweller, 46
I. 6. To govern is to populate

Paradoxically Juan Manuel de Rosas is often seen as "the father of Argentina's immigration policy". During the time of his dictatorship he persecuted many Europeanised opposition leaders and forced them into exile. After the fall of Rosas these former opposition leaders aimed to change all of his ideas completely. They started to change the country by destroying the people of colour and forcing the immigration of European elites. The generation of 1837 was mainly represented by Domingo Faustino Sarmiento and Juan Bautista Alberdi. For them "the mestizo encapsulated the worse of the cultural traits of the Spaniard and of the African". Alberdi saw the only solution in a massive immigration from Europe because:

To force the Chilean [roto], Argentine [gauche], and Bolivian [cholo] peasant class to go through the most rigorous transforming process of education for one hundred years would not transform them into an English labourer who works, consumes, and lives with dignity.

To foster immigration for the progress of Argentina Alberdi created an economic programme under the dictum "to govern is to populate" (gobernar es popular). Later on this concept was even incorporated in the constitution of May 1853. The most important articles of the constitution from 1853 were articles 20 and 25:

Article 20:
[the foreigner] enjoyed all the civil rights of citizenship, can carry out industry, commerce and practise his profession freely...

Article 25:
The federal government will foster European immigration and cannot restrict, limit, or charge duty, or tax the immigration to Argentine territory of those foreigners who come with the objective of working the soil, bettering the industries and introducing, or teaching, the arts and sciences.

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64 Castro, 13-15
65 Castro, 15-16
66 Castro, 15-16
67 Castro, 21
The ruling elites fostered artificial immigration of mainly Northern Europeans. But also the rich classes who spoke Spanish and belonged to the Catholic Church were known as Europeans.

The main objectives of the ruling elites through the dictum "to govern is to populate" and through artificial immigration were:

- To populate the vast lands of Argentina with farmers
- Obtain skilled and hard workers for regular cultivation and for the cattle industry
- To accelerate the country's "progress"
- To order the chaotic political process
- To modernise the civilisation with new "European values"
- Create a buffer of settlers against the Indians at the frontiers
- Achieve similar wealth, growth and modernisation as the United States
- To achieve a key role among the world's leading nations.

Beside the change of the constitution, enormous efforts were made over the following years to achieve these goals. Most Latin American countries opened propaganda agencies in the European centres of emigration. The first Argentinean agent was Carlos Beck-Bernard, who opened his colonising company in Bern, Switzerland in 1864. By 1874 there were twelve Argentinean immigration agencies in Europe, but there was no agency established in Italy from which most immigrants came. These agencies were mainly headed by foreign and often corrupt businessmen, rarely with a good knowledge of Argentina. The crisis of corruption collapsed, when in 1874 a ship full of prostitutes, beggars and criminals arrived in the port of Buenos Aires. The official immigration policy in Europe began with the establishment of a European Commissioner of Emigration.

A mission sent to Northern Europe in 1881 discovered that most Germans and Scandinavians would emigrate to North America rather than to Argentina in order to save transportation costs. Therefore the immigration officials started to guarantee the payment of the difference in passage costs between Argentina and the United States.

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68 Castro, 4, 155
69 Castro, 149, 160
to the arriving immigrant for a limited period\textsuperscript{70}. Other efforts to attract artificial immigration were prepaid passages for relatives of immigrants sponsored by the government or land auctions to pass public land into private ownership.

It was, however, mainly \textit{spontaneous immigration} by \textit{Latins} (Spaniards and Italians) which was responsible for the increasing population. The Latins were attracted to Argentina by:

- A similarity of climate, religion, language and other habits
- The wealth of pastoral and agricultural activity
- A country largely in the hands of immigrants
- The economic situation in southern Europe.

By two laws of Avellaneda and Roca the patterns to foster settlement of the immigrants to the interior were set. As the railroad was expanded continuously and connected all parts of the country with Buenos Aires, the immigrants followed the routes of the new railroads. The improvements in military technology enabled the settlers to fight a war against the native, pre-existing populations. The new imported arms together with a railway expansion allowed new territories for increasing growth of agricultural production to be gained\textsuperscript{71}. Most of the new citizens settled in the littoral provinces of Santa Fe, Córdoba, Entre Ríos, and Buenos Aires. Whereas in 1869 only 48\% of the population lived here, these provinces represented 72\% of the population in 1914. The city of Buenos Aires exploded from 181,838 inhabitants in 1869 to 1,575,814 in 1914\textsuperscript{72}. The rural areas were mainly populated by Italians who became tenant farmers.

In 1914 the rapid progress of the immigrants over the Creoles was already significant. They owned 72\% of all commercial firms, 82\% of all commercial establishments, and almost 65\% of the industrial capacity\textsuperscript{73}. Another effect of massive immigration was the proportion of males and females. It was mainly males who emigrated from Europe in search of jobs and wealth. In 1910 there were only 94

\begin{footnotesize}
\textsuperscript{70} Castro 92-93
\textsuperscript{71} di Tella, 40, Castor, 260 and Weil, 8-9
\textsuperscript{72} Bethell, \textit{Argentina}, 83
\textsuperscript{73} Crassweller, 50
\end{footnotesize}
males compared to a 100 females in England, and 97 in France and Germany, whereas Argentina had 116 males to a 100 females\textsuperscript{74}.

As Europeans predominated the population at the beginning of the century, Indians and Africans had mainly disappeared. Most politicians, influenced by European theories of social Darwinism saw the only solution to the "Indigenous problem" to be to educate them through military service or hard work on agricultural production sites. The share in population of the Indians went down within twenty-six years from 5% in 1869 to 0.7%. The blacks represented only 2% of the population of 1887, and their share decreased within fifty years by 23%\textsuperscript{75}. Today problems arising from ethnic minorities are minimal due to a notable ethnic homogeneity. People are proud of their Argentine nationality. The new nation had drastically changed its culture by influences mainly from different countries of Europe.

I. 7. German immigration history

A big portion of the Argentines with German background are the so called "Wolgadeutschen" (Volga-Germans). These were Bavarians and Rhinelanders who emigrated after 1763 to Russia, close to the river Volga. One century later as the Russian government took away their rights to live in colonies, keep their religion and their language, most of these Germans emigrated to Canada, United States, Brazil and Argentina. These newcomers to Argentina settled mainly in the area of Entre Ríos and the province of Buenos Aires\textsuperscript{76}.

In 1937 Argentina had, after Brazil, the second highest population in Latin America of Germans originally born in their home country. Almost 30% of all German born citizens of Latin America lived in Argentina. But they were still a minority within the population, counting only about a quarter of a million German speakers\textsuperscript{77}. As Hitler took over, Argentina’s German community was highly influenced by the

\textsuperscript{74} Jefferson, 187
\textsuperscript{75} Helg, 43-44
\textsuperscript{76} Hupka, 236 - 243 and González, 114
\textsuperscript{77} Jacksch, 212-213 and Newton, 11; see also figure Nº 3
Chapter 1

Gleichschaltung\textsuperscript{78}. Nazi rituals were used daily, German schools were dominated by Nazism, and racism was a common topic in the Argentine-German community. Jews and other enemies were threatened constantly by Argentine-German storm troopers. Jews arriving in Argentina noticed that the German community was highly controlled and influenced by the Auslandsorganisation of the NSDAP from Germany\textsuperscript{79}.

The influence of the Nazis from the German community in Argentina affected even the governing group of army officers and estate owners. Admiring German military traditions since the turn of the century, the ruling elites demonstrated an increasing anti-Semitism\textsuperscript{80}. Newton (1992) speaks even of a 'Nazi Menace' during the times of the Third Reich. US officials feared that the Third Reich would conquer the Western Hemisphere by first manipulating the political elites of Argentina and then using Argentina as a 'bridgehead' for a further conquest of neighbour countries\textsuperscript{81}. In 1936 immigration for Jews, socialist and other persons "dangerous to the physical and moral health of the Argentine people"\textsuperscript{82} was even more difficult. By 1937 rules on immigration were tightened again and Argentine diplomats in Europe were even asked to examine each applicant. The head of an international commission in search of research positions for refugee German scientists within Latin America - among them even Nobel Prize winners - said in 1935 about Argentina:

\begin{quote}
Argentina is the only country in which we encountered a direct opposition within intellectual circles to the bringing to this country of a small number of scientists [from Germany]\textsuperscript{83}
\end{quote}

However, due to Argentina's wish to maintain neutrality in a possible forthcoming Second World War, Argentine officials started more and more to restrict Nazi activities in Argentina. Nevertheless, Carlota Jakisch (1989) estimated that a total of 35,000 to 45,000 Jewish refugees came to Argentina during the years of the Third Reich. Of these 40% were German-speaking. Argentina therefore received - on a per capita basis - "more Jewish refugees than any other country in the world except

\textsuperscript{78} Gleichschaltung is the German term used in Nazi-Germany to express that all institutions were controlled by the Nazi government
\textsuperscript{79} Newton, 156-157 and Jakisch, 278
\textsuperscript{80} Weil, 22 and Newton, 138
\textsuperscript{81} Newton, 6-7
\textsuperscript{82} Newton, 149
\textsuperscript{83} Newton, 146
Palestine. The Jewish population in Argentina has remained the highest in Latin America ever since. Already at the turn of the century there was a considerable Jewish immigrant population fleeing persecution in Russia. The growth of the Jewish population was estimated between 1929 and 1990 to increase from 100,000 to 300,000 people.

Another part in the history of post-war immigration of German emigrants is less important for Argentine statistics, but even today it is one of the most sensational aspects of Argentine immigration policy. It was not just a rumour that after the Second World War many Nazis escaped, especially to Argentina. One of the strangest stories in 1945 was the persistent rumour that Hitler had fled Germany in a U-boat and had made for the Argentine Atlantic resort of Mar de la Plata. Although the story proved groundless, there is no doubt that Nazi leaders were allowed into Argentina with official connivance. In their recently released book "Proyecto Testimonio" the Argentinean-Israeli Association describes how president Perón himself made Argentina a preferred place for Nazis. Perón was mainly concerned to attract the engineers and scientists of the Third Reich. In fact they later developed the first military jet and established a national car industry. It was the German Ludwig Freude who helped Perón and his later wife Eva Duarte in 1945 to hide in his beach-house from the ruling military junta. Later Rodolfo Freude, the son of Ludwig, coordinated the immigration of Nazis via Italy and Spain, after Perón had returned to power. Rodolfo’s office was located in the president’s house, the Casa Rosada.

In Europe the Red Cross and the Vatican distributed about two thousand passports and eight thousand ID-cards, issued by the Argentine embassy, and helped the Nazis to depart from the harbour of Genoa. This route was called the ratline. Others dressed as Franciscan monks and fled through Spain. The second route was known as the monastery line. Famous Nazis also came to Argentina (such as Adolf Eichmann who killed millions of Jews, or the Auschwitz doctor Josef Mengele).

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84 Newton, 139
85 Wilkie, 356 and Caistor, 17
86 Caistor, 18
87 Der Spiegel, No 17, 176 - 178
88 The ratline was partly organised by pro-Nazi German bishop Alois Hudal. He was supported by Pope Pius XII. Bishop Hudals contacts even helped to set up a German colony in Bariloche, a city in Patagonia. In 1994 former Nazi Erich Pnebke became a famous citizen of Bariloche as he was discovered by an US-american news-team. Pnebke could even live fifty years under his real name
Mengele first immigrated as Helmut Gregor, but received a passport from the German embassy under his real name a couple of years later. Mengele felt so safe in Argentina that he even applied for his licence as a doctor.89

I. 8. An immigration culture

Argentina had many other painters of various styles who frequently enjoyed several years European education, usually in Italy or France. Their painting tended to be cosmopolitan, especially after 1920. The most important Argentine painters are Pettoruti, Basaldúa, Butler, Cornet and Forner.90

Additional newspapers were published in Italian, French, German and even Yiddish. The predominant Spanish language was strongly influenced by the immigrant population and developed a distinctively Argentine flavour marked by new expressions, new pronunciations, and gestures contributed mainly by Italians.91 Catholicism became the dominant religion, mainly due to the immigration of Spaniards and Italians. Even today 90% of the population are Catholics.92 Out of the melancholy of the immigrant, a feeling of homesickness and frustration of urban life, the most popular Argentine music style, the Tango, was created. Even though the roots of the Tango are uncertain, the music contains a mixture of influences from the Argentine countryside, the south of Spain and from Cuba.

The Tango first appeared in the port of Buenos Aires where underclass immigrants came for entertainment. Later the Tango dance was created and frequently upper class males were attracted by the bordello environment of the Tango performance. For them it meant a way to escape from moral restrictions. Although the Tango had its roots within the lower classes it became accepted throughout the middle and upper class after it succeeded in Europe.93

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89 Der Spiegel, No. 17, 178
90 Bethell, Vol. 10, 435-436
91 Weil, 4
92 Nolte, 4 (whereas 5% are protestants and 2% are jews)
93 Castor, 58-59 and Castro, „The Argentine Tango .”, 7
At the same time the second generation of immigrants often adopted criollo values and did not want to be identified as 'Gringos'. The Argentine sense of nationality was expressed by fashion and behaviours influenced by the gaucho. The Argentinean author José Fernández described the hard and wild life of the gaucho. He published *Martin Fierro* in 1872. Fierro was a rebellious character who represented the past, a mainly individualistic epoch where masculinity was predominant. Out of Martin Fierro, which was probably the most read book of its time, the *Martinfierismo* and a journal named Martin Fierro arose as an international symbol for young writers on their search for a national identity struggling between 'civilization' and 'barbarism'.

Instead of accumulating material wealth the gaucho was described as a cool and adventurous horse rider. He had little ambition and found his food and clothing easily from his herds. As he did not like to work, he passed his days on excursions with cattle herds. The environment of the gaucho has, ever since that time, had a strong impact on the Argentinean culture. The loneliness of the countryside may help to account for the melancholy of national songs and literature.

I. 9. Peronism

Juan Domingo Perón is probably the most famous politician of Argentina of this century. He is known as the creator of the "third way", a new political understanding between socialism and capitalism, combined with the acceptance of absolute leadership by the masses. As an anti-communist, it was the aim of Perón to empower and enrich the working class in order to weaken the influence of the communists. Even today Peronism remains a political power. Perón rose to power in 1943 when his secret military organisation *Grupo de Unificación* [Unification Task Force] overthrew the ruling Castillo. He then started to build up his power base as Minister of Labour and Social Welfare by labour reforms. These changes for job

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94 new immigrants from Italy
95 Ogelsby, 112-116
96 Rowe, 200
97 Waldmann, 15
security, child labour laws and pensions were extremely popular throughout the working classes. After the military had arrested him because of his growing power, after a mass demonstration on the Plaza de Mayo he returned from prison as the new leader and won the subsequent elections in 1946. The victory of Perón's first election in 1946 was partially due to the fact that the US government was openly opposed to Perón and most of the people disliked the fact that the US was trying to deal with a national matter.98

Perón came from a wealthy family. His father was a famous Argentine professor of chemistry and clinical medicine and valued and respected the individuals of all classes and races. Perón was educated in the Military Academy between 1911 and 1930. The decision to undertake a military career was by chance rather than having been forced by his parents.99 As a captain he went to Europe as a military observer where he was influenced by the Germany of Hitler, the Spain of Franco and the Italy of Mussolini. There he was impressed by the nationalism of the fascists.100

Although the Peronists 'liberated the people', they took total control over all institutions. There was complete adoration of Peronism and revulsion of his opponents. In line with nationalisation, Perón took total control of universities, newspapers, courts and unions. All institutions were controlled by Peronists and even Congress members were disciplined when acting against Perón. He counterbalanced the strength of the military, who often overthrew previous governments, by empowering the urban workers.101 Rowe (1991) describes the Peronist system as a totalitarian one: "The Peronist Party was organized in a hierarchy of commands, headed by the Single Command (Comando Unico). The organized forces of labour constituted a 'pacific army' while the armed forces were 'part of the people, labouring for the people'."102

In fact, according to the great political leaders in Europe, Perón built up his power by using strong mythology, a symbolic language and strategy to create social identities. The Peronist language implied unity and mutuality. It often used words like nosotros [we], the people and ellos [them], the non-Peronists. The totalitarian aspect of

98 Nolte, 6, Ball 48-50 and Castro, "The Argentine Tango..", 207
99 Crassweller, 66-67
100 Ball, 48
101 Weil, 23-26
Perón's policy was expressed by expressions like "Peron is the first worker" or "Perón is the Fatherland for which the gaucho has given his life". The working classes were considered as the *descamisados* [literally the ones without shirts].

He described his own liberation from the prison of the armed forces as "the moment of definitive national liberation and of triumph of all the aspirations for which [the workers] had fought for so many years." Even the Tango took on a different focus under Perón. The Tango of the old days dealt with prostitutes, the individual and was heroic and tied to *machismo*. The tango of the "new" Argentina under Perón had the mission to carry out the Peronist Doctrine. It, therefore, went to themes like poverty, hunger and other topics related to the working conditions of the masses.

His wife Eva Duarte almost took on the function as a propaganda minister to the masses. The lower classes could easily identify with 'Evita' Perón as she herself came from a rural low class family. After a career as a singer in cabarets, she married Perón. Weil describes her as intelligent, sentimental and idealistic. After Perón's rise to power, she became Secretary of Labor and Welfare in his government. She often used the radio to speak against enemies of Perón. Until she died of cancer in 1952, she worked to establish the Eva Duarte de Perón Foundation, which intended to help widows and orphans and the poor. The influence of 'Evita' and the consequent use of the mass media was so immense that the Foundation's turnover even overcame those of major banks or the meat industry.

Perón intended to prevent communism by redistributing the wealth of Argentina to the working classes. As a new president he became even more popular among the descamisados by introducing minimum wages, paid holidays and pensions, and a social security scheme. After his election, Perón announced a Five-Year-Plan in order to accelerate the country's industrialisation and strengthen the prestige and the international power of Argentina. In fact, after World War II, Argentina was one of the wealthiest countries in the world and one of the world's creditor nations lending nearly 1.7 billion USD, an outstandingly high amount at this time. Argentina had not

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102 Rowe, 171
103 Rowe, 169-171
104 Castro, "The Argentine Tango ", 229
105 Weil, 23-24 and Nolte 6-7
106 Caistor, 22
been involved in any of the war activities and the Allies were weak. However, the 'man of the people' was not an economist. It seemed that he based his decisions more on propaganda effects, than on economic strategy. The Peronist government failed to make the country an industrial power because:

- State investments were not made in heavy industry, but in light consumer good industries, later capital goods had to be imported while light industry grew.
- The payment for capital imports became difficult as prices for agricultural exports dropped when the European nations recovered.
- Peron's anticapitalist and pro-labour attitude discouraged many foreign companies from investing in Argentina.
- They purchased the foreign owned railroads, steamships and public utilities in order to nationalise them and allow them to be owned by the people. Unfortunately these heavy investments did not bring additional productive capital and used up all accumulated reserves.
- They did not invest in semi-industrialised agricultural production which still had a low level of productivity and was very labour intensive.
- They founded a public trade agency in order to participate in the export sales. The agency bought national products at fixed low prices and resold them to the world markets.

The golden era of Perón, "when every family could have steak twice a day", ended in the mid 1950s. The world grain prices decreased sharply due to the recovering European nations, which led to a rise in the trade deficit. Between 1945 and 1951 Argentina's trade balance went down from plus 4,965m pesos to minus 2,775m pesos. The production capacity of 53m acres went down to 46m acres within four years. At the same time, a lot of corruption took place in the government as well as in bureaucracy. The fall of Perón began when he lost his most important 'propaganda minister', his wife Eva Perón, when she died of cancer. After several demonstrations

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107 Lewis, 179
108 Lewis, 180-181 and Weil, 25
109 Ball 49
110 exports exceeding the imports
111 Weil, 25 and Lewis, 189
and military rebellions, Perón fled to Paraguay in 1955 as the country started to lose control.\textsuperscript{112}

Between 1955 and 1973 Argentina was controlled by military generals who continuously overthrew the ruling governments when they disagreed with the politics of the elected presidents. In a climate of political disorder by the ruling military junta, Perón returned from exile in 1973. Two million people waited for him at the international airport believing he was the leader who could reestablish political order and the power of the working classes. Perón started his third presidency, but died in July 1974. His third wife who took over presidency was no Evita and lost power to the military in 1976.\textsuperscript{113}

\section*{1. 10. The Dirty War and the new democracy}

At the end of the era of Isabel Perón, Argentina was characterized by daily terrorist attacks and armed conflicts. Several guerrilla groups attempted revolutions and kidnapped foreign business men. The government had lost control of the people. Since 1930 most of the presidents were generals brought into power by the armed forces, therefore everybody expected a reaction by the military junta. In December 1975 signs of a military takeover became more and more obvious. The television showed a publicity 'spot' where Argentine soldiers prepared to fight against a hidden enemy in the jungle.\textsuperscript{114} When the military coup finally occurred on March 24, 1976, left-wing groups like the \textit{Ejército Revolucionario del Pueblo} [People's Revolutionary Army] believed it was a victory as they were now entering into direct conflict with the state. It was the aim of the military junta first to restructure the society, and then to move towards establishing a democratic government through free elections.\textsuperscript{115}

What nobody expected was that the following four military juntas were about to bring the hardest times of the century, known as the \textit{proceso}. Subsequently, they started to follow anybody suspected of being against the government. People started to

\begin{flushright}
\textsuperscript{112} Ball, 49-50  \\
\textsuperscript{113} Ball, 50-51  \\
\textsuperscript{114} Pohl, 158, Weil, 205 and Caistor, 26-27  \\
\textsuperscript{115} Pohl 156-168 and Caistor 27-28
\end{flushright}
disappear, not only union leaders, intellectuals and student radicals, but even high-school children, nuns and whole families were tortured and murdered. The campaign known as the ‘Dirty War’ was carried out secretly and mainly at night to hide the fact that its activists came from the regular armed forces and the police. The desaparecidos [disappeared] were estimated to be up to forty thousand people, of whom only a minor proportion was actually involved in political activities. Often they were brought to interrogation centres so that the names of further activists could be revealed through torture. Later they disappeared in common graves or were thrown, heavily drugged, from an airplane into the Río de la Plata. 116

The ‘Mothers of the Plaza de Mayo’, who started to demand every Thursday the return of their missing children, became an international symbol of the cry for human rights. In the 1980s Fisher (1989) interviewed Argentine mother Aide de Suárez about her experiences:

On 2 December 1977 at four o’clock in the morning, twenty armed men broke into our house with rifles and pistols pointed at us... They took everything of any value they could carry,...[my son] was sitting on the bed, trying to get dressed. One man shouted, ‘There’s one in here!’ and then two huge men with guns in their hands told me not to move. They asked only if he was Hugo Héctor Suárez and that he had to go with them. ...They were in civilian suits but underneath they were wearing army fatigues and boots....So it was the army....They took my son. It was the last time I saw him. 117

As the economic and political situation of the military junta went from bad to worse at the beginning of the 1980s, the ruling General Galítieri started to draw the attention of his people to foreign matters. The British occupied Malvinas or Falkland Islands 118 seemed to be an ideal target as most Argentines felt that these islands belonged to Argentina. However, the British were unwilling to lose some islands eight thousand

116 Ball 52 and Caistor 27-28
117 Fisher, 13
118 The Falkland, or Malvinas Islands were discovered by Lord Falkland in 1690 and French Marines from Saint Malo who named this island later into Malouines according to their hometown. A colonial conflict with the Spaniards let the British take over the island completely in 1833. They are two windswept and largely treeless pieces of land some eighthundred kilometres off mainland Argentina and twelvethousandfivehundred kilometres from Britain. They have little strategic importance, but the sale of fishing licences and the prospect of extensive oil deposits in the surrounding seas have boosted their economic status. For many years the sovereignty issue was a bone of contention between the two countries. (Scheutzow, 165 and Caistor, 7)
miles away from England and sent their troops. The Argentine General Galtieri lost not only the two month war against a professional trained British Army, but also his presidency and the political power of the military junta. The inevitable free elections at the end of 1983 brought back democracy with the new president Raúl Alfonsín and his Radical Party.\textsuperscript{119}

One of the first actions of the new democratic government was to investigate the previous period of the 'Dirty War'. Unfortunately Alfonsín's attempts to bring those responsible for the Dirty War to justice were only partially successful. He first, started a major investigation and published a report called \textit{Nunca más} [Never Again] which gave details of the happenings. However, later he limited the trials to some leaders, as all other military and police officer were only carrying out orders.\textsuperscript{120}

Alfonsín had soon to draw much more attention to the remaining economic problems. Unemployment was growing and the inflation rate quickly climbed over to 1,000\% per year. As several measures like the Austral plan\textsuperscript{121} to fight inflation still did not show any effect, and the country started to experience food riots, Alfonsín handed his presidency over to Carlos Meném in 1989, several months before his term ended.\textsuperscript{122}

Although nobody really believed in the success of the former truck driver, union member and governor of La Rioja Province, Meném managed to change the direction of the country dramatically. He focused on a conservative policy and on the economic problems. After putting down a military mutiny shortly after he took over, he undertook some important political changes to weaken the traditional strong position of the armed forces by:

- Greatly reducing the military budget
- Making military service optional
- Supporting the United Nations with troops from Argentina\textsuperscript{123}

\textsuperscript{119}Ball, 53
\textsuperscript{120}Castor, 30
\textsuperscript{121}The Austral plan consisted in the introduction of the new currency Austral, freezing all wage increases and connecting the Austral to the dollar. But the plan failed as the buying power of the workers decreased and they forced the government to raise wages (Pohl, 210)
\textsuperscript{122}Ball, 68-69
\textsuperscript{123}Ball, 70-71
Meném aimed to reduce the foreign debt and build a First World free market. He started to reform the Argentine economy by privatising public companies and cutting inflation to an acceptably low level.\textsuperscript{124} However, even though Meném came from the tradition of Peronism, he changed the direction completely from protecting local industry and state owned companies and created a new direction known as the \textit{Menemato}.\textsuperscript{125}

\textbf{I. 11. Summary on history and culture of Argentina}

Argentina is the world's eighth and Latin America's second largest country that offers all kinds of climates and different landscapes. Most important are the fertile pampas, where 90\% of the Argentine exports, mainly meat and agricultural products, are produced. It was one of the last territories to be conquered by the Spaniards and first belonged to the Peruvian viceroyalty. The country became independent from the Spanish in 1817 when the great South American hero, the Argentine José de San Martín, defeated the Spanish troops and participated in the liberation of Argentina, Chile and Venezuela.

The society was strongly influenced by colonisation by the Spaniards and mass immigration at the turn of the century. It is considered to be the European or the white Latin America, whereas other populations of the continent are much more influenced by Indians or black slaves. Initially due to a protection of foreign influences by the Spaniards and later through a massive immigration from Europe, today's society, at least in urban centres, is comparable to those of Europe. From the second half of the 19th century several governments, initially with racial motivation, started to actively attract Europeans, even by changing the constitution, and made Argentina almost a pure immigration country. Due to language, climate and religion, the influx of Southern Europeans was predominant. There was a relatively low immigration of Germans to Argentina, but especially after World War II Argentina was famous as a host for fleeing Jews and Nazi-Germans. However, most of the Germans came long before from Russia as Volga-Germans. The Tango and the gaucho are probably the

\textsuperscript{124} Ball, 70 and Caistor, 32
\textsuperscript{125} Caistor, 31
most internationally known cultural heritages of Argentina, as Hollywood movies of the 1920s showed. The Tango and gaucho both express a sense of melancholy that may be a reflection of the loneliness of the countryside or the homesickness of the immigrants.

The development of Argentina at the end of the 19th and the beginning of the 20th century made the country one of the wealthiest nations in the world. Improved transportation and production methods made Argentina increase their production dramatically, enabled access to international markets and transformed the country into one of the leading producers of agricultural products. During both World Wars they maintained their political independence and were the food suppliers to the war nations.

Mass immigration and industrialisation created new urban working classes. It was Juan Domingo Perón, the most famous politician of the 20th century, who sensed the political importance of the masses and based his power on the descamisados [the ones without shirts, or the worker himself]. He was influenced by European fascists and created the 'third way' as a new political understanding between socialism and capitalism. The guidelines of his totalitarian state were based more on propaganda effects than on economic measures to strengthen the leading position of Argentina. He dissipated the wealth of Argentina by a policy of underdevelopment, which was the political guideline followed by many subsequent governments. However, even today Peronism is one of the leading political forces of Argentina.

During the late 1960s and early 1970s there was a tendency from Latin American leaders to protect the state from subversive communist ideas and guerrilla activities by a strong leadership often through the armed forces. Between 1964 and 1976 the military took over in Brazil (1964), Bolivia (1964, 1970, 1971), Peru (1968), Ecuador (1972), Uruguay (1973) and Chile (1973). In Argentina it was in 1930 when the country started a new political era. The military coup of September 1930 brought the collapse of the constitutional government and initiated the long sequence of weak democracies that remained the cardinal feature of Argentine politics into the 1980s. A climax was reached between 1976 and 1983 during the period of the

126 Nolte, 15
127 Rock, 173
Dirty War, when thousands of ‘suspicious people’ were tortured and murdered by the ruling military junta in order to restructure the society and to prepare for free elections. Even today the ‘Mothers of the Plaza de Mayo’ who demanded for their missing children are a symbol of the cry for human rights.

By the standard of most Latin American countries modern Argentina became a democracy during the 1980s. The democratic government of Alfonsín who took over in 1983 made the country recover from its times under military leadership. The new democracy was in evidence in 1989 when for the first time ‘since 1928 one democratically elected president handed over to another after free and fair elections’\textsuperscript{128}. It was only under the following president Carlos Menem the country found its recent economic stability. Meném weakened the traditionally strong position of the military and took inflation rates down to single figures. He privatised most of the public companies and prepared for economic expansion.

\textsuperscript{128} Caistor, 31
Chapter II

The socio-economic background of Argentina

II. 1. Social background
   II. 1.1. The strength of the Argentine family
   II. 1.2. Changing roles of Man and Wife
   II. 1.3. Population
   II. 1.4. Argentinean values
   II. 1.5. Basic and higher education

II. 2. A macroeconomic dimension
   II. 2.1. An overview on the Argentinean economy
   II. 2.2. International Trade

II. 3. The political and legal component for the foreign investor

II. 4. Summary and conclusions on the socio-economic environment of Argentina
When accessing new markets, investors should first focus on the business environment of the targeted country. Long term investments in particular require an analysis of opportunities and threats to the countries' economic, political and legal situation. Specific country conditions may exclude particular countries from international trade. After an in-depth look at Argentina's history and culture in the first chapter, the second chapter will give an overview of the country's current socio-economic situation. It will focus on several aspects of the society and describe the most important patterns of the economy. In addition, the chapter describes political and legal aspects from an investor's point of view.

II. 1. Social background
II. 1. 1. The strength of the Argentine family

The family is a particularly important element in Argentine society. As an institution it reflects the Spanish colonial heritage, as well as the impact of the industrial age. Even the younger generation does not show any tendency towards individualism. In a survey by the Deutsche Bank Argentina in 1993 concerning young people's values most of those interviewed mentioned the creation of a family as their second highest goal in life. For the more than one thousand youngsters aged between fourteen and twenty-four of Greater Buenos Aires who were interviewed only personal happiness was a higher goal in life. Almost 70% believed that they need a family to be happy. 'To be a good father or a good mother' as well as 'taking care of my parents' was mentioned with the same high frequency by young and adult people.

Family connections and loyalties play a major part in personal, political, and business relations, and this pattern is influenced by religious institutions and by the legal system. Most Argentines, regardless of class or locality, place loyalty to the family above obligations to any other group or organisation with which they may be involved. They tend to feel that only members of their families, however distant the relationship, can be expected to appreciate fully their personal qualities and to render

1 Deutsche Bank, 31, 37
assistance when it is needed\(^2\). In contrast to other societies, the family seems not to be in danger in Argentina. The Deutsche Bank survey pointed out that the Southern American society is still experiencing relatively few negative situations in family life, like abandonment in early childhood (5%), family violence (8%), not knowing one's father (2%) or growing up in an orphanage (1.6%)\(^3\).

Only in the early 1980s did divorce become legal under democratic president Alfonsín. However, the rate of those living as widows (7%) is still higher than the one for those who are divorced or separated (4%)\(^4\). The main reasons for a solid family structure in Argentina are:

- The relatively high cost of living
- The fact that young people usually live with their parents until marriage due to poor prospects in the job market\(^5\)
- Divorce only became legal in the 1980s under President Alfonsín
- The traditional link with Southern Europe and its family traditions

II. 1. 2. Changing roles of Man and Wife

As in most modern countries the role of women within the family has changed constantly over recent years. Today the women of about 30% of Argentine households are working. Even 53% of the university population as a whole are women. Recent surveys show that 80% of Argentine couples accept that women: may choose a professional career over the career of housewife; practice family planning; and agree that household duties should be shared by man and wife.\(^6\) Even important family decisions are discussed more and more by all the members of the family. It is no longer only the father who acts as the decision maker. Parents encourage their children to take their own decisions. Of course this attitude is even stronger within the new generation of the upper and middle class people under thirty-

\(^2\) Weil, 3
\(^3\) Deutsche Bank AG, 38
\(^4\) INDEC, 68
\(^5\) Calstor, 56
\(^6\) Ball, 87
five\textsuperscript{7}. It is no longer only the fathers' income that supports the family. About 60% of Argentine households have more than one source of family income. Nevertheless changes are slow and the society is relatively conservative compared to other modern societies. Argentine women are still mainly occupied at home, in less important sectors or with part-time jobs. Although their share is increasing, they currently contribute only 20% to the national income\textsuperscript{8}.

II. 1. 3. Population

In common with most western societies, the Argentine society is getting older. In 1992 the life expectancy for males was sixtyeight years and seventyfive years for females\textsuperscript{9}. The average life expectancy has increased from 62.7 years in the 1950s to 69.9 years in the 1980s. It is projected that it will rise to seventytwo years by the 2020s. The following graph shows an estimate of the representation of age groups within Argentina's population over four decades starting from 1990\textsuperscript{10}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Age group representation within Argentina's population 1990 to 2020}
\end{figure}

\textit{Source: INDEC, 75}

\textsuperscript{7} Ball, 87 and Deutsche Bank, 34
\textsuperscript{8} Deutsche Bank AG, 32 and Caistor, 56
\textsuperscript{9} Caistor, 73
\textsuperscript{10} Wilkie 152 and INDEC, 75
Even though the infant mortality rate for live born children less than one year old dropped from 3.3% in 1980 to an estimated 2.2% in 1996\(^\text{11}\) the previous graph demonstrates that in the future Argentina’s population will be composed of more middle aged and old people than children. As the standard of living in Argentina is among the highest in Latin America, the growth rate of the population is fairly low. The National Statistical Institute (INDEC) expects the current population of 36m people (1998) to increase to 45m people (+ 25%) by the year 2020\(^\text{12}\). The following graph indicates that the growth rate of Argentina is between those of the USA and the average rate of Latin America.

![Population growth rates by decade](image)

Figure 5: Population growth rates by decade 1990 to 2020

Source: Wilkie, 118 and INDEC, 75

Chapter One contained a detailed look at the immigration process at the turn of the century. Millions of Italians and Spaniards came to work and to settle in Argentina. And even today Italians and Spaniards feel highly attracted to emigrating to Argentina. Out of the fairly low percentage of 5% of foreigners living in Argentina, half of them come from the South of Europe\(^\text{13}\). The rest come from neighbouring countries like Bolivia, Chile and Paraguay\(^\text{14}\). Today about 90% of the actual

\(^\text{11}\) CEP, 94
\(^\text{12}\) INDEC, 75 - 76
\(^\text{13}\) INDEC, 67
\(^\text{14}\) Most of the foreigners who became Argentine citizens between 1992 and 1996 came from Bolivia (35%), USA (33%), Chile (12%) and Paraguay (8%). Europeans (3%) becoming Argentines during this period were mainly Spanish (44%) and Italian (29%). (INDEC, 81)
population are of European descent. About 10% are mestizos\textsuperscript{15}, whereas only 1% of inhabitants have pure Indian blood\textsuperscript{16}. The majority of people live in urban areas and this tendency is increasing. In 1990 only about 13.1% of the population remained in rural areas. As there is an overall continued migration to the cities, it is expected that urban areas will represent about 92.5% of the population in the year 2020\textsuperscript{17}.

II. 1. 4. Argentinean values

As we saw in Chapter One, the attitudes and beliefs of the people have been moulded by a variety of influences. The value system of Argentines is based on "Catholic ethics and Creole virtue"\textsuperscript{18}. Almost 90 per cent of the population is Roman Catholic. Argentina in fact has the highest number of Catholic priests per inhabitant in Latin America\textsuperscript{19}. In the 19th century their ideas came from Western Europe and North American political philosophers influenced the framework of the constitution\textsuperscript{20}. In his "Survey of Argentina" (1994) the journalist John Micklethwait suggested that "Argentina's relationship with South America is similar to Australia's with Asia Pacific and South Africa's with Africa. Its economy may be linked into the region, but its heart is not"\textsuperscript{21}. As a result, he says, other Latin Americans describe Argentines as "Italians who speak Spanish and think they are English"\textsuperscript{22}.

In the 19th century, there was already proof of the famous arrogance of the Argentines towards other nations. In these days it was the gaucho who felt superior. President Sarmiento stated that "the Argentines of whatever class they may be, civilised or ignorant, have a high sense of their worth as natives....How much must have contributed to the independence of a part of America the arrogance of these Argentine gauchos, who have never seen anything under the sun better than themselves, neither learned men nor powerful men"\textsuperscript{23}. Even today, with times of

\textsuperscript{15} of mixed blood
\textsuperscript{16} "Geschäftspartner Argentinien", 12
\textsuperscript{17} INDEC, 80
\textsuperscript{18} Castro, "The Argentine Tango", 208
\textsuperscript{19} Wilkie, 341
\textsuperscript{20} Weil, 5
\textsuperscript{21} Micklethwait, "Survey of Argentina (7), 3
\textsuperscript{22} Micklethwait, "Survey of Argentina (7), 3
\textsuperscript{23} Jefferson, 29
hyperinflation and food riots only having passed a couple of years ago, Argentines still complain when foreigners judge their country as unchanged with a lack of safety, high labour costs and unstable economic patterns\textsuperscript{24}. Argentines on the whole do not identify themselves as Latin but as European. The billboards of Buenos Aires show more blondes, however unnatural, than those of Sweden\textsuperscript{25}.

The military and the church always had a strong influence in Argentine society. However, on its way to becoming a modern, democratic society both have lost part of their influence in recent years. As there is a strong tradition of non-religious state schools and universities, the impact of the church as an institution in Argentine society has become less powerful. Many Argentines have lost their belief in the church due to its political role. In the 1950s influential bishops were strongly opposed to Perón and during the times of the "dirty war" there was almost no criticism from the church of the brutal methods of the military\textsuperscript{26}. On the other hand, the power of the military declined constantly throughout the 1990s. Under Meném, the number of army generals was reduced from seventy to thirty-six and the spending on military and defence was cut from 4\% to 1.6\% of the GDP. The military lost not only economic power as many of the industries controlled by them were privatised, but also social standing as their headquarters were moved from the urban centres to the rural areas\textsuperscript{27}.

Privatisation also had an effect on corruption. Due to the privatisation of many public companies, corruption could be cut back drastically. At the same time schools started a competition for pupils to devise a way to stop cheating, and books about corruption became best-sellers. However, as recently as 1991, President Meném and his family became involved in scandals of corruption in unclear circumstances\textsuperscript{28}. Nevertheless, today corruption may have less impact on the economy than in other Latin countries.

Argentine society could be described as relatively conservative compared to Western Europe or the US. As noted earlier it was not until the 1980s that divorce became legal. Abortion is still not legal due to the opposition of the church, and there is not

\textsuperscript{24} Micklethwait, "Survey of Argentina (7), 1
\textsuperscript{25} Micklethwait, "Survey of Argentina (7), 2
\textsuperscript{26} Caistor, 53 - 54
\textsuperscript{27} Caistor, 52
much tolerance of gay communities. At the beginning of the 1990s the society could be further described as relatively pessimistic. This attitude may change due to the recent economic development.

In 1993, of about one thousand young Argentines interviewed as part of a survey by the Deutsche Bank (1993), almost 70% felt that most Argentines were egoists and only cared about themselves. The survey also showed that most Argentines try to live in the present and have little trust in the future. This negative relation to future times may be based on the country's political and monetary experiences. Almost 80% of those interviewed identified with the position "Nobody knows what tomorrow brings. You better enjoy your life today and now".

II. 1. 5. Basic and higher education

When having a look at the level of education in Argentina, one should differentiate between basic and higher education. Basic education in Argentina is comparable to that of Europe and the US. With a literacy rate estimated at well over 90%, and a high proportion of people enrolled in universities, the education system could be described as the best in Latin America.

However, throughout the last two decades public education has been cut back constantly. In the times of the dirty war, the military believed the autonomous universities to be the breeding place of the revolution. Private institutions of higher learning were opened instead. Secondly, places at public universities were restricted by Meném. Today about 21% of all Argentine students of all ages attend private educational institutions. There are twenty-nine state and twenty-three private universities.

28 Micklethwait, "Survey of Argentina (6), 2 - 3
29 Caistor, 55-56
30 Deutsche Bank, 139, 141
31 From 1970 to 1980 the illiteracy rate of those older than fifteen years was reduced from 7.4% to 6.1% of the total population. The rate in the urban areas was 4.1% whereas even in rural areas it was fairly low (14.6%) compared to most Latin American countries. (Wilkie, 228)
32 Nolte, 48 and Weil, VIII
33 Caistor, 56
34 INDEC, 103 and Caistor, 73
At the same time the number of children who have never reached secondary level has increased steadily. Many Argentine parents feel that education is still a competitive advantage of their country, but a fast disappearing one. They do not complain about lack of financial resources, but about the inadequate administration of schools and universities. Regulations and standards are described as relatively low. In some universities only 15% of the students finish with a degree. Thus, there is a relatively high proportion of those with uncompleted studies, as shown in the following graph.

![Graph showing level of education in 1991 of population older than five years no longer attending formal education institutions. Source: INDEC, 108 - 109, Data of 1991 of population older than five years no longer attending formal education institutions; only reflecting provincial capitals and cities greater than fifty thousand inhabitants, Primary School from 1st to 7th class, Secondary School from 8th to 9th class, College [CU] from 10th to 12th class.]

In addition, most Argentine students feel that their university and college institutions offer education at only a mediocre level. Of students interviewed by Deutsche Bank AG Buenos Aires 59% believed that even private institutions do not offer high standards of education.

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35 Caistor, 56 and Micklethwait, "Survey of Argentina (5), 2
II. 2. A macroeconomic dimension

II. 2. 1. An overview on the Argentinean economy

Throughout the 1980s the government financed its deficit through inflation. The economy was unstable as Argentina's private sector withdrew its resources. There was macroeconomic disorder, stagnation and technological backwardness. In the month of July 1989 inflation stood at 200%, when Carlos Menem took over an insolvent state.

Two years later Meném made Domingo Cavallo his Minister of Economy. Cavallo immediately started several economic reforms: first setting the peso one to one to the US-dollar he then established the Central Bank as an independent authority. By stabilising relations with union leaders he was able to introduce new labour legislation with less job security, and refused to print money as a reaction to increasing wages. New tax laws and control institutions guaranteed the public revenues. Furthermore, in the period 1990 to 1993 about a hundred and seventy Argentine companies were privatised. All kinds of industries were included in this process such as steel, oil, energy and water supply as well as telecommunications and banking. Recently Argentina's financial system has been completely rebuilt. As a result of this in the words of a central bank official "it became an absorber rather than an amplifier of financial shocks." National companies were forced to modernise their production facilities as domestic markets were opened for imports. At the same time Argentine exports were boosted in order to gain hard currency. The economy started to grow as foreign investment returned to Argentina and loans from national as well as foreign banks were used more frequently by the Argentine consumer.

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36 Deutsche Bank AG, 78
37 CEP, 2-3 and "Tide Country Reports" 2-4
38 Cavallo built up a team of international experienced professionals of auditing and consulting firms. He himself worked as an auditor with the international auditing firm Coopers & Lybrand.
39 Lapper, 19
40 During the 1990s the average annual investment went up to 14%, the total factor productivity went up from -3.4% throughout the 80s to 3.8% and the decreasing import rate climbed to an annual average growth rate of 25.4% (between 1991 and 1996 CEP, 4)
41 Ball, 70 and Caistor, 32 and Bla, Latemamenka, 26-27
Between 1991 and 1996 the Central Bank's monetary reserves were more than doubled and bank deposits increased by almost 50%\textsuperscript{42}. It is expected that until the year 2000 Argentina will continue with an inflation rate of 1-3%, whereas those of Chile and Brazil are expected to be 4%-5% and 12-16% respectively\textsuperscript{43}. Between 1989 and 1997 the Argentine country risk premium on national bonds went down from 60.1% to 5.3\textsuperscript{44}.

In fact Argentina is experiencing one of its strongest growth cycles of the century comparable to those of the golden era at the beginning of the 20th century. With an inflation rate of 1.3%, an interest rate of 10.3 %, a fiscal deficit of 0.9% and a public debt of 31.3% of the GDP in 1997, it even performs well against Maastricht Criteria and would easily become a member of the European Union\textsuperscript{45}.

\textsuperscript{42} CEP, 10, 15
\textsuperscript{43} Reid, 84
\textsuperscript{44} CEP, 18
\textsuperscript{45} CEP, 13; The Maastricht criteria are. 3% Fiscal Debt/GDP, 3%-3 3% annual inflation rate, 60% Public Debt/GDP and an interest rate of about 8.5%-8.8%
In 1996, the total GDP reached 297.4b USD while the per capita GDP was up to 8,260 USD. After outstanding growth rates at the beginning of the 1990s a real GDP growth of only 2% - 3% is expected until the year 2000. This would represent a fairly low rate as the rates for Brazil and Chile are 4% - 5% and 6% -7% respectively.

As a result of free markets, privatisation, trade liberalisation and low inflation most businesses are in a much better shape than a decade before. However, unemployment is rising and real income is lower than at the beginning of the 1980s. Nevertheless, the poverty rate declined drastically throughout the 1990s. In Greater Buenos Aires alone the poverty rate went down from 50% in 1990 to an average of 20% in 1993. There are only 8% considered as undernourished throughout Argentina, whereas the average for Latin America is approximately 40%.

In 1996 about 20% of the population had 45% of the total income whereas the bottom 40% of the population gained only 18% of the total income. The remaining 40% of the population represent a fairly large middle class, obtaining almost 37% of the country's income. Compared to other countries of Latin America, a fairly high percentage of the population is receiving middle and high incomes.
In 1991 most Argentines older than fourteen years worked in the sector of personal and social services (32%) as well as in small businesses, restaurants and hotels (21%). In the traditionally strong agricultural sector (11%) fewer people are working with primary products, whereas the employment rate in manufacturing industry, including the food industry, is increasing. Compared to European and US-American standards a relatively high proportion (18%) of workers was employed by public companies and institutions. However, the proportion is decreasing as privatisation continues and more workers belong to private firms (40%). Latin American emerging markets, like Argentina, also typically have a relatively high proportion of independent workers (23%) and entrepreneurs (7%), as minimum wages and social benefits are relatively poor compared to those of Europe.

II. 2. 2. International trade

As the following graph shows Argentina is trying to catch up with its past, and again become one of the strongest export nations. In the 1990s its annual export growth rate was higher than the average worldwide rate. In order to gain hard currency through exports, infrastructure is continuously improved. Within the port of Buenos Aires alone the average ships’ stay was cut from 6.2 days in 1991 to 2.8 days in
1996. The average import container cost was cut during the same period from 450 USD to 120 USD. At the same time the operational area almost doubled and the number of Gantry cranes rose from three to thirteen\textsuperscript{54}.

![Graph showing export growth rates](image)

**Figure 11: Exports: World and Argentinian annual growth rates**

<table>
<thead>
<tr>
<th>Export</th>
<th>Import</th>
<th>Total</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Mio USD)</td>
<td>in %</td>
<td>(Mio USD)</td>
<td>in %</td>
</tr>
<tr>
<td>Primary Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grain</td>
<td>2560 10,8%</td>
<td>2560 5,4%</td>
<td>5120 16,2%</td>
</tr>
<tr>
<td>Oilseed</td>
<td>964 4,0%</td>
<td>964 2,0%</td>
<td>1928 6,2%</td>
</tr>
<tr>
<td>Fish</td>
<td>609 2,6%</td>
<td>609 1,3%</td>
<td>1218 3,9%</td>
</tr>
<tr>
<td>Cotton fibre</td>
<td>497 2,1%</td>
<td>497 1,0%</td>
<td>994 3,1%</td>
</tr>
<tr>
<td>Fish</td>
<td>475 2,0%</td>
<td>475 1,0%</td>
<td>950 3,1%</td>
</tr>
<tr>
<td>Other</td>
<td>713 3,0%</td>
<td>15 0,1%</td>
<td>728 2,4%</td>
</tr>
<tr>
<td>Agricultural Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Food Industry Byproduct</td>
<td>2367 9,9%</td>
<td>2915 6,1%</td>
<td>5282 16,1%</td>
</tr>
<tr>
<td>- Fats &amp; vegetable oil</td>
<td>1850 7,9%</td>
<td>1930 4,1%</td>
<td>3780 11,8%</td>
</tr>
<tr>
<td>- Meat</td>
<td>1074 4,5%</td>
<td>1074 2,3%</td>
<td>2148 6,7%</td>
</tr>
<tr>
<td>- Leather</td>
<td>889 3,7%</td>
<td>958 2,0%</td>
<td>1847 5,5%</td>
</tr>
<tr>
<td>- Other</td>
<td>2219 9,3%</td>
<td>2822 5,9%</td>
<td>5041 15,3%</td>
</tr>
<tr>
<td>Industrial Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Machinery &amp; electric equipment</td>
<td>962 4,0%</td>
<td>8514 17,9%</td>
<td>9476 26,9%</td>
</tr>
<tr>
<td>- Transport equipment</td>
<td>1642 6,9%</td>
<td>5077 10,7%</td>
<td>6719 18,5%</td>
</tr>
<tr>
<td>- Chemicals &amp; others</td>
<td>980 4,1%</td>
<td>4709 9,5%</td>
<td>5689 16,1%</td>
</tr>
<tr>
<td>- Base metals &amp; manufactures</td>
<td>1190 5,0%</td>
<td>2651 5,6%</td>
<td>3841 11,0%</td>
</tr>
<tr>
<td>- Plastic &amp; rubber products</td>
<td>470 2,0%</td>
<td>1989 4,2%</td>
<td>2459 7,2%</td>
</tr>
<tr>
<td>- Paper Industry &amp; Byproducts</td>
<td>378 1,6%</td>
<td>1314 2,8%</td>
<td>1692 4,9%</td>
</tr>
<tr>
<td>- Optical equipment, cameras, etc.</td>
<td>52 0,2%</td>
<td>790 1,6%</td>
<td>842 2,4%</td>
</tr>
<tr>
<td>- Other</td>
<td>793 3,3%</td>
<td>2811 5,9%</td>
<td>3594 10,2%</td>
</tr>
<tr>
<td>Fuel &amp; energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23813 100,0%</td>
<td>47575 100,0%</td>
<td>71388 211,0%</td>
</tr>
</tbody>
</table>

**Figure 12: Trade by main product groups 1996**

Source: INDEC, 516 - 520

\textsuperscript{54} CEP, 51, 63
The fertile Argentine Pampa offers ideal conditions for cattle raising, and growing
grain and other oil containing vegetables. Furthermore, this large country is rich in
various natural resources. The main export products are fuel and energy (13%),

grain (10.8%), food industry by-products (9.9%) and fats and vegetable oils (7.9%).
The famous Argentine meat represents 4.5% of the country’s exports. Between 1992
and 1996 the export of primary and agricultural products increased by about 70%,
whereas export of industrial products increased by about 130%\textsuperscript{55}.

The World Bank expects a continued economic growth in Latin America especially in
Argentina, Brazil and Mexico. Important raw material prices go up and exports are
increasing by finished goods. In Argentina, the main growth is expected in the
transport, communication, energy, agricultural and manufacturing industries. The
international car manufacturing industry is expecting an increasing market volume
and is therefore drastically expanding its capacities. Between 1992 and 1996 export
of transport equipment increased by a factor of four\textsuperscript{56}. Consequently mainly
machinery and electric equipment (31.8%), chemicals (15.7%) and transport
equipment (14.5%) are imported. Further packaging and production machines are
needed for the food industry\textsuperscript{57}.

![Figure 13: Trade by main regions 1996](source: INDEC, 511 - 513)

Argentina’s major export markets are its Latin American neighbours (48.1%) like
Brazil (27.8%), Chile (7.4%) and Uruguay (3.0%) and the USA/Canada (8.7%) and
Europe (21.9%). Within Europe goods are exported to countries like Spain (3.0%),

\textsuperscript{55} INDEC, 516-520, all figures of 1996
\textsuperscript{56} INDEC, 517
\textsuperscript{57} Bfal, Lander und Markte, 1 and 3 and INDEC, 517; all figures of 1996
Italy (3.0%), Germany (2.4%) and the Netherlands (5.1%)\textsuperscript{58} where most Argentines once came from. According to the types of import goods needed, Argentina purchases mainly from industrial countries like the USA/Canada (21.1%), Italy (6.3%), Germany (6.0%), France (5.0%) and its neighbour Brazil (22.4\%)\textsuperscript{59}.

Argentina is the third biggest export market for German products in Latin America after Brazil and Mexico\textsuperscript{60}. Germany mainly buys meat, oilseeds and other vegetables, fresh fruit and cotton, while exporting machines, electronic and chemical products and cars or car parts to Argentina\textsuperscript{61}. When public companies were privatised at the beginning of the 1990s, it was mainly Spain, Italy, France, the UK, Brazil and Chile who invested. Germany showed only little activity. The cumulated investment of Germany in Argentina was only 1.8 billion USD in 1992\textsuperscript{62}, and even for foreign investment projects between 1996 and the year 2000 totalling 7.9 billion USD, German investors will only spend 2\% of the total amount. As a consequence, Germany's share in Argentina's total imports went down from 10\% in 1990 to 6\% in 1996\textsuperscript{63}.

Only recently has the German government showed some desire to strengthen the trade relations with Latin America by organising some conferences. However, the development of the Mercosur\textsuperscript{64} might be another threat to non-American exporters like Germany. As the example of North America showed, Mexico is tightening its relations within its North-American neighbours while slightly dropping the relations with its European trade partners\textsuperscript{65}. The focus of Argentine trade on American countries might increase further, if talks about a Free Trade Area of the Americas (FTAA) are successful. This would mean a free market of trade and money for all American countries from Canada to Argentina, with the exception of Cuba\textsuperscript{66}.

\textsuperscript{58} Main part of export to The Netherlands belongs to the harbour of Rotterdam and a big portion is forwarded to Germany. (BfA, \textit{Geschäftspartner Argentinien}, 33)
\textsuperscript{59} INDEC, 511-513; all figures from 1996
\textsuperscript{60} BfA, Branchen, 3; figures of 1993
\textsuperscript{61} BfA, \textit{Geschäftspartner Argentinien}, 33-34
\textsuperscript{62} BfA, \textit{Lateinamerika}, 34
\textsuperscript{63} BfA, \textit{Länder und Märkte}, 15
\textsuperscript{64} The Mercosur is a common market composed of the countries of southern Latin America like Argentina, Brazil, Uruguay and Paraguay in order to promote the trade of goods and services between its member states. The trade is not completely free yet as some products are still subject to barriers and the need for registration. (Interview with Mr. Gutzweiler)
\textsuperscript{65} BfA, \textit{Länder und Märkte}, 6
\textsuperscript{66} Reid, 85
II. 3. The political and legal component for the foreign investor

Latin America's most important political change took place during the 1980s. Most governments changed from military juntas to free elected democracies. Between 1980 and 1985 the Fitzgibbon-Johnson Index improved its evaluation of Argentina and Uruguay on their level of democracy by 55% and 35% respectively. Compared to the years of political isolation throughout the 1970s and the beginning of the 1980s, Argentina has managed to establish close relations with the US, Europe and its Latin American neighbours since the presidency of Meném. Since 1997 it is considered a 'special non-Nato ally' reflecting the extraordinary relations to Washington. In fact Argentina is lately the most active Latin American country in United Nations peace keeping operations and was the only Latin American country to participate in the 1991 Gulf War.

The business environment for the foreign investor continues to improve. Corruption has diminished since 1990 as the state reduced its control on many economic activities. However, there is still a popular anger over corruption on a minor scale. In particular the judicial system has suffered from corrupt judges and officials.

National and foreign companies have basically the same rights in Argentina. There is no need for immigrants to become Argentine citizens. Immigrants can keep their original citizenship for decades. Furthermore there is neither restriction on trade in and with foreign currencies nor restrictions on foreign companies to purchase any kind of goods, and foreign investments are actively promoted by the government. The former requirement of government approval for foreign investments has been abolished. Import duties vary from up to 14% for foreign produced machinery and industrial equipment, up to 23% for intermediate products and up to 30% for finished products. Foreign companies importing their finished goods from their home

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67 The index reflects the American view in order to measure a country's political democracy level. The scale is between 1 = most democratic and 20 = not democratic by five key criteria: 1. free speech, 2. free elections, 3. free party organisation, 4. independent judiciary, 5. civilian supremacy (Wilkie, 279)
68 Warn, 21
69 Lappert, 19
70 Interviewee Gutzweiler and KPMG, 3
71 There is basically no restriction for foreigners to purchase real estate in Argentina. The government only requires approval for purchase of properties along the national borders and may refuse it. (KPMG, 43)
72 KPMG 3 and 11
73 KPMG, 13
markets have to face the changed trade conditions between the countries of southern Latin America. In 1991, Argentina, Brazil, Paraguay and Uruguay signed the Mercosur-agreement to create a common market. The Mercosur became effective in 1995, lowering import duties on the trade between member states. Later Chile and Bolivia became associate members. The agreement includes a common import duty for all member states for products from third countries for almost 85% of the trade.\footnote{KPMG, 14}

The VAT (Value Added Tax) in Argentina is 21% and is charged when the goods are imported. There is no reimbursement for charged taxes from the government. That is why foreign pharmaceutical companies, importing their goods from abroad have a problem as it is not allowed to charge for 'Value Added Taxes' on pharmaceutical products.\footnote{Interviewee Gutzweiler} Income tax is comparatively low at 33% and dividends are not taxed even if distributed abroad.\footnote{KPMG, 6}

But foreign companies may be limited when it comes to financial matters. "[local] Banks normally do not offer local currency loans, except for relatively short terms."\footnote{KPMG, 7} Usually financing has to be provided by the mother company.\footnote{Interviewee Gutzweiler} Financing through receivables and payables may not be available. Due to the Tequila-effect (financial crisis raised in Mexico) at the beginning of the 1990s many companies became less willing to pay their invoices on time. As a first consequence, the payment terms were tightened. The average payment term in the pharmaceutical industry is sixty-five days.\footnote{Interviewee Gutzweiler} To start-up a business itself is usually also very cost intensive. "Argentina is considered one of the five most expensive countries in the world in which to travel. On a trip to Buenos Aires, the average business person will spend upwards of 400 USD a day, putting the Argentina capital on a par with Tokyo, New York and Sao Paolo."\footnote{An economical hotel in the US with an average rate of 50 USD, can charge 80 USD to 130 USD in Argentina. (Campell, 23)}

\begin{itemize}
  \item In order to reduce the payment terms, the government introduced the 'factura de credito' in 1997. The goal is to reduce the days of outstanding payments especially within medium and small traders. The 'factura de credito' is based on a bill of exchange and therefore a possible trial could be carried out within a short time (Interviewee Gutzweiler)
\end{itemize}
II. 4. Summary and conclusions on the socio-economic environment of Argentina

The Argentine society compares with that of Spain and Italy. The family is considered a particularly important element and plays an important part in personal, political and business relations. Loyalty to the family is placed above obligations to any other group among citizens of all ages. Due to family traditions the society is experiencing relatively few negative situations such as family violence or divorce.

The role of women is changing slightly in a conservative society. Even though more women attend universities than men, and already 60% of Argentine households count on the contribution of the woman’s salary, women are still mainly performing part-time jobs, or jobs in areas with few responsibilities. Their contribution to the national income is still as low as 20%. The conservativeness of the society can be further observed as there is little tolerance of gay communities and abortion is still not legal. Due to their recent economic experiences at the end of the 1980s people tend to be pessimistic and to have little trust in the future.

In an ageing society the life expectancy is already up to seventy years and compares to that of most western societies. Within Latin America the Argentine population of 36m people has one of the highest standards of living as well as the lowest growth rate. Recent immigrants still come from Southern Europe or the neighbouring countries. The tendency to move to the cities continues and currently only 13% of the national population remains in rural areas. Almost 90% of the population is Roman Catholic.

Argentines identify more with Europeans than with other Latin Americans. They are often described by neighbouring countries as arrogant and their relationship compares to that of Australia with Asia and of South Africa with Africa. Even if Argentines themselves frequently complain about their country, they are even more bothered if their country is judged as unstable and identified with Latin American backwardness by foreigners. Foreign businessmen should therefore avoid any kind of criticism of the political and economic situation of the country.
Basic education is comparable to that of Europe and the US. The literacy rate is over 90%. But Argentines complain about their colleges and universities. Due to historical developments from times of the military junta, most institutions of higher education are offering education only at a mediocre level. As reforms in school administration are needed, the schools' standards and regulations are described as relatively low. Therefore, a relatively high proportion of students do not finish their educational career.

Due to the economic reforms of President Menem and his Minister of Economy, Domingo Cavallo, Argentina overcame its times of economic disorder and financial instability. Inflation came down to 1%, many public companies were privatised and foreign investments were attracted by several political reforms. The 1990s compare to the strongest growth cycles in Argentine history and the per capita income is almost 9,000 USD, the highest in Latin America. Argentina's financial system became an 'absorber rather than an amplifier' of financial shocks, as recent monetary developments have shown. There is a fairly large middle class and only 8% of the population is considered undernourished, whereas the average rate in Latin America is about 40%. Compared to western societies a relatively high proportion of the population is employed in public companies (18%); there are also many independent workers (23%) and entrepreneurs (7%) due to the poor social benefits.

The country's export growth rates are at 17%, above the average international rates. The strongest trade relations exist with the Latin American neighbours, Europe and the US/Canada. The main export products are primary and agricultural products as well as machinery and base products for the food and car manufacturing industry. Imports are influenced by the fastest growing transport, communication, energy, agricultural and manufacturing sectors. Argentina is the third largest export market for German products in Latin America, but its share has been decreasing since the beginning of the 1990s as German companies have shown only little investment activity in privatised companies.

After the presidency of Raúl Alfonsín in 1982 Argentina became a democratic country and re-established its relations in international politics. It maintains a close relationship with Washington, was the only Latin American country to participate in
the 1991 Gulf War and is considered a 'special non-Nato ally' by the USA. In fact, the foreign investor enjoys many positive economic and political conditions in Argentina at the end of the 20th century. There are almost no restrictions for foreign companies. However, non-Latin American foreigners may be limited due to import duties if not producing within the Mercosur, and a lack of financial resources. Foreign small and mid-size companies in particular may have problems financing the cost intensive business activities in Argentina from abroad.
Chapter III

Accessing the Argentinean market

III. 1. Description of research methodology for the overall project
III. 2. Initial market entry
   III. 2.1. Perceptions of chances, risks and motivations for entering the Argentinean market
   III. 2.2. Active or passive market entry
   III. 2.3. Experiences of market entry
   III. 2.4. Should the Argentinean market be a first choice in Latin America?
   III. 2.5. Do European small- and mid-size companies have better business opportunities in Argentina due to the relative absence of multinational companies?
III. 3. Ways of internationalisation and its steps
III. 4. Using a distributor as a frequent way to access initially the market in Argentina
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   III. 4.3. Comparison of foreign distributor versus a company’s sales force in Argentina
III. 5. Analytical Model to support the decision making process on how to enter the Argentinean market
III. 6. Use of market research by small- and mid-sized companies
III. 7. Supporting the market entry process in Argentina
In previous chapters we have learned about Argentina's market environment through an analysis of its cultural, historical and socio-economic background. There are, however, a number of questions, which remain. These include: how can industrialised countries like Germany, the United States or other Western countries evaluate this market as a place in which to do business; what are the experiences and images of Western companies when dealing with Argentina or of the Argentines themselves; how should market access in this Latin American country be managed; and what challenges and threats have to be faced. The following chapter will give some answers to these questions and describe how access could or should not be made to the Argentinean market. Furthermore, this chapter is based on the present or past experiences of German companies doing business in Argentina and on Argentinean distributors whose relevant managers have been contacted and interviewed by the author.

III. 1. Description of research methodology for the overall project

Besides literature study, the present thesis is based on qualitative and quantitative research. Throughout the preparation of the thesis a total of four research phases were carried out. Three of the research phases consisted of personal interviews done in Germany, Argentina and in the USA. Additionally, German companies doing business in Argentina were sent a questionnaire by mail during the remaining research phase.

This third chapter is based on the personal interviews done in Germany and Argentina, as well as a written questionnaire on market access. Additional interviews done in the USA focussed mainly on those questions that will be discussed more in detail in the fifth chapter. The description of the research methodology will therefore be done at the beginning of that chapter. However, some research results of the personal interviews done in the USA will be used to inform questions raised in this chapter.

After a preliminary literature study was done, some interesting hypothesis were suggested by the interviewees that will be discussed throughout this chapter. The
questionnaires for the qualitative interviews in Germany and Argentina were designed mainly with open-end questions, whereas the quantitative questionnaire sent to the German companies contained a number of closed questions with an evaluation of importance and rating scales of predefined statements. In order to be able to compare the point of view of German managers with that of the Argentinean managers, an identical evaluation scale on Argentinean culture and social values was presented to both the Argentinean managers as well as to the German ones. Moreover, all the questionnaires basically consisted of two parts. Whereas the first statistical part of each questionnaire was aiming to describe the size and the main characteristics of the interviewed company, the second part of the questionnaire consisted of a number of open-end questions.

The first research phase of this thesis was carried out in Germany between January 16 and April 23, 1997 in the cities of Frankfurt am Main, Wiesbaden, Darmstadt and Augsburg. Only those companies that had previous or current business relations with Argentina were selected for interviews. The companies interviewed represented the health care industry as well as other industries such as printing machines, steel production, and even baby food products. The sample ranged from small companies with fourteen employees and an annual turnover of 4m DEM to a few mid-size companies with up to 6,500 employees and a turnover of 1800m DEM. The interviewees themselves were mainly working at management levels of the export or foreign department and were the ones who had direct contact with the Argentinean market.

With the exception of three telephone interviews, all interviews were done personally in German or English, mainly in the offices or the meeting rooms of the interviewed companies. All interviews were recorded on a micro cassette recorder and supported by a questionnaire or interview schedule. Interviews took between forty-five and two hundred minutes depending on the dynamics of the interview, and additional questions which arose during each conversation.

The second research phase was done in Buenos Aires, Argentina. A total of sixteen personal interviews were done in the month of August 1999 with managers and sales

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1 Further details about the companies interviewed will be found at the end of the thesis.
2 The questionnaires will be found at the end of the thesis.
executives from Argentinean distributors as well as with a representative of Eurocentro, a division of the Argentinean Chamber of Commerce that focused on business between Europe and Argentina. All interviews were carried out in the offices of the interviewed managers. With the exception of one interview done in English, all remaining interviews were done in Spanish, and taped on a micro cassette recorder. The interviews took between seventy and one hundred and fifty minutes approximately.

With the exception of two companies all other distributors were representing German as well as other European or international products mainly from the health care industry. Three companies were representing consumer goods, investment goods or security equipment respectively. The smallest interviewed company was acting with less than three employees only, in Buenos Aires, whereas the largest interviewed Argentinean distributor had more than one hundred employees, and was selling on a national level. Occasionally, some of the major distributors were even selling to neighbouring countries such as Chile or Uruguay.

Almost all interviewees were fairly accessible and willing to receive a European PhD student for a personal interview. As described in previous chapters, the Argentinean interviewees were like Spaniards talking with a strong Italian accent. The subway of Buenos Aires, its taxis, its major streets, as well as a lot of squares and buildings, could easily be confused with those of Madrid, Rome or Paris. Most of the interview partners were very friendly, and asked about personal matters, or the background of the thesis, rather than strictly focusing on the questions. In a few cases the voice of some Argentinean male interview partners sounded somehow aggressive and loud, even if the words were not insulting. Instead of purely responding to the questions, in these few cases the voice sounded a bit offensive. Somehow the complaint of other Latin Americans about the behaviour of Argentines towards them was thereby somewhat understandable. But again, this happened only in a few cases.

Throughout the third research phase that took place at the end of 1999 and the beginning of 2000, a total of 205 German companies were contacted by mail with a written questionnaire. Only export managers from those companies that had previous or current business relations with Argentinean companies were contacted. As a follow up, about seventy of these 205 companies were reminded by email to
return the completed questionnaire. Thereby a total of thirty-four completed questionnaires could be received, representing a rate of returned questionnaires of 17%.

The questionnaire was completed by companies representing the health care industry (ten companies), and those that deal with investment goods (thirteen), consumer goods (eleven) or services (one). Almost all companies were operating on a world-wide level. At any rate, the sample ranged from small companies with thirty-five employees, and an annual turnover of 5m DEM to mid-size companies with nine thousand employees, and a turnover of 1800m DEM. Five companies had more than nine thousand employees and 1800m DEM of annual revenues. More than half of the German companies were already established before 1920. In 1955, already thirteen of the interviewed companies had business relations with Latin America, thereof only five in Argentina. Until 1976, nineteen of the interviewed companies had business relations with Argentina, and the number increased to twenty-seven until 1989. Today there are thirty-four.

III. 2. Initial market entry
III. 2. 1. Perceptions of chances, risks and motivations for entering the Argentinean market

Throughout the first research phase, when first selecting and contacting companies to be interviewed, it was found that Argentina is still an undiscovered market for many German companies. Only a few export orientated companies had useful experiences in this market. Small and mid-size enterprises in particular, focused more on European and US-American markets. “As we are a mid-size company, the Latin American market is of less importance” confirmed one industry representative. Therefore, it was relatively difficult to find the right interviewees in Germany. However, those German companies who had more experience with emerging markets, expressed the opinion that Latin America is an upcoming region.
"Due to the improved political and monetary situation, there is an increasing interest in Latin America. Today's most promising markets are predicted to be Latin America and the Far East. Within our industry we recently experienced an increasing interest to enter the Latin American market."

The personally interviewed German companies cited different perceptions of chances and risks in the Argentinean market. A lot of the interviewed German companies had negative experiences in Argentina as a result of its high rate of inflation at the end of the 1980s. "When the Argentine Peso was linked one to one to the USD, the real income of the households declined." explained manager Fromm. "And as soon as the Peso is disconnected, many local companies will go bankrupt as their outstanding receivables will be worthless." Mr. Ballo, Export Director of Henkell & Söhlein Sektkellerei KG, stated that he expected strong growth rates in Latin America throughout the next ten years, as well as continuing ups and downs in its economies.

Due to the size of the country and its population, Fromm, the Marketing manager of the German Biotest also believed that there is great potential in the long run. The economy of Argentina is considered to be more conservative, more stable, with slower growth rates but also less risk than other Latin American countries. Some of the interviewed managers were aware that ever since the Presidency of Carlos Meném, economic and political stability has been increasing, as was described in Chapter Two.

The thirty-four German companies contacted with a written questionnaire mentioned cultural differences, financial risks, and high costs of market entry as well as bureaucratic procedures as the most important obstacles when first entering the market in Argentina. They cited the following difficulties of small- and mid-size European companies when first accessing markets like Argentina (frequency in brackets):

3 Interviewee D. Ballo
4 Interviewees C. Brunn and R. Göbel
5 Comment by interviewee Olesch
6 Interviewees Olesch and von Gymnich
7 Comment of interviewee M. Alonso Comerma
• Cultural differences (three)
• Risk that accounts receivables have to be written off (three)
• Rules and regulations, bureaucracy, product registration (three)
• Constant market changes (two)
• Difficulty to build up contacts to the markets for a market newcomer (two)
• High costs to enter the market (two)
• Difficult to maintain prices against local products and those from Brazil (two)
• Financing of activities (one)
• Risk of foreign currency devaluation (one)
• European know-how and technology often copied by Argentines (one)
• Contracting qualified personnel (one)
• Bribes expected by some business partner or by key people in institutions (one)
• Distance to South America (one)
• Communication with locals (one)

On the other hand, the Argentinean distributors interviewed underlined the recent political and economic stability in Argentina, and the potential of the Argentinean market. Even though distributor Kleh noted that the negative history of hyperinflation and military takeovers still somehow causes consternation in some foreign investors, most Argentinean interview partners were quite optimistic. Dr. José Luis Sánchez, the director of Eurocentro described the current situation of his country as follows:

“All of the emerging economies show ups and downs. And in the case of Argentina, even though we have suffered many ups and downs, we have overcome many crises. In fact, we have not had the ‘Tequila effect’ (Mexico). Not even ‘El Samba de Enero’ (Brazil). We have not even been hit hard by the Russian and Southeast Asian stock market crashes. Our problem is that we are widely recognised under the title of an emerging economy, and this does not allow us to advance as a developed country does.”

According to the distributors interviewed, market opportunities are just arising in Argentina. “Whereas European countries, like Germany, started their development five hundred years ago, Argentina just started to built its economy one hundred years

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8 Eurocentro is a division of the Argentinean Chamber of Commerce
ago explained sales manager Rivas. According to Rivas “in Europe and the United States there is not much left to do.” On the other hand, he argued that besides Argentina, the growth potential of the neighbouring countries like Brazil, Uruguay, Paraguay and Bolivia are expected to increase within the next decade. Also, Sánchez confirmed that foreign investors should use Argentina as a base to operate within the Mercosur trade bloc. He described Argentina as an excellent place for European companies to do business due to its geographic location, its socio-economic status, as well as its political situation.

The agricultural sector, for example, was mentioned as a traditionally strong area. Distributor Bellows recalled that Argentina is the 15th leading exporter of wine in the world. He compared the importance of the Argentinean wine industry to that of France, Spain, Australia and South Africa. However, Bellows also complained that Argentinean wine is much less popular on the world’s markets compared to these other countries. Distributor Grelle even felt somehow rejected by foreign investors of the developed countries. “In Europe, and especially in the United States,” he said “there is nothing but absolute ignorance with regards to Latin America. Everything south of the Rio Grande for the Americans is the same. Sometimes we got letters from the USA which mentioned the city of Buenos Aires, and Brazil as the country.”

The personally interviewed German companies frequently mentioned financing as a major problem. This makes it especially difficult for small and mid-size companies to market their products in the Argentinean market. Several companies mentioned that their distributor had financial problems, and especially at the beginning of the 1990s, there was a lack of financial resources. As the government restricted currency, many letters of credit did not work out and prepayment was impossible.

According to the German engineering company Gobel, the Argentine customers therefore often had problems financing the products. “It is almost impossible to get a local loan or local leasing for an amount under 5m USD in Argentina as a new German subsidiary. Financing has to be done by the mother company. Even if a

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9 Interviewee Dr. J.L. Sánchez
10 Interviewee P. Rivas
11 Interviewee P. Rivas
12 Interviewee G. Grelle
German bank in Argentina offered a guarantee through its mother bank in Germany, it is rarely possible to receive a loan". As a result of financing problems the Argentine business continued to be fairly low, so Göbel decided to close the local sales office and to replace it with a local distributor in order to cut costs.

Occasionally, the financial conditions became even worse for some companies when the governments of competing foreign manufacturers interfered. Bauer, of the machine producing Fleissner Maschinenfabrik GmbH & Co., was facing tough times as during recent years Argentina has received billion dollar loans from Spain and Italy in order to finance Italian and Spanish machines.

Some of the German companies that were contacted with a written questionnaire described it as time consuming to work in Latin American markets. Export and Marketing Manager Brunn explained that many Latin American countries require a complicated import licence. Often different kinds of invoices would have to be issued for a single shipment. From his experience, Brunn suggested that companies should act very carefully when entering into business relations with new customers in Latin America. However, in accordance with the previous chapter, Fromm, the Biotest manager, stated that throughout the 1990s, trading conditions became much better. “During the 1980s product registration was very complicated and took us several years. Since the 1990s, laws have been changed in order to enable the easier import of pharmaceutical products. Today product registration takes only half a year”.

As, of the beginning of the 1990s, customs barriers to Argentina have been dramatically reduced, Argentines now prefer to purchase abroad. National products are generally considered to be inferior, and have to have at least the same quality but a lower price. However, with the Mercosur, the South American countries are creating their own market. These countries (Argentina, Brazil, Paraguay, Chile, Bolivia and Uruguay) no longer depend on the US or Europe as the strength of the Mercosur is increasing, explained Sales Director Mrs. von Gymnich. German manager Hitzler stated that as companies from overseas noticed the disadvantages compared to member states of the Mercosur, many non South American companies have started to produce in Brazil in order to serve the markets locally.

13 Interviewees H. Brunn, D. Beilhardt and R. Göbel
14 Interviewees P. Ziehl, Olesch and R. Göbel
15 Chile and Bolivia are the only associated states to the Mercosur-agreement
The personally interviewed German companies estimated that there was still a big market potential within Argentina and Latin America for the following years. Mr. Alonso Comerma of SGL Carbon GmbH remembered that there was only one competitor when they first entered the Argentinean market. "Argentinean companies were willing to work with us in order to create competition" remembered Comerma. The position of German compared to American or Asian companies was seen as very competitive. Comerma explained that Japanese and Asian companies are not very strong in Latin America due to their remote locations and the relatively high freight charges. American companies frequently have a bad image in Latin America due to their way of dealing with Latin American business people. His customers told Gobel that American companies often sold second-class machines to the 'stupid South Americans' and did not offer any after sales service, whereas, according to managers Bauer, Göbel and Fromm, Germans have a good image in Argentina. There has always been a good relationship with Germany, even during the World Wars. Northern Europeans and especially Germans have the image of reliable and hard workers. "In order to generate trust [when dealing with a new customer]" explained Fromm "I sometimes mention 'By the way, I am German' ."

III. 2. 2. Active or passive market entry

Many European companies focus their export activities mainly on neighbouring countries or other key markets such as the USA or Japan. National exporters or distributors from remote foreign markets such as Argentina frequently contact these European manufacturers. This kind of market entry where the initiative comes from a sales and distribution company of the target market, is considered as a passive market entry. An active market entry strategy, on the other hand, is a comprehensive plan. A company's international business operation is developed by the company's goals, policies and its resources. According to Wharton Business School professor Root (1987), the entry-strategy time horizon is in between three to five years for most companies. The strategy to enter a market actively is not a single plan, but the composite of several marketing plans for different products. Without a market entry-
strategy, a company is only passively entering the new market, or has only a "sales" approach.\textsuperscript{16}

As the managers interviewed in Germany mainly represented small and mid-size firms, it was interesting to find out about the circumstances of their international expansion. The market access was actively prepared with a strategic focus, or the new market was developed only occasionally. Export Manager Brunn had found that many market entries into emerging markets are done passively. In particular, in remote markets (such as Argentina) the initiative often comes from the foreign distributing company. "We established the set-up of the relationship with a new distributor at a trade fair in the USA. We negotiated the contract and handed over our catalogue." Brunn explained that the initiative came from the Argentine representative, and that they were not actively accessing the Latin American market at that time. As they had no previous experience with the Latin American market, the deal was considered to be an experiment. He added that opening up new markets often is not a strategic but a practical approach. It could be, for example, a consequence of a relationship made on a vacation trip.

"The first foreign subsidiary was established in 1968 in France. The reason for expanding [into international markets] was the fear of the company's owner, that Russian troops may prepare a [military] invasion into Germany. Later another affiliate was founded in Spain. The main reason for establishing a subsidiary near Barcelona in Spain was to have easier access to a holiday destination and to save taxes on vacation trips."\textsuperscript{17}

In addition, Gobel, running a small engineering company of 14 employees, explained openly why he started his business activities in Argentina. "Without having a friend who immigrated to Argentina" he pointed out "I would not have invested there as a mid-size company. The decision to invest there was strongly influenced by the beauty of the country, the friendliness of the people, and the guarantee of having a personal friend as a reliable partner."

\textsuperscript{16} Root, 3
\textsuperscript{17} Interviewee C. Brunn
Passive market access to Argentina is also due to cultural relations with the producing company. Bauer, the manager from Fleissner, who himself was born in Argentina as a son of German immigrants, draws attention to the immigration to Argentina. After their settlement, many immigrants, or their children, actively contacted companies of their mother countries in order to offer to distribute their products. In the case ofMilupa GmbH, it was the children of a German immigrant who enabled a fast progress to a solid market position. Nonetheless, they contacted the German company in order to sell a factory making baby products which had been founded by their father, who had emigrated to Argentina.18

Comparable experiences of passive market entry were even found when talking to representatives of companies that had already established a regional headquarters Latin America. Jukka Turtola, the regional director for Latin America of the Finnish producer of health care products Datex-Ohmeda, confirmed that they initially approached the Argentinean market passively. “We were contacted by this individual”, explained Turtola, “because he already knew that there was this emerging company seeking to enter the market down in Argentina. He was very well informed about high-tech medical equipment. He contacted us, and mentioned very adamantly that he wanted to start working for us. Basically he had the right components: he knew the right people, he had the right product, and he was well aware of the growing market needs, too.”19

In another case, an Argentinean technical service provider contacted the European producer in order not only to service a certain product, but also to include it into their existing product line. “We were contacted by an Argentinean distributor”, explained Alexander Stulz, Area Sales Manager of a German producer of precise climate solutions. “They were already selling small air conditioning devices, and wanted to expand into the market of precise climate solutions. Before contacting us, they were already servicing precise climate solutions, but not yet selling them.”20

However, there are several reasons other than being contacted by an Argentine company why the interviewed manager may have wanted to expand their business activities into Latin America. Some may think that it is only a logical consequence

18 Interviewee Olesch
19 Interviewee J. Turtola
and a matter of time, as other markets are already saturated. Others refer to the legal and structural limitations in Germany that oblige them to shift their production to foreign markets.\textsuperscript{21} Changes in the local situation may attract the interest of a production company. In the case of wine and liquor producing Henkell & Söhnelein, it was the internationally aggressive Chilean wine industry that attracted Henkell’s interest to Latin America.

Out of the thirty-four German companies that responded to the first written questionnaire, twenty had actively approached the market in Argentina. As reasons to enter the Argentinean market actively, they mentioned the need to cover Latin America as a whole (mentioned by four companies), to develop their position as a global player (four companies) or to take advantage of the market potential (six companies). Another six companies of those contacted by a questionnaire started their relations with Argentina after a local distributor or customer had contacted them.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
 & I disagree & Somewhat disagree & Don’t know & Somewhat agree & I agree \\
\hline
Market entry to Argentina was established by chance & 15 & 5 & 3 & 5 & 3 \\
Market entry to Argentina was analysed and planned & 4 & 6 & 0 & 1 & 17 \\
\hline
\end{tabular}
\caption{Level of agreement of German companies interviewed}
\end{table}

\textit{Graph by author, source own questionnaire}

III. 2. 3. Experiences of market entry

Once Argentina or Latin America was defined as a target market, the interviewees of the personal interviews done in Germany chose different ways to access the Argentinean market, and had valuable experiences to share. From the interviews, three main phases of market access were observed. These phases could be described as follows:

A. Pre-Phase or Preparation-Phase
B. Access-Phase
C. Post-Phase or Correction-Phase

Depending on industry habits, the guidelines of the company or the individual management style of the interviewee, these phases were experienced in part or followed step by step by the companies represented. Although some companies started to market their products in Argentina straight away, others chose a preparation-phase in order to evaluate the market and their people. Companies accessing the Argentinean market without a pre-phase were mainly those who expanded into Argentina passively by being contacted by a local company.

"In order to establish a local subsidiary, one should first try to get to know and understand the people" explained entrepreneur Göbel. Therefore, Henkell & Sohnlein initially collected demographic and economic data on the potential market to prepare their marketing decision. As a result of market research the countries are categorised into A-, B- or C-countries according to their importance. Frequently other German companies in different industries are contacted, in order to ask the relevant managers about their experiences in the target market. Also, banks, the local German Chamber of Commerce, and other national institutions are contacted to find out about the conditions of the market.22

Of course the contacted German companies experienced and explained several ways to actually access the market after a possible preparation-phase had been concluded. The following methods of market access were mentioned:

- Through a local distributor
- By opening a local sales office (owned by the German mother company)
- By establishing a local subsidiary (owned by the German mother company) through the acquisition of an existing local company.
- By founding a Joint-Venture
- By joining an existing sales representation of other German companies with already established subsidiaries23

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22 Interviewees E Fromm, D. Ballo and M. Alonso Comerma
23 "In other Latin American markets we were represented by the sales force of big German chemical companies" interviewee D Hitzler
Of the above mentioned, the last two alternatives of market access were only quoted as additional examples by the interviewed German companies. However, none of the companies contacted had accessed the market through a Joint-Venture or by relying on an existing sales force of an established international company. Nor is a direct investment from the producing company in order to run a local subsidiary usually the first step to start business in a foreign market. “We acquired an existing Argentine company with an established organisation and its own production.” explained Olesch the Milupa manager. “A new General Manager was sent from Germany in order to introduce our technical know-how, launch new products and to set-up some personnel changes. It would take too much time to start up a company due to bureaucratic barriers.” However, the initiative to access the Argentine market came from a unique opportunity. “We were contacted by an Argentine company. The German owner of the company had died, and the children wanted to sell the company to us.” explained Olesch.

Out of the thirty-four German companies returning the completed questionnaire, the initial market entry was done through a local distributor by twenty-two companies and through the company’s export department by another five companies. Also, the establishment of an own sales office (two), the acquisition of a local company (two), indirect export (one), franchising (one), and the direct set-up of a local production (one) were mentioned as other ways, in which the initial market entry was managed. Furthermore, the personally interviewed representatives of regional headquarters in Latin America experienced similar ways when initially accessing the market in Argentina. In the case of the Swiss service company SGS, the operations in Argentina were set up after winning a public tender from the government. SGS served as a service provider that took over several functions of a country’s customs department or as an independent auditor to inspect a country’s customs procedures. In this case the volume of the business generated by winning the tender was big enough to justify the set-up of an operations team. This kind of market entry, however, might be limited to a certain number of companies, where a single order reflects a major investment of more than 1m USD.

The American producer of hardware tools Black & Decker mentioned that due to their market size they have a production site in Mexico and Brazil, but would at this point not consider producing in Argentina as the business in Argentina is fairly small
compared to these other Latin American markets. Service Manager Maceda mentioned that in the 1980s the company sent an expatriate manager to Argentina in order to establish a local organisation. “We sent somebody down there first, and then they hired all local people. The markets are always being addressed by our regional personnel. We started with one exclusive distributor, and now we have five or six that cover the region. We work with our distributors for a long time. However, if they are not doing their job well, they have to be replaced”, explained Maceda. Maceda further observed that Black & Decker does not generally acquire its distributors, as the company’s strategy is to focus on manufacturing, rather than developing a large sales force.

The representatives of the regional headquarters for Latin America were mainly operating in Argentina through distributors. Interviewee Turtola mentioned the fairly small amount of business as the main reason for not establishing their own sales office. Also, Prince, the Sales and Marketing Manager from F.G. Wilson, an Irish manufacturer of power generators, confirmed that they had to close a sales office in Brazil. They continued to work with a distributor, as the sales volume did not justify carrying the relatively high fixed costs.

Within the previously mentioned correction phase, after the initial market entry some of the representatives in the headquarters for Latin America mentioned that they somehow created Territory Managers that were mainly based in Argentina. In the case of ViewSonic, an American manufacturer of computer screens, there was a Territory Manager responsible for Uruguay and Argentina. Business Manager Viella explained that the Territory Manager is responsible for sales and marketing activities and is supported by four local employees. "He is the interface between our company and approximately six distributors in Argentina and one in Uruguay. Initially, he was also responsible for Chile, but the territory was split, as the business was growing,” mentioned Viella. “The distance is a huge factor in Latin America”, said Viella in order to justify the development of their ‘Correction-Phase’.

A territory split was also done by German Airlines Lufthansa Cargo. After the region Latin America was managed from the headquarters in Miami, Lufthansa Cargo

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24 Interviewee R. Maceda
25 Interviewee G. Viella
reorganised its territory into three different sub-territories. "Today there is one manager responsible for Brazil, the biggest market, a second one manages the business of the northern countries in Latin America and a third one is responsible for the southern ones, including Argentina and excluding Brazil", explained manager Graff in a personal interview. These territory managers are responsible for their personnel, as well as the contacts to sales and handling agents in their region.

The interviewed representatives of Latin American headquarters named several key factors concerning how to access the Argentinean market successfully. They named good business relationships to the market as the number one condition in order to be successful in Argentina. "The important business we usually get through our good relations to major customers" or "You have to go and see the people. If you begin to build up a relationship with the customer, you'll always sell to them" were frequent statements to confirm the importance of business relationships. These relations should either be established between the manufacturer and the distributor or between the manufacturer and the local customer in joint sales and marketing activities with the distributor.

Some companies, such as the German manufacturer Stulz, prefer to send their sales people from abroad to visit the customer jointly with the sales people of the distributor. Others, as in the case of the Irish manufacturer F.G. Wilson, are convinced that good relations with customers or even the customs authorities can only be achieved through local personnel. "You must possess a strong local influence of someone who is able to pull strings", explained Prince. Local presence through a distributor or a direct investment, however, was seen as a must to establish the necessary relationships to the market. By frequently visiting and inviting the distributor, as well as training the personnel of the distributor, this important relationship of trust might be established.

Second, an excellent product or a competitive price was mentioned as further key success factors in Argentina. "You have to have products that the customers want, in

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26 Interviewee J. Graff
27 Interviewee A. Prince and A. Stulz
28 Interviewee A. Prince
29 According to interviewee A. Stulz
addition to providing an excellent service”, asserted Service Manager Maceda and this was confirmed by Sampei, the General Manager of a Japanese manufacturer of health care products. In the case of the Swiss service provider SGS, it was even important to be able to offer the expertise of a worldwide network to the Argentinean customer. A good working chain of logistics as well as financial strength were also mentioned by representatives of Latin American headquarters as success factors. ‘On-time-delivery’ demanded by the customer as well the ability to finance the initial market access of the distributor were seen by these companies as crucial.

III. 2. 4. Should the Argentinean market be a first choice in Latin America?

When considering expanding to Latin American markets, of course the decision makers of each company have to evaluate the individual market situation of each potential market, and match it with the requirements of their industry. For example, the Brazilian market might at that point still be fairly unattractive for a company that operates in the dialysis business, as the reimbursement rates per dialysis treatment that are determined by the public health system are fairly low, and reforms in the health care sector are still not yet achieved. On the other hand, Brazil might be the number one choice for a producer of mass consumer goods, such as pencils, due to the huge number of potential consumers. Throughout the previous paragraph motivations for foreign companies to access the Argentinean market have been described. However, there are certain general tendencies about which markets in Latin America might be accessed first.

With a consumer buying power of 218 billion USD, in 1998 Argentina was the third largest market with almost the third largest population of Latin America. As the population of Colombia is growing at a higher pace, Argentina lost its third position to Colombia in 1995 and has today the fourth largest population in Latin America. The number of households, however, is still much higher in Argentina than in Colombia. A
total of 88% of the Argentines live in urban areas compared to 84% in Chile, 79% in Brazil, 77% in Mexico and 73% in Colombia.\textsuperscript{32}

Figure 15  Population and Buying Power in Latin America (1998)

*Graph by author, source: Strategy Research Corporation*

The German companies contacted by means of the written questionnaire were asked their opinion concerning what market should be accessed first in Latin America in their industry. As the following graph indicates, these companies ranked Brazil as the most important market to be accessed first and Argentina in the third position. With the exception of Chile, who got a higher importance ranking by the contacted companies, all other markets were ranked according to the sizes of their buying power, and the sizes of their populations is shown in the previous graph.

\textsuperscript{32} Strategy Research Group
The same companies mentioned that they entered the markets of Latin America mainly before 1976. In transition times, between 1976 and 1989, when military regimes were starting to be replaced by democracies, relatively few of these companies came to Latin America. As economic reforms were started in many Latin American economies after 1989, the interviewed companies showed an increased interest to invest in Latin America throughout the 1990s.

During the 1990s, foreign direct investment in Latin America was primarily concentrated in Mexico, Argentina, Chile and Venezuela. All these countries showed sufficient economic development to warrant serious strategic consideration. They had reduced their country risks throughout different stages of their structural reform processes including privatisation and debt conversion programmes.³³ Brazil attracted foreign direct investments primarily until the end of the 1970s. But as economic reforms took place much earlier in other Latin American economies, Brazil lost its attraction to the investors throughout the following years as shown by the graph.³⁴

³³ Rosensweig, 184-185
³⁴ Agosin, 5
Foreign direct investment though was attracted to these countries for different reasons. As a result of NAFTA membership, its proximity to the USA and its large population the Mexican market is still a first priority for many US firms when exporting to Latin America.\(^{35}\) Also, the German companies contacted with a written questionnaire confirmed that Mexico was interesting due to its low production costs and its membership of NAFTA.\(^{36}\) Brazil was described as the biggest market, with a huge market potential, and was often referred to as “the engine of Latin America”.

Chile is probably the most stable economy in Latin America, as it was the first to initiate a reform programme. At the end of the 1980s the foreign direct investment into Chile compared to that of Brazil, even though Chile’s buying power as well as the population of Chile represents not even 10% of those from Brazil. Foreign direct investment into Chile focused mainly on the export sector as well as on the traditional field of copper mining. The Argentinean distributors interviewed often disliked the Chileans, but showed a great respect for their economic achievements. According to Sánchez, the director of Eurocentro, the Chileans are more flexible and their economy is more accessible compared to that of Argentina. “Chileans have the advantage of being five or six years ahead of us – economically speaking”, said

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\(^{35}\) Agosin, 3-8

\(^{36}\) NAFTA. North American Free Trade Agreement = a trade zone build of Canada, Mexico and the USA
Sánchez. Argentinean distributor Bianchetti explained the preference by American companies for Chilean managers as follows:

"Chileans are much more prominent on the American market than we are. Ironically, they do not have anywhere to grow fruits, and yet they export fruits worldwide, while we have half a country available to cultivate fruits, and we hardly export at all. The Americans come to South America and meet with the Chambers of Commerce in both Argentina and Chile. They say: 'In the U.S. we like to eat these types of products, with such and such characteristics.' The Chileans accept these conditions, and structure their production around these criteria. In the meantime, the Argentinean does not accept these rules and regulations because they think to themselves that they are the producers and that 'I will produce them my way'. Therefore, they lose the business. For this reason, the majority of the American enterprises have Chilean managers in South America, including Argentina. I believe that it is a cultural issue."38

As described in detail in Chapter One, it was the liberal governments under Derqui (1860 - 1862), Mitre (1862 - 1868), Sarmiento (1868 - 1874) and Avellaneda (1874 - 1880)39 which laid the social and economic conditions of prosperity in Argentina at the end of the 19th and the beginning of the 20th century. Some of these fundamental conditions may still be valuable for today's foreign investor. That is why SGS manager Quintero described the Argentines as more sophisticated. "That was noticeable as soon as we started our contact with them, compared to other Latin American countries", explained Quintero.40 In that sense the interviewed German companies felt Argentina to be very European-minded and experienced European standards, as already mentioned.

According to Rosensweig (1998), the composition of the Argentinean market is a further plus that favors Argentina to be considered first in Latin America. "A key strategic element is that many industries require at least lower-middle-class consumers, and Latin America is in the process of adding millions of these potential customers. Its lead in purchasing power is demonstrated by GDP per capita statistics, where Argentina leads all ten of the largest developing nations, and Mexico and Brazil rank in the top four," explains Rosensweig.41 In his book, 'Foreign direct

37 Interviewee Dr. J. L. Sánchez
38 Interviewee E. W. Bianchetti
39 Composición Cronológica, 15 - 16
40 Interviewee I. Quintero
41 According to the World Bank, "World Development Indicators 1997", Rosensweig, 186
investment in Latin America', Manuel Agosín (1995) states that Argentina attracted important foreign investments due to an expanded regional market after the creation of the Mercosur. That's why distributor Davila, as well as distributor Meyer, recommended foreign companies to set up their regional headquarters for Latin America in Argentina. "No one wants to set up their businesses in Bolivia or Paraguay, where it would be much cheaper", explained Meyer. "I would pick Argentina. Managers as well as technicians could travel from here to the other countries. [For those purposes] it's true that Argentina has the appropriate training in order to be in charge of the other countries", said Meyer.

It might be for the above mentioned reasons as well as due to the fact that the German companies contacted had business contacts primarily with Argentina, that Argentina was mentioned as the country which was most actively accessed by the German companies. As the following graph shows, the level of passive market entries compared to active market entries is an even number for most markets of Latin America. Only Brazil and Argentina were clearly accessed more actively by the contacted German companies.

![Figure 18 Active or passive market entry in Latin America](image)

Figure 18 Active or passive market entry in Latin America

*Graph by author, source own questionnaires*

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42 Agosín, 3-8
III. 2. 5. Do European small- and mid-size companies have better business opportunities in Argentina due to the relative absence of multinational companies?

Many managers in small and mid-size companies believe that the planning of an entry strategy requires a lot of resources in order to prepare quantitative data by some specialists. According to Root (1987), it is more important to have an idea about how to enter the foreign market. The handling of the idea may then be adapted to the company’s resources. “To say that a [small and mid-size] company cannot afford to plan an entry strategy [for a remote market like Argentina] is to say that it cannot afford to think systematically about its future in world markets”, noted Root.44

However, one of the interview partners did not agree with those managers described by Root and was more acting as suggested by Root. At the beginning of the thesis, and during the first research phase when initially interviewing German manufacturers in Germany, an insightful observation was made by Göbel, a German engineer who opened his first foreign affiliate with a friend in Argentina. Entrepreneur Göbel’s experience was that remote and emerging markets like Argentina offer interesting opportunities for smaller companies. “European mid-size companies have good opportunities when investing in Argentina” he explained. “For these companies, it is a good opportunity to protect themselves from being overtaken by a multinational company. For the Argentines themselves, it is better to co-operate with mid-size companies, as multinational companies would be interested in the country only as a low labour cost country.”45

The hypothesis that European small and mid-size companies have better business opportunities in Argentina due to the relative absence of multinational companies was then discussed in the later research phases. In the following research phase after Göbel made his statement in a personal interview, some 205 German companies with business experience in Argentina were contacted with a written questionnaire, and asked about their opinion on the above mentioned hypothesis. On an average, the thirty-four companies returning the completed questionnaire did not know or were somehow unsure whether or not European small and mid-size

43 interviewee A. G. Meyer
44 Root, 3
companies may have more difficulties to enter the Argentinean market than multinational companies. On an average, they also slightly disagreed that Argentinean companies prefer to work with small firms rather than international ones.

When asking whether or not European small and mid-size companies may have better opportunities in remote markets such as Argentina due to the fact that only a reduced number of multinational companies are represented in Argentina. On an average, the German manufacturers did somewhat disagree.

<table>
<thead>
<tr>
<th>(numbers in column = frequency of value mentioned)</th>
<th>I disagree</th>
<th>Somewhat disagree</th>
<th>Don't know</th>
<th>Somewhat agree</th>
<th>I agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) European small and mid-size companies have more difficulties to enter the Argentinean market than multinational</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>b) European small and mid-size companies have better opportunities in remote markets like Argentina due to the relative absence of multinational companies</td>
<td>7</td>
<td>13</td>
<td>4</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>c) Argentinean companies prefer to work with small firms rather than big multinational companies</td>
<td>4</td>
<td>6</td>
<td>20</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

*Figure 19: Level of agreement of interviewed German companies*

*Graph by author, source: own questionnaire*

Six of the companies commented that their evaluation of disagreement to the above mentioned proposition was due to the fact that they believed that many multinational firms are already well represented in Argentina. Another comment was made on the consumer habits of the Argentines in that they preferred to buy established brands, rather than products from unknown manufacturers. Only one producer of specialised electronic devices commented that they do not have to compete with multinational firms in Argentina.

Of course, also the personally interviewed Argentinean distributors mainly confirmed that multinational companies are well represented in Argentina. Dr. Herberto Hugo Karplus, the president of Karplus S.A., one of the largest distributors in Argentina representing more the four hundred manufacturers, and at the same time General Secretary to the International Chamber of Commerce, confirmed that all of the Fortune five hundred companies are currently represented in Argentina. However, all
of the interviewed distributors agreed that there are good market opportunities for small- and mid-size European producers for several reasons. Even though multinational companies are well represented in Argentina, "Argentina is made up of small enterprises", was the way distributor Bucello described the market.45

According to distributor Bianchetti, 90% of the Argentinean enterprises are family-run companies. Even if this estimation might be a little high, Bianchetti foresaw opportunities for small foreign firms due to the fact that Argentinean family run companies often do not keep up with new technological developments. And frequently, they use their wealthy on the consumption of luxury goods, rather than reinvesting them in the company. Dr. Sánchez from Eurocentro added that most of these small Argentinean firms are not willing to or are simply not able to negotiate with big multinational firms. This is another advantage for small- and mid-size foreign firms on the Argentinean market.

Market opportunities also arise as the market was often described as fairly young, underdeveloped and in many areas not yet very competitive compared to the USA and Europe. Distributor Bucello referred to the agricultural sector to give an example. Even though the cattle raising and wheat production had always been important within the Argentinean economy, Bucello saw still a lot of room for companies to improve their products in these areas. "There is no organised plan of production because there is a lot of terrain which is not being utilised," stated Bucello.47

Lastly, small as well as multinational firms may have better market opportunities due to the changing behaviour of the Argentinean consumer. "Our fathers, for example, would buy a product, and try to keep and use that product for the whole of their lives. Today, however, the younger generation seem to want to change and change their products", explained Mahmood of distributor IOA S.A.C.I..48 Of course, the Argentinean distributors will always portray their market as best as possible to a foreign interviewer. However, at this point it might be necessary to reflect on the threats for a small foreign manufacturer when entering the market as mentioned by the German manufacturers in the written questionnaire. Each individual decision maker should balance his decision to enter the Argentinean market as a small or

46 Interviewee R Bucello
47 Interviewee R Bucello
mid-size company between the opportunities mainly described by the Argentinean distributors and the threats mentioned earlier by the German manufacturers.

III. 3. Ways of internationalisation and its steps

There are several ways to define the criteria on how to classify market-entry strategies. However, strategies are differentiated mainly by their intensity of capital spent, the level of compromises agreed with a trading partner, or the way in which business activities are shifted to target markets. The more the previously mentioned criteria apply, the better the chances to control the business activities and to generate higher profits. For example, it takes more commitment on the part of a producing company to establish a production facility, than to contract a local distributor. On the other hand, an own affiliate with its own production facility would allow the parent company to control their quality and marketing guidelines, to work on continuous cost reduction, and to control the development in the market. Figure 20 shows five major steps in order to enter foreign markets, and the impact each step may imply. The average producing company starts its internationalisation process usually with an indirect export. They eventually reach the highest level of presence in the foreign market by undertaking a direct investment.

![Figure 20: Five steps to enter foreign markets](Graph by author, source: Kotler, 631 and Meffert, 1150)

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48 Interviewee D. Mahmoud
49 Meffert, 1150
Local distributors, dealers or any other kind of local middlemen, may be substituted at any time by the parent companies’ own sales and marketing personnel. This is just so especially if business activities are continuously increasing, export departments may consider to use the advantages of using their own personnel. As far as the sales staff is concerned they may visit the customers on occasional business trips from overseas or be based in a local sales office. In order to increase market penetration on existing markets with existing products, using their own sales force would be more efficient. An experienced sales force employed by the parent company would be easier to train, has better product knowledge, could gather market data and is easier to control. Otherwise, if the company decides to diversify into new markets with new products, initially a distributor would be of more advantage as they usually already have existing contacts in the market. A brief summation from the relevant literature on how to expand to foreign markets may be helpful:

**Indirect Export**

Typically a company starts its internationalisation process through initial indirect export. At an early stage, some national customers or specialised brokers may start to resell the products abroad. At this stage, export would be considered occasional and passive.

**Direct Export**

If the producing company decides to export actively and directly to foreign markets, marketing cost, market risks, as well as potential profit margins all increase. Direct export may be done through distributors, dealers, import jobbers, the company’s export department, or a combination of these. Exporters are primarily small and mid-size companies with strong domestic competitiveness, but who nonetheless have an advantage to sell products in foreign countries. Moreover the exporter tends to operate opportunistically as he usually has little information about the marketplace.

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50 Becker, 40-42
51 Kotler, 632
52 See figure 21
in foreign economies. Still in most cases these companies will operate through independent agents or distributors\(^{53}\).

**Licensing**

The Licensor agrees to the usage of a right (patent, production method, etc) by the licensee, and will be paid for the usage of this right. For the licensor, it is a way to enter a foreign market with a reduced risk. For the most part the licensee could achieve the relevant know-how or an existing image of a product. Yet, the most popular way of licensing is franchising. Here the licensor has the character of service provider in a distribution chain. Throughout the franchise agreement, they may constantly support the licensee with service, or key products that the licensee has to buy exclusively from the licensor.\(^{54}\)

**Joint-Venture**

In a Joint Venture, two existing companies usually from different countries, create a new company under a partnership. The partners share the property, management and the risk of the new company\(^{55}\). In addition a Joint Venture might be useful to combine the different strengths of the partners. For example one partner might have the necessary financial resources, whereas the other might have the technical and management know-how. Some countries might even allow a foreign company to enter the market only through a partnership with a national company. According to Hofstede (1991), foreign Joint Ventures imply a lower cultural risk than takeovers and mergers. As the participating parties agree upon the resources to supply as well as the responsible management activities, conflicts may be avoided upfront. However, Hofstede notes that an even higher success rate was achieved, only when one party took over the management\(^{56}\).

\(^{53}\) Rhinesmith, 6
\(^{54}\) Kotler, 634
\(^{55}\) Kotler, 634
\(^{56}\) Hofstede, "Cultures and Organisations, 228
Direct Investment

The highest level of engagement in foreign markets is to invest directly in local sales offices or even in a production facility. If the potential of the target market is big enough, the investing company may achieve cost reductions, a better image in the market, as well as a better relation to the markets' key institutions and customers. Also, the investing company may open up a new facility or acquire an existing company\textsuperscript{57}. According to Hofstede (1991), in a foreign takeover the cultural risk is enormous, as the organisational culture as well as the one of their country is yielding to the corporate culture of the buying company. To avoid loosing money and human resources, the acquisition process should be accompanied by an analysis of each company's culture, and eventually a management plan should be prepared. Similar risks apply to international mergers\textsuperscript{58}.

![Diagram of Alternative Market-Entry Strategies](image)

Figure 21: Alternative Market-Entry Strategies

*Graph by author, source Cateora, 465-467, Meffert 1150-1151 and Wagner 452-453*

\textsuperscript{57} Kotler, 635
\textsuperscript{58} Hofstede, *Cultures and Organisations, 227*
Within the companies' internationalization process, the indirect export is usually the first stage when entering foreign markets. At the beginning of the process, the export might be only occasional, and could develop after a period of time into a regular activity. At that time the producing company might decide to start direct exporting. As shown in figure 20, a direct investment may follow after licensing and a Joint-Venture have been established. However, a Joint Venture or a direct investment might also be the next step after exporting directly to the markets.

As explained previously, the internationalization strategies vary by their level of

- Ability to control
- Cooperation with other companies
- Locally installed activities / capital invested abroad

When marketing a product in foreign markets, the market entry strategy mainly determines the ability to control the main areas of the marketing programme. Kotler (2000) describes these main areas as the product, the price, the promotion and the place\(^5\). When referring to the product, a producing company may control how the product is adapted to the market, if the characteristics of the original product are maintained, the quality, the image and brand of the product. Controlling the price to the consumer, as well as the price to the retailer, is often of interest to the producing company.

Further more, it could be of interest to control the promotion, or in other words, the communication to importers and retailers. Lastly, the place or the distribution channels to get to the market players may be monitored by the producing company. Jarillo and Martinez Echezarraga (1991) evaluated the level of control by these areas in relation to the stage of the internationalization process in the following graph\(^6\). The level of control may vary depending on the stage within the internationalisation process. Other aspects of control will be discussed in the following chapters in more detail.

\(^6\) Jarillo and Martinez Echezarraga, 74
Cooperation by a European manufacturer with a domestic company in Argentina is a way to share the implied risk when first entering a new market. Rühle von Lilienstern (1982), an expert in international marketing, mentions that when first entering emerging markets, a direct investment would be of higher risk. Exporting companies should take advantage of the know-how and the information pool, by cooperating with an established domestic sales company. For the distributing company in Argentina, it would be of advantage to cooperate with the foreign manufacturing company, or even with another distributor which is not competing with its products. Two or more companies may cooperate in informal procedures. They may set contractual guidelines, or they may establish a third company (Joint-Venture). The fundamental advantage of a cooperation is to share common risks, and to achieve competitive advantages jointly by a constant exchange of know-how and the mutual development of management tools. According to Paffhausen and Westphal (1990), other important advantages of a cooperation consist in cost savings potential, increased buying power due to higher volumes, a strengthening of the sales force, and the ability to share investments.

Robert Axelrod (1991) investigated the theoretical background of cooperation. In his book “The evolution of cooperation” he compared cooperation of two parties against defection empirically. In a competitive situation, that, according to Axelrod,
compares to a ‘prisoners dilemma’, the opponent may have to be motivated to demonstrate a defective behaviour in the short run. However, Axelrod (1991) found out that in the long run, a cooperative behaviour is of higher benefit\(^6^4\). He further showed that the benefit achieved by mutual cooperation is even higher than the level of punishment resulting from mutual defection. He verified his hypothesis on various examples of the history and economy, and also used a simple game to illustrate his hypothesis. Each of the two players should try to achieve the highest score out of numerous interactions with the other player. In each interaction, both players have to define in secrecy, a strategy on how to interact with the opponent. The strategy might be defection or cooperation. And the player will receive his points based on the strategy he has chosen, as well as the one choosen by the opponent. The model that follows shows that there is a maximum benefit (six points) in case of mutual cooperation, and almost no benefit (two points) in the case that each party tries to defeat the opponent:

<table>
<thead>
<tr>
<th>Player 1</th>
<th>Player 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation</td>
<td>Cooperation</td>
</tr>
<tr>
<td>Defection</td>
<td>T=5, S=0</td>
</tr>
</tbody>
</table>

Figure 23: 'Prisoners dilemma'

Source. Axelrod, 8

Legend:  
\[R = \text{Reward: both parties cooperate}\]  
\[P = \text{Punishment: both parties trying to defeat opponent}\]  
\[T = \text{Temptation: one player defecting, the other cooperating}\]  
\[S = \text{Sucker's payoff: one player cooperating, the other defecting}\]

Axelrod defined the strategy where each player will achieve the maximum score as 'TIT FOR TAT-strategy'\(^6^5\). The 'TIT FOR TAT-strategy' implies cooperating in the first interaction and then copying the opponents' previous strategy. In the case that both companies choose mutual defection they would use up plenty of resources. On the

\(^{63}\) Paffhausen and Westphal, 21  
\(^{64}\) Axelrod, 9  
\(^{65}\) Axelrod, 101
other hand, cooperation would be to the maximum benefit of both companies when entering the market. The Axelrod model may be used to understand how to manage a Joint-Venture as well as the relationship with a distributor.

Another important criterion that characterizes internationalization strategies, is the level of activities installed in the new market. Locally installed activities, and know-how transferred by a producing company, may be at an intensive level or none at all. At a passive stage when exporting indirectly through intermediates, there are no activities yet in the foreign market driven by the producing company. If afterwards the market is actively approached, then export activities might involve temporary activities by travelling to the local customers or by eventually placing an employee from the producing company into the operations of the foreign distributor. When relocating personnel and know-how to established sales offices or production facilities, local activities and interacting with the market become more complex. Big multinational firms like IBM or Nestlé try to share resources on a global level, in order to access the ideal conditions of marketing or production for a certain product. And they may have many different headquarters, each responsible for a different product or service. Here the objective is to operate local subsidiaries as ‘domestic’ units. These subsidiaries combine domestic competitive advantage with the support of global resources, skills and technology66.

III. 4. Using a distributor as a frequent way to access initially the market in Argentina

III. 4. 1. Definitions

Out of several ways to enter initially the market in Argentina, it was clearly the distributor or sales agent who was mentioned most by the German companies that were contacted. The German Commercial Code (Handelsgesetzbuch) (1992) defines the distributor as follows:

Distributors are defined as those who continuously act as independent merchants on behalf of another entrepreneur, in order to arrange business

66 Rhinesmith, 8
deals or to act in his name. Independents are considered those who can freely determine their activities and their working schedules.\textsuperscript{67}

According to Kimmeskamp (1982), the distributor is a service entrepreneur who sells on behalf of a second entrepreneur (importer or production firm), selected products in a defined sales territory.\textsuperscript{68} Important for his definition, is the regional dimension, as well as classifying the distributors to an area of services.

Bernd Westphal (1991), an author in International Marketing, also defines the distributor as a service entrepreneur. He even describes distributors as sales specialists who act as intermediaries between the represented company and its customers.\textsuperscript{69} According to Wetsphal (1991) the distributor is not simply the intermediary. He should also monitor the market developments and customer needs. Modern sales agents should further offer additional services to the represented company. The distributor may offer a range of services such as:

- Selling and promoting
- Warehousing of goods for resale
- Customer service for technical support
- Financing of customers with adapted payment terms
- Transport and disposition of goods
- Risk bearing
- Management services and counselling
- Market information to develop and adapt new products.\textsuperscript{70}

There are three main ways to characterize distributors. They might be distinguished according to the number of companies represented, according to the target groups, or according to the risk accepted, or the level of commitment to the represented company.\textsuperscript{71} The distributor might represent a manufacturer exclusively in a certain territory, or he might act as an agent with multiple representation contracts.

\textsuperscript{67} §84, paragraph 1 German Handelsgesetzbuch
\textsuperscript{68} Kimmeskamp, 6
\textsuperscript{69} Westphal, 1
\textsuperscript{70} Westphal, 1 and Kotler, Marketing Management 532 - 533
\textsuperscript{71} Schenk, 22, Seyffert, 411 and Hildenbrand, 28
representing different firms and products. Whereas an exclusive agent may be more comparable to a company's own sales force, the agent with multiple contracts tries to reduce his risk by diversification, and to build an assortment.\textsuperscript{72}

In an empirical comparison of sales agents versus the company's sales force, Becker (1982) describes an agent with multiple contracts as more appropriate when entering remote, foreign markets. This is just so, especially when a country's specific conditions, consumer behaviour or political environment, may influence considerably the success of a new product, and where the exclusive agent would be of less advantages. Typically exclusive agents have fewer market contacts, and are less able to balance specific country risks.\textsuperscript{73}

Distributors may also be characterized by their focus on target groups. They may market their represented goods directly to the final customer for their personal or nonbusiness use. This type of distributor would be called a 'retailer' or 'retail agent', and they usually deal with investment goods. A wholesaler or wholesale agent, would be someone who acts as an intermediary between the consumer and the retailers. They are usually dealing with a higher quantity of consumer goods or raw materials. The selection of the adequate distributor therefore, depends on the size of the products, and the accessibility of the final consumer.\textsuperscript{74}

Finally, distributors may be distinguished by the degree of risk bearing when marketing the products. They may act as pure brokers that do not take title to the goods, and simply bring buyers and sellers together on a commission basis. Or, they may offer a range of services to the represented company such as assisting in negotiations. Sales agents on the other hand, represent sellers on a more permanent basis. They are usually carrying inventory, and take over partially the financial risk that is involved.

\textsuperscript{72} Hildenbrand, 29  
\textsuperscript{73} Becker, 42
III. 4. 2. The Internet as a threat to the Argentinean distributor?

Many economists are convinced that the Internet will dramatically change the economies worldwide. The terminology of New Economy reflects the dramatic changes that take place in different areas of a company's value chain. The possibilities of the Internet are not yet fully known, but most experts are convinced that the Internet will not only change the way certain products are marketed, but will also change dramatically the processes of many business operations. In order to investigate actively how the redesign of large corporations may take place, Jack Welch, the CEO of the American company General Electric, created so called 'dyb.com'-teams. Initially these corporate teams should find ways to 'destroy your business' (dyb). Later the meaning was changed to 'grow your business' (gyb). The idea is to put traditional processes and corporate functions into question and redesign them with the possibilities of the Internet. In support of these developments software companies with high growth rates are focusing on related areas such as Business-to-Consumer (called B2C), Business-to Business (B2B), Customer Relationship Management (CRM) or Supply Chain Management (SCM).75

When focusing only on the area of sales and distribution, the Internet enables manufacturers to sell directly to customers, and to provide online customer support. Kotler (2000) quotes the most important advantages of online services from the buyers as well as those from the marketers' point of view. For buyers he describes the major benefits of online services as follows:

- Convenience: customers can order products from any location 24 hours a day.
- Information: comparative information about prices, products and companies easily accessible
- Less hassle: no waiting in line and no talking to sales people

Accordingly he lists the following major benefits of online services for marketers:

- Quick adjustments to market conditions: companies can quickly change product mix or prices if necessary

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74 Seyffert, 417 - 419
75 Hubner, 52-53
Lower cost: lower costs in stocks, utilities, rent. Establishment of catalogues can be done quickly without printing paper.

Relationship building: learning about customer needs through interaction

Audience sizing: the number of hits on certain pages gives an idea as to the demand

These advantages may lead a 'dyb.com'-team to think about eliminating the distributor in the process of sales and distributing. In this context the phenomenon of disintermediation describes the elimination of the traditional intermediaries. Throughout the past innovative companies have created new business models in retailing by using disruptive technologies. In retailing, the first 'disruptions' arrived with the introduction of department stores, mail order catalogues and discount department stores. Today, Internet retailing marks the newest threat to conventional retailing models. However, to evaluate whether or not the existence of a distributor in Argentina is threatened by the development of the Internet, one needs to consider several issues.

The first is time. Internet retailers are at a disadvantage when it comes to certain products or the delivery of physical products at the right time. When customers need to purchase products within a short time they will not use the Internet for this purpose. In addition, most of the personally interviewed Argentinean distributors believe that at this time, the Argentinean distributor is not yet in danger. “Actually in Argentina, we are behind technologically, so that means that the Internet will not develop that quickly in this country”, explained distributor Bianchetti. “As a matter of fact, I work with clients that do not have computers, so they must do their accounting work manually. But the technological development will have to arrive here all the same, even though it will be much later.” Even though the use of the internet is expected to grow very fast in Argentina, at this time only companies have come into existence recently in the area of telecommunications and Internet services are expected to be very expensive.

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76 Kotler, Marketing Management 665
77 Turban, etc., 63
78 Christensen and Tedlow, 42
79 Christensen and Tedlow, 45
80 Interviewee W E. Bianchetti
81 Interviewees P. Rivas, J. E. Ciliberto and G. R. Angarami
Depending upon the maturity of Internet-based customer groups, a company may decide to apply a regionally mixed strategy. They may sell in certain regions like their home market over the Internet, and may use traditional retailers abroad.\textsuperscript{52} Argentinean distributor Meyer, who previously worked with a multinational German company as Regional Sales Director for Latin America, believed that in Latin America the question concerning whether or not the Internet is a threat to the distributor, depended strongly upon regional conditions. “I believe that the Internet will be more of a threat for the Panamanians, Colombians and Venezuelans who are geographically very close to Miami”, he said. “This is because they purchase a lot from that city.”\textsuperscript{53}

Second, the product dimension. Online marketing is neither for every company nor for every product. The Internet is useful for products and services where the shopper seeks greater ordering convenience or lower cost. The Internet has become an important retail channel for all kinds of information-based products and services, as well as certain physical products.\textsuperscript{64} Physical products that may typically succeed by using electronic distributors are books, software, hardware, CD’s, videos, travel reservations, electronics, apparel, banking, stock brokerage, and flowers.\textsuperscript{65} The process of disintermediation, the demise of middleman because of using the Internet, is, however, mainly affecting the service industry. The Internet is displacing the travel agents, insurance brokers, car dealers, real estate brokers, stockbrokers and headhunters by facilitating direct contact between buyers and sellers.\textsuperscript{66}

The Internet will be less adequate for purchases that are based on physical examination of the products.\textsuperscript{67} The distributors, as well as the representatives of Latin American headquarters, mainly agreed on these concepts. The interviewees expected that hazardous raw materials, heavy industrial machinery, medical products and chemical ingredients will rarely be sold on the Internet.\textsuperscript{68} Distributor Bucello who sells security devices to the Argentinean government also doubted that the Argentinean State would purchase over the Internet. And Ciliberto who deals with

\begin{flushleft}
\textsuperscript{52} Turban, etc., 64  \\
\textsuperscript{53} Interviewee Dr. A. G. Meyer  \\
\textsuperscript{54} Applegate, etc. 73 and Kotler, Marketing Management 665  \\
\textsuperscript{55} Turban, etc., 66  \\
\textsuperscript{66} Kotler, Marketing Management 222  \\
\textsuperscript{67} Christensen and Tedlow, 45
\end{flushleft}
chemical ingredients could not imagine that specialized products which need to be controlled by official authorities like the Nuclear Energy Authority will be sold over the Net. 89

"Business transactions of more than 100,000 USD will not take place over the Internet in Argentina," estimated distributor Bianchetti. This might be due to the cultural dimension in Argentina. "Many do not like to take off their clothes on a screen", said distributor Angarami. "The Americans can sell just about anything whenever they want to on television. The Argentinean is more conservative and not as open minded." 90 That's why the Argentines also dislike sending their credit card information over the Internet. According to Sánchez, most Argentines would even doubt that the product will be sent directly to them when ordered on the Net. 91

The interviewed Argentinean distributors found some other reasons why the distributor will not be easily replaceable by the Internet. Some business types or certain types of products may require a personal attention to the customer. Also an after-sales service, as well as maintenance could only be rendered by the distributor. In the case of distributor Pessagno, who sells hearing devices, the use of the Internet is limited due to the acceptance of her customers. As 70% of her customers are sixty years and older, most of them are not able or not willing to use a computer. 92 Even though most of the interviewed distributors do not see a threat to their existance due to the development of the Internet, it might be only a question of time that many of them need to adapt to the New Economy or will in some cases even be substituted by some new services offered on the Net.

Hiroyuki Sampel, the General Manager for Latin America of the Japanese health care manufacturer Terumo, mentioned that he estimated a major change within the next five to ten years. And Jukka Turtola, Regional Director of the Finnish company Datex-Ohmeda Latin America, explained that his company already took a strategic IT decision that also affected the operations in Latin America. "Certain parts and some accessories for our devices will be sold via the Internet. A decision has already been

88 Interviewees J. E. Ciliberto, L. Kleh and E. Kohner
89 Interviewee J. E. Ciliberto
90 Interviewee G. R. Angarami
91 Interviewee Dr. J.L. Sánchez
92 Interviewee M. F. de Pessagno
made that the hospital’s purchasing organization in the future will purchase some accessories on our website", Turtola declared by way of example.93

According to Turban (1999) the traditional distribution business can never be the same again, because it has to provide something that the electronic intermediaries cannot provide. Customers are beginning to question the value added by the traditional distribution channels given the presence of the Internet, as they can obtain the same products directly from the manufacturer. Therefore, traditional distribution channels must differentiate their services from online intermediation by offering added values to the customer. A second alternative for traditional distribution channels to avoid being eliminated is to aim for reintermediation by integrating the new services of online distribution such as e-mails, directory and search engine services and comparison shopping agencies.94

Some distributors accept this view and try to adapt to these changes. Distributor Bianchetti concludes:

"The Internet will not be a danger for the distributor in general. However, it will be for the distributors that do not adapt to the new advances in technology. Our company, for example, is developing a web-site on the Internet, including the opportunity to make commerce online (e-commerce). The Internet is no doubt the future; and our enterprise will have to participate in it. The distributor will have problems if they do not know how to adapt themselves to the changes in the future. The internet is not a threat...it is an OPPORTUNITY."95

III. 4. 3. Comparison of foreign distributor versus a company’s sales force in Argentina

The German companies interviewed, as well as those contacted with the questionnaire, mainly accessed the Argentinean market first through a local distributor. "We have our own companies in Europe and the USA, but worked initially only with distributors in Latin America"96, mentioned Fromm, a Biotest manager in a personal interview. Out of thirty-four quantitative interviews done with German

93 Interviewee J. Turtola
94 Turban, etc., 63-64
95 Interviewee W. E. Bianchetti
manufacturers, twenty-two had first accessed the market in Argentina through a local distributor; another five companies entered the market through direct export from Germany and another two companies accomplished it by opening a sales office.

The relevant literature as well as the results of the questionnaire survey and the qualitative interviews confirm the importance of local distributors, as well as a company's sales force, as a common way to enter the market in Argentina initially. When comparing these market entry strategies, the decision maker of the producing company needs to consider the specific characteristics of his company, his products, the external factors of his home market, as well as the external factors of the target market in Argentina. Still each alternative needs to be evaluated against marketing, management, and cost aspects.

There are certain alternatives a company might consider when deciding whether to contract a distributor or to open its own sales office. As explained throughout the following paragraphs, the company may choose between a distributor that represents several foreign companies or an exclusive one. In order to control the distributors, the Argentinean distributor Meyer suggested establishing a regional head office. “The manufacturing company from abroad should set up a regional office for Latin America in Argentina. From that office they could give technical support, and the managers could travel to other countries” explained Meyer.97 Besides the above mentioned option, the producing firm may also operate with sales representatives from abroad that contact the customers during temporary visits.

According to Root (1987), a limited commitment by the exporting company would often be chosen in markets characterised by political and economic instability. Export companies will more likely choose to access the market through a local distributor.98 Even though the interviewed Argentinean distributor Kohner still described Argentina as a “very difficult market with an unstable economy, due to hyperinflation and devaluation”99, most German manufacturers interviewed recognized the successful economic reforms throughout the 1990s described in Chapter Two. Bucello, another

96 Interviewee Mr. E. Fromm
97 Interviewee A. Meyer
98 Root, 12
99 Interviewee A. Kohner
Argentinean distributor interviewed, claimed that nowadays it is much easier for foreign companies to set up their business in Argentina. \(^{100}\)

The market entry strategy may further depend on the type of product to be exported to Argentina. "Companies with a very special product might not be able to use a distributor"\(^{101}\), observed Grelle, the general manager of the Argentinean distributor Instrumentalia S.A.. Kleh, another Argentinean distributor interviewed, confirmed that a company’s sales office might be more appropriate when selling a small number of products with a high unit price.

According to Root (1987), an industrial product that requires an after sales or technical service can hardly be administered from abroad. The use of a local distributor may only be possible if they are able to guarantee a sophisticated service delivered by qualified personnel.\(^{102}\) Argentinean distributor Davila, who represents these kinds of products, mentioned that they do not have any technical staff. However, they agreed on a different solution with the manufacturer represented. "The German company that we represent is assisting us with technical service out of their sales office in Brazil"\(^{103}\), Davila mentioned. Depending on the strategic approach of the exporting company and the nature of the business, the Argentinean distributor may act independently, or may be supported by a technician or salesman of the represented company on occasional visits. Hitzler, the manager from SGL Carbon, explained that the distributor should first of all establish the contacts to the market. All technical support will then come from Germany through a Spanish manager who understands the language and the people. In addition, Root described that in terms of the product, in some cases the market entry decision may also be influenced by the need to adapt the product to the requirements of the new market.\(^{104}\)

Also according to Root (1987), a market entry strategy will somehow depend on the target market's competitive structure. Most companies will prefer to enter a monopolistic or oligopolistic market with a direct investment. A market is described as such if there are only one or a few dominant local competitors. Only a direct investment that may require the investment in a production facility enables the

\(^{100}\) Interviewee R. Bucello
\(^{101}\) interviewee G. Grelle
\(^{102}\) Root, 13
\(^{103}\) Interviewee C. Davila
company to compete against a strong market position of existing firms.\textsuperscript{104} Kotler (1995), on the other hand, described that most marketing managers believe a company sales force to sell better. Due to their better education, their commitment to the company’s success, and the customers’ preference to deal directly with the producing company, a company sales force might be more successful.\textsuperscript{105} But Kotler described the intermediary as being more efficient to distribute the goods to target markets compared to the direct marketing activities undertaken by the producer. Moreover, the distributors advantages are his contacts, his specialisation, and his experience in the market.\textsuperscript{106} According to Kotler (1995), there are several advantages to working with a distributor in the target market. The distributor may have an existing, and even bigger sales force with established contacts, as well as good market knowledge. Additionally, the sales force might be just as aggressive, depending on the level of commission. And finally the idea of one-stop-shopping might attract some customers to purchase several products from a single sales agent.\textsuperscript{107}

The German manufacturers interviewed had a positive attitude towards using a distributor in Argentina. From the questionnaire survey, 89\% of the companies fully or partially agreed to be willing to work with distributors in Argentina. Again Kotler (1995) has argued that normally it takes years to build a distribution system, and it is not easily changed. “It ranks in importance with key internal resources such as manufacturing, research engineering, and field sales personnel and facilities. It represents a significant corporate commitment to large numbers of independent companies whose business is distribution – and to the particular markets they serve. It represents, as well, a commitment to a set of policies and practices that constitute the basic fabric on which is woven an extensive set of long-term relationships.”\textsuperscript{108}

The Argentinean distributors interviewed gave some examples that fit Kotler’s view. Distributor Kleh gave an example of the one-stop-shopping idea propounded by Kotler. “It is always much easier to go back to just one all important foundation” explained Kleh. “For example, we have the representation for Hendler, but when a

\begin{footnotesize}
\begin{itemize}
\item[104] Root, 14
\item[105] Root, 9
\item[106] Kotler, Marketing Management, 498
\item[107] Kotler, Marketing Management, 491
\item[108] Kotler, Marketing Management, 498
\item[109] Kotler, Marketing Management, 490
\end{itemize}
\end{footnotesize}
client calls us, aside from Hendler's products, we can also offer them accessories and processes from other enterprises which we represent. So we can give these clients a very complete package. If it were not like this, then the client would have to speak to someone from every single one of these companies” argued Kleh.  

Medical equipment distributor Angarami cited that in his industry there are only two or three leading distributors in Argentina. “A foreign company would have access to the entire market by using a distributor on a national level which itself has a system of sub-distributors which also operate here exclusively in all regions of Argentina” added medical equipment distributor Mahmoud.  

Rivas, another distributor of medical products gave a second reason in addition to the strong commissions mentioned by Kotler as to why a distributor might be more aggressive. Rivas said “It is not always guaranteed that having their own office in Argentina insures that the business would be handled more responsibly and appropriately. The distributor likes the fact that they can identify themselves with a good foreign product of high prestige. For that reason, the distributor is going to fight and work hard in order to sell the largest quantity of those products – perhaps more than the producing enterprise does.”  

Rocimex manager Canneva was convinced that a good distributor is equally able to maintain a good image for a foreign product. And distributor Kohner mentioned that he was clearly more successful than a company’s sales force. After a US company closed its local sales office in Buenos Aires, he was able to achieve their last annual turnover figure within only six months.  

From the manufacturer’s point of view, a distributor would be more comparable to a company’s local sales office when representing the company in Argentina exclusively. “An exclusive distributor compares to a sales office”, explained Davila of the distributor Rolco S.R.L., the exclusive representation of the German company Haeraeus. “As exclusive distributor, we are authorised by the German producing company to sign contracts in their name, as well as to collect outstanding receivables that the customer and the government will only pay locally”, said Davila.  

Distributor Bucello did not even want to be called a distributor. “It is not appropriate that a producing enterprise calls us a distributor, because the distributor does not have the

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110 Interviewee M. Kleh  
111 Interviewees R. Mahmoud and G. Angarami  
112 Interviewee P. Rivas  
113 Interviewees R. Canneva and E. Kohner
strength or power which the exclusive representative has." When dealing with the government, an exclusive distributor might be even the only alternative to establishing a company's sales office. Bucello, who sells security products to the government, confirmed that, "in Argentina, when you sell to public companies, it is a requirement that you work as an exclusive representative for these enterprises. This is just so because the public companies will want a warranty or other form of guarantee, if the product is defective."

The interviewed Argentinean distributors underlined their in depth knowledge of the Argentinean market, and the importance of this for the company represented as argued by Kotler (1995). Angarami explained that it is easier for the Argentinean distributors to understand the feeling of the Argentinean consumers. "The foreign manufacturer does not know or understand the Argentinean market, and does not know how to present the product" explained Rocimex manager Canneva. Auditotal manager Pessagno added an example of failure. "The brand OPTICON set up their business here in Argentina, but they made the mistake of putting the wrong Argentinean executive at the top of the enterprise — it was a disaster and they had to leave this country. That guy was a typical Argentinean pirate. He was the type of guy who found himself at the top of the company, with lots of money and personnel, but never lived up fully to his responsibilities." European companies have to have a sound knowledge of the market, before opening up their business in Argentina", explained also Grelle. "Many companies do not have that knowledge, but it can be supplied by the distributors here, and then mixed with advice that comes from the producing enterprise from abroad."

Instrumentalia manager Grelle mentioned that many American businesses continue to sell their products direct, whereas the Europeans respect the job and function of the distributors. Kleh in addition explained that it is generally much easier for the foreign manufacturer to use a distributor in Argentina. "Trying to establish a relationship with the Argentines, on the other hand, is a very difficult thing" Kleh

114 Interviewee C. Davila
115 Interviewee R. Bucello
116 Interviewee R. Bucello
117 Interviewee G. Angarami
118 Interviewee R. Canneva
119 Interviewee M. Pessagno
120 Interviewee G. Grelle
121 Interviewee G. Grelle
maintained.\textsuperscript{122} Also, German engineer Göbel confirmed in the course of a personal interview that, "distributors of related products usually know the market, and have established contacts with customers and institutions. It was very difficult for a German without any business contacts to enter the market and establish good contacts with the banks."\textsuperscript{123} According to Wharton professor Root (1987), many managers even tend to delay the market entry if a market shows a relatively high cultural distance.\textsuperscript{124} This is because many international managers fear to manage an operation in a target market with great cultural distance, they often prefer to access the market without an equity investment.

Besides establishing contacts, the exporting company also needs to have knowledge of the market. "The difficulty is who can be trusted and who cannot be trusted" explained Kohner. He gave an example when financing the deals. "An experienced distributor has a feeling of a deal with local people, knows local financing and local payment plans. If you have an invoice that is due within thirty days, you will not be able to make it. And you have to know the client with whom you are dealing, if they are going to get mad or not. If you wanted to keep them as a customer, you would not charge them interest" explained Kohner.\textsuperscript{125} Distributor Meyer described the market as a price driven one. "The people here do not pay for quality. Here you have to have a very good product, good service, and good attention regarding the client. You must know that you have to have a certain stock in order to respond quickly to the client's wants and needs", was Meyer's analysis.\textsuperscript{126}

Furthermore, the availability and the quality of local distributors may influence the market entry mode. If distributors are not qualified enough, or are already tied to other products, then the company entering the market may prefer to establish its own sales office.\textsuperscript{127} As distributors are independent firms that try to maximise their profits, they might not follow the policy of the manufacturer. Instead, they might sell several goods to a customer, including those of other producers, and may not handle technical details or promotion material accordingly. Additionally it may be difficult for

\textsuperscript{122} Interviewee L. Kieh
\textsuperscript{123} Interviewee R Göbel
\textsuperscript{124} Root, 11
\textsuperscript{125} Interviewee E. Kohner
\textsuperscript{126} Interviewee A. Meyer
\textsuperscript{127} Root, 9
the producing firm to control the activities of the distributor. Auditoatal manager Pessagno confirmed that “it is a difficult thing for a foreign company to control the operations from a long distance away.”

Even the ability to control the business activities through a relationship of trust may influence a company’s decision whether to start the market activities by using a sales office, or by using the services of a distributor. Two of the companies personally interviewed in Germany opened up a local sales office in order to have better control. In the case of Gobel’s engineering company, the start-up of the local sales office was done by a friend of the General Manager offering to market the products since he was emigrating to Argentina. Gobel then decided to invest in a sales office in order to internationalise his business, and to help his friend to settle in Latin America. The great advantage was having a reliable partner who could be trusted, explained Göbel. In the case of the Dreieich based Blotest, the foundation of a local sales office was the next step after accessing the market through a distributor. It was decided upon as a consequence of breaking with the Argentine distributor. “After finding out about fraud and misinformation by the local distributor, a daughter company was founded in Argentina. Two sales representatives of the former distributor were contracted as general managers for the new subsidiary. One of them will manage greater Buenos Aires, and the other the interior of the country.”

To set up a foreign subsidiary from scratch by sending a small team of expatriates who themselves hire locals is also known as the Greenfield start. According to Hofstede (1991), the cultural risk of Greenfield starts is usually limited. As the subsidiary’s culture is driven by national as well as corporate elements, the success rate of Greenfield starts is fairly high. However, Greenfield starts may fail if the national component is reduced or excluded as explained in previous examples.

The decision as to whether or not to set up an own sales office, however, is mainly determined by economic factors. Distributor Cheja used a simple equation to explain the decision making process:

128 Kotler, Marketing Management, 498
129 Interviewee M. Pessagno
130 Interviewee R. Göbel
131 Interviewee E. Fromm
132 Hofstede, “Cultures and Organisations, 226
"If the market and amount of sales is small, it would be a very good idea to utilise the services of a distributor. This is due in large part because the enterprise does not have to spend excess money on the fixed expenses. When the enterprise and distributor reach a point where the market is solidified and stable, at that point the producing enterprise should set up their own offices in Argentina. If the market is big, or if the market is in expansion, and the manufacturer is interested in dominating the market, it would be a good idea to set up their own business."\(^{133}\)

The costs involved to access a new foreign market vary relative to the company’s size. Many companies with a strong home-market initially tend to grow domestically, before exporting to other countries. Large companies though, are more inclined to use equity investment rather than selecting a local partner.\(^{134}\) According to Kotler (1995), manufacturers who do not establish their own channels can often earn a greater return by increasing their investment in their main business.\(^{135}\)

Figure 24 demonstrates that in many cases distributors can reduce the marketing efforts by reducing the total number of contacts between the consumer and the manufacturer. In part A a total of nine different contacts are needed so each of the three manufacturers can contact each of the three consumers. In part B the number is reduced to a total of six contacts when a distributor is involved. Often, using an intermediary can therefore result in major cost saving for a manufacturer.

\(^{133}\) Interviewee S. Cheja
\(^{134}\) Root, 12

Source: Kotler, Marketing Management, 491
The Argentinean distributors interviewed confirmed the set-up of a local sales office to be complicated and expensive. "It is very complicated to open up your own business down here" explained distributor Kleh. "Still, there are too many obstacles in the labour market here in Argentina. And for the most part, the enterprises from abroad will incur high costs if they try to establish themselves directly down here." Distributor Nicolini cited taxes, rents, tolls, parking, telecommunications and administrative expenses to be very high in Argentina. Meyer and Davilla further explained the tax situation to be unfavourable, especially for foreign companies.

"There are many taxes in Argentina that apply to foreign enterprises and their employees. That's what keeps many foreign companies from installing themselves in Argentina" explained Davila. In addition, distributor Meyer gave an example of a monthly tax on gross income. "In Argentina, there is a monthly tax on gross income, which is applied to whatever one sells, no matter if their business is making money or losing money. That tax varies between 2.5% to 3.5% depending upon the province where the company is based in Argentina. As you can see, it would be too expensive to set up a business down here, so a distributor is nonetheless a better alternative." Meyer asserted.

Knowing the relatively high cost structure in Argentina, a break-even analysis, as demonstrated by the following graph, is an additional tool in order to come to a decision on market entry modes. According to figure 25, the selling costs of each distribution channel are developing differently, with an increasing turnover. When beginning the market activities, the fixed selling costs for the engagement of a distributor are lower than those compared to the foundation of a sales office. With increasing turnover, the manufacturer would have higher cost for commission when operating with a distributor, compared to the costs generated by a manufacturer’s own sales force.

At a certain sales level (turnover = x units) the selling costs are equal for both alternatives. In case a company generates less than x units in revenues, they would operate with lower costs if using a distributor in the foreign market. Under cost

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135 Kotler, Marketing Management, 491
136 Interviewee M Kleh
137 Interviewee N Nicolini
138 Interviewee C Davilla
aspects a company sales force would make sense at any turnover level higher than x units. Smaller companies may therefore initially prefer to operate with a distributor in a foreign market, whereas large firms may prefer a distributor in their smaller territories where the sales volume does not (yet) justify establishing a company sales force.\(^{140}\)

![Diagram of selling costs of distributors and a company's own sales force](image)

Figure 25 Selling costs of distributors and a company's own sales force

As explained in previous examples, the break-even analysis is only an additional tool when considering the foundation of a sales office against the use of a distributor. Still, a company may decide to establish its own sales office long before reaching the breakeven-point, if the dynamic and the perspective of the target market encourage doing so.\(^ {141}\)

\(^{139}\) Interviewee A Meyer

\(^{140}\) Kotler, Marketing Management, 498

\(^{141}\) Root, 10-11
III. 5. Analytical Model to support the decision making process on how to enter the Argentinean market

Out of major findings of the interviews done in Germany and Argentina, as well as out of the relevant literature, the following model was designed to support the decision-making process of exporting companies. The model should be helpful to export managers as an analytical model within the complex decision-making process when choosing between the establishment of a sales office or the use of a distributor. It uses the systematic comparison of a company’s relevant internal and external factors.

An export manager has to consider several of the company’s and market’s external and internal factors, when deciding on a strategy on how to access the Argentinean market. Some factors to consider may vary depending on the industry and the product to be marketed. External factors describe the home or the target market, whereas the internal factors characterise the key drivers of the company. Needless to say, both types of factors considered in this model were derived from the interviews with Argentinean and German companies, as well as from a description by Root (1987). Furthermore, the manager has to identify some market entry alternatives which will be systematically reflected by the external and internal factors. The following example compares only two alternatives of market entry strategies. However, the model could also be used to compare several alternatives at the same time, such as the use of an exclusive distributor or the establishment of a Joint-Venture.

Within a decision-making process, typically the most common factors to be considered are discussed throughout a series of internal company meetings and presentations. Some managers typically consider only a limited range of marketing and cost issues based on their experience in other markets. These managers might thereby not do justice to the complexity of other important market or company factors as explained in the previous paragraphs. The following example, therefore, tries to list and structure most of the relevant factors that could influence the market entry decision. The model systematically evaluates the selected alternatives with each of the relevant factors. At any rate, it consists of six steps (E1 to E6) to support the
decision on a market entry strategy. The following example lists as alternatives first market entry through a distributor, and second entry through the establishment of a company's sales office. Consequently, a manager should execute the following steps:

E1: Define all relevant factors, external and internal, that are to be considered. The external and internal factors should describe the relevant conditions of the company, its home market, and its target market in Argentina. These should be the most important key drivers that determine the marketing success in the foreign market.

E2: Determining the level of correspondence, the extent to which these external and internal factors apply to each alternative. In Argentina some external factors, such as a low political risk, do apply to a higher extent compared to other export markets. The determination of the level of correspondence relates to the market and the industry, in which the particular company is operating. The level of correspondence is evaluated with figures between one for the lowest level of correspondence, and five for the highest level of correspondence. As in the following example, each factor is listed twice at its highest and lowest extreme. The opposite extreme of each factor will automatically be evaluated with the according opposite grade. For example, a low sales potential evaluated with two automatically imposes high sales potential evaluated at four.

E3: Defining the Marketing and operational consequences that are implied by a high or low level of correspondence of each external and internal factor. For example, when the sales potential is low, it makes it more difficult to absorb the fixed costs of a sales organisation.

E4: Level of importance for the decision making process. The manager has to evaluate the extent to which each factor influences the decision making process. The level of importance is also evaluated with figures from one for the lowest level to five for the highest level of importance. Both listed extremes of each factor will of course receive the same level of importance, as here the pure factor regardless of its extremes is being evaluated. For some companies a dynamic market is essential to sell consumer products, whereas other companies may depend more on public

142 Root, 8-17
spending to sell health care products. Some factors may even be considered as crucial and the decision may depend on them exclusively (knock out criteria).

E5: Multiplying the level of correspondence with its level of importance in the decision making process leads to an evaluation of each factor.

E6: According to Root (1987) and the companies interviewed, some factors will typically describe a decision in favour of a distributor (e.g. great cultural distance), whereas others tend to back a decision in favour of setting-up a sales office (e.g. small cultural distance). The total sum of all weightings per alternative indicates, which of the alternatives might meet most of the managers' important criteria when deciding on a market entry.

Even though one of the alternatives may achieve an overall higher evaluation than the other, this still does not automatically lead to a clear decision. It is not the idea of the model to help only the export manager in finding the highest score of possible alternatives to access the market. Rather, the model aims to help them to systematically list and evaluate the most important criteria to be considered. As the level of importance has to be determined for each factor, the manager is forced to reflect on each of the relevant criteria. This exercise of listing all relevant factors as well as its reflection is the key function within the model.

The following example lists some of the factors that were considered in case of the German healthcare company Sanitaria, a manufacturer of medical equipment. Even though the name of the company has been changed by the author, the author based the following example on this company’s experience in Argentina given his good knowledge of Sanitaria’s international strategy. The model is divided into three different tables according to the external and internal factors to be considered:

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143 Root, 16 - 17
### Market factors Argentina

<table>
<thead>
<tr>
<th>E1 Market factors Argentina</th>
<th>E2 Level of correspondence</th>
<th>E3 Marketing/Operations consequence/effect</th>
<th>E4 Level of importance for decision</th>
<th>E5 Level of weighting (product) E2 x E4</th>
<th>E6 Alternat. 1 Distributor relevant E5</th>
<th>E6 Alternat. 2 S Office relevant E5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low sales potential</td>
<td>1</td>
<td>Volume should justify</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>High sales potential</td>
<td>5</td>
<td>investment</td>
<td>5</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good Marketing Infrastructure</td>
<td>3</td>
<td>Effectiveness of</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Poor Marketing Infrastructure</td>
<td>3</td>
<td>Marketing</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Stagnant economy</td>
<td>2</td>
<td>Growth perspectives</td>
<td>4</td>
<td>8</td>
<td>8</td>
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<tr>
<td>Dynamic economy</td>
<td>4</td>
<td></td>
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<td>16</td>
<td></td>
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<td>High administration costs</td>
<td>5</td>
<td>Sales volume needed to cover fixed costs</td>
<td>4</td>
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<td>Many small competitors</td>
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<td>Possible market</td>
<td>4</td>
<td>8</td>
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<tr>
<td>Few powerful competitors</td>
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<td>position</td>
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<td>Peso value increasing to Euro</td>
<td>4</td>
<td>Price policy and margin</td>
<td>4</td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Peso value decreasing to Euro</td>
<td>2</td>
<td>Price in Germany</td>
<td>4</td>
<td>8</td>
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<tr>
<td>Great cultural distance</td>
<td>2</td>
<td>Success rate to access</td>
<td>4</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Small cultural distance</td>
<td>4</td>
<td>Customer and employees</td>
<td>4</td>
<td>16</td>
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<td>High political risk</td>
<td>2</td>
<td>Risk of direct investment</td>
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</tr>
<tr>
<td>Low political risk</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total score</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>81</strong></td>
</tr>
</tbody>
</table>

Figure 26: Analytical Model to support the decision making process of Sanitaria – Market factors Argentina

*Graph designed by author, sources: author’s knowledge and estimations, interviews and Root, 16-17*

### Company factors (Intern.)

<table>
<thead>
<tr>
<th>E1 Company factors (Intern.)</th>
<th>E2 Level of correspondence</th>
<th>E3 Marketing/Operations consequence/effect</th>
<th>E4 Level of importance for decision</th>
<th>E5 Level of weighting (product) E2 x E4</th>
<th>E6 Alternat. 1 Distributor relevant E5</th>
<th>E6 Alternat. 2 S Office relevant E5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiated products</td>
<td>5</td>
<td>Willing transfer know-h</td>
<td>4</td>
<td>20</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Standard products</td>
<td>1</td>
<td>+need to control marketing</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products without service need</td>
<td>1</td>
<td>Need to guarantee local</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Service-intensive-products</td>
<td>5</td>
<td>technical assistance</td>
<td>5</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low product adaptation</td>
<td>4</td>
<td>Need to control local</td>
<td>3</td>
<td>12</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>High product adaptation</td>
<td>2</td>
<td>marketing</td>
<td>3</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited resources</td>
<td>1</td>
<td>Ability to finance</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Substantial resources</td>
<td>5</td>
<td>market entry</td>
<td>5</td>
<td>25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low commitment</td>
<td>2</td>
<td>Willing to take higher</td>
<td>4</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>High commitment</td>
<td>4</td>
<td>Risk in foreign market</td>
<td>4</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total score</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

Figure 27: Analytical Model to support the decision making process of Santana – Internal company factors

*Graph designed by author, sources: author’s knowledge and estimations, interviews and Root, 16-17*
According to the total score of the previous tables a decision to install a company sales office (alternative two) gets a higher value in all three tables. In case of Sanitaria the Argentinean market was initially accessed by using a distributor. However, after a short test phase, the distributor was acquired to benefit from the advantages shown in the above mentioned tables. Again, the higher totals for alternative two clearly favours a management decision in favour of the establishment of a sales office. But this analytical model should only be seen as assisting the manager to reflect on the complexity of relevant factors in the decision making process.

III. 6. Use of market research by small- and mid-sized companies

As described at the beginning of this chapter, the experiences of the German entrepreneurs interviewed showed that many market entries into emerging markets are done occasionally or passively. According to Root (1987) different companies use different ways to access foreign markets. Whereas some companies follow the naive rule of market entry by using the same entry mode for all foreign markets, other companies apply the pragmatic rule by starting with a low-risk and low-cost entry mode, thereby testing the market. Managers that apply the strategy rule try to compare systematically alternative entry modes as illustrated above with the example of Sanitaria.

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144 I.e. typical statements are “we only export” or “we only license”
145 Root, 159-160
Chapter 3

According to Root (1987) market research should identify the entry mode “that maximizes the profit contribution over the strategic planning period within the constraints imposed by the availability of company resources, risk and non-profit objectives.” Ernest Dichter (1991) explained that market research should not be confused with census taking which means the pure counting of certain events. Dichter described re-search as a continued search where the emphasis is in the word search. Market research as well as copy research, media research or motivation research tries to answer the question “why?” concerning a human action such as a purchase act, a racial prejudice or a voting choice. Len Groves (1994), an author on market research claimed that obtaining good information is at least as important as investing in the product and the people of the company. He understood the quality of the information to be characterized by its relevance, its recency and its accessibility.

Ideally a company constantly needs to revise its current status and needs to plan the future of its resources. There are several reasons why market research is needed. A company should base its investment planning on facts generated by market research activities. When focusing purely on past experiences a company may invest in a market with little future or may withdraw its activities in a promising and yet developing industry. Second, any plans for product development should consider the demand of a new buyer or a new market. Market research should try to evaluate and describe the demand of the new target group.

Market research is also needed to find out why customers buy a particular product. Therefore the adequate marketing mix, briefly described by the four Ps (Product, Price, Place and Promotion) has to be defined as that which would best market the product. Occasionally a market may exhibit a great demand for a certain product. However, it might not be successful in a certain market if promoted in an inadequate channel (i.e. radio ads might not be appropriate for a certain target group in different markets). Marketing might also not be successful if the wrong price policy is chosen due to a lack of adequate market information. And last, market research is needed in order to define a sales forecast. Cost and sales forecast will enable a company to determine a break-even point and thereby to define the feasibility of a product in a

146 Root, 162
147 Dichter, 111
new market. However, as described at the beginning of this chapter, only a few of the interviewed small and mid-sized companies follow these principles.

After understanding the importance of market research the exporting company should find out about methods (how to collect) and sources (where to find) to get market information concerning the Argentinean market. According to Groves (1994) there are basically the four following ways:

- Desk research: consulting records of past performance
- Personal or telephone interviews as well as impersonal interviews by mail/fax
- Observation: observation and analysis of consumer behaviour
- Test marketing: testing a product in a micro market.

Depending on the resources of the exporting company market research could be done internally or it could even be outsourced. As external sources are usually not free of charge, the company somehow has to evaluate the cost effectiveness as there is no clear relationship between the company results and the resources spent in market research. According to Groves (1994) an industrial survey is better carried out by the sales representatives than by a market research company. The sales representatives have a better knowledge of their products and their business and can use the visit to the market to build up or refresh relationships with key players in the market.151

The German companies contacted by a written questionnaire in our study were asked from what sources they were currently receiving information when preparing for market entry in a new export market. With the exception of test marketing they confirmed the above mentioned ways on how to do market research described by Groves. Most companies interviewed preferred to benefit from the experiences of other personally known export companies in Argentina by talking to them personally. The companies interviewed ranked desk research based on information published by business organizations and banks as very important, and also preferred country

148 Groves, 22
149 Groves, 33-39
150 Groves, 51-56
151 Groves, 23
visits so as to combine a personal interview and the observation of the target market's possible business partners. The companies contacted clearly preferred to undertake the market research themselves. Only a few companies were using the external support of local consulting firms, market research agencies or the German Chamber of Commerce in Buenos Aires.

The following graph gives an overview from what sources the companies interviewed are receiving information when preparing for a market entry in a new export market.

![Graph showing currently used sources of German companies interviewed to prepare for market entry]

Figure 29: Currently used sources of German companies interviewed to prepare for market entry

Under the same criteria as the previous graph the second graph shows from what sources the interviewed companies will probably receive market information in the future.
Obviously most of the companies interviewed will adapt to the technological progress and try to do more market research on the internet. Some of the companies interviewed also commented that they might use external help such as market research agencies or business consultants in a later phase of market entry. However, for most other companies it is a clear decision to use their own resources, as the previous graph demonstrates.

Groves (1994) established three major categories as to how market research data can be grouped in general terms. First, from internal records stored on the company’s computer system information about past performance can be analysed to determine certain future expectations. Second, however, these expectations have always to be measured against external sources obtained by desk research. Third, market research data can be generated by field research that is mainly done through market visits by the sales force or by a market research firm.\(^\text{152}\)

\(^{152}\) Groves, 43-50
With the same questionnaire the German companies were also asked if they were typically analysing some of the following subjects in order to prepare for market entry to a country like Argentina or if they could imagine doing so in the future.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Currently Done</th>
<th>Possible in Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets' price sensitivity to imported products</td>
<td>28</td>
<td>2</td>
</tr>
<tr>
<td>Overview of the country's economy and politics</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Competitors' and market shares</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Customer values: acceptance of product</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Potential key customers</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>Overview on market volume</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>Make or buy (distributor or own sales office)</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>Legal conditions concerning the import product</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Market opportunities and threats</td>
<td>16</td>
<td>7</td>
</tr>
</tbody>
</table>

Figure 31: Subjects analysed by German companies interviewed to prepare for market entry

Graph by author, source: own questionnaire

As explained above, there is no naive rule in market research and all research has to be adapted to the particular market. However, as the previous graph demonstrates the companies were focusing their research mainly on marketing issues such as price sensitivity, market size and the market’s key players as well as the country’s economy. After getting a first impression, the companies spoke of focusing on product relevant data in future market research projects. In a second phase most companies would focus their research on upcoming market opportunities and threats as well as make-or-buy decisions.

In relation to the subjects analysed in the previous graph, the companies were asked in the same questionnaire if they were purchasing information or reports externally or could imagine doing so in the future. Most companies interviewed were relying on their internal sources and eventually purchasing information on legal matters and customer data.
Ill. 7. Supporting the market entry process in Argentina

It is substantially more difficult to gather data on Latin America than it is for developed countries. Frequently those who plan to enter the market are challenged with a lack of reliable and accessible statistical information. Although the market-research industry is expanding and improving its technologies, the traditional challenges persist. Due to the requests by international lenders such as the IMF and the World Bank the trade and financial data provided by the governments of most Latin American countries has improved. However, public resources are mainly dedicated to macro economical data, whereas microeconomic data and data for the private sector are still less available or reliable.153

The overall research costs in Argentina are among the highest in Latin America due to the relatively high labour costs, rents and other administrative costs. In 1999 general business costs in Argentina where 87% higher than those of Mexico.154 Rolnicki (1997), an author in international marketing, gave some examples of what external sources could be used to access market data in Argentina:

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153 The Economist, “Consumer marketing in Latin America”, 25-26
154 The Economist, “Consumer marketing in Latin America”, 29
• Trade organizations: listings concerning company profiles of their members.
• Industry journals: full page ads by competitors or manufacturers of complementary goods with listings of distributors. Ads by possible distributors, indicating whether their approach fits to the producer’s strategy.
• Trade shows: several candidates meet in one location, while saving travel, expenses and time.
• Talks to market experts: find out about opinions of possible candidates.\textsuperscript{155}

In addition, the companies contacted with a written questionnaire gave several other options of desk research and mentioned some concrete examples for Argentina:

• Bank publications: Dresdner Bank Lateinamerika, Deutsche Bank, Südwest LB
• Business Organizations offering publications and market research services: German Chamber of Commerce (IHK), Bundesstelle für Außenhandelsinformation (BFAI), Camera de Comerciantes, BDI, Feinmechanik & Optik, VDDI, Argentinean Chamber of print media
• Interviews with experienced companies: Volkswagen, John Deere, Du Pont, Celanese, BASF, possible future joint-venture partners
• Related magazines: Mega Autos, Parabrisas, CMA, LP Intl.

Throughout the personal interviews with German export companies some interesting opinions were mentioned evaluating different entities that might support a market entry to Argentina. As some companies relied on the support of national or international institutions, others organised the market entry with hardly any external help. “The Chamber of Commerce is not very helpful and not very flexible in establishing business contacts with Latin American partners” was the view expressed by Göbel. However, he would have considered making use of a professional service to prepare for market entry to Argentina, but had been unable to find one. The Sales Director from the Messe Frankfurt Service GmbH, Mrs. von Gymnich, found that, especially for small- and mid-sized companies, organised trips with delegations from the German Ministry of Economy are often useless. As the size of the orders or

\textsuperscript{155} Rolnicki, 94-96
projects of small- and mid-size companies are fairly modest, there was almost no support possible from politicians making up such visiting delegations. Therefore, she preferred to travel to Argentina personally in order to contact the local authorities herself. She also mentioned that “Some authorities even offer export promotion programmes”. Mr. Gobel, General Manager of an engineering company added that there are almost no governmental programmes available to support small and mid-sized companies when investing in Argentina. “Delegations travelling to Latin America usually only invite multinational companies”, he explained.

The following graph gives an overview of how the companies contacted by written questionnaire evaluate the importance of services offered by various entities when preparing a market access:

<table>
<thead>
<tr>
<th>Service</th>
<th>Not important</th>
<th>Of little importance</th>
<th>Don't know</th>
<th>Somewhat important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Translation service</td>
<td>20</td>
<td>9</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Arranging contact addresses in Argentina</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Arranging partner and distributor in Argentina</td>
<td>5</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Legal advises</td>
<td>4</td>
<td>7</td>
<td>3</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Arranging lawyers in Argentina</td>
<td>5</td>
<td>11</td>
<td>3</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Local newspapers to place advertising</td>
<td>9</td>
<td>13</td>
<td>1</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Arranging investment opportunities</td>
<td>9</td>
<td>16</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Market research services</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Consulting of company foundation in Argentina</td>
<td>10</td>
<td>9</td>
<td>2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Product tests in Argentine market</td>
<td>14</td>
<td>10</td>
<td>0</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Seminars (e.g. business practices in Argentina)</td>
<td>8</td>
<td>6</td>
<td>3</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Reports about Argentinean economy</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Sales consulting on Argentinean market</td>
<td>8</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Advertising for products, producer, etc.</td>
<td>5</td>
<td>12</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Organising congresses, events, etc.</td>
<td>5</td>
<td>11</td>
<td>3</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Figure 33: Importance of services offered when preparing for market entry

*Graph by author, source own questionnaire*

Overall, the companies interviewed generally show little interest in relying on external services. Only general country related information, such as reports on the Argentine economy might be purchased externally. But the companies showed only little interest in hiring an external agency in order to outsource their translations or undertake research for investment opportunities and product tests in the Argentinean market.
Chapter IV

Creating and managing the relationship with the Argentinean partner

IV. 1. The ideal representation
   IV. 1. 1. Difficulties of selecting a distributor in Argentina
   IV. 1. 2. Important criteria when selecting the representation
   IV. 1. 3. Selecting the right representative

IV. 2. Managing the relationship with the Argentine partner
   IV. 2. 1. Theoretical background on cultural differences
   IV. 2. 2. Understanding the Argentinean character to create and manage the relationship successfully
   IV. 2. 3. Rules of success when dealing with the Argentinean partner
   IV. 2. 4. Unintended conflicts and solutions
   IV. 2. 5. Relationships between Argentines and other cultures
After learning about the economy and society of Argentina in previous chapters, in Chapter Three we discussed how market access to Argentina could be managed. After demonstrating the attractiveness of the Argentinean market, however, and deciding on suitable market channels, the European export manager will begin to have contact with an Argentinean partner, with Argentinean customers and perhaps even with local institutions. To create such a relationship the foreign manager will first have to select an Argentinean partner. He needs to decide on the criteria for selecting this partner, he will need guidance, and should be aware of implications of selecting the wrong candidate. At the same time, in order to manage the business in Argentina successfully, the foreign manager has to try to understand the culture and the people of the target market. What then is the Argentinean character like? What is the perception of the Argentines of their own and of other cultures? What kind of interpersonal conflicts can be avoided? And what challenges and threats have to be faced when selecting the Argentinean partner?

The present chapter will give some answers to these questions and try to help those managers who have only got limited experience on how to create and manage a personal relationship with a new business partner in Argentina. This chapter is based on the present or past experiences of German and international companies doing business in Argentina; and on Argentinean distributors whose relevant managers have been contacted and interviewed by the author.

IV. 1. The ideal representation

IV. 1. 1. Difficulties of selecting a distributor in Argentina

The partner selection process has often been described as being fraught with difficulty. Michael Geringer (1988) therefore recommended that those participating in the selection process, such as stakeholders, partners, etc. should develop an understanding of how the selection process occurs. The key variables and difficulties should be identified as well as the possible effects of getting it wrong.¹

¹ Geringer, 6
"It is easy to find a distributor in Latin America, but it is hard to find a reliable distributor with professional personnel" was the opinion expressed by Egon Fromm of Biotest Pharma GmbH. "We take a long time to select a suitable distributor, as it is very important to find the right representative." "It certainly is difficult for the same national enterprise to find a good distributor in Argentina," confirmed a distributor called Blanchetti. "This is in large part due to the slight commitment on the part of the distributor. The distributor enterprises know quite well how to sell and market themselves, but without a real and true foundation. This is true on all levels of Argentinean society. Here in Argentina, it is difficult to find good sellers, and good employees. The Argentinean sells himself or herself very well, but later will not comply with what was agreed or promised before." Distributor Davila even referred some distributors as being 'phantoms'. "They appear and quickly disappear. For the most part, these are companies which have a small office, with a sexy secretary, and someone who knows how to manage and speak smooth talk," Davila concluded.

"After signing a distribution contract it takes about two to three years to change an unhappy relationship", said Fromm, the Biotest manager. Therefore, Fromm as well as Ballo, the Export Director of Henkell & Sohnlein Sektkellerei KG, put a lot of effort into finding the right candidate. "It is very important to have somebody you can trust", Ballo observed. "That way, experiments and long lasting mistakes can be reduced or avoided." "It was very difficult to find good personnel or a reliable partner in Argentina," agreed the German engineer Gobel. "The first employees tried to deceive us as we had only little experience with the local mentality." The difficulty of finding a trustworthy partner, however, is also affecting the Argentinean distributor. Some distributors interviewed cited examples of American companies that sold second-class machines to the 'South Americans' and did not offer any after sales service. In this way the strong market position of an established distributor might be affected. In particular, small- and medium-sized manufacturers often do not have the resources to select a distributor in a remote market like Argentina. Due to the relatively high travel expenses to Argentina, the high costs of living in the country as well as possible problems with the Spanish language, these companies have to consider their opportunities quite carefully. To select the wrong distributor may for a

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2 Interviewee Blanchetti  
3 Interviewee Davila  
4 Interviewee Fromm  
5 Interviewee Ballo
small manufacturer mean having committed, a relatively high share of his export budget. Some interviewees in Germany and Argentina described it as very time consuming to work in Latin America and indicators of good quality distributors are often not available.

An additional difficulty that foreign manufacturers have to face is the frequently mentioned inefficiency of some Argentinean partners that are contacted. Whereas some German manufacturers experienced lazy representatives who preferred to go to cocktail parties and were not willing to work hard, others mentioned the examples of fairly wealthy Argentinean businesspeople who showed only little interest in investing in additional businesses. The German manager Olesch, on the other hand, had difficulties dealing with “the established ineffective, bureaucratic administration of the acquired Argentine company.”

Finally, some manufacturers may plan to access the Argentinean market initially and then to set-up their Latin American headquarters in Buenos Aires to penetrate some of the other Latin American countries from the Argentinean capital. The selection of an Argentinean partner who later becomes the head of Latin American operations may create a cultural difficulty for the foreign manufacturer. “Throughout Latin America, Argentines are not very popular as they behave as if they are superior to other Latin Americans,” explained Fromm. Aspects of the Argentinean character will be discussed in more detail later in this chapter.

IV. 1. 2. Important criteria when selecting the representation

Many manufacturers who start to select a representation of their products in a new export market try to make sure that the representation fits into a certain global marketing strategy. According to Rolnicki (1997) the marketing strategy of the exporting company in the target market may determine the size of the distributor. Whereas a large national distributor may have powerful sales and marketing

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5 Interviewee Göbel
7 Interviewees Brunn and Ziehl
8 Interviewee Olesch
9 Interviewee Fromm
resources to support a product line, a small or medium-sized distributor might eventually offer a better local sales coverage because of its proximity to the customers. The exporting company should further determine how many distributors it is planning to use in their target market. It should in fact decide between a selective, intensive or exclusive market coverage strategy.

According to distributor Bucello, the ideal distributor depends upon the type of product. "If it is a product which is bought at the point of sale, you must have a really good group of salespeople" Bucello asserted. "Whereas if it is about products which are sold by telephone, you must provide an excellent service to the client. Now, if the product is sold and delivered to a home or office, there must also be an excellent sales organization."

However, when selecting a distributor in Argentina the foreign manufacturer typically has to consider two types of criteria. First, the manufacturer has to define the formal criteria, as mentioned above, which describe the representation itself, like its size, the products it represents and the sales territory it covers. These criteria are relatively easy to check and to select as they can be measured or determined quite exactly. Second, the manufacturer has to define the informal criteria that relate more to the distributor himself such as his character, his relationships in the market or his ability to speak foreign languages. These criteria are much more difficult to measure and the assessment needs a certain amount of time.

Fath (1995) argued that a company should consider the following formal criteria when selecting a distributor:

- Size of the sales force including inside and outside sales people.
- Compensation of sales force (own personnel or agents on commission)
- Market served by the distributor. Niche served by the distributor.
- Inventory issues: the way the current inventory is financed (credit line), scope of inventory, additional investments/warehouse space needed for the products
- Distributors' existing product line (number of products, existing product mix, whether it is complementary to the manufacturer's products)

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10 Rolnicki, 93
11 Rolnicki, 90
Concerning the sales territory to be covered in Argentina some distributors interviewed recommended selling the products all over the country and referred to their nationwide network of sales personnel. Distributor Karplus, on the other hand, commented that it would be sufficient to have only a representative in Buenos Aires. “Buenos Aires is a conglomerate of 12 million people which is one third of Argentina, and which also amounts to half of Argentina's Gross National Product,” explained Karplus.14 Far more manufacturers than distributors interviewed mentioned that the ideal representative should already represent companies who are selling related products but not ones in direct competition with the products of the manufacturer.15

Much more difficult to measure though are the informal criteria. From the interviews with German and Argentinean interviewees as well as according to recommendations of the author Fath (1995), an export company should focus on the following informal criteria when selecting a distributor in Argentina:

a) Good market knowledge and established relationships. The German manufacturers interviewed as well as the Argentinean distributors underlined the importance of good contacts with the customers and good market knowledge. Some of the Argentine interviewees cited having a good image in the market, a reliable group of customers (“cartera de clientes”) that should not only exist in the capital, but also in the major cities.16 “They must be known on the market,” declared distributor Rivas. “I would ask myself: Are they well recognized with their clients? Another thing that I would keep in mind, too, is whether or not they have a strong influence in actively participating in exhibitions and trade fairs and other important events.”17

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12 Interviewee Bucello
13 Fath, 75-78
14 Interviewee Karplus
15 Interviewees Bauer, Ballo, Gobel and Hitzler
16 Interviewees Bauer, Ballo, Beilhardt, Gobel, Sánchez, Karplus and Fath, 83
17 Interviewee Rivas
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b) The management ability of the distributor: This management ability might be indicated by the distributor's ability to monitor cash management, relate with and monitor suppliers, and by the extent of staff training.  

c) Product knowledge and technical understanding: "First of all the distributor should be an enterprise that has expertise in the specific area in which I wish to market," argued distributor Canneva. "Secondly, I would also venture to say that it should be an enterprise headed by someone who is very serious about the business venture. For example, when I started to represent PARI they gave me the representation because I had expertise and experience as a professional." Auditotal manager Pessagno added that the ideal candidate should always stay abreast of all pertinent developments regarding the enterprise and its product. "They should always also maintain contact with the United States and Europe in order to participate in informative conferences and trade fairs," commented Pessagno.  

d) Ability to deploy as well as by a competent sales force: This can be demonstrated by their product knowledge as well as by the way bonuses and incentives are handled. 

e) Reliability and a relationship based on trust: Both the Argentinean distributors as well as the German manufacturers interviewed agreed that open and trusting communication is the key to being successful in the foreign market. According to distributor Meyer, the Principal of the distributorship should be serious, "at least in their words," said Meyer. "Many years ago, no written contracts were used – just a handshake. In order to establish a good relationship, there must be trust and a willingness to discuss things openly. In other words, not doing things behind a person's back – neither on the part of the provider nor the distributor." "The General managers should have no fear of talking about problems with their German counterparts," stressed manufacturer Brunn. 

f) Ability to understand the local culture: According to the interviewed German managers Fromm and Gobel the ideal representative should be an Argentine and should be located in Argentina rather than abroad. "He may even have two nationalities covering the German mentality and the national knowledge (i.e. have

18 Fath, 84  
19 Interviewee Canneva  
20 Interviewee Pessagno  
21 Fath, 82  
22 Interviewee Meyer  
23 Interviewee Brunn
mixed parents or have spent part of their childhood in both countries)," mentioned Fromm. Distributor Grelle added that it is not necessary; but it is important that the distributor speaks Spanish. "Speaking Spanish promotes more friendship and a more positive business relationship in general," said Grelle.

g) Effectiveness in execution. "The ideal distributor should be diligent and not bureaucratic," asserted Rivas. And Grelle underlined the fact that the distributor should also be well organized, efficient and must possess superior communication skills.

h) Focus on clear strategies and goals: In order to have certainty with regard to the direction in which the enterprise is moving, manager Pessagno suggests that the distributor should have their objectives very clearly established. And distributor Kleh also reminds us that the interests of the distributor should be the same as those of the manufacturer when it comes to the marketing strategy, and pointed out that there should not be a conflict of interests.

Despite all these criteria it is difficult to develop in a few meetings a long-term relationship of trust with a new candidate. "The principal of the distributor must be honest above all," declared Angarami, a distributor of medical equipment. "They must have experience in the business, must be reliable and have roots in what they are doing – that they are well-rounded and very knowledgeable for the job at hand." Distributor Meyer knows about the importance of these personal relationships and therefore took some time to prepare his visits to the manufacturer:

"I like to get to know the packagers of the products. I like to establish relationships not only with the high level executives, but also with the folks on the lower end of the enterprise, too. When I go to Germany, I like to take along knickknacks or other small gifts from Argentina, in order to be on good footing with them. This kind gesture pays off later because they will send me a fax or whatever from Germany right away, because they will remember my thoughtfulness."

24 Interviewees Fromm and Gobel
25 Interviewee Grelle
26 Interviewee Rivas
27 Interviewee Grelle
28 Interviewee Pessagno
29 Interviewee Kleh
30 Interviewee Angarami
31 Interviewee Meyer
IV. 1. 3. Selecting the right representative

The relevant literature gives examples of some procedures on how to organize the selection process when searching for a representative in Argentina. According to Fath (1995) a company should follow the following ten-step process when selecting a distributor. This process should take between six and eight weeks per distributor to keep the search period within reasonable time and cost limits:

1) Identify the distributor’s market area and the potential customers therein
2) Carry out a survey of potential customers. In this way it can be seen from which distributors they purchase comparable products.
3) Develop distributor selection criteria and hold screening interviews with prospective distributors.
4) Hold personal interviews with prospective distributors. A chance to present the exporting company and its strategy in the market.
5) Negotiate the initial sales forecast covering minimum sales and target products
6) Negotiate the initial distributor inventory. (The scope of inventory should be profitable to both parties)
7) Negotiate the distributor sales agreement
8) Re-inforce the distributor identity programme by introducing the new marketing partnership to the market
9) Implement the initial sales and product training programme (convincing the distributor’s sales force)
10) Develop the first year tactical sales plan jointly with the distributor.32

In Chapter Three experiences of market entry as well as the use of market research to identify new markets were discussed. The process of market entry, of course, is somehow related to the selection of the representative. When discussing experiences on market entry, however, only three main phases of market access were observed. These were defined as the following:

A. Pre-Phase or Preparation-Phase
B. Access-Phase
C. Post-Phase or Correction-Phase
Thus the interviewees in all three countries involved with research grouped the formerly described ten steps model of the Fath (1995) into three main phases within the process of selecting the representative in Argentina. These are as follows:

A. Pre-Phase or Identification-Phase  
B. Selection-Phase  
C. Post-Phase or Check-Phase

Throughout the Pre-Phase or Identification-Phase the exporting company simply tries to identify some candidates in Argentina who match the formal criteria of the manufacturer, such as the size of the company, the type of goods for which representation is sought, or the sales territory covered. When searching for a distributor in a new market, Rolnicki (1997) recommended that the exporter should have a matrix of his industry and his marketplace, which will guide him through the investigation. By researching primarily the end user, the exporting company may have fewer difficulties in deciding on the distribution channel.  

The phase where potential candidates are identified is quite time consuming and could even be cost intensive, as noted previously. In this connection it might be worth considering whether the identification should be done internally by in-house staff or by external consultants. According to Rolnicki (1997), marketing channel consultants might be involved in the process of initial research as well as the design of the fully implemented channel structure. They are frequently used when there is no time to perform the selection process or if they are able to offer a broad experience in the market. ‘Channel search firms’ or ‘executive recruiters’ may takeover the research and selection process to find an adequate distributor.

Frequently these services are not be necessary and tend to be fairly expensive. Also, on occasion the same information might be available elsewhere at lower or no cost.  

Distributor Rivas also commented on the quality of these external service providers. “Ten or fifteen years ago there were just a few consultants,” explained Rivas. “But even though there were very few, they nonetheless were very good. Unfortunately,
nowadays the consultants cannot be measured by the same standard. Quite simply, I do not trust the consultants — local or international — here in Argentina. As far as I'm concerned, my best consultants are my own sellers.\textsuperscript{35}

The Argentinean distributors interviewed were quite forthcoming in describing different ways on how to start the identification phase of the selection process. Dr. Sánchez, the director of Eurocentro, an organization to promote business between Argentina and Europe, cited some important institutions. “In addition to Eurocentro there are the Exporting Foundation (‘Fundación Exportar’) and Investment Foundation from the Argentinean Ministry of Foreign Relations, The Secretary of PYMES from the National Government, and the different sector Chambers.”\textsuperscript{36} Other distributors referred to the commercial sector of the Embassies to commercial banks, or to the German Chamber of Commerce in Buenos Aires.

“A very simple method of finding a distributor, is to put an ad in the newspaper,” suggested manager Davila.\textsuperscript{37} “There are, of course, the two business newspapers in Buenos Aires aside from ‘La Nación’; to start with: ‘Ambito Financiero’ and ‘Cronista Comercial’,” added Karplus the Argentinean distributor and director of the International Chamber of Commerce at Buenos Aires. “Those are the two business newspapers.”\textsuperscript{38}

In some cases companies even use their European contacts in related industries that already have existing contacts with Latin America. “Through a friend from a complementary industry a local sales agent was selected. This person already worked as a reliable partner for the complementary industry and knew the key people in Argentina,” said Comerma, the manager of SGL Carbon in Augsburg.\textsuperscript{39} A quite simple and practical method to find a representative in Argentina was described also by Prince, the Miami based manager of F.G. Wilson. “We sent some people down there ‘walking the streets’, knocking on doors, etc, and over a period of time we got to know 8 companies that we found in the yellow pages. Then we selected

\textsuperscript{34} Rolnicki, 97
\textsuperscript{35} Interviewee Rivas
\textsuperscript{36} Interviewee Sánchez
\textsuperscript{37} Interviewee Davila
\textsuperscript{38} Interviewee Karplus
\textsuperscript{39} Interviewee Comerma
two or three. After that, we got rid of the weaker companies, and then tried to build a relationship with the stronger ones.”

Accordingly, different ways on how to handle the selection phase were commented on by the companies interviewed. The German manufacturers Fromm as well as Ballo put a lot of effort into finding the right candidate. “We put an advertisement in the local newspaper. Up to twenty distributors may apply hoping to represent our products,” explained Fromm. “We then try to select the most professional one who is willing to work on a long-term basis. Some of the applicants are then visited locally in order to get a personal impression.”

Almost none of the companies interviewed recommended contracting an external consultancy to cover the selection phase. “Some European enterprises set up a small office here in Argentina, and then send a specialized executive in order to develop the business,” explained distributor Bianchetti. “That executive then visits and looks for any possible distributors on any given line of products. He then studies the market carefully. Later they establish the system of distribution in Argentina, and then repeat the same process in other countries. These offices are in charge of the stock and its management with the distributors. The distributors do not import directly, rather the exporting company’s office handles all the import transactions. This is a solution for middle range companies that sell between 800m USD to 1 billion USD worldwide.”

The executives from the exporting company should travel to Argentina in order to select personally the distributor from those interviewed. “The first thing would be meeting and getting to know them,” commented distributor Davila. “The next thing would be to evaluate their commercial and technical capacity. I would also visit them and see how many people are working in sales, and how many people are working in technical departments. The important thing is to have a distributor in all of the provincial capitals here. They should also be able to promote the products, and continue to stay abreast of all of the developments of the business.”

40 Interviewee Prince
41 Interviewee E. Fromm
42 Interviewee Bianchetti
43 Interviewee
Due to his personal feeling the foreign manager should then try to evaluate the candidate on a personal level said distributor Angarami. "Get to know the people at the company, the number of years the company has operated in the market, visit trade fairs. I could sit here together with you and tell you just the good things about our company, that we have one hundred employees, that we are the best in the market, in business for sixty years, that we have two buildings, etc. It could be correct or it could be a big lie," noted Angarami.44 Another way to select the distributor was mentioned by distributor Grelle. "For example the Americans started to have two distributors, even if there was already one exclusive distributor in place. Time will show which of the two is more efficient, more dependable. Later, the manufacturer can decide which one it wants to utilize."45

Lastly comes the Post- or Check phase, where the manufacturer finally has to minimize the risk of any negative aspects related to the distributor. There is usually no clear distinction between the Selection phase and the Check phase as the manufacturer can already check on the potential candidate throughout the entire selection phase. "You have to investigate the history of the distributor in question," recommended distributor Angarami. "The European enterprise should make an investigation over a period of say, ten to fifteen days, in which they make a background check of the distributor. In large part during that time the European enterprise needs to find out if there were any legal settlements of any kind; if there were embargos of any kind; or if there were any other major problems in the distributor's history."46 "The first thing the manufacturers should do is to check references," confirmed distributor Grelle. "When we travel to Germany and visit a producer that does not know the market here, they [the German manufacturers] listen carefully to what we tell them. But, as is most often the case, they will then make a background check regarding us. One of the things which they will check is: Does the Argentinean distributor represent other German manufacturers, too?"47

The consequences when not checking on a distributor's negative history could be quite important with regard to the market development. Distributor Kohner argued that selecting the wrong distributor could imply losing a lot of time and money, as well

44 Interviewee Angarami
45 Interviewee Grelle
46 Interviewee Angarami
47 Interviewee Grelle
as having to face a lot of problems. On the one hand, a bad distributor could lead to low sales turnover or a bad operation. On the other hand, there might even be legal consequences involved. "If you have selected the wrong distributor, there is no end to the damage that can be done to your image and reputation in the market," declared Fath (1995). "And attempting to terminate a distributor because you have made the wrong choice can result in demands for severance and other forms of payment, and possibly end in a lawsuit, neither of which is desirable." Or again Iyer (1994) agreed, "there must be valid practical reasons for removing a distributor. Otherwise, a distributor can take a manufacturer to court for damages. A messy removal can prove very expensive."

Distributor Rivas agreed that on a general level possible legal consequences make it quite important to do a final check before contracting a distributor. However, these threats might be more relevant in the USA where the percentage of lawyers compared to the total work force is quite high! In the particular case of Argentina Rivas believed possible legal consequences were not a major factor to consider when deciding on the selection of a distributor. "There really are not many cases of legal problems occurring between foreign producers and local distributors," argued Rivas. "As a matter of fact, the representations change very dynamically down here."

Whereas the Pre-Phase or Identification-Phase might even be carried out by external personnel, as it could be done quite systematically, the last two phases within the selection process can not be done in this way. The experiences of the interviewees showed that within the Selection-Phase and Check-Phase rational procedures are limited. As an example, distributor Grelle referred to the importance of the personal relationship within the selection process. "Get on a plane and come to Latin America. That's the main thing to select the distributor," said Grelle. Also the Argentinean manager Kohner explained that the personal relations and even personal feelings that cannot be checked systematically are crucial in the selection process. "First, you should contact your local people," commented Kohner. "The local colleagues whom you know – the surgical industry is very small and it is getting

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48 Interviewee Kohner
49 Fath, 73
50 Iyer, 272
51 Interviewee Rivas
smaller – so you go to the exhibitions. If you have some knowledge in the market, I would go to a couple of labs and ask them whom they think are the best distributors. I would interview them thoroughly. Then rely on your gut feeling.53

IV. 2. Managing the relationship with the Argentinean partner

IV. 2.1. Theoretical background on cultural differences

Several situations and circumstances are described throughout the whole thesis that demonstrate the importance of culture and the importance of understanding cultural differences. It is therefore helpful to have a closer look what is meant by the term culture and to compare cultural differences of several countries. When having a closer look at what is meant by the term culture and when understanding how cultural differences arise and to what extend a certain culture is differentiated from another, it is easier to relate to a foreign person. Kennedy (1991), an author in the international business field gave the following explanation on the position of culture in international business:

"In international business negotiations, cultural and language misunderstandings often arise, and those causes of failed negotiations can best be avoided by knowing how the other side typically thinks and acts. A better understanding of one's negotiation adversary will also allow one to plan negotiation tactics on a contingency basis.54

Geert Hofstede (1991), a Dutch psychologist, is famous for his extensive studies on cultural differences. He investigated the personnel of the multinational computer company IBM located at numerous offices worldwide. He could thereby ensure that the different findings resulted mainly from the cultural differences of the people interviewed since the employing organization / company culture was held constant.

Hofstede (1991) defined culture in two ways. Culture in a narrow sense (culture one) most commonly means 'civilization' or 'refinement of the mind', in the sense of art,
education and literature. In a much broader use (culture two) culture is defined as "the collective programming of the mind which distinguishes the members of one group or category of people from another."\textsuperscript{55} Whereas human nature is inherited with one's genes, culture is learned from the social environment of each individual. Hofstede compares human nature within the computer analogy to the operating system, whereas culture would be the software of the mind, the way to express feelings, fear, joy or even observations.

Hofstede argued that there are different dimensions in terms of which cultural differences could be conceptualised. According to Hofstede, the four dimensions of cultural difference:

- Power distance
- Collectivism versus individualism
- Feminity versus masculinity
- Uncertainty avoidance.\textsuperscript{56}

A fifth dimension may be considered as long-term versus short-term orientation. As these dimensions are crucial for managers so that they may adapt their behaviour to people from a different culture, they will be explained in more detail here:

**Power distance**

Power distance can be defined as the extend to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.\textsuperscript{57} The Power Distance Index (PDI) measures a country's power distance. In the above mentioned research project among more than 50 countries Hofstede (1991) found out that there is only limited dependence of subordinates on

\textsuperscript{54} Kennedy, "Managing the international business environment", 64
\textsuperscript{55} Hofstede, "Cultures and Organizations", 4-5
\textsuperscript{56} Hofstede, "Cultures and Organizations", xi
\textsuperscript{57} Hofstede, "Cultures and Organizations", 28
bosses in countries with a low PDI and vice versa. A society with a low power distance was characterized by:\(^{58}\)

- Parents treating their children as equals
- Students treating their teachers as equals
- Subordinates expect to be consulted
- Organisations to be decentralized
- Narrow salary range between top and bottom levels of organizations

Mainly Latin American countries in fact showed high PDI values. Within the top nine countries (out of a research sample of fifty countries) with a relatively high PDI, five countries were from Latin America. However, of all Latin American countries, Argentina had the second lowest rank. The difference to Northern European countries such as Germany was not too big as the following table shows.\(^{59}\)

<table>
<thead>
<tr>
<th>Score rank</th>
<th>Country or region</th>
<th>PDI score</th>
<th>Score rank</th>
<th>Country or region</th>
<th>PDI score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Malaysia</td>
<td>104</td>
<td>25</td>
<td>Uruguay</td>
<td>61</td>
</tr>
<tr>
<td>2/3</td>
<td>Guatemala, Panama</td>
<td>95</td>
<td>31</td>
<td>Spain</td>
<td>57</td>
</tr>
<tr>
<td>4</td>
<td>Philippines</td>
<td>94</td>
<td>34</td>
<td>Italy</td>
<td>50</td>
</tr>
<tr>
<td>5/6</td>
<td>Mexico, Venezuela</td>
<td>81</td>
<td>35/36</td>
<td>Argentina, South Africa</td>
<td>49</td>
</tr>
<tr>
<td>7</td>
<td>Arab countries</td>
<td>80</td>
<td>38</td>
<td>USA</td>
<td>40</td>
</tr>
<tr>
<td>8/9</td>
<td>Ecuador, Indonesia</td>
<td>78</td>
<td>42/43/44</td>
<td>Costa Rica, Germany, Great Britain</td>
<td>35</td>
</tr>
<tr>
<td>14</td>
<td>Brazil</td>
<td>69</td>
<td>47/48</td>
<td>Sweden, Norway</td>
<td>31</td>
</tr>
<tr>
<td>17</td>
<td>Colombia</td>
<td>67</td>
<td>53</td>
<td>Austria</td>
<td>11</td>
</tr>
<tr>
<td>24/25</td>
<td>Chile, Portugal</td>
<td>63</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Figure 34: Power Distance Index (PDI)

Source: Hofstede, "Cultures and Organizations", 26

Collectivism versus individualism

Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after themselves and their immediate family. Collectivism as its opposite pertains to societies in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty.\(^{60}\) These in-groups are

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\(^{58}\) Hofstede, "Cultures and Organizations", 37
\(^{59}\) Hofstede, "Cultures and Organizations", 26
\(^{60}\) Hofstede, "Cultures and Organizations", 51
also known as extended families including not just parents, but grandparents, uncles, aunts, servants, etc. In individualistic societies other relatives are rarely seen. Only one parent may be concerned with the child’s upbringing and the child is expected to leave home at an early stage. A collectivistic society is characterized by:

- Children learn to think in terms of ‘we’
- People are born into ‘in-groups’ which continue to protect them in exchange of loyalty
- Confrontations are avoided and harmony should always be maintained
- The purpose of education is learning how to do things
- Diplomas provide entry to higher status groups

The following table demonstrates the level of individualism. The higher the Individualism Index (IDV) score, the more individualistic is the country’s society. Generally, the world is collectivistic rather than individualistic as the demonstrates. However, it is mainly poor countries, which score low on individualism, and wealthy countries that score high.

<table>
<thead>
<tr>
<th>Score rank</th>
<th>Country or region</th>
<th>IDV score</th>
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</thead>
<tbody>
<tr>
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<td>91</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>Great Britain</td>
<td>89</td>
</tr>
<tr>
<td>4/5</td>
<td>Canada, Netherlands</td>
<td>80</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>76</td>
</tr>
<tr>
<td>15</td>
<td>Germany</td>
<td>67</td>
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<tr>
<td>20</td>
<td>Spain</td>
<td>51</td>
</tr>
<tr>
<td>22/23</td>
<td>Japan/Argentina</td>
<td>46</td>
</tr>
<tr>
<td>26/27</td>
<td>Brazil/Arab countries</td>
<td>38</td>
</tr>
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</table>

<table>
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<th>Score rank</th>
<th>Country or region</th>
<th>IDV score</th>
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<tbody>
<tr>
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</tr>
<tr>
<td>37</td>
<td>Hong Kong</td>
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<td>38</td>
<td>Chile</td>
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<td>Panama</td>
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<tr>
<td>53</td>
<td>Guatemala</td>
<td>6</td>
</tr>
</tbody>
</table>

Figure 35: Individualism Index (IDV)  
Source: Hofstede, "Cultures and Organizations", 53

Comparing collectivism and power distance, those countries that score high on the PDI usually score low on the IDV and vice versa. Again it is interesting that Argentina has an Individualism Index score that is more in line with some of the European countries than with those of Latin America.

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61 Hofstede, "Cultures and Organizations", 50-51
62 Hofstede, "Cultures and Organizations", 67
63 Hofstede, "Cultures and Organizations", 53-54
Femininity versus masculinity

Masculinity versus femininity describes the desirability of assertive behaviour against the desirability of modest behaviour. Men, in short, are supposed to be assertive, competitive, and tough. Women are supposed to be more concerned with taking care of the home, of the children, and of people in general. Two societies may be similar on the dimensions of power distance and individualism but differ considerably on the dimension of masculinity versus femininity. The two dimensions could be described as follows:

**The Masculine pole:**
- Earnings: Have the opportunity for high earnings
- Recognition: Get the recognition you deserve when you do a good job
- Advancement: Have the opportunity for advancements to higher level jobs
- Challenge: Have challenging work to do

**The Feminine pole:**
- Manager: Have a good working relationship with your direct supervisor
- Co-operation: Work with people who co-operate well with one another
- Living area: Live in an area desirable to you and your family
- Employment security: Have the security that you will be able to work for your company as long as you want to

The following table demonstrates the Masculinity Index (MAS). The most masculine country would have a score of one hundred. Other than the individualism index the MAS score does not relate to the wealth of a country. A masculine society could exist in a rich as well as in a poor country. Many of the Latin countries are ranked feminine. Only those bordering the Caribbean ranked more masculine.

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64 Hofstede, "Cultures and Organizations", 80-81
65 Hofstede, "Cultures and Organizations", 80-81
Uncertainty avoidance

Uncertainty avoidance can be defined as the extent to which the members of a culture feel threatened by uncertain or unknown situations. This feeling is, among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules. Every human being has to face the fact that the future is uncertain. Nobody knows what happens tomorrow. Therefore societies are inclined to fight this anxiety mainly through technology in order to deal with forces of nature, with laws to govern the behaviour of people, and through religion to control ones' personal future through transcendental forces.67

A society with strong uncertainty avoidance would be characterized by:68

- Feeling of continuous threat that must be fought
- Aggressions and emotions that may be ventilated at proper times
- Strict rules for children
- The conviction that what is different is dangerous
- Teachers are supposed to have all the answers
- An inner urge to work hard
- Resistance to innovation
- Precision and punctuality come naturally

Source. Hofstede, “Cultures and Organizations”, 84

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66 Hofstede, “Cultures and Organizations”, 84
67 Hofstede, “Cultures and Organizations”, 110-113
68 Hofstede, “Cultures and Organizations”, 125
The following table illustrates the Uncertainty Avoidance Index (UAI). A society with a high index is afraid of anything unknown. It is not a specific fear as there is no objective anxiety.69

<table>
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<td>7</td>
<td>Japan</td>
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<td>10/15</td>
<td>Chile, France, Spain</td>
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<th>Score rank</th>
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</tr>
<tr>
<td>47/48</td>
<td>Great Britain, Ireland</td>
<td>35</td>
</tr>
<tr>
<td>49/50</td>
<td>Sweden, Hong Kong</td>
<td>29</td>
</tr>
<tr>
<td>51</td>
<td>Denmark</td>
<td>23</td>
</tr>
<tr>
<td>53</td>
<td>Singapore</td>
<td>8</td>
</tr>
</tbody>
</table>

Figure 37: Uncertainty Avoidance Index (UAI)

Source: Hofstede, “Cultures and Organizations”, 113

When a manager first interacts with an unknown country such as Argentina and especially when he moves to a new cultural environment he will typically experience different phases of adaption. The mixture of positive and negative feelings that the individual will experience in the different phases were plotted by Hofstede (1991) on the acculturation curve as shown by the following graph:

![Acculturation Curve Image]

Figure 38: The acculturation curve

Source: Hofstede, “Cultures and Organizations”, 210

69 Hofstede, "Cultures and Organizations", 113
According to the previous graph individuals experience different phases when they move to a new cultural environment. These are briefly described as follows:

- **Euphoria:** Initially people get excited when discovering a new country or when travelling to foreign countries.
- **Culture shock:** As soon as real life starts in the new environment, people frequently experience a culture shock as they have to adjust their basic values to the standards of the new environment.
- **Acculturation:** The process of adoption to some local values as the individual learns to function under the new conditions.
- **Stable state:** After adapting to the new environment the individual's feelings may remain negatively (a), as good as before (biculturally adapted) (b) or may be even better (c) (become more Roman than the Romans).

### IV. 2. 2. Understanding the Argentinean character to create and manage the relationship successfully

As Latin America is still largely unknown to many managers of small- and mid-sized European and American companies, there are a lot of prejudices that persist. Many managers do not even distinguish between Argentina and other countries with rather different cultures in Latin America. German export manager Brunn confirmed that he believed Argentines to be "serious business people that compare to Spaniards rather than to the often chaotic Colombian or Mexican." "You can have interesting discussions with Argentine businesspeople and it's much easier to deal with Argentines than to understand Asians."71 "Argentines are educated people that do not compare to those from Peru."72

The results of Hofstede's tables from the previous paragraph clearly demonstrate that Argentina is not just another Latin American country. It is not as macho, authoritarian or as tied to collectivism as is the common image of many foreign managers. In fact, there are differences to many other Latin American countries and

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70 Hofstede, "Cultures and Organizations, 209-210
71 Interviewees P Ziehl, E Fromm and D Hitzler
often Argentina does compare more to Southern Europe. Argentinean distributor Nicolini confirmed, “We are a mixture of races. We are not like the peoples of Mexico, Paraguay or Bolivia. So, that is to say that the majority of people here are of foreign (European) descent. For example, my husband’s grandfather is Dutch, his grandmother is French, and his father is Italian.”

A foreign manager may easily damage the relationship when he does not know the Argentinean culture and accidentally compares Argentina with Bolivia. He should therefore be prepared and have intercultural knowledge and communication abilities to develop a relationship with the Argentinean partner.

According to Hofstede (1991), one can prepare for intercultural communication by acquiring knowledge of the different culture. This knowledge would cover elements of history, geography, as well as ‘do’s’ and ‘don’t’s. Another preparation course would deal with the question how to get work done. It varies from the above-mentioned preparation by focusing on the question of where one’s own mental software may differ from others, rather than being specific to any given country.73

Hofstede (1991) outlined three phases of learning intercultural communication abilities. First, one needs to have awareness that he or she carries particular mental software because of the way they were brought up. Without awareness, one may travel around the world feeling superior and remaining blind to all clues about the relativity of one’s own mental programming. Second, one needs to understand the symbols, heroes and the rituals of other cultures to interact with them. And finally, when awareness and knowledge is set into practice, one finds out how to get along in different environments.74

The Japanese sociologist Atsushi Funakawa (1997), an author in the field of transcultural management, defined Hofstede’s mental software as a person’s mindset. In order to prepare successfully for intercultural communication a manager should know about the country’s history, religion, geography, society, politics, and so on. According to Hofstede (1991), he will thereby achieve the awareness of the business partner’s mental software. The following graph shows the typical mindset of

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72 Interviewee D. Hitzler
73 Hofstede, "Cultures and Organizations", 231-232
an Argentinean distributor. It was developed out of the findings of Chapter One and Chapter Two, the personal interviews in Germany and Argentina as well as the theoretical concepts of a mindset by Funakawa (1997):

Several observations made by the German and Argentinean managers interviewed illustrate the elements of the mindset of the Argentinean distributor. These observations may help the foreign manager to prepare for the intercultural communication.

74 Hofstede, "Cultures and Organizations", 230-231
75 Porteño (Society) Spanish for "People from the Port", and means those who live in Buenos Aires
The history of Argentina is one important element contributing to the distributor's mindset, and was discussed in some detail in Chapter One and Chapter Two. As mentioned above, due to their immigration history the Argentines still feel they have "European blood". Argentinean distributor Karplus, of Austrian descent, referred to the architecture in the centre of Buenos Aires to illustrate the European roots. "If you walk around the street 'El 9 de Julio', for one mile northwards, you will be in the middle of the Brazilian and French embassies. They were built in 1910 – 1920 and were originally to be used as homes for families. They are beautiful palaces. These embassies, nonetheless, could fit perfectly into the city of Paris. And the architects have designed the houses based on the European image. At any rate, this architecture displays a very deep way of thinking."

Another characteristic of the Argentine character observed by some of those interviewed may also be due to the country's recent political and economic history. As discussed in Chapter Two, the Argentine spirit had to overcome the loss of the Falklands War (1982) as well as the times of hyperinflation at the end of the 1980s. Fromm described the Argentines as being often pessimistic. "Still at the beginning of the 1990s, the Argentines were very depressed as they had lost the Falkland War. Argentines felt alone in the world." This pessimistic attitude may still be partially reflected in some business habits. Sales managers from SGL Carbon GmbH, for instance, still found it difficult to plan a budget. They said "in particular short term planning is not an easy exercise for Argentines."

The country's geography is another element that influences the mindset of the Argentinean distributor. As mentioned in Chapter One Argentina is the world's eighth, and Latin America's second, largest country with a surface area of 2,766,889 sq. km and has plenty of natural resources. At the turn of the century it was one the world's wealthiest nations due to its production of wheat and cattle. A lack of flexibility amongst Argentine business people is one consequence of the history and geography described above. Throughout the interviews some representatives of German industry made comparisons with the economy of Chile, which was described as being far more flexible than that of Argentina.

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76 Interviewee Sánchez
77 Interviewee Karplus
Sales and Marketing Manager Fromm illustrated this difference by citing a personal experience: "An Argentinean friend of mine who produces apples and wheat in Argentina got an offer from a US company to produce some other fruits. Instead of accepting the offer and adapting to market needs, he yelled at 'those Gringos'. Today he is almost bankrupt. Meanwhile in neighbouring Chile it is interesting to see that almost 30% of the Chilean wine production was exchanged for the production of Kiwifruit in order to react to market needs. For almost twelve years Chile has shown constant growth rates of between 5% and 10%." The flexibility of Chilean production may result from their limited resources. Argentinean distributor Davila confirmed that Chileans have produced foods in places in which in Argentina would not have been cultivated. He mentioned the example of a town in the north of Chile (La Serena), where the Chileans in small extensions of land had produced: kiwis, tomatoes, oranges, or even lemons. He described Chileans as using a high level of technology in order to produce in desert regions.

The pride and inflexibility of the Argentine businesspeople may indeed be the result of their having been, in the past, one of the world's wealthiest nations. Fromm, the Blottest Manager, observed this phenomenon in Argentina and Venezuela. "During both World Wars Argentina was the world's food supplier. The country's banks were full of gold. But during the 1950s Perón distributed these resources to the masses and was therefore responsible for the economic crisis as he did not invest but used financial resources for consumption. Venezuela, one of the world's largest oil suppliers experienced the same development at the beginning of the 1970s. Instead of investing and continuing to work hard, these countries got lazy and corrupt." Even Argentinean distributor Canneva confirmed that "Today, we Argentines feel rich, because at one time we were. And now we do not have one cent left, but still we feel rich. However, we are not miserable like the Chileans, Peruvians and Paraguayans, because they come here since they are worse off than us. Nowadays, it is merely an image that we are superior, it is just a feeling that we have".

General Manager Gobel found that Argentines prefer to live well rather than to work hard. He considered Argentines to be as he put it, the French of Latin America. Many

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78 Interviewee C. Brunn
79 Interviewee Fromm
80 Interviewee Davila
81 Compare with Chapter One
Argentine businesspeople show only little interest in investing in additional business opportunities.33 “Quality of life is crucial in order to do business with Argentines. Most doctors calculate how the purchase of a machine may increase the quality of life. They may not be interested in purchasing a machine if their current way of working enables them to cover all personal spending.”34

Export Director Ballo underlined the importance of foreigners not appearing to be ‘teachers from the developed world’. They should rather “appear less important and speak positively about Argentina.” American managers are often less successful in Argentina, as they often do not differentiate between the rest of Latin America, do not know anything about the country, are often arrogant and do not speak Spanish.35

Religion is another element of the distributor’s mindset that it is important to consider. As noted in Chapter Two, Argentine values are highly dependent on Catholic ethics and loyalty to the family. This is why Fromm, the Biotest Manager based his success in business on good personal relations. Fromm explained, “Personal relations are crucial in Latin America. In order to get business or a good relationship you should join the Argentines in a good restaurant, at a soccer match or even try to use the same expressions in Spanish.” Export Director Ballo agreed, “in business talks, Argentines like to talk more about personal matters rather than business. Business matters are discussed only very carefully.”36

Also Dr. José Luis Sánchez, director of the European Chamber Eurocentro agreed, that personal relations are very important in Argentina. “Given our particular character and culture, yes, personal relations are extremely important. In Argentina, any business meeting or ‘ronda de negocio’ begins and ends with a lunch or dinner – such a social event gives us the opportunity of being friendlier with one another. What happens is that there is a tendency to be hospitable and kind, so that our visitors feel comfortable during their stay in Argentina. Above all, politeness is of the utmost importance with regards to the Argentinean etiquette.”37 “The Argentinean custom is to drink coffee, mate or whisky, while engaging in a dialogue about our

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33 Interviewee Canneva
34 According to interviewees P. Ziehl and K. Gobel
35 Interviewee R. Gobel
36 According to interviewees E. Fromm and M. Alonso Comerma
37 Interviewee Ballo and Fromm
38 Interviewee Sánchez
families, and then we speak about business. We believe that someone who has it all, a good family, etc. is also likewise a ‘good businessman’. We are not like the Americans whose mentality is, ‘How much do you want, is how much you are worth’\textsuperscript{88}, explained Angarami, the Buenos Aires based sales agent for a medical equipment company.

On the other hand, personal relations in business seem to be normal in Latin America. Rolco manager Davila described personal relations as being more important in Brazil. “The Argentine does not establish profound relationships like the Brazilian. I travel frequently to Brazil because Rolco sells machinery to them, and every time I can perceive that they are much warmer and more interested in you than we are.”\textsuperscript{89} Professor Pessagno, manager of the optical firm Auditotal, observed that Argentines are very wishy-washy. “The European, on the other hand, is very controlling.”\textsuperscript{90} Due to his own way of doing business he may therefore notice much more the importance of personal relations in Argentina.

Biotest manager Fromm said, “a lot of business done with the Argentines is based on trust. Most foreign businessmen do not understand and accept this concept. Honour is very important for Argentine businesspeople and something that should not be underestimated.”\textsuperscript{91} The Argentinean managers interviewed partially confirmed this statement. Manager Bianchetti illustrated the concept of trust in Argentinean business when applying for a loan. “For example, a manager of a bank explained to me that in order for him to issue a loan to a client, it all depends on how he or she shakes his hand. So there it is: It is just a question of purely feeling trust, and not relying on a deeper analysis of the person. It’s that easy.”\textsuperscript{92}, declared Bianchetti.

However, in the same context the managers interviewed also remembered the concept of corruption, especially when dealing with the public sector. “There is something which bothers us a lot, and that is the ‘coima’”, explained Auditotal manager Pessagno. “It is a very Argentinean expression. For example, I have to reacquire some products, which are stuck in customs, so I just slip some money to the folks down there, and that’s it. I get possession of the products right away. You

\textsuperscript{88} Interviewee Angarami
\textsuperscript{89} Interviewee Davila
\textsuperscript{90} Interviewee Pessagno
\textsuperscript{91} Interviewee Fromm
could also bribe the policeman or woman if you get a ticket so that you do not have to pay for the infraction. It trickles down to all levels of Argentinean society, including the enterprises.”

German manager Fromm also spoke about the phenomenon of corruption in Argentina. He accused the Latin American politicians of using the state for their private wealth. He cited an example in order to give an understanding of the level of corruption in Argentina or for that matter other Latin American countries. “As president Meném’s son died in an accident with a helicopter, the newspaper wrote a short article about an unknown woman that was demanding 300 million DEM for their child. President Meném must have been very corrupt to become that wealthy and must be even richer now. In Mexico, Mr. Salinas de Gortari had as much as 20 billion DEM after his presidency.” Fromm referred to local structures when trying to explain the reasons for corruption, and identified corruption as being one of the major factors impeding growth in the Latin American economies.

Olesch, the manager with Milupa, indicated the structural reasons for corruption. He noted that corruption was observed especially in the public sector at the beginning of the 1990s. In fact corruption is decreasing in Argentina. As explained in Chapter Two, since the presidency of Meném, many public companies have been privatised and today corruption may have less impact on the economy of Argentina than on that of other Latin American countries.

Finally, as an element of the mindset, the foreign manager should understand the society of Argentina. Even though the Argentines scored relatively high compared to other Latin American countries on Hofstede’s Individualism Index, they would still be considered a relatively collectivistic society compared to many Western countries. As noted in Chapter Two Argentinean children leave their families relatively late as one grows up (living in one’s parents home until one gets married is normal) and commonly try to avoid confrontations and maintain harmony. Sánchez confirmed that “during the negotiations, there can arise conflicts... and when they arise, there are

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92 Interviewee Bianchetti  
93 Interviewee Pessagno  
94 Interviewee Fromm
countries or states that are much tougher to deal with than Argentina. Brazil is much more tough-minded in negotiations than we are."^95

Argentina got almost the same position on Hofstede’s Power Distance Index. Again, the Argentines scored relatively low compared to other Latin American countries, but they would still be considered a relatively authoritarian society compared to Northern European countries. Manager Rivas believed “that in Europe they inquire much more about the employees capability and input, and therefore divide and spread the responsibilities appropriately. In other words, they work more as a team. With regards to Argentina, on the other hand, this is very difficult for us to do. Still, I could say with certainty that this situation is changing down here."^96

Director Sánchez saw a development from a decision-making boss to a team that takes the decision as a group. “Today there is a marked influence in that work should be as a team, sharing responsibilities and opinions. At other times, the decision-making power was ordered top down.”^97 And distributor Bianchetti mentioned the historical reasons for such development. “Up until about 10 years ago, the companies were very closed to foreign relations. There were very few international enterprises in Argentina, the majority of which were family owned and operated enterprises; where the person in charge decided everything, while there was little participation in decision-making from the other workers from below. Today, the enterprises are getting a great deal more participation from all of its employees, because they themselves are requesting it."^98

Also important to consider is that the Argentinean managers in general believed their people to have greater difficulties in obeying rules and guidelines. “The Argentinean always has been more rebellious than the Chilean”, observed distributor Bianchetti. “For example, you can see the difference between a Chilean employee and an Argentinean one, where the Chilean is more tranquil and peaceful, all the time respecting much more the instructions and guidelines, but the Argentinean always struggles with an internal rebelliousness.”^99 Especially American managers may face

^95 Interviewee Sánchez
^96 Interviewee Rivas
^97 Interviewee Sánchez
^98 Interviewee Bianchetti
^99 Interviewee Bianchetti
difficulties when not respecting this element of the Argentinean mindset. Manager Canneva gave the following example to show the cultural differences:

"In Argentina an employee is going to confront the person in charge by telling them that they should perhaps consider doing things differently. This has caused problems for Argentinean workers who have gone to the United States. In fact, one guy went to the United States, and while he was doing an electrical installation, he realized that there was an error in the blueprint. So, he did the job without consulting the blueprint. He later informed his boss, and instead of congratulating him on a job well done, he suspended him from his job. Because according to the boss, he should have followed the guidelines - no matter what. In any event, it was not his fault; it was the fault of the person who drew up the blueprint - not him."

Throughout the research done in Argentina and Germany the managers of both countries were asked to give their opinion on exactly the same statements about values and characteristics of the Argentinean businesspeople. The following graph shows the opinion of the German manufacturers as well as the one of the Argentinean distributors:

<table>
<thead>
<tr>
<th>Numbers in left side of column=frequency of value mentioned by German manufacturers, Numbers in right side of column=frequency of value mentioned by Argentinean distributors</th>
<th>I agree</th>
<th>Somewhat agree</th>
<th>Don't know</th>
<th>Somewhat disagree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business people from Chile are more flexible to adapt to customer needs than business people from Argentina</td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Argentines compare to South Europeans</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Employees in Argentinean companies prefer a strong boss as decision maker rather than a boss as colleague</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>In business relations Argentines search for harmony and try to avoid conflicts</td>
<td>3</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Argentine employees try to follow the company rules strictly</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td>Business in Argentina is based on honour and trust</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Personal relations in business are more important in Argentina compared to the US, Asia and Europe</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>In business talks Argentines prefer to talk about private matters rather than the details of a deal</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

Figure 40 Opinions about values and characteristics of the Argentinean businessman (1)

Graph by author, sources. own questionnaires

100 Interviewee Canneva
It is interesting to see that the Argentinean distributors in general agreed even more to the statements about Argentinean values and characteristics. Many of the previously cited statements occurred during the first personal interviews in Germany, whereas the evaluation by German manufacturers was done through a written questionnaire that was sent to them as described at the beginning of Chapter Three.

IV. 2. 3. Rules of success when dealing with the Argentinean partner

After learning about the principles of culture and getting a better understanding of the Argentinean character, the foreign manager must be aware of his own deficits when trying to understand the foreign culture and that of his Argentinean partner. According to Kennedy (1991), the importance of perceptions and how they are managed cannot be over-emphasised when conducting negotiations.101 People communicate through verbal vehicles (words) and various nonverbal indications (gestures, facial expressions, or silence). Whether they are conducting meetings or exchanging information, they cannot do business without communication. But if communication is challenging in any business setting, it requires even more attention to function in situations where people from more than one culture are attempting to work together.102

"To establish a more fundamental intercultural understanding, the foreign partner must acquire the host culture language”, recommended Hofstede (1991). “Having to express oneself in another language means learning to adopt someone else’s reference frame.”103 Even when communicating in a third language it is very helpful to understand the principles of the business partner’s mother tongue. “Flat tones and pauses between sentences can mean different things in different cultures and can be misinterpreted from those who do not speak the language.”104, observed Iyer (1994). In the case of Argentina it might therefore be helpful for foreign businesspeople to learn Spanish. Some of the German interviewees observed a poor capability

101 Kennedy, “Managing the international business environment”, 63
102 Funakawa, 55
103 Hofstede, “Cultures and Organizations, 212
104 Iyer, 203
amongst Argentine businesspeople in the area of foreign languages. Even English was often not spoken very well. ¹⁰⁵

Other than adapting to the partner’s language one should also try to understand his values and goals. “A good relationship between a manufacturer and the distributor organization can only be established when the two organizations and their key people share common values and goals”, explained author Iyer. “The two organizations must also know what can and cannot be done legally, morally, and ethically, and have a full understanding of the cultures of the countries involved”. ¹⁰⁶

According to Hofstede (1991), there is a major difference between negotiations on a national and on an international level, as in international negotiations “every player plays according to his or her own rules”. Diplomatic savoir-faire is crucial to avoid unintended conflicts in international negotiations. “A trusted foreign minister or ambassador who has both the ear of the top leader and diplomatic sensivity is a great asset to a country. Culturally clumsy expatriates, on the other hand, can cause damage which is only noticed after their repatriation and which will easily be a multiple of the direct cost of their expatriation.” ¹⁰⁷

In order to establish a long-term and stable partnership with a foreign distributor, author Iyer recommended the following tools:

- Distributor visits to the manufacturer’s factory or head office
- Entertainment
- Regular contact (e.g. newsletters, visits)
- Events promoted for trade
- Fulfilment of promises
- Open communication
- Joint problem consideration and solution
- Involvement of top management
- Flexibility on rules and regulations ¹⁰⁸

¹⁰⁵ Interviewee R. Gobel
¹⁰⁶ Iyer, 188
¹⁰⁷ Hofstede, “Cultures and Organizations, 225
¹⁰⁸ Iyer, 191-192
Additionally Iyer (1994) defined the following circumstances that may help in order to get a closer relation to the distributor:

- Custom or habit
- Technical support
- Procedures for resolution of problems
- A club for customers
- Loan arrangements
- Distributor staff training
- Formal contractual agreement
- Spread of “family” culture

Manufacturers Stulz and Sampel both confirmed that the most important aspect in order to do business with the Argentinean partner is to have a trusting personal relationship. Manufacturer Prince mentioned that, “you must possess a strong local influence of someone who is able to pull strings because he or she is from there. If you or I went down there, we would find it very hard to do business. If you have not got connections, you will no doubt run into problems with Customs. And yet these locals are very good at things like this.”

A good relationship with the Argentinean distributor might also be established when adapting to his needs. The Argentinean distributors interviewed had several ideas on the kind of support that they expected from their foreign manufacturer. Many distributors interviewed did not really expect direct financial help from their manufacturer. Instead they were asking for more understanding and flexibility on payment terms and prices. “Argentines many times do not meet their deadlines which were originally anticipated and agreed upon”, mentioned Mahmoud the manager of distributor IOA S.A.C.I.. “For example, nowadays we may have agreed on a deadline for forty days; but all things considered, we will need sixty days instead. Perhaps the financial assistance we could request does not necessarily

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\(^{109}\) Iyer, 192

\(^{110}\) Interviewees Stulz and Sampel

\(^{111}\) Interviewee Prince
have to do with financing; rather, we could request more time to pay off a debt or ask for an additional discount.\textsuperscript{112}

Some manufacturers mentioned, that German and British companies especially tend to be quite rigid and Italians more flexible. Buenos Aires based distributor Meyer cancelled his contract with a British manufacturer as he felt there was little flexibility on prices. “I had a problem with an English enterprise ‘Oxoit’ whom I represented up until just recently”, said Meyer. “They were overly rigid, and nevertheless it was impossible to work with them. They cannot demand a sales objective from me, giving me prices which are not competitive in the market.”\textsuperscript{113}

In the area of marketing and sales the distributors interviewed were frequently asking for active support at exhibitions from a manufacturer’s sales representative, ideas for product placement, joint sales visits as well as brochures, catalogues and pamphlets in order to understand the products better and promote them to the customers.\textsuperscript{114} Again the distributors stressed the importance of a mutual understanding and the manufacturer’s ability to adapt to the needs of the Argentines. Manager Rivas mentioned that it would be helpful to receive brochures or catalogs not only in any language but Spanish. “If they could publish them in Spanish, this would be much better because it would make getting to know the product a lot easier for potential clients.”\textsuperscript{115} Medical equipment distributor Angarami confirmed that details like a brochure sent in a foreign language may affect the relationship of the foreign partner and demonstrate a certain level of indifference towards the foreign partner. “We import products from abroad, and it should not be our responsibility to do the translation on the pamphlet.”\textsuperscript{116}

Several distributors interviewed claimed that an intensive communication strengthens the relationship and mutual understanding. Up-to-date briefings on new products, corporate information bullets, guidelines on marketing policies, or even informative pamphlets on scientific studies were mentioned as important tools.\textsuperscript{117} “I expect to be well informed about the product, as well as its global positioning worldwide, because

\textsuperscript{112} Interviewee Mahmoud \hspace{1cm} \textsuperscript{113} Interviewee Meyer \hspace{1cm} \textsuperscript{114} Interviewees Meyer, Grelle and Kohner \hspace{1cm} \textsuperscript{115} Interviewee Rivas \hspace{1cm} \textsuperscript{116} Interviewee Angarami \hspace{1cm} \textsuperscript{117} Interviewees Ciliberto, Kohner, Rivas
this allows the product to be sold more profitably in our market here in Argentina”, explained Salomón Cheja, president of Teknotech S A.  

Another important area where support was expected was in the field of technical and sales training. This training might be given either to the distributor or to his customers. Here also the distributors expected a certain level of understanding and sharing of the relevant costs. “The ideal situation would be for them to come down here to Argentina”, suggested Rivas. And Meyer added that “if I send a technician to get training in Europe, or I decide to go, we’ll pay for the plane ticket, but the producer would be expected to pay for all other expenses incurred during our stay up there.”

IV. 2. 4. Unintended conflicts and solutions

When a foreign manager does not understand the Argentinean character or when he does not follow the rules of success as discussed in the previous paragraphs, conflicts are likely to occur. In fact, there were only a few Argentinean distributors interviewed that spoke of having a smooth relationship with their foreign partners. “All of the conflicts which we have had, were conflicts which were reconcilable, but which nonetheless had to do with commercial issues”, confirmed distributor Mahmond. And Dr. José Luis Sánchez added “if there are conflicts, it is because it is inherent in the business deal itself – not because one is from a different country than the other.” However, most of the Argentinean distributors interviewed as well as the interview partners in Germany confirmed the findings described throughout the previous paragraphs to be the causes of unintended conflicts.

According to Hofstede(1991), intercultural conflicts can be divided into those that are intended conflicts and those that are unintended. Compared to intended conflicts, such as wars, the participants of intercultural encounters do not manage to avoid the unintended conflict and suffer from them. Unintended conflicts are generated due to
a misunderstanding of a foreign individual or a new cultural environment. Hofstede (1991) describes the ‘mental software’ as the sum of the individual’s basic values that are acquired throughout childhood. As each culture has its own set of basic values that ‘became natural as to be unconscious’; unintended conflicts arise when situations are interpreted differently or misunderstood due to a different set of basic values. In addition Iyer (1994) defined as a general rule “the greater the dependence of channel members on each other, the greater the possibility of conflict among them. A channel participant needs to understand fully the strands of interdependence to be effective in managing the situation. Inappropriate behaviour can lead to conflict situations between the channel partners.”

When a business partner actively tries to cheat or to give misinformation to his foreign partner the counterpart will soon identify an intended conflict. German manufacturer Fromm ended a relationship with his Argentinean distributor after finding out about fraud and misinformation. His old distributor sold the products at a higher price than agreed and did his own price setting. Therefore, the basic condition for avoiding frequent conflicts with an Argentinean distributor is to find a reliable partner. SGL Carbon manager Hitzler felt that “our biggest success in Argentina was to find a reliable and trustworthy partner for a long-term business relationship, who has already represented the company since the 1970s and has achieved a market share of 40%.”

Usually there is a mixture of communication problems, a lack of intercultural knowledge, and prejudices against the foreign partner on the one hand. On the other hand, the Argentinean distributor might easily feel offended when the foreign partner does not adequately consider his position in Latin America and his sense of honour. “Argentines are proud people and therefore sometimes difficult to deal with”, confirmed German manufacturers Ziehl and Olesch. Distributor Blanchetti encountered this phenomenon where the foreign partner did not even try to understand the Argentinean position:

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122 Hofstede, “Cultures and Organizations”, 209
123 Iyer, 252
124 Interviewee Fromm
125 Interviewee Hitzler
The Spaniards treated us as if we were unable to sell ourselves, and that they knew much more than we did. But later they proved that they knew a lot about their country, but not about ours. There were various social conflicts, including the mistreatment between the two companies in which the sales managers did not reach an agreement at all. It is safe to say that other companies have had similar problems because of cultural differences. The issue is that when enterprises want to implement their system in Argentina, just as they do in their country, they have to bear in mind that they can do it but that they must adapt it to the Argentinean culture.\textsuperscript{127}

The lack of knowledge of the foreign culture can make it difficult to set up a trusting relationship that allows an open communication. When Auditotal manager Pessagno first visited a German manufacturer of optical parts, she felt offended due to the ignorance of the German partner. "It is very hard to reveal what I am going to tell you," explained Pessagno, "but when I arrived for the first time in Germany, of course I bought the best clothes that I could in order to travel. And the president said condescendingly, 'that jacket is from Argentina?' It is the same when we Argentines are in contact with a Bolivian or Peruvian -- we look down upon them like an inferior. This is what happens nonetheless to an Argentine in Europe during the first few moments of a first conversation, until they get to know us a little better."\textsuperscript{128}

When apart from poor cultural understanding foreign businesspeople are not open to learn about their new partners, or if prejudices persist such as mentioned by the German manufacturer Brunn, "Argentines do not keep their promises", and of course conflicts are more likely to occur. The Argentinean distributors interviewed, had several experiences where inappropriate behaviour on the part of the foreign partners provoked a conflict or was even the reason for cancelling the relationship. The negative Argentinean experiences came from American, Asian and German businesspeople. In all cases it was the lack of flexibility of the foreigner to understand the Argentinean way of doing business. "The Americans have no knowledge of the Argentinean market" said distributor Grelle. "On a daily basis, we have conflicts with Americans because at the beginning of the year they came up with their own idea of a forecast. They are not interested in the relationship with their partner; just the money."\textsuperscript{129}

\textsuperscript{125} Interviewees Ziehl and Olesch 
\textsuperscript{127} Interviewee Bianchetti 
\textsuperscript{128} Interviewee Pessagno 
\textsuperscript{129} Interviewee Grelle
Distributor Davila experienced the inflexibility of a German manufacturer in understanding the Argentinean labour conditions. Due to the German's lack of flexibility in adapting to a different work environment, the Argentine felt offended and a conflict emerged. "Here in Argentina it is very common that one person does many different things", commented Davila. "For example, I work in importation and exportation. I also attend to clients who have technical difficulties, which need to be resolved. So, here in Argentina, the job is not as limited as far as responsibilities are concerned, as they are in Germany." Due to their poor flexibility, distributor Rivas preferred to avoid business with Asian businesspeople and hence avoid conflicts. According to Rivas "Asians only see things from their own particular perspective. So they have very little flexibility when it comes to the criteria for making a business deal. It does not matter to them whatsoever what the client's opinion may be. So, bearing this in mind, we only make business deals with them when we strongly believe that the opportunity will be profitable."

Iyer (1994) agreed with the distributors interviewed. "Different perceptions of the existing situation can cause trouble because the members are likely to respond according to their own ideas", commented Iyer. "Different responses will probably mean frustration and conflict." William Fath (1995) therefore recommended that an exporting company should explain to the distributor how a product is to be sold, rather than explaining to him how he should act in his own country.

Due to different economic and business environments, the Argentinean distributor faces several problems that are unlikely to occur in Europe or the USA. As a consequence, Iyer (1994) described how the lack of appreciation of the kind of problems faced by an entrepreneurial distributor can lead to an undoing of established good relationships. "The distributor is interested in two things”, declared distributor Canneva. "First, they want to sell; second, they want to offer their products at a competitive price. Sometimes it turns out that the producers do not understand that their prices are too high for the local market. All the same, this is what usually causes the conflict."
According to Iyer (1994), a conflict is also likely to occur if there is an incompatibility of goals or if certain marketing matters are not clearly defined, such as the market to be served, the service to be performed or the marketing techniques to be used. Manufacturer Gobel mentioned that he expected much higher sales and a quicker return on investments. "We frequently considered withdrawing our activities as we are still investing with little return", explained Gobel. However, he never clearly defined the targets in writing to his Argentinean representative.

"In negotiations one should constantly ensure that both parties talk about exactly the same conditions", argued manager Fromm. And Ziehl, the Fleissner manager, added that sometimes they had problems with Argentine companies that were charging for services, which had not been agreed upon in writing. Future conflicts with the distributor might therefore be avoided at times of signing the mutual agreement. The expectations of the company on how to access the market should be agreed upon in writing. The parties should make decisions regarding the sales territory, the products to be sold, inventory holding, product training of the sales staff, exceptions to the sales agreement and who is going to cover the cost. Later, the exporting company should develop a tactical sales plan jointly with the distributor. They should agree upon the most important products, time frames, when to market the products and set priorities about what and where to market first. Future conflicts might thus be prevented if both parties are working to the same script.

Also from the distributor's side there are some typical prejudices towards the foreign manufacturer. According to Iyer (1994) a typical distributor generally:

- Thinks that the manufacturer charges a high price
- Thinks that the manufacturer's mark-up is high
- Thinks that the manufacturer does not invest in the market

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136 Iyer, 253
137 Interviewee Gobel
138 Interviewee Fromm
139 Interviewee Ziehl
140 Fath, 89 - 94
141 Iyer, 213
But Iyer also offered some recommendations as to how the export manager could motivate a distributor. Iyer (1994) suggested the following solutions on how to act in order to prevent a conflict:

- Try to understand the distributor’s needs in terms of Maslow’s hierarchy of needs: security, social needs, esteem and self-fulfilment
- Monetary rewards serve many needs and are therefore good rewards
- Clarify rewards and the efforts required to win them
- Use group pressure by involving the members of the channels
- Adopt common goals
- Individuals employed as diplomats in the management of distributor channels
- Exchange personnel to see each other’s view point
- Introduce new elements
- Have common membership in trade associations
- Have third party mediation in the event of a dispute
- Have arbitration

IV. 2. 5. Relationships between Argentines and other cultures

Due to their immigration culture that was described in detail in Chapter One, the position of Argentina compares to that of Australia in Asia-Pacific and South Africa in Africa. All these countries are geographically and culturally at the edge of their continent and have somehow an extraordinary position. Even today Argentina is known as the white Latin America, whereas the north-western part of South America is called Indian Latin America and the Caribbean and the north-eastern part of South America is known as black Latin America. “Argentines feel superior to other Latin Americans because we believe that we are Europeans living in South America”, said Rolco manager Davila. “We are all children or grandchildren of Europeans. My grandparents were Basques. In my Volkswagen I have a flag of the Basque country. The majority of Argentines are children or grandchildren of Spanish and Italian

Iyer, 213 - 215 and 258 - 259
immigrants." And Argentinean distributor Rivas mentioned, “Argentines have European origins, we therefore feel more advanced culturally than other countries here in Latin America that have more indigenous heritages.”

The famous Argentine arrogance and attitude of superiority over the rest of Latin America was captured in Chapter Two by John Micklethwait’s (1994) remark “Italians who speak Spanish and think they are English”, and was also observed by the interviewees. Manufacturer Fromm learned in his professional career not to call the Argentines ‘South-Amercans’, as they did not want to be identified with the ‘Indians’. He admits that throughout Latin America Argentines are still not very popular, but images apparently change especially due to the younger generation and the up and coming middle classes. These characteristics may go back to the days of President Sarmiento in 1837, who forced a massive immigration from the European elite, who felt superior to the gauchos and Indians.

Most interviewees agreed that Argentines are different from the rest of Latin America. “We Latin Americans always make fun of the Argentines as the Texans of Latin America,” explained Miami based SGS manager Quintero. “Everything there is bigger and better -- and the best! It is a large country with a large economy, which is demanding and sophisticated.” Distributor Meyer, however, differentiated between the people of Buenos Aires and those of the Pampa. “I agree totally,” confirmed Meyer, “but it is only the Argentines from Buenos Aires. This is just so because the people from the provinces do not feel superior; but the ‘bonarenses’ feel superior to everybody else in the country of Argentina. This is very similar to the situation in France, in which the Parisians feel themselves superior to the rest of the French.”

Eurocentro director Sánchez explained the difference of the Argentines as a result of their education and the Argentinean workforce. “Usually, foreigners will come down here and say, ‘Buenos Aires is so different from other Latin American cities.’ And this has fortified the ego of the Argentines, no doubt. Another factor that buttresses this image is that foreigners have recognized the fact that for many years, the

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143 Interviewee Davila
144 Interviewee Rivas
145 Interviewee Fromm
146 Compare Chapter One, To govern is to populate
147 Interviewee Quintero
148 ‘bonarenses’ or ‘portenos’ is the Argentinean denomination for the people of Buenos Aires
Argentinean work force was viewed as highly qualified, well organized and prepared. They also found out that the income per capita here was much higher than in other parts of Latin America. Therefore, we feel much more proud of ourselves than do other Latin Americans.\textsuperscript{150}

Gilda Villela, the manager of ViewSonic at the Latin American headquarters in Miami, mentioned a reason for the Argentines being different to Latin America - their immigration quality:

\begin{quote}
“I'm Brazilian, and our heritage is much different. As far as our ancestors are concerned, many Portuguese emigrated to Brazil after they left prison. In Brazil there were Indians and Africans who were to become slaves to the Portuguese. But in Argentina, the history is very different. Many good people came with a very good education. So they started out with a high level of education, and so they organized the country very well. Moreover, they reached the highest literacy rate faster than any country in Latin America. Brazil was founded on mixture of prisoners from Portugal, native Indians, and other slaves who were brought to Brazil from Africa.”\textsuperscript{151}
\end{quote}

The relationship of Argentines with other nations should be carefully considered when setting up a management team for Latin America. Conflicts may arise, as Argentines might not accept working with managers from certain countries “I think personally that the Controllers should be from Europe”, confirmed Prince, the British manager at F.G. Wilson. “And this is purely for the reason that they tend to trust someone from outside, rather than someone local as the distributor. One thing I have found is that they trust me because I am an outsider. For instance, if you send someone in from Colombia, they will not be trusted. If you send someone from Brazil, likewise they will not be trusted.”\textsuperscript{152} American manager Maceda confirmed “there could be a conflict because of personality differences for a Colombian, Venezuelan or Mexican to come down to Argentina in order to work as the controller.”\textsuperscript{153} Manager Quintero further believed Argentina to have a poor relationship with Chile. “Chileans and Argentines do not like each other. But it is the same as anywhere else where neighbouring countries do not like each other for cultural reasons. For

\begin{flushleft}
\textsuperscript{149} Interviewee Meyer  
\textsuperscript{150} Interviewee Sánchez  
\textsuperscript{151} Interviewee Villela  
\textsuperscript{152} Interviewee Prince
\end{flushleft}
instance, the same would be true for Chile vs. Peru, or Peru vs. Ecuador, etc."\textsuperscript{154}

However, whereas some Argentinean interview partners quoted the poor resources and the formal character of the Chileans, many others realized they adapted to market needs. “In Argentina, you could see an economy up until the year 1989 that was very closed and extremely limited,” explained Sánchez. “It was like this because of protectionism and paternalism of the national industry. Chile, on the other hand, opened up to the world much sooner than we did. For this reason, the Chileans have the advantage of being five or six years ahead of us – economically speaking.”\textsuperscript{155}

Other than the relationships to other Latin American countries there was no clear statement by the Argentinean distributors as to whether they preferred to deal with American or German businesspeople. As the following graph shows, it was the German manufacturers interviewed who claimed a preference on behalf of Argentinean businesspeople for dealing with a German partner rather than with an American one. Whereas some Argentines interviewed referred to stronger cultural ties to their European counterparts, others described Germans as being rigid. “It does not much matter whether they are American or German; what matters is the person,” explained distributor Meyer. “I have had very good relationships with the Americans.”\textsuperscript{156}

<table>
<thead>
<tr>
<th>(Numbers in left side of column=frequency of value mentioned by German producing firms)</th>
<th>I disagree</th>
<th>Somewhat disagree</th>
<th>Don't know</th>
<th>Somewhat agree</th>
<th>I agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentines feel superior to other Latin Americans</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Argentines compare to South Europeans</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Argentine values and standards compare more to those of Germans rather than those of US-Americans</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Argentines prefer to deal with European business people rather than those from the USA</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Argentines have less problems in understanding the non-verbal communication of Germans than those of Americans</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>17</td>
</tr>
</tbody>
</table>

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure41.png}
\caption{Opinions about values and characteristics of the Argentinean businessman (2)}
\end{figure}

153 Interviewee Maceda
154 Interviewee Quintero
155 Interviewee Sánchez
156 Interviewee Meyer
Chapter V

Controlling the business in the Argentinean market

V. 1. Description of the research methodology used in this chapter
V. 2. Controlling as key corporate function
   V. 2. 1. Definition
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      V. 2. 2. 1. Importance of controlling the distributor
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   V. 2. 3. Controlling as a non-corporate function
V. 3. Controlling the distributor in Argentina
   V. 3. 1. Ways of controlling the distributor
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   V. 3. 3. Distributor targets
   V. 3. 4. Conditions of ideal distributor Control
V. 4. Controlling the direct investment
   V. 4. 1. Controlling the Argentinean subsidiary in multinational companies
   V. 4. 2. Organisational set-up to control the Argentinean subsidiary – characteristics of the ideal Controller for Argentina
   V. 4. 3. Important factors to control in Argentina and Latin America
After setting up the business in Argentina there could be all sorts of favourable or unfavourable developments. The direction of the yet to be developed business could be determined by external national or even world-wide factors, as well as by the behaviour and development of the local enterprise that is in charge of marketing the foreign manufacturers' products and services. Due to the distance of the market of Argentina from Western Europe it is easy to lose control of the activities in that market. In order to make sure that the resources that have been invested are used efficiently, and in order to make sure that the previously defined targets as well as the overall success of the export activities are achieved, the manufacturer has to monitor certain parameters. Most manufacturers therefore establish a Controlling function to take care of these objectives.

But what is Controlling? How important is the function of Controlling within the manufacturer's organisation? How should it be done and what should be monitored? What is it important to control and what would be better avoided? Is it different when controlling an internal or an external company, and does it make sense in any case? The present chapter will focus on these questions, and it is mainly based on the findings of research carried out by the author in the three countries of Germany, USA and Argentina.

V. 1. Description of the research methodology used in this chapter

As described at the beginning of Chapter Three, a total of four research phases were carried out within the overall thesis. The first three research phases consisted of personal interviews done in Germany and Argentina as well as a questionnaire that was sent by mail to German companies doing business in Argentina.

The fourth research phase focused mainly on controlling topics that are discussed in the present chapter. Besides a literature study, the present chapter of the thesis is also based on qualitative research. Some of the research material from personal interviews done in Argentina will contribute to this chapter. Further, this last phase
consists mainly of personal interviews done in the USA with representatives of regional headquarters for Latin America that were mostly based in South Florida.

The questionnaire used in this phase of the research was designed mainly with open-ended questions. It consisted of two parts. The first questions sought to ascertain the size and the main characteristics of the company represented by the interviewee, and the second part of the questionnaire consisted of a number of questions related to controlling the distributor or the direct investment.

The interviews took place in the Greater Miami area between January 19 and April 20, 2000. Only one of the interviews took place in 1999 and that was in Buenos Aires, when interviewing Argentinean distributors. The sample included European, American and Asian multinational companies. With the exception of two companies, all other companies had their regional headquarters for Latin America in South Florida. From there they controlled the business activities of their distributor or their direct investment in Argentina. The companies interviewed represented the health care industry as well as other industries such as power generation, the computer industry, and even out-board motors for powerboats. The sample ranged from mid-sized companies with about three thousand employees to global enterprises with more than thirty thousand employees. The interviewees themselves were mainly working at management levels and were the ones who had direct contact with the Argentinean market.

With the exception of one telephone interview, all interviews were done personally in English, Spanish or German, mainly in the offices or the meeting rooms of the interviewed companies. All interviews were recorded on a micro cassette recorder and supported by a questionnaire or interview schedule. Interviews took between forty-five and one hundred and eighty minutes depending on the dynamics of the interview, and additional questions which arose during each conversation.

In comparison to the personal interviews done in Germany and Argentina, it was fairly difficult to get appointments with the relevant companies. Due to the automated telephone systems in most American companies it took a long time and a lot of effort to get connected to the right person or to speak to them personally rather than to an
answering machine. Many American or US-based foreign companies showed little interest in receiving a European PhD student for a personal interview. Sometimes even comments like 'I do not have time for this' were received. However, the managers interviewed made some very valuable contributions to this thesis. The interviewees were either foreign managers that had been sent to the USA as expatriots or they were US citizens of Latin American background.

V. 2. Controlling as key corporate function
V. 2. 1. Definition

This chapter will give some answers to important questions on how to control the business in Argentina once it has been successfully established. It is necessary at the beginning of this chapter therefore to define and to understand fully the function of controlling. The word controlling originally comes from the Latin words "contra" and "rotulus". The French combined these two words and created "contre-rôle" (contra-rule) and in Great Britain the term "countreroullour" emerged. According to Bramsemann (1990), these new terms describe the profession of someone who acts as a contra-pole in order to check and verify quotes and figures of an original document. The word "comptroller" that emerged during the 16th century was actually a misinterpretation of the French and the British terms. However, until today the term "controller" or in a few cases even "comptroller" is commonly used.

Certain kinds of controlling existed in the Middle Ages. Rainer Bramsemann (1990) described a 'countrollour' who in the 15th century was in charge of checking the documentations of currency and goods transferred at England's royal palace. In the USA in 1778 the position of a 'Comptroller' was created. He was in charge of monitoring sources and uses of the public funds. According to Bramsemann, the first private 'comptroller' was employed by the Atchison, Topeka & Santa Fe Railway System. He was more finance oriented and was focusing on the company's equity and its securities to guarantee the payments of bank loans. The importance of the function of controlling in private enterprises increased dramatically in the 1930s after

1 The questionnaire will be found at the end of the thesis
2 Bramsemann, 44
many companies experienced a financial disaster or bankruptcy after the world economic crisis in 1929. Since then, companies realized the importance of combining the results of accounting with a future oriented planning process.3

Typically the word controlling is understood in two ways. First, as the monitoring or checking of discrepancies between the actual situation and the targeted objectives. Second, it is meant as to steer or to lead a certain process.4 Typically in Germany the function of controlling is frequently wrongly understood or the word controlling is not understood correctly. The German word ‘kontrollieren’ (to control) refers more to the pure function of monitoring or checking as it was done throughout the Middle Ages. In English management literature, however, the word control is not restricted purely to a check of actual against budget, as is usually the case in the German understanding. Horváth (1998) explained that the word ‘control’ within an organization in the English management literature is understood as “all devices that insure that it goes where its leaders want it to go.”5

In Germany the function of controlling developed primarily in relation to the phases of divisionalization and a wave of insolvencies in the middle of the 1960s. As more and more German companies started to create independent divisions, their performance was measured more closely. In addition, as a consequence of much insolvency at the beginning of the 1980s, there was a need to employ a critical ‘corporate calculator’ who would have a better understanding of the planning and controlling process to monitor the company’s cash flow.6

In today’s modern economy the controller should not only have a sound knowledge of controlling and accounting. He must also know about IT-systems in order to design the relevant tools. According to Jaspersen (1999) today’s corporate planning, implementation and control is highly supported by computer systems. An enterprise that does not adapt to the rapid technological changes and that does not implement the necessary system solutions to increase its productivity and information transparency is in danger of being overtaken by its competitors.7

3 Bramseemann, 25 - 26
4 Bramseemann, 44 - 45
5 Horváth, 26
6 Bramseemann, 27
By 1935, the economist Knoeppel gave a definition of the term controlling. Even today the general concept of this early definition is still valid:

"We can define controllership as the co-ordinating function in a business, working in a detached and unbiased way, and charged with the responsibility of planning for profits and providing suitable profit control machinery. It is the investigative, analytical, suggestive and advisory function, studying the business at all points all the time, and formulating what the proposed practice should be with reference to sales and production control, which, when accepted or modified by the executive management, becomes the approved practice for use by the performance or 'line' function."\(^8\)

Bramsemann (1990) again gave a more modern definition of the function of controlling. He stressed more the planning and budgeting part of controlling and described it as a management style:

"Controlling describes a process of target definition, planning and steering. It can be understood as a way of thinking that covers the entire organization and that aims to systematically achieve the company's objectives on its different levels. Controlling has thereby a character to determine the management style. Controlling should further be understood as a service within the organization. Controlling should use and create the relevant know-how, instruments and technologies in order to develop the systems to control, to plan and to inform the decision takers in an organization."\(^9\)

Jaspersen (1999) strengthened the importance of differentiating between the terms controlling and controller. He confirmed the definition of Bramsemann and declared that the controlling process is primarily done by the responsible manager and not by the controller himself. "Controlling helps an organization to prepare decisions and to implement these decisions", wrote Jaspersen. "It should therefore be understood as a communication basis. The controller, on the other hand, is the one to support the organization in these processes. He typically delivers the tools to reach the targets by systematic planning and control."\(^10\) Bramsemann (1990) added that the controller

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7 Jaspersen, 2  
8 Horváth, 29  
9 Bramsemann, 47 - 48  
10 Jaspersen, 2
should be understood as an internal consultant and a specialist in methods of identifying weaknesses, and in designing the relevant solutions.\textsuperscript{11}

Further the controlling function could be described by looking at the tasks that are typically executed. Jaspersen defined controlling as an information system relevant to different kinds of functions. "Controlling is used to regulate and to steer a company's activities and to prepare the relevant decisions to do so. Controlling further supports the development of the company's planning to implement its targets and objectives", Jaspersen (1999) asserted.\textsuperscript{12} "The controller's function is that of reporting and advising and of providing valuable control mechanisms," added the German controlling professor Horváth (1998). "Controlling is a process that is constantly defined by the interaction of the manager and the controller. The controller should enable the manager and the organization to verify that defined targets could have been achieved", according to Horváth.\textsuperscript{13} The following graph shows the relation between the manager and the controller within an organization:

![Figure 42: Relation of Controller and Manager](source: Horváth, 26)

The American Financial Executives Institute gave a fairly exhaustive description of the controlling functions. They defined the most important tasks of a Controller or "Financial Executive" as follows:

\begin{verbatim}
Manager
Responsible for results
- Project responsibility
- Product responsibility
- Area responsibility
"Strategic Success Position"

Controller
Responsible for transparency.
- Information service
- Decision service
- Coordination service
"Coordination of Planning"
\end{verbatim}

\textsuperscript{11} Bramsemann, 73
\textsuperscript{12} Jaspersen, 1
A. **Planning**: Establishment, co-ordination, and administration, as an integral part of management, of an adequate plan for the control of operations. Such a plan would provide financial and corporate planning, budgeting for capital expenditures, sales forecasting, performance evaluation and analysis of acquisitions and disinvestments.

B. **Provision of capital**: Establishment and execution of programmes for the provision of the capital required by the business.

C. **Administration of funds**: Includes management of cash, maintenance of banking arrangements, credit collection management, and management of investments.

D. **Accounting and control**: Establishment of accounting policies, development and reporting of accounting data, internal auditing, report and interpretation of results of operations to management.

E. **Protection of assets**: Provision of insurance coverage as required. Assure protection of business assets, and loss prevention, through internal control and internal auditing.

F. **Tax administration**: Establishment and administration of tax policies and procedures, including the preparation of tax reports and tax planning.

G. **Investor Relations**: Establishment and maintenance of liaison with the investment community as well as communications with company stockholders.

H. **Evaluation and consulting**: Consultation with an advice to other corporate executives on company policy, operations, objectives and the effectiveness thereof.

I. **Usage of management information systems**: Development and use of electronic data processing facilities, management information systems and of systems and procedures.  

Against this background we would urge that, in order to understand the concept of controlling fully it is important to reflect on the different types of controlling. Mostly controlling is understood as pure financial controlling, but there are certain other areas where the Argentinean business could be controlled. Jaspersen (1999) distinguished between technical and financial controlling. The quality of a product has to be guaranteed throughout its entire life cycle. Therefore, the manufacturer

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13 Horváth, 26
14 Horváth, 34 – 35
needs to establish a system to plan, to steer and to control a product's quality. This technical controlling includes the areas of the product development, manufacture, sourcing and also the after-sales service. The financial controlling, on the other hand, is about processing the financial results of the accounting system and the monitoring of the cash situation.15

A further distinction could also be made between the operational and strategic controlling. According to Bramsemann (1990) strategic controlling focuses on the company's long-term development and tries to find solutions that guarantee long-lasting customer satisfaction and market penetration. Strategic controlling is described by 'doing the right thing'. Operational controlling, on the other hand, is focussing on the instruments and processes in order to achieve the defined targets. 'Doing things right' would be the adequate description of this type of controlling.16 The following graph gives a better overview of the relationship between operational and strategic controlling. The graph demonstrates that strategic controlling is done on a broader level:

![Graph showing the relationship between operational and strategic controlling](Image)

Figure 43: Operational and strategic controlling

Source: Jaspersen, 5

In addition, the German economics professor Reichmann (1997) gave a complete overview of areas where control might be relevant. He distinguished different types of

15 Jaspersen, 4
controlling in his book (1997). Each of the following control activities therefore focuses on a different corporate function:

A. Finance controlling: Financial controlling basically tries to monitor the company’s liquidity and its financial performance and uses data generated by the accounting system.

B. Investment controlling: Investment controlling is about the planning, realization and monitoring of the company’s investments.

C. Purchasing controlling: The purchasing controlling develops and monitors certain price ranges and classifies the suppliers so as to monitor their performance and support the negotiations with relevant facts and figures.

D. Production Controlling: This involves the development of quality performance indicators, as well as monitoring quality costs and services.

E. Logistic controlling: Logistic controlling is planning the procurement and monitoring the company’s material flow, to have the right components at the right time and in the right place in order to guarantee a just-in-time production.

F. Marketing controlling: Marketing controlling focuses on the adequate use of resources and deadlines to develop the most effective marketing mix.

G. Sales controlling: This is expected to develop the analytical tools for the sales force to guarantee a cost efficient distribution of the products without restricting the mobility of the sales team.  

V. 2. 2. The importance of controlling

The function of controlling is of considerable importance in order to guarantee the long-term success of an organisation and its ability to adapt to a constantly changing environment. According to Bramseemann (1990), it is important that the relevant manager develops the necessary mental awareness to control the business by continuous planning, information processing and information control. Bramseemann is convinced that even though a manager needs to have a feeling for the market and sometimes has to select innovative ideas, a manager will take the better decisions
when these are backed by facts and figures that are systematically analysed and processed.  

Whereas the Argentinean distributors we interviewed saw little importance in controlling the foreign partner, both the German and the Miami based manufacturers mostly agreed with Bramsemann. "Why do you want to control a distributor?" asked Canneva, the Argentinean manager of Rocimex. For him the situation was quite clear that there is no need for controlling, as it is in the distributor's interest to sell as much as possible in order to cover his costs. For Canneva, a low turnover would be due mainly to possible problems with the acceptance of the product or its price.

Other distributors interviewed simply judged Argentina as being of little importance, a relatively small national market that is, to justify the high costs of systematic control from abroad. "Argentina is very small," argued distributor Ciliberto. Most multinational companies only act in the main markets like the United States, Japan or the European Union. "Since they are so occupied with these areas of the world, they simply do not have time to remember about Argentina and control their business partners there," suggested Ciliberto. Angarami, the distributor of health care products, believed on the other hand that the reason for there being so little control is the respect of the foreign manufacturer for the sales abilities of the distributor.

However, Adolfo Rovlera, the Miami based manager of the American manufacturer Black & Decker, described it as "extremely important" to control the business in Argentina. "That is probably number one here," said Rovlera. "Again, if I were setting up something, I would start with marketing, and from there, I'll let my controllers handle the money or profit end of things." Most German interviewees agreed that in Latin America there is a need to control the local representative. Some described their counterparts as unprofessional and lazy, as they are interested in the glamour of representing international companies rather than in investing and working hard. "I have had a negative experience with distributors, as they prefer to go to cocktail parties rather than having really good business contacts," said Brunn. The Miami

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18 Bramsemann, 5
19 Interviewee Canneva
20 Interviewee Ciliberto
21 Interviewee Angarami
22 Interviewee Rovlera
23 Interviewee Fromm
based manager Prince agreed with this opinion. "You have to keep your eyes on them all the time in order to make sure that they are not missing sales opportunities," said Prince. "Some of them tend to get very lazy. And you have to be careful about this."24

The German Biotest manager Fromm said that the distance and the limited amount of visits throughout the year made it difficult to control the partner in Argentina. "Our former distribution company sold different kinds of products. There was a division within the distributor responsible for marketing our products. It took a long time to realise that the manager responsible was an alcoholic, who used our investments for other projects and gave us wrong information," explained Fromm. Other experiences were that the distributor did not follow price agreements and did its own pricing. In some cases a distributor even actively applied for the distribution contract in order to keep a decent sales performance under control while he was boosting the sales of his existing contract to market the products of the competitor.25

That the foreign manager should trust the Argentinean partner only to a certain extent and therefore needs to apply a certain kind of controlling was an opinion also expressed by the American manager Hufnagel. As with most of the managers interviewed in the greater area of Miami, Hufnagel was born in Latin America. As he grew up in Buenos Aires and his family was of German origin, he demonstrated only limited trust towards Argentinean business people. "As far as the financial controlling is concerned, we get the financial statements from the distributor once a year. Still, they are not reliable. Keep in mind that tax evasion in Argentina is around 50%," argued Hufnagel.26 Hufnagel also believed that controlling is even more important in Argentina than it might be in neighbouring Chile. "I would spend 50% of my time controlling in Argentina," said Hufnagel. "In Chile, on the other hand, I will only spend about 30% of my time controlling. Even though our distributor down in Argentina is quite good, I must confess that people down there are generally not very reliable."27

Distributor Bucello explained that a certain kind of controlling might even be to the benefit of the distributor. He mentioned that it is sometimes easier for the distributor
to justify a low sales performance if the manufacturer is aware of the market situation. Without any controlling of the market conditions, the performance would simply be compared with other more developed markets.

As discussed in the previous paragraph, systematic controlling of course is an important support when taking management decisions. Controlling information delivers the tools to enable decisions to be made based on facts and figures. "This office here in Miami provides a lot of reports with statistical data to our headquarters in California," said Villela, the American manager of ViewSonic. "All the information which we gather is sent to California. That is how you feel the temperature or the pulse of the business. You have to check the data with regard to the inventory, in order to keep track of how much they are selling. And these mandatory reports provide vital information." In addition, close control may facilitate the process of making strategic or marketing decisions. To replace a distributor by a manufacturer’s own sales office could be one of the consequences.

V. 2. 2. 1. Importance of controlling the distributor

In order to monitor the performance of the distributor in Argentina and to take the relevant decisions accordingly, certain control might be helpful. In the case of the German manufacturer Stulz, the area manager and family member Alexander Stulz had an extended stay of several months at the office of their Argentinean distributor. His visit was officially announced in order to support the distributor in his sales and marketing activities, but was a good opportunity to control the new partner. "If the distributor does not perform to our requirements he should be quickly replaced," explained Stulz. "The aim is to get a closer relation with the customer that allows us to check on our distributor. A local presence allows us to generate new projects that might be included in our budget planning in Germany. No distributor would give us information about possible future projects. We only receive this kind of information if projects are about to be signed." Stulz explained that an extended stay with a distributor enables a relation of mutual trust. The control of the distributor might be

23 Interviewee Villela
29 Interviewee Stulz
less important if this relationship of trust could be established. "If a relationship with a distributor is long lasting, frequent controls are not necessary," commented Stulz.30

Controlling the distributor may also enable quick operational decisions to be taken. "Because of outstanding payments in Accounts Receivable, sometimes we have to stop shipments down there until they pay us," said the Japanese manager Sampei.31 Sampei explained that his company therefore maintained particular control over the Accounts Receivable to the distributors from a separate credit control department.

Last, in some cases it might be important to control the distributor in order to fulfil contractual obligations. A certain level of sales control is needed when the level of commission is linked to the turnover figures or the number of customer visits. "Many times they give discounts off the prices of the products, if the goals are accomplished," confirmed distributor Bianchetti. "When they are not accomplished, several times successively, the producer can take away the distribution or representation of the brand."32

V. 2. 2. 2. Importance at the head office of controlling a foreign subsidiary

As soon as a manufacturer develops his international business, the complexity with which additional markets and additional direct investments are managed increases. The manufacturer may first increase the number of representations and may as a second step acquire some distributors to turn them into a subsidiary. The Finnish manager Turtola, head of the Latin American operations, also observed an increasing complexity in his company, Datex Ohmeda. "I would say that nowadays we have grown a lot with regards to our product range," said Turtola. "At any rate, we have five to ten times more products than we had, say, ten years ago. So, it is natural that in the future, in almost all of our markets, we are accounting for more and more of the revenues that the distributors are getting. And the more we represent, the more we want to control, and give directions and instructions to the company about how we see the product advancing on a global level, as well as to a

30 Interviewee Stulz
31 Interviewee Sampei
certain extent, on a local level. In other words, we want to inform them of how we see our business developing.\(^{33}\)

However, it is not only additional support that the manufacturers need to provide. It is also necessary to have the adequate controlling tools in order to allocate corporate resources in an optimal way. Bramsemann stated, "the micro- and macroeconomic developments in recent times demonstrate, that many companies have to face the increasing complexity of their market environment. It is more and more demanding to satisfy objectives, meet profitability targets and to create a favourable labour situation for the work force. In order to adapt to this development it is increasingly necessary to design and to control a set of key performance indicators."\(^{34}\)

It is interesting, however, to find out how many multinational companies administer the increasing complexity. Instead of building up a comparable controlling system with a complex hierarchy, the responsibilities are frequently shifted towards the local markets in order to decentralize the controlling structures. According to Rhinesmith (1996) the control of the European business partner in many cases depends on the size and the corporate culture of the business. Smaller companies tend to control their foreign partner in a closer and more bureaucratic way. "When a corporation moves from an international to a global perspective, an essential shift takes place – a shift from the tight control of a bureaucracy to an entrepreneurial, flexible, rapid-response capability that is totally comfortable with cross-cultural influences and conditions."\(^{35}\)

The importance of controlling within the manufacturer's organization and the position of his finance and controlling departments depends mostly on the company's policy. Whereas in most pharmaceutical companies managers with finance and controlling backgrounds are in a central position, other consumer goods companies typically place a higher importance on the sales and marketing functions. In order to determine the importance of controlling within the manufacturer's organization, it was therefore interesting to have a closer look at how the companies in the interview sample selected their expatriate managers.

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32 Interviewee Blanchetti
33 Interviewee Turtola
34 Bramsemann, 28 - 29
35 Rhinesmith, 9
Some of these Miami based manufacturers saw little or no need to send a General Manager with a finance and controlling background as an expatriate to a new market in Latin America. The Finnish manager Turtola said, “that he or she should have a technical background when dealing with high-tech industrial hardware. And even though these managers might have a high level of expertise in software, they would need to know a lot about the industry in which we work. So, I would say moreover, that this person should have above all, the sales know-how to work as a ‘Sales Manager’ as opposed to a Controller.”36 The British manager Prince confirmed this, stating “we tend to send mostly sales people but my personal feeling is, I would prefer to have a more service oriented person. This is because the biggest problem you have is the service. If you have someone down there who can solve the problem, then it will give your company a lot of ‘brownie points’.”37

Most other manufacturers interviewed confirmed that the function of finance and controlling would rank after sales and marketing in importance when selecting a manager to build up a new market. The Japanese manager Hiroyuki Sampei mentioned that the candidates “should possess a strong background in sales and marketing. Then, the next important aspect would be financial management. If it is an important country for us, then we send a finance manager as well as a marketing one.”38 ViewSonic manager Gilda Vilela who holds two postgraduate degrees in business explained that the function of sales and marketing is important for accessing the market and building up the first relationships with customers. She was, however, also aware of the importance of controlling for the market’s future development. “He [the candidate to become the General Manager in the target market] needs to be business orientated, in order to see how he can make the business grow,” explained Vilela.39
V. 2. 3. Controlling as a non-corporate function

When defining the term controlling at the beginning of this chapter two ways of understanding the word were identified. First, it was understood as monitoring or checking of discrepancies between the actual situation and the targeted objectives. Second, it means steering or leading a certain process. Only a controlling process that comprises the pure monitoring and checking functions might be outsourced to an external service company and thereby become a non-corporate function. However, the question remains as to whether it would make sense to do so, and whether an external service company would be as efficient as the company's own staff at controlling the direct investment or the distributor in Argentina.

The Miami based manufacturers interviewed had different opinions and experiences of whether or not an external service company should be contracted for controlling purposes in Argentina. The British manager Prince described contracting external auditing companies as a typical American phenomenon. "The Americans are much more adamant about doing it, as opposed to the Europeans," stated Prince. "The British, on the other hand, are not. Our American mother company initiated a survey in a few Latin American countries...Chile, Argentina, and others. They are probably going to do thirty face to face interviews with our customers to find out whether or not they are satisfied with our product."40

Other than in certain legal situations, where an external auditing company might be contracted by law to find out about legal matters, many companies interviewed refused to ask for external advice. The American manager Maceda responded with a clear 'No'. "We can detect very quickly whether or not they are being dishonest with us. At any rate, we can measure the volumes of purchases that they make from us, and we in turn can also go down there and meet with their customers in order to check their selling points. Moreover, we can determine if we have a strong or weak presence there. In short, it is very easy for us to find out about how they are doing or not doing. It is also not a part of our philosophy. It is just a gut feeling in that we have our own interests, and we are more than capable of managing our own business."41

In fact, the main reason for refusing external auditing companies was so that direct

40 Interviewee Prince
41 Interviewee Maceda
contact with the foreign market would not be lost. In these cases an external service
company was understood as a filter between the manufacturer and the local
representative.

Manager Maceda was also convinced that the quality that an external auditing
company may offer would not match the one that could be offered by the company's
own staff by far. "One other reason why we would not look to hire someone to audit
externally is because of our knowledge of the business. In other words, it would be
very difficult to find personnel with our specific knowledge of how we do things. So,
needless to say, it is very difficult for an outsider to come into our enterprise."

According to the Miami based managers Sampei and Villela there was absolutely no
need to hire an external service company if the company itself or the relations with
the Argentinean representative were working properly. "If we have a normal or good
relationship already established between us, then we do not need to consult the
services of an auditor," commented Sampei. Manager Villela preferred to change
the distributor rather than to doubt the quality of their personnel. "We have a
Territorial Manager who can go and sit with the distributors, and tell them that such
and such is not working," said Villela. "If communicating with them does not work, we
may opt to use another distributor."

Other managers interviewed that were responsible for the Latin American operations
were more open towards the idea of using an external service company to control
the business in Argentina or had even had some experiences of it. Still, it was mainly
an option, rather than a clear plan to use external support. "It depends on the topic," said the Finnish manager Turtola. "I think that it is sometimes healthy." According to
Sampei, an external company might sometimes act as an intermediate between the
manufacturer and the distributor to improve their relationship. "I think that it is
possible to use an auditor if both parties involved have the desire to continue a good
relationship," explained Sampei, who mentioned having had some difficulties with his
Argentinean distributor. Manager Graff who generally refused to use external help
would only do so in case of problems, in order to ensure the quality or to cut costs. "If

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42 Interviewee Maceda
43 Interviewee Sampei
44 Interviewee Villela
45 Interviewee Turtola
we had any problems regarding quality or costs, then, yes, by all means, we would consider hiring an external company to help make sure our targets are achieved."\textsuperscript{47}

V. 3. Controlling the distributor in Argentina

V. 3. 1. Ways of controlling the distributor

Controlling departments in most multinational companies typically control the performance of their foreign subsidiaries. Thereby they can optimise the use of their global resources and plan the further development of each market. As the subsidiary and its employees are part of a multinational corporation, communication and interaction with the local organizations can be done quite simply and controlling data is relatively easily accessible. In the case of a distributor in Argentina things are different. From the legal point of view, the distributor is a separate company that under normal circumstances has no obligation to inform its business partners about certain performance indicators. Its management can take independent decisions and change business relations to a different manufacturer if needed.

Nevertheless, it is in the manufacturer's interest to control the business activities in Argentina regardless of the distribution channel in place. Although if the distributor has no formal obligation to report to the manufacturer, it becomes an issue as to how the manufacturer can achieve a transparency of the local activities in order to support the further development of the business. The issues of how the relationship with distributor is affected when a tight control is implemented and to what extent a control of the Argentinean distributor is possible also need to be addressed.

Without considering any implications for costs, efficiency or the relationship with the distributor, the manufacturer theoretically could apply tight and intensive controlling or could check only occasionally on some minor items. There are several dimensions that help to determine the extent of controlling. The intensity of each dimension determines how in-depth a view the manufacturer may get into the performance of the business. The following summary was developed by the author out of his own

\textsuperscript{46} Interviewee Sampei
\textsuperscript{47} Interviewee Graff
experience and out of the findings of the research sample. It lists the most relevant controlling dimensions that help to define how intensively a distributor may be controlled:

- Frequency of controlling: There could be an exchange of information on a yearly or even on a daily basis.
- Areas that are controlled: The controlling could include all the company's functions such as sales, marketing, production, personnel, or might simply focus on financial performance.
- Responsibility for controlling: The collection of the relevant data could be done by the distributor himself and submitted to the manufacturer or the manufacturer might carry out the data collection.
- Data communication: The relevant data could simply be communicated orally or could be processed in a document or computer file.
- Mode of data transmission: Orally communicated data could be transferred over the telephone only or could be exchanged during a personal visit. Documents and computer files could be sent by mail, email, fax or an online reporting system could even introduced.
- Complexity of reported data: The information might be transmitted only as an aggregated summary or might include more detail. (e.g. balance sheet with only major accounts or information covering all detailed sub accounts).
- Data sources: Data might be generated exclusively from the distributor, or additionally, external institutions, customers, auditors or other companies of the same industry might be addressed.

Of course, the higher the intensity of the above mentioned dimensions, the more resources are needed from the manufacturer as well as from the distributor to satisfy the controlling requirements. Extensive controlling may even result in hiring a responsible controller and would lead to additional costs for communication, travel expenses or personnel. Multinational companies with subsidiaries in Argentina are often willing to spend these resources for controlling purposes. However, in order to control an independent distributor, there must be a mutual understanding and an acceptance of controlling on both sides.
The interviews carried out in Argentina, Germany and the USA demonstrated that there was only a limited amount of controlling of the Argentinean distributors. As the Miami based managers mostly represented Latin American headquarters, all of them, of course, controlled, in a certain way, their distributors in Argentina. However, some of the Argentinean distributors interviewed had not noticed that they were being controlled. “No, there is not really a control done by the manufacturer,” stated distributor Ciliberto. “Here what they follow are the results; not the procedures. Of course they discuss how to obtain those results.”48 Also distributor Rivas did not feel that he was controlled by the occasional visits of the manufacturer. “They do not control us,” said Rivas. “Rather they make technical visits.”49

Of the above listed dimensions of controlling it is important for the manufacturer to get as much and as in-depth information as possible in order to take further management decisions for the development of the market. Therefore it helps the manufacturer to receive several documents and reports for the purpose of analysis that are ideally gathered from more than one source. The broader the data base for the manufacturer, the higher the transparency of the distributor’s business in Argentina. In order to enable an in-depth view into the distributor’s business performance the distributor himself has to create reports, attend the manufacturer’s visits, or contract a controller. These activities may imply a direct cost for the distributor and put the manufacturer into a more powerful position. Therefore the Argentinean distributors interviewed accepted only a certain level of controlling intensity.

The Argentinean distributors interviewed were visited every three to six months by their manufacturers or in some cases, only once per year. The distributors frequently did not feel controlled by these visits. “They come from Germany twice a year,” explained distributor Cheja. “And then they take the opportunity to make contact with our clients.”50 “Visits are . maybe once a year,” added distributor Angarami. Sometimes a representative comes and stays with us throughout the conference. And there they get an idea of the volume of sales that we make.”51

48 Interviewee Ciliberto
49 Interviewee Rivas
50 Interviewee Cheja
51 Interviewee Angarami
The purpose of these visits was understood as to give support to the distributor and to get a market feeling, but mostly not as tight control. This is why the majority of the distributors interviewed accepted these visits and their relatively low frequency. “This is just so when they come down here, they share their experiences in diverse countries that also represent the producer,” explained manager Cheja. “For example, these countries may be: Chile, Colombia, Mexico, Brazil, etc. In any event, this turns out to be very positive feedback for us.” For the distributors, the manufacturers’ visits require only the resources necessary for attending to their foreign partners for a limited time.

The manufacturers interviewed viewed distributor and customer visits as an adequate controlling tool that did not damage the relationship with the foreign partner. “Occasionally the Product Manager goes and sees the customers, and asks them about such and such a distributor,” explained Miami based manager Turtola. “They are asked if they are satisfied with their services and so on. If they say, no, then it is our prerogative to tell the distributor to take the necessary corrective actions.”

For the American manufacturer Hershey’s the distributor and market visits were one of the most important controlling tools and these were carried out quite aggressively. The manager responsible for visiting the foreign market was, internally, called a ‘spy’. “We have a ‘Hershey’s Spy’ who goes around and checks up on all of these things,” explained Hershey’s manager Hufnagel. “For example, he will go to the supermarket and make sure that the product is being replenished. He controls many things, including the stock.” From Hershey’s perspective this controlling tool of course led to a transparent evaluation of the distributor’s performance. However, the use of a ‘spy’ was not communicated to the distributors in order not to damage the relationship.

The German manufacturer Stulz had the most intensive way of visiting and controlling the distributor. As the relationship with a new distributor in Argentina was set up, Stulz stayed a couple of months in the distributor’s office for the purposes of support as well as control. “It is difficult to control your partner in Argentina,”

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52 Interviewee Cheja
53 Interviewee Turtola
explained Stulz. "Since January, I, as the Area Sales Manager Latin America, temporarily work in the office of our distributor here in Buenos Aires for about a couple of months." As manager Stulz was the son of Mr. Stulz who founded the Stulz GmbH, the distributor somehow accepted his extended stay in their office. "My temporary stay at the distributor's office in Argentina has also the objective of training myself in international business," explained Stulz. "However, information about the distributor is much clearer now and an excellent control of the distributor is possible that way. Other companies may consider doing something comparable whenever their business patterns allow them to do so."

This extensive control enables the manufacturer to control several areas of the distributor's business as the close contact allows an in-depth view. The acceptance by the distributors, however, of having a permanent manufacturer's representative in their office, might be limited and only possible if the representative somehow belongs to the owners of the manufacturing company.

Another way of controlling the distributor that was mentioned was offering regular training. "We also control through training," said British manager Prince. "That is either done up here or down there locally." The acceptance by the distributors is quite high as they understand the benefit of the training and mostly do not realize the controlling part of the training. For the manufacturers, it is not sufficient to control their distributors only through regular training sessions, as they may gather only some superficial impressions rather than structured controlling data.

A more efficient way was observed at some of the Miami based companies interviewed. "Once a year we have a so called 'Distributor Sales Meeting', for all of our Latin America distributors, explained manager Turtola. "We invite them while launching the new products. We likewise present our market strategy for the next year or coming years." Manager Villela stated that their quarterly controlling meetings give the opportunity to "discuss things, make concessions and important decisions."

54 Interviewee Hufnagel
55 Interviewee Stulz
56 Interviewee Stulz
57 Interviewee Prince
58 Interviewee Turtola
59 Interviewee Villela
The Black & Decker manager Maceda explained an even closer control was possible using regular controlling meetings. “On a quarterly basis they have to come up here and give a formal presentation of the results along with their estimates for the whole year. And that is the yearly operating budget. Then they do the five-year plan where they get involved in different strategies. And that is a strategy for the whole operating market.” This tight control by the American company is typical of multinational companies when working with their subsidiaries. However, it was the only case observed of such tight control over the distributor. The intensive reporting and planning as well as the quarterly trips to the manufacturer imply a significant dedication of the distributor’s resources and are therefore accepted only in extreme circumstances.

At the companies interviewed, several different ways of exchanging control information between the manufacturer and the distributor were observed. The German manufacturer Brunn used probably the most inefficient way of controlling his Argentinean counterpart. Brunn simply monitored whether his counterpart continued to react to periodic communications he sent. So all he could really find out was if the relationship with the Argentinean distributor was somehow in place.

Regular reporting or regular communication was not observed on an intensive level at any point in the interviews in Miami or Buenos Aires. Whereas some distributors occasionally sent a written report to their manufacturers by fax or email, others communicated over the phone or by fax. Whereas distributor Angarami had a weekly phone call to report of some important ideas to some manufacturers, distributor Bucello only had occasional contact, if required. “They do not control us by policing us,” said Bucello. “Everything is done through a dialogue. They call us and ask us about specific issues – whatever they may be. Sometimes they call and ask us how things are going down here, because right now we are going through an important change in the Government.”

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60 Interviewee Maceda
61 Interviewee Bucello
Also, there was no general trend regarding asking the distributor for a written report on a regular basis. Distributor Pessagno mentioned that she was not controlled through regular reports. “There is direct communication,” declared Pessagno. “We send them reports on our initiative.” Manager Bucello confirmed that it was his own initiative to issue a report for the manufacturer. “Rather we like to issue them commentaries on how things are going in our country,” said Bucello. Some companies mentioned sending reports to some of their manufacturers. However, there was for the most part no rational procedure or constant regularity. “Sometimes we have to provide a report once every six months or once annually,” continued Bucello. “In the report, we must communicate to them everything that happens here. The control is not done in a direct way. They do it through what I have communicated to them.”

Distributor Kleh observed an inefficient procedure when trying to control the distributor with written reports. “They try to administer a control, but it is not very effective,” argued Kleh. “They send us planners that we are supposed to fill out, and then check back with them so that they can gauge how the sales are going.” But Kleh expressed the opinion that this kind of control does not work in most cases with the distributor. Manufacturer Hufnagel therefore explained “we try to keep it as simple as possible. Usually, all they have to do is fill in the numbers. For the most part, they do not like to have to fill out paperwork.” Even though it would add an important dimension for the manufacturer to receive detailed data, the need to issue regular reports was generally not accepted by the distributors.

The following table summarizes the previous observations. It shows the implications for the manufacturer as well as the distributor, and to what level the distributors interviewed generally accepted the previously described controlling dimensions:

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62 Interviewee Pessagno
63 Interviewee Bucello
64 Interviewee Bucello
65 Interviewee Kleh
As regular and frequent reporting implies an additional cost for the distributor's organization, there is only a limited acceptance from the distributor's point of view. Often distributors simply refused to prepare written reports. "A report is not a good indicator," said distributor Kohner. "We hate filling out reports. The idea is that you want results, not reports."[67]

However, there are other reasons why rational procedures are difficult to apply in order to control the distributor's performance. Kohner made a joke during the interview with a certain element of truth that expressed how much he refused to be controlled. "If a foreign guy came every year and stayed for two or three weeks to get an idea in order to control some projects, I would kill him after the first week. Ha, ha, ha. One week should be a maximum, but again, it depends on the amount of business you do. They cannot audit your company. Auditing an agent does not exist in this line of business."[68]

Possible damage of the personal relationship between manufacturer and distributor is one of the major reasons why rational controlling procedures are not really in place. "I think you have to be very careful in how you handle this relationship," manager Prince observed. "This is because the distributor likes to feel that he or she is in charge of their own company. So, you should not demand too much information

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66 Interviewee Hufnagel
67 Interviewee Kohner
68 Interviewee Kohner
from them." In certain cases the distributor might feel punishable if the manufacturer insists on introducing tight controlling measures. "They are controlling you because they want to find any type of error," stated distributor Blanchetti. "It is just a pretext to punish you. One works all the time under all sorts of pressure, and without desire. Many times the objectives are not accomplished, because one is not motivated and because of worries that any mistake may happen, and this will be punished. It is preferable, it seems to me, to lose the business and look for another which is more profitable, not only economically, but also socially."

The manufacturer therefore needs to find a balance between gathering enough controlling data from the distributor's performance and still building up the relationship with him. Manager Villela, in charge of controlling the Argentinean business, observed, "if you keep bugging them with control measures, i.e., reports, then you are going to frustrate them. You have to know what it is like to sell in order to appreciate what they are doing. And this no doubt is something which is difficult to do." It is also important to understand that many distributors do not see a need to be controlled. Distributor Canneva explained "the one who assumes the risks in this business venture is me. because if I buy such and such a quantity of such and such a product, and I do not succeed in selling them, then it is my responsibility to accept the loss as my fault. And the one who would lose money would be me of course – not the producer."

Manager Hufnagel also mentioned cultural differences as being a reason why rational controlling procedures are difficult to use with Argentinean distributors. Hufnagel explained:

"It all goes back to culture. This is an old adage for me. If you send an external auditor, then you are implying that your distributor is dishonest, and then they would no doubt be offended. Moreover, it would hurt their [Argentinean] honour. So, in other words, that would not be appropriate etiquette down there in Argentina. In Anglo-Saxon countries, as well as Japan, there is this element of trust that allows you to trust people that are not related to you or connected to you intimately. Theoretically, this allows big corporations to form and to operate. In Latin countries, on the other hand, Latins do not trust one another

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69 Interviewee Prince
70 Interviewee Blanchetti
71 Interviewee Villela
72 Interviewee Canneva
if they are not family....an inherent cultural weakness in not trusting does not allow us Latin Americans to form big corporations, because according to this theory, they would always have to be family members."73

As a conclusion, manager Stulz therefore prioritizes a good relation with the distributor rather than getting first class controlling data. "Overall my stay should motivate the distributor," said Stulz. "The goal is to have a much better relationship with the distributor so future business will be much easier."74

V. 3. 2. Subjects of Controlling

A manufacturer may control his Argentinean distributor openly by demanding written reports, or he may control him indirectly on technical visits, a training session or even through a Hershey spy. In any case, the manufacturer needs to define the subjects of controlling. Even though Fath (1995) described it as crucial to find out whether or not the distributor is controlling his cash flow internally or through an outside consultancy, it would be wrong to understand controlling as being restricted to financial matters.75 Although there might be different requirements for different industries, there are certain subjects that need to be monitored carefully by the manufacturer in order to succeed with a distributor in the Argentinean market.

The interview surveys showed that there are basically two types of activities that might be controlled by the manufacturer. First, there are certain secondary controlling subjects that determine the level of success of the distributor's activities in Argentina in the long run. These subjects might be changed occasionally in order to optimise the development in the market and to guarantee a long-term success in the market. Second, some primary and crucial subjects have to be monitored very closely in order to avoid unfavourable developments in the short run. If some of these primary subjects change, immediate action of the manufacturer might be required in order to avoid further damage.

73 Interviewee Hufnagel
74 Interviewee Stulz
Controlling the sales performance of the distributor was mentioned the most by the distributors interviewed as an important secondary subject to control in the above sense. "The only thing that matters to them is how we are doing with the volumes of sales," said distributor Angarami. "How we do it is just up to us. In other words, they want to know how much money we make annually. Everything else, we manage ourselves." In many cases information about the sales performance is not just requested on closed deals. Rather a sales forecast is required for the manufacturer's production planning. Rolco manager Davila indicated "in general there are different themes such as: sales targets for six months or a year. In July they asked me for a sales projection for next year, which is very difficult to do in Argentina." 

Another secondary controlling subject that relates to the sales performance is the monitoring of the Argentinean market. At a general level, the manufacturer may ask its distributor to provide information about political or economic developments, or the manufacturer might receive this information from other sources. "They are more well informed about the Argentinean economy than we are as far as the statistics are concerned," said distributor Pessagno. "So they do not ask us for that specific information." On a more specific level the manufacturer may focus on certain market components. In order to prepare a marketing strategy for Argentina, the manufacturer must be informed about the demands of the Argentinean customers, about the customer satisfaction, other products offered in the market and their price level as well as other competitors that enter the market. Distributor Cheja's sales performance is then compared against the market development.

In addition to monitoring just the sales figures, the manufacturer may also specifically monitor the customer visits. Rather than checking how many times the customer is visited by the distributor, manager Rivas explained that the focus is clearly on the quality of the visits. "The manufacturer checks if we keep up with the quality standards through visits to clients in order to ensure the highest standard of quality," mentioned Rivas. "During these visits, they confirm that the quality is up to good standards, and if the products have been delivered on time." In addition, the

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75 Fath, 84 and Bramsemann, 56
76 Interviewee Angarami
77 Interviewee Davila
78 Interviewee Pessagno
79 Interviewee Cheja
80 Interviewee Rivas
manufacturer may focus on the customer satisfaction when visiting the clients and check if the distributor attends all relevant trade conferences.

As an additional secondary controlling subject, the manufacturer might check on the product mix offered by the distributor to guarantee the highest profit. "It's the gross profit margin that is very important," explained Villela the manager from ViewSonic. "Because if you are selling the wrong thing, you are not optimizing the product mix that you have. And you have to understand your product, and see where you can make more money. Likewise you must make your distributor make more money. Because if he is not making money, then what is the point?"  

In addition, manager Stulz who stayed several months at the distributors office suggested controlling the efficiency of the distributor. Stulz explained "I might check the administration of the distributor by checking the telephone system. Are they using an operator or can a customer quickly reach the sales staff? How many people are involved in the distribution process and in individual projects? Are internal processes like order management done efficiently?" Even the profile of the distributor's executives might be checked closely as suggested by Japanese manager Sampei. "I would like to see the profiles of their main executives," suggested Sampei. "I would want a dossier including information regarding the following: their age, their past business experience, education, and other important data." However, there was no general agreement of the other managers interviewed on these last two subjects.

There was however, a clear indication, mainly by the Miami based managers interviewed, on what kind of primary controlling subjects should be checked in order to be able to react quickly to important changes. Even though some distributors interviewed saw no need to monitor financial performance indicators, the manager of the Latin American headquarters clearly valued their importance. "Another success factor here at Wilson has been our strict control of finance," asserted manager Prince. "We do not give credit to people unless we are pretty certain that they are going to pay. And that is another thing that other companies tend to do. And 50% of our business here is done through 'cash before dispatch', so to speak."  

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81 Interviewee Villela  
82 Interviewee Stulz  
83 Interviewee Sampei  
84 Interviewee Prince
Turtola confirmed, "we have certain payment terms to follow. And the distributors have given a certain period of X amount of days to pay, a credit limit, and those issues are controlled. Speaking about the financial issues, it is more of a credit control than anything else. And we always have to be well aware of where their account lies and where it is going."86 A close control of the financial performance of the distributor and his payments to the manufacturer may result in an abrupt end to the business relationship if the distributor is not able to pay within a certain time frame.

Of course, if the distributor is not fulfilling his contract obligations the relationship with the manufacturer would come to an immediate end. It is therefore important for the manufacturer to do some cross checks occasionally on some primary controlling subjects. “Mainly, we want to be sure that the distributors are not having any conflicting product lines – which are very important – so that we guarantee a certain focus to our product line,” explained Turtola, the Finnish manager from Datex Ohmeda. The manufacturer also needs to make sure that the distributor sells according to the contracted pricing policy. Otherwise the sales targets as planned by the manufacturer may not be achieved.

Furthermore, it is important for the manufacturer to monitor the inventory level of the distributor. On the one hand, it is important for the distributor to be able to deliver, at any time, the required quantities. The manufacturer has therefore to be aware of the upcoming orders from the distributor in order to plan his production accordingly. “You have to send the right amount of merchandise,” explained manager Vileela. “Because if you do not have merchandise, then you will not be able to sell. So we control the inventory levels.”86 On the other hand the manufacturer needs to keep the stock level as low as possible in order to avoid financing costs for a high level of stock.

Last, the manufacturer needs to monitor the quality of the products in the market and the quality of the after sales service. Distributor Mahmoud occasionally had to fill out a report on difficulty in the correct usage of the product.87 Manager Maceda stated that within his company, Black & Decker, there was a special focus on customer claims. “We have a top ten ... warranty claims that they report as well. In other

85 Interviewee Turtola
86 Interviewee Vileela
words, they report on what has been the highest number of product failures that are submitted through the warranty claims on behalf of the distributors or our authorized service network. The control of this primary controlling subject enabled Black & Decker to react immediately to product failures and to avoid further damage in the market.

V. 3. 3. Distributor targets

When considering the term controlling as a process that involves planning, steering and leading rather than as pure checking or monitoring, as outlined at the beginning of this chapter, it is necessary to define certain targets with the partner. Miller (1998) described it as an important function to set up targets within a business plan when entering newly developing markets. According to Mc Calley (1992), the planning of actions and activities calculated to result in reaching specific goals is one of seven steps in the marketing channel planning process. These steps provide an overview of the process and the sequential progression that must be followed in order to produce a plan with integrity.

Whereas the manufacturers interviewed mentioned several ways and reasons to set targets, some of the Argentinean distributors interviewed found several reasons why an agreement on targets was impossible or difficult to establish. Some interview partners referred to the economic instability that it made difficult to agree on targets. Distributor Angarami explained, “in a country like ours, which is very different from the United States, the economy is very unstable. So the potential of sales lies in the actual state of our economy, but there is no money.” It is very difficult to do a sales projection in Argentina,” confirmed distributor Davila. “This is due in a large part to the recession and the Government of Meném...among other things.” Also Meyer, the Argentinean distributor who formerly worked as General Manager Latin America for a German company explained that Latin American countries experience more
instability than other western markets. "In Latin American countries," said Meyer, "the targets are very difficult to establish because they are countries that are quite vulnerable to abrupt changes."93

Some other Argentinean distributors interviewed who refused to agree on targets mentioned the unpredictable market behaviour of some competitors that made it almost impossible to set certain targets. "No sales targets were agreed upon previously," distributor Bucello asserted. "Because, in Argentina, sales goals or targets are not possible. Here in Argentina it is impossible to predict when and what they are going to buy. Argentina is as I said earlier -- very unpredictable. For example, you are selling a product that is worth 10 USD, and somebody turns up offering to sell that same product for 3 USD. Well, they will buy it even though it is a rip-off. Here in Argentina, there still exists the mentality that if you buy something cheap, it can not be all that bad because it's still cheap, after all."94 Distributor Dr. Karplus, who at the same time is the president of the International Chamber of Commerce in Argentina, explained why he believed that it was technically difficult to measure if certain sales targets are achieved:

"It never works. The thirty-five year-old foreign manager usually writes beautiful letters with the targets, and it does not work at all. Because the bridge between the theory and the practice, and the idea of business which can be done in one part of the market and the other part of the market, is usually like the following example: You do business in Paraguay, and on the same night the goods arrive there, then a 100% of the goods are smuggled into Brazil. You believe you have sold 250 grams of XY to every single inhabitant of Paraguay, unlikely of course. But when you realize that your goods were actually sold in Brazil, which makes more sense, the computer will still register that you sold a lot of it into Paraguay. This is only one single anecdote, but this is how it really works."95

However, these distributors' rejection of setting certain targets demonstrated again that rational procedures are difficult things to implement with a distributor in Argentina. All these examples and descriptions of some of the distributors seemed more like excuses, and, in reality, the distributors simply disliked being measured.

93 Interviewee Meyer
94 Interviewee Bucello
95 Interviewee Karplus
Some interviewees stated that they are not willing to agree on targets. "I do not agree on any targets with the manufacturer, not even in writing," said distributor Canneva.96 They also referred to their independent status and therefore set only internal targets without discussing them with the manufacturer. "No, actually I do not have agreements with anybody," confirmed Meyer. "They know that we do our best to try to sell as much as we can. I put a lot of publicity in magazines. They know we are doing as much as we can in order to sell their products. If we do not sell more, it is because we cannot, or because other products have been very competitive."97

In the previous paragraph, different areas of primary and secondary controlling subjects were described. Surprisingly, the interviewees cited only a very limited number out of these controlling subjects where targets were agreed between the manufacturer and the distributor. None of the interviewees mentioned agreeing on targets related to inventory levels, market development or the number and the quality of sales visits. Distributors as well as manufacturers interviewed mainly accepted the need to agree on sales targets. The agreements thereby may have different details such as focussing on growth rates, sales targets per area or sales targets per distribution channel. "In November we made the sales plan that outlines our sales targets in a certain number of supermarkets. This is a very detailed analysis," explained Hufnagel whose company manufactured chocolates.98

Other managers, such as Adolfo Rovera, agreed on detailed sales targets in order to guarantee the highest profitability by offering a certain product mix. "It goes hand in hand," Rovera asserted. "We look at a lot of things, including market share. As a matter of fact, that is how we get rated. But then again, I would rather sell ten V6's than a hundred three horsepower. So, in other words, I have to make sure that I have the right product mix, and that in their plan they realize this. So, at any rate, we orient the distributors and somewhat guide them."99

Only a few managers interviewed admitted agreeing on targets other than sales targets. The German export manager Brunn stated as minimum requirements that the representative had to place some advertisements in selected magazines. In

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96 Interviewee Canneva  
97 Interviewee Meyer  
98 Interviewee Hufnagel  
99 Interviewee Rovera
addition, Brunn, as well as Export Director Ballo wanted the new distributor to establish a marketing plan where a sales target should be budgeted. Distributor Bianchetti suggested agreeing on marketing. "Besides the sales goals, other agreements are made over goals of client satisfaction and the positioning of the brand," said Bianchetti. "But specifically speaking, we do not do it. This goal is more difficult and I do not know how the enterprises that implement it, do it." Also to agree on a quality or financial targets were purely suggestions by the interviewees, but none of them had agreed on such targets.

Out of those cases where targets were agreed, with a few exceptions, almost none of them were agreed upon in writing. The common practice experienced through the interview survey was keeping up an open relationship between the parties and not setting tight patterns. "We agree upon sales goals, but we do that verbally, not through writing," distributor Cheja asserted. "Because the local situation is very dynamic, and what you agreed upon through writing two months ago is unfortunately no longer valid today. Needless to say, we communicate a great deal with the producing enterprise - almost on a daily basis." "It's teamwork," stated the Finnish manager Turtola, expressing the idea that he respected the importance of the relationship with the distributor. He was well aware that the definition of close targets might damage this relationship. "We agree upon a challenging target," continued Turtola, "but it is also a discussion which is held between us and the distributor. And we always take into account their views. We might talk about how much the Government will be spending on Health Care; or how the economic cycles are going; or how the business will be doing in the future, and so on and so forth."

There was no general trend from the companies interviewed as to how frequently the defined targets were checked or how they expected the targets to be achieved. Not many had expectations about the performance of the business. "I have only limited expectations when I first start a business in a new market," manager Brunn asserted. "Good contacts, financial resources and patience are required at the beginning. However, we usually expect only 60% of the budget to be matched." Only a few interviewees mentioned having a regular assessment to check if the targets were

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100 Interviewee Brunn and Ballo
101 Interviewee Bianchetti
102 Interviewee Cheja
103 Interviewee Turtola
achieved. Primarily, it was the American managers we interviewed who mentioned reviewing the performance and the achievements of the targets on a quarterly basis.

Accordingly, there were only limited consequences observed when targets were not achieved. Distributor Rivas was a possible exception. "If we do not achieve our targets, the provider is going to eliminate some special discounts or bonuses," explained Rivas. "However, they also make goals or targets that we are likely to achieve, because they have a sound knowledge of the market down here. In addition, it could be that we do not achieve that goal, but we have nonetheless made some unusually good deals and that compensates." The Japanese manager Sampei confirmed that the targets for Argentinean distributors were used in a fairly cautious way. Sampei, who was unlucky in his attempt to establish a positive relationship with his Argentinean distributor, used the establishment of targets as an incentive rather than a tool for punishment. "We give them some incentive in order to increase their sales performance. If they achieve a certain sales target – and this is not done for all the distributors – two or three distributors are selected from Latin America, and we send them to Japan. There they can visit our headquarters and factories in Kyoto."  

V. 3. 4. Conditions of ideal distributor Control

In order to develop a controlling function accordingly, the relevant controlling tasks have to be adapted to the conditions of the business. In previous paragraphs the relation between the complexity of the business relationships and the organizational set-up of the controlling function was discussed. The intensity of controlling is, of course, different when controlling a small, family owned distributor with a single product line instead of a national distributor with various product lines and various subsidiaries throughout the country. However, the interview sample demonstrated that there are some general tendencies regarding to what extent the controlling of an Argentinean distributor is possible. The interviews further demonstrated under what circumstances an ideal controlling of the Argentinean distributor is possible.
Due to the conflict of interests between the manufacturer and the distributor, there are certain conditions of controlling that, when obeyed by the manufacturer, lead to an ideal situation in order to achieve a transparency of the distributor's business performance. On the one hand, extensive control enables the manufacturer to control several areas of the distributor's business as the close contact allows an in-depth view. Bramsemann (1990) is convinced, that even though a manager needs to have a feeling for the market and sometimes has to select innovative ideas, a manager will take the better decisions when these are backed by facts and figures.\textsuperscript{106}

On the other hand, from the legal point of view the distributor in Argentina is an independent company and has no obligation to inform the foreign partner about its business performance. As described in previous paragraphs, the distributors also frequently disliked being controlled. "I would kill him after the first week," was the answer from the Argentinean distributor Kohner, when asked for his opinion about receiving a manufacturer's employee in order to control the distributor's business.\textsuperscript{107} Hershey's manager Hufnagel, who is of Argentinean origin, explained that due to their culture the Argentinean distributor might understand control as mistrust by the manufacturer, as described in previous paragraphs. "If you send an external auditor, then you are implying that your distributor is dishonest, and then they would no doubt be offended," explained Hufnagel. "Moreover, it would hurt their [Argentinean] honour."\textsuperscript{108} Hufnagel further stated that controlling is more accepted in Anglo-Saxon countries than in Argentina where there is a common distrust if company executives are not part of the family.

In order to enable an adequate controlling, the manufacturer therefore has to find a balance between the above-described conflicts of interests. They have to continuously develop a mix of the adequate number of subjects to control, targets to agree and they have to define the intensity of the previously described dimensions of controlling. The adequate controlling mix has to deliver as much controlling data as needed at an adequate cost and without damaging the relationship with the Argentinean partner. "I would spend 50% of my time controlling in Argentina," said manager Hufnagel.\textsuperscript{109} However, an extensive control that may even result in hiring a

\textsuperscript{106} Bramsemann, 5
\textsuperscript{107} Interviewee Kohner
\textsuperscript{108} Interviewee Hufnagel
\textsuperscript{109} Interviewee Hufnagel
responsible controller will lead to additional costs of communication, travel expenses and personnel costs. German Biotest manager Fromm stated that “the distance and the limited amount of visits throughout the year made it difficult to control the partner in Argentina.”

As stated in previous paragraphs, there were other examples mentioned by the companies interviewed about how they tried to enable an ideal controlling. Manager Stulz obtained an in-depth view into the distributor's operation by an extended stay at his offices in Buenos Aires. Stulz, however, realized that this type of controlling was only possible as he was the son of the manufacturer and would in general not be accepted by other distributors. To install a Hershey's spy or to contract a local sales representative to control the local distributors were other ways of managing close control.

However, when searching for the ideal way of controlling the distributor in Argentina, the interview sample demonstrated that two ways of controlling should be differentiated. First, the manufacturer may control certain controlling subjects without communicating the control to the distributor. The possible controlling data is thereby restricted as the manufacturer may rely only on their own external sources. There is no damage to the relationship, as the distributor does not notice the control. Second, the controlling may be openly communicated to the distributor and the Argentinean partner may even be part of the process of data collection. German manufacturer Stulz described in that context how his company controlled the distributor:

“The distributors receive targets in terms of market share and turnover, etc. Internally we agree upon a profitability ratio per country that will not be communicated to the distributor. In some cases we even discuss the profitability of a business with the distributor in order to control the price offered to the final customer. In Germany we prepare a budget for each country. Usually the budget is based on the previous year's figures, as information on possible projects is not available to the distributor. There is some information available on the internet about market developments.”

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110 Interviewee Fromm
111 Interviewee Stulz
There are only a limited number of subjects that can be controlled without interacting with the distributor. The control is basically restricted to the sales figures from the manufacturer to the distributor, the related accounts receivable, the procurement policy and the country's economic development. Japanese manager Sampei described a way of carrying out hidden control without damaging the relationship with the distributor. His Miami based company set up an Accounting Department, in order to control the accounts receivable of their Latin American distributors. Other companies interviewed, like the American computer manufacturer ViewSonic, set up an advanced management information system in order to receive the above-mentioned data online from their headquarters in California. The quality of the so-called 'hidden controlling' depends on the organizational set-up of the manufacturer as well as on the infrastructure of information technology to process the relevant data.

Controlling that is openly communicated to the distributors is not only the gathering of a considerable amount of critical information, as described by Mc Calley (1992). Moreover, the manufacturer has to find a way to get as much controlling data as needed within the relevant time frames, but without damaging the relationship with its distributor. As an interaction with the distributor or his clients is needed to receive the relevant controlling data, the manufacturers interviewed emphasized the importance of open communication with the distributor. They also clearly ranked the establishment of a positive personal relationship with the distributor as the most important condition for allowing an ideal controlling.

The interview sample demonstrated again that cultural differences and the lack of ability to understand a different culture may be a major obstacle not only when accessing the Argentinean market but also when trying to control its ongoing business. Argentines consider themselves as a European nation in Latin America, and it was the Asian manager Sampei who reported on his unsuccessful experiences in trying to establish a positive relationship with his Argentinean distributor. "For me as a Japanese manager, I think there is a big cultural difference between me and the people of Argentina," reflected Sampei. "The problem I have with Argentina is they are always concealing information about their company from us. We are trying to help them but they do not want to tell us the truth about their market situation. I
sometimes do not like the attitude. Argentina wants to get a better margin for better profits. And they threaten us that if we do not ship, say, tomorrow, then we will have a big problem.”

Even though manager Sampei was aware that mutual trust was crucial in order to control the distributor, he had only a little knowledge of the Argentinean culture and was not able to establish the positive relationship. “The cultural difference is a difficult barrier to overcome,” asserted Sampei. “Family is important. I’m studying Spanish, but it is difficult for me. But due to a lack of mutual trust we do not get information about their inventory turnover at this moment. We may improve our relationship by supporting them, and cultivating the relationship. That is the only way.” Sampei explained that he was trying to use the same kind of management techniques in Argentina, that he had already used successfully in other continents. This might be one of the reasons for his failure. “We do this in another country - in some Asian and Middle Eastern countries - , and it works. I thought that the same would work also in Argentina. I did not think that this would influence the relationship. We can tell them that Argentina is very important for us. And we can assure them that our person will help them a lot locally. So, I think we can manage it.”

Another reason for his failure was probably due to the cultural history of Argentina. Argentines, who regard themselves as a European nation in Latin America, were described as arrogant compared with other Latin American countries. Some of the companies interviewed also referred to a certain superiority complex on the part of many Argentinean businessmen as opposed to those of Africa and Asia. There is a TV show on Argentinean television called “humor amarillo”. The correct spelling would be “humor amarillo” (Spanish for yellow humor). It is a Japanese show, where Japanese candidates compete by jumping over a small river, running up a hill of soap or fighting against each other with a water pistol. Many Argentines themselves believe that the success of the show is due to the Argentinean mentality of not respecting the so called “funny Asians” and making fun of them.
In conclusion, there are certain conditions that have to be in place in order to allow successful controlling. Fromm, the Biostest manager explained "Due to good relations with the sales force of the old distributing company, major mistakes were identified and the business relation was cancelled."\textsuperscript{116} Fromm therefore tried to establish a sound personal relationship with the distributor or its employees by going to a football match at the weekends or making other appointments with a more personal touch during his visits. SGL Carbon manager Hitzler added that close relations should not only be established with the sales agent, but also with some major customers. In that way, Hitzler managed to verify some of the sales agent's statements, when he referred to his close contacts in the market.\textsuperscript{117}

According to Fromm, the key to guaranteeing a certain level of control is, therefore, the ability of the German sales manager to establish relationships on an emotional level. He saw the knowledge of the Spanish language as a must. It would be almost impossible to establish close relations with Argentines in a foreign language other than Spanish, believed Fromm. That is why most of the Miami based manufacturers spoke Spanish or were of Latin American origin. "Language is not a problem because all of us speak Spanish," confirmed Finnish manager Turtola who himself was fluent in Spanish. "In addition, everyone that is working for me here in the Miami office is of Latin American descent, and therefore bilingual. So, as far as the language barrier is concerned, there is no problem."\textsuperscript{118} Also OMC manager Adolfo Roviera agreed "actually, we are about 30% Hispanic in this office, and that is why we deal with 80% of our territories who are Spanish speaking countries. So we basically show them that their language is the language we speak, too. We tend to direct all our meetings in the language which they speak."\textsuperscript{119}

Distributor Bucello even explained that he welcomed the controlling carried out by his manufacturer to a certain extent, as he thereby had fewer difficulties explaining low sales figures due to an unstable economy. In his case, it was an open dialogue with the manufacturer that convinced him to allow a certain level of controlling. Manager Turtola also preferred an open dialogue when setting the targets with his distributors. "We agree upon a challenging target," explained Turtola, "but it is also a discussion..."
which is held between us and the distributor. And we always take into account their views.\textsuperscript{120}

Finally, Fath (1995) referred to the need for clear communication to enable the necessary positive personal relationship. "In order not to influence the relationship with the distributor, the exporting company should clearly communicate the reporting and controlling tools at the time of signing the agreement. The contents and the time frames in which they expect to be informed should be discussed with the distributor.\textsuperscript{121}"

V. 4. Controlling the direct investment
V. 4. 1. Controlling the Argentinean subsidiary in multinational companies

Most multinational companies that have acquired a distributor or established a sales or production subsidiary in Argentina are willing to dedicate the necessary resources to controlling their foreign subsidiary. In chemical and pharmaceutical firms, in particular, controlling the foreign investment is of high priority. There are also legal requirements regarding the amount of controlling and the amount of financial reporting. The volume will increase when a company intends to go public or when a publicly listed company starts to trade its shares on the US market and needs to report under American accounting principles (US-GAAP reporting). The higher the interest of financial analysts in a publicly listed company to invest money, the more the company will receive requests to report on its world-wide activities.

Multinational companies need to gather the relevant controlling data to satisfy their investors and to enable their managers to ensure the further market development by maximizing the use of the company's resources. With the equivalent information about the subsidiary's performance, the manager may also distribute financial, managerial or operational support to a subsidiary. Therefore, a multinational company needs to dedicate certain resources to satisfying these controlling needs. With a growing market and an increasing product mix, the company will need to

\textsuperscript{120} Interviewee Turtola
\textsuperscript{121} Fath, 96
spend even more on personnel, communication tools and other financial resources to control its subsidiary. At the same time, efficient controlling might be extended to several corporate functions such as production, purchasing, logistics, and marketing instead of a simple controlling of financial performance.

Depending on whether or not a company is publicly listed, certain controlling data from all subsidiaries world-wide may have to be included when preparing the financial statements. The extent to which each company needs to provide these financial data depends on the accounting principles under which the mother company is reporting and on the national rules and regulations.\textsuperscript{122} Further, the industry may determine what additional data has to be processed for management purposes or in order to explain certain financial figures to the investors. For example, Quintanilla, the Operations Manager of SGS Government Programmes, stated “we control the areas of quality, uniformity (that everyone follows the rules) and our time frames.”\textsuperscript{123} Many multinational companies therefore differentiate between financial and management controlling. Whereas the financial controlling would cover all the relevant details of sales, costs, investments and other balance sheet figures, management controlling would provide information about the relevant product units, quality indicators or external data such as market share, competitor products or macroeconomic data. All this data is gathered on a national level and consolidated on a corporate level.

The following example of Sanitaria demonstrates that the controlling of their Argentinean subsidiary is part of a complex and well organized controlling structure. As in Chapter Three, the name of the multinational German healthcare company who manufactures and distributes medical equipment was changed. However, the author has a close knowledge of Sanitaria’s internal controlling procedures. The example of Sanitaria shows how a controlling process is typically done in a multinational company.

After Sanitaria first acquired its distributor in Argentina, the former principal of the distributor and new General Manager of Sanitaria Argentina was told to select a local

\textsuperscript{122} A European company may also report according to American accounting principles (US-GAAP) without a listing at an American stock exchange and therefore needs to issue much more detailed financial statements with additional information.

\textsuperscript{123} Interviewee Quintanilla
Controller for the new Argentinean subsidiary. An important criterion for the selection of the local Controller was the ability to speak German. Initially the regional Controller of Sanitaria visited the Argentinean subsidiary frequently to identify certain operational and administrative weaknesses and to establish an action plan in order to improve the situation. On later visits, the Argentinean controller was introduced to the monthly and quarterly reporting by the regional Controller. At that time the monthly reporting consisted of four key performance indicators: sales, operating profit, the level of inventory and the level of accounts receivables. There were no further details required and some comments were given over the phone.

Only two years later, Sanitaria merged with an American company. The Argentinean subsidiary more than doubled its size by merging its business with the Argentinean subsidiary of the new American partner. As Sanitaria was now listed on the Frankfurt as well as on the New York Stock Exchange, its controlling requirements increased dramatically. Consequently, the former local controller of Sanitaria was fired, as besides his language skills, his knowledge was not sufficient to satisfy the various new controlling needs. Almost every six months the number of controlling reports, the volume of reported data, and the number of controllers employed on a corporate level increased.

Today, Sanitaria employs two controllers at its Argentinean subsidiary as well as two controlling assistants. The subsidiary exchanges information via the Internet on a daily basis and the corporate headquarters have online access to the subsidiary's IT system with information about the subsidiary's accounting, their inventory as well as personnel levels. The integrated IT system allows monitoring of every single movement in the warehouse or any entry into the online accounting system. Now, there are also regular procedures in place at a corporate level that require the Argentinean subsidiary to follow strict deadlines and rules.

First, there is a yearly budget procedure. The budget planning process takes a total of four months for the Argentinean subsidiary to decide on the targets according to the market outlook for the following year. Several budget formats have to be completed where financial, operational and marketing targets are calculated and defined. At the end of the planning process the budget is discussed and agreed upon for the following year. The budget figures are uploaded into the management
information system and are thereby accessible for both the regional and the Argentinean management.

Second, the corporate headquarters of Sanitaria require the Argentinean subsidiary to prepare regular reports on a biweekly, monthly, quarterly and yearly basis. The headquarters require that the relevant reports be sent on an exact date. Today the following reports are in place at Sanitaria:

A. Biweekly reports:
   - Sales report: Report of sales figures of the three major product lines

B. Monthly reports:
   - Inventory Report: Report on the scope of the inventory
   - Cash Report: Report on cash and bank deposits
   - Operational Report: Report on sales and the relevant units
   - Comment Report: Comment on discrepancies between actual budget and forecast figures as well as operational and market highlights

C. Quarterly reports:
   - Quarterly Report: Detailed summary of the Profit and Loss Statement, the balance sheet and the Cash Flow Statement of actual results
   - Forecast: Detailed summary of the Profit and Loss Statement, the balance sheet and the Cash Flow Statement of forecasted results
   - FX-Report: Report on risks in foreign currencies
   - Capex Report: Report on details of the capital expenditures
   - Gross Margin Analysis: Summary of the development of gross margins of the most important product groups

D. Annual reports:
   - Comment Report: Comment or presentation of yearly results against the yearly budget and the yearly forecast
   - Audit report: The financial figures are audited by an external auditing company
The reporting and controlling complexity is thus quite high at Sanitaria. Within only four years of the acquisition of the Argentinean distributor the controlling and reporting complexity has increased tremendously. Whereas a monthly Financial Performance Report consists of three pages, the Quarterly Report gives a significantly greater amount of financial information running to almost fifty pages. For the quarterly and especially for the year end financial statements all subsidiaries world-wide have to follow a tight reporting schedule and have to deliver their various reports by an exact day and time. The time schedule is fairly tight as it is the clear corporate objective to communicate the results as soon as possible to the 'financial world'. Those companies who issue their financial data the soonest will have the best possibilities of receiving additional capital from international investment funds.

As the Argentinean financial figures are consolidated on a corporate level, there is no room for flexibility to allow a delay in reporting the relevant figures. The quarterly report is discussed in detail with the Argentinean management and compared with the budget plan. All the discrepancies have to be explained and marketing, financial or even organizational consequences may result. There may be consequences for the Argentinean General Manager or the local controller if the relevant deadlines are not met.

Finally, the Regional Manager of Sanitaria, the Regional Controller and the Regional Marketing Manager frequently visit the Argentinean subsidiary. During these visits they discuss certain key results which figure in the regular reports, talk to local customers, perform certain checks and analysis or give support to the local staff through training on new products and procedures. These visits are quite important in order to understand the reported figures and to detect any additional opportunities and weaknesses of the Argentinean subsidiary.

The Miami based companies, responsible for controlling their Argentinean subsidiary, followed the example of Sanitana on many points. SGS manager Quintero agreed, "we ask our Argentinean subsidiary for reports on a daily, weekly and monthly basis." Also Villela, the ViewPoint manager, commented on the use of advanced technology to monitor the Argentinean subsidiary. "The Territorial Manager

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124 Interviewee Quintero
is connected with four or five distributors in Argentina," said Villela.  

"He can access the relevant information by going into the server. And all of that information is accessible for all of us. He might want to find out about the accounts or credit, and it's all there on the Internet." The German airline Lufthansa is even accessing external data about market trends online. "It is done through a special computer link system that Lufthansa has," explained regional manager Graff. 

"While using it, we are able to monitor the market trends and developments."

Even though the process or the focus might be slightly different, most multinational companies follow the example of Sanitaria and base their strategic planning on regular controlling. During the budget process the companies reflect on past performance and the future outlook of their controlling data in order to define a budget and a corporate or local strategy. "The budget process is normally done on a bottom-up basis," continued Graff. "And naturally after that, there are reviewed targets based on what is the overall network and handling sales strategy for Lufthansa for the next two years. We have two budgets: one is the sales budget with sales targets for the year, the other is the cost and investment budget that should be planned for the next year."

The example of Sanitaria as well as the statements of the companies interviewed clearly demonstrate that when controlling a subsidiary of a multinational company, there are tight procedures in place and the corporate manager has an in-depth look into the local performance. Many resources on a corporate as well as on a local level are dedicated to generating controlling data. At any time the corporate headquarters may increase the amount of controlling data or extend it to other operating areas. There are, in fact, rational procedures in place with a regular and predefined exchange of controlling data. The corporations try to discuss it but may dictate any kind of targets to the subsidiary and they may install additional information systems to improve the transparency of the subsidiary's performance at any time. The local manager is not only evaluated by his business performance but also by his ability to deliver the relevant controlling data and his acceptance and support of the installation of new IT systems.

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125 Interviewee Villela
126 Interviewee Graff
As the reports of the Argentinean subsidiary are consolidated on a corporate level, there may be consequences for the local management if these requirements to deliver the requested information are not satisfied on time. A delay in delivering of the Argentinean reports would create an unacceptable delay at a corporate level.

Therefore, the personal relationship between the corporate management and the management of the Argentinean subsidiary is only of slightly less importance than the relationship between a manufacturer and an Argentinean distributor. As the example of Sanitaria showed, the regional management might replace a local controller relatively easily. Compared to a replacement of an Argentinean distributor, he is only a simple subsidiary manager with particular skills, market contacts and his product knowledge that would have to be replaced. As described in previous chapters, on the other hand, the replacement of a distributor would have much greater consequences for the manufacturer. By replacing the distributor, a manufacturer will also lose the market relationships, the product knowledge and the experiences of the distributor's principal as well as those of his sales and marketing staff. As there is no legal obligation and a mutual agreement is needed between the partners, the personal relationship between a manufacturer and a distributor has to be observed with much more caution.

There are basically two commonly known policies in multinational companies on the management of foreign subsidiaries. 'You are the local entrepreneur' would be the first expression of a corporate management about the subsidiary manager to describe the distribution of power to the local manager. In contrast, a second expression that describes the policy at many multinational companies keeps the power in hands of the corporate management and this is: 'You are local, we are the entrepreneurs'. This kind of policy would probably cause problems within a relationship between a manufacturer and a distributor. It implies an open and intensive control of the foreign partner where the strategy and planning is restricted to the manufacturer. However, as distributors typically like to feel in charge of their own company, as discussed previously, the necessary rational controlling procedures would clearly damage the relationship with the distributor on an emotional level.

\[127\] Interviewee Graff
V. 4. 2. Organisational set-up to control the Argentinean subsidiary – characteristics of the ideal Controller for Argentina

Typically there is a Finance and Controlling department in charge at most multinational companies to assist the responsible managers in the control of the foreign subsidiaries. Depending on the size of the companies, the responsible controllers might be organized on an international, regional or on a country level. At Black & Decker, there is a local Finance and Controlling Manager in charge of all relevant financial issues in Argentina. He is responsible for the preparation of the financial statements and for checking on various items such as Accounts Payable or Accounts Receivable. Black & Decker manager Maceda confirmed that there is an additional controller on a regional level responsible for consolidating the figures of the Latin American market and administering the reporting system. Usually regional or international controlling departments are in charge of issuing rules and policies as well as consolidating the relevant data on a corporate level.

However, the responsibilities of each controlling level as well as the subjects of the control might be different in the various multinational companies. "In Miami we support the Argentinean subsidiary with operational matters but the General Manager of Argentina reports his financial figures directly to Geneva," explained SGS manager Quintero. Furthermore, there was no general trend as to how the various controlling departments communicated with their Argentinean operations. Whereas at some companies the Finance Department on a corporate level communicated only with regional managers, others had direct contact with the distributors. "We have a Financial Department, and they deal directly with the distributors," stated Roviera, the area manager at OMC.

As discussed previously, there was no general trend observed in multinational companies on who was responsible for controlling the business in Argentina. "It's the Area Managers that are responsible for controlling the distributors," stated Roviera. At Lufthansa Cargo there were different managers in charge of more specific tasks. Lufthansa manager Graff reported that a Quality Controller, a Cost Controller and

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128 Interviewee Quintero
129 Interviewee Roviera
130 Interviewee Roviera
himself as Finance Manager were in charge of different tasks within their Latin American region.

In addition, most multinational companies employ an Auditing department that checks if company guidelines and operational procedures are obeyed. As discussed in previous paragraphs, there are only a few companies that use external auditors to control their subsidiaries. Prince, the manager of F.G. Wilson, confirmed that external auditors are more common in American firms than in European companies. Quintero, the manager of the Swiss company SGS, described two different models that were in place at SGS. "We have some people from our worldwide headquarters who travel down there for auditing purposes. And managers of other offices also do our audits. For instance, we had a manager come from Holland and Peru and conduct an audit on us. They showed us that there were areas where improvement would be possible."

Throughout the interview sample the manufacturers interviewed gave different examples of how they organized their sales territories and how they adapted the controlling function to this structure. "We have our Latin American headquarters in Rio de Janeiro and my boss is the Vice President for Latin America," explained Graff, the manager at Lufthansa Cargo Latin America. "We also have three Regional Sales Directors: one is based in Miami and he is responsible for the northern part of South America (Colombia, Venezuela, Peru, etc.) as well as Central America and the Caribbean; another is responsible for Brazil, which is the biggest market; and finally, yet another is responsible for Chile, Argentina, Uruguay and Paraguay. This is more or less how our enterprise is structured down there."

According to the importance of the controlling function in each company and according to the company's policy, the individual controller had a different position within the company. Of course, there are different ways of defining the position of a controller within an organization. According to Horváth (1998), there are four factors that determine the way a controlling function is organized within a company:

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131 Interviewee Prince
132 Interviewee Quintero
133 Interviewee Graff
A. Need for innovation: The more a company is facing a complexity of problems and the need to innovate, the higher the position of the controller should be within a company’s hierarchy. The importance of the controller’s position within the company also increases if the complexity of the organizational changes and the need to develop controlling tools increases.

B. Size of the company: Whereas in a small company, the managers execute the controlling functions, in large companies several controlling departments are sometimes needed.

C. Complexity: The complexity increases if the size of the company and the need to innovate grows.

D. Essentials: Finally, the company’s policy and understanding of management determines the position of controlling within the organization.134

Through economic changes in recent years the role of the controlling function has changed in most companies. Jaspersen (1999) described a new management profile. The typical controller who planned and decided for others within the company is disappearing, as is the auditor who just checked the work done by others. Instead, a new set of qualifications is required. Nowadays, the manager who is responsible for operational tasks should at the same time plan and check his results. Even managers in middle management are frequently planning, implementing and monitoring their objectives. In today’s economy the controlling specialist is disappearing whereas the generalist with an understanding of controlling is becoming more and more important.135

If there is a specific person in charge of controlling the Argentinean business activities, he needs to be able to identify areas of improvement in order to guarantee the future success of the business. Furthermore, the controller needs to prevent conflict and must be able to create a favourable personal environment with the local staff that allows for an open dialogue as well as the fulfilment of reporting due dates. Therefore the controller needs to be a trustful person as well as an authority figure that is respected by the local staff. As discussed in previous paragraphs, controlling a subsidiary in Argentina may also involve additional difficulties for the controller as

134 Horváth, 800 – 801
135 Jaspersen, V
in many cases only a limited number of visits to such a remote market as Argentina are possible.

The interview samples and the relevant literature described some characteristics of the ideal controller for Argentina. Certain professional requirements and personal characteristics were found. Most headquarters of multinational companies will have certain ideas about the characteristics a controller for Argentina should have in order to satisfy the corporate needs. The local personnel of the Argentinean subsidiary also require a certain personal profile in order for them to be willing to collaborate with a controller. The ideal candidate will therefore have to satisfy the requirements of both sides.

Professionally, the candidate should be familiar with the necessary controlling tools. According to the German Controlling professor Deyhle (Bramsemann, 1990) a controller should possess the following professional characteristics in order to carry out operational controlling:

- Accounting knowledge
- Analytical skills
- Ability to think abstract
- Knowledge of IT-systems
- Ability to learn and to teach
- Knowledge of problem-solving techniques

Black & Decker manager Maceda underlined the importance of being familiar with the local as well as the corporate rules and regulations. "He would need a good American knowledge of accounting and financing principles," asserted Maceda. "And secondly, they should have thorough knowledge of local accounting practices as well as local compliance with taxation requirements." Maceda further outlined the importance of understanding local procedures. "They should have flexibility. This is because of the complexities of local laws and bureaucracy. They should also be very knowledgeable about the entire infrastructure of the supply chain. Believe it or not,"

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136 Bramsemann, 66
137 Interviewee Maceda
Customs is still very slow, and this can create a lot of barriers."\textsuperscript{138} "He should also possess a strong knowledge of the product, as well as those of the competitors," added manager Roviera. "Additionally, he has to be good with numbers. He would also have to have the visionary marketing capability, too. But, still, I do not want just a marketing or a financial guy. We want a mixture of the two, and then we will train them and mould them into the Area Manager that we want to represent us."\textsuperscript{139}

Furthermore, the controller should have a sound knowledge of the industry and of the division he is responsible for. Horváth stated that "a controller who works in the research and development department, should be familiar with the company's research and development processes in order to be most efficient."\textsuperscript{140} Many multinational companies interviewed agreed on the importance of the controller understanding the business. ViewSonic manager Villela explained, "The person must understand what will make the company succeed, and what will cause it to fail. In short, they must be very smart business-wise. You have to really pay attention to what is going on. For instance, you could sell a lot; but you could lose a lot, if you do not know how to control it. It's the gross profit margin that is very important. Because if you are selling the wrong thing, you are not optimising the product mix that you have. And you have to understand your product, and see where you can make more money. You should always be thinking about how to make the business grow and become more successful. If you stop doing this, then you become a target for your competitors."\textsuperscript{141}

In order to match these skills, manager Villela, who herself holds two Masters degrees in business and engineering, outlined the importance of a sound education for the ideal controlling candidate. "Above all, they should be well organized, must be business oriented, with a good education, so that it can give him or her the tools that he or she needs in order to succeed in this industry. I would choose someone with an MBA. The MBA opens up your mind and you see things in a different way. Not only in controlling. If you see through a marketing or sales eye, you understand how important it is not to lose a valued customer."\textsuperscript{142}

\textsuperscript{138} Interviewee Maceda
\textsuperscript{139} Interviewee Roviera
\textsuperscript{140} Horváth, 851
\textsuperscript{141} Interviewee Villela
In the case of strategic controlling the above mentioned characteristics are even more important. According to Bramsemann the controller should have the abilities to:

- Identify and define problems based on a few facts
- Abstract a market potential
- Identify the importance of the relevant determents
- Be ready to implement innovative developments

Many interview partners expressed the view that the personal characteristics of a controller are even more important than the professional skills in order for a good job to be done in Argentina. “The person should possess a very dynamic personality so that they do not get lost in all of the ever-evolving changes,” suggested Villela, the ViewSonic manager. All of the multinational companies interviewed agreed that the ideal controller should speak Spanish fluently. “Without knowing Spanish, you cannot communicate with them – forget it,” asserted Villela. Manager Maceda added, “The candidate would need a working knowledge of Spanish. This is because when you are dealing with somebody that is translating, it could be interpreted incorrectly. Therefore, I think that speaking Spanish is a must.”

The companies further agreed that the cultural aspect is very important when selecting the right controlling candidate. However, there were different opinions about the ideal cultural background of the controller for Argentina. The immigration culture as described in Chapter One was again viewed as being relevant when reflecting on the ideal controller. The Argentinean acceptance of different Latin American or European cultures were again mentioned by the multinational companies interviewed. “I think personally that they should be from Europe,” stated British manager Prince. “And this is purely for the reason that they tend to trust someone from outside, rather than someone local at the distributor. One thing I have found is that they trust me because I am an outsider. For instance, if you send someone in from Colombia, they will not be trusted. If you send someone from Brazil,
likewise they will not be trusted." Maceda agreed, "there could be a conflict because of personality differences for a Colombian, Venezuelan or Mexican to come down to Argentina in order to work as the controller."

Finally, manager Hufnagel expressed a typical personal situation for most American managers based in Miami. "For Argentina, they should be bi-cultural, or someone who has lived three or four years down there, and who has absorbed a lot of the cultural influences. Above all, they must know the culture, and be very aware of all the devious ways of doing things down there. If a professional American were chosen as the ideal candidate, I would venture to say that they would be accepted favourably by the Argentines."

Most managers interviewed agreed with Hufnagel's opinion that knowing and understanding the Argentinean culture was one of the most important conditions for successful controlling in Argentina. Manager Villela, who is of a Brazilian background described the importance of understanding cultures in Latin America as follows:

"You have to understand that each country is different. And I talk to all of our business partners three to four times a month. And we have quite a few of them. I know how they operate. I even know when they are lying to me! I know when they are telling me that they are going to do something, and that they are planning not to do it. Just because I am Latin does not mean that I will necessarily understand how things work in each of these Latin American countries, which are so different. Even a non-Latin many times has to be very open-minded in order to get things done. In short, it takes someone who can understand different peoples from very different countries."

Deyhle as cited by Bramsemann (1990) summarized some of the most important personal characteristics that a controller should possess in order to be successful in his work:

- To have the ability to insist in a kindly way
- To be tolerant
- To be able to visualize complex situations

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147 Interviewee Prince
148 Interviewee Maceda
• To be sensible as to how the counterpart accepts criticism
• To have the ability to present shocking facts in a kind way
• To be able to use understatement
• To listen and ask the right questions in order to understand one’s partner’s problems
• To be able to develop solutions by working together
• To be able to avoid or reduce emotional barriers
• To demonstrate the service idea of controlling within an organization.¹⁵⁰

V. 4. 3. Important factors to control in Argentina and Latin America

In relatively stable economic markets such as Europe, the USA or Japan multinational companies do not focus their controlling mainly on macroeconomic or political developments. Rather they focus on other controlling subjects, as described in previous paragraphs. However, in international marketing there are certain challenges that have to be faced and closely monitored when entering emerging markets such as Latin America. According to Kotler (2000) the following challenges exist in such emerging markets:

1. Unstable governments: high indebtedness, high inflation and high unemployment rates may expose foreign companies to the risk of expropriation and limits on profit repatriation in certain countries. Many companies therefore buy political-risk-assessment reports.
2. Foreign-exchange problems: payment in hard currency and profit repatriation might be limited in some countries.
3. Tariffs and trade barriers are used to protect national industries. Slowing down import approvals and requiring costly product adjustments might create trade barriers.
4. Corruption: foreign officials frequently receive bribes to enable certain businesses.

¹⁴⁸ Interviewee Hufnagel
¹⁵⁰ Bramseemann, 66 – 67
5. Technological pirating: foreign managers learning about a certain technology to build it on their own.\textsuperscript{151}

Even though the economy of Argentina was described as fairly stable in Chapter Two, there were still some interviewees with little trust in the country's further development. The pessimistic Argentinean distributor Angarami stated, "Argentina is a very unstable country. There are ups and downs. At this time we are going through a recession. We are in an elective period, everything is stopped. There is no movement. So six months to a year could pass and the sales could be bad; so the producing enterprise has to understand this economic risk."\textsuperscript{152} Thus, rather than the economic situation, foreign companies should especially monitor the political situation that directly influences all economic decisions. "Here in Argentina, unlike in Europe where Government and politics are two different things, the politics are the central core of everything," stated distributor Bucello. "During this time, people here do not buy anything. This is the difference compared with the United States or Europe where the countries up there keep going no matter what, not like down here where the country comes to a stop. So the producers want to know, 'Why are not the people buying?'. Nevertheless, we have to come up with explanations for them, so that we do not appear to be inefficient and incapable."\textsuperscript{153}

Even though the Argentinean Peso is linked 1:1 to the US Dollar, devaluation of the Argentinean Peso as well as currencies of neighbouring countries should be monitored very closely. "I think we have to be very vigilant about their economic devaluation," mentioned Japanese manager Sampei. "There might be devaluation in the future, but not in the short term. Still, we have to monitor their economic situation very carefully."\textsuperscript{154} In particular the recent development of Brazil as a member of the Mercosur might be a threat to the Argentinean Peso. As the Brazilian Real devalued dramatically at the beginning of 1999, many manufacturing companies as well as tourists preferred to spend their resources in Brazil rather than in Argentina.

\textsuperscript{151} Kotler, Marketing Management 368
\textsuperscript{152} Interviewee Angarami
\textsuperscript{153} Interviewee Bucello
\textsuperscript{154} Interviewee Sampei
Consequently, since then the pressure has increased to disconnect the Argentinean Peso from the US Dollar. Manager Prince confirmed, “The only problem we have is with the Brazilian influence. You have to be very careful, because there is a trade agreement between the two countries down there, but there is no duty. So you have to watch the Brazilians, because when they devalued, their products came in a lot cheaper. And they tended to start flooding the market.”

Even though there have been great improvements in Argentina in recent years in the infrastructure and in productivity, operational and logistic processes have still to be considered closely in Argentina. In some cases the limiting factors may not have their origins in Argentina itself, but in the less developed infrastructure of neighbouring countries. “We control the inventory levels,” stated Villela. “Keep in mind that the Latin Americans do not possess all of the analytical business tools that we have access to up here in the United States. One is lucky if they can give you a computer report regarding how much they sold in such and such a month. Some will say that they have to go into the backroom and count their inventory, and that they can give you a figure tomorrow. Also, you have to remember that when shipping to Latin America from Miami or other parts of the United States, it takes 30 to 45 days to get down there.” Further restrictions may still be due to special rules from customs that should be monitored in the case of Argentina. “Now, in Argentina you must possess a type of license issued by the Argentinean Consulate here in Miami, in order to get your merchandise out of Customs in Argentina,” explained Villela. “And this is something that we have had to work around.”

Finally, the interview partners mentioned corruption combined with a fairly low reliability of some of their business partners to be a major issue to be monitored in Argentina. “As far as the financial controlling is concerned, we get the financial statements from the distributor once a year,” explained American manager Hufnagel. “Still, they are not reliable. Keep in mind that tax evasion in Argentina is around 50%. The auditor is not reliable, either. In any event, we try to control the financial statements as best as we can. We also try to control how orders are done: whether or not goods are arriving when they are supposed to, and so on.”

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155 Interviewee Prince
156 Interviewee Villela
157 Interviewee Villela
158 Interviewee Hufnagel
Hufnagel further explained the international position of Argentina when it comes to a comparison of the level of corruption. “Argentina ranks #70 on the list of the most corrupt countries in the world. In Latin America Argentina compares to Nicaragua and Honduras as among the most corrupt. Therefore, you have to control the marketing expenditures in Argentina because the mentality is very corrupt.” As a conclusion, when controlling in Argentina Miller expressed the opinion that if a firm is extremely resource limited it would be better not enter into additional ventures that require increased financial investment and possibly increased risk, as is the case in emerging markets.

159 Interviewee Hufnagel
160 Miller, 89
Chapter VI

Summary and conclusions

VI. 1. Introduction
VI. 2. Conceptual framework
VI. 3. Methodology
VI. 4. Empirical results
   VI. 4.1. Research results on market access in Argentina
   VI. 4.2. Research results on creating and managing the relationship with the Argentinean partner
   VI. 4.3. Research results on controlling the business in the Argentinean market
VI. 5. Conclusions
VI. 1. Introduction

Argentina is rich in natural resources, and has a highly skilled work force that forms a strong consumer base of a large middle class. The modern economy of Argentina compares with that of most European markets, and is over all currently experiencing one of its strongest growth cycles of the century. It is interesting to note that the key economic performance indicators of the world's eighth largest country would even surpass those of most member states of the European Union. Indeed, much of this economic stability is due in large part to the political change towards democracy that started during the early 1980s. Since then, there have been vast improvements in international trade, given the favourable conditions of the labour market, the currency stabilization, and the privatization of public companies at the beginning of the 1990s.

Still, most European companies - especially small and mid-sized ones - lack adequate knowledge of Latin American markets such as Argentina's. Prejudices concerning political disorder and economic instability are still predominant. Just so, many European managers focus primarily on European or American markets, instead of realizing the huge potential of the upcoming one down there in Argentina. Consequently, many companies only establish a business relation with Argentina in a passive manner. And more often than not, the European company will only react to an inquiry coming from an Argentinean company, and not the other way around.

Despite the fact that the Argentinean market is seemingly ignored in favour of others, one would expect responsible export managers to develop the Argentinean market systematically, due to their experience in other international markets. But frequently export managers with experiences from other non-Latin markets are unable to develop the business in Argentina to its full potential. As a matter of fact, many business relationships of this type come to an unhappy end after experiencing endless negotiations or experiencing unintended conflicts.

This study investigates strategies concerning how to develop the market of Argentina, especially from the point of view of small and mid-sized European companies. The thesis reports on the experiences of various enterprises that are
involved in Argentinean business, and develops important criteria regarding success factors and ways to access and control the Argentinean market. Cognizant of the difficulties of many responsible export managers, the investigation focuses special attention on the importance of cultural differences, and the necessity to understand the counterpart's particular social and historical background. Notwithstanding, it is the purpose of this study to develop a managerial guide that will assist in answering the specific questions about how to access the Argentinean market, and how to ensure a successful market position in the long run by controlling the ongoing business. The experiences of the research sample should thereby help European manufacturers to prepare for the important challenges that lie ahead, by learning about the critical success factors when expanding into the market of Argentina.

VI. 2. Conceptual framework

The conceptual framework of the present study was designed according to the sequence of internationalisation into Argentina's market. Market access is the first step when establishing a business relationship with the market. Preliminary research for the present study suggested some basic questions to be answered by a European manufacturer, when preparing for market access in Argentina. Hence, Chapter Three describes motivations for starting a business in Argentina, and discusses strengths and weaknesses of different alternatives about how the relevant companies of the sample accessed the market. The study in Chapter Three describes in more assiduous detail important success factors, compares important entry modes, and develops an analytical model that tends to assist an export manager when preparing for market access to Argentina.

As soon as the process of market access requires less management attention, a second process that consists of controlling the ongoing business will become increasingly important. This second phase is discussed in Chapter Five. In that section, the reader will learn why controlling the business in Argentina is important, and given some ideas about how it should be done. Moreover, the study also discusses the experiences of relevant companies, and elaborates some "Do's and Don't's". As demonstrated in the following graph, throughout both phases discussed
in Chapter Three and Chapter Five, it is imperative that the European manufacturer be constantly aware of the importance of managing the relationship appropriately with his Argentinean partner. In Chapter Four, the study also provides in-depth analyses of the process that takes place when creating a relationship with the Argentinean partner. Furthermore, it discusses the fundamental elements that determine the success of market access and controlling of the Argentinean market. Above all, special attention is drawn to the importance of cultural differences and the particularities of the Argentinean character.

The following graph demonstrates the relation of the study's individual chapters. In order to understand fully the fundamental elements discussed in Chapter Four, one needs to reflect on the country's social and historical background as discussed in detail in the first two chapters. Frequent references are made in Chapter Three, Four and Five, to background information offered in these first two chapters.

![Conceptual framework of the thesis](Graph by author)

**VI. 3. Methodology**

The research perspective of the present study is quite extensive as the data for the investigation was gathered in three different continents (Europe, North America and
South America). That is to say the study drew on research material from all the relevant international knowledge centres.

First, research was done in Germany and the United Kingdom. In Germany - the European country with the highest international trade activities (in absolute figures) – a reasonable sample of mostly manufacturers of small and medium size revealed much intriguing and useful information concerning their business experiences specifically in Argentina, as well as in other Latin American markets.

Second, research was done in Argentina itself whose market is obviously the focus of this study. And thirdly, research was also conducted in South Florida - especially Greater Miami. This area is commonly known as the gateway to Latin America - the hub of Latin American affairs. Many international companies established their regional headquarters there to support and control their Latin American businesses. As the author was also professionally involved in business related to Latin America, research in this important area was possible during an extended sojourn in Ft. Lauderdale, Florida.

In addition to the perusal of literature, a total of four research phases were utilized in order to gather both qualitative and quantitative data. Three of the research phases consisted of personal interviews done in Germany, Argentina and in the United States respectively. In a further research phase, German enterprises doing business in Argentina were sent a questionnaire by mail. According to the characteristics of each of the above mentioned knowledge centres, research in Germany and Argentina was focused largely on the questions discussed in Chapter Three and Four. On the other hand, research results used in Chapter Five described mainly the controlling experience of Miami based headquarters for Latin America.

The first research phase started at the beginning of 1997 in Germany. Approximately thirty companies were contacted by mail or fax, in order to set up a personal interview. Only those companies that had previous or current business relations with Argentina were singled out for interviews. About 30% of the companies contacted were willing to give a personal interview. The interviewees were themselves mostly working at management levels of the company’s export or foreign department, and were the people chosen to have direct contact with the Argentinean market.
After three preliminary interviews in the summer of 1997 in Buenos Aires, Argentina, a second research phase took place in that city during the month of August 1999. A total of sixteen personal interviews were conducted with managers and sales executives from Argentinean distributors, after about forty-five companies had been contacted initially. Accordingly, only those companies that had business relations with European firms were contacted for personal interviews.

The next research phase took place at the end of 1999, and the beginning of the year 2000. A total of two hundred and five German enterprises were contacted by mail with a written questionnaire. Again, only relevant managers from companies with previous or current business relations with Argentinean companies were contacted. Due to further emails and faxes to these companies a total of thirty-four completed questionnaires were returned, representing a rate of returned questionnaires of 17%.

The fourth and final research phase took place in the Greater Miami area between January 19th, and April 20th, 2000. Ten European, American and Asian multinational companies were interviewed after previously contacting a total of thirty-three firms. With the exception of two companies, all other companies had their regional headquarters for Latin America in South Florida. From there they controlled the business activities of their distributor or their direct investment in Argentina. Most of the interview partners were of Latin American descent. They were working at management levels, and were the persons who had direct contact with Argentina.

The German and especially the Argentinean interview partners were most willing to receive a European PhD student for a personal interview. The difficulties of setting up an interview in Buenos Aires consisted mainly in technical communication problems from abroad. For instance, quite frequently telephone or fax numbers published on the Internet or in industry publications, were not accurate, and email accounts did not yet exist or were not published. Many Argentinean interview partners were very friendly, and asked about personal matters, or the background of the thesis, rather than strictly focusing on the questions.

Far more difficulties were experienced when setting up interviews in the Miami area. The automated telephone systems in most American companies were one of the main obstacles that required a lot of effort to overcome, in order to get connected to
the right person, rather than to an answering machine. Many American or US-based foreign companies showed little interest in receiving a European PhD student for a personal interview. In some cases, even unfriendly comments were received. Still, the managers interviewed made some very valuable contributions to this study.

Qualitative research was done personally in German, Spanish and English. The interviews were held almost always in the offices or meeting rooms of the companies concerned, with the exception of two telephone interviews. All interviews were recorded on a micro cassette recorder, and supported by a questionnaire. At any rate, the interviews took between forty-five and two hundred minutes, depending upon the depth of each discussion. The questionnaires were developed in English, and subsequently translated into Spanish or German as appropriate. Questionnaires for the qualitative interviews were designed mainly with open-ended questions, whereas the quantitative questionnaire sent to the German companies contained a number of closed questions with an evaluation of importance. They also provided rating scales of predefined statements. In order to be able to compare the point of view of German managers with that of the Argentinean ones, an identical evaluation scale on Argentinean culture and social values was presented to both the Argentinean managers, as well as to the Germans.

Additionally, all questionnaires basically consisted of two parts: the first part was asking for statistical data on the interviewed company, whereas the second part was designed to allow more in depth responses as described above. In order to simplify the writing up the thesis rather than expressing a macho style, the distributor as well as other subjects of the thesis are referred to using masculine pronouns only.

With two exceptions, all Argentinean companies interviewed were representing German, as well as other European or international products, and had valuable experiences with European and other international enterprises. Accordingly, the companies interviewed in Germany or the Greater Miami area had a good knowledge of Argentinean business, as they were in direct contact with Argentinean partners or their subsidiaries in that market. The companies interviewed were representing different kinds of industries such as consumer goods, the computer industry or even motors for powerboats. Health care companies are somewhat overrepresented in this
sample, many by accident. The following graph shows characteristics of the various samples.

<table>
<thead>
<tr>
<th>Question</th>
<th>Detail</th>
<th>German question average</th>
<th>German interview average</th>
<th>Miami interview average</th>
<th>Argent. interview average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry of companies</td>
<td>Consumer goods</td>
<td>in % 32%</td>
<td>in % 22%</td>
<td>in % 40%</td>
<td>in % 6%</td>
</tr>
<tr>
<td>interviewed</td>
<td>Investment goods</td>
<td>in % 38%</td>
<td>in % 56%</td>
<td>in % 20%</td>
<td>in % 44%</td>
</tr>
<tr>
<td></td>
<td>Health care</td>
<td>in % 29%</td>
<td>in % 11%</td>
<td>in % 20%</td>
<td>in % 44%</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>in % 3%</td>
<td>in % 11%</td>
<td>in % 20%</td>
<td>in % 6%</td>
</tr>
<tr>
<td>Region where companies</td>
<td>Europe</td>
<td>in % 100%</td>
<td>in % 89%</td>
<td>in % 90%</td>
<td>in % 100%</td>
</tr>
<tr>
<td>operates</td>
<td>Latin America</td>
<td>in % 85%</td>
<td>in % 67%</td>
<td>in % 100%</td>
<td>in % 25%</td>
</tr>
<tr>
<td>manufact. produces</td>
<td>USA/Canada</td>
<td>in % 85%</td>
<td>in % 67%</td>
<td>in % 100%</td>
<td>in % 75%</td>
</tr>
<tr>
<td>in case of Argentina</td>
<td>Africa/Middle East</td>
<td>in % 59%</td>
<td>in % 56%</td>
<td>in % 60%</td>
<td>in % 0%</td>
</tr>
<tr>
<td></td>
<td>Asia</td>
<td>in % 76%</td>
<td>in % 56%</td>
<td>in % 100%</td>
<td>in % 31%</td>
</tr>
<tr>
<td>Region where</td>
<td>Europe</td>
<td>in % 88%</td>
<td>in % 67%</td>
<td>in % 70%</td>
<td>in % 31%</td>
</tr>
<tr>
<td>biggest</td>
<td>Latin America</td>
<td>in % 65%</td>
<td>in % 22%</td>
<td>in % 20%</td>
<td>in % 20%</td>
</tr>
<tr>
<td>competitors</td>
<td>USA/Canada</td>
<td>in % 82%</td>
<td>in % 78%</td>
<td>in % 90%</td>
<td>in % 90%</td>
</tr>
<tr>
<td>operate</td>
<td>Africa/Middle East</td>
<td>in % 41%</td>
<td>in % 22%</td>
<td>in % 20%</td>
<td>in % 20%</td>
</tr>
<tr>
<td></td>
<td>Asia</td>
<td>in % 62%</td>
<td>in % 56%</td>
<td>in % 60%</td>
<td>in % 60%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>In Germany</td>
<td>number 2114</td>
<td>number 803</td>
<td>number 34</td>
<td>number 10</td>
</tr>
<tr>
<td></td>
<td>In Argentina</td>
<td>number 24</td>
<td>number 19</td>
<td>number 9175</td>
<td>number 40</td>
</tr>
<tr>
<td></td>
<td>Worldwide</td>
<td>number 6292</td>
<td>number 1613</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover 1998</td>
<td>In Germany</td>
<td>Mio DM 460</td>
<td>Mio DM 7</td>
<td>Mio DM 11</td>
<td>Mio DM 9</td>
</tr>
<tr>
<td></td>
<td>In Argentina</td>
<td>Mio DM 7</td>
<td>Mio DM 522</td>
<td>Mio DM 3357</td>
<td>Mio DM 3357</td>
</tr>
<tr>
<td>Companies' history</td>
<td>Foundation of companies</td>
<td>year 1892</td>
<td>year 1910</td>
<td>year 1924</td>
<td>year 1964</td>
</tr>
<tr>
<td></td>
<td>Exporting since</td>
<td>year 1931</td>
<td>year 1959</td>
<td>year 1959</td>
<td>year 1959</td>
</tr>
<tr>
<td></td>
<td>Bus w Latin America since</td>
<td>year 1954</td>
<td>year 1972</td>
<td>year 1974</td>
<td>year 1974</td>
</tr>
<tr>
<td></td>
<td>Bus w Argentina since</td>
<td>year 1967</td>
<td>year 1977</td>
<td>year 1976</td>
<td>year 1976</td>
</tr>
</tbody>
</table>

Figure 46: Characteristics of companies interviewed

Graph by author, Source: own questionnaires

VI. 4. Empirical results

VI. 4. 1. Research results on market access in Argentina

The sample showed that the market access of European small and mid-sized companies in Argentina, are, in many cases following a practical, rather than a strategic approach. Figure 18 demonstrates that only a few more German companies contacted by a written questionnaire had taken the initiative to access the Argentinean market actively, rather than being contacted by a local company passively. It is also interesting to note here that for other Latin American markets, a balance between active and passive market entries was observed.
Clearly, the study shows Brazil as the most important market to be accessed first in Latin America, and Argentina in the third position. The Latin American markets were mainly ranked by the sample according to their relative buying power, and the sizes of their populations as demonstrated in figure 16:
Many interviewees called special attention to the strategic position of Chile. The neighbouring country’s people were described several times as being more flexible in business matters. And quite frequently, the interviewees insisted that Chilean managers were preferred by foreign companies to handle the operations in Argentina.

Other insights brought to light more discrepancies. For example, a hypothesis put forth by a German interview partner that European small and mid-sized companies may have better business opportunities in Argentina due to the relative absence of multinational companies, was not confirmed by most other interviewees.

In addition, it was also discovered that an advantage to European companies may arise due to the fact that about 90% of Argentinean companies are family owned, of which most reject the notion of investing in new technologies. Figure 19 lists the results of the sample in order to test the previously quoted hypothesis:

<table>
<thead>
<tr>
<th>(Numbers in column = frequency of value mentioned)</th>
<th>I disagree</th>
<th>Somewhat disagree</th>
<th>Don’t know</th>
<th>Somewhat agree</th>
<th>I agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>European small and mid-size companies have more difficulties to enter the Argentinean market than multination</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>European small and mid-size companies have better opportunities in remote markets like Argentina due to the relative absence of multinational companies</td>
<td>7</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Argentinean companies prefer to work with small firms rather than big multinational companies</td>
<td>4</td>
<td>6</td>
<td>20</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 19 Level of agreement of interviewed German companies

Of the German companies contacted with a written questionnaire, 65% had entered the Argentinean market with a distributor. Of the same sample, an astounding 90% even volunteered that they were willing to work with a distributor. Even though in some cases a direct investment might be more appropriate, this strong preference to choose a distributor, is due in large part to several reasons reported by the study: the relatively high costs of setting up an office in Argentina and the difficulty of setting up business relations were some important obstacles described. The evidence further showed that at this time, international trade over the Internet is presently not an alternative to be used in favour of a distributor in Argentina.
Markets' price sensitivity to imported products
Overview of the country's economy and politics
Competitors' and market shares
Customer values acceptance of product
Potential key customers
Overview on market volume
Make or buy (distributor or own sales office)
Legal conditions concerning the import product
Market opportunities and threats

Figure 31: Subjects analysed by German companies interviewed to prepare for market entry

Graph by author, source own questionnaire

Figure 31 demonstrates current research priorities that will be used in order to prepare for market access in Argentina. Currently, research focuses mainly on marketing issues such as price sensitivity, market size or on the country's economy. In the future, the sample reports will research on upcoming market opportunities and make or buy decisions. There was also a strong preference for research done by the company's own staff, rather than by consulting other external agencies. Figure 29 gives an overview of the sources from which the sample gets its information when preparing for market entry. Figure 33 lists an evaluation of the importance of services offered by various entities as shown below:

Figure 29 Currently used sources of German companies interviewed to prepare for market entry

Graph by author, source own questionnaire
### Chapter 6

**Figure 33. Importance of services offered when preparing for market entry**

<table>
<thead>
<tr>
<th>Service</th>
<th>Not important</th>
<th>Of little importance</th>
<th>Don't know</th>
<th>Somewhat important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Translation service</td>
<td>20</td>
<td></td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Arranging contact addresses in Argentina</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Arranging partner and distributor in Argentina</td>
<td>5</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Legal advisers</td>
<td>4</td>
<td>7</td>
<td>3</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Consulting lawyers in Argentina</td>
<td>5</td>
<td>11</td>
<td>8</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Local newspapers to place advertising</td>
<td>9</td>
<td>13</td>
<td>1</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Arranging investment opportunities</td>
<td>9</td>
<td>16</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Market research services</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Consulting of company foundation in Argentina</td>
<td>10</td>
<td>9</td>
<td>2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Product tests in Argentinean market</td>
<td>14</td>
<td>10</td>
<td>0</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Seminars (e.g., business practices in Argentina)</td>
<td>8</td>
<td>6</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reports about Argentinean economy</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Sales consulting on Argentinean market</td>
<td>8</td>
<td>9</td>
<td>3</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Advertising for products, producer, etc.</td>
<td>5</td>
<td>12</td>
<td>5</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Organizing congresses, events, etc.</td>
<td>5</td>
<td>11</td>
<td>3</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Table showing the frequency of each service's importance.

**VI. 4.2. Research results on creating and managing the relationship with the Argentinean partner**

"It is easy to find a distributor in Latin America, but it is hard to find a reliable distributor with professional personnel". This quote from one of the interviewees in Argentina, describes the situation generally confirmed by the sample when selecting a partner in Argentina. Above all, the ability of a manufacturer to select a trustworthy partner, was described as one of the most important conditions required for success on the Argentinean market. The investigation suggested that important criteria for the selection of a representative should be divided into two categories: formal and informal. Whereas the formal criteria describe the representation itself (i.e., its size and its territory), the informal criteria refer more to the character of the representation's principal as well as his contacts with the market, or his language skills. The study lists several examples of both types of criteria.

The research also identified three main phases when selecting a partner in Argentina. The initial pre-phase, that is used to identify the candidates, may in theory be done with external assistance. The study demonstrated, however, that the following phases where the representation is selected and checked, require personal
attention. Here systematic procedures were apparently not possible. The study gives again examples of all three phases described by the interviewees.

Some of the research, done primarily in Germany, demonstrated that Argentina, as well as other Latin American markets, are largely unknown by European export managers of small and mid-sized enterprises. The sample at the same time showed clearly that a poor knowledge of the target market and its participants affected the success of the business development in general. Several successful examples and also cases of failure are described by the study. It was therefore shown to be crucial to understand the Argentinean character, as well as the cultural differences between Argentina and other export countries. To help we tried to develop a model of the mindset of the Argentinean distributor.

This thesis further suggests some rules of success when doing business in Argentina. Figure 40 lists a comparison of statements drawn from both the Argentinean as well as the German managers interviewed.

<table>
<thead>
<tr>
<th>(Numbers in left side of column=frequency of value mentioned by German manufacturers; Numbers in right side of column=frequency of value mentioned by Argentinean distributors)</th>
<th>Disagree</th>
<th>Somewhat disagree</th>
<th>Don’t know</th>
<th>Somewhat agree</th>
<th>I agree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business people from Chile are more flexible to adapt to customer needs than business people from Argentina</strong></td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Argentine compare themselves to Southern Europeans</strong></td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Employees in Argentinean companies prefer a strong boss as decision maker rather than a boss as colleague</strong></td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td><strong>In business relations Argentine search for harmony and try to avoid conflicts</strong></td>
<td>3</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td><strong>Argentine employees try to follow the company rules strictly</strong></td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td><strong>Business in Argentina is based on honour and trust</strong></td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td><strong>Personal relations in business are more important in Argentina than in the USA, Asia and Europe</strong></td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>In business talks Argentinean business people prefer to talk about personal matters rather than the details of a deal</strong></td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>1</td>
<td>9</td>
</tr>
</tbody>
</table>

*Results of statements from German manufacturers

---* Results of statements from Argentinean distributors

Figure 40. Opinions about values and characteristics of the Argentinean businessman (1)

*Graph by author, sources: own questionnaires*
The analysis also brought to light other factors that are highly important when wanting to succeed on the Argentinean market. One crucial aspect was the ability – or inability – to speak the Spanish language fluently. In the course of the study, Argentines insisted that understanding the support needed by the Argentinean partner, and focusing on clear communication with clear targets, were the other predominant criteria of success when doing business in Argentina. In any event, there were also some examples of the kind of conflicts that might occur when these rules are not respected. Again, the study demonstrated a positive personal relationship with the partner as being the most important element of the liaison.

VI. 4. 3. Research results on controlling the business in the Argentinean market

The investigation confirmed some reasons for the importance of controlling as cited by the established body of literature. In addition, reference was made to the low reliability of finance and controlling reports issued by many Argentinean partners. Controlling a business in Argentina was seen as more important than in Chile, due to some aspects of the character of most Argentinean businessmen, and to the limited accessibility of foreign companies to such a remote market. External help utilized in order to control the business in Argentina was seen as a possibility, but only in case of pure checking or monitoring. Again, the sample demonstrated a preference for using the company's own staff for controlling purposes, in order not to lose the experience.

The investigation also shows clearly that distributors in Argentina are only willing to accept a limited amount of control. The study developed several controlling dimensions that indicate the intensity of controlling. The higher the intensity of the controlling dimensions, the more it requires resources from both sides for controlling purposes, as well as mutual understanding between the manufacturer and distributor. Therefore, the study demonstrated that only a low level of controlling intensity occurs in effect between a European manufacturer and Argentinean distributor. In many cases, the distributors did not even notice that they were being controlled. At other times, there were also no regular controlling procedures in place. Almost no targets were observed, and there were no written agreements for the purpose of control. The
study lists several alternatives about how to control the distributor, and what areas of an enterprise or what specific subjects were currently controlled in the case of the sample companies.

A distinction was made between primary controlling subjects, those that should be monitored to avoid short-term damage, and secondary controlling subjects, which are controlled to enable a successful development in the long run. Even though the study shows the importance of primary controlling subjects, only secondary subjects such as sales performances are commonly monitored by the manufacturers. It was also interesting to find out that some manufacturers practice both an open as well as a secret control of their distributors.

Some of the controlling subjects are controlled secretly in order not to damage the relationship with the distributor. The study drove home the point once again, the importance of positive personal relationships even for controlling purposes. Needless to say, a positive personal relationship with the distributor was identified as the most important condition giving rise to an ideal control situation.

Regarding the organisational set-up of the controlling function within the manufacturer's organization, no clear tendency was observed. Differences were recorded concerning where to establish the controlling function locally, and figuring out who is responsible within an organization for the control of the distributor.

Several different models for organizing the controlling function were observed. The investigation demonstrated that the personal characteristics of a controller were more important than professional requirements. As was argued earlier, the responsible controller who is chosen to control the Argentinean distributor, therefore needs to have a sound understanding of Argentinean culture. If one does not possess this knowledge, their job was described as fairly difficult, because one would not be accepted on a cultural level.

Lastly, in Argentina generally the same controlling subjects compared to other markets in order to conduct successful controlling are important. However, the investigation suggested drawing special attention to the political situation of the country. Being a part of Latin America, the region's political development may have
different consequences for the economy compared to Western countries. Furthermore, special attention should be drawn to the control of the financial situation and the inventory levels of the distributor, as the infrastructure of neighbouring countries may influence procurement. When analysing the controlling data, the study also reminds those concerned to consider corruption, and therefore the relatively low reliability of controlling data.

VI. 5. Conclusions

When investigating market access in Argentina, and how to control the ongoing business, preliminary research suggests discussing a number of interesting questions. The study focused on some of the most important concerns of a foreign manager from a small or mid-sized European company, when preparing its future development on the Argentinean market.

Even though the study shows Argentina to be an attractive market for European companies whose desire and ambition is to do business there, there is no clear recommendation that Argentina should be the first country one accessed in Latin America. In fact, the market size of Brazil and Mexico, the oil resources of Venezuela, or the reported flexibility of the Chilean businessmen, might be even more attractive to some manufacturers. In addition, the study did not confirm that European small and mid-sized firms have better market opportunities due to the relative absence of multinational companies in Argentina. More importantly, opportunities arise out of the relative technological backwardness of most Argentinean firms, and from the organizational weakness of the primarily family owned businesses.

There is also no best or worst strategy regarding how to access the market of Argentina. Quite simply, different products may have different needs. However, the study clearly demonstrates some general trends and reports on basic rules of successful market access. The relevant steps to enter the market can be structured into a pre-phase strategy, an access phase and a post-phase, so that the following recommendations emerge.
Recommendations

Throughout the pre-phase, research focuses mainly on marketing issues such as price sensitivity, market size, key market players, as well as on the country's economy. The investigation reported on the difficulty of accessing reliable research data and consequently of relatively high research costs in Argentina compared to other international markets. Still, most manufacturers prefer to do market research in Argentina using their own staff, rather than by using external help. A common way of doing preliminary research consists of personal visits to the country in question, and of personal interviews with experienced companies of related industries.

In the following phase of accessing the market, there is a notable preference for using a distributor in Argentina. Even though a direct investment or a joint-venture allows a much better control of the product, the price and the promotion, the investigation clearly showed a distributor to be the most suitable marketing channel for European small- and mid-sized companies. It is primarily the remote position of this market, the distributor's ability to balance country risks, and his advantage in maintaining multiple contacts to the market, that makes the distributor the ideal marketing channel in Argentina. It would also take a much higher volume in sales compared to other international markets to achieve a break-even point at which it would make sense to exchange the distributor for the manufacturers' own sales force. The high cost of living in Argentina, as well as the limited market size, explains why small and mid-sized European manufacturers opt for the use of a distributor.

At any rate, this marketing channel has to be adapted to the particular needs of the relevant producer. In order to assist the foreign manager in the complex decision (i.e., whether or not to use a sales office or a distributor or indeed any alternative distribution channel) the thesis outlines an analytical model to support the decision making process. This model then summarizes the most important research results such as the internal and external factors relating to the manufacturer, as well as the most important steps to follow in order to arrive at a decision. It is a tool developed throughout the investigation, in which it uses a systematic evaluation of the different alternatives.
Throughout the investigation, several experiences of successful market access were recorded. The study suggests some key success factors of market access. Even though these general tendencies have not been tested yet, there was a clear indication of their relevance. For instance, the thesis reports on difficulties when trying to access local financing in Argentina. One condition that guarantees success is that the local marketing representation is able to finance its own marketing activities, or that financing is guaranteed from abroad. Second, due to the large distances in Latin America, and the relatively poor infrastructure, especially from Argentina’s neighbouring countries, the organisation of logistical processes is of high importance. Furthermore, Argentina was frequently described as a price sensitive market for many industries. To find the balance between a relatively attractive price and a minimum quality is therefore another factor that will determine the success of a foreign manufacturer in Argentina.

Lastly, but of highest importance, is the ability to establish favourable personal contacts to any kind of institution, customer or business partner. The study clearly demonstrates that not only during the market access phase, but throughout the different steps of market development in Argentina, the establishment of favourable personal relationships is critical for success. All things considered, personal relationships have a crucial impact in the case of market entry, when building up a customer base in Argentina, or in the case of selecting the partner. Personal relationships are further the key needed in order to control the distributor in Argentina, and to achieve satisfactory controlling results.

As a matter of fact, those who underestimate the importance of personal relationships often find out much later to their regret that this was the limiting factor in many areas when developing the business in Argentina. It determines how to interact with the Argentinean partner. For example, as the use of external help may damage the relationship with the Argentinean partner, the study implies rejection of external help in controlling and market research.

The study offers different examples concerning how best to select a representative in Argentina. Again, there was no clear tendency or a certain selection model. It seemed that many companies were using a practical rather than a systematic
approach. As described by many companies, it was discovered that personal contact with the candidates during the selection process was as an important condition.

The evidence of the investigation demonstrated more certainty about important criteria when selecting the appropriate representation. It was suggested that one ought to differentiate between formal and informal criteria. Formal criteria would describe the size, the products or the sales territory of the candidate, whereas informal criteria would refer more to the principal’s character, his contacts or his language skills. This second type of criteria was considered as far more important, and is the one that tends to carry more weight with respect to personal relationships with Argentines.

At the same time, the importance of personal relationships with the Argentinean partner limits the intensity of controlling. “Controlling” in terms of strategic planning and steering would require the use of certain targets. But our study only revealed controlling understood as monitoring and checking. It was discovered that the use of targets would otherwise adversely affect the relationship with the Argentinean partner. For the same reason, only pragmatic controlling, rather than systematic controlling, was observed. The rule of personal relationships is far more important in Argentinean society compared to the Anglo-Saxon societies, and thereby only allows a limited establishment of commercial rationality. No doubt this signifies something of a cultural barrier for those wanting to do business on the Argentinean market – a barrier that must be overcome if one is to be successful when dealing with the Argentines.

There is no clear cut off point between the check-phase of market access and the ongoing controlling of a business representation. In fact, controlling starts as soon as a partner is selected. Several market conditions, the Argentinean character, as well as the limited access to this remote market, make it difficult to control the business in Argentina. The study confirmed that systematic controlling is only possible when controlling a direct investment, but limited when controlling a distributor. The controlling dimensions, suggested by the results of research, are of less intensity, because of greater importance of personal relationships. Therefore, as personal relationships are crucial, only a few companies controlled subjects other than sales related ones. At the same time, the study generally did not report on any targets in
place, or quoted any analysis of deviation from given targets. This clearly demonstrates that rational procedures are limited in order to control the distributor.

The fact that most managers of regional headquarters for Latin America are of Latin American descent, and all speak Spanish, allows them to maintain favourable personal relationships with other Latin Americans involved in the affair. Needless to say, one must possess a sound understanding of cultural differences, as well as an understanding of the character of the Argentines, in order to establish such positive and beneficial relationships. Therefore, some important results of the study are summarized in the following graph that was developed throughout the investigation. Figure 39 gives an overview of the major findings:

---

**Figure 39.** The mindset of the Argentinean distributor

*Graph by author, sources Chapter One and Two, own questionnaire and Funakawa, 69*
The mindset of the Argentinean distributor is an abstract of the historical and socio-economical background of Argentina as described in Chapter I and II. Understanding the strong European influence on the Argentinean culture, the years of economic lead at the turn of the century, the impact of catholic ethics and the disappearing trade barriers, will help a foreign manager to prepare for intercultural communication. Only when he learns about the Argentinean loyalty to his or her family, will one accept the importance of starting business negotiations on private matters.

For example, it is important to know that many Argentines consider their country "a province of Europe, accidentally set thousands of kilometres away from the old continent" (Chapter One). This knowledge is vital when discussing the rules of success in negotiations with the Argentinean businessmen (Chapter Four). It is further helpful to consider that Argentina experienced macro-economical disorder with skyrocketing inflation rates of almost 5000% at the end of the 1980s (Chapter Two). More importantly, one must be cognizant of the Argentinean mindset when discussing the fact that Argentines are often pessimistic (Chapter Four), and with little capability/aptitude for long term budget planning (Chapter Five).

Thus, having pointed to several examples, and shedding light on many interesting tendencies in the process of market development, the investigation of these issues has to continue its task from here, in order to test a number of recommendations. In addition, the findings of the study raise a number of intriguing questions, which suggest a need for further investigation.
Appendix

A. Questionnaires used for research

A. 1. Questionnaire 1: Personal interviews done in Germany

A. Description of the company interviewed: Defining the type of company

1) What kind of industry are you in? (Consumer goods or industrial products?)

2) Where are you operating and/or selling internationally? Where are your major international competitors?

3) Are you dealing with a few major customers or many small customers?

4) How many employees do you have in Germany and worldwide?

5) What share of your total sales are exports?

6) What was your turnover in 1995 or 1996?

7) When was the company founded?

8) When did you start your export activities? When did you start your relations with Latin America?

B. Experiences in Argentina

1. How long has there been business with Argentina?

2. What characterises the Argentinean compared with other international and Latin American markets?

3. What were your first expectations when doing business with Argentina and how did it develop?

4. How did you establish the first contacts with the market? Who did you contact?

5. How was the market accessed? What steps did you follow?

6. What were and are your major problems in doing business with Argentina?

7. What was your biggest success in doing business with Argentina?

8. How would your ideal local representative be characterised?

9. What kind of problems have you experienced when doing business with Argentines?

10. Is there a typical way for German companies to access the market? What kind of distribution channel is the most frequent one?
A. 2. Questionnaire 2: Personal interviews done in Argentina
(Translated by author from Spanish to English)

A. Description of the company interviewed: Defining the type of company

1) What kind of industry are you in? (Consumer goods or industrial products?)
2) How many companies does your company represent?
3) From which countries do these companies come?
4) How many employees do you have?
5) What was your turnover in 1998?
6) When was the company founded?
7) When did you start to represent European companies?

B. Experiences in Argentina

1. Why should a European company work with a distributor in Argentina? (Advantages and Disadvantages)
2. Do you think that it is difficult for a European company to select a distributor?
3. How should a European company ideally select a distributor in Argentina?
4. Did you have unintended conflicts/points of intensive discussion with your business partners? What differences made these conflicts occur?
5. Is there a behaviour or are there statements of your business partner that you do not like?
6. What characterizes an ideal distributor in Argentina from the represented company’s point of view?
7. What kind of support do you expect from the company that you represent?
8. Is the represented company controlling you on a regular basis? How is this control done?
9. What subjects are controlled by the represented company?
10. Which targets were agreed previously?
11. How should a distributor ideally be controlled (contents and tools)? What would you suggest?
12. Do you think that due to the Internet in the future a distributor will no longer be necessary? What might change?
13. Do you agree that due to the relative absence of multinational companies, European (or US-American) small- and mid-sized companies have better business opportunities when expanding into markets of Argentina or Latin America?

14. Please indicate how far you agree to the following statements: (same table as in Questionnaire 3 to German companies about distributors in Argentina)

<table>
<thead>
<tr>
<th></th>
<th>I disagree completely (-2)</th>
<th>I do not quite agree (-1)</th>
<th>I don't know (0)</th>
<th>I agree partially (1)</th>
<th>I agree completely (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentines have less difficulties understanding gestures of fear and joy when communicating with Germans than with US-Americans</td>
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<td>Argentian symbols and values compare more to those of Germans than those of US-Americans</td>
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<tr>
<td>In Argentinian companies employees prefer a boss as decision making leader rather than an equal colleague consulting for decisions</td>
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<tr>
<td>In business relations Argentines try to avoid confrontations and to maintain harmony</td>
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<tr>
<td>Argentines follow the guideline that company rules should not be broken even if it would be in the company’s interest</td>
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<tr>
<td>Business in Argentina is based on honour and trust</td>
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</tr>
<tr>
<td>Personal relations to Argentinean business people are more important than in the US, Europe or Asia</td>
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<tr>
<td>Argentines prefer to start business talks on private matters rather than discussing details of a deal</td>
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<tr>
<td>Business people from Chile are more flexible in adapting to customer needs than those from Argentina</td>
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<tr>
<td>Argentines feel superior to other Latin Americans</td>
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<td></td>
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<tr>
<td>Argentines compare to Southern Europeans</td>
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</tr>
</tbody>
</table>
Appendix

A. 3. Questionnaire 3: Written interviews sent by mail to German companies
(Translated by author from German to English)

The results of the present questionnaire will be part of an academic study. The questionnaire investigates how German companies enter the markets of Latin America, demonstrated in case of Argentina. In order to appreciate your support you may receive a copy of the major findings free. Please fill out the present questionnaire and send it to

Actual address in the USA:
Jorn N. Leewe
632 NE 9 Av.
Ft. Lauderdale, FL 33304
Tel./Fax: 001 954 7611513
Jorn N. Leewe
Vogelsrath 6
41366 Schwalmatal

Yes, I would like to support the investigation:
[ ] Please send me a copy of the major findings [ ] I do not want a copy of the major findings

1. Please describe first your business relationship with Argentina. I would also like you to fill out the questionnaire even if your business relationship with Argentina (Arg.) may have ended or is only at the planning stage (Please mark the box)

<table>
<thead>
<tr>
<th>Business relation with Arg.</th>
<th>Existing</th>
<th>from year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business relation with Arg.</td>
<td>ended</td>
<td></td>
</tr>
</tbody>
</table>

2. How did you start your business relationship with Argentina? Please mark one of the following options or briefly describe how you proceeded (Please mark the box)

a) Active or passive market entry in Argentina:
- We actively accessed the market in Argentina
- We were contacted by a company/client

b) Kind of original market entry in Argentina (please mark only one)
- Direct export to end user in Argentina
- Indirect export through exporters in Germany
- Distributor/Sales agent in Argentina
- Setting-up an own sales office
- Franchise-/Licensee/taker in Argentina
- Acquisition of a local company
- Starting a local production
- Joint-Venture with a local partner
- Others... (please describe on the right)

Other market access:

Please indicate your initial motivation to enter the market in Argentina (e.g., personal relationship, booming market, activities of competitor in Arg., beauty of the country, etc.)
3. As you may know banks, associations and chambers of commerce offer different services to export companies in order to assist the market entry process. Please mark how important you consider the following services when accessing the market in Argentina.

<table>
<thead>
<tr>
<th>Not important</th>
<th>Of less importance</th>
<th>I don't know</th>
<th>Of some importance</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2)</td>
<td>(1)</td>
<td>(0)</td>
<td>(1)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

- Translation service
- Facilitation of addresses
- Facilitation of partners and distributors
- Legal consulting
- Facilitation of lawyers
- Local newspaper with ads
- Facilitation of investment projects
- Realization of market studies
- Consulting on company foundations in Arg.
- Realization of product tests
- Seminars (i.e., business practice in Arg.)
- Offer of business information
- Consulting on sales and distribution
- Advertising for companies, products, etc.
- Holding of congresses and events, etc.
- Others

4. Please rank those markets in Latin America that should be accessed first in your industry. Please briefly give reasons for your choice and mention your most important market first. Please mention also in columns 3 to 5 which other markets have been actively or passively entered by your company (Passively = contact was established by a third party).

<table>
<thead>
<tr>
<th>Country</th>
<th>Should be accessed first, because</th>
<th>Was already accessed by your company in year</th>
<th>Active</th>
<th>Passive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Mention some reasons)</td>
<td></td>
<td></td>
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<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
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<tr>
<td>4</td>
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<tr>
<td>5</td>
<td></td>
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</tbody>
</table>

5. From which of the following sources are you receiving information in order to prepare for a market access (not the selection of a distributor) in Argentina? Which sources could you imagine using in the future? Please write Yes = statement is correct, No = statement is not correct. Please mention also the name of each source.

<table>
<thead>
<tr>
<th>Already used</th>
<th>Future use possible</th>
<th>Name of sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td></td>
<td></td>
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<tr>
<td>Relevant magazines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publications from business associations</td>
<td></td>
<td></td>
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<tr>
<td>Publications from banks</td>
<td></td>
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<tr>
<td>Personal interviews with local banks</td>
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<tr>
<td>Personal interviews with companies</td>
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<tr>
<td>Project with consulting/research firm</td>
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<tr>
<td>Project with Chamber of Commerce</td>
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<tr>
<td>Trip with business delegation</td>
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<tr>
<td>Trip to Arg. and collecting info locally</td>
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<td></td>
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<tr>
<td>Trip to Arg. With local research (interv)</td>
<td></td>
<td></td>
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<tr>
<td>Others</td>
<td></td>
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</tbody>
</table>
6. Please mark on how the following statements match to the situation/history of your company:

<table>
<thead>
<tr>
<th>Statement</th>
<th>I disagree completely (-2)</th>
<th>I do not quite agree (-1)</th>
<th>I don’t know (0)</th>
<th>I agree partially (1)</th>
<th>I agree completely (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market access to Argentina happened by accident</td>
<td></td>
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<tr>
<td>Market access to Argentina was/will be planned and initially analyzed</td>
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<tr>
<td>Since market access in Argentina we made some corrections to the distribution channel</td>
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<tr>
<td>We do not like to work with a distributor when entering the market in Argentina</td>
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<tr>
<td>It is relatively complicated for a European company to select the first distributor in Argentina</td>
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<tr>
<td>To select the wrong distributor can be relatively expensive and it is difficult to end this kind of relationship</td>
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<tr>
<td>Due to the Internet in the future there will be no more distributors needed in Argentina</td>
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<tr>
<td>a) Small- and mid-sized European companies have relatively more difficulties to enter markets like Argentina</td>
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<tr>
<td>b) Due to the relative absence of multinational companies, European small- and mid-sized companies have better business opportunities when expanding into markets like Argentina</td>
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<tr>
<td>c) Argentinean companies prefer to work with small- and mid-sized European firms rather than multinational companies</td>
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</table>

Rel. to a) Please describe possible difficulties:

Rel. to b) Please comment this statement

7. Which of the following areas are you usually analyzing when preparing the entry of a new market? In what areas will you do analysis in the future? In what cases are you purchasing your relevant information? In what cases may it be possible in the future? Please write Yes = statement is correct, No = statement is not correct.

- Overview of the country's politics and economy
- Legal situation regarding a particular product
- Market chances and risks (SWOT-Analysis)
- Overview of market volume
- Analysis of important customers (Financials, etc.)
- Make or buy (distributor or own sales office)
- Market price sensitivity to a new product
- Analysis of competitors and market shares
- Product acceptance/consume values
- Others...

<table>
<thead>
<tr>
<th>Area</th>
<th>Done by us</th>
<th>Possible in future</th>
<th>Already purchased</th>
<th>Possible in future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview of the country's politics and economy</td>
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<td>Make or buy (distributor or own sales office)</td>
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<td>Market price sensitivity to a new product</td>
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<td>Analysis of competitors and market shares</td>
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<tr>
<td>Product acceptance/consume values</td>
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<tr>
<td>Others</td>
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</table>
8. Please indicate how far you agree with the following statements* (same table as of Questionnaire 2 to Argentinean companies about distributors in Argentina)

<table>
<thead>
<tr>
<th>Statement</th>
<th>I disagree completely (-2)</th>
<th>I do not quite agree (-1)</th>
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<td>Personal relations to Argentinean business people are more important than in the US, Europe or Asia</td>
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<td>Business people from Chile are more flexible in adapting to customer needs than those from Argentina</td>
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<tr>
<td>Argentineans compare to Southern Europeans</td>
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</tbody>
</table>

**Details of the company interviewed**

The following information is important to categorize your company (Size?, Export orientated?, etc.)

They will only be used for research purposes. You may give estimates

1. To which industry does your company belong?

<table>
<thead>
<tr>
<th>Consumer goods</th>
<th>Investment goods</th>
<th>Services</th>
<th>Others (please state)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

Please briefly describe your industry sector

2. In which regions is your company and where are your major competitors operating?

<table>
<thead>
<tr>
<th>Region</th>
<th>Your firm</th>
<th>Big compet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe (EU)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA/Canada</td>
<td></td>
<td></td>
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<tr>
<td>Africa/Middle East</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. How many employees did you have in 1998 and what was your turnover?

<table>
<thead>
<tr>
<th>Region</th>
<th>N'employees</th>
<th>Sales (m DEM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worldwide</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. In which year were the following steps taken by your company?

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Foundation of company</td>
</tr>
<tr>
<td></td>
<td>Start of export activities</td>
</tr>
<tr>
<td></td>
<td>Start of relationship with Latin America</td>
</tr>
<tr>
<td></td>
<td>Start of relationship with Argentina</td>
</tr>
</tbody>
</table>
A. 4. Questionnaire 4: Personal interviews done in the USA

A. Description of the company interviewed: Defining the type of company

1) What kind of industry are you in? (Consumer goods or industrial products?)

2) Where are you operating and/or selling internationally?
   a) Where are your major international competitors?

3) How many employees do you have?
   a) in Germany
   b) in Argentina
   c) and worldwide?

4) What share of your total sales are exports?

5) What was your turnover in 1998?
   a) worldwide
   b) in Argentina

6) When was the company founded?

7) When did you start your export activities?
   a) When did you start your relations with Latin America?
   b) How long has there been business with Argentina?

B. Experiences in Argentina

1. How did you initially access the market in Argentina (distributor, sales office, joint venture) and how was the development of your strategy until today? (own production, acquisition of distributor, end of joint-venture, etc.)

2. What are key success factors to develop the market position and why do companies fail after accessing the Argentinean market?

3. What corporate functions do you consider as the most important to manage the new market?

4. How important do you consider the function of Controlling when managing your business activities in Argentina? Does it help to prevent from further mistakes?

5. Do you control your distributors in Latin America? (Yes -&gt; question 6-9, No -&gt; question 10-13)

6. When did you start occasional and regular Controlling and why?

7. What subjects do you check to control the distributor and what targets did you agree previously?

8. What sources and tools do you use to control the distributor?
9. How ideally should a distributor be controlled (contents and tools)?

10. When did you start occasional and regular Controlling of the direct investment and why? How did the volume of reported information develop?

11. Who was and is responsible to control the business in Argentina? How should the ideal Controller of Argentina be characterised? (background, language, soft skills, nationality, acceptance)

12. What factors do you control especially in Argentina/Latin America and what targets did you agree?

13. How is your reporting done (MIS, systems, visits; budget, key factors, P&L, BS, quality, etc.)?

14. Do you think that due to the Internet in the future a distributor will no longer be necessary? What might change?

15. Do you agree that due to the relative absence of multinational companies, European (or US-American) small- and mid-sized companies have better business opportunities when expanding into the markets of Argentina or Latin America?
Appendix

B. Research Sample

B. 1. Interviews done in Germany

1. Mrs. von Gymnich
   Sales Director Latin America
   Messe Frankfurt Service GmbH
   Ludwig-Erhard-Anlage 1
   60318 Frankfurt/Main
   Germany
   Tel.: 49 69 75756 951
   Date of interview: January 16th, 1997

2. Christian H. Brunn
   Manager Export + Marketing
   Hameg GmbH
   Kelsterbacher Straße 15-19
   60528 Frankfurt/Main
   Germany
   Tel: +49 69 67805 0
   Date of interview: January 22nd, 1997

3. Dipl. Ing. Peter Ziehl, Project Manager
   Dipl. Ing. Ricardo Luis Bauer
   Fleissner Maschinenfabrik GmbH & Co.
   63328 Egelsbach
   Germany
   Tel: +49 6103 4010
   Date of interview: January 27th, 1997

4. Mr. Olesch
   Sales Director Italy and former Sales Director Argentina
   Milupa GmbH & Co. KG
   Bahnstr. 14 - 30
   61364 Friedrichsdorf
   Germany
   Tel: +49 6172 99 1500
   Date of interview: January 28th, 1997

5. Karl Egon Fromm
   Manager Marketing & Sales Latin America, Africa
   Biotest Pharma GmbH
   Landsteinerstr. 5
   63303 Dreieich
   Germany
   Tel: +49 6103 801 752
   Date of interview: January 29th, 1997
6. Doris Beilhardt  
Business Unit Distributors EMEALA  
Linotype-Hell AG  
Mergenthaler Allee 55 - 75  
65760 Eschborn  
Germany  
Tel: +49 6196 95 2220  
Date of interview: January 30th, 1997

7. Dieter Ballo  
Export Director  
Henkell & Söhnlein Sektkellerei KG  
Biebricher Allee 142  
65187 Wiesbaden  
Germany  
Tel: +49 611 63-222  
Date of interview: January 31st, 1997

8. Klaus R. Göbel  
General Manager  
Ingenieurbüro Göbel GmbH  
De - La - Fosse - Weg 26  
64289 Darmstadt  
Germany  
Tel: +49 6151 710488  
Date of interview: February 28th, 1997

9. Manuel Alonso Comerma  
General Sales Manager Latin America  
Dieter Hitzler, Senior Sales Manager  
SGL Carbon GmbH  
Werner-von-Siemens Strasse 18  
88405 Meitingen  
Germany  
Tel.: +49 8271 - 830  
Date of interview: April 23rd, 1997
B. 2. Interviews done in Argentina

1. Mr. Emilio Walter Bianchetti  
Business Development  
*Casa Bianchetti*  
Gral. César Díaz 2234/8  
1416 Buenos Aires  
Argentina  
Tel: +54 11 4582 0077  
Fax: +54 11 4583 8282  
Date of interview: August 21st, 1999

2. Mr. Gerardo R. Angarami  
President  
*Cirurgia Alemana S.A.*  
1019 Buenos Aires  
Argentina  
Tel: +54 11 4815 3433  
Fax: +54 11 4812 3942  
Date of interview: August 17th, 1999

3. Mr. German A. E. Grelle  
General Manager  
*Instrumentalia S.A.*  
Gral. Urquiza 706  
1221 Buenos Aires  
Argentina  
Tel: +54 11 4932 3000  
Fax: +54 11 4931 6600  
Date of interview: August 17th, 1999

4. Mr. Salomón Cheja  
President  
*Teknotech S.A.*  
Av. P.M. Quimana 189 – 7 B  
1014 Buenos Aires  
Argentina  
Tel: +54 11 4815 2388  
Fax: +54 11 4811 2035  
Date of interview: August 18th, 1999

5. Mr. Rubén D. Mahmoud  
Vice President Finance and Administration  
*IOA S.A.C.I.*  
Hipólito Yrigoyen 4168  
1208 Buenos Aires  
Argentina  
Tel: +54 11 4959 1600  
Fax: +54 11 4959 1649  
Date of interview: August 18th, 1999
6. Mr. Renato L. Bucello  
General Manager  
**Bucello y Asociados S.R.L.**  
Echeverria 2109 P8 of. C  
1428 Buenos Aires  
Argentina  
Tel: +54 11 4785 4391  
Fax: +54 11 4783 8390  
Date of interview: August 17th, 1999

7. Mr. Claudio Davila  
Sales Manager  
**Rolco S.R.L.**  
San Luis 3117  
1186 Buenos Aires  
Argentina  
Tel: +54 11 4961 7283  
Fax: +54 11 4962 5736  
Date of interview: August 19th, 1999

8. Mrs. Prof. Marta F. de Pessagno  
General Manager  
**Auditotal S.R.L.**  
Viamonte 1716 – 7 piso  
1055 Buenos Aires  
Argentina  
Tel: +54 11 4731 8956  
Fax: +54 11 4375 4732  
Date of interview: August 19th, 1999

9. Dr. Andrés G. Meyer  
General Manager  
**Bellows S.R.L.**  
Santos Dumont 3736  
1427 Buenos Aires  
Argentina  
Tel: +54 11 4555 4900  
Fax: +54 11 4554 2662  
Date of interview: August 20th, 1999

10. Mr. Jorge E. Ciliberto – General Manager and founder  
Mrs. Norma Nicolini – Business Development and founder  
Mrs. Sandra Ciliberto – Sales Manager (daughter of owner)  
**Laboratorios Bacon S.A.I.C.**  
Uruguay 136  
1603 Villa Martelli Buenos Aires  
Argentina  
Tel: +54 11 4709 0171  
Fax: +54 11 4709 2636  
Date of interview: August 20th, 1999
11. Mr. Ligor Kleh – General Manager (senior)
Mr. Maximilian Kleh – General Manager (junior)
Kleh s.r.l.
25 de Mayo 758 2 "L"
1002 Buenos Aires
Argentina
Tel: +54 11 4314 4474
Fax: +54 11 4314 4846
Date of interview: August 18th, 1999

12. Mr. Eduardo Kohner – General Manager
Mr. Alejandro Kohner – Business Development
Carpe Schneider y Cia. S.A.
Godoy Cruz 2769 – 5piso
1425 Buenos Aires
Argentina
Tel: +54 11 4776 0477
Fax: +54 11 4775 9619
Date of interview: August 17th, 1999

13. Mr. Pablo Rivas
Sales Manager
Casa Pi-Ro S.A.
Uspallata 3074
1437 Buenos Aires
Argentina
Tel: +54 11 4912 4324
Fax: +54 11 4912 6761
Date of interview: August 19th, 1999

14. Mr. Roberto O. Canneva
General Manager
Rocimex s.r.l.
Potosi 3964
Buenos Aires
Argentina
Tel: +54 11 4983 9239
Fax: +54 11 4983 9239
Date of interview: August 18th, 1999

15. Dr. José Luis Sánchez
Director
Eurocentro de Cooperación Empresarial
Av. Leandro N. Alem 36 10piso
1003 Buenos Aires
Argentina
Tel: +54 11 4343 5769
Fax: +54 11 4331 9972
Date of interview: August 19th, 1999
16. Dr. Herberto Hugo Karplus  
General Manager  
Karplus S.A.  
Bartolomé Mitre 1265 - 1  
1036 Buenos Aires  
Argentina  
Tel: +54 11 4372 0908  
Fax: +54 11 12166  
Date of interview: August 20th, 1999

17. Oscar Gutzweiler  
Partner  
KPMG Finsterbusch Pickenhayn Sibille  
Auditing firm  
Leandro N. Alem 1050 - 5º Piso  
Buenos Aires  
Argentina  
Tel: +54 1 316 - 5812  
Fax: +54 1 316 - 5800  
Date of interview: February 9th, 1997

18. Herbert H. B. Schulz  
Hospital Alemán (German Hospital)  
Commercial Director  
Av. Pueyrredón 1640  
1118 Buenos Aires  
Argentina  
Tel: +54 1 822 7019  
Fax: +54 1 824 7151  
Date of interview: September 1st, 1997

19. Prof. Dr. Cristóbal M. Papendieck  
Hospital Alemán (German Hospital)  
Cirugía General Pediátrica  
Av. Pueyrredón 1640  
1118 Buenos Aires  
Argentina  
Tel: +54 1 821 - 1700  
Fax: +54 1 805 - 6087  
Date of interview: September 1st, 1997
B. 3. Interviews done in the USA

1. Mr. Alexander Stulz
   Area Sales Manager Latin America
   Stulz GmbH Klimatechnik
   Holsteiner Chaussee 285
   20010 Hamburg
   Germany
   Tel: +49 40 5585 442
   Date of interview: August 21st, 1999

2. Mrs. Ilka Quintero-Colbert – Marketing and Promotions Manager
   Mr. Piero Quintanilla – Operations Manager
   SGS Government Programs, Inc.
   8120 N.W. 53rd St. – Suite 200
   Miami, Florida 33166
   USA
   Tel: +1 305 471 7032
   Fax: 1 305 592 6925
   Date of interview: January, 19th 2000

3. Mr. Hiroyuki Sampei
   General Manager
   Terumo Medical Corporation
   6161 Blue Lagoon Drive, Suite 340
   Miami, Florida 33126
   USA
   Tel: +1 305 263 9835
   Fax: +1 305 263 1219
   Date of interview: February 8th, 2000

4. Mrs. Gilda Villela
   Business Manager
   ViewSonic Corporation
   6100 Blue Lagoon Drive, Suite 355
   Miami, Florida 33126
   USA
   Tel: +1 305 263 7401
   Fax: +1 305 263 7411
   Date of interview: February 15th, 2000

5. Mr. Jukka Turtola
   Regional Director
   Datex-Ohmeda Latin America
   10685 North Kendall Drive
   Miami, Florida 33176
   USA
   Tel: +1 305 273 9940
   Fax: +1 305 273 4382
   Date of interview: February 15th, 2000
6. Mr. Alan Prince  
Sales and Marketing Manager  
F.G. Wilson, Inc.  
10431 North Commerce Parkway  
Miramar, Florida 33025  
USA  
Tel: +1 954 433 2212  
Fax: +1 954 433 4431  
Date of interview: February 15th, 2000

7. Mr. Roberto Maceda  
Service Manager  
Black & Decker, Inc.  
2023 N.W. 84th Avenue  
Miami, Florida 33122  
USA  
Tel: +1 305 594 4806  
Fax: +1 305 594 4880  
Date of interview: March 9th, 2000

8. Mr. Adolfo Rovlera  
Area Sales Manager  
OMC Latin America / Caribbean, Inc.  
480 Sawgrass Corporate Parkway, Suite 100  
Sunrise, Florida 33325  
USA  
Tel: +1 954 846 1476  
Fax: +1 954 846 1432  
Date of interview: March 24th, 2000

9. Mr. Juliano Graff  
Marketing, Sales Planning and Controlling Manager - RIOG1/S, M  
Lufthansa Cargo AG  
Area Management South, Central America and Caribbean  
Avenida Rio Branco, 156 Loja D  
20043-090 Rio de Janeiro-RJ  
Brazil  
Tel: +5521 219 3840  
Fax: +5521 219 3831  
Date of interview: March 25th, 2000

10. Mr. Christian Hufnagel  
Assoc. Business Manager  
Hershey International  
Weston Corporate Centre, 4th Fl.  
2700 South Commerce Parkway  
Weston, Florida 33331  
USA  
Tel: +1 954 385 2654  
Fax: +1 954 385 2625  
Date of interview: April 20th, 2000
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Horváth, Péter

Hupka, Herbert

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Reichmann, Thomas


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Rock, David


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