Understanding business and management in Venezuela

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Understanding

Business and Management

in Venezuela

by

Alexander M. Hirschbold

A Doctoral Thesis submitted in partial fulfilment of the requirements for the award of Doctor of Philosophy – PhD of the Loughborough University

JUNE 2000

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Acknowledgements

As a research project essentially involves the interaction of many people, I would like to thank those who made the whole project possible.

In the first place I am deeply grateful to my Supervisor, Professor Peter Lawrence, Professor of International Management at Loughborough University Business School. He was the one who evoked my curiosity and the urge to write a thesis about management in a foreign country, while I was sitting in his lectures on International Management and Comparative Management during an academic year as an exchange student participating in the Erasmus Scholarship of the European Union. I was fascinated by his way of conveying knowledge to us students about other countries’ and cultures’ management styles and ways of doing business. We were hanging on his every word, absorbing with all our senses to create mental pictures of an overwhelming intensity. Having had this experience it seemed to be a logical consequence to decide to write a thesis in this area knowing I would be supported with conviction. The support I have received was more than I had ever expected and his openness towards new ideas and experiences seems to be unmatched.

Doing research in a country of a continent about which very little has been written in the field of management so far seemed to be a challenging and adventurous task in terms of conducting research, offering the possibility to discover unique characteristics and the dominant traits of managers while coping with all the deficiencies of an underdeveloped country. As Peter Lawrence himself has conducted a lot of ‘hands-on’ research on management in individual countries from all over the world, e.g. Germany (1980), Sweden (1986), Israel (1990), the Netherlands (1991), the USA (1996), or France (1997), he was a very helping hand when it came to questions about how to conduct research in another country, what it meant to “unblock” interviewees or the art of asking indirect and subtle questions to elicit answers one would never get when asking in a blunt manner. Thanks to email, telephone, and visits he was also very helpful in shaping the big picture of the study sharing his knowledge he has acquired about the many different countries.
I would also like to thank the project director Professor John Wilson who supported the project from beginning to the end always being open minded and positive about any suggestions that came up during the different stages of the project.

To be able to compare and contrast managerial traits and peculiarities I was fortunate to be able to use the "Management Attitudes Questionnaire". This survey was designed by Professor Peter Lawrence and John Whittaker and is widely known as the Loughborough study. The data for the other countries was obtained by them. I would also like to thank Dr. Heidi Winklohofer for her help and assistance when it came to analysing the questionnaires. As she did the original data evaluation for the European countries and for the United States of America, a statistical data platform existed I could compare the Venezuelan sample with.

My thanks also go to Dr. Simon Mowatt, Research Fellow at the Centre for International Business at South Bank University, London, a former PhD student working in comparative management and having written a thesis about management in Spain, and the PhD students Joern Leewe and Oliver Trapp for sharing their knowledge on how to do research and effective interviewing in a foreign country.

Central to the research that made this thesis possible are a large number of company visits and interviews with managers, academics, and many other people in Germany and in Venezuela. In both countries, there are several people to whom I am extremely thankful. Meeting Professor Waldmann from the University of Augsburg, Germany, a specialist in Argentine politics, sociology, and society, and talking to Professor Nikolas Wertz from the University of Rostock, Professor of Politics and an insider of the Latin American and especially Venezuelan political setting, formed the starting point of creating a web of contacts that served me well in meeting and talking to important businessmen and managers in Germany and Venezuela. I would especially also like to thank the Chamber of Industry and Commerce of Augsburg, Germany, for helping me to identify German companies who do business with Venezuela.

My next thank you goes to Preussag Energie GmbH, a Preussag Group Company, who supported me with a generous doctoral sponsorship making it possible to use their facilities, infrastructure, and knowledge in Germany and Venezuela.
Without the support of this company the research especially in Venezuela would not have been possible. In Maracaibo as well as in Caracas the company's offices and headquarters offered their help and assistance in arranging additional interviews with managers and executives of Venezuelan firms, helping the researcher to make his stay as effective, comfortable, and successful as possible, i.e. meeting a wide range of people in a short amount of time, spending weeks in different locations as an observer of the everyday work, adding a lot to my understanding and getting closer to and becoming more familiar with the Venezuelan (business) culture. Running into the danger of missing out somebody I would like to thank especially the following people for their work, help, assistance, and guidance: Carolina Ferrer, Maria Virginia Villalobos, Maria Alejandra Sánchez, and Liliana Cárdenas for establishing interviews with and arranging transportation to several Venezuelan companies located in Maracaibo; Kathy Vieira for translating a vast amount of interviews that were conducted in Spanish into the English language; Miguel Pérez for making safe my stay in Caracas by being guarda espalda and chauffeur on the one hand, but also by becoming mi pana, a true friend on the other side showing me areas of Venezuelan life and society that are normally considered to be inaccessible and too dangerous for foreigners to experience. Unfortunately his house was swept away during the storm and heavy flooding around the region of Vargas and La Guaira in December 1999, bringing a lot of misery to him and to his family.

Finally I would like to thank all the managers, executives, presidents, line managers, consultants, and employees who shared their time, knowledge, thoughts, and perceptions about management and doing business in Venezuela. In both countries, Germany and Venezuela, I was amazed by the warm welcome and high level of cooperation and trust people were willing to offer me. The amount of time they dedicated to my inquiries in terms of filling in the management attitudes questionnaire on the one hand and answering passionately the open ended questions of the semi-structured interviews on the other, gave me the impression that there is certainly a strong need for research in this area and what is more, it has been deeply appreciated by all participants. Furthermore I would like to thank especially those interviewees who invested a serious amount of time and effort in arranging further interviews, not because they were forced to, but simply because they wished to be helpful.
And this can be seen as a first characteristic of Venezuelan management. Assistance was offered even if there were no obvious signs of a problem. Indeed, Venezuelan managers invest a significant amount of time in helping colleagues, relatives, and people they are bound to by ties of friendship.

Finally I would like to thank my parents for always providing the necessary resources of any kind to make this adventure a true success.

ALEXANDER M. HIRSCHBOLD
June 2000
Key Words

- Comparative management
- International management and business
- Doing business in Latin America
- History of Venezuela
- Venezuelan economy
- Venezuelan mentality and society
- Business culture in Venezuela
- Venezuelan management
Abstract

The thesis seeks to offer knowledge and insight into management and business in the South American state of Venezuela. We have been at pains to context this characterization; so the thesis begins with sections devoted to the history, society and economy of Venezuela and seeks to emphasize factors which have served to shape business practice and values. This is followed by presenting the results of the first episode of field work, interviews carried out in Germany with managers having business and management experience in Venezuela this material being used to form a preliminary characterization. This concludes Part I of the thesis.

In Part II the results of quite extensive fieldwork on Venezuela itself are presented. This fieldwork was in the form of numerous company visits and executive interviews, supplemented by periods spent as an observer in one or two Venezuelan organizations and by interviews with others having relevant knowledge of business practice in Venezuela, for example, consultants and management educators. The discussion illuminates some key features including personalism, the importance of social networks, the emphasis on the human aspects of management, and the expectation of employees that bosses will be both decisive and paternal. We also highlight factors that have tended to restrain entrepreneurialism and management proactivity, including the effects of oil wealth.
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Abbreviations

AD ........................................... Acción Democrática, or Democratic Action Party.
AEROPOSTAL ............................. Linea Aeropostal Venezolana; Venezuelan Airmail Line.
ALADI .................................... Latin American Integration Association.
ALALC .................................. Asociación Latinoamericana de Libre Comercio; Latin American free trading zone; Engl. LAFTA.
ALCASA ................................. Aluminios del Caroní, S.A.
AVE ........................................ Asociación Venezolana de Ejecutivos; famous private institute for Management-Training located in Caracas.
AVENSA ................................. Aerovias Venezolanas, S.A.; Venezuelan Airways.
BAUXIVEN .............................. Bauxita de Venezuela.
BCV ........................................ Banco Central de Venezuela; Central Bank of Venezuela.
C.A. ......................................... Compañía Anónima (incorporated).
CADAFE ................................. C.A. de Administración y Fomento Eléctrico; Electrical Administration and Development Company; the largest of Venezuelan state-owned electricity companies.
CANTV ................................. C.A. Nacional de Teléfonos de Venezuela; Venezuelan National Telephone Company; was partly transformed into a private company 1991.
CARBONORCA ..................... Carbones del Orinoco, C.A.
CAVENAL .............................. Cámara de Comercio e Industria Venezolano-Alemana, Caracas; Venezuelan-German Chamber of Commerce in Caracas.
CEPAL .................................... Comisión Económica para América Latina y el Caribe; economic UN-Organisation; Engl. ECLAC.
CENDES ................................. Centro de Estudios del Desarrollo; the social science research department at the Central University.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CIDEIBER</td>
<td>Centro de Información y Documentación Empresarial sobre Iberoamérica.</td>
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<tr>
<td>CIED</td>
<td>Centro Internacional de Educación y Desarrollo; subsidiary of PDVSA responsible for professional development and education.</td>
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<tr>
<td>CIEDLA</td>
<td>Centro Interdisciplinario de Estudios sobre el Desarrollo Latinoamericano.</td>
</tr>
<tr>
<td>CIF</td>
<td>Cost plus insurance freight; a valuation formula to determine the amount of duties that need to be paid, when importing goods.</td>
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<tr>
<td>CN</td>
<td>Convergencia Nacional.</td>
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<tr>
<td>CODESA</td>
<td>Confederación de Sindicatos Autónomos de Venezuela.</td>
</tr>
<tr>
<td>CONAPRI</td>
<td>Consejo Nacional de Promoción de Inversiones; National Council for Investment Promotion.</td>
</tr>
<tr>
<td>COPEI</td>
<td>Comité Organización Política Electoral Independiente, Partido Social Cristiano, or Social Christian Party.</td>
</tr>
<tr>
<td>CORDIPLAN</td>
<td>Oficina Central de Coordinación y Planificación de la Presidencia de la República; central planning bureau of the state's president, located in Caracas, responsible for overall economic development.</td>
</tr>
<tr>
<td>CORPOVEN</td>
<td>One of the four operating affiliates of PDVSA until 1997.</td>
</tr>
<tr>
<td>CORPOZULIA</td>
<td>Zulian Development Corporation.</td>
</tr>
<tr>
<td>CTV</td>
<td>Confederación de Trabajadores de Venezuela; confederation of Venezuelan workers.</td>
</tr>
<tr>
<td>CV</td>
<td>Curriculum Vita.</td>
</tr>
<tr>
<td>CVG</td>
<td>Corporación Venezolana de Guayana; Venezuelan Guayana Corporation; a huge state-owned conglomerate trying to develop Southern Venezuela.</td>
</tr>
<tr>
<td>CVP</td>
<td>Corporación Venezolana del Petróleo; Venezuelan Petroleum Corporation; the national oil company created in 1960 merged into Corpoven in 1978.</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>D.F.</td>
<td>Distrito Federal; federal district.</td>
</tr>
<tr>
<td>DBLA</td>
<td>Dresdner Bank Lateinamerika AG; formerly known as Deutsch-Südamerikanische Bank AG.</td>
</tr>
<tr>
<td>E&amp;P</td>
<td>Exploration and Production of petroleum.</td>
</tr>
<tr>
<td>EU</td>
<td>European Union.</td>
</tr>
<tr>
<td>ECLAC</td>
<td>United Nations Economic Commission for Latin America and the Caribbean.</td>
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<tr>
<td>ed.</td>
<td>Editor.</td>
</tr>
<tr>
<td>EDC</td>
<td>C.A. La Electricidad de Caracas.</td>
</tr>
<tr>
<td>EDELCA</td>
<td>Electrificación del Caroní, S.A.; Caroní Basin Electrification Company.</td>
</tr>
<tr>
<td>eds.</td>
<td>Editors.</td>
</tr>
<tr>
<td>FEDECAMARAS</td>
<td>Federación Venezolana de Cámaras y Asociaciones de Comercio y Producción; Venezuelan Federation of Chambers and Associations of Commerce and Production, the most influential business organisation in the country.</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment.</td>
</tr>
<tr>
<td>FIV</td>
<td>Fondo de Inversiones de Venezuela.</td>
</tr>
<tr>
<td>FOB</td>
<td>free onboard; a valuation formula to determine the amount of duties that need to be paid, when importing goods.</td>
</tr>
<tr>
<td>FOGADE</td>
<td>Fondo de Garantia de Depósitos y Protección Bancaria, Guarantee Fund for Deposits and Bank Protection.</td>
</tr>
<tr>
<td>Fundei</td>
<td>Fundación Educación Industrial; Industrial Education Foundation.</td>
</tr>
<tr>
<td>G-3</td>
<td>Group of Three; Integration agreement between Colombia, Mexico, and Venezuela.</td>
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<td>GDP</td>
<td>Gross Domestic Product.</td>
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<tr>
<td>GNP</td>
<td>Gross National Product.</td>
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<tr>
<td>Gov.</td>
<td>Government.</td>
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<tr>
<td>GTE</td>
<td>General Telephone and Electronics; company in the telecommunications sector.</td>
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<td>Abbreviation</td>
<td>Full Name</td>
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<tr>
<td>IADB</td>
<td>Banco Interamericano de Desarrollo; Inter-American Development Bank.</td>
</tr>
<tr>
<td>IDES</td>
<td>Instituto para el Desarrollo Económico y Social; Institute of economic and social development.</td>
</tr>
<tr>
<td>i.e.</td>
<td>(lat.) id est.</td>
</tr>
<tr>
<td>IESA</td>
<td>Instituto de Estudios Superiores de Administración; Institute for Advanced Administrative studies; Management School for students having finished high school in Caracas.</td>
</tr>
<tr>
<td>IF</td>
<td>Industria Fabril; “Factory Industry”, closest producing industry.</td>
</tr>
<tr>
<td>ILDIS</td>
<td>Instituto Latinoamericano de Investigaciones Sociales; Latin American Institute for social investigations, Friedrich-Ebert-Stiftung.</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund.</td>
</tr>
<tr>
<td>INCE</td>
<td>Instituto Nacional de Cooperación Educativa; national institute for education training for employees and jobless young people.</td>
</tr>
<tr>
<td>INTEVEP</td>
<td>Instituto Venezolano de Investigaciones Petroleras.</td>
</tr>
<tr>
<td>INTERALUMINA</td>
<td>Interamericana de Alúmina, C. A.</td>
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<tr>
<td>JV</td>
<td>Joint Venture.</td>
</tr>
<tr>
<td>JVs</td>
<td>Joint Ventures.</td>
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<tr>
<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler, one of the Big Five auditing and consulting companies.</td>
</tr>
<tr>
<td>LAGOVEN</td>
<td>The former operating affiliate of PDVSA formed out of Exxon’s pre-nationalisation subsidiary.</td>
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<tr>
<td>LAVA</td>
<td>see AEROPOSTAL.</td>
</tr>
<tr>
<td>LDC</td>
<td>Less Developed Country.</td>
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<tr>
<td>LDCs</td>
<td>Less Developed Countries.</td>
</tr>
<tr>
<td>MARAVEN</td>
<td>The former operating affiliate of PDVSA formed out of Shell’s pre-nationalisation subsidiary.</td>
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<tr>
<td>MAS</td>
<td>Movimiento al Socialismo.</td>
</tr>
<tr>
<td>ME</td>
<td>Ministerio de Educación; Ministry of Education.</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>South Common Market of Latin America.</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>MF</td>
<td>Ministerio de Fomento, Ministry of Economy.</td>
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<tr>
<td>MNC</td>
<td>Multinational company.</td>
</tr>
<tr>
<td>MONTRAL</td>
<td>Movimiento Nacional de Trabajadores para la Liberación.</td>
</tr>
<tr>
<td>MVR</td>
<td>Movimiento V República; political party founded by Hugo Chávez Frías.</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement; trade agreement between the USA, Canada, and Mexico.</td>
</tr>
<tr>
<td>OCEI</td>
<td>Oficina Central de Estadística e Informática; Central Office for Statistics and Information Science.</td>
</tr>
<tr>
<td>ODC</td>
<td>Organización Diego Cisneros.</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development.</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organisation of Petroleum Exporting Countries.</td>
</tr>
<tr>
<td>ot.</td>
<td>overhead transparency.</td>
</tr>
<tr>
<td>PDVSA</td>
<td>Petróleos de Venezuela S.A.; nationalised holding company of the Venezuelan oil industry. Occasionally called Petroven by the U.S. press.</td>
</tr>
<tr>
<td>PROMEXPORT</td>
<td>Promoción de Exportaciones A.C.</td>
</tr>
<tr>
<td>PEQUIVEN</td>
<td>Petroquímica de Venezuela, S.A.; Venezuela Petrochemical Company.</td>
</tr>
<tr>
<td>PP</td>
<td>Polo Patriótico.</td>
</tr>
<tr>
<td>PPT</td>
<td>Patria por Todos.</td>
</tr>
<tr>
<td>publ.</td>
<td>Publisher.</td>
</tr>
<tr>
<td>PVRZL</td>
<td>Proyecto Venezuela; political party led by Henrique Salas Roemer.</td>
</tr>
<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers, one of the Big Five auditing and consulting companies.</td>
</tr>
<tr>
<td>RCTV</td>
<td>Radio Caracas Televisión.</td>
</tr>
<tr>
<td>RÉCADI</td>
<td>Oficina del Régimen de Cambios Diferenciales; Office of the Differential Exchange Rate Regime; foreign exchange bureau of the Central Bank.</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development.</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>S.A.</td>
<td>Sociedad Anónima; incorporated, like plc in Britain or AG in Germany.</td>
</tr>
<tr>
<td>SIDOR</td>
<td>Siderúrgica del Orinoco, S.A.; Orinoco Steelworks Inc.</td>
</tr>
<tr>
<td>SIVENSA</td>
<td>Siderúrgica Venezolana; a steel manufacturing company.</td>
</tr>
<tr>
<td>SN</td>
<td>Seguridad Nacional; National Security Police, the principal repressive arm of the Marcos Pérez Jiménez dictatorship.</td>
</tr>
<tr>
<td>SOE</td>
<td>State-owned enterprise.</td>
</tr>
<tr>
<td>T</td>
<td>Territorio; territory without a separate regional government.</td>
</tr>
<tr>
<td>UCV</td>
<td>Universidad Central de Venezuela; largest public university based in Caracas.</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations.</td>
</tr>
<tr>
<td>USB</td>
<td>Universidad Simón Bolívar; prestigious private university.</td>
</tr>
<tr>
<td>VENALUM</td>
<td>Industria Venezolana de Aluminio, C.A.; Venezuelan Aluminium Industry, Inc.</td>
</tr>
<tr>
<td>VIASA</td>
<td>Venezolana-Internacional de Aviación, S.A.; Venezuelan International Airlines, Inc.</td>
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<tr>
<td>ve</td>
<td>Venezuela.</td>
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<tr>
<td>vol.</td>
<td>Volume.</td>
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<tr>
<td>WASP</td>
<td>White Anglo Saxon Protestant.</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation.</td>
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</table>
SECTION ONE

1 Introducing the research project

1.1 Objectives of the study

Due to increasing globalisation, or as a Venezuelan-German investment banker put it
the smallest entity is Europe today, and an unstable East Asian market in the late 1990s,
Latin America has regained importance in the world's economic market.
Therefore it is rather surprising, that so far hardly anything has been written about
understanding and doing business in Latin America.
What can be found in this field are information guides about "Doing business in ..." edited by accounting companies or official institutions\(^1\) in order to stimulate investment in a particular country. What the reader gets is an insight into technical parameters such as taxes, law requirements and restrictions, audit and accounting procedures.

But the picture that is given will be somehow incomplete. Little research has been done when it comes to questions like what are the core values of society, what impact do they have on Venezuela as a business entity, how is business actually done and how does management work?

Identifying the answers will not only contribute to an understanding of the human side in business, but it will also serve as a guide on how to participate in Venezuelan business. In order to compete successfully in global business it will become increasingly important to have a sound understanding of the mentality of local managers and workforce.

The thesis also intends to mediate between Venezuelan and foreign companies and people to make both sides more familiar with each other, to evoke an understanding of how business is done there, why it is different, and how these differences can be used to

\(^1\) In the case of Venezuela, see publications of CAVENAL, CONAPRI, KPMG or PwC.
create something transcendent, something useful, perhaps leading to a synergy, where everyone benefits and motivation and growth are stimulated.

The project will also pinpoint some differences between different Latin American countries, in order to overcome the belief that Latin American countries resemble each other more than European ones. The reader will also find out, that some prejudices about Latin America and Venezuela are ceasing to be true or were never true in the first place.

The thesis will also give an answer to the never-ending question of whether there will be a convergence in global management practices or not. Evidence will be given in the Venezuelan case. No other Latin American country has been influenced more by the United States of America than Venezuela.

Depending on the reader, the thesis will serve theoretical and practical purposes at the same time, creating a genuine contribution to knowledge, and to European understanding of business and management in Venezuela.

1.2 A tool to keep track

As this thesis also wants to provide some clues on how to manage companies appropriately in Venezuela, it is useful to have some analytical framework, in order not to lose orientation in this rather complex environment. "The risk of being overwhelmed is real."\(^2\)

Thus, a model structuring the different impacts on management will be derived from Austin's Environmental Analysis Framework.\(^3\) It can also be used as a kind of guideline on how to read the thesis. The different aspects will be examined, then their consequences on management will be shown.

Three interacting environmental factors, economic, political, and societal have an impact on the nature of business culture at four levels of business environment, i.e. international, national, industry, and firm. These levels exert influence on management behaviour as well – a complex pattern of interdependencies emerges.

\(^2\) Austin, 1990, p. 29.
The thesis will be divided into two major sections. Section One gives insight into the three environmental factors, economy, polity, and society. The chapters in this first part can be understood as providing background knowledge. They offer information that is helpful to understand the following second part of the thesis. Then Section Two will discuss Venezuelan business culture and management behaviour.

![Biggest employers in Venezuela, 1998](image)

Figure 19: Biggest employers in Venezuela, 1998.

In the following chapters a common base of knowledge will be elaborated, containing three pillars that can be identified in the figure above: political, economic, and societal factors. Each of these exerts an influence on the national, international, and industrial environment of Venezuela that also affect management behaviour. All these factors have to be kept in mind, when analysing management, because they will explain why management differs from country to country.

3 ibid., 1990, p. 29-38.
1.3 Sources of information

1.3.1 Data gathering

The author had the same experience as Enright, Frances, and Saavedra (1996), namely that reliable market and industry data and business-related statistics tend to be scarce in Venezuela, due to technical deficiencies, smuggling, or even political manipulation. The reasons are manifold.

First of all, most of the Venezuelan companies are privately owned rather than being quoted companies and are not obliged by law to disclose or publish company information.

Secondly, Venezuelan managers seem to be reluctant to make information about their companies available to suppliers, competitors, and clients.

Additionally, the lack of an effective legal system creates a business environment fraught with mistrust. According to Infoamericas (1998a) and (1998c), a market intelligence and strategic consulting company, the reason for poor information coverage is an incomplete information structure, and cultural variables reducing the flow of information. Infrastructural factors include government information, being characterised by "poor quality and lack of timeliness", a business press that is "still underdeveloped and often biased with weak research capabilities", off-the-shelf studies, being "general in scope such as country risk analysis", and internet Web-sites, where only a "few offer value added market information." Cultural factors include issues such as patriarchal management, weak middle management decision making, corruption, as "valuable information is closely guarded by both the public and private sectors and may only be available at an 'extra-official cost', crime and security, because "consumer research is inhibited by fear that criminal motives may be behind door-to-door and telephone surveys", and elitism, as "business decision-makers and high level consumers ... isolate themselves from the public."

However, in the 1990s business information becomes more and more available, either via magazines, such as Business Venezuela, Venezuela Now, Daily Journal, Gerente

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5 The following quotations are taken from Infoamericas, 1998a; ibid., 1998c.
Introducing the research project

Venezuela, VenEconomy Monthly, or The Monthly Report or via consultants or universities, such as IESA.

The data provided by official institutions tends not always to be reliable. The official unemployment rate in Venezuela for the year 1997, provided by the Central Statistical Office, OCEI, and the Central Bank of Venezuela, BCV, was: 11.7 percent. But when unemployment is combined with underemployment, the rate might approach 50 percent. Taking into consideration that nobody really knows exactly how many people live in the barrios (squatter settlement, illegally based on private or public land, are formed in response to a critically inadequate housing shortage) around Caracas or the other major cities, the rate might even approach 60 to 70 percent. Therefore one has to rely on word-of-mouth information and personal communication networks. Hence, the research project places strong emphasis on original field research. The same attitude is found in Infoamericas (1998a), saying that due to the lack of reliable secondary research, any desk research assignment is incomplete without complementary primary research efforts.

In this case, a wide range of interviews was conducted during the different stages of the research project. The author did three months of extensive interviewing in Germany. The aim was to find out how Venezuelan management was perceived by German expatriate managers who used to do business in this particular Latin American country. Therefore, all people interviewed had at least stayed in Venezuela once. Hence they all had personal experiences there and could speak about their impressions.

In order to get a more complete picture, the author visited managers of many different companies in Germany, different in terms of sector of industry, size of firm, function in the company, and level of involvement in the Venezuelan market, i.e. from exporting to producing in the country. Enterprises which had only exported one machine to Venezuela five years ago where not included as their experience might be unrepresentative. Companies that were visited had been doing business in the following industries: oil and gas exploration and exploitation, pharmaceuticals, cosmetics, chemicals, logistics, manufacture of industrial machinery, for example printing, textile

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7 Austin, 1990, pp. 45, 55.
machines, plastics, briquettes, filters and sealing, electronic equipment; feed additives, project consulting, engineering, investment banking.

Managers from different levels were interviewed. This gave the researcher the opportunity to view Venezuelan management and business from different angles and perspectives. A broad base of interviewees was chosen in order to get an overview about strategic and important issues. For example, the "Head of Division of Finance and Accounting" would probably identify other issues than a "Marketing Manager" being responsible for "Area Management South America" or the "Director of International Sales and Operations". An "Executive Sales Manager" would describe the same situation differently from an investment banker. They would also pick different areas of management to talk about.

Another group of people in Germany, although they were hard to find, formed a valuable source of information: Venezuelan expatriates working in Germany. Due to their work experience in both environments, they proved to be very useful as they were able to identify differences between Venezuelan and German management, from a Venezuelan perspective.

Studying related literature has been an interesting task. There is a decent literature on Latin American history. Although some literature exists on politics and the economy of Venezuela, hardly anything has been written about Venezuela as a business entity so far. Studies done so far mainly focus on the development and the nationalisation process of the petroleum industry on the one hand, and on political parties and poverty on the other.

In order to obtain more recent data about Venezuela, the internet served as a useful source. The web-sites of international banks, embassies, foreign chambers of industry, universities, multinational companies, and on-line newspapers gave evidence of the great utility of the new electronic medium. What struck the author most, was the high sophistication of web-sites of comparatively large Venezuelan industrial groups.
Another source of information was the material that was provided by the companies the author visited to conduct interviews.

Contact was also established with university professors in Germany who dealt with Latin America in their field of study, i.e. politics, and sociology. It is also interesting to mention, that chairs dealing with the subject of International Management are few in number, or are just on the verge of coming into existence in Germany due to the rapid process of globalisation and the growth of cross-border mergers and acquisitions.

This first phase of research was valuable and necessary in order to get the flavour for the country under examination. According to Lawrence (1989) "it is not unusual for researchers to have background information on a society and its institutions prior to fieldwork, such information being gained by any amalgam of study, reading, fact grubbing, prior to visits or residence." It was also useful for establishing a network and a wide range of contacts for a later stage in the research process: Fieldwork in Venezuela.

As already mentioned in the foregoing paragraph, original fieldwork was also conducted in Venezuela for another two months. Interviews were done with multinational managers, Venezuelan domestic managers in the fields of personnel, sales, production, investor relations, industrial relations, and purchasing, chief executive officers, presidents, industry participants, ex-government officials, university professors, executives of trade chambers, industry experts, economic observers, analysts, and business consultants, in the cities of Caracas, Maracaibo, Valencia, and Puerto Ordaz. During this stay in Venezuela the researcher had the opportunity to stay with a German company doing business in the mineral extraction industry. Thus it was possible to spend periods as an observer in this firm to get an insight into challenging issues such as day to day problems in Venezuelan management or how to motivate employees to participate in the work processes.

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9 Lawrence, 1989, p. 99.
A questionnaire was also used to identify central values and patterns in Venezuelan management behaviour. The "back translation" approach proved to be very helpful.\(^1\) The translated, Spanish version of the questionnaire was translated back into English by a third person, ideally being a Spanish manager, who had not been involved before.

1.3.2 A note on interviewing

Before going to conduct research in Venezuela, the author interviewed a wide range of managers in Germany. As mentioned above they came from various fields of business, and this was helpful in obtaining knowledge about issues that would be worth pursuing further in Venezuela.

What struck the researcher most was the fact that almost all of the managers interviewed took the time to talk uninhibitedly about themselves. Although the interviews were recorded with a tape recorder, people answered the questions without hesitation, sometimes providing information of a private nature, and giving insight into issues that could have got them into trouble easily if used to their harm.

What made them speak so frankly to the researcher?

Two reasons come to the author's mind. Firstly, the way people answered the questions was somehow provoked by the style in which they were asked. By asking fairly straight-forward and easy-to-understand questions in the beginning, the interviewees never had to feel inferior. Simple psychology tells us, that only if a person feels comfortable, will he or she relax, and only then might it be possible to find out something interesting. It also has to be kept in mind, that they were talking to a person they had never met before.

The questions were also open-ended and some of them were constructed in a way that forced people to prioritise; for example: *What struck you most in Venezuela?*

Although having had a structured list of must-ask questions, the interviewer tried to establish a friendly atmosphere to make it look more like a conversation than an interrogation. Questioning was intended to be natural and sympathetic. Interviewees were free to express curiosity, compassion, and scepticism.

Additionally, the interviewer made sure to sound harmless, never approaching an issue directly. Asking a simple question like *Are there import regulations for the products*

\(^1\) See for example Cateora, 1987, p. 271.
Introducing the research project

you need for doing business?, might take you further than asking directly What about bribery and corruption?

Secondly, it had to do with the people themselves. They all had been working in or originated from a country, i.e. Venezuela, where it is hard to find sources that provide reliable data. Therefore it is necessary to get in contact with people and talk. At some stage in their career the people interviewed, experienced a situation, where they had to rely on other people's knowledge and friendliness as well. Additionally it was felt that there is demand for a study like the one that had been undertaken. The interviewed managers wanted to state their opinions, because they felt that in this research project their point of view and experiences were taken into consideration to build this research thesis. Thus they put effort into trying to make a valuable contribution. Bonilla offers another explanation in saying, perhaps they were driven by a "desire for self-knowledge. ... Because these men are successful and intensely involved in the present, they rarely look back."11

As the author was fortunate enough to convey that the thesis was not to serve as a benchmark study or competitor analysis, the interviewees revealed their thoughts about issues like corporate strategy, competition, corruption, or government relations.

Concerning the process of identifying senior and important interviewees and getting appointments with them, it was easy to approach German companies directly, asking for managers who had experience with management in Venezuela.

To be successful in this task in Venezuela, a different, more indirect approach had to be chosen. A reason can be found in the fact that a different information culture prevails. Although Venezuelans do not tend to be more suspicious towards strangers, they tend to be reluctant to share information, especially company related or financial issues.

Yet funnily enough they will tell you after only five minutes of conversation that they are married but have two girl friends in addition.

Introducing the research project

Therefore a trust building approach needed to be taken. It was important to establish a personal network where key decision-makers and influential businessmen were identified and convinced to play the part of a mediator, establishing contacts to other potential interview partners. Infoamericas (1998c) comes to the same conclusion when talking about interviewing decision-makers. It is considered to be “difficult to obtain anything substantial unless a third-party contact is used. ... The upper echelons of society that are often the subject of research efforts are very hesitant to reveal personal information beyond opinions.”

The author had the experience that Venezuelan managers being approached via third persons were extremely helpful and did not hesitate to share their knowledge and information. This does not imply that they boasted about their profits, but they took their time and answered patiently any question they were asked. Once the ice was broken, information could be collected easily.

1.4 Disclaimer

When reading the thesis, the reader will come across extensive citing from the interviews. In doing this, the author wants to allow the material to speak for itself, and to give a better understanding of the issues under discussion.

But as most of the quotations from interviews in the first few chapters are from interviews that were conducted in German, they had to be translated into English. Therefore readers are requested not to expect an idiomatic English style. The corresponding quotations in later chapters are from interviews conducted in Spanish and the same request applies.

1.5 Overview

The first section of the thesis will give some background and context to management in Venezuela. Following the protagonists of divergence theory, believing that management differs by country due to unique cultural and historical backgrounds, we will first of all provide some insight into Venezuela’s history in terms of politics, economy, and society.

12 Infoamericas, 1998c, pp. 2, 3.
We will then analyse Venezuela's current economy to identify strengths and weaknesses of Venezuela as a business entity.

At the end of section one a primarily expatriate view of Venezuelan business culture will be provided. Topics like education, the workforce, management, and bureaucracy will be discussed to provide further insight.
2 Analysis of politics and history

2.1 The need to look at Venezuelan political history

To understand today's economy and society, it is vital to know something about Venezuela's historical development. It has a deep impact on management and business culture as well. Being familiar with the historical settings also gives hints and clues, sometimes it is even possible to find explanations, for past and current problems in Venezuela's economic performance and business interactions. Lombardi (1986) holds a similar point of view: he thinks that by outlining the major patterns of a country's history and principal structures, the analysis given in subsequent chapters can be put more readily into context. In later chapters we will analyse the peculiarities of Venezuelan management. One phenomenon for example is the importance attached to liderazgo (leadership). Usually employees need someone who tells them what to do and they also need somebody who accepts responsibility. Another phenomenon is facilismo (the ease of life). Due to windfall gains of petroleum especially during the Saudi times, la época saudi in the 1970s and the policy of sembrar el petroleo (to sow the oil), Venezuelans were used to easy-to-access-public funds, a highly protected economy and highly subsidised domestic products, establishing a rent-seeking and a papa paga por todo (dad, i.e. the state, pays for everything) mentality, that prevented real entrepreneurialism, long term business planning and real industrialisation to occur.

Thus, if writing about what characterises management in Venezuela, it will not be enough to simply indicate the nature of contemporary Venezuelan management style without dealing with the question of what might have caused it to be this way. In fact, it is all deeply rooted in Venezuela's history.

In the following section we will therefore take a closer look at the development of Venezuela in historical-political terms, culminating in the question why the change in government in 1998 had to take place as a logical consequence of the last 40 years.

2.1.1 Colonisation

On his third journey to the new world in 1498 Christopher Columbus discovered the Venezuelan coast between the Orinoco delta and Isla Margarita. The other coastal areas were discovered by Alfonso de Ojeda, who named the country due to the palafitos (Indian huts built on stilts) he saw when sailing into Lake Maracaibo that reminded him of Venice: Venezuela, the Spanish word for "little Venice".\textsuperscript{14}

In 1500 the first permanent Spanish settlement was founded. Roughly 30 years later, the Spanish king leased western Venezuela to the Welsers for exploration and town-building until 1546, because he did not consider it to be a valuable part of country.\textsuperscript{15}

In 1567 Caracas was founded. Ten years later it became the headquarters of a Spanish governor, who had to report to the audiencia of Santa Domingo.\textsuperscript{16}

This shows how little importance the conquistadores (conquerors, especially members of the Spanish soldiers and adventurers who conquered South America in the 16\textsuperscript{th} century) attached to Venezuela in the beginning of the colonisation period. Other countries, such as Peru or Mexico seemed to be much more attractive, due to their rich cultural heritage from the Incas, Mayas, and Aztecs.

The distance from Spanish authority allowed an upper class of criollos (Creole, a person of European - especially Spanish - ancestry but born in the Americas) to emerge. They were later instrumental in overthrowing Spanish colonial rule.\textsuperscript{17}

In order to regain control over the Venezuelan colony, the Spanish crown instituted reforms in the second half of the 18\textsuperscript{th} century. A monopoly of the tobacco trade was handed over to the state, and customs were established. The existing monopoly for trading spirits was taken away from the current suppliers and given to the state as well.

At the same time, Equador had to struggle with the Spanish dominance too. Therefore a revolt began in Quito in 1767 and gained momentum in Venezuela as well. The rebels wanted the expulsion of all chapetones (derogatory expression for Euro-Spaniards) and the abolition of duties and state monopolies. Spain answered by increasing their military forces.

\textsuperscript{14} Hillman, 1994, p. 30.
\textsuperscript{15} Allen, 1977, pp. 22-23.
\textsuperscript{16} o. V., 1992, p. 106.
\textsuperscript{17} Blutstein, 1977, p.30.
Additionally, the governors of Venezuela started to make preparations to defend their territory. They also made sure that the rights of the influential Basque-directed trading company *Real Compañía Guipuzcoana* were safeguarded.\(^{18}\) It was created in 1728 by the *Realistas* (descendants of the Spanish crown) to control the colony’s trade to make it safe and profitable for Spain.\(^{19}\) Thus it can be considered as a trade cartel.

In 1777 Venezuela became a captaincy general. Nine years later, its designation was changed to the *Audiencia de Venezuela*, thus granting the country judicial-administrative authority as well.\(^{20}\) The provinces of Cumaná, Guayana, Maracaibo, San Cristóbal-Merida-Trujillo, and the islands of Margarita and Trinidad were soon tied firmly into the management bureaucracy of Caracas, strengthening its position as the centre of defence, administration, and justice, and also of fiscal and financial matters. Until today, Caracas has never given up its role as the dominating metropolis of Venezuela.\(^{21}\)

This has led to geographic dualism: Cultural and physical disparities between the cosmopolitan life in the capital city and the more rural, less developed life in the rest of the country are immense, having negative effects on national administration, especially in terms of communication.\(^{22}\)

The same phenomenon exists in some European countries as well, although to a far lesser extent; e.g. Great Britain and London (due to monarchy), France and Paris (due to absolutism and power centralisation of the king), Belgium and Brussels. The ancient expression “all roads lead to Rome”, is just another example of a country being centralised around one capital.

As ministerial offices in education, health, or transport are centred around Caracas, they provide almost no scope for decision making or implementation at other levels or in other localities.\(^{23}\)

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\(^{18}\) Salmoral, 1992, p 214; other members were the Spanish king and wealthy landowners in Caracas.

\(^{19}\) Allen, 1977, p. 26; Blutstein, 1977, p.298.

\(^{20}\) Mortimer, 1990, ve0013/2.


\(^{22}\) Stewart, 1986, p. 224.

\(^{23}\) Kelly, 1994, p. 302.
2.1.2 Enlightened society and protectionist economy

The structure of employment in the Andean region was similar to the other Hispano-American areas. The Spanish and the Creoles controlled administration, the military, landed property and production facilities. Both groups, being heads of a supposedly enlightened society, organised flamboyant parties in a European traditional fashion, visited literary circles and translated doctrines of human rights, while Indians and slaves lived in poverty. These differences in wealth distribution were increased by the Bourbons' reforms, when the rights of land were transferred from the Jesuits to the big landowners. For example, ten haciendas of the province of Azuay were taken over by only two people, Juan Chica (8) and Manuel García (2). Haciendas are defined as large estates often producing for export, representing a social as well as an economic system. The hacienda system symbolises a very unequal distribution of land, with a small number of people monopolising the bulk of cultivable land.

Tessa Cubitt (1995) considered these haciendas to be "a major obstacle" in the development of Latin America. To her mind, modernisation could only happen if these feudal-like institutions were eliminated via the modernisation of agriculture in social and economic terms.

Although the society seemed to be enlightened, the economy was still protectionist. Spain did not change its archaic trading system – silver for handcrafted articles. It also failed to release its monopoly over Venezuelan trade.

The royal department for settling financial matters exerted a noticeable fiscal pressure on north-Andean settlers. This was increased when the trade with tobacco, spirits, salt, gambling cards, and gunpowder was monopolised by the state. This estanco-system eliminated competition and held back money. Thus Venezuelan traders complained about Real Compañía Guipuzcoana making large profits, repatriating the revenues to Spain at the expense of the local workforce and limiting trade with other countries and colonies. The locals started to engage in black market activity.

The goods were shipped to Curacao and to other islands, from which they were taken to Holland and to other countries.

It is important to understand that the Venezuelan striving for independence from Spain was mainly based on economic motivation and not on an egalitarian ideology.

2.1.3 "War to death"

The first attempts in 1797 and 1806 to achieve independence from the Spanish colonial empire did not succeed. Although the Creoles' revolt of 1810 lead to a declaration of independence and proclamation of the Republic in 1811, Simon Bolivar, el libertador\textsuperscript{28}, managed to defeat the Spanish in los Llanos, Carabobo for good only in 1821.

A critical role was played by General José Antonio Páez, who managed to make the plainsmen, \textit{llaneros}, change side. Initially these cowboys, originating from the Venezuelan countryside, had an equalitarian social ethic and, thus, social equality as a war aim.\textsuperscript{29} Thus they fought against Bolivar's criollos in the beginning.\textsuperscript{30}

Simon Bolivar's offensive warfare to liberate Venezuela from Spain, beginning in 1813, became famous as \textit{Campaña Admirable}.

The Republic of Gran Colombia was proclaimed in 1822, having elected Simon Bolivar as president. He united Venezuela, New Granada (Colombia, Panama), and Quito (Ecuador). General Páez was named military commander for the state of Venezuela.

The criollos were the winners in the end, but twelve years of devastating war killed over one-third of the total population and shattered society.

Important changes in society occurred. Since the \textit{Campaña Admirable}, Bolivar recruited his troops from any race, as long as they were patriots. Thus mestizos (someone of mixed European and Indian stock) and even Indians and blacks were able to climb the social ladder. The military was paid by the grant of land. Hence, many soldiers and llaneros became terratenientes, penetrating the most exclusive circles of the Venezuelan "high society" of the time, taking over their properties.\textsuperscript{33}

\textsuperscript{28} Salmoral, 1992, p. 208; many authors still write biographies about Simon Bolivar, for further detail see for example Pérez Arcay (1999).
\textsuperscript{29} Bonilla, 1970, p. 43; Silva Michelena, 1967a, p. 71.
\textsuperscript{30} Blutstein, 1977, p. 33.
\textsuperscript{31} Salmoral, 1992, p. 226.
\textsuperscript{32} Salmoral, 1992, p. 229.
\textsuperscript{33} Silva Michelena, 1967a, p. 71.
These changes were also made possible, because a lot of landowners lost their lives during the war. Overall between one fourth and one third of the whole population lost their lives.

The war had a laming effect on the economy as well, as Venezuelan patriots lost their Caribbean trade links due to the naval war with Spain. As there was no money left in the public purse, unpopular laws had to be established again. Although the existing state's monopolies were diametrically opposed to the political opinion of the republicans, they needed to be maintained. Thus the state-licensed shops (estancos) for tobacco and salt, and part of the monopoly for spirits were kept in force.

2.1.4 Gran Colombia (1823-1830)

2.1.4.1 Rise...

The political dissolution of Gran Colombia took nine years and happened in two stages. The first phase lasted until 1827. During this period Bolívar was engaged in liberating Peru, Ecuador, and Bolivia. While he was not in Venezuela, General Páez had the military power. He was considered appropriate, because it was believed, that the slaves followed him. He was a man originating from the lower class and he had started to give freedom to his slaves.

In the second stage, beginning 1828, Bolívar came to power directly via dictatorship. It was the only way to govern the alliance at this point in time. Unfortunately this worsened the crises, breaking Gran Colombia's neck in the end. There were riots in Bogota and in Peru.

In 1829 in Valencia, Venezuela started to build its own committee, which consisted of prominent personalities, to prepare the separation.

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34 Allen, 1977, p. 28.
35 Mortimer, 1990, ve0015/1.
36 See chapter on economic development.
2.1.4.2 ... and Fall

After Bolivar had died in 1830, Gran Colombia was officially dissolved, because the territories wanted to go separate their ways. Bolívar’s dream of a federation, something like a United States of Hispano America, was very short lived, only until the creator himself had faded away. Seven days before he died, he wrote his last testimony, saying “If my death will contribute to a system containing no parties and that the unity will be strengthened, I will step calmly into my grave.”

The reasons for the failure of unity were manifold. After the enemy Spain, had disappeared, there was further reason to combine, for forging strong bonds between the different states. They were lacking economic links, common socio-economic interests, and a strong historically developed sense of belonging together.

The three regions, Ecuador, Colombia and Venezuela had a different geographic and economic structure.

The dominant form of agricultural property of the last of these three was the plantation. Typical products were cocoa, indigo and cotton near the coast and pasture in the interior of Los Llanos. Venezuela’s economy was more or less based on export oriented monocultures, being cultivated by slaves. In New Granada (Colombia) and in Quito (Ecuador) mid-sized haciendas existed, where food, e.g. wheat, cocoa, sugar, tobacco, etc. were produced by a paid labour-force for urban centres nearby or for local consumption. There even existed small manufacturers producing textiles, called obrajes. But gold was the main export.

Geographical peculiarities had a disintegrating effect even on the regions themselves: The Andes were difficult to traverse, long distances and an almost non-existent infrastructure of roads and rivers in Venezuela, New Granada, and Ecuador caused regional problems. Thus these issues lead to further separation on a supra-regional level, also hindering transport, trade, and communication, which would have been vital for a successful merger of different states.

Another reason, inhibiting a flourishing alliance, was to be found in socio-ethic heterogeneity and regional tensions. These resulted from uneven and unfair distribution

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41 König, 1992, p. 578.  
of wealth, property and political rights. In Venezuela, having around 700,000 inhabitants, a small caste of Creoles being *terrenientes* and exporters of agricultural products was opposed to a large group of Negroes and slaves (60% of the total population). Due to the plantations, the Venezuelan economy was dependent on slavery. On the contrary, in Ecuador and New Granada, slavery played only a minor part. Thus it was almost impossible for a pan-Andean government to set up laws, being appreciated and obeyed by all its member states.

Until the mid-20th century, the country was marked by civil wars and dictatorship keeping Venezuela outside the industrialising world, as will be shown in the next section.

2.1.5 The struggles of independence – a republic only by name

2.1.5.1 Conservatism and agricultural society (1830-1847)

General José Antonio Páez became the first president of the independent Venezuela. His politics were marked by conservatism and a society based on agriculture, giving his supporters, *los notables*, landowners, merchants, intellectuals and civil servants enough space for political collaboration and economic activities. Páez' agriculture-oriented policies promoted the interests of merchants and farmers, but neglected the sectors of manufacturing and industry. Low duties on European consumption goods meant strong competition for local manufacturers.

2.1.5.2 Political disintegration and economic stagnation (1847-1869)

The following two decades were marked by corruption and incompetence. After the conservatism under Páez had come to an end in 1847, José Tadeo Monagas, a caudillo (South American dictator, normally a military man who assumes power by force and is noted for autocratic rule. More than 30 different caudillos governed Venezuela from 1830 to 1958. In no other country in Latin America was caudillismo so pronounced than in Venezuela), became president. The supremacy of the liberal oligarchy began. As the

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Monagas-clan was occupied with securing its power, the government became more and more personalistic and authoritarian, limiting public rights and making political opposition impossible.⁴⁶

2.1.5.3 Autocracy and “modernisation” (1870-1898)

For almost twenty years Guzmán Blanco was leading Venezuelan politics. He believed that Venezuela could only be able to play an important role in international politics, if its political system was restructured. Thus he established a central government in Caracas, and therefore slowly took away the power from regional caudillos.⁴⁷ His striving for modernisation did not significantly improve the economic situation. Guzmán Blanco eliminated the wealth and influence of the Catholic church by abolishing all of its privileges and confiscating its land.⁴⁸ As he was favouring a small but powerful elite, it was little wonder, that in 1873 3.5 per cent of the landowners possessed 53 per cent of the agricultural soil. It became even worse in the following decades. In 1891, 5.6 per cent of the people owned 74 per cent of the land.⁴⁹

2.1.5.4 Back to despotism and caudillismo (1899-1945)

When Colombian Cipriano Castro, a supporter of radical liberalism, seized power by military invasion in 1899, autonomy was given to the states again and the regional caudillismo, i.e. dictatorships, regained influence.⁵⁰ But his despotic leadership bankrupted the country. Suffering from a kidney disease, Castro had to travel to Europe, enabling his deputy Juan Vincente Gómez seized the presidency in 1908⁵¹. The most cruel dictatorship in the history of Latin America began. His regime was so brutal, that even today no plaza or street is named after him. He harmed the majority of the inhabitants, favouring a very small minority. Interestingly enough, Gómez was the first ruler who managed to

⁴⁸ Blutstein, 1977, p. 35.
⁵⁰ König, 1992, p. 618.
⁵¹ Blutstein, 1977, p.298.
construct the first centralised governing system, without causing regional caudillos to revolt, as he created a federal council with them as its members.\textsuperscript{52}

The oligarchy, having held power since the 17\textsuperscript{th} century, was forced to give in to Gómez. During his dictatorship lasting almost 30 years he made his family and supporters into big landowners, while the government, which was more or less the Gómez family, became a huge, highly concentrated economic power for the first time in Venezuelan history, i.e. when the economic development process began.\textsuperscript{53}

Gómez granted many haciendas to his lieutenants to reward their loyalty during former wars and conflicts.\textsuperscript{54}

Each province was made to a satellite of Gómez, being controlled by his thieves and murderers. Finally he monopolised cattle farming, meat production, and the dairy industry, as well as the textiles, pulp, soap and match industries. His followers controlled the lottery, cinemas, the distribution of medicine, automobiles and furniture.\textsuperscript{55}

In 1920 Venezuela became rich due to the exploration and exploitation of its oil reserves. Thereafter, it developed into one of the most modern states of Latin America.\textsuperscript{56}

Due to government controlled oil revenues and total dictatorship, the state managed to get hold of further resources. This constellation brought out a new structure: the state did not work for a specific societal class any longer, but for itself. The majority of the population was put at an even bigger disadvantage than before. Gómez' political programme was based on physical repression. Thus it is small wonder, that education policies were neglected and eighty per cent of the state's budget were spent on debt servicing, the military forces, the ministry of the interior, and on road constructions.\textsuperscript{57}

Even in early 1970, the state bought large quantities of modern weapons.\textsuperscript{58} This is somehow or other a Latin American phenomenon. Even countries like Chile possess aeroplanes, such as the "Mirage", although the country is only some 60 km wide. Some critics say, the country is, geographically speaking, not big enough, to execute air manoeuvres, as they cannot even fly circles due to the restricted air space.

\textsuperscript{52} Hillman, 1994, pp. 34, 48; Hellinger, 1991, p. 36.
\textsuperscript{53} Ahumada, 1967, p. 12; see also Salazar-Carrillo, 1994, p. 40.
\textsuperscript{54} Naím and Francés, 1994, p. 171.
\textsuperscript{55} Izard, 1996, p. 665.
\textsuperscript{56} o. V., 1992, p. 107.
\textsuperscript{57} Izard, 1996, p. 671.
\textsuperscript{58} Blutstein, 1977, p. 245.
When Gómez died in 1935, General López Contreras, his son-in-law and minister of war succeeded him. His government was also based on repression and corruption. Interestingly enough, he was the first president, who established a national plan in 1936, adumbrating the policy of *sembrando el petróleo*, sowing the petroleum. Oil revenues were supposed to be used for the nation’s economic and political development.  

In 1941 General Medina Angarita was elected by civil servants, a supporter of Gómez and also a former minister of war.

### 2.1.6 Political parties around the era of WW2

During the Second World War, new political parties came into existence, trying to solve social problems, e.g. Acción Democrática (AD) the Democratic Action Party, created by Rómulo Betancourt in 1941. Medina was ousted by a military junta in October 1945, and the first free elections were held in Venezuela.

In 1952 Marcos Pérez Jiménez set up a military dictatorship. Nearly all top positions in the government and in the companies government had an interest in, were controlled by officers. Distributing key posts on the basis of personal loyalty rather than professional merit, this dictator showed a damaging favouritism. By expressing exaggerated nationalism, intensified by territorial claims against Guyana and Colombia, Jiménez tried to get people to accept the introduction of a strict census, the death penalty, a spy network, and complete repression being controlled by the SN, *Seguridad Nacional*. Six years later he was overthrown by a joint effort of all opposition parties and the more progressive parts of the military.

### 2.1.7 Consequences

It could be shown that Venezuelan politics, from independence in 1830 until the mid-20th century, were marked by military dictatorship and oppression, *caudillismo*, climaxing during the regime of Marcos Pérez Jimenez (1950-1958). Some researchers

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59 Coles, 1994, p. 194.  
60 Izard, 1996, p. 673.  
64 Izard, 1996, p. 676.  
66 Levine and Crisp, 1994, p. 245.
say, that the era of *caudillismo* did not last until 1958. Their definition of *caudillismo* is somewhat tighter. They define *caudillismo* as "small regional dictatorships". The years under Pérez Jiménez were not *caudillismo* in that narrower sense, because he centralised power in Caracas and withdrew power from regional *caudillos*. According to Blutstein (1977), this "military tradition is central to the understanding of the society as a whole."

It was a ferocious machinery of official bullying, serving the interests of the traditional elite, or *oligarchia*, and of foreign business interests by securing "law" and order. Naím and Francés (1994) suggest that General Goméz’s practise of "granting business privileges and concessions to members of his circle was maintained and became an established component of the country’s business culture."

However, with the beginning of democracy in Venezuela in the 1970s, the armed forces started to improve their public reputation and started to be regarded as professional. It is also worth mentioning that Venezuela has never been engaged in a foreign war. Hence, it never had to suffer under a foreign trade embargo as for example Cuba has, or experience exclusion from economic aid as did Spain after the Second World War, not being included in the Marshall Aid plan or to give it the official title ‘the European Recovery Programme.’

### 2.1.8 Changes in political conduct

The ousting of Jiménez appears to have marked the end of military dictatorship and of juntas in Venezuela.

The AD was strongest party with Betancourt as its leader. Again, his term of office was marked by repression versus demonstrators, unemployed people, trade unions, *campesinos* (rural dweller, usually of modest economic means; a peasant), and wild settlers.

In 1964 the change of government happened in accordance with the constitution for the first time ever. According to Hillman (1994) the political change caused by elections

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70 ibid., 1977, p. 44.
71 Izard, 1996, p. 685.
instead of violence was considered to be an exception to the rule in those days. Social unrest could be handled and the guerilla movement having had its peak period from 1962 to 1965 could be stemmed. During the administration of President Raúl Leoni (1964-1969) the manufacturing output was increased significantly due to an intensive import-substitution programme. Unfortunately Venezuela only had a small domestic market and high labour costs, creating disadvantages in comparison to other Latin American countries.

From 1968 to 1983 the government changed peacefully between AD and the right wing Social Christian Comité Organización Política Electoral Independiente (COPEI), initially conservative and catholic oriented. The reason for it can be found in Hillman (1994). He states, that leaders of the political parties agreed to share power by "planting the roots of a party-system known as pacted democracy." This phenomenon is variously identified in literature as partidocracy or pactocracy. The democracy is said to be "centralized, monistic, delegative, caudillistic, consociational, democratarian, democradura, hybrid, and pacted." This perception can be supported by the following expressions offered by a managers of MNCs in Venezuela interviewed in Germany.

"What does democracy mean? Democracy in its true sense does not exist in Latin America. It is more a mixture between democracy and dictatorship, democratura so to speak."

"State control and state-owned companies means ... a hidden military regime and not democratisation."

In 1968 Rafael Caldera Rodríguez from COPEI won the presidential election. He kicked off with some economic reforms.

Six years later, president Carlos Andrés Pérez (AD) carried on with the national economic reforms. In 1975 the petroleum industry was nationalised and due to its revenues, it was possible to implement ambitious plans concerning the education of workforce, building of large public monuments, and industrialisation. This policy supported the scheme of sembrando el petróleo, because it was meant to provide the country with means of wealth after the petroleum was gone.

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72 Hillman, 1994, p. 54.
74 Hillman, 1994, pp. 24, 169).
75 Interview with a manager of a MNC.
76 Izard, 1996, p. 695.
The earlier exploitation companies were compensated, and in their place a couple of national companies took over. They were known by the summary initials of PDVSA, Petróleos de Venezuela S.A.

The public sector grew immensely, up to 200 state-owned companies, accounting for almost three quarters of the gross domestic product.\(^{78}\) This also meant an increase in corruption and inefficiency. Pérez brought various non-party members into government. He favoured especially wealthy people from the private sector, and those subsequently known as *Los Doce Apóstoles*.\(^{79}\) Venezuela is probably the only nation that has a dictionary itemising Venezuela's main corruption scandals since 1958, revealing a steady increase in the number of cases from one administration to the next. It is a best-seller written by Ruth Capriles Mendez, *Diccionario de la corrupción en Venezuela*. Some analysts say, that Pérez' policies fostered the growth of an "emerging bourgeoisie."\(^{80}\) As the state as well as the private industry thought that this prosperity would last for ever, they both started to get into debt and Venezuelan society became more and more dependent on foreign countries.

In 1978 COPEI won the elections with its candidate Luis Herrera Campíns again.

The elections in 1983 and 1988 were won by the AD. The policies involved massively subsidising the economic system, extensive government controls, artificial employment, and high protection measures that distorted the economy. This damaged the economic structure in terms of efficient work-flows and competitiveness. The reason for this rather dubious policy-making, i.e. increasing public-sector budgets, is fairly straightforward: To avoid conflict at all cost. This caused a picture of "illusion of harmony" to arise, under which institutional decay, economic stagnation and social regression occurred.\(^{81}\)

At the end of the eighties (1987 and 1988), Venezuela was running into massive economic problems. Wages and prices were frozen.\(^{82}\)

In February of 1989 C. A. Pérez became president of the republic of Venezuela again.

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\(^{78}\) Izard, 1996, p. 687.

\(^{79}\) Martz, 1994, p. 50.

\(^{80}\) Ellner, 1993, p. 150.


\(^{82}\) Izard, 1996, p. 696.
According to Izard (1996), Pérez' economic reconstitution programme had negative economic consequences; the political networking and the violation of human rights by the state security service lead to violent unrest.\(^83\) Contrary to this some say that it was not solely Pérez' fault, because he started to put several people from private industry into ministerial offices. But they all left after one year. They could not change anything. Bureaucracy and partidismo were too strong that even being chosen by the president, if one does not belong to the ruling party, or if one works against it, the days of one's political career are numbered.

Still, the first successes showed in 1990, when the inflation rate fell.\(^84\) But poverty and dissatisfaction were still increasing. Strikes and students' protests shattered the country. In 1992 Hugo Chávez Frías, known as *el Comandante*, twice organised a putsch. During his second attempt in November he even bombed the president's palace, but several of the bombs did not actually detonate.\(^85\) Another curious event occurred when Chávez tried to broadcast his video-taped message: The tape was recorded on a VHS cassette that was incompatible with the Beta system of the government-owned TV station.\(^86\)

In the elections of 1993 both traditional parties AD and COPEI lost half of their votes and ex-president Caldera won the election, as head of the heterogeneous party alliance Convergencia Nacional (CN). By nationalising the complete banking sector he averted a serious banking crisis.\(^87\) The launch of the "Agenda Venezuela", a macroeconomic adjustment package to strengthen the country's economic performance was launched, but failed to succeed.\(^88\)

\(^84\) o. V., 1992, p. 107.
\(^85\) Schmid, 1999c, p. 5; Hillman, 1994, p. 141. According to interviews it is believed that some bombs were filled with sand, because the producer cheated on them.
\(^86\) Hillman, 1994, p. 147.
\(^87\) Izard, 1996, p. 696.
\(^88\) Rios, 1998, p. 16.
2.2 Patterns in History

Following Lombardi's characterisation (1986), Venezuelan history can be divided into three sections:

1.) 17th century to 1830, culminating in a mature colonial society at the end of the period;

2.) The era lasting from independence up to the rule of Guzmán Blanco, with a reorientation of the Venezuelan elite to the needs of an expanding North Atlantic commerce (1830-1920); and

3.) The petroleum driven economy from 1920 until the present.89

In colonial times, Venezuela was naturally dominated by the Spanish, and government was centralised in Caracas.90 Lombardi (1986) writes critically:

"Political revolution or social and economic changes, all could take place elsewhere; but before any of them could become part of the national destiny, they had to come under the influence and control of Caracas" (Lombardi, 1986, p. 7).

During the second period, Venezuela was dominated by the demands of North Atlantic commerce. Under Páez, who managed to maintain peace, the Caracas elite diversified rapidly into a commercial bureau "serving as an intermediary between the sources of finance and commodity speculation and the producers of cocoa, coffee, or hides."91 These planters had to borrow vast amounts of money in order to be financially capable of rebuilding plantations that had been devastated in the War of Independence (1813-1821). The vicious cycle of credit-financed export crop production began. When the world coffee prices fell, farmers were forced to sell their properties to finance houses. The economic downturn was finally brought to an end by Guzmán Blanco. Being well educated he managed to gain international resources to finance a Venezuelan recovery. His successor, Gomez, put the coping-stone on the commercial bureaucratic pattern, with a modern Caracas and undeveloped provinces.

Thirdly, being dominated by foreign oil exploration and exploitation experts in the 1920s and onwards, it showed how underdeveloped Venezuela was at this point in time.

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90 see also Myers, 1986, p. 138.
Old-fashioned and inefficient ways of producing commodity goods and a primitive technology proved incompatible with the highly sophisticated process of petroleum exploitation.  

A succinct formulation would be that Venezuelan society has always been influenced and shaped by external economic and political forces since colonialisation. In early times it were the Spanish conquistadores; then the demands of international commerce came into play; and, finally, foreign, mainly North American, interests in the petroleum industry dominated the country.

Hence, the formation of Venezuelan society has never been a process of natural evolution. This conclusion points in the same direction as Allen’s thesis that "deeply ingrained in the thinking of many Venezuelans is the belief that they are impotent in the face of forces beyond their control, that they are not and have never been really in charge of their own affairs."  

The following chapters will describe the consequences. What has been written so far can be considered significant for understanding contemporary Venezuela, especially when it comes to possible reasons to explain economic problems, management style, education and mentality in Venezuela.

2.3 Recent changes in politics

2.3.1 The political situation after 40 years of a two-party-system

The opinion is widespread that AD and COPEI exercised “a rigid and self-serving effective duopoly of power” between 1958 and 1998. The 1980s and 1990s were marked by a democracy, that was “really a combination of elections with a corrupt elitist system of the old Spanish style, where small groups ran everything.” As from 1980 to 1992 the average Venezuelan lost over half of his or her purchasing power in real terms, people started to wonder where the petrodollars had

92 ibid., 1986, p. 19.
93 Allen, 1977, p. 16.
95 Geyer, 1992, p. 49.
gone.\textsuperscript{96} Navarro (1994) writes that the parties seem to be "controlled by a small group of apparatchiks", who are willing to preserve their authority, no matter what the costs. He even puts it more bluntly by saying that political parties are seen as a combination of "clubs of contractors" and "shameless populists", winning elections and attracting activists "by granting them access ... to government contracts, welfare payments, and favours."\textsuperscript{97}

The origin of this problem can be found in the electoral process, because the president of Venezuela cannot be re-elected. Therefore every president and his party know that they only have a limited period of time, i.e. five years to reap the benefits of being elected.

Thus they are not only tempted to put their friends, family members, "nieces, nephews, children", supporters, and loyalists into companies where at least some state influence is still prevalent, but everyone who is connected with a political party or economic or social power structure tries to feather their nest as long as possible.

The legislative period can be structured in the following milestones:

- "In their first year they are not productive because they need to settle in their posts. ... Thus there is not much business to do for us ... In the second year they try to find out where they can get money. In the third year they touch the springs of money, ... in the fourth year they really do make money ... and waste it, because they don't want to leave a single cent to the next government. ... Especially in the last year of governance presents are distributed. It is called raspar la olla. If you know it is over soon, you scrape out the pan thoroughly. ... It does not matter on which chair I sit, I try to take as much as possible with me, because I am out soon. ... Thus the best years for us in terms of business are the years before the elections."\textsuperscript{98}

The consequence is that policymaking is short term. Thus it seems to be impossible to govern continuously over a longer period of time. This does not only harm a people's welfare but also stimulates opportunistic behaviour in the population at large, exemplified by the politicians.

The social situation worsened and although official statistics tell another story, employment is far above 20 percent, and some employers even have problems with the unemployed, as they demonstrate almost daily for jobs. They are standing outside the companies with their CVs in their hands, asking if the firms can provide jobs.\textsuperscript{99} For the

\textsuperscript{96} Kielmas, 1998, p. 28; Burggraaff and Millett, 1994, p. 59.  
\textsuperscript{97} Navarro, 1994, p. 121.  
\textsuperscript{98} Interviews with managers of MNCs with subsidiaries in Venezuela.  
\textsuperscript{99} Interviews with a manager of a MNC in Venezuela.
first time in 40 years, Venezuelans started to express an intense preference for change.\textsuperscript{100}

2.3.2 "La Revolución Democratica"- Why it was possible

In 1997 Chávez founded the MVR, "Movimiento V República" and one year later he enlarged the party to Polo Patriótico, PP, an alliance combining thirteen other parties, including parties such as MAS, and PPT. In December 1998, he won the elections, leaving Henrique Salas Roemer and his Proyecto Venezuela, PVRZL, behind.\textsuperscript{101}

His victory can be seen as the people’s response towards rising discontent, steady worsening of real incomes, decay of public services, public health and education systems, and juridical administration.\textsuperscript{102}

Can we face the political future optimistically?

According to Jones (1999), President Chávez can be seen as a mixture between "journalist and Robin Hood"\textsuperscript{103}, not being a member of the establishment.\textsuperscript{104}

Despite this, he put at least 50 military officers into public administration and enterprises.\textsuperscript{105} This can be understood as an act of nepotism, that has been done by former governments as well, as shown above. Others consider it to be a move back to caudillismo.\textsuperscript{106}

The remaining issue deals with policymaking. People start to feel uncomfortable, companies are hesitant to invest large sums of capital in projects, because president Chavez has not yet delivered a clear economic concept. As one area manager states, his economic plan "is considered to be like god: Everybody has heard of it, but nobody has seen it." This again has a deep impact on selling behaviour. Generally, in Venezuela one needs 'to think around three corners', because the whole economic development is dependent on politics.

\textsuperscript{100} Rios, 1998, p. 16.
\textsuperscript{101} Bodemer and Nolte, 1999, p. 2; Schmid, 1999c, p. 6.
\textsuperscript{102} Schaeffler, 1999, p.1.
\textsuperscript{103} Jones, 1999, p. 2.
\textsuperscript{104} Pickert, 1998, p.10.
\textsuperscript{105} Schaeffler, 1999, p. 3.
\textsuperscript{106} see for example Matthies T., 1999, p. 3; Bodemer and Nolte, 1999, p. 7.
According to Welsch and Werz (1999) the consequences of the last 40 years of Venezuelan policymaking visualised the challenges the new government currently has to face.\textsuperscript{107}

1.) Corruption: Even in the 1970s during the times of the oil bonanza, the government and its party were accused of embezzling public money and funds. It is thought that 90 billion US Dollars are deposited on foreign private bank accounts in the USA and Switzerland. This behaviour evokes the mentality of the conquistadores who also deprived Venezuela of its wealth not only during, but since the times of early colonisation.

2.) Facilismo: The general code of conduct that was acquired due to the populist legislation of governments in the past, and also due to the overstaffing in public, state-owned industries.

3.) Many attempts to reform the political system have already failed.

4.) Decreasing public income and increasing impoverishment of large population groups, who had previously been upwardly mobile, i.e. were included in the so-called middle class, lead to a mixture of political anomie and to an increase of social protest.

5.) The increasing dislike of political parties has reached a high level even by Latin American standards.

6.) Social impoverishment has reached unknown standards. Depending on the source of data it is believed that 80 to 90 percent of the Venezuelan population are below the UN poverty line.

7.) According to many Venezuelans that were questioned and to external observers the achievements of the previous governments were unimpressive.

\textsuperscript{107} Welsch and Werz, 1999, pp. 7-10.
8.) Due to the generally felt improbability of reforming the political system, and to the disappointment with political parties, the military option seems to be acute again.

The direction government will take cannot be anticipated: one has to be patient.
3 The structure of Venezuelan economy

3.1 History of the economy until the 1920s

During the times of discovery and colonisation (1498 to 1750) Venezuela was virtually ignored by Spanish trading ships, because it was considered to be a small, rustic colony compared to the wealthy and culturally advanced states of Peru and Mexico.\(^\text{108}\)

As shown in the chapter on commerce during the colonial times, early international Venezuelan trade was marked by protectionism and governance through the Spanish crown, realistas, and upper class criollos.

On achieving independence, Venezuela had started to do some minor exporting since the 1820s. But international trade was hindered by several factors. First of all, the Venezuelan economy suffered enormously during the War of Independence (1813-1821). Plantations and haciendas were 'mourning the loss of manpower', and severely decreasing harvests of cocoa, indigo and tobacco. Probably worse, during the war time the population of cattle went down from 4.5 million to 256,000 animals.\(^\text{109}\) This was due to the common phenomenon that the armed forces slaughtered the animals in order to get sufficient amounts of meat without paying the ranchers. Thirdly, Venezuelan patriots lost their Caribbean trade links because of a lost naval war against Spain, and also due to corsair piracy. In 1811 the USA and so called “alien colonies”, mainly British possessions, were the biggest partner in international trade (35.2% and 34%).

The financial misery evoked by war was the main reason why Bolívar continued to run the estanco shops.\(^\text{110}\)

Hence, Venezuela’s development in terms of economic growth could not keep up pace with countries such as Mexico or Argentina.\(^\text{111}\)

Under Páez (1830-1847) Venezuela developed into a society based on agricultural exports.\(^\text{112}\)


\(^{110}\) See chapter on political history.

\(^{111}\) Lombardi, 1986, p. 4.

\(^{112}\) According to Vasconi et al. (1980, p. 192), this is typical for many Latin American countries.
The USA, Great Britain, and Germany held equal shares of 25% in Venezuelan export activities. This led to an increase in German subsidiaries based in Venezuela, mainly merchants, representatives of ship building companies, and -later on- bankers. They sometimes got married to members of indigenous families. The immigration of German agricultural and manual workers was rather small, although the Venezuelan government was very much interested in drawing such people into the country to substitute the missing local workforce and to let them contribute to domestic consumption.\(^{113}\)

The era of Monagas (1847-1869) was marked by economic stagnation. The production of coffee just started to become substantial at the end of the 19th century, when it was spread to the Andes. The amount of coffee exported could have been improved, but President Guzmán Blanco and his successors neglected to diversify agricultural production and to strengthen local industrialisation. Thus Venezuela was still heavily dependent on exporting coffee, and hence on the world market prices, and on importing consumer products as well. In 1890, for example, coffee constituted 75 percent of all exports.\(^{114}\) Due to the flourishing coffee production, Venezuela became one of the wealthiest countries in Latin America, although only small groups of the Venezuelan population benefited from this rise in income, while the masses continued to live in poverty.\(^{115}\) European trading houses began to be established, some were British or German subsidiaries, others were founded by resident immigrants, such as H. L. Boulton. The first regular boat service was from Caracas to New York.\(^{116}\)

The wealth generated lasted until the 1920s. The revenues from coffee exports were invested in cattle ranching and in the sugar cane industry, leading to further prosperity lasting until 1929.\(^{117}\)

### 3.2 Settlement patterns

The harbours towns and Caracas formed the centre of economic activities. Unfortunately a regional equilibrium and an integration of the different economic regions did not happen.

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\(^{113}\) König, 1992, p. 608.


\(^{116}\) Naim and Francés, 1994, p. 171; the Boultons are still one of the most influential families in Venezuela; see also chapter about recent developments in business and economics.

\(^{117}\) Izard, 1996, p. 668.
Four different economic sections existed side by side being focused on export but without interregional communication.

In the west, the most important region was the state of Zulia with the port of Maracaibo, specialising in coffee.

The second zone was located around Valencia and Caracas. They exported different agricultural products such as coffee, cocoa, sugar, cattle and copper via the harbours Puerto Cabello, 120 km west from Caracas, and La Guaira, 13 km north-west from Caracas centre. Some local manufacturing like weaving mills in Valencia and tanning in Caracas started up.

The eastern region was marked by the state of Bermudéz and Puerto Carúpano, exporting coal from Naricual and asphalt from Lake Guanoco.

Goldmines in El Callao and iron ore in the Orinoco delta formed the fourth economic section, having Ciudad Bolívar as a port.  

This lead to an extremely uneven population density. Most of the inhabitants lived close to the coast and in the valleys of the coastal mountain ranges.

Comparing the formation of the urban landscape in the colonial period with a modern road map, the towns and cities are almost identical.

Furthermore, today's network in terms of communications, power, and wealth, also closely matches the colonial network fully established during the last years of the 18th century. Although Venezuela is a federal republic consisting of a Federal District, 21 states, federal dependencies and approximately 270 autonomous municipalities, the state can still be considered to be highly centralised: one fourth of the population lives in Caracas, government institutions, authorities, most universities, the international airport, and most business headquarters are located in the capital.

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3.3 Economic development from 1920 onwards

3.3.1 The History of Black Gold

3.3.1.1 The Beginning

It was in the year of 1914, when the well Zumaque-1 was drilled in the Mene Grande area, south-east of Lake Maracaibo, being the discovery of the Maracaibo Basin, one of the largest oil fields in the world. In the following years, other important finds in the surrounding areas were made, causing a rush into the country, comparable to the California gold rush of the previous century (1849).121 Winners in the game of early petroleum discoveries in Venezuela were companies like Shell, Exxon, Gulf, Mobil, and Texaco. In the 1920s petroleum started to replace coffee as the most important commodity. This had a substantial impact on agriculture. As the following figure shows, Venezuela slowed down exporting coffee at the beginning of the 1930s.

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Due to oil export earnings and an overvalued currency it did not seem worthwhile to cultivate coffee anymore. It could be imported easily with petro-dollars. Venezuela began to import even the most basic commodities and food products, including sugar, that it had formerly grown, Colombian meat, black beans from the Dominican Republic, and frozen vegetables from the USA.\textsuperscript{122}

Thus agriculture rapidly lost its importance even in the domestic market.\textsuperscript{123} The dualism, sophisticated dynamic oil industry versus inefficient agricultural production, started to evolve and is still prevalent today.\textsuperscript{124}

3.3.1.2 Change in international attractiveness

As shown, Venezuela was the poorest of all Latin American countries until 1920. But due to the development of the oil industry in the 1930s, its expansion in the 1940s and 1950s, the massive increase in international demand for petroleum in the 1960s and 1970s, Venezuela became the wealthiest state in Latin America in the mid 1970s.\textsuperscript{125}

As Venezuela became one of the most important oil exporting countries in the world, it gained strategic importance for the Western hemisphere. Thus large investments were undertaken by the government, this being one of Venezuela’s principal investors, to build an infrastructure for capital, providing great impetus to construction activities\textsuperscript{126}. Refineries and transportation facilities were constructed, and an efficient road system was established facilitating the transport of people and goods in many parts of the country. It is typical for oil countries, that “infrastructure in many instances is related mainly to the oil sector”\textsuperscript{127}. From 1942 to 1948, government expenditures on public works, health, and education increased almost seven times.\textsuperscript{128} The people started to rely on welfare provided by the state more and more. This phenomenon is called \textit{paternalismo}, and it will be discussed in more detail later on.

\textsuperscript{123} Stenzel, 1980, pp. 299-300; Karlsson, 1975, p. 36.
\textsuperscript{124} Weise, 1989, p. 89; Martz and Myers, 1986, p. 73.
\textsuperscript{125} Blutstein, 1977, p.27.
\textsuperscript{126} Ahumada, 1967, p. 11.
\textsuperscript{127} Austin, 1990, p. 23.
3.3.1.3 *A new form of dependence*

Venezuela started to become dependent upon oil rather quickly, immediately and completely directing its economy towards this new source of income. The agricultural and pastoral economy became totally neglected. Agricultural production by small farmers fell rapidly, because high wages drew people to the oil fields and the cities.\(^{129}\) During the Pérez Jiménez years for example, oil made up 98 percent of the total value of exports.\(^{130}\)

Unfortunately this trend was supported by the legislature as well. In 1952 for example a trade agreement was signed that opened up the Venezuelan market to American imports. This turned out to be a disadvantage to domestic products.\(^{131}\) Another example, showing how heavily the state focused on petroleum was a law passed in 1918 allowing the Venezuelan government to expropriate land that was needed for petroleum production.

This 'law of crude oil' was actually designed by solicitors of foreign oil companies!\(^{132}\)

Thus it was small wonder that initial concessions to foreign firms were extremely generous, preparing the ground for blaming the nation's subsequent social and economic ills on the exploitative oil concessions made by Gómez. Sullivan (1976) states that during the Gómez period (1908-1935) Venezuela "structured the most liberal petroleum policy in Latin America."\(^{133}\)

Thus it was little wonder that especially American oil companies poured into the country, leading to a form of Americanisation no other Latin American state has ever experienced so far.

But also public acceptance and low taxes permitted the oil consortia to extract resources and profits with ease.\(^{134}\) From 1936 to 1942 three big companies accounted for almost 99 per cent of total Venezuelan petroleum production: Creole (*Standard Oil, Exxon*) 50 per cent, *Royal Dutch Shell* 35 per cent, and *Mene Grande* (*Gulf Oil*) 14 per cent.\(^{135}\)

By being a major player in the founding of OPEC, the Organisation of Petroleum Exporting Countries, in 1960, the Venezuelan government was able to improve its bargaining position vis à vis the large oil companies, making sure enough money stayed

\(^{129}\) Blutstein, 1977, p.37.

\(^{130}\) Martz and Myers, 1986, p. 73.

\(^{131}\) Izard, 1996, p. 679.

\(^{132}\) ibid., 1996, p. 669.

\(^{133}\) Sullivan, 1976, p. 258; see also Allen, 1977, pp. 12, 63.

\(^{134}\) Lombardi, 1986, p. 20.
in the country.\textsuperscript{136} Other founding members were Iraq, Iran, Kuwait, and Saudi Arabia. Their main objective was to control oil price and production. Juan Pablo Pérez Alfonzo is considered to be the "principal architect."\textsuperscript{137}

### 3.3.1.4 Nationalisation of oil industry in 1975

In 1943 a new hydrocarbons law was established, saying that royalties\textsuperscript{138} had to be as much as the oil companies' revenues.\textsuperscript{139} This law was not changed until 1975, when the petroleum industry was nationalised by Carlos Andrés Pérez. Due to its revenues, it was possible to implement ambitious plans concerning the education of the workforce, the building of large public monuments and industrialisation. The earlier oil exploitation companies were compensated, and in their place, a couple of national companies took over. They were brought under the command of PDVSA, \textit{Petróleos de Venezuela S.A.} and included \textit{Lagoven} (50\% of the production, formerly Creole, Exxon), \textit{Maraven} (25\%, formerly Shell), \textit{Meneven} (formerly Gulf), and \textit{Llanoven} (formerly Mobil).\textsuperscript{140} By 1978 the process of integration was finished and Llanoven merged with CVP, the original state oil company, to \textit{Corpoven}.

The income resulting from oil increased because of favourable economic activity during the Korean War, and this made it possible to continue investing in development projects, such as the petro-industry of Morón, the hydroelectric power-station of Caroní, and the metalworking industry at the Orinoco. According to Martz and Myers (1986) major foreign manufacturers were also forced by government decree in 1976 to sell 80 percent of their stock to Venezuelans.\textsuperscript{141} This established a form of state capitalism that still exists.\textsuperscript{142} The good thing about it was, that many employees benefited from this measure. From then on, the Venezuelan oil workers became a privileged, elite sector of the working class: the \textit{labour aristocracy}, as they were sometimes called by politicians.\textsuperscript{143}

\textsuperscript{135} Izard, 1996, p. 677; Salazar-Carrillo, 1994, p.28.
\textsuperscript{136} Karlsson, 1975, p. 33.
\textsuperscript{137} Myers, 1986, p. 246.
\textsuperscript{138} Fee or tax a company has to pay the government when exploiting oil.
\textsuperscript{140} Coronel, 1983, pp. 88-90.
\textsuperscript{141} Martz and Myers, 1986, p. 80.
\textsuperscript{142} see for example Ashoff, 1992, p. 18.
\textsuperscript{143} Ellner, 1993, p. 144.
Unfortunately, it also meant a decreasing role for the private sector and for foreign enterprises.\textsuperscript{144} The transfer of ownership to the state was considered to be a “capitalistic adjustment to nationalistic pressures and compensation for the inadequacy of domestic entrepreneurship.”\textsuperscript{145} In fact it was a new mechanism to reinforce the domination of the ruling class; e.g. the signing of profitable service contracts between the new Venezuelan state companies and the former multinational owners. Benefiting most were obviously the affluent, those who already owned several companies, and obviously the state itself. The main reason for nationalising the oil industry was simply a question of retaining the revenues pouring out of the country, mainly to North America. Some authors however, point to other reasons. Blank (1986) for example states, that the fourteen separate foreign-owned companies proved too fragmented for efficient production.\textsuperscript{146}

The public sector grew immensely, going up to 200 state-owned companies, accounting for almost three quarters of the gross domestic product.\textsuperscript{147} Especially in the 1970s, a vast number of state enterprises were established: 11 in 1971, sixteen in 72, fourteen in 73, seventeen in 74, and in 1975 not less than incredible forty-nine.\textsuperscript{148} Few Latin American countries delegated more of their total economic activity to the public sector than did Venezuela. Myers (1986) explains it in terms of the Venezuelans’ reluctance to leave economic development to private companies due to the negative experiences in the early history of Venezuelan capitalism.\textsuperscript{149}

As one can see in the figure below, Venezuela’s state of well-being moved up and down with petroleum, making itself a slave to an external factor, i.e. the world’s petroleum price.

\begin{footnotesize}
\begin{enumerate}
\item Naím and Francés, 1994, p. 175.
\item Bigler and Viloria V., 1986, p. 185.
\item Blank, 1986, p. 270.
\item Bigler and Viloria V., 1986, p. 184.
\item Myers, 1986, p. 128.
\end{enumerate}
\end{footnotesize}
3.3.1.5 Economic prosperity in the 1970s – Venezuela Saudita

3.3.1.5.1 Paternalismo

The petroleum crisis in 1973 had an enormous impact on Venezuela. During the period lasting from 1974 to 1985, the oil industry contributed the most in the country’s external commerce ever, even outperforming the flourishing 1950s.\textsuperscript{150} Between 1970 and 1975, the income increased by factor 4.8, tax income increased by 3.6, and dollar reserves by 8.5.\textsuperscript{151} This was caused by an dramatic increase in the oil price due to the Yom Kippur War of 1973 and the Middle East conflict. The oil price increased its value almost over night: In October 1973 the barrel of crude petroleum cost 2.83 US $, while in 1974 it was worth 10.41 US $ (first oil shock), climaxing in the year of 1980 at 30.69 US $ per barrel (second oil shock, triggered by the overthrow of the Shah of Persia in 1979).\textsuperscript{152}

\textsuperscript{150} Salazar-Carrillo, 1994, p. 239.
\textsuperscript{151} Izard, 1996, p. 693.
\textsuperscript{152} BP, 1997, p. 14; Morrisson, 1994, p. 94.
This led to an economic boom and full employment. Additionally, President Carlos Andrés Pérez decreed, that wages had to be increased between 15 and 35 percent.\footnote{Morrison, 1994, p. 105.} These government-authorised wage increases, combined with foreign exchange controls that subsidised imports, led to a change in consumption patterns.\footnote{Mortimer, 1990, ve0017/6.} In 1971 Venezuela imported 46 percent of its basic foodstuffs, in 1978 this figure approached 70 percent.\footnote{Martz and Myers, 1986, p. 81.} To put it in absolute figures, the agricultural imports from the United States rose from 500 million Bolivars in 1970 to more than 2 billion Bolivars by 1979.\footnote{Herman, 1986, p. 345.} Aware of the fact of growing dependence, the government tried to strengthen local manufacturing by subsidising domestic products.

In some industries it was not possible to obtain an import license for a product that was already manufactured by a Venezuelan company. Thus, foreign competition was kept out of the domestic market artificially.

This process of import-substitution was taken over by the subsidiaries of multinational corporations, not only displacing domestic producers, but also displacing domestic workers since their advanced technology was less labour intensive.\footnote{Portes, 1988, p.2.} Thus especially in the 1970s international companies rushed into Latin America, setting up local subsidiaries.\footnote{For example companies like Beiersdorf AG, Bayer AG.} This was the only way to get a foothold in the Venezuelan market, as imported products were penalised with a high import taxation as mentioned above.

These import substitution policies failed for various reasons.\footnote{Herman, 1986, p. 345; Allen, 1977, p. 231.} It was for example cheaper to import food than to buy Venezuelan-produced products. Another issue was that money was not spent wisely on farming and agricultural reforms. Small peasant farmers received credits to buy expensive machinery, but they did not make use of it, because they were not trained in modern agriculture methods and preferred sticking to traditional ways of doing things.

But even if some peasants were willing to farm their own land, administrative problems sometimes made it impossible to succeed, e.g. seeds sometimes arrived only after planting-time.\footnote{To study further issues, see Weise, 1989, p. 107.} The peasant farmers were also able to buy fertilisers and seeds at a low price. As some of them were still used to the easy money, it was common to sell the
acquired materials to bigger landowners and to professional agricultural companies to make instant profits. The same phenomenon, this “get-rich-quick-mentality”, happened during the land reforms in the sixties. Initially it was another measure to prevent the people from leaving the countryside. Agricultural land was distributed to peasants. As they were not used to possessing and managing agrarian land, they sold it to the big landlords and moved to the city.\(^{161}\)

This resulted in a significant decline in overall agricultural production. Salazar-Carrillo (1994) concludes, that “petroleum’s fiscal contribution was not well utilised to promote Venezuela’s economic development during this period.”\(^ {162}\)

Governmental economic policy was merely based on the popular maxim “*Hay pa’ todo*.\(^ {163}\) To put it in the words of Goodman et al. (1994):

> “All claims, needs, and aspirations could be accommodated without wasting time in sorting out trade-offs and setting priorities among mutually exclusive funding initiatives.”\(^ {164}\)

According to Morrisson (1994) this did not create an entrepreneurial orientation, but a widespread rent-seeking mentality, because each company had to negotiate individually with the government.\(^ {165}\) A manager of a company doing business in Maracaibo wondered if this might also be the reason why some people tend to be lazy, that is, because they were used to getting anything they wanted:

> “Today it changed, people no longer get electricity and gas for free, but thus still expect it. They pinch our electricity. Illegal power supply is common.”

Authors like Enright, Frances, and Saavedra (1996) think that due to heavy reliance on governmental favours and protection, *paternalism*, many Venezuelan private-sector firms became inefficient and uncompetitive, especially in the 1990s. The domestic market is not a closed market anymore and thus inferior domestic products are purchased less than during more protectionist times. In addition, the government set price controls for 12 basic food products, providing an indirect subsidy to all consumers of these goods. Thus even the affluent received these benefits.\(^ {166}\)

The contribution made by petroleum exports to support economic growth in the long term was rather modest. The process of supporting private investment and import

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\(^{161}\) The idea of fast fortune will be examined to a deeper extent further on in the thesis.

\(^{162}\) Salazar-Carrillo, 1994, p. 221; see also Weise, 1989, pp. 179-183.

\(^{163}\) translation: there is enough for everything; see Kelly, 1994, p. 301.


\(^{165}\) Morrisson, 1994, p. 94.

substitution was soon neglected. This can be seen by looking at the ratio of import by use of commodity: In 1977 32.4 percent of imports were capital goods, necessary for production and manufacturing. By 1984 this figure had decreased to 17.4 percent. On the other hand, the import of consumer goods had risen from 10.8 percent in 1977 to 15.1 percent in 1980.\textsuperscript{167}

Venezuela became a leading importer of French perfume and champagne, Italian leather goods and furniture, German cars, American domestic appliances, and Scotch.\textsuperscript{168} Hence, the petroleum boom led to a change in domestic priorities and pattern of consumption and savings, and also to a higher standard of living for all Venezuelans. What this meant in practical terms will be shown later.

3.3.1.5.2 "Está berrato, dame dos l"

Shopping trips to Miami became fairly common. This is one of the reasons why some authors (mainly North Americans) critically consider Miami as the city, that "is fast emerging as Latin America's capital."\textsuperscript{169} Pan American Airlines flew from Miami to Caracas five times per day. This was made possible due to a very high rated Bolivar compared to the US-Dollar. Richer people started to spend their holidays in Florida, visiting Disney World.\textsuperscript{170} The expression of \textit{está berrato, dame dos}, became a popular expression to describe Venezuelan consumption and buyers' behaviour. Entering a shop in Miami, the Venezuelan saw a nice camera for 100 US-Dollars, he did not bargain, but stated that the price seems to be low,\textsuperscript{171} therefore, he would like to have two of them. This \textit{dicho} was more than just words. It was the symbol for a philosophy: spending in abundance.

According to a German manager who spend more than 25 years of his life in Venezuela, they had the attitude of "we can buy anything, we are the greatest." Even coconuts were imported, because due to the social benefits system it was too much work to climb the palm trees and throw the nuts on the ground.

\textsuperscript{167} Salazar-Carrillo, 1994, data gathered from table 10.2 on p. 243. The corresponding figures for 1997 are 33 percent for capital goods and 22 percent for consumer goods (BfAi, 1998a, p. 2).
\textsuperscript{168} Enright, Francés, and Saavedra, 1996, p. 245; Hillman, 1994, p. 92. Venezuela is said to have the highest per capita consumption of Scotch in the world.
\textsuperscript{169} see for example Moran, 1982, p. 285.
\textsuperscript{170} Weise, 1989, p. 7.
\textsuperscript{171} This was due to the high overvaluation of the Bolivar to the US-Dollar.
For A-level graduates it was a common practice to make Caribbean cruises as final year, school-leavers’ trip.

3.3.1.6 The oil’s effect on the distribution of employment

The economic expansion and the nationalisation of the oil industry in late 1975 lead to an increase in the state bureaucracy. It was always possible for the state to employ more people than were actually needed. This was a way of doing favours to friends and supporters of the regime of honouring their loyalty. It also gave rise to corruption and stealing of money.\(^\text{172}\)

The chart on state employment in Venezuela shows the vast increase of jobs in the public sector over the last 40 years. It is almost unbelievable that the figure rose from a mere 45,000 employees in 1958 to 1,475,000 public servants by 1997.

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**Venezuela: State employment, 1958-1997**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of public employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>45,000</td>
</tr>
<tr>
<td>1963</td>
<td>90,000</td>
</tr>
<tr>
<td>1965</td>
<td>320,000</td>
</tr>
<tr>
<td>1968</td>
<td>360,000</td>
</tr>
<tr>
<td>1971</td>
<td>420,000</td>
</tr>
<tr>
<td>1980</td>
<td>781,000</td>
</tr>
<tr>
<td>1990</td>
<td>1,300,000</td>
</tr>
<tr>
<td>1997</td>
<td>1,475,000</td>
</tr>
</tbody>
</table>

Figure 4: Venezuela: State employment, 1958-1997.

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\(^{172}\) Izard, 1996, p. 692.
Due to the windfall gains of oil, the state was never really forced to staff efficiently. Public sector managers sometimes had more than two secretaries for example. Others had several chauffeurs but only one car.

This process of rapid economic development stimulated the expansion and differentiation of the bureaucracy, making it one of the “main avenues” for people striving for upward mobility.\textsuperscript{173} Many people started working in the secondary and tertiary sector, especially banking, finance, and securities, increasing the population of the cities, particularly the metropolis of Caracas. As they left the primary sector, they also lost the ability to being self-supporting in food.\textsuperscript{174}

The following figure shows the sectoral shift in employment.

\textsuperscript{173} Silva Michelena, 1967b, p. 90.
\textsuperscript{174} Izard, 1996, p. 680; Carias, 1980, p. 259; Karlsson, 1975, p. 36. speaks of an “exodus of rural labourers to the oil camps”, temporarily resulting in labour shortages.
The tertiary sector, including commerce and financial institutions, transport and communications, and services was the main beneficiary. In 1941 only 28 per cent of the total employment was employed in the tertiary sector, while in 1997 this figure reached nearly 65 per cent. The decline of the primary sector was even more remarkable. It shrank from 53 per cent of employment in 1941 to 13 per cent in 1997.

It can also be seen, that Venezuela experienced an unusual economic evolution. The stage in which the secondary sector grows most, scarcely occurred. The figures show that economy moved from the primary to tertiary, with little industrial development in between, as will be further evidenced. All attempts at "sowing the petroleum" in order to develop the secondary sector seem to have failed. This would explain the country's relative backwardness in terms of development, since "industry is often the driving force behind a country's development into a sophisticated economy."\(^{175}\)

It can also be concluded that the petroleum industry did not provide a large number of jobs (at least not directly). The exploitation and refining processes in the oil industry are highly sophisticated and automated, so that few new jobs are created.

3.3.1.7 The oil's effect on internal migration

Due to the fact that both domestic and foreign capital is being concentrated in industrial centres, people follow in search of work, adding population concentration to capital accumulation.\(^{176}\) This thesis proposed by Tessa Cubitt can be verified in the case of Venezuela: As export crops lost their economic predominance, Venezuelan peasants migrated to the oil-producing areas, like Zulia, and to the cities, like Maracaibo or Caracas.\(^{177}\)

In 1936, 76 per cent of the population lived in rural areas, were illiterate, and poor. 79 per cent were located in coastal and mountain regions. But by the mid-1970s, some 80 percent had become literate, and lived in urban areas, one of the highest rates in the hemisphere. This figure had risen to 93 percent in 1996 according to CIDEIBER, and is

\(^{175}\) Wells Fargo, 1999b, p. 3.
\(^{176}\) Cubitt, 1995, p. 152.
expected to rise to 97 percent by 2025.\textsuperscript{178} Mortimer states, that about 75 percent of the total population was concentrated on 20 percent of the national territory.\textsuperscript{179} According to Weise (1989), 90 percent of the Venezuelan population lived in only 10 percent of the geographical area.\textsuperscript{180} This seems to be a bit over the top, because our own calculations with data from OCEI suggest, that in 1995 60 percent of the population lived on 10 percent of the land, which is closer to Mortimer's figures (1990).

The movement of the rural population to the cities did not occur in a gradual or even manner, but as a rapid rush to a few receiving centres: Maracaibo, but mainly Caracas, as it was the political capital, and the place of residence of the dominant class.

In the late 1930s even Maracaibo was hit by this phenomenon, as the oil companies moved their headquarters from there to Caracas in order to be closer to the political power centre.\textsuperscript{181} According to Portes (1988) this Latin American phenomenon, fast growing cities combined with highly unequal income distribution leads to other distortions like rising levels of criminality, infrastructural problems, i.e. canalisation or traffic congestion.\textsuperscript{182}

Many of the Venezuelans were of the opinion that geographic mobility was linked to upward social mobility. Thus urban areas became synonymous with the prospect of greater excitement, better economic conditions, and the illusive thought of gaining instant wealth. In contrast, rural centres were perceived as traditional, poor, and stagnating.\textsuperscript{183}

There is still some truth in this perception today, because according to a report on labour conditions published by the World Bank in 1998, mean earnings in Caracas are twice as high as wages in rural areas.\textsuperscript{184} Unfortunately this migration entailed negative side effects. The big cities especially suffer an acute shortage of housing, leading to squatter settlements, called barrios, encircling urban cores.\textsuperscript{185} It was not possible to create so many jobs for the masses, leading to a typical profile of major Latin cities

\textsuperscript{178} CIDEIBER, 1997b, p. 3.
\textsuperscript{179} Mortimer, 1990, ve6024/1.
\textsuperscript{180} Weise, 1989, p. 51.
\textsuperscript{181} Karlsson, 1975, p. 41; the chapter on bureaucracy reveals some of the reasons why it is important to stay close to the geographical areas of political decision-making.
\textsuperscript{182} Portes, 1988, p. 1.
\textsuperscript{184} World Bank, 1998, p. 57: Rural: 64,504 Bolivares per month; Caracas: 125,151 Bolivares per month.
\textsuperscript{185} The phenomenon of barrios will be examined to some deeper degree in a separate chapter dealing with Venezuelan society.
featuring low rates of unemployment together with high rates of casual or informal employment which often represented half or more of its total labour force.¹⁸⁶

As mentioned in the chapter dealing with the historical context, the government under Pérez tried to stop this movement by reintroducing the scheme, of sembrando el petróleo. It was not only an attempt to diversify the industry, but it was also an attempt to stop urban crowding. According to Weise (1989), the project of artificial birth of a city, does not solve the problems being generated by a wrong agricultural and industrial policy. The model city Brasilia did not cure the problem of migration in Brazil either.¹⁸⁷ In Venezuela regional corporations were set up, like the complete industrial city Ciudad Guayana, having both an integrated steel mill and an aluminium plant.¹⁸⁸ Unfortunately, there was a negative side to it: As these both facilities were government operated, they contributed a great deal to the huge state apparatus.

The following figure shows that the pace of urbanisation in Venezuela between 1960 and 1997 was the most rapid in the whole of Latin America.

In 1997 95 percent of all Venezuelans lived in urban areas, followed by Chile (88 percent), Argentina (87), and Brazil (83). It is interesting to note that the figure for Argentina in 1960 was already 74 percent. A reason might be that it was the first Latin American country that began with the process of industrialisation in the early 1900s.

The figure also gives evidence of the fast population growth during the last 40 years. Starting equal with Argentina with a population of 7.5 million inhabitants, Venezuela had almost 23 million inhabitants in 1997 while Chile had only around 15 million. Especially from 1960 to 1980 the population increased dramatically, by a 100 percent.

¹⁸⁶ Portes, 1988, p. 2.
¹⁸⁷ Weise, 1989, p. 3.
3.3.1.8 The oil's effect on population growth

Due to accelerating opportunities and economic expansion between 1936 and 1976, the Venezuelan population rose by factor four, from three million to over twelve million inhabitants, thus doubling the number of inhabitants every twenty years. In 1941 only Caracas and Maracaibo contained more than 20,000 people. 30 years later there were fifty cities with between 20,000 and 100,000 population, eleven cities hosting 100,000 or more inhabitants each.\(^{189}\)

This was partly caused by legal immigration. Because Venezuela was short of skilled oil-workers, oil companies imported people.\(^{190}\) But informal immigration also occurred, mainly of Colombians (30%), Spanish (25%), Italians, Portuguese (about 15% each), and some political refugees from Chile, Uruguay and Argentina.\(^{191}\) Colombians especially were lured by higher salaries than in their home country.\(^{192}\)

\(^{190}\) Allen, 1977, p. 37.
\(^{191}\) Izard, 1996, p. 690; Mortimer, 1990, ve0025/1; Carias, 1980, p. 265.
\(^{192}\) see Hillman, 1994, p. 10; Stewart, 1986, p. 219; Allen, 1977, p. 143; estimates range between 500,000 and 1,000,000 indocumentados (undocumented or illegal aliens).
Actually, massive foreign immigration was outspokenly encouraged by Marcos Pérez Jiménez in order to create a new Venezuela and a modernised Caracas.\textsuperscript{193} Hence, in the 1940s and 1950s more than two million Europeans immigrated, starting up businesses in construction, apparel manufacturing, furniture making, and metalworking.\textsuperscript{194} In a later chapter of the thesis it will be shown, what a great impact this international geographic movement had on Venezuelan management and business culture. It is hard to find a ‘typical Venezuelan manager’, although communalities can be identified.

### 3.3.2 Industrialisation by the state

In the early 1960s the government under President Betancourt also started to increase its activity in the non-petroleum industry by “sowing the petroleum”. The idea was to create new industries in order to reduce the dependence of the economy on non-renewable materials, petro-dollars, and foreign manufactured goods, and to diversify exports, thus achieving sustainable political and economic development.\textsuperscript{195}

The oil industry became the source of funds for rapid industrialisation, infrastructure investment, and a subsidiser of inefficiently working companies. Enright, Frances, and Saavedra (1996) state, that “a paternalistic and interventionist ethos developed as the state became the dominant player in the economy.”\textsuperscript{196}

As mentioned before Ciudad Guayana was created, a new industrial centre located close to the Orinoco at the base of the Guayana Highlands to decentralise industrial development away from Caracas.

This “model industrial town” has been the most ambitious project of planned industrial development initiated so far by Venezuelan government, transforming the region into the “Ruhrgebiet of South America.”\textsuperscript{197}

As an autonomous development agency being responsible for this project, from supervising the steel plant to all aspects of stimulating and overseeing development of the vast Guayana region, the state-owned \textit{Corporacion Venezolana de Guayana}, CVG, was created.\textsuperscript{198} The first major plant, being built in 1962, in this region was Siderúrgica

\textsuperscript{193} Lombardi, 1986, p. 21.
\textsuperscript{196} Enright, Frances, and Saavedra, 1996, pp. 2, 354.
\textsuperscript{198} Ellner, 1993, p. 150; Martz and Myers, 1986, p. 75; Lerner, 1967, p. 312.
del Orinoco, SIDOR, a CVG subsidiary. In 1967, Aluminio del Caroni, ALCASA, was built next to the SIDOR complex.\textsuperscript{199}

According to a manager from the engineering and construction business who was responsible for setting up metalworking companies, it was almost a competition by state’s presidents in the seventies to own the biggest steel plant. Thus when Venezuela was enjoying windfall gains from oil in the 1970s, they decided to realise a project that had been planed for a long time: to transform the existing works from one million tons capacity to 5 million tons.

“This was done in seven years, according to the motto of: Money does not play any role. It was incredible. I still have old movies from it. When flying into Puerto Ordeaz, there were territories, that were graded. Two hundred to three hundred Caterpillars were driving around. It was like an ant-hill down there. They suddenly were all there. They were imported. That was excavation work. Then large-scale industry came, it was established there. 15 billion US-Dollars were spent on infrastructure, then they started to expand the oil industry.”\textsuperscript{200}

From the start the state preferred prestigious buildings, to developing a healthy employment sector.\textsuperscript{201} According to Martz and Myers (1986), this trend was continued by Pérez. Building gigantic projects, like a replica of New York’s Rockefeller Centre, a luxurious mountaintop hotel, and the world’s most expensive officers’ club he tried “to move Venezuela into the ranks of the developed countries. ... The historic attitude of dependence on state economic initiatives became more deeply ingrained than ever.”\textsuperscript{202}

3.3.3 The end of paradise ? – “The lost decade”

The region wide economic crisis in the late 1970s and 1980s led to a dramatic reversal in previous patterns of growth.

This era is widely known as the lost decade, in which nearly all Latin American countries suffered from economic decline. Unfortunately Venezuela was hit most due to its mono-structured economy, heavily relying on world market raw material prices. According to Nolte (1999) the Inter-American Development Bank invented this

\textsuperscript{200} Interview with a German manager who had been responsible for constructing the Orinoco steel works.
\textsuperscript{202} Martz and Myers, 1986, p. 81; Mortimer, 1990, ve0016/4.
expression, the lost decade, to symbolise the economic downturn in the 1980s. Furthermore, the 1990s they declared to be the decade of hope. Due to nearly unlimited wealth, Venezuela was used to massive petro-dollar loans, hoping now that an upward turn in terms of trade would help to amortize the debt in the near future. Because Venezuela was rated triple A (AAA) in the international bond market in 1977 by Standard & Poors and also by Moodys, it was easy to get loans. By late 1982 most of the affluent Venezuelan somehow knew that a devaluation was inevitable, and started buying dollars from the loans and funds they received from the government. It is not astonishing that Venezuela’s total foreign debts rose above 30 billion US$ by 1982, making it one of the most indebted less developed countries of the world.

We have to keep in mind that in this year Venezuela was still enjoying abundant wealth. Therefore there is some reason to say that money was vastly wasted. The issue was, that government spending at least equalled the money received from oil. Even in 1974, when oil revenues tripled, government expenditures rose by a factor of three as well.

The expectations of being able to pay back credits in the near future were not met, but a new oil shock of the early 1980s led to the sharpest economic downturn of the twentieth century for the country. Between 1981 and 1984 Venezuela’s GDP per capita declined by 16%. This was mainly caused by changes in the international petroleum scene. At an OPEC meeting in 1983 the member states agreed to cut production quotas, leading to a shortage of 6 billion US Dollars per year to finance the Sixth National Plan, leading to large deficits in the current account balance. As the economy had relied heavily on oil-sector revenues to finance public spending and to stimulate demand in other sectors, it was vulnerable to external and internal pressures that emerged during the mid-1980s.

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204 In 1998 the rating was as follows: S&P (B+), Moody’s (Ba2), Duff & Phelps (BB).
208 Portes, 1988, p. 4.
209 Morrisson, 1994, p. 96; Martz and Myers, 1986, p. 87.
3.3.3.1.1  RÉCADI times

The current, unrealistic system containing a highly overvalued Bolivar for many decades could no longer be kept up. According to Moll (1994) the phenomenon of an overvalued currency is a typical symptom of the “Dutch disease”.211 Due to a strong currency, the industry and agriculture sectors contract, because goods start to become too expensive in the international market. Import substitution and subsidising the industrial sector are attempts to strengthen the domestic economy, but lead to the opposite: uncompetitive products in terms of quality and price.

On the 24th of February 1984, Venezuela had to devaluate the currency for the first time. This day is called Black Friday in Venezuela. Although some writers consider it to be the 18th of February; see for example Ellner (1993).212 One interviewee mentioned sarcastically that many more Black Fridays were to come in Venezuela’s future.

In order to stabilise the tight fiscal situation, the government established a three-tiered exchange system. The Oficina del Régimen de Cambios Diferenciales, RÉCADI, was founded. In 1983, essential imports, like foodstuffs or medicaments, were traded Bs.4.3 (in 1986: 7.50) to 1 US$, nonessential imports and overseas government purchases were at Bs.6 (14.50), and luxury items and foreign travel were charged at a flexible rate, being around 13 to 1 in 1983.213 Unfortunately the crisis was made worse as a result of this scheme, because the government bought preferential dollars at 4.30 and sold them to the private sector at 6 or even higher, having a devastating effect on the foreign debt burden of the private companies, i.e. doubling it.214

According to Pérez Perdomo (1994) the abuse of preferential exchange rates was one of the biggest corruption scandals in Venezuelan history, though the literature produced has failed to reflect its actual size so far.215 Investment in Venezuela naturally decreased due to the complex exchange system. As a consequence, unemployment was unofficially estimated to be around 20 to 25 percent.216

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211 Moll, 1994, pp. 72-75.
214 Martz and Myers, 1986, p. 90.
According to Coppedge (1994) "RÉCADI was being used to finance corruption on a massive scale." Friends of those who controlled the assignation of dollars bought them at the preferential rate and "sold them on the open market at a price 100 percent or 150 percent higher." Some companies invoiced higher bills on imports, or made dummy or speculative imports.

"This was the greatest for a Venezuelan, who is clever, knowing how to make loads of money only with having to work very little. They imported overvalued machines, sought subsidised dollars for it, received the amount they overpaid back from the foreign company, and after changing the subsidised dollar back into Bolívares again, they gained profits of 20, 30, or even 40 percent without having to work for it. ... That has been the best ever. Thousand RÉCADI-Dollars, that were re-imported into the country were worth double the original value in Bolívares. ... You should not make such policies in Venezuela. It has been the most dangerous ever. They are really clever, they immediately know how to play the game. Containers full of sand entered the country, officially declared as machines. ... Dollars left the country for expensive goods, that never really arrived. The ones that had the power of distributing the dollars made most money, and that was the state again, because the institution belonged to the state. That was really crazy. It was the time where imports were done. A real boom took place, the ships were full, because anything was bought only to receive subsidised dollars for it. ... Money left the country without end. The country nearly bled to death."

When light was shed into the scandal, 2,800 businesses were investigated, and more than 100 executives from leading multinational enterprises left the country in fear of prosecution.

3.3.3.1.2 ... and again!

The negative trend in economic development was re-inforced by capital flight, intensifying the scarcity of capital and the need to devalue the Bolivar. Due to negative real interest rates, the petro-dollars were not spend within the country, but in the late 1980s Venezuelan residents began to move large amounts of their domestic

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217 Coppedge, 1994, p. 85; see also Hillman, 1994, pp. 44, 50; Sonntag and Maingón, 1992, p. 64.
220 Interview with a German manager who has been doing business with Venezuela for more than 25 years.
221 Mortimer, 1990, ve0039/1.
222 see also Austin, 1990, p. 50; Weise, 1989, p. 183; Myers and Martz, 1986, p. 442.
accounts to the off-shore banking system and to foreign stock exchanges. The following quotation serves to illustrate the consequences of capital flight:

"Private companies and <non-oil> public entities ... borrowed capital from state-owned financial institutions to finance <foreign> investment or current expenditures. The financial sector and other public entities borrowed from abroad, thus feeding the exchange market with large amounts of dollars which the private sector re-exported. The outcome was $30 billion in public and publicly guaranteed foreign debt in 1988 and private foreign assets of $55 billion."223

At the end of the 1980s, Venezuela experienced another phase of economic welfare. The oil price rose from 14.96 US$ per barrel in 1988 to 23.81 in 1990, leading to a strong decrease in national production and manufacturing.224 It seemed as if the Venezuelans rested on their oil laurels and, once again, missed a big chance to diversify the industrial base of the country in order to become less dependent upon the production of one mineral resource, namely petroleum and its world market price. The money being gained through the petroleum industry was mainly spend on satisfying increasing consumption, foreign debts and financing PDVSA's overseas expansion.225

This crazy economic behaviour climaxed in a banking crisis in 1994 and 1995.226 The crash had a deep impact on the real economy, because the government investigated and discovered that 'friendly banks' had given unsecured loans to many companies, and the government required these loans to be repaid, causing further business failure.227

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223 Morrisson, 1994, p. 95.
224 Salazar-Carrillo, 1994, p. 270, Table 11.8, Value Added in Manufacturing, 1986-90: Printing for example decreased by 81% between 1986 and 1990, textiles by 83%, tobacco even by 93%.
225 ibid., 1994, pp. 257-258; PDVSA started to buy into companies in Germany, North America and Sweden in 1986.
226 García-Herrero, 1997, p. 50. See chapter on banks further down for more details.
227 ibid., 1997, p. 65.
3.4 Recent developments in business and economics

By the beginning of the 1990s markets had to open up due to international pressure exerted by the WTO. Venezuela stopped preventing competition via import licenses or foreign exchange controls. The country was allowed to import ready made products. Many companies immediately started doing this, because it was not feasible to produce in Venezuela any longer.

This caused rising unemployment. Unofficial estimates say that hundreds of thousands lost their jobs. The official figures were kept small by counting subempleados as proper employees. These people are also called underemployed, as they only work for a couple of days a week, but not regularly.

The Venezuelan government started to privatise unprofitable public companies, such as CANTV, the public telephone company and Viasa, the state-owned airline.

The attempt to privatise parts of CVG failed twice, because no investor was found. The new (as of 1999) president Chavez is still willing to sell the majority of state-owned companies, such as in electricity and aluminium, except PDVSA.\(^\text{228}\)

3.4.1 Foreign trade

The composition of exports and imports is typical for mono-structured economies, that have reached a certain level of development.\(^\text{229}\) Exports are mainly based on one single raw material and its derivatives, oil.

In 1997, petroleum was 79 percent of all exports. Second and third largest were steel and aluminium, with shares of 4 and 3.3 percent.\(^\text{230}\) Imports mainly consist of machinery and manufactured goods. In 1996 for example 78 percent of all imports was the sum of basic manufacturers (leather and skin manufacture, textiles, metal and plastic industry), miscellaneous manufacturing (shoes, hats, sound recording industry, optical equipment, arms and ammunitions, and art objects), and machinery (transportation equipment, construction products).\(^\text{231}\)

\(^{228}\) N.N., 1999b.
\(^{229}\) Weise, 1989, p. 121.
\(^{230}\) IMF, 1998a, p. 94, own calculations.
\(^{231}\) Information provided by the Consulate General of Venezuela, Houston, Texas, 1999. Access via the internet under: http://www.consulvenhou.org/gimport.htm (30.03.1999) and own calculations.
The following figure gives some insight into the export composition of selected Latin American nations in 1991 and 1992. Although these figures might be a bit dated they are good for the purpose of comparing different countries with each other in the same year.

<table>
<thead>
<tr>
<th>Export composition, selected Latin American nations</th>
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<tbody>
<tr>
<td>Percent of total exports</td>
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<tr>
<td>Argentina (1992)</td>
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<td>Brasil (1992)</td>
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<td>Chile (1991)</td>
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Table 2: Export composition, selected Latin American nations.
(source: Enright, Francés, and Saavedra, 1996, p. 36)

It is interesting that except for Venezuela all the other countries that are being listed try to diversify their exports.

As already noted Venezuela’s exports are dominated by fuels. This means Venezuela’s economy is highly dependent on the international price for crude oil, making the economy very volatile and unstable by the same token to other external factors, for instance, the US dollar rate. Other products only play a minor part. The second largest figure in Venezuelan exports is made up of basic manufacture, and is a meagre 11 percent. This includes for example textiles. Indeed, Venezuela has some textile industry. Exports are usually made to neighbouring states, such as Colombia but also the USA. The reason for limited export activity in other sectors of the economy can be found in a highly protectionist state legislation that prevented foreign products entering the market.
Foreign goods can be acquired in Venezuela, but due to a high import tax, it is cheaper to “buy Venezuelan”. These goods are cheaper indeed but also worse in terms of quality and they offer less value for money. As the few Venezuelan products that existed never had to compete with international products on the domestic market, they were far too simple to penetrate other countries. Hardly any Venezuelan company tried to do it and the ones that tried, failed.²³²

It is interesting to compare the export figures on machinery and transport equipment. Mexico is ranked first with almost 32 percent, Brazil is second with 22 percent. The reason lies in the existence of huge production facilities, maquiladoras, typically owned by foreign MNCs that mainly manufacture for the demands of international markets. Especially the areas around Sao Paolo and Belo Horizonte in Brazil are famous for their huge industrial complexes, while Tijuana (Mexico) likes to boast of being “the richest town in the Third World!”

Brazil, Chile, and Peru especially managed to diversify their exports in three different areas. All three have almost equally high percentages in the export of food and agriculture on the one hand, and basic manufacturers on the other. These products are not as closely linked to international commodity prices as for example oil and other commodities. Thus these economies are not as volatile, or as subject to external influences as for example in Venezuela.

²³² For example Grupo Corimon, as told by the group’s former chief executive officer during an interview.
### 3.4.1.1 Main trading partners

The figure below provides some information about Venezuela’s main trading partners.

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<tr>
<td>Germany</td>
<td>3.7</td>
<td>2.4</td>
<td>Italy</td>
<td>4.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Japan</td>
<td>3.0</td>
<td>2.0</td>
<td>Brasil</td>
<td>4.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Brasil</td>
<td>1.9</td>
<td>1.9</td>
<td>United Kingdom</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Canada</td>
<td>2.6</td>
<td>1.1</td>
<td>Spain</td>
<td>2.2</td>
<td>2.22)</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>1.4</td>
<td>0.7</td>
<td>Canada</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.9</td>
<td>0.5</td>
<td>France</td>
<td>3.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Ten-nation Total</td>
<td>71.2</td>
<td>80.7</td>
<td>Ten-nation Total</td>
<td>83.1</td>
<td>80.5</td>
</tr>
</tbody>
</table>

1) This figure is suspect. Other sources give this figure as high as 7.2 percent. The same source as the rest of the table gives 6.5 percent in 1989 and 6.1 percent in 1991.
2) figure of 1992.


Table 3: Venezuela’s leading trading partners, 1990-1994.
(source: Enright, Francés, and Saavedra, 1996, p. 37; Consulate General of Venezuela, Houston Texas)

As it is typical for underdeveloped countries, they are heavily dependent on doing trade with the USA (as indeed are some developed countries, for example Canada). In 1992, almost 55 percent of all exports went to the United States although Venezuela used to do a lot of trade with Europe, especially with Spain, England, France, the Netherlands, and Germany in the beginning of the nineteenth century, oil shifted the importance towards the United States. These days, most of the Venezuelan crude gets shipped to North America.

It is also interesting to note that only two countries of the ten leading trading partners of Venezuela are other Latin American countries: Brazil and Colombia.

This shows that inter-Latin American trade has not been fully developed yet, although there exist many free trade agreements already, for example CARICOM (Guayana, Suriname), Mercosur (Argentina, Chile, Uruguay, Paraguay, Brazil), or the Andean Pact (Colombia, Venezuela, Peru, Equador, Bolivia).
3.4.1.2 International investment

"We were begging like children to get the contract!"233

Most of the foreign corporations went to Venezuela in the golden 1950s, 1960s, and 1970s. Money was easy to make, as the Bolivar was highly overvalued. These companies are still there, but tend to operate on the same level or even on a smaller scale. Hence, the attraction Venezuela exerted on foreign investors in the seventies could not be preserved until the 1990s. The country falls in the mid-field of the Latin American countries' priority list. Today, states like Mexico, Brazil, Argentina, Chile, Peru or even Colombia seem to be more interesting for foreigners.

### Latin America: Net foreign direct investment, 1992-1998

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>4,019</td>
<td>3,262</td>
<td>2,982</td>
<td>4,628</td>
<td>4,885</td>
<td>6,647</td>
<td>5,800</td>
<td>32,223</td>
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<tr>
<td>Brasil</td>
<td>1,924</td>
<td>801</td>
<td>2,035</td>
<td>3,475</td>
<td>9,123</td>
<td>16,601</td>
<td>22,500</td>
<td>58,459</td>
</tr>
<tr>
<td>Chile</td>
<td>538</td>
<td>600</td>
<td>1,672</td>
<td>2,220</td>
<td>3,561</td>
<td>3,467</td>
<td>2,500</td>
<td>14,556</td>
</tr>
<tr>
<td>Colombia</td>
<td>679</td>
<td>719</td>
<td>1,501</td>
<td>1,943</td>
<td>3,208</td>
<td>5,192</td>
<td>2,625</td>
<td>15,867</td>
</tr>
<tr>
<td>Mexico</td>
<td>4,393</td>
<td>4,389</td>
<td>10,973</td>
<td>9,526</td>
<td>9,189</td>
<td>12,748</td>
<td>9,300</td>
<td>60,518</td>
</tr>
<tr>
<td>Peru</td>
<td>136</td>
<td>670</td>
<td>3,083</td>
<td>2,048</td>
<td>3,242</td>
<td>2,030</td>
<td>2,070</td>
<td>13,279</td>
</tr>
<tr>
<td>Venezuela</td>
<td>473</td>
<td>-514</td>
<td>136</td>
<td>686</td>
<td>1,676</td>
<td>4,611</td>
<td>3,145</td>
<td>10,213</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total (in Mio. US$)</th>
</tr>
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<tr>
<td>Seven-nation</td>
<td>12,162</td>
</tr>
<tr>
<td>Total</td>
<td>9,927</td>
</tr>
<tr>
<td>1992</td>
<td>22,382</td>
</tr>
<tr>
<td>1993</td>
<td>24,526</td>
</tr>
<tr>
<td>1994</td>
<td>34,884</td>
</tr>
<tr>
<td>1995</td>
<td>53,296</td>
</tr>
<tr>
<td>1996</td>
<td>47,940</td>
</tr>
<tr>
<td>1997</td>
<td>205,117</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>3.9</td>
</tr>
<tr>
<td>-</td>
<td>7.7</td>
</tr>
</tbody>
</table>

(source: ECLAC, 1998, p. 96)

The graph shows that Venezuela holds a minor stake in foreign direct investment in Latin America; only 6.6 percent of FDI in the six largest markets in Latin America go to Venezuela. The positive effects and the importance of this type of investment in the case of Venezuela are explained in Harrison (1996):

233 Interview with a German manager who used to do business in Venezuela in the 1970s. This quotation was taken when he talked about the rush for FDI into Venezuela during the Saudi times.
Joint ventures and plants with foreign equity participation tend to export more than their domestic counterparts, exhibit a technological edge, higher levels of total factor and labour productivity, and pay higher wages. Harrison’s investigation (1996) did not find evidence that technology spills over from foreign to domestic firms in Venezuela.  

The following chart shows that foreign direct investment in Venezuela in 1997 was limited to three sectors: petroleum (the privatisation of some marginal oil fields allowed private companies to explore and exploit crude oil), telecommunications, and banking. At least the first two were caused by privatisation initiatives.

This means that state initiatives were almost the only means of drawing foreign money into the country. There is hardly any FDI in consumer goods, electronics, the automobile industry, construction, or agriculture.

This stands in sharp contrast to other Latin American countries. In Argentina, Brazil, Mexico, Central America, and the Caribbean, capital has been invested in the private manufacturing sector as well.

Figure 6: Distribution by sector of FDI inflows in Latin America, 1997.
(source: ECLAC, 1998b, op. 11)
3.4.2 Structure of the economy 1999 – white elephants, family conglomerates and one-man-shows

Government is still a leading actor in the economy, shaping industry structure and setting the rules in the game of business.\textsuperscript{235}

Venezuelan industry is marked by a twofold distribution of company sizes. Either there are large firms (9.3 percent of all manufacturing firms), with more than 150 employees, generating 63 percent of manufacturing employment and 86.1 percent of manufacturing value added as of 1991, or there are small firms (about 66 percent) employing 10 to 50 people, accounting for 15 percent of manufacturing employment, and 3.8 percent of manufacturing value added.\textsuperscript{236}

Another significant characteristic, that runs through all levels and sizes of companies, is the high degree of vertical integration. It is a measure to protect companies from an uncertain environment, deficient infrastructure, and lack of information. Caused by a shortage of outside suppliers, companies are sometimes forced to be their own suppliers. On the sale’s side, the story is pretty much the same, because distribution channels tend to be much longer than in the more industrialised countries.\textsuperscript{237}

In Austin’s view (1990), private and public business tends to be highly concentrated in developing countries due to “the scarcity of financial and management resources, inadequate physical and social infrastructure, deficient information, ... and institutional weaknesses” impeding “the functioning of economic and political markets.”\textsuperscript{238} The businesses are also highly concentrated in geographic terms.

Even at the end of this millennium industry in Venezuela is still mainly located in the central region between Caracas and Valencia, the Region Centro-Norte-Costera, having the Area Metropolitana de Caracas as its centre. In 1980 for example 2.4 percent of Venezuela contained 37 percent of the population, 67 percent of all manufacturing and 75 percent of all industrial workers.\textsuperscript{239}

It is mainly consumer goods that are produced there, focussing on import substitution items, including textiles, leather, paper, tyres, tobacco, light engineering products, and modern appliance items, such as radios, television sets, and washing machines.

\textsuperscript{235} see chapter on the history of economy; Borcherdt, 1980, p. 240, calls the state “uno de los empresarios más grandes del país”.

\textsuperscript{236} Enright, Francés, and Saavedra, 1996, pp. 13-14.

\textsuperscript{237} Berlin, 1996, p. 849; Austin, 1990, pp. 263, 290; the beer industry will be examined to a deeper extent in the section about private economic groups.

\textsuperscript{238} Austin, 1990, p. 141; see also Infoamericas, 1998b, p. 1.
A second industrial group, oil refineries and associated petroleum plants are centred at Morón near Puerto Cabello and in Zulia state, Maracaibo. Finally, the complex of heavy industries at Ciudad Guayana and Puerto Ordaz in the Orinoco-Caroni region forms the third industrial group in geographic terms.\textsuperscript{240}

3.4.2.1 State owned companies

The industries of oil, gas, and iron ore are tied to the state by law. In fact, many others are in the public sector, as well, such as steel, aluminium, electric power, communications, airlines, mining, petrochemical, fertiliser, and milk.\textsuperscript{241}

In the next section the two biggest public companies will be examined, namely: PDVSA and CVG.

3.4.2.1.1 High vertical and horizontal integration in the oil business – The conglomerate called "PDVSA": Company No.1 in Venezuela

Venezuela's economy is still run on oil. It is still controlled by the state-owned company PDVSA. The whole value chain of PDVSA seems to be vertically integrated, forward and backward, as will be shown in the following. In the 1980s Petróleos de Venezuela started to invest in foreign companies in order to secure its sales potential in the overseas downstream market. This scheme was called "downstream investment abroad" with the strategic objective of diversifying global sales, securing access to important foreign consumer markets, and keeping up-to-date with technological standards.\textsuperscript{242}

Thus in 1983 a joint venture was established with VEBA Oil, Germany, called Ruhr Oel GmbH, the largest refining company in Germany, which supplies this market with oil products and chemicals. Three years later 50 percent of the shares were acquired from Nynas Petroleum, Sweden, a daughter of Axel-Johnson Refinery, which operates refineries in Sweden, Belgium and the United Kingdom. Additionally, PDVSA owns 50 percent of the shares of CITGO, USA, a daughter of Southland Corporation of the USA.

\textsuperscript{239} Borcherdt, 1980, p. 217; Kulinat, 1980, p. 243; see also chapter on patterns of settlement.  
\textsuperscript{240} Encyclopaedia Britannica Online, 1999a, p. 4. 
\textsuperscript{241} Enright, Francés, and Saavedra, 1996, p. 15. 
\textsuperscript{242} Weise, 1989, pp. 66, 83.
this being the third-largest gasoline supplier in the USA, and the largest in terms of the number of sales outlets.

In 1987 the same relative amount in shares was bought in Champlin-Refineries in Corpus Christi, USA. In 1997 Venezuela invested DM 700 million to participate in petroleum refinery in Schwentd, Germany, making Venezuela the most significant Latin American investor in Germany.243

In 1997 PDVSA was the largest corporation in Venezuela, contributing 78 % to all exports and 26 % of the GDP, generating 57 % of all fiscal revenues. It is also the largest supplier of oil to the United States. PDVSA is third in refining capacity and fourth in production capacity in the world.244 Thus it is fair to say, that PDVSA differs from the average state-owned company. It seems to be a "well-run, imaginative, and aggressive oil company, integrated horizontally and vertically."245

Until 1997 PDVSA was a holding company, consisting of three separate companies: Corpoven, Maraven and Lagoven.

Each of them was a fully integrated oil company whose functions included exploration, development, production, refining and transportation, as well as domestic distribution and exports. Each company had its own board and management structure, its own corporate identity and corporate culture.246 PDVSA had a buffer function to absorb and deflect "political pressures, thus ensuring that the operating companies would remain performance-oriented, and that they would continue to be run in accordance with the soundest managerial and technocratic principles."247 By the end of the nineties, the structure caused inefficiencies and gave rise to internal conflicts.

When Roberto V. Mandini became president of PDVSA, he announced a new corporate structure to push forward the transformation begun in 1997. The three companies were broken up and merged into PDVSA. As a result of this transformation, PDVSA anticipated "that more advantages and substantial savings ... convert into a significant increase in value to the shareholder ... as an integrated corporation."248 One outstanding feature was the reduced number of board members, having line responsibilities as well as traditional corporate responsibilities.

244 Burelli, 1997, ot. 36.
246 Bottome, 1999d, p. 31.
247 ibid., 1999d, p. 32.
Most of the members of the board of directors joined the company between 1975 and 1980. Some of them hold higher degrees from North American or European universities. Hector Ciavaldini, for example, the new head of planning and member of the board, obtained a Ph.D. from the University of London in the combustion of hydrocarbons. But there are also two vice presidents who are active colonels in the Venezuelan Army. At the moment of the appointment to PDVSA one of them was in charge of the Armed Forces Central Hospital in Caracas.

Mandini himself is a civil engineer, who graduated from the University Central de Venezuela in 1961. He joined Creole Petroleum in the same year as a civil engineer in the Western Division. In 1963 he received a scholarship from the Company, and obtained a Master's Degree in Mechanical Engineering from the University of California at Berkeley. In 1965 he rejoined Creole, where he held technical, operational, and managerial responsibilities in the Western and Eastern Divisions. Once the oil business was nationalised, Mandini continued his career with Lagoven, the Creole successor, until he was named Production Co-ordinator at PDVSA in 1980. In 1981 he was appointed member of the Board of Lagoven, Vice-President of Meneven in 1985, Vice-President, then President of Corpoven in 1986, and Executive Vice-President of Citgo Petroleum Corporation in early 1995, holding this position up to the moment of being named President of PDVSA.

On the other hand, many issues were emerging: PDVSA lost its entity as a buffer, different organisational cultures clashed, board members were “both judge and jury when it came to evaluating their performance.”

However, an impossible situation was created, because board members no longer had time to think about long-term policy and strategy and—in effect— they were responsible for evaluating their own performance.

When Hugo Chávez took presidential office, the organisational structure and executive level staffing was changed once more. The functions and the operating divisions have been separated again. PDVSA is responsible for defining policy, setting goals and evaluating performance, and the operating divisions being responsible for getting the job done.

249 more information about CVs of board members available in the internet: www.pdvsa.com.
250 Bottome, 1999d, p. 33.
251 ibid., 1999b, p. 1.
The habit of changing posts is something that shows the relationship and the overlap between the state and state owned companies, and the considerable influence the government has on the economy. Mandini had to resign and Héctor Ciavaldini was appointed as president of PDVSA, although he never held an executive position in the industry. In fact, many people that were questioned were rather worried about the likelihood of a process that would "politicise" PDVSA as a company.

The following chart shows the highly vertically and horizontally integrated structure of PDVSA.

In the following paragraph some of the most important organisations of PDVSA will be introduced. The functions of CIED (Centro Internacional de Educación y Desarrollo), a subsidiary of PDVSA responsible for professional development and education, compromise executive, professional, technical level and crafts education and training. These functions are carried out by its three branches: the Managerial Development Institute, the Institute for Professional and Technical Development, and the Industrial
The structure of Venezuelan economy

Training Institute. The majority of the courses offered are open to other national and international companies, specially to those with activities related to the oil business.\textsuperscript{252} Another institution is INTEVEP (Instituto Venezolano de Investigaciones Petroleras). It "serves as the research and development institute for the Venezuelan petroleum and petrochemical industries ... to minimize the technological dependence of those industries on foreign sources."\textsuperscript{253} Then there is Bariven, responsible for the purchase abroad of equipment and materials required by PDVSA and its subsidiaries.

PDVSA manufacturing and marketing is in charge of crude refining activities and the manufacture of products and their marketing. It supplies the national and international markets, and is also responsible for the marketing of natural gas and marine transportation, while participating in hydrocarbons industrialisation projects. Finally, PDV Marina is responsible for maritime transportation activities.\textsuperscript{254}

Employees of PDVSA are considered to be working in a secure environment, not having to worry about being made redundant, earning above-average wages and enjoying excellent fringe benefits in areas such as health, housing in company-owned condominiums, including clubs, and company stores or subsidised shopping malls.\textsuperscript{255} According to a Venezuelan manager,

"PDVSA is not a typical example of a state-owned company. A certain level of pragmatism is prevalent, and it pays attention to productivity. In the normal state enterprises it is mainly politics that you pay attention to."

A German manager who has been dealing with state-owned companies in Venezuela for almost 30 years, comes to a similar conclusion:

"PDVSA has never been a state company, Venezuelan style, because it has been inspired by American or US-trained personnel. There are Americans, who continued to stay in the country after nationalisation and are employed by PDVSA, but have more drive due to their roots, education, and mentality."

\textsuperscript{252} see also Resumen de Actividades, CIED, 1996.
\textsuperscript{253} Coronel, 1983, p. 91.
\textsuperscript{254} Bitumenes Orinoco S.A., p. 29.
\textsuperscript{255} N.N., 1999a; Morrisson, 1994, p. 100.
3.4.2.1.2 CVG

The Corporación Venezolana de Guayana was formerly established to co-ordinate the industrial development of the Guayana region. It currently includes the following companies in certain fields:

Aluminium sector: ALCASA, producing primary aluminium and semi-finished products; VENALUM, the nation’s largest aluminium producer; BAUXILUM, producer of bauxite; and CARBONORCA, a producer of carbon anodes for primary aluminium reduction, where BAUXILUM and VENALUM are the primary shareholders.

Iron and steel sector: Fesilven and SIDOR. The privatisation-process of SIDOR was completed in 1997. 70 percent of the shares went to Consorcio Amazonia (Argentina, Brazil, Mexico, and Venezuela), covering SIDOR’s debts of 640 million US$, 1,202 million US$ went to the state.

Gold-mining sector: Minerven.

Forestry: Proforca.

Infrastructure: Ciudad Guayana Bridge, North Bank Road between the New Bridge and the existing Ciudad Bolivar Angostura Bridge, and Ciudad Guayana airport.

Energy sector: EDELCA, the nation’s largest electric company, obviously supplying electricity to the CVG holding company. In accordance with the “Agenda Venezuela” a massive privatisation process began. The investment portfolio included every production facility in which CVG holds a major or a minor participation, except for the companies EDELCA and Ferrominera del Orinoco, hydroelectric generation and iron-ore exploitation operations, respectively. Because the scheme “Agenda Venezuela” was began by the former president Caldera, it was stopped immediately after the newly elected president Hugo Chávez came to power in 1999.

Like PDVSA, CVG is marked by a high level of vertical integration. Enright, Francés, and Saavedra (1996) say, that it is “integrated from iron ore to finished steel.” Unlike PDVSA, although exporting as well, it is not a competitive industry. The total costs being caused by Venalum and Alcasa are not known to a full extent, due to hardly

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256 Bauxiven, Interalúmina merged into Bauxilum in 1994.
257 Venalum: 39.43 percent; Bauxilum: 51.81 percent, CVG: 8.76 percent.
258 BfAi, 1998b, p. 3.
259 Information provided by CVG, according to: www.cvg.com (15.07.1999).
The structure of Venezuelan economy

transparent accounting measures. It is sure that the reported losses since 1991 onwards only show parts of the whole story and are one of the main reasons why almost all of CVG’s subsidiaries are on offer for privatisation.

This financial misery might be caused by the way of staffing, as explained by a German manager who has dealt with public companies in Latin America for more than 20 years.

“CVG like Corpozulia are institutions that people got pushed into, in the way we push people into the European Parliament. When they are not useful anymore, then they go to the CVG. It is stuffed with old-school ejecutivos and politicians, who all sit in there firmly via family, party or other ties.”

As CVG still has a strong influence on the economy and on business in general, it is important to work with them together, especially if a company wants to make an investment into a huge project. Even though they might not be efficient, they are the ones who decide whether the supply, i.e. with water, electricity, or infrastructure, functions to your benefit or not.

3.4.2.2 The private sector

As mentioned earlier on, Venezuelan companies were heavily subsidised during the 1970s and 1980s, and thus found it very hard to adjust to the uncertain world of international competition. Authors like Naim and Francés are convinced that Venezuelan private firms will have to undergo “an almost complete revamping of their traditional ways of doing business” in order to be competitive in a growing international, and global business environment.261 This seems to be a daunting task, because the private sector was almost solely created by the state.

Thus the public and the private sector are closely linked at least in some areas of industry and commerce.262

3.4.2.2.1 Grupos económicos

A second type of typical Venezuelan company are the large family-owned and family-controlled business groups. There are about fifteen of them in Venezuela who are also said to govern the country economy-wise. According to Blutstein (1977), the “large

262 the close relations between private enterprises and the state and its impact on doing business will be discussed later on in the chapter about bureaucracy.
number of family owned businesses points up the dominance of the upper class in the overall economic system.\textsuperscript{263} They grew during the times of a small, protected domestic market, and built the big industries financed by the state at the end of the 18\textsuperscript{th} century. The conglomerates are marked by vertical integration and diversification in more than one sub-sector of industry, and in commerce and banking as well.\textsuperscript{264} According to Austin (1990),

“A business group is defined as a large, multi-company association that operates in different markets under common financial and management control and maintains a relationship of long-lasting trust and co-operation among group members.” (p. 126)

Business groups, being common in Asia, Latin American, and African countries as well, tend to be diametrically opposed to multinational companies, because they are “diversified in their activity but geographically concentrated, whereas MNCs are generally diversified geographically but concentrated in their activity.”\textsuperscript{265}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{private_industrial_groups_1999.png}
\caption{Private industrial groups 1999. (source: Enright, Frances, and Saavedra, 1996, pp. 16, 76)}
\end{figure}

\textsuperscript{263} Blutstein, 1977, p. 60.
\textsuperscript{264} Enright, Francés, and Saavedra, 1996, p. 2.; Naim and Francés, 1994, p. 166; Vasconi, 1980, p. 200; Allen, 1977, p. 237; see chart; see also chapter on society.
\textsuperscript{265} Austin, 1990, p. 126.
These groups are characterised by a highly concentrated ownership, generally managed by one family or a small number of families. Managers were mainly recruited by the founder, being either direct descendants or relatives by marriage.\textsuperscript{266}

Traditionally, they have control over sectors like beer, liquor, edible oil, textiles, apparel, footwear, leather, wood processing, and furniture. They are also strong in intermediary products such as cement, tiles, paint, construction materials, pulp and paper and graphics industries.\textsuperscript{267}

According to Naim (1989), this leads to a tight network of family ties between managers and other influential people in all sectors of industry.

As one can conclude from the figure shown above, the Phelps and the Cisneros (ODC - Organización Diego Cisneros) group are both engaged in the broadcasting sector. Both companies own one of the leading beauty contests. The “Miss Venezuela” contest is shown on the “Channel of Beauty” of Venevisión, belonging to ODC, “Chica 2001” is connected to Radio Caracas Televisión (RCTV), which is owned by the Phelps group.\textsuperscript{268} As most of the Latin American beauty queens come from Venezuela, Enright, Francés, and Saavedra (1996) conclude that competition among private investors proves “a powerful engine of growth for Venezuelan television broadcasting.”\textsuperscript{269}

Private companies are usually financed through retained earnings, capital parked in a foreign country, or loans from either friendly banks or their own banks. Some of them are listed on the Caracas Stock Exchange, such as H. L. Boulton y Cia., S.A.C.A.

We will now take a closer look at the beer industry to give an example of vertical (forward) integration into wholesaling.\textsuperscript{270} The beer market in Venezuela is practically monopolised by one company, Grupo Polar. This brewer shares 85 percent of a market that ranks eighth in world consumption per head (80 litres per year), and also distributes 95 percent of all beer produced in the country through a highly controlled distribution network:

Four manufacturing plants produce beer and forward it to eight distribution companies. They bring it to eighty Polar-owned warehouses, who then sell the product to two-

\textsuperscript{267} Naim and Francés, 1994, p. 168.
\textsuperscript{268} Enright, Francés, and Saavedra, 1996, p. 55.
\textsuperscript{269} ibid., 1996, p. 71.
\textsuperscript{270} The following case study is taken from Valverde, 1992, pp. 8-9, 12.
thousand owner drivers, who act as independent salesmen, carrying the beverage to 111,355 retail outlets. The owner drivers are linked to the producer by long-term exclusive-dealer contracts.

These represent a formidable entry barrier to new competitors, and therefore lead to reduced consumer choice. Several unsuccessful attempts were made to get a foothold in the market, by companies like Brazilian Brahma. The joint venture of Cervecería Regional (Organización Cisneros) and Canadian Labatt Brewing Companies was eventually disbanded.

Grupo Polar holds large market shares in the following industries: maize oil: 90%, snacks: 75%, maize flour: 67%, ice cream: 60%, malt beer: 60%, and rice: 35%, according to CAVENAL (1998a). In the late 1980s Polar started to export its products to North America to enhance efficiency, making it one of the world's fifteen largest breweries.

3.4.2.2.2 Foreign Multinational Firms

It is very difficult for small Venezuelan businesses to grow, because financial resources are sometimes hard to obtain, venture capital does not exist. One way to grow, is by relying on foreign direct investment. Thus many international companies have either established subsidiaries or joint ventures with local firms. Foreign ownership may exceed 51 percent of the capital stock in all non-reserved sectors. In spite of legal barriers limiting foreign ownership, dominant JVs can be found in global industries such as automobiles, appliances, glass, tobacco, soft drinks, consumer electronics, pharmaceuticals, and detergents and personal hygiene. This includes the following firms: General Motors, Ford, Fiat, Renault, Toyota, General Electric, Philips, Owens Illinois, Guardian, Phillip Morris, American Tobacco, Pepsi-Cola, Coca-Cola, Sony, Philips, Matsushita, Procter and Gamble, Colgate-Palmolive, Nabisco, Nestle, Kraft, Heinz, Del Monte, Ralston-Purina, and Cargill. Services like radio broadcasting and television, newspapers and magazines in Spanish, and professional, consulting, and advisory services are reserved for nationals. “Foreign investors are limited to supplying

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271 CAVENAL, 1998a, p.11.
272 Mortimer, 1990, ve0055/2.
technology to the Venezuelan companies operating in these areas. All the big international auditing companies, banks and insurance companies have subsidiaries there, e.g. Citibank, PricewaterhouseCoopers, or KPMG.

3.4.2.2.3 Small businesses and informal sector producers

The second group is defined as small enterprises, such as street vendors, tailors, shoemakers, repairmen, light manufacturers, that are operated by individuals or families and are not legally constituted, forming an integral part of the economy. Sometimes they are used as subcontractors by the formal sector, e.g. as a supplier for the automotive industry.

Another group is made up of small businesses. Some of them are little factories with 20 to 30 employees. As companies are often forced to buy raw materials or tools from abroad, they tend to have a bank account in Miami or Curacao to be able to make necessary imports. It is also a means to secure the stability of their assets. Parts of the business process take place in Miami: Payment, shipping, export, and import.

Another interesting fact is, that almost everyone who does small scale business tends to have more than one company or at least owns titles in other firms, being gerente general of company X and gerente de ventas of company Y at the same time.

It probably serves as a means to minimise the risk of loosing everything if one only has one company to fall back on.

3.4.3 Strengths – What are they good at?

"To be honest, in nothing, really." Although the process of real industrialisation has never taken place in Venezuela, because of the windfall gains of oil, there are still some industries, in which Venezuela has the chance of developing some strength and excellence.

The following chart provides a good summary of those industries, that do have competitive advantages. It also shows, where these bonuses come from. It is obvious, that the reliance on inherited factors is dominant, while other sources of advantages like

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275 Austin, 1990, p. 135.
276 This answer was frequently given by Venezuelan managers in Venezuela, when asked, what they think Venezuelans are good at.
created factors, demand conditions, related and supporting industry, firm strategy and structure, or rivalry, have been neglected to a great extent. According to Austin (1990), this is a LDC phenomenon.

Usually, these countries tend to rely more heavily on natural resources than developed states. This again serves as a great disadvantage, because the nation’s ability to develop the human, knowledge, and capital resources vital to improve economy’s productivity seems to be limited. The country’s economy is also dependent on external factors, principally the world prices for commodity goods.

<table>
<thead>
<tr>
<th>Sources of advantages in Venezuelan industry</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Resource-based Oil</td>
</tr>
<tr>
<td>Petrochemicals</td>
</tr>
<tr>
<td>Steel</td>
</tr>
<tr>
<td>Aluminium</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Rice</td>
</tr>
<tr>
<td>Cocoa</td>
</tr>
<tr>
<td>Pulp, Paper</td>
</tr>
<tr>
<td>Import Substitution Textiles</td>
</tr>
<tr>
<td>Autos &amp; Auto Parts</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Tourism</td>
</tr>
<tr>
<td>Talent-based Engineering</td>
</tr>
<tr>
<td>Software</td>
</tr>
<tr>
<td>Telenovelas</td>
</tr>
</tbody>
</table>

Table 5: Sources of advantages in Venezuelan industry.

Compared to the pattern of Swiss businesses, there a big differences. Switzerland, like Germany, is a country, that does not have any significant amounts of natural resources and raw materials. Therefore, they always had to built their export base upon human resources rather than natural endowments.

It is also worth mentioning, that the Swiss market itself is rather small and not interesting in terms of sales. It has also achieved a degree of *de facto* protection (high entry barriers arising naturally) through its decentralisation (Lawrence and Edwards,

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277 Austin, 1990, p. 42.
Swiss companies soon noticed that they can only be successful if they are competitive in global terms and if they see the world as their "home" market (e.g., Nestle, Swatch, Ciba Geigy).

It seems also, as if a high level of rivalry in the domestic market stimulates growth, expansion and inventiveness (watches, pharmaceuticals). This again leads to a high level of state-of-the-art industrialisation and economic development.

Venezuelan companies never had to be efficient and competitive due to import substitution. Thus, if one is not competitive in the domestic market, it is impossible to be competitive globally.

Enright, Francés, and Saavedra (1996) identify clusters of competitive industries. A cluster consists of buyer, supplier, and related industries. It is important because national industries and economies tend to grow through their development.

A good example is the German automotive industry, consisting of a large number of successful car manufacturers, a vast number of suppliers of automotive parts, and a highly competitive domestic market.
Venezuela has only a few clusters of competitive industries.\textsuperscript{278} One of them, is the mass media entertainment cluster. Related industries are fashion, modelling, beauty pageants, TV and commercial production, advertising (including agencies, such as J. Walter Thompson and Saatchi & Saatchi), broadcasting, telenovelas, and music.

Some clusters can be identified in technology. According to Austin (1990), there are three aspects in LDCs that stand out: "The technological level is low, technological development is concentrated, and technological sources are foreign."\textsuperscript{279} It is quite true for Venezuelan industry. Although the steel industry cannot be called competitive on the whole, there are some areas, where Venezuela has advantages compared to other countries. It is the world's leading producer of DRI – direct reduced iron (direct reduction is an iron making process, which utilizes natural gas to reduce iron ore to produce Direct Reduced Iron, DRI).\textsuperscript{280}

Another competitive cluster, of course, can be identified in the sector of petroleum and petrochemicals.

3.4.4 Weaknesses

3.4.4.1 Manufacturing

In the 19\textsuperscript{th} century up to the Second World War, manufacturing activities were very limited because the demand for manufactured goods was low. In 1920, for instance, about 70 percent of the population had negligible purchasing power for manufactured or foreign-made products.\textsuperscript{281} The necessary goods were by and large handcrafted by local artisans. In 1910, only very small factories existed in the following fields: a textile mill in Valencia, two breweries in Caracas and Maracaibo, a Caracas match factory, and a couple of cigarette and cigar factories in Caracas. It clearly shows, that Caracas dominated from the beginning. These branches of industry grew slowly until the 1940s.\textsuperscript{282} Due to the establishment of large oil refineries and war-related import restrictions, an industrial expansion occurred between 1948 and 1958, being focussed on the domestic market. By adopting a large import substitution programme at the

\textsuperscript{278} Enright, Francés, and Saavedra, 1996, p. 262.
\textsuperscript{279} Austin, 1990, p. 56.
\textsuperscript{280} Enright, Francés, and Saavedra, 1996, pp. 126, 131-132.
\textsuperscript{281} Karlsson, 1975, p. 59.
beginning of the 1960s due to the performance of petroleum, the food and textiles industries increased their shares of the manufacturing output again.\textsuperscript{283}

It is important to know, that in these branches of industry, the level of market power concentration is very high. For example, Cervecería Nacional was established in 1925, dominating the country's beer production for several years. When Cervecería Polar was founded in 1941, pushing successfully into the market, the two companies managed to dominate the malt beverages' industry (each of them held 45\% of the market sales) as a duopoly from the mid-1950s on.\textsuperscript{284} The main factories were based in Caracas and Barcelona (city in Venezuela, east of Caracas).

The capital goods industry and the whole supplier industry have still not matured. This poses problems for guaranteeing a smooth workflow. As a manager of a machinery business declared,

"everything needs to be imported more or less. It starts with really basic things. ... Screws are sometimes not available in the quality we need and have to be imported."

One reason for it, according to Borchert (1980) is that a strong manufacturing industry needs powerful purchasers at the outset.\textsuperscript{285} Venezuela might be 2 and a half times the size of Germany, but it only has a quarter of the population, mainly people who live close to the poverty line, thus not forming a target for producers.

Another reason might be that Venezuela still concentrates on oil, while secondary industries are neglected.

3.4.4.2 Monetary system

3.4.4.2.1 Banks

In 1993 there were 50 commercial banks with about 2,000 branches; by 1997 there were 30 with 1,116 branches throughout the country. The number of finance companies (leasing firms) went down from 47 (36) to 15 (12) in the same period, while universal banks rose from zero to 10.\textsuperscript{286} By Venezuelan law these banks are "authorised to carry
out simultaneously any operation otherwise reserved to a specific type of financial institution.\textsuperscript{287} These changes in the structure of the banking system occurred as the result of a financial sector reform programme in 1994 and 1995 strengthening bank regulation and supervision after the banking sector had collapsed.

It all began early in the 1970s, when Venezuelan banks started to expand into foreign countries made possible due to huge oil profits. This made it easier and actually encouraged people to park revenues in foreign accounts and to move savings abroad.\textsuperscript{288} Capital flight was considered an effective measure to avoid the risk of losing money due to inflation. Foreign ventures also facilitated placing government funds in foreign markets as well. They were considered to be less risky, politically and economically.

This lead to a large and non-supervised off-shore banking system, as well as a substantial share of off-balance sheet operations in the domestic banking system. It was saddled with problems, such as very high levels of insider lending and loan concentration. Insiders who knew the true conditions of the banks were given hints to withdraw their funds ahead of a possible government intervention, still receiving 30 to 40 percent interest rates. At this point in time, the banking system was composed of a large number of specialised banks, belonging to financial groups. They were owned by a few individuals, because of the allowances made by the legal framework in place at the time. Some of the banks were also considered to be the house-banks for industrial groups, engaging in questionable activities such as “making loans to affiliated companies or individuals without proper guarantees or credit analysis, accounting gimmicks, manipulating loans in order to gain control of client companies, and failing to acknowledge and to reserve for non-performing loans.”\textsuperscript{289}

The oligopolistic structure of the banking system contributed to reducing the power of the supervisory authorities by publishing faked data. To put it simply: They were outside the control of the Superintendence of Banks.\textsuperscript{290}

Due to lack of supervision, this fraud continued for several years, making this incredible banking crisis possible. Other Latin American countries like Argentina or Brazil had to cope with the same problem as well, and were even more affected than Venezuela.

\textsuperscript{287} Price Waterhouse, 1997, p. 37.
\textsuperscript{288} García-Herrero, 1997, p. 11.
\textsuperscript{289} Enright, Francés, and Saavedra, 1996, p. 229; see also Schaeffler, 1996, pp. 249-250.
\textsuperscript{290} García-Herrero, 1997, pp. 51, 55.
But in Venezuela, because the monetary authorities, i.e. the central bank, provided liquidity to the banks without any condition, nor thoroughly assessing the banks' true financial situation or changing the management, the issue became even worse.\textsuperscript{291}

The crash began, when second largest bank in terms of deposits, Banco Latino, crashed in January 1994. The government nationalised it in April that year. Only two months later another eight financial institutions were closed (e.g. Banco de Venezuela, the third largest), making up 40 percent of total deposits.\textsuperscript{292}

By the end of 1994 several other banks were converted from private to government ownership or shut down, transferring their deposits, including off-balance sheet deposits, to the banks nationalised during the crisis.\textsuperscript{293} The changes can be seen in the following figure.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
 & December 1993 & December 1994 & September 1996 \\
\hline
Private banks \textsuperscript{1)} & 90.2 & Private banks & 58.4 \\
Public national banks & 3.1 & Public national banks & 4.4 \\
Foreign banks & 0.7 & Foreign banks & 1.7 \\
Regional (public) banks & 6.0 & Regional banks & 7.6 \\
\hline
\end{tabular}
\caption{Venezuela: Structure of the banking system, 1993-1996.}
\label{tab:structure banking system}
\end{table}

In 1996 a macroeconomic programme was announced, because the banking sector was still affected by the crisis. It aimed at strengthening supervision and regulation, re-privatising nationalised banks, and strengthening the capital base of private banks.\textsuperscript{294}

\textsuperscript{291} ibid., 1997, pp. 12, 15.
\textsuperscript{293} Garcia-Herrero, 1997, p. 62.
\textsuperscript{294} IMF, 1998a, p. 19.
Under the supervision of FOGADE (national, public Guarantee Fund for Deposits and Bank Protection), Banco Venezuela was bought by Banco Santander of Spain and Banco Consolidado by INFISA of Chile, stimulating international competition, this being the “best guarantee for an efficient and healthy banking system.”

Foreign Banks have a market-share of 46% in Venezuela, this being the highest of all the Latin American countries. Brazil: 20%, Mexico: 18%, and Colombia: 29%. The percentage in Venezuela is impressive, if one considers the fact that foreign banking was at 5 percent in November 1996. According to Sandoval (1997, p. 28) other banks hold minor stakes in local entities, Spanish Bilbao Vizcaya bank has 40 percent in Banco Provincial. Furthermore, foreign banking institutions deliver expertise to the local market that may not have existed before, and they bring the financial strength of the parent institution.

According to Bottome (1999a), there is no possibility that the crisis from 1994 and 1995 will be repeated, because regulation has become better, banks have been better managed and capitalised. A big problem especially for small and medium-sized companies, however, are the high interest rates, being at around 50 (fifty !) percent.

### 3.4.4.2.2 Capital markets and currency

In 1969 0.3 percent of the country's corporations had more than 50 shareholders, 94 percent had 6 shareholders or fewer. This phenomenon was strengthened by the petroleum boom in 1974 and 1975, bringing excess liquidity into the monetary system, being held mainly by a few large financial institutions. The majority of new investors, businessmen and professionals, came from the same group of people that already dominated the country.

As can be concluded in the chart below the Venezuelan stock market is relatively underdeveloped compared to the stock exchange in Buenos Aires, Brazil, Chile, or Mexico. Its market capitalisation can better be compared with countries such as Colombia, or to a lesser degree, Peru.

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295 Casas-Gonzalez, 1997, p. 2; see also BfAi, 1998b, p. 6.
296 Gavin and Hausmann, 1997, p. 27.
297 Bottome, 1999a, pp. 11-12.
The structure of Venezuelan economy

The listed companies include many of the largest private sector corporations, creating relatively narrow, thin, and risky financial markets. Only a few Venezuelan companies had access to international capital. In 1992 for example only 66 companies were listed.

What is needed to attract more long-term national and international private investment are lower interest rates, deeper equity markets, banking reform and better supervision. Enright, Francés, and Saavedra (1996) state that “informal reports from experts have indicated that two people working together could probably manipulate a single stock ... and that three people ... could move the whole market.”

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Table 8: Stock markets, selected Latin American nations.

<table>
<thead>
<tr>
<th>Number of listed companies 1992</th>
<th>Argentina</th>
<th>Brasil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Mexico</th>
<th>Peru</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>175</td>
<td>1.158</td>
<td>245</td>
<td>80</td>
<td>195</td>
<td>287</td>
<td>66</td>
</tr>
<tr>
<td>Market Capitalization (million US$) 1992</td>
<td>18,633</td>
<td>45,261</td>
<td>29,644</td>
<td>5,681</td>
<td>139,061</td>
<td>2,630</td>
<td>7,600</td>
</tr>
<tr>
<td>Market Capitalization / GDP 1992</td>
<td>0.08</td>
<td>0.11</td>
<td>0.76</td>
<td>0.14</td>
<td>0.42</td>
<td>0.08</td>
<td>0.15</td>
</tr>
<tr>
<td>% of LA. Market Capitalization 1992</td>
<td>9</td>
<td>18</td>
<td>12</td>
<td>2</td>
<td>57</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: IFC (1993), IMF Financial Statistics

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300 Enright, Francés, and Saavedra, 1996, p. 233, but see also pp. 93 and 228.
This chart summarises the developments of the exchange rate, the inflation rate and the crude oil price in Venezuela. Although the devaluation of the Bolivar happens rapidly, it is widely believed by economic analysts that the Venezuelan currency is overvalued by 50 percent.\textsuperscript{301}

\subsection*{3.4.4.3 Physical infrastructure}

Infrastructure can be subdivided into two parts: Physical and informational. The deficient situation of the latter was mentioned earlier on. The section will largely deal with the physical one, as this poses a major constraint to economic and societal development.

\subsubsection*{3.4.4.3.1 Unevenly developed: Industrial hot-spots versus rural areas}

Highly attractive zones, including Caracas, the country's commercial, bureaucratic, and service centre, the adjacent north central states, a flourishing manufacturing and

\textsuperscript{301} Interviews with managers of banks, economic advisers, and consultants.
industrial area, the central-western states as Portuguesa and Barinas, which are centres of animal farming, and Zulia, which is the hot spot for petroleum extraction\textsuperscript{302} enjoy an infrastructure that is relatively good, compared to other Latin American countries. Some people even say, it is the best in the whole of South America.\textsuperscript{303} Despite this, it is still not good enough to serve as a true competitive advantage for Venezuelan industry. In Caracas for example the motorways are piled up three to four layers, making it impossible for a foreigner to find his way without getting lost. One interviewee called it “the biggest car park of the country, ... the only one.”

As the main cities are linked by the sea, they all possess harbours.\textsuperscript{304} This always inhibited the establishment of an effective train network.\textsuperscript{305} The transport of goods was always conveniently managed by boat. Another reason, why the train has never played an important role may be found in the high level of Americanisation in business life and in society.

The Venezuelans value cars most; using public transport, such as trains, would constrain their sense of freedom — to go where you want, when you want, enjoying a high level of privacy, status, and independence at the same time.

On the other hand, one supplier of training materials for schools, universities and companies, mentioned, that it is useful to hire a jeep in order to reach all institutions and firms that are located outside the main centres, since most of the roads in the countryside are unsurfaced.\textsuperscript{306}

\textbf{3.4.4.3.2 Roads}

Most of the network of roads existing today originate from the Pérez Jiménez era and the boom years of the 1950s to the 1970s, but the network is in a fairly bad condition due to poor maintenance.\textsuperscript{307} This was also asserted by several interviewees; for example, as one technical project manager of a construction company observed,

“the matrimiento is just missing. ... They only build new things, but afterwards they led it go to seed.”

\begin{footnotesize}
\textsuperscript{302} Blutstein, 1977, p. 56.
\textsuperscript{303} interviews with Venezuelans, but also Schmid, 1999b, p. 9.
\textsuperscript{304} see chapter on settlement patterns earlier on. Nothing much seems to have changed since the times of colonialism. The cities that were important then, are still important in terms of business.
\textsuperscript{305} see also Weise, 1989, p. 47. In Venezuela only 275 miles of railway tracks exist.
\textsuperscript{306} Interview with manager of multinational company doing business in Venezuela.
\end{footnotesize}
In the mid 1970s 29,000 miles of roads of all kinds existed, including 12,000 miles that are paved.\textsuperscript{308} In 1996, 53,000 miles of highways were there, 21,000 miles of them were paved.\textsuperscript{309} The most important bit is the “Carretera Transandina”, the Venezuelan part of the “Carretera Interamericana”. And indeed, the Venezuelan road network is considered to be the best one on the continent.\textsuperscript{310} But, while total kilometres of road service have grown by 83 percent between 1965 and 1996, the number of private automobiles rose by almost 250 percent, resulting in heavier traffic flows, accidents, and time lost.\textsuperscript{311} Before Chávez seized power, a so called \textit{día deparada} existed. According to the last figure on your number plate, one is not allowed to use the car in the city between 6 o’clock in the morning and 8 o’clock in the evening once a week. It works like this: 1 and 6 are not allowed to drive on Mondays, 2 and 7 are not allowed on Tuesdays, 3 and 8 on Wednesdays, 4 and 9 on Thursdays, 5 and 0 on Fridays. Theoretically one gets rid of 20 percent of all cars during workdays. In fact the consequence is slightly different, the affluent have two cars with complementary number plates, thus drive every day. The other people who can not afford to own two cars still need to go to work, and they have to leave home before six o’clock to commute to their workplace, and have to stay there until eight o’clock till they are allowed to use their cars again.\textsuperscript{312}

\textbf{3.4.4.3.3 Planes}

Venezuela’s only international carrier is the ex-government owned airline Venezuelan International Airways, VIASA. Another public one, AEROPOSTAL, provides local air service. Privately owned AVENSA provides scheduled domestic service to 24 commercial airports covering high-traffic routes between the major cities.\textsuperscript{313} It might sound unbelievable, but 497 airports exist in Venezuela. More than 400 are private ones, being used by companies to transfer their executives. The three main airports, Maiquetía in La Guaira, 40 minutes away from Caracas, if there is no traffic congestion,
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Grano de Oro in Maracaibo, and Porlamar in Margarita channel more than 90 percent of total passengers and international cargo.\textsuperscript{314}

It should also be mentioned that the aircrafts originate from the 1970s. The author acquired the habit of checking the age of the air-planes when entering the cabin and most of the times they dated from 1968 to 1976. The real hassle starts while checking in at the airports. No matter where it is in Venezuela, nearly all fluid display departure boards are out of order. The gates always change five minutes before departure, so that all passengers are running around trying to find the right gate. Delays of more than two hours are common. Once landed it is tricky to identify the conveyer belt that hopefully carries the luggage, because -again- the electronic information device was malfunctioning.

Surprisingly enough, it all works in the end; all planes take off and land safely, the luggage is found. It is just not as relaxing as Europeans might be used to it.

3.4.4.3.4 Business travel

When asking expatriates what they suggest as the best means of business travelling, they tended to favour planes because of long distances and for safety reasons. Going by car is considered to be "too dangerous. If you have a breakdown, you might be mugged. No, I would not recommend it", was a common reply. Furthermore, Venezuelans have a different attitude towards traffic behaviour:

"Do not start right away if the red light turns to green. Take your time and you better wait to make sure that no comes from another direction. Really strange accidents happen there. This gets worse at the weekend."\textsuperscript{315}

The German rule of right before left does not really mean a lot in Venezuela. The only rule that seems to work is: The bigger the car, the more priority. They also tend not to stay in their lanes, as people in England do.

One Venezuelan manager said that there are many regulations in Germany that do not really make much sense to him. The one thing he does appreciate is the fact, that one does not always have to put effort in anticipating what the cars driving around you might do next.

\textsuperscript{314} CIDEIBER, 1997a, p. 3.
\textsuperscript{315} Interview with an expatriate manager from Argentina working in sales a German MNC.
One interviewee reported the following story. It is retold here in order to give the reader a flavour of the problems that might arise when travelling by taxi.

"I had to go back from Maracay to Caracas. ... The manager of our subsidiary ordered a taxi for me. It was a taxi, such a taxi I had never seen before in my entire life, not even in Cuba. It really was a total nuisance. You could look through the closed door into the interior of the car and through to the road. I acquired the habit of sitting in the back on the right hand side, I never sit in the front, and when I entered, I had a look at the wheel, without hub cap of course, and I saw that one of the bolts was missing. The journey started, and the driver opened the throttle. I had to calm him down. ... The distance from Maracay to Caracas is 100 to 120 kilometres, 60 of them are through the mountains before Caracas. We were approaching the hills, and the motorway does big turns, and in between these 4 to 6 lanes there is a concrete wall one metre high, and I started to notice that when the car was supposed to turn to the left, it worked. But when it was supposed to turn to the right, the driver had to turn the steering wheel twice, before anything happened. There was no cooling inside. Thus during the entire journey I sat in the car and was afraid of being blown out of the car. Anyway, two hours later we arrived in Caracas, and I entered the hotel. The seats of the car were made of black imitation leather, and I noticed that the people in Reception were staring at me astonished. It was in the Gran Dia in Caracas, it is six stars. I took off my shirt, and noticed, that it was coal-black. I really had to throw it away. I have been in many countries, but I have never experienced such a taxi ride before."\(^{316}\)

This testimony also shows that Venezuela has no institution that is responsible for making sure that all cars fulfil a certain technical standard, like the German TÜV or the MOT tests in Britain.

### 3.4.4.3.5 Electricity and water

Water supply is a serious problem. There is a small canalisation system in Caracas, but although it works occasionally, it is hopelessly overloaded. Especially people from the lower classes have to fight against infectious diseases.

In order to build a proper system, that is financed by revenues, one has to seal the pipes first of all, so no one can draw off water anymore. According to unofficial estimations, eighty percent of the water is “lost”, fuga !

\(^{316}\) Interview with a German logistics manager of a German global forwarding company.
3.4.4.3.6 Telecommunications

In 1991 CANTV, the 100 percent state-owned telecommunications monopoly, was privatised: 40 percent of the shares were sold to a consortium of private investors being led by GTE, General Telephone and Electronics Corporation. The consortium: 51% GTE, 6% Telefónica de España, 6% La Electricidad de Caracas, 12% CIMA, and 5% AT&T International. CANTV had to be privatised because it was one of the most inefficient of government enterprises (in terms of management, maintenance, service, and profit) satisfying only 60 percent of national telephone demand in the late 1980s. Thus the use of motorcycle mail carriers was common.317

The state continued to hold a big stake in the company: 49 percent. In 1999, the government privatised another 35 percent. As per 31st of May 1999, the shareholders’ composition was as follows: 40 percent of the shares are owned by Venworld Telecom C.A., 37 percent belong to public shareholders, 15 percent are held by employee trusts and employees, 5 percent belong to FIV, and 3 percent remain with GTE.318 In the first two years of privatisation more money was invested than had ever been pumped into telecommunications under state control.319

Although the traditional way of making phone calls seems to be underdeveloped, the sector of mobile phones seems to be highly sophisticated. Mobile phones are considered as standard instruments in Venezuela. More than ten years ago, restaurants started to establish receptions for portable phones, because visitors were disturbed by the constantly high number of incoming telephone calls. Thus whenever a phone rang, people were asked to step out to answer the call.

3.4.4.4 Informational infrastructure

3.4.4.4.1 Postal service

It seems as if iPostel, the public service, is unreliable, slow and inefficient. Whenever documents are posted, it is a normal thing for the sender to choose private delivery companies or courier services.320 The German Chamber of Commerce in

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317 see Mortimer, 1990, ve0059/1.
320 The author made this experience, whenever he got information from Venezuelan companies or institutions; see also in Dydynski, 1998, pp. 59-60.
Caracas for example helps German companies to find Venezuelan sales representatives. Therefore they need information material about the German company to find a suitable partner. The Chamber advises companies to send information brochures weighing not more than 2 kilograms and to send them airmail, because the normal might take several months, if it arrives at all.\(^\text{321}\)

This obviously enhances the establishment of an informal communication network.\(^\text{322}\) It also helps if problems occur in day-to-day business. If there is an issue to solve, business people normally do not write a letter. They would rather pick up the cellular phone and call a person they know in order to get things done.

### 3.4.4.4.2 Sources of business information

The lack of reliable information is still perceived as an issue in doing business effectively. So that the only way of guaranteeing a more or less reliable business environment is to count on trustworthy personal relationships with clients and competitors.\(^\text{323}\) This is an important thing to know for foreigners interested in doing business in Venezuela. In order to get a foothold in the market, one has to be part of the game.

### 3.4.4.5 Problems facing the economy

Notwithstanding the unanimous desire of Venezuelan leaders for the past six decades to *sembrar el petróleo*, the inability to transform and diversify the economy has remained.\(^\text{324}\) Some other authors say that the scheme of sowing the petroleum even widened the gap between rural and urban regions, achieving the opposite of what was intended.\(^\text{325}\)

Oil is still by far the driving force of the Venezuelan economy, having enormous significance for the economic structure.\(^\text{326}\)

\(^{321}\) CAVENAL, 1999, p. 2.
\(^{322}\) see also Kulinat, 1980, p. 254.
\(^{323}\) see Pérez Perdomo, 1990, p. 559.
\(^{325}\) see for example Kulinat, 1980, pp. 243, 255-256.
The words spoken of President Betancourt in 1961, indicate what Venezuela needs to do, but still has not achieved:

"We must dispel the happy theory that the oil derricks are producing an inexhaustible quantity of dollars and bolivares. The truth is that we are spending the proceeds of unrenewable, perishable wealth, and that we must spend it well, taking advantage of the extraordinary current situation of Venezuela to establish solid and durable bases for the Venezuelan nation."327

It could be shown that import substitution was not the right way to foster domestic business growth. In fact it harmed the natural evolution of industry more than it helped it.

The lack of competition from foreign firms led to unprofitable, ineffective, and uncompetitive companies, neglecting the development of new products and workforce.328 They never had to be better than international rival products, because the public sector tried to help them develop. This had a laming, sometimes disastrous effect on the business.329 Thus it is now even harder for the country to focus on what the global market requires.

3.4.5 Opportunities - Areas of growth

3.4.5.1 Tourism

Blutstein has stated (1977) that the principal tourist centre is Margarita Island. Nothing much has changed since then. It still is the most attractive place to go during holidays.

Venezuela will have to provide first-class services, infrastructure and a well-organised management in order to attract more tourists in the future. What will be hardest, will be to acquire "commitment throughout the sector to mastering the service ethic."330 The remaining issues of security in large cities and Isla Margarita, and of offering services at reasonable prices also need to be addressed.331

330 Enright, Francés, and Saavedra, 1996, pp. 95, 98.
331 BfAi, 1998b, p. 4.
Another issue is the problem of pollution in the whole of Latin America. Only clean beaches will attract tourism. According to an interviewee who took weekends off to enjoy the seaside near Caracas and the beaches of Isla Margarita:

"I did not enter the water, because I was scared that my flesh might fall off my bones. ... When I went for my first walk near the seashore, the beach was covered with dead fish. Then I asked the people who were there, how come? They answered, well, the fishermen sometimes throw back in superfluous fishes. I laughed and replied well, you can tell this to someone who has never been here before." \textsuperscript{332}

The same happened to another manager interviewed as part of the research who was working for a consulting company doing business with infrastructure projects who went to Puerto la Cruz:

"It is a tourist town. Starting from there, a ferry goes to Isla Maragarita, which has a nice promenade, a nice Caribbean beach with palm trees, white sand, where signs say: Bathing forbidden! ... The water is so polluted, there are so many bacteria, and really dangerous ones, too, that you are not allowed to go for a swim there. ... Puerto la Cruz has two outlets in the sea, that originally went 100 metres into the sea. In our days, they are heavily rotten. Hence it (excrement) comes out directly on the beach. As the sewage purification plant still has not been installed, the situation has not yet improved." \textsuperscript{333}

\subsection*{3.4.5.2 Infrastructure}

The sector of infrastructure can be considered as a growth market for related industries, such as engineering, construction, market research, and consulting companies. As contracts are mainly awarded by the state, the economies need to be stable, otherwise no money will be channelled into infrastructure projects. Since the 1970s the infrastructure has improved only a little. Most of the goods are transported via trucks or ships, but this poses difficulties as well. The Orinoco as a transport river reaching up to Puerto Ordaz, the centre of the aluminium and iron industries, has differences in water level of up to 12 metres between the dry and the rainy season. This is a challenging task when it comes to loading a ship. The rivers are huge, building a bridge there is more challenging than bridging the Rhine!

\textsuperscript{332} Interview with a German manager working for a multinational German company doing business with chemicals. This one and the following citation may represent an extreme German view.
These issues are peculiarities of the country that do not make infrastructure programmes easy.

3.4.5.3 Agriculture and food export

In comparison to other countries, Venezuela should try to improve its performance in the export of foodstuffs. As it can be seen in the table 10.2 in Enright, Francés, and Saveedra (1996, pp. 368-369), Venezuela always comes last comparing the value and the amount of exports of different food products with the corresponding exports of other Latin American countries. The interviewees’ common perception was, that Venezuela could be self-sufficient in terms of foodstuffs.

3.4.5.4 Salvation through Privatisation

Carefully nurtured privatisation could be a remedy to solve the state’s economic problems. Firstly, the deficits of the state-owned companies could be decreased. Secondly, private companies tend to work more efficient, and thirdly, these huge deficits would not need to be adjusted by printing more money, causing inflation, in turn leading to a decrease in purchasing power.

It is the only possibility for the state to enhance its cash flow. The issue that remains is:

"How much money goes into the state's cash-box? How much is received by the people who have a word to say during the whole process? You never know."^{334}

Another negative side effect could be rising unemployment, since public companies tend to be seriously overstaffed. Delayering will be the consequence to reduce production cost.

The following figure shows a comparison of Latin American countries in terms of privatisation processes in 1997. Leader of the group in terms of fiscal revenues is undoubtedly Brazil, followed by Venezuela and Colombia. The privatisation attempts don’t happen on a regular basis, therefore the chart of other years might give a

[^333]: Interview with a German project manager working at an international engineering consultancy planning infrastructure projects in Venezuela.

[^334]: Interview with a manager from Argentina, working for a German MNC. The problem he was alluding to is not exclusively a Venezuelan one. It is an issue that occurs during the privatisation process in any country.
completely different picture. Nevertheless it can be concluded that it happens to some degree, but needs to be intensified to lead to sustainable results.

![Chart: Privatisation in Latin America, 1997: Fiscal revenues & number of firms](chart)

Figure 10: Privatisation in Latin America, 1997: Fiscal revenues and number of firms.
(source: ECLAC, 1998c, p. 58)

3.4.6 Threats

"It is dangerous. ... Corruption is one thing, the other thing is criminality that people engage in to survive. People do not have work, and even if they do, it is so poorly paid, that it is not enough to earn a living. The ones who have a job and some power, enrich themselves through corruption, and the others need to ‘earn their living’ through stealing." \(^{335}\)

This quotation may seem a little exaggerated, but what it does show what the two important issues are.

3.4.6.1 Rising level of corruption

Many German companies are revising their Latin American strategy, shifting their businesses away from Venezuela to Chile, Peru, and Colombia. Frequent reasons were

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\(^{335}\) Interview with a German marketing manager working for a German MNC in cosmetics being responsible for the area management in South America.
to be found in the large portion of an investment that was lost on its way to fulfilling the project!

It was felt that after the new president came to power in 1998, the situation got worse. The cost of accelerating procedures has risen since then. Some argue this is because the people who are now in power want to ‘quench their thirst’ quickly, but also because nobody knows how long the new system is going to last. Therefore one has to make sure to benefit as quickly as possible.

3.4.6.2 Rising level of poverty and criminality

Some companies refrained from buying property in Venezuela, considering the country to be too unstable and too dangerous. When they need to acquire a store, they just rent it.

3.4.6.3 Concluding remarks on oil wealth: Curse or Blessing?

In fact it is a bit of both, and many other Latin American countries would like to have the problems Venezuela suffers from, if they could only enjoy the blessings as well.

"The question being asked now is not merely what the oil affluence has done for the petroleum exporters, but also what it has done to them!"336

It is a curse to the extent that petroleum puts the economy through burst-and-bust cycles, encourages governmental waste and corruption.

From a politician's point of view it is wisely spent, because institutions and people who might form a threat to the existing democratic system, get their share to play the game.

"Business got subsidies and protection; strategic unions got subsidized headquarters and generous contracts; the military got high-tech hardware, high salaries and all the education it could absorb; and opposition politicians got seats in Congress and a share of the patronage to distribute."337

The consequence is that government spending is so high that the main source of state revenues, oil, is not big enough to satisfy corruption, subsidise consumption and pay the interest on international debts. These debts are caused by Venezuelans themselves to a large extent and are linked to quite a few bankruptcies of financial institutions, such as

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those of Banco National de Descuento, Banco Consolidado, Banco de Comercio, and Banco de los Trabajadores. Another issue is capital flight. During the 1970s and 1980s, more than 34 billion US$ in private capital left the country. The growth of different sectors, showing different profiles of development and opportunities to develop, is still dependent on the petroleum revenues and is not financed by a dynamic development of the internal market. Even in 1997, for example, oil revenues represented nearly eighty percent of total exports, and about 70 percent of public revenues. According to the World Bank, the role of petroleum is probably understated in these statistics, because indirect links exist through the use of oil as an input in several industries, for example construction and engineering. The figures reveal that macroeconomic stability of the economy is closely related to the price of oil, because a “one-dollar change in the price of a barrel of Venezuelan ... oil leads to about a $1.1 billion reduction in public sector revenues.”

The best example occurred at the end of 1997 beginning of 1998. The price per barrel of crude decreased from 12.60 US$ to 9 US$, leading to lost revenues of 5 Billion US$. At the end of 1998, the national deficit amounted to 5 billion US$.

The economic crises of the 1980s and the early 1990s showed clearly that without sufficient revenues from petroleum, the costs of constructing a new society cannot be borne. A change in society is needed in order to relinquish this wasteful consumption mode, importing foreign material, social and cultural goods.

Therefore state’s social policy can do little under present circumstances. The problems are beneath the surface; to solve them, intensive and thorough political, social and economic changes need to be made in Venezuela. As one interviewee puts it:

“Money was never spent on research, and that is the problem. One never got anywhere. That makes Venezuela dependent on foreign technologies, which they do not want to accept on the one hand, on the other people are too easy-

going ... to start thinking, we need to learn our things, we need to do things by ourselves.

Oil and its revenues allowed the people to buy everything and to produce nothing. They never thought that one day they would have to produce things by themselves."345

Another reason is put forward by Silva Michelena (1967) by pointing out that "the general process of change in Venezuela was too rapid and her political instability too permanent for her to escape the problems consequent on conflicting ideologies and value orientations."346

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345 Interview with a German manager working for a German MNC.
346 Silva Michelena, 1967b, p. 89.
4 Understanding society and culture

4.1 Venezuela – a rich poor country?

“One says, Venezuela is a melting pot, where all races came together, ... but the scale of class consciousness in Venezuela does not exist anywhere in the world. ... Families keep to themselves. The exchange just happens on the same level. Money marries money.”

Venezuelan society is marked by a kaleidoscope of different racial groups, having its origin in the early sixteenth century. Another bout of immigration by people with a different heritage was precipitated by the oil bonanza, drawing Europeans, North Americans and Asians into the country.

Many of the people interviewed in the course of our research and several authors have stressed the fact that Venezuela should be a rich country, but somehow the wealth never managed to get to the people. To Kelly’s (1994) mind it seems as if “colonial heritage and imperialist injustice” are still eminent today. One of the Venezuelans that was interviewed described how he sees the evolution of Venezuelan society.

“Colombia was an important location for Spain, and Punto Catharina was an important harbour for Spain, like Panama, like down in Argentina Rio de la Plata and Mexico. These were the important points of Latin America. Venezuela was a military region. There were only soldiers. Then there was the idea of El Dorado, a gold treasure, that was supposed to be there. And who went there? The adventurers, the soldiers, and this is the origin of Venezuela. Bogota is completely different. There is history, there is culture. The language is different, completely different. Mexico is also totally different. Not only because of the Aztecs, but because the Spanish were a true power there, a dictatorship. It was an important location for the Spanish. Of course one needs to have the Spanish in the peoples’ history as well. We, in Venezuela only have the Caribs and man-eaters. We did not have anyone else. It is a fact. ... This is Venezuela. The families that were located in Venezuela, were military. They came to the country to bring it under their control. That is the development.

Then the oil came into existence and with it the Americans and a lot of money. Then, everybody else came: from Argentina and Colombia. Venezuela was La Suiza de America – the Switzerland of America. Everyone came, because we had money. We had loads of Colombians. Argentines came a lot, when the economy under Peron broke down.

347 This comment was made by a manager who used to work at a European embassy in Caracas, but now works for a multinational construction company.

The computer guys all came from Argentina, because they were sacked by their banks. The banking industry, finance came to power then. ... In Venezuela: Computer, what is it? They were in the hands of Argentines, that were trained. ... Now it is decreasing. Venezuela is not a poor country. Venezuela is a rich poor country. That is the problem.\textsuperscript{349}

A German manager also mentioned that there a big differences between Colombians and Venezuelans:

"The baron in Colombia, the landlord, became a manager, and the baron in Venezuela became an oil manager. The first one has to work, the second one enjoys his life."\textsuperscript{350}

4.2 Evolution of society

In early 1600 the territory that is present-day Venezuela contained a rich mixture of Indian groups of widely varying cultures speaking different dialects. Due to the vigour of the Spanish conquerors, peninsulares, these indigenous groups were extinguished rather rapidly. Accordingly, the traditional and ritual forms, their tribal identities, passed out of existence. This loss of an indigenous cultural identity was accelerated by mestizaje (genetic mixing involving various combinations of Negro, white, and Indian). The earliest conquistadores did not bring Spanish women, so they mixed with native females. Although the majority of mestizos were brought up by their mothers, they were raised by their fathers as Spaniards.\textsuperscript{351}

Thus they were influenced by Hispanic values and the Roman Catholic Church. Although 96 percent of the population still belong to this confession in present times, the church did not play such an important part as in other Latin American countries. "Venezuelans continue to practice a kind of Catholicism that adheres only loosely to church doctrine but is deeply emotional. Laxity in practice is widespread, as is a low level of general knowledge of the basic tenets of the faith".\textsuperscript{352}

\textsuperscript{349} Interview with a Venezuelan manager who works in a German electronic equipment company.

\textsuperscript{350} Interview with a German finance manager working for a German MNC in pharmaceutics.

\textsuperscript{351} Allen, 1977, p. 23; Blutstein, 1977, p. 51.

\textsuperscript{352} Blutstein, 1977, p. 74; see also Schmid, 1999c, p. 2; Hillman, 1994, pp. 10, 31, 82.
Understanding society and culture

This was caused by the Spanish themselves, because they did not do much to establish order and co-ordination, nor did they invest much money and personnel.\(^{353}\) Compared with Mexico and Peru, Venezuela was thought to be a small, rustic colony. Lack of economic importance placed it in a position of relative neglect and retarded cultural development.\(^{354}\)

Secondly, the social changes produced by urbanisation and industrialisation resulted in an attitude of religious indifference.\(^{355}\) Therefore the traditional Catholic Church lost its long-term dominance of the value system, allowing new ideas from the secular world to come into play, leading to a gradual shift towards the norms of contemporary capitalist society.\(^{356}\) The value system is closely related to European attitudes and Christian values. Thus it is easier for investors to negotiate in Venezuela than in countries like Japan or China, which have completely different standards.

Hispanic influence was to be found in the structure of organisations or in institutions, like local government or the Spanish language.\(^{357}\)

By the end of the 16th century most tribes had been virtually eliminated, the few survivors brought under Spanish control. Due to diminishing the Indian population and growing agricultural economy, slaves were imported from Africa to be used as a cheap source of labour until the eighteenth century. Around 1800 730,000 people lived in Venezuela. 26% of them were Whites, 15 % Indians, 51 % free people, and 8 % slaves.\(^{358}\) The group of "free people" was made up of mestizos, mulattos, coloured people, and freed slaves. Today the composition of the population has changed slightly: 69 percent are mestizos and mulattos, 20.5 percent are Whites, 9 percent Blacks and 1.5 percent are indigenous people.\(^{359}\)

\(^{353}\) Blutstein, 1977, p. 54.
\(^{354}\) ibid., 1977, p. 90.
\(^{355}\) ibid., 1977, p. 75.
\(^{357}\) Blutstein, 1977, p. 53.
\(^{359}\) Schmid, 1999a, p. 1.
4.2.1 Patterns of society

From the beginning of colonisation Venezuelan social structure was static and structured by class and colour. Feeling superior to their coloured neighbours, the Spaniards took every measure (by social usage, or by law) to maintain social distance. A privileged social class consisted of latifundistas (owners of large estates, of so called latifundios), civil servants, priests, and scholars. Heavily graded differences in status have also been in existence and been actively maintained since the time of independence. Venezuelan society was changed little after independence. After the realistas had left the country, the Spanish who were born in Venezuela, took over and continued to run the country as their predecessors had. The rigid social stratification of a small, privileged criollo elite reigning over a small middle class and a large lower class still exists today. The ratio of upper, middle, and lower class Hillman (1994) considers to be approximately 5:10:85. An example will be given from the time before oil was discovered in the 1920s, when Venezuela was mainly engaged in small scale agriculture. According to Herman (1986) the land tenure system was made up of several groups: the latifundistas, earning their living through food processing, marketing, fertilisers and farm implements; commercial farmers, owning only simple machinery; minifundistas (peasants owning five-to ten-acre plots, supporting their family at subsistence or less than subsistence level, contributing nothing to agricultural and economic development) and landless labourers, being totally dependent on the protection of the latifundistas, having almost no purchasing power and not being able to contribute to the consumer market.

This phenomenon is still prevalent today. It is also common practice for the finceros to own small private planes and to commute to their fincas in the mornings and return to Caracas in the evenings via the airport La Calotta, which is right in the centre of Caracas.

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360 Blutstein, 1977, p. 53.
361 Rother, 1972, p. 15.
4.2.1.1 Upper class

The upper class was composed of more or less pureblood whites due to the "virtue of their status as landlords and preservers of the Hispanic heritage. This heritage stressed the importance of the patriarchal extended family, the primacy accorded individual uniqueness and dignity, the disdain for manual labour, and the distinction between the roles of males and females."\(^{364}\) The powerful families who still have influence today, are called los Amos del Valle, the rulers of the valley.\(^{365}\)

As the class was originally made up of peninsulares and criollos, it has never been as uniform as in other Latin American countries. According to Blutstein (1977, S. 54), a hegemonic oligarquía has never come into existence due to regional differences. Gil Yepes (1986) believes that national elites are divided due to their different cultural and socio-economic origins, resulting in diverse ideologies of each elite.\(^{366}\) Silva Michelena (1967a) points out, that in all Venezuelan social strata a "low degree of group cohesion" can be found.\(^{367}\)

In our days, the upper socio-economic class has two elements: one part of it forms the oligarquía, the other is made up of industrialists and businesspeople, maintaining their position through patrimonial mechanisms and an informal network of families and enterprises, controlling key interests, i.e. monetary and economic, in Venezuela.\(^{368}\)

What can be concluded is that people think in groups. Posing the question of how to get into the dominant group to a Venezuelan expatriate in Germany, he answered:

"At first, you need to be accepted. Then you are in, and you do not have a problem anymore. Or one has a certain amount of money. ... One has to separate. One thing is making money, but you don't belong to us. These are separate things. The social background is very strong there. There are many people who possess a lot of money in Venezuela, who made business through politics. ... But they do not belong to the oligarchy. They are separated. There are for example certain areas where these people live. It is controlled ... who is allowed to live there and who isn't. There are other areas, where rich people live who do not belong to the oligarchy."\(^{369}\)

This shows that even people from the same class level tend not to mix with each other.

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\(^{364}\) Blutstein, 1977, p. 53., see chapter on machismo.

\(^{365}\) A novel "Los Amos del Valle" exists written by Herrera Luce.


\(^{367}\) Silva Michelena, 1967a, p. 69.

\(^{368}\) Hillman, 1994, pp. 76, 78; Allen, 1977, pp. 10, 12; see also chapter on Grupos Industriales.

\(^{369}\) Interview with a Venezuelan manager who works in a German electronic equipment company.
This phenomenon of in-group and out-group thinking can also be found in doing business.

Social life almost always takes place in clubs, mainly sports clubs. It is vital to be member, otherwise it will be hard to get into contact with people of the same educational level, because it is nearly impossible to spot them on the street as they tend to exclude themselves from daily life. In these clubs one gets to meet people, one gets the chance to cultivate contacts and to establish new ones.

4.2.1.2 Middle class

A tiny middle class exists in Venezuela, but it is currently declining due to economic and political misfortune. It is made up of less successful whites and mestizos who were fortunate enough to attain some education or wealth. Originally, this class was made up of teachers, non-manual workers, bureaucrats, technicians, and small business owners, who tried to imitate the behaviour and values of the higher class as closely as possible, although they developed an identifiable social life of their own.\(^{370}\) "A clear hierarchy of clubs exists by virtue of closed membership and entrance requirements."\(^{371}\)

According to Vasconi (1980, p. 201), Venezuela’s middle class was comparatively big in the 1980s when compared to other Latin American countries. And indeed, during the 1970s and the beginning of the 1980s a relatively large middle class was emerging due to the shift to oil and the subsequent expansion of manufacturing, producing a highly mobile group, moving “regularly from place to place and job to job."\(^{372}\) But due to the financial crises and corruption, it has started to cease away. Many immigrants returned to their mother countries, although they had lived in Venezuela for more than 15 years. This was a common perception expressed by expatriates when asked what struck them most. A German Director of International Sales and Operations mentioned:

“What tends to occur more frequently is the class society. The middle class is disappearing, there are either the rich or the poor. Either you are part of them, like a Mr. ..., who has connections with his family ... or you are not part of it. If you are not part of it, you might have a job at a good company or at an international company or you do not have any job. If you have one that is badly paid, you cannot afford the things that are on in Venezuela. ..."

\(^{370}\) Blutstein, 1977, pp. 53, 61.
\(^{371}\) Hillman, 1994, p. 92.
\(^{372}\) Mortimer, 1990, ve0018/2.
Either you are part of the game and you can afford it, or you are not part of it, then you are excluded.\footnote{Interview with a German manager, being director of international sales and operations at a company doing business in the sealant business.}

4.2.1.3 Lower class

Most developing countries struggle with poverty as the central human problem.\footnote{Kelly, 1994, p. 283.} Unfortunately, Venezuela is one of these countries, where a significant proportion of the population is excluded from a decent life. According to Jones (1999), more than 80 percent live below poverty line.\footnote{Jones, 1999, p. 2.} For them it was not possible to emulate the values of the upper class, as they were often restricted by skin colour, poverty, and occasionally by law. In his study Mathiason (1967) found out, that in many respects the campesinos were the “most disadvantaged”\footnote{Mathiason, 1967, p. 153.} men in Venezuelan society. Therefore, they started to generate a folk culture differing in certain aspects; e.g. the upper class was patriarchal, but the lower class was based on the mother.\footnote{Blutstein, 1977, p. 53.}

The rural class did not really benefit from the exploitation of crude oil. Hoping to improve their standard of living, many ranchos (an urban shelter below minimum housing requirements constructed of makeshift materials, such as discarded timber, cartons, flattened tin cans, generally by the occupant) migrated into the urban areas.\footnote{See chapter on economic developments.} They settled in the outskirts of cities like Caracas or Maracaibo, building barrios. In the capital they are positioned on the slopes of mountains surrounding the city, making them susceptible to landslides caused by heavy rainfalls. According to Pietri (1998), 60 percent of Caracas’ inhabitants are made up of rancho-population.\footnote{See chapter on economic developments.}

Compared to other peasant settlements in Latin America, like Brazilian favelas in Rio de Janeiro or in Peru, the Venezuelan houses are of a better quality. They are not based on cardboard and banana leaves set up on a sand hill at a garbage dump, but on bricks around the beautiful valley of Caracas. Some of them have electricity (TV) and water – obviously acquired by means of illegal cables and pipelines.
Authors like Weise (1989) feel, that the problems due to wild, uncontrolled land flight, cannot be solved; all attempts by central government initiatives to redevelop the slums have been unsuccessful so far.\textsuperscript{380}

Philippengracht (1981) even calls Caracas a monster, that cannot be tamed anymore. Criminality is wide spread and its crime rates are among the highest in the world.\textsuperscript{381}

If going out for supper in Caracas it is common practice that servants of the restaurants go and park your car somewhere. It is not only because they are polite, but to make sure that you won’t be assaulted on your way back from the car park to the restaurant. As soon as one leaves the capital to go to another city or into the countryside, the danger of becoming victim of a crime decreases.

4.2.1.4 A note on demographics

The Venezuelan population is on average very young: 36 percent are below 14 years, 20 percent are aged between 14 and 30 years, 40 percent are between 30 and 60, and only 4 percent are older than 60 years.\textsuperscript{382}

4.2.2 Social mobility

4.2.2.1 Once on top – always on top?

Even the oil bonanza beginning in the 1920s did not really affect the rigid social structure. The upper class mostly formed by terratenientes, military and realistas, a small agrarian elite, saw the advantages of a growing economy and went into commerce and industry, becoming an urban-based class, la burguesia comercial. Later on, they moved into banking, as it promised to be the most lucrative economic sector, la oligarquia financiera.\textsuperscript{383} The landowners started to shift their capital to the urban sector, hoping to receive better returns on it.\textsuperscript{384}

They got hold of those establishments and things in the economic sphere that would normally be run and done by the middle class. Hence a mediator, bridging the gap

\textsuperscript{379} Pietri, 1998, p. 18.
\textsuperscript{380} Weise, 1989, pp. 28-29; see also Brown and Jacobsen, 1987.
\textsuperscript{381} Pietri, 1998, p. 18.
\textsuperscript{382} CIDIEBER, 1997b, p. 3 and information of CONAPRI’s brochure Venezuela – The right country for investment; own calculations.
\textsuperscript{383} Vasconi, 1980, p. 200.
between the very affluent and the very poor, never really gained a strong hold in society.

Soon, another group, i.e. multinational managers from foreign companies, which can be seen as belonging to the dominant class, came into existence. Foreign capital could be attracted to the country easily, because any company in the E&P business tried to benefit from the vast amounts of crude oil in Venezuela. Foreign oil-company representatives were often perceived as "heartless new conquerors", that were friendly with the dictatorial governments. This strong resentment against foreign corporations became "deeply rooted in the social conscience of the Venezuelan people and never really disappeared."385

Finally a third party joined the club: The expansion of the state in the economy led to an increase in the number of state employees, some of whom direct vast industrial complexes. The top personnel in these enterprises have been referred to as a state bourgeoisie. Therefore, three fractions can be identified: domestic capitalists; managers of multinationals and top administrators of public enterprises. All the members of this class control production processes in the economy and the work of a number of subordinates. They can therefore be identified as patrones (literally patron, one involved in a master-servant relationship; patrons may be landlords, employers, political bosses). Furthermore, their financial reward is linked very closely to the success of the firm. Hence they all wish to preserve the status quo. They unite politically, supporting conservative regimes and opposing radical forces that propose significant social changes.

"The three fractions have a common interest in capital accumulation and in the subordination of the mass population, and therefore, co-operate in what can be called a 'triple alliance' between élite local capital, international capital and state capital."386

Starting from 1958, AD and COPEI in turns took the governmental responsibility, making sure that no significant changes would be undertaken in order not to undermine the existing nepotism.

According to Austin (1990), social structures and kinship networks "sometimes restrict the social and economic mobility of individuals or groups."387 It seems to be true for

Venezuela. Especially when it comes to education, financial resources and the level of income play an important role and hinder upward mobility.

Desirable secondary and tertiary education involves high costs, because public institutions tend to have lower standards and an inferior quality of teaching. In contrast to Europe, people from middle or lower classes in Venezuela do not get to a good basic education, or further educational opportunity. Thus the social classes remain rigidly stratified.

Having identified three groups of patrons, they cannot all be considered as belonging to the oligarchy. The so-called "new rich"388, businesspeople, owners of medium-sized industries, managers, and upper-level public servants, are not part of the *oligarquía*.

4.2.2.2 Mobility through political power?

As the economy was dominated by the oligarquía, the middle class tried to find access to mobility through political power. It was exercised by members of the middle class with the support of a wide sector of urban and rural workers.389 "The polarity that developed between political and economic power blocs and the orientations of each came to reflect the differences in their social origins."390

4.3 The impact of oil on society and values

4.3.1 An accelerator of bipolar society?

There are certain facts that strengthen the thesis that petroleum actually fostered the existing cultural dualism and distorted the structure of production and employment. Because the economic change was mainly propelled by foreigners, foreign capital, imported know-how and organisational structure, it was not necessary to overcome the established power structure, nor to create a favourable attitude toward saving, work, and economic rationality.391

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386 Cubitt, 1995, p. 182.
387 Austin, 1990, p. 63.
388 Hillman, 1994, p. 78.
Compared to manufacturing, petroleum production only offers limited employment opportunities. In 1997 for example, about 90,000 people were working in the petroleum and mining industry, while 1 million people were employed in the manufacturing sector.\textsuperscript{392}

As higher salaries were paid in the first branch of industry, only a few lucky ones benefited – the contractors obtained disproportionate earnings due to the inefficiency of the administrative machinery, and the small middle class, whose main employer was the government, also received high salaries.\textsuperscript{393}

4.3.2 The fascination of fast fortune making

According to Carrera (1972) and Carias (1980) basic sociological changes, mainly negative ones according to him, occurred due to the development of the oil industry: Traditional Venezuelan values and ways of living, like modesty and the appreciation of labour, were discarded in favour of vanity and arrogance; complicity occurred between a corrupt Venezuelan elite and the foreign corporations to exploit the oil to their advantage; people were obsessed with attaining instant wealth, lawyers were not untouchable, and medical doctors performed unnecessary operations.\textsuperscript{394} Carias put it this way in 1980,

"Todos se afanan por hacer mucho dinero en poco tiempo para adquirir una vivienda cómoda y tener un vehículo."(p. 259)

The petroleum boom set off the pursuit of fast fortune – easy to obtain, without work, and fast. Venezuela had to import a foreign workforce in these days, because Venezuelans tended to have a strong distaste for work. They preferred to make money by speculation and by selling land. According to Carias, this had a deep impact on lifestyle, especially in petroleum cities: hectic, expensive, and luxurious, forming fertile soil for adventurers, opportunists, and the bold from all over the world, and also for speculation and extravaganza.\textsuperscript{395}

Especially during the 1970s and beginning of the 1980s the obsession to make money quickly and easily seemed to be internalised in the Venezuelan psyche. Otherwise it is

\textsuperscript{393} Ahumada, 1967, p. 11.
\textsuperscript{394} see Carias, 1980, pp. 259, 264-265; Carrara, 1973, pp. 80 ff.
\textsuperscript{395} Carias, 1980, p. 260.
difficult to understand why every week more than 4 million pounds were spent on horse bidding. "Gambling in the Federal District lottery and seven state lotteries in 1973 and on the two most popular kinds of bet at Rinconada racetrack in Caracas totalled well over Bs600 million, an average of about Bs120 for each Venezuelan over the age of twenty." This idea of seeking a fast-fortune was indeed poison to long term economic development and welfare, but is still prevalent in daily life. A Venezuelan manager critically remarked:

"I think Venezuelans are opportunistic. They are not tüchtig, in a way that they go to work everyday and continuously work like ants, but they are opportunistic. They try to make money as quickly as possible and thus they tend to risk a lot. There are many gambling arcades – horseracing and lotteries."

According to Moran and Harris (1987) the desire to get rich quick-attitude is common in Latin America, because of the instability of the economies. This boom or bust-thinking expresses itself in speculation, manipulation or gambling. This is definitely true for Venezuela, as could be shown.

4.3.3 Love and hate – The level of Americanisation

Venezuela is probably the most Americanised country of South America. The term Latin America is not used here, because Mexico is probably even more influenced due to its border with the USA and its trade relationship through NAFTA, which does not mean that they think positively of the USA.

The relationship between America and Venezuela is not an easy one. Traditionally, Venezuelans are heavily dependent on American technology and know-how, also on their investment, and see them as a source of long-term credits. Thus they just have to accept them.

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397 Blutstein, 1977, p. 139.
398 Interview with a Venezuelan manager who works in a German electronic equipment company.
399 Moran and Harris, 1987, p. 377.
400 See chapter on economy: Foreign investment and export-import composition.
4.3.3.1 Lifestyle

There are many things in daily life that show a certain degree of American influence. Starting with architecture especially in Caracas, automobiles, fast food restaurants, and amusement arcades and ending with children’s education, Venezuela tends to keep an eye on North American fashion trends.

"Venezuela has a huge buyer's potential for consumer products and has always been oriented towards the USA, because of the oil wealth. Whatever was new on the US market, next day it was in Caracas, but not in Brazil or in Colombia. If a new Mercedes came out here today, you were able to buy it in Caracas tomorrow." 401

"The country enjoys the American way of life financed by spoilt money." 402

Venezuelans who can afford it tend to buy imported products from the United States.

4.3.3.2 “Esos Gringos”

The other side is the perception of the gringo being deeply rooted in the Venezuelan mentality. The American is more or less accepted, because Venezuelans have to do business with him, but they are always afraid of getting ripped off.

"The Venezuelan accepts the Americans, because to whom should he sell the oil otherwise." 403

"Inwardly the American is admired, because he is so successful, but only inwardly. ... Everybody knows, that Venezuela is a rich country, that has not really managed to make something sensible of its wealth, and one sees, how other countries, like the big neighbour North America, became big, successful, and powerful. ... One admires the gringos, but one does not speak it out loud." 404

When the oil bonanza started in Venezuela, Americans were lured into the country to exploit the petroleum. They took all the oil with them not letting the country participate. As a consequence, Venezuelans tend to see Americans as conquerors, only working for their private profit not allowing anyone else to benefit. This attitude is fairly common in regions like Maracaibo in the Zulia state. Especially the area around Cabimas, in the

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401 See next reference.
402 Observations of two German expatriate managers who used to live and work for German MNCs all over Latin America.
403 Answer of a German-Chilean manager of a German textile machinery production company, when being asked what picture the Venezuelan has of the American.
404 Interview with a Venezuelan manager working for a German-based MNC.
north-east of Lake Maracaibo is extremely poor. Although it owns one of the biggest oil fields in the world, the people living in the community are poor. When an exploration and production company started setting up a subsidiary there a couple of years ago the community’s president came up to the company and said:

“What do you do for us? The Americans have not done anything for us for more than 25 years, they took everything from us and we stand here with empty hands.”

The company was expected to provide jobs for local employees, to use local suppliers, and to pay taxes and royalties. They also agreed on donating a mobile medical centre to the community.

It also happens that if a company “X” wants to set up a business in Venezuela, the municipality comes up and asks for a ‘little’ donation. Thus it happens that the local baseball stadium is named “X”.

4.3.4 Venezuela: The land of missed opportunity

“Venezuela is a privileged country, but has never made anything out of it. It is like the rich son, who has not achieved anything in life, because he never had to learn how to manage economically.”

While evaluating the interviews it was discovered, that Venezuelans mourn not having developed further since the flourishing 1960s and 1970s. It is also widely believed that they bemoan their fate but do not change anything to improve their situation. The Venezuelan philosopher Raul Soza found a simple but logic explanation by stating it is much easier to become rich or to be poor, but becoming poor is much, much harder.

Expatriates claimed that Venezuela reminded them of Spain in the 1950s. They feel that Venezuela somehow missed the boat, whereas other Latin American countries like Chile or Argentina developed further, for example by becoming a member of MERCOSUR. Mexico, too, got it right by joining NAFTA. Even a country like Colombia is a step ahead of Venezuela in economic terms although it suffers difficulties due to political and geographical circumstances.

405 Interview with the head of division finance and accounting of a German MNC who was responsible for setting up an operation in Venezuela.
406 Interview with a German manager of the pharmaceutical industry who used to run the Venezuelan subsidiary of the German MNC.
407 This could be counted as a strong indicator of a fatalistic attitude towards life and achievement.
“It is on the same level of development and mental maturity like Ecuador or Bolivia: a highly corrupt, but wonderful country. ... Venezuela made some steps back.”

And they do not understand why Venezuela has made so little out of their great wealth, their vast amounts of mineral resources, energy producing potential, their climatic conditions (“Some products they could harvest three to four times a year, ... springtime all year round”), and their great beaches.

The infrastructure is so bad that even Venezuelans leave the country for holidays.

Possible reason for it: It is believed that the administration and political parties in Venezuela are corrupt:

“The construction of roads and bridges cost double the price, they normally would have cost. That means: Somebody cashed the same amount of what it had cost originally.”

The high level of state paternalism during oil boom times had an inhibiting effect on innovation and creativeness. Everything that made life easy and comfortable was provided by the state. The nervous energy one needs to take things a step further was not encouraged.

“Money makes people lazy, and money supports corruption, and that is basically the reason why Venezuela has failed over the last 10 years.”

People still blame the state for not providing jobs and for being corrupt, instead of becoming proactive themselves.

4.4 Machismo

Morgan and Harris (1987) define Machismo as “virility, zest for action, daring, competitiveness, and the will to conquer.” According to Blutstein (1977), it is “the complex of beliefs and attitudes that came to define masculinity, stressed chivalry, virility, courage, and daring.”

408 Interview with a Venezuelan expatriate working as Regional Director Latin America for a German medical company.
409 Interview with a Venezuelan expatriate working in Sales in a German MNC in Germany in the electronic equipment industry.
410 Interview with a Venezuelan expatriate working as Regional Director, Latin America for a German medical company.
All the authors mentioned above believe that the machismo concept has been playing an important role in Venezuela's socio-political development. In the period after independence (1823-1958) it was a character trait of the caudillos. Even in contemporary politics, it can be observed that most of the Venezuelans still believe in the power and the strength of a single political leader, although it should be common knowledge that a single person is just not enough to govern a country successfully. New president Hugo Chavez is the living example that machismo is deeply embedded in the people's psyche, also called mental map.

In business life it is expected that a man demonstrates courage, self-confidence, leadership, and forcefulness.

Machismo also manifests itself in the handling of a relationship.

Although Blutstein wrote more than 20 years ago, that a temporary liaison ending with desertion by the male is also common, there is still some truth in it.\textsuperscript{413} It happens quite often that the father leaves his partner and the children behind to date another woman. A reason for this behaviour can be found in Cubitt (1995). She writes, that a man has to demonstrate sexual prowess, father many children, and exercise tight control over any female kin in order to fulfil macho behaviour patterns.\textsuperscript{414}

Montoya (1999) takes it a step further, by calling Venezuela a matricentric society. His argumentation goes as follows: "Most of the homes revolve around mothers with no man, because they are unmarried mothers or because their husbands abandoned them, or because of a divorce. But for most of the Venezuelans, the mother is their only link with their ancestors. It is therefore a matricentric society."\textsuperscript{415}

On the other hand, it is not uncommon in Venezuela that women are highly placed managers. The former president of the national bank and the former minister of finance were women in fact. These are posts that are considered to be a male domain in Germany. Agreeing with Montoya (1999), "Venezuelan women conquer more and more places in society, those that were traditionally reserved for males."\textsuperscript{416}

\textsuperscript{413} ibid., 1977, p. 69.
\textsuperscript{414} Cubitt, 1995, p. 111.
\textsuperscript{415} Montoya, 1999, p. 4.
According to Cubitt (1995), the counterpart of machismo is called marianismo, the submissive female role. "The ideal woman is gentle, kind, long-suffering, loving and submits to the demands of men, whether they be husbands, fathers, sons or brothers. She has an infinite capacity for humility and sacrifice and an abundant store of patience."\(^{417}\) This was felt by the author as well.

Especially in more rural and more colloquial areas including bigger cities like Maracaibo, women were perceived as if they would enjoy identifying themselves with this particular role. It also means that men always have to pay for anything the female part would like to eat, drink, or possess. He is responsible and has to secure the financial side of the relationship

4.5 Mentality

4.5.1 The ease of life

4.5.1.1 Facilismo concerning reliability, punctuality, and flexibility

The characteristic properties of an industrialised society, like planning, punctuality, and endurance are on the verge at coming into existence! These traits never had to be cultivated in the past, because there was no need for them. The state after all, provided all that was necessary to survive.

Thus it seems that in Venezuela everything is taken less seriously than in Germany.

"We Germans have certain traits. We are punctual, reliable, and if we say Yes, then it is a Yes and not a Perhaps or a No, one can count on it. These virtues are not as marked as we expect them to be. If you are invited for dinner in Venezuela at eight o' clock, you can be absolutely positive that the head of the house, who invited you is not there, but might perhaps arrive at ten. ... It is a question of mentality. Or, if he says, Come and visit my house someday, and you do it, it would be considered bad manners. He just says it, without meaning it, and we Germans take all that so literally, and we are reliable, and we do the things we promised. It is not like this over there."\(^{418}\)

Additionally it was felt by both German expatriates and Venezuelans alike, that Venezuelans possess a positive and optimistic attitude towards life in general.

\(^{416}\) ibid., 1999, p. 4.
\(^{417}\) Cubitt, 1995, p. 111.
The reason why Venezuelans might not solve problems instantly is that they do not tend to see the issue as a big, big problem. Or to quote a Venezuelan expatriate based in Germany,

"if the car had a breakdown, well, it was broken then. Or, no one of us (Germans) would ever exceed his credit card’s limit. The Venezuelan does it without hesitation. For him, a credit card is an easy way of going on a trip to a foreign country, even today. ... It can’t be that bad, life has always been going on."  

4.5.1.2 "No me compliques la vida!"

The perception that Latin Americans tend to value leisure more than work, seems to be true for Venezuela. People are interested in spending their lives without getting into problems or any other sort of discomfort. They like to enjoy life without having to work.

And there was a time where they did not have to. No one insisted on punctuality or performance, people received money anyway due to heavy subvention. If you told a person "hey, why don’t you do so and so," the answer tended to be No me compliques la vida! Everything was so easy, but now the situation had changed, the big bonanza is over and the economy is under-performing and the state needs to reduce expenditure and subventions.

Venezuelans got used to doing little and now find it hard to change. Compared with Colombia, Chile, and Peru, Venezuela had a generation that was provided with everything for more than 30 years, leading to peculiarities like indolence, high demands and pretentiousness. This also serves as an explanation, why the people are not as driven by achievement as the Chileans for example. As one Venezuelan businessmen said to his German partner:

"Oh, yes, we know that we have a high rate of unemployment, we have the Bolivar that is loosing value every month, we have an unstable government, but what is all that against this: At the weekend we take our car, drive 50 kilometres to the beach, enjoy paradise-like nature, throw a fish-hook in the  

418 Interview with a German marketing manager working for a German MNC in cosmetics being responsible for the area management in South America.
419 ibid.
420 Venezuelans are said to have fallen from the banana palm tree straight into the Cadillac.
water without a bait fixed to it, angle the most beautiful fish and fry them right on beach.\footnote{421}

On the one hand they do not like to be involved in work so much, on the other hand especially the ones who were lucky enough to receive some sort of education tend to be very proud, high-handed, arrogant, and self-assured – especially Caracenos. Venezuelans like to take their own decisions and absolutely dislike doing what they are told or being patronised, especially by foreigners. Everything that comes from a foreign environment is unlikely to be accepted unquestioned.

It is also widely believed that Venezuelans lack the service mentality, which people from for instance Colombia or America have, because they never had to acquire it.

There is a general suspicion and distrust towards strangers who come from abroad to do business in Venezuela.

This phenomenon might be deeply rooted in Venezuela's history, as a Chilean manager argued:

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500 years ago the Spaniard came and took everything away from him, now there is another one coming and wants to have something. No, this time I prefer to keep the knowledge to myself. \footnote{422}
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On a private basis, people whatever class they originated from, are perceived as open hearted, friendly, and they like to get into contact with people, they have not met before.

4.5.1.3 \textit{Hablando la gente se entiende}

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If you get caught driving down a one-way-street in the wrong direction, you get a ticket in Germany. There won't be a discussion about that. Over there, you will have a discussion. ... It depends on how much you are willing to pay for it. Well, I mean, things will get sorted out ... . There is a dicho, saying \textit{hablando la gente se entiende}. It means, \textit{if you talk together, you will come to terms}. \footnote{423}
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People like to talk to each other, and they are willing to find a solution everyone can get away with. On the other hand this attitude tends to form a constraint on business, as people also start to negotiate about deadlines, especially when it comes to terms of payment or delivery-dates.

\footnote{421}{Interview with a German area sales manager Latin America of a German MNC doing business in the industry of chemical products.}
\footnote{422}{Interview with a German-Chilean manager of a German textile machinery production company.}
\footnote{423}{Interview with a German marketing manager working for a German MNC in cosmetics being responsible for the area management in South America.}
4.5.1.4 Importance attached to entertainment

Venezuelans love TV. According to Datos (1993), TV ownership rates in Caracas were at 97 percent of all households and at 94 percent even for the lowest income households. More than 90 percent were colour TV sets.\textsuperscript{424} In this respect, Venezuela is not a typical developing country anymore, because normally, per capita ownership of television sets is still relatively low.\textsuperscript{425}

Despite that, the programmes tend to "consist mainly of commercials or some stupid game or talk shows."\textsuperscript{426}

Venezuelans also like to be on the streets. Vast amounts of money are spent in restaurants and bars, and restaurants tend to be crowded. It is also common for business people to take the client or meeting partner out for a proper meal. Working lunches as they are practised in Britain or the United States are fairly uncommon.

4.5.2 Concept of time

Venezuelans sometimes tend to forget about time if they are really into something, business- or pleasure-wise. Thus it happens that they arrive late a meeting, but they always have excuses. Even if the reason brought forward sounds unrealistic, one is expected to deliver one. Just coming in not saying anything is considered bad manners. They enjoy living in the "here and now", which explains their spontaneity and their tendency towards taking decisions quickly.

4.5.2.1 Short termism

What is linked to it, is the tendency to think short-term. A female Venezuelan engineer put it in the following words:

"From hand to mouth. It is a question of mentality in this country due to geography and climate. There are fresh fruits all year long, over the entire year people harvest, one just goes and catches some fish, or, when I had to construct a canal at an area that was thought to be stuffed with gold, we had to cover the whole pit the same day, because the next day all the soil had disappeared, because people took it away to search for gold in it.

\textsuperscript{424} Datos, 1993.
\textsuperscript{425} Austin, 1990, p. 285.
\textsuperscript{426} Interview with a manager from the pharmaceutical business.
They do not think of tomorrow, because it is not necessary. They do not have winter, there is no autumn. All year long plants grow.427

4.5.2.2 Unwillingness to plan ahead

The following story was told by a former German member of the Swiss Embassy in Caracas.

"During the Caracasso in 1989 I started to hoard everything. I still have detergents from that time. ... If something is happening tomorrow, it won’t do any harm to me. I wanted to avoid that I suddenly finding myself standing there having nothing. Thus I started to do little shopping trips straight after work, and kept an eye on where to find what. Then prices rose from one day to the other ... I went back to the office and said, listen, detergents you will find over there, milk powder you will find at that place for that amount of money. Just go there quickly and buy the stuff. Noone went there. They buy milk powder, when they run out, and if it is three times as expensive, they still buy it, because they have to. They live from hand to mouth."

Interestingly enough the person who told this story was a German. Now if we compare Germans to Venezuelans there is one striking difference in evolution. Germany had to suffer from two world wars and serious famine twice this century, while Venezuela has never ever been involved in any war, except the war of independence against Spain 200 years ago.

4.6 Differences

4.6.1 A country of contrasts

"Venezuela is a land of jungle darkness and bright city lights, full of contradictions and paradoxes."428

Although this quotation is more than 20 years old, nothing much seems to have changed since then. Infoamericas stated about Venezuela in 1998:

"The contrasts of rich and poor, new and old, urban and rural all weave a complex social structure that is different from any in the world."429

427 Interview with a female Venezuelan project manager working for a German multinational engineering and construction company.
Like many other Latin American States, Venezuela is a country of contrasts: modern industrial businesses exist next to obsolete manufacturing plants, elegance and richness next to poverty, luxurious housing areas next to slums, sophisticated culture next to intellectual backwardness.430

4.6.1.1 Binomial wealth distribution

All of Latin America seems to be very unequal in its distribution of income and wealth.431 Compared to Southeast Asian countries and the more developed world, where the wealthiest 5 percent receive 16 and 13 percent of all national income on average,432 they get 25 percent in Latin America.

According to staff estimates based on official household survey data for 1996 the story for Venezuela is as follows. While the top 20 percent of all households received just over half of total household income in 1996, the bottom 40 percent received less than 15 percent of total income. About one third of all households reported monthly incomes of less than Bs 50,000 per month (about US$ 106), and another third reported incomes between Bs 50,000 and Bs 100,000. By contrast, about 1 percent of all households reported incomes above Bs 600,000 (about US$1.275).433

4.6.1.2 Regional differences

"60 to 70 percent of business life happened in Caracas, although the money was produced in Maracaibo, because the oil fields are there. But all the administration, all the money was in Caracas. Maracaibo produced, so Caracas can live. This has not changed."434

Different sections of the country reflect quite different life-styles. Caracas for example is a modern, sophisticated, cosmopolitan city. Mortimer (1990) states, that its citizens contrast sharply with the llaneros, the persons of the interior plains and cattle-ranching areas, who continue to lead a rugged existence.435

430 Rother, 1972, p. 5.
432 ibid., 1998, p. 11.
434 Interview with a Venezuelan manager working as regional director at a German MNC in the pharmaceuticals industry.
435 Mortimer, 1990, ve0026/1.
It is believed that the mentality of the Andean peoples is marked by some sort of lethargy, that will not be found in centres like Lima or Caracas, but as soon as one reaches the provinces, starting behind the coastal strip, they are a hundred years behind.

As a consequence it is almost impossible to describe a typical Venezuelan. "The different ways of thinking among Venezuelans can only be expressed by one word, a word which in turn, signifies all words: Diversity."\textsuperscript{436}

As mentioned before population and life in Venezuela is concentrated on 5 to 6 centres: Caracas, Valencia, Maracaibo, Puerto Ordaz, and Baquisimeto. Except Puerto Ordaz they are all located in the northern part of the country, close to the Caribbean coast. This can be seen as a relict from colonial times, where the coastal regions were settled but not the interior of the country. And the region of Ciudad Guayana would not have developed if the state had not established the CVG to develop industry there.

In the south there are vast regions of Amazonian rainforest, little infrastructure, and the area is sparsely populated with indigenous tribes. Even the 5 bigger cities vary in many respects. Climate for example: While Caracas is approximately 1,000 metres above sea level, Maracaibo is located at sea level. Thus temperatures rise up to 40, 45 degrees centigrade, and therefore it is natural that workers tend to work at a slower pace and need to take a rest more often to recuperate. It is not necessarily because they are lazy. Another point of regional differences can be found in the levels of employment and criminality. According to a German expatriate manager who works and lives in Puerto Ordaz, there

"is almost no criminality and a high level of employment. The infrastructure is good, and people have an income. In Puerto Ordaz there are 1 million inhabitants, shopping malls."

This sounds completely different from the stories one hears about Caracas for example, where the police tell you not to stop at red lights at night in order to avoid people knocking at your car door and waving a gun at your head.

4.6.2 Venezuela and Latin America

Argentines are considered to be more European, due to the history of settlement and climate. Colombia and Venezuela are more or less close to the equator, thus not having the four seasons. This shows in their mentality as well. They are more cheerful and not as sterile and cool as the Argentines or the Chileans. One interviewee even called the latter groups "Prussian" in their attitudes. Argentina is said to be a European melting pot. In earlier days before the oil bonanza Venezuela was influenced by the Spanish and Germans as well, but it is now more "infiltrated" by the USA. This contrast even shows in the electric voltage. In Venezuela 110 Volts are used, in Argentina it is 220 Volts.

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437 Interview with a German expatriate manager who works for a German company doing business in the steelworks supplier industry and lives in Puerto Ordaz.
5 Preliminary view on business culture in Venezuela

5.1 Education

5.1.1 Evolution of the educational system

There is no continuous development of the educational system in Venezuela. Its development is characterised by periods of advancement followed by stagnation. This spotty evolution was caused by a lack of direction, conflicting ideologies, and by political manipulation, hampering the evolution of effective universal education well into the 20th century.

Education was a function of the Roman Catholic Church during colonial times, being directed at a minority of cultured landowners and future clerics. "The notion of education for a privileged few reflected a rigid hierarchical social system that distinguished between the man of letters and the man who worked with his hands."\(^{438}\)

It was not until 1870, that free public education came into existence. Guzmán Blanco issued a decree on education, recognising education as a threefold responsibility of the nation, the states, and the municipalities.\(^{439}\)

Despite the fact that Venezuela had one of the highest per capita incomes and lowest percentages of rural population in the 1960s, its literacy rate is still low in comparison to the leading Latin American countries.\(^{440}\)

Generally, literacy rates, education and training levels in LDCs are low by Western standards.\(^{441}\) According to Duryea and Székely (1998), the average Latin American over the age of 25 went to school for 6.5 years, ranging from 9.5 years in Argentina in 1996 to 4.35 years in Nicaragua in 1993. In these statistics Venezuela can be found in the upper third out of twenty countries with a mean of 7.2 years of schooling.\(^{442}\)

\(^{438}\) Blutstein, 1977, p. 79.

\(^{439}\) ibid., 1977, p. 79.

\(^{440}\) See Austin, 1990, p. 44; see also figure on population growth in the chapter on economic development in Venezuela earlier on in the thesis.

\(^{441}\) Austin, 1990, p. 44.

This figure does not take into consideration how many people attended school on a regular basis, nor does it consider whether pupils were actually literate after finishing school.

Although school is compulsory from grade 1 to 9 or from 6 to 14 years of age, one big problem is the high rate of repetition and dropout among primary and secondary students. According to the Ministerio de Educación, 63.8 percent of the children who started school in 1988 and 1989 gave up between 1st and 6th grade (in 1995 and 1996). In 1992, almost one quarter of all 7th grade pupils dropped out. Many children need to work while going to school to provide financial support for the family. According to Psacharopoulos (1994, p. 384) 14 (legal working age) and 15 year olds work 34 hours a week, contributing about 27 percent to household income. This again has a negative effect on educational attainment, as working children will have attended school two years less than non-working ones (4.7 years instead of 6.5). This might be insufficient to achieve life-long literacy.

During la época saudi, Venezuelan literacy was improving a great deal. In 1950 the literacy rate was 53%, by 1971 it had climbed to 79%. This improvement was mainly achieved by the Adult Education Division of the Ministry of Education and its many different programmes, especially those directed at rural adults. An institution called INCE was established, the National Institute for Educational Co-operation. It carries out training and apprenticeship programmes funded by the state. It is a good attempt, but one institution is not enough to satisfy the nation's increasing training needs. Due to rising poverty, many children leave school for good not having made it to secondary level. Hence, they are so little educated that they cannot apply to INCE.

5.1.2 Public education and State programmes

In 1958 it was decided to double the student population. A large number of working class youths strove to enter the universities for a simple reason:

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445 Blutstein, 1977, p. 82.
446 Enright, Francés, and Saavedra, 1996, pp. 102, 397.
They knew that only by acquiring professional credentials they could overcome their underprivileged status and open up new opportunities possibly creating social mobility.\textsuperscript{448} Money was spent on large buildings, but not on training staff. This resulted in a massive shortage of qualified teachers, obviously producing unqualified students. Even worse, it was a normal habit of professors to devote much of their time to several other jobs, different from research and teaching.\textsuperscript{449} Due to the acute shortage of staff and to an unprofessional administration, it was fairly common that professors had chairs at different universities at the same time, and teachers were holding lessons at different schools, being paid a multiple of their normal salary. Needless to say, it pretty is impossible for a lecturer to attend three different classes in three different regions on a Monday morning at eight o’clock simultaneously. Thus pupils suffered most, receiving only 120 half days of education per year.\textsuperscript{450} The sad result is, according to university professors in Venezuela, that Venezuelan pupils having attained a qualification similar to A-levels cannot write and spell properly.

In Pérez’ Fifth National Plan (1975-1980) the importance of education and training was again emphasised.\textsuperscript{451} To meet the expanding need for specialised skills the government was engaged in a two-pronged programme in which Venezuelan students were being trained at home and abroad and trained technicians and administrators were being recruited in foreign countries.

Another half hearted attempt to improve the education system can be seen in the academic grant programme, called becas educativas. It was supposed to provide grants to economically disadvantaged students. Unfortunately, the distribution of application forms was left to local politicians and interest groups. Being dependent on this informal power structure, many schools did not receive any application form at all.\textsuperscript{452}

\textsuperscript{448} Cubitt, 1995, p. 89; Ellner, 1986, p. 325.
\textsuperscript{449} Ellner, 1986, p. 316.
\textsuperscript{450} see Márquez, 1996, p. 136; this paragraph is based on an interviews done with Venezuelan managers.
\textsuperscript{451} Myers and Martz, 1986, pp. 441-442.
\textsuperscript{452} Enright, Francés, and Saavedra, 1996, p. 350.
Coppedge (1994) states, that even the staffing of social organisations is frequently conducted along party lines. According to him, rumours exist "that even beauty contests are decided along party lines." 453

There is a big discrepancy between private and public universities. The ones belonging to the second group are lagging behind, even in terms of infrastructure. Some are difficult to access, that is, only via unpaved roads. 454 On the other hand there are private universities, up to Western standards.

5.1.3 Private schools

Certain high schools have started to become increasingly elitist. Private universities, such as the Catholic University or the University Simón Bolívar (USB), were soon ranked academically higher than the public UCV. While children coming from wealthier families could afford to enter a private institution, receiving superior academic training, pupils from the lower classes had no other than to go to a public university, and waiting for several years in order to be registered. 455

According to Cubitt (1995) class background constitutes "an important factor in the level of schooling achieved, partly because the higher the level the greater the cost ... and partly because the increased educational facilities are best in the well-to-do residential areas." 456

5.1.4 Labour force — The need of professional vocational training

According to a study done by Kelly (1994) international managers complain, that it is harder to find skilled labour than to recruit managers or professionals. 457 Five years later nothing seems to have changed, as the present research project comes to the same conclusion.

In their study of human resource formation and competitiveness in Venezuela, Granell and Parra (1993) found out, that most plant operators lack secondary education.

453 Coppedge, 1994, p. 28.
454 This was the experience made of a German manager who works for a company producing educational equipment and training systems for science and technology.
Some managers see in the nation’s shortage of skilled labour a serious constraint on their capacity to be competitive, as it creates production and organisational problems. German expatriates put a lot of emphasis on the German dual system of the *Lehre*, where a profession is learned both by doing and by going to school, *Berufsschule*, paid by the government, while at the same time working at a company. One interviewee even said that this system guarantees the existence of German prosperity and welfare, as it strengthens the middle class, and thus ensures a high rate of employment.

The reason for the shortage of skilled workers in Venezuela is self-evident. During the times of a protected, closed domestic market, the labour-force never had to be trained. They did not have to produce superior products, because there was simply no need to do so, due to import substitution and to artificial prices. The state always favoured prestigious education projects and never made a structured long-term investment in a sound basic education. Therefore, a system like the German *Lehre* has never come into existence in Venezuela.

A Venezuelan expatriate manager in Germany finds a good explanation for this, saying that Venezuela did not invest in the right education because they chose the easier option. What they did was similar to outsourcing: During the times of the easy money, people got generous stipends to go and study in the United States. Unfortunately many of the students that got the chance to study abroad never came back. This phenomenon is widely known as *exportación de celebros* (the export of brains). It was easier to send people abroad than to build up good universities in their own country.

In many specialised areas advanced training programmes have not been established yet. Hence some sectors of industry and commerce have developed their own in-house training programmes, and research and development centres, although these are exceptions from the rule. In the case of expatriate companies, it is common to send people that are in need of training to ‘mother company’ in order to obtain further qualifications. Most Venezuelan companies still think that it is a state’s task to look after training.\(^458\)

The issue tends to be that in-house trained, and therefore better qualified employees are lured away by better job-offers from other companies. A machinist who works in Puerto


Ordaz and gets the chance to be trained in Germany and also acquires some German, will be very attractive to other companies in Venezuela as well. Having returned, he is not likely to be willing to continue to work in the provinces any longer, but will almost naturally fancy a job in an air-conditioned office in Caracas – and he will get it. The widespread opinion, that Latin American company-worker relations are marked by a high rate of loyalty cannot be generalised. Due to the fact, that payment is still low and people need any money they can get in order to make a living, it is natural that they tend to switch companies according to who pays most. Asking a Spanish area manager about how to get workforce, he answered,

"Either you teach them, or you buy them ready-made. You offer them a couple of Bolivares more and easily you get a skilled worker."

Or as a Venezuelan manager put it:

"Every Venezuelan is a big opportunist. And because of the wages, he has to be ... Loyalty of the employees is not really there, if you offer a colleague, a secretary, a salesman, a bookkeeper 100 Dollars more per month. That is a lot of money."

In contrast to the difficulties companies experienced in finding technically skilled labour (blue collar), getting appropriately trained people in the administrative and technical engineering sector (white collar) was not as difficult. Apart from being better motivated, many of them had an international background and education.

5.1.5 Education of managers

People who can afford it send their children abroad, mainly to the USA or to Europe to go to university. The prestige one gains and the higher standards these schools have, attract many students who are willing to optimise their education in order to start a career in business. The positive side effect is that they come back, if they do at all, speaking a second language. On the other hand an international education involves high costs. Therefore, "who cannot afford it, stays at the same level. That is the reason why today's elite is the same as it was before."459 Unlike in Germany, where it is possible for the lower middle class to obtain a sound education including university, the lack of financial resources in Venezuela means restricted upward mobility.

459 Interview with a German expatriate who works as a marketing manager, area management South America.
At least in big companies or multinational firms, the present generation of managers, i.e. between 30 and 50 years of age, seems to be highly qualified, and according to a German manager who formerly worked as an expatriate manager in Venezuela, they can be assigned to work in the USA or in Europe as well. And of course they know their price. Highly educated people tend to be very expensive. As one of our German interviewees declared:

"If you pay international prices, you can get exceptional people."

The generation before, the pioneers and immigrants who built up companies, did not necessarily have a university degree. This situation can be compared to Germany after the Second World War.

5.1.6 Tasks for the future

As education is one of the society's socialisation mechanisms, values and certain ideals can be maintained, encouraged, or altered through it.\(^{461}\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>1990</td>
<td>133</td>
<td>261</td>
<td>744</td>
</tr>
<tr>
<td>United States</td>
<td>1986</td>
<td>3,281</td>
<td>6,638</td>
<td>4,812</td>
</tr>
<tr>
<td>Brazil</td>
<td>1990</td>
<td>225</td>
<td>256</td>
<td>1,421</td>
</tr>
<tr>
<td>Chile</td>
<td>1989</td>
<td>223</td>
<td>178</td>
<td>639</td>
</tr>
<tr>
<td>Colombia</td>
<td>1991</td>
<td>76</td>
<td>118</td>
<td>442</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1988</td>
<td>104</td>
<td>281</td>
<td>1,162</td>
</tr>
</tbody>
</table>

Spending per student, i.e. public spending plus support to private education in US\$.  

Source: UNESCO

Table 9: Ordinary spending on education, selected nations. 
(source: Enright, Frances, and Saavedra, 1996, p. 207)

\(^{460}\) Interview with a German expatriate who works as a marketing manager, area management South America.  
\(^{461}\) Cubitt, 1995, p. 89.
Education provides the chance to make people start thinking that it is important to be educated in order to push the country's development further ahead and to understand, that the state cannot provide money and support for everything. Motivating people to do things that will result in the common good rather than simply putting one's trust in fatalism and state paternalism might lead to economic improvement.

As Enright, Francés, and Saavedra put it, "natural resources ... do not create wealth by themselves. They must be developed in an intelligent fashion by people with the skills to produce, market, manage, innovate, and compete."\(^{462}\)

The chart above shows that vast amounts of money are spent on tertiary education. Experts consider Venezuela to have the worst educational and vocational system in Latin America.\(^{463}\) According to them, it is comparable with that of Haiti. Venezuela's A-levels are accepted hardly anywhere. Higher education is favoured over primary and secondary education. For the future it will be necessary to focus more on primary education in order to create a solid basis for further vocational education.\(^{464}\)

\(^{463}\) BfAi, 1998b, p. 5.
5.2 Attitude towards work

According to Enright, Francés, and Saavedra (1996), Venezuelan employees tend to change companies rather often, thus inhibiting the accumulation of knowledge and experience by any particular company.\(^{465}\) An opposed view is offered by Gómez (1994), when he generalises for the Latinos that they consider work to be an extended family, thus having a strong sense of loyalty to employing organisations.\(^{466}\) Furthermore, Gómez suggests, Latinos would strongly value cooperation and group cohesiveness.

So what observations could be made during the research project? Do the research findings allow us to generalise about the attitude Venezuelans have towards work?

Depending on *company size* and *level of foreign participation*, differences concerning the attitude to work and loyalty to the company can be identified. As discussed before in the chapter on the Venezuelan economy, there are mainly two types of firms in Venezuela: either big ones, or small ones. The more owner-oriented and personal the company is, the more loyal the workforce tends to be. Especially in small firms with Venezuelan ownership *paternalism* still can be found. The atmosphere can be typified as friendly and *pacífico*, peaceful.

On the other hand, how is the mentality of the Venezuelan workforce perceived by expatriate managers working for foreign owned companies?\(^{467}\) It seems as if the Venezuelan generally is more relaxed about work and about the tasks one asks him to do, but once he is motivated and understands the importance of the job he has to do, he will work overtime, even on Saturdays and Sundays, showing a high level of involvement, motivation, and reliability, lacking the mañana-mentality popularly associated with Latin America. A German manager running a subsidiary in the steel industry at Puerto Ordaz told the story of how they managed to move from high labour turnover to a high degree of loyalty.

"There may be many reasons for it. They have a secure job. The company structure is clear. There is no doubt in decisions. Furthermore, the employees know that they do something very special, that not everybody

\(^{466}\) Gómez, 1994, p. 37.
\(^{467}\) The following paragraph is based on interviews done with German expatriate managers, who used to work for and run companies in Venezuela.
else is capable of doing. What seems to be very important in many areas is the existence of a feeling of fellowship. To promote it, we give small parties, i.e. a BBQ, if it is an employee's birthday.\textsuperscript{468}

The mentality of mañana is still very immanent in for example Peru and Ecuador, though not in countries like Chile or Argentina. Venezuela seems to be somewhere in between. The more educated the workforce, the less they tend to postpone decisions and work to next day, week, or month. Many interviewees called them the new generation.

However, two groups can be identified that still tend to display the mentality of mañana: People with a low level of education\textsuperscript{469} and bureaucrats in public institutions. As one German manager who often had to deal with members of both groups put it, contrasting it nicely with Germany,

"Germans that are being sent to Venezuela or live in the country, if they want to continue to live the German way, like going to an office, applying for an admission, paying 15 Deutsche Mark, like it is written down in the schedule of fees, they start to crack up, they won’t survive their first year. Either they get a heart attack or they shoot any other person and themselves. You have to be a bit Latino or Venezuelan if you want to live there. ... You also cannot treat them like in Germany. Over there (in Germany) if you tell him once, do it this way, he says, ok, I do it this (your) way. The Venezuelan also says, Si, Si, I do it this way, but as soon as you turn around, he has already forgotten what he was supposed to do. You have to control, follow up, and check enormously."\textsuperscript{470}

The common perception of German managers was that Venezuelans promise a lot, but will not adhere to it, or it will take them weeks to get things done. Thus expatriates considered it necessary either to stay at the subsidiary personally or to have somebody trustworthy there. It still happens that Venezuelans do not stick to deadlines as eagerly as Germans tend to. In order to make sure that operations run as they are supposed to, managers sometimes had to take measures that are fairly uncommon in Europe:

"We sometimes have to work with telephone terror if they cannot deliver these weekly reports on time."\textsuperscript{471}

It was widely felt that the reason is to be found in the low level of education and in the consequences of the oil bonanza, where people just did not have to work. As the new

\textsuperscript{468} Interview with a German expatriate manager who works for a German company doing business in the steelworks supplier industry and living in Puerto Ordaz.
\textsuperscript{469} I.e. blue collar workers, but also older generation managers.
\textsuperscript{470} Interview with a German manager in the logistics industry.
\textsuperscript{471} Interview with the director of international sales and operations of a company in the sealing business.
generation did not experience the 1970s, changes in attitude towards work are more than likely to occur in the future.

5.3 The impact of trade unions

There is only a very small number of individual trade unions. Most of them are brought together in three umbrella organisations: Confederación de Trabajadores de Venezuela (CTV), Confederación de Sindicatos Autónomos de Venezuela (CODESA) and Movimiento Nacional de Trabajadores para la Liberación (MONTRAL).\footnote{0. V., 1992, p. 107; to get information about the history of trade unions, see Zink (1977).}

The largest and most influential one is the CTV, founded in 1936, having approximately 1.5 million members in 1994, being closely related to AD, owning companies and banks. CODESA is considered to be linked to COPEI (the Social Christian Party), counting up to 60,000 members.\footnote{Schmid, 1999a, p. 6; Morrision, 1994, p. 97.}

The existence of so-called sindicatos is fairly common in factories. Their main task is not so much preserving salaries or wages, because the devaluation of the currency happens too quickly anyway, but in guaranteeing jobs for employees. This tends to pose a problem to companies who are willing to restructure their business. They cannot lay off people, because the trade unions simply forbid it.

5.4 Labour market

The labour market is highly regulated, and thus laying-off people is difficult, 'adjusting' the workforce is expensive, and the cost of labour is comparatively high.\footnote{Price Waterhouse, 1997, p. 20.}

Firms are therefore reluctant to take on new employees. In consequence 47.5 percent of total workforce earns a living in the informal sector.\footnote{BfAI, 1998b, p. 2.}

Deregulation of the labour market might reduce the cost of labour in the formal sector relative to the informal one. This might lead to higher employment in the higher wage formal sector and a decrease in the lower wage informal sector.\footnote{World Bank, 1998, p. 25.}
5.5 A preliminary view of management in Venezuela

5.5.1 Importance of researching international management with a focus on culture

Cultural competencies are essential in international business and trade. They help both sales and technical people to avoid cultural blunders, and they can also be helpful for creating cultural synergy.

“Cultural learning is a means for managers and other leaders to become more global and cosmopolitan in their outlook and behaviour, as well as more effective and profitable in their practices.”

5.5.2 Who are the managers in Venezuela?

It is impossible to answer this question in a universally valid way, but there are some points that can be made. Private companies tend to be owned by families. Depending on the firm’s size, they are either listed on the stock market or incorporated. Although in some companies the executive level is left to professional, highly educated, and creative people, being recruited in a way similar to that in Germany, not necessarily originating from the company-owning family, key positions such as director of finance, director of administration, or members of the supervisory board tend to be staffed with members of the owner’s family.

5.5.3 Be a dolphin, not a shark or a carp!

Venezuelans managers expect their business partners to be creative, and capable of solving problems whatever nature they are. What they want is the dolphin, someone who can improvise, who can lead and who is full of ideas. They neither like carps, because they are boring, nor do they like sharks, because they bite.

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5.5.4 Management Attitudes and Business Values

5.5.4.1 Emphasis of authority

A manager of a German subsidiary in Venezuela noticed that whenever Venezuelans are entrusted with power, they tend to display it great deal. It is necessary sometimes, because if one does not, tasks usually take longer to get done. Especially people who formerly worked for public companies have the inclination to exert an authoritarian, somewhat paternalistic way of management, instead of a co-operative style as is increasingly practised in German companies. Venezuelans expect him to be the boss, who tells others which direction to take.

The observation the German manager made seems to correspond with Stewart’s (1986) opinion of management in traditional family-owned firms, where leadership is only exercised by the patron, the head of the company, and “all effective lines of communication to and from this leader are personal.”478 Management control also tends to be informal, and using first names is common.

The main issue with authoritarian leadership patterns is that binding decisions are made exclusively by the leader. Hence, the organisation is incapable of deciding anything but the most routine actions when the leader is elsewhere.479 This problem also occurs in bigger companies, where executive officers do not have the decision-making competence one would normally expect them to have. Thus they cannot decide autonomously and have to ask the patron to have the final say. It may happen, that quite a few meetings need to be held before the true decision-maker has been found. In that way, valuable time may be lost, and the negotiation process tends to take longer than people from Europe expect.

Another characteristic of management by patron (MbP) is that the manager is considered to be a father figure who knows about the employee’s private life and personal problems – at least in small companies.480

“Oh, yes. It is still that same old song about one big family.”481

479 ibid., 1986, p. 225.
480 The range, different managers were talking about was between 150 and 1,000 employees.
481 Answer a German sales manager gave, when asked whether he knew how a patron conducts towards his employees.
The most significant MbP-features are summed up in the following quotation, from an expatriate manager working in the steelworks’ suppliers industry:

“In Venezuela you have to show that you are the boss. Being boss means being father. On the one hand you have to put pressure on them, screw faster, on the other you have to know what happens to the people in private. Who has problems and where, financial ones for example.”

This does not mean that they receive salaries that are above the average.

5.5.4.2 Short term thinking

Due to the crises in the early 1990s, many Venezuelan companies are still reluctant to plan and invest. These extremely unstable macroeconomic conditions and rapidly changing microeconomic settings generate a fire-fighting mentality in management, marked by spontaneity, unconventional behaviour. Not much emphasis seems to be put on long-term planning, as this is in any case impossible to do. Take inflation for example: salary has to be adjusted twice a month due to rapid devaluation.

“How will it be possible then to develop a five-year-business-plan if you do not know what is going to happen tomorrow?”

Surely, it is a question of mentality as well, but it would be too easy to blame the Latino mentality for it in general. Thinking back to the times of import substitution and domestic market protectionism, it was expected and taken for granted that government would find a solution to all problems and issues, where and whenever it was needed. This stimulated a relaxed mentality in business strategy and planning.

A second reason for the characteristic short-term view can be found when thinking about the petroleum bonanza. As mentioned earlier, fast fortune-making seems to be embedded in the Venezuelan mentality, having an impact on investment behaviour as well:

“There are very few Venezuelans, who like to make long term investments. If they invest at all, they make sure they receive a return on investment after two or three years, then selling all the stuff to live a life without having to work. That is the mentality there in general. There are very few people who tackle the problem in a structured way willing to plan long-term.”

482 Interview with an expatriate manager working in the steelworks’ suppliers industry.
483 Interview with an Argentine sales manager who is responsible for Central America and the Caribbean in the chemical industry.
Digging even further into Venezuela’s history, remembering the mentality of Spanish conquistadores: going to Venezuela, robbing the country and then leaving with all the gold again, just to satisfy the hunger for short-term profit maximisation, could also serve as an explanation as to why Venezuelan business tends to be short-term oriented.

5.5.5 Business Behaviour in Negotiations

“It is uncommon for Venezuelan firms to negotiate technology acquisitions on a piece-by-piece basis, primarily because they lack a sophisticated understanding of what they are buying.”

The following section deals with the peculiar features of dealing with private companies. It cannot be generalised to state-owned companies, because these are different, and they even differ from each other. On the one hand, there is PDVSA with its outstanding performance. When negotiating with them you get to deal with managers that are mostly trained in the USA. Therefore, their way of doing business is strongly influenced by North America, lacking the so-called typical Latin American mentality. Coming to terms only takes a short while, they tell you quickly what they can do and what they cannot do. They do not like to deal with partners, who give the impression of not being capable of doing what is expected of them.

On the other hand, when talking to companies like CVG or Corpozulia, you really do talk to ejecutivos venezolanos (Venezuelan executives). There will be much talking, many promises, many letters of intent, but little decision-making.

5.5.5.1 The human side: emphasis on friendship and honesty

As Naím observed in 1989, it is much more useful to count on a good friendship than to rely on a written contract. Critics might argue that Venezuelans do not like to read or write a lot. They prefer to talk because who writes, rests. Writing is something for artists. We want to do business.

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484 Interview with a German executive sales manager working in the web-fed presses industry.
486 Naím, 1989, p. 503.
It is important to establish a personal, yet still professional relationship with your client, being characterised by honesty and loyalty. A Spanish manager working for a German MNC put it this way:

"Venezuelan clients like it if you tell them, with my product the problem cannot be solved. I would rather advise you to buy the product from company so and so as they deal with those things. You can put yourself out of business, if you desperately try to find solutions to a problem where you know that you cannot solve it. Therefore, honesty gets rewarded in a way. If Venezuelans are pleased with the product and the service they receive they tend to stick to the supplier. It happens that if a competitor comes up to them making a better offer, they call you, saying Mr. so and so was here proposing a better price. Can you do anything? We don't want to lose you as a supplier."

It can be seen, that by establishing trust, the supplier gets the chance to have a last word. How then can trust be achieved one might wonder? The answer will be given by quoting an Argentine sales manager working in the feed additives industry. The example given also gives evidence, that Venezuelans do not like paper-work:

"Generally speaking, people do not like to run around with lots of paper. If you tell the people ok, I do the paperwork and you just order and get the goods at this date, then you have already won a big bit of confidence. It happens that we do more stock management than our clients. You go into their warehouse, studying their stocks and ... say, ... if you don't order soon, you will run into difficulties. ... It happens that he orders without asking the price, because he trusts you that you will give him a competitive price."

Although negotiations can be tough, they tend to be relaxed, friendly, full of sympathy, and not as dogged, matter-of-fact, direct, and sterile as in Germany. There is always a human side to it. People do not only try to reach an agreement, but they also try to approach the other in a personal way and to establish a personal atmosphere.

This phenomenon cannot be generalised for all of Latin America. Business in Argentina and Chile is said to be more formal and pressurised, more pragmatic, but less emotional and lacking humour. It is sometimes even considered artificial and unnatural. According to a German manager, negotiating with Chileans and Venezuelans is as similar as doing business with Scandinavians and Greeks.

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487 Interview with a Spanish manager working for a German company doing business with light bulbs.
488 This account is taken from several interviews to create a fuller picture.
The importance of getting to know the business partner as a person, is not so much based on the Latin American mentality, but more on precaution. A Venezuelan manager argues the following way:

"The social part and the personal acquaintance are at least as important as the hard facts. Because facts can lie. Any Venezuelan manager can show you wonderful figures about what his company can do, owns, promises, and you have to believe it. ... The figures can be faked. Anyway, you will find out when it is too late. Therefore, socialising is not only common for Venezuelan negotiation partners, but you as a potential investor want to get to know the human side of your business partner. Paper is patient, and that is why even today many deals are getting fixed on solely personal grounds."

Many facts are only obtained off record, when going sailing or playing golf together. The informal part afterwards seems to be as important as the official presentation before.

Unlike Germany, where "Dienst ist Dienst, und Schnaps ist Schnaps", these two things seem to belong together in Venezuela. Although becoming less common, it still happens that deals are agreed at a location other than the office, e.g. at clubs, during dinner, or at social events, like marriages.

It is believed, that partnerships last because of friendships, and not because of figures and revenues.

If an agreement is unattainable, negotiations do not normally end abruptly. A German executive sales manager of web-fed printing presses mentioned, that whenever businesspeople he negotiates with invite him for a big dinner a red alarm light switches on in his head, because it could be a sign that they want to give something special to him. Reading between the lines, it means: You won't get the contract, not because you failed as a human, but because of other parameters. We still think highly of you as a person.

5.5.5.2 Fast business, but to rush means to displace oneself

Venezuelans do not like to be put under pressure in business. An Argentine manager put it this way:
“Latinos have fun during work, and they take it easier. I would say, we have countries in Latin America where no one dies of stress or suffers because of stress.”

What can be concluded is that people seem to be more relaxed about work. Another reason could be found in the fact that Venezuelans tend to be proud as suggested in the chapter about society and mentality. It is important to let them take their time to make up their mind: if not, they start believing that the other person tries to cheat on them. The result is that they lose trust in you. It is superfluous to say that it is nearly impossible then to re-establish the same level of relationship again, or to put it in the words of an Argentine manager:

“Ten good deeds do not make up for one bad one.”

This does not mean that negotiations tend to take a long time. The opposite is often the case. Venezuelans like quick and spontaneous decision-taking, being in a way opportunistic. They know that good deals rarely occur in present times of economic imbalance and rising poverty. It is also a question of mentality: The Venezuelan dream of fast fortune seeking manifests itself in it somehow.

If they consider a deal as a good opportunity, it might even happen that the contract will be agreed orally. The written part will be done at a later stage.

It is also important to make sure that everyone who is involved in negotiations knows what the other is talking about. Especially when negotiating with foreigners Venezuelans need to feel that they are on the same level in terms of knowledge and not inferior. If they do not, they fear to make mistakes or to misunderstand the other party. Continuing the process of talking is difficult then, because Venezuelans tend to distrust the other easily, as soon as they start to feel insecure.

When comparing the course of negotiations in Venezuela to the German or Anglo-Saxon way, big differences can be identified. For northern Europeans it is normal to receive a schedule before the meeting starts, telling you exactly what is to be negotiated, which milestones need to be agreed on, at what time the meeting will be finished.

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489 Interview with an Argentine manager working in sales for a German MNC doing business in chemicals.
490 ibid.
Nothing will be left to chance or fate. The Venezuelan course will not be fixed in advance.

First of all, negotiations never start directly with business. Common topics are baseball, family or social events.

"You need to empathise. You need to project yourself into the negotiation partner’s mind. You don’t start with (talking business) straight away. ... You need to talk about something completely different, about the beautiful beach, about the nice weekend. ... Approaching directly to be effective is not on."491

Then at some point in time Venezuelans will switch to the issues that need to be discussed, but it is hardly a continuous process. Breaks will be likely to occur in terms of taking coffee, or discussing last week’s football match.

There is some danger to it, because one never really knows when the process of negotiation has finished. As one interviewee put it:

"it might be in the taxi just as you are on your way back to the airport."

5.5.5.3 Identifying the decision-taker

Especially for foreigners finding the person who has the final say is difficult, because it happens that everyone tries to show his importance. Interestingly enough, spotting the decision taker quickly is an easier task for a Venezuelan, Spanish, or any other Latin American person due to their cultural similarities. Venezuelans like to show that they are responsible even if they are not. Thus valuable time is wasted if one identifies the wrong person as the decision-taker, because he does not have the power to seal the business. In this case even if things are agreed upon, the chances are high that they will get changed again. Once the dominant person is found, and he approves, one can be sure that no alterations will occur in the future.

On the other hand, it is vital to give all people involved the feeling that they are necessary in the business process, otherwise they will try to make life hard for you by blocking your requests or by making you wait if you need favours from them.

491 Interview with a German expatriate area sales manager.
Compared to Japan, where one can infer the hierarchical structures by looking at the order of sitting, it is not possible to find out the decision taker in this way in Venezuela. Again, one often needs to read between the lines. Like in heavy industries, where the dress-code is informal, the CEO might wear blue jeans and a short sleeved shirt, but he also might be the person who carries a pen visibly, that cost 400 to 500 US-Dollars. The issue discussed above will not pose a problem when dealing with small businesses, because the *patron* or *gerente general* will negotiate personally, as he does not like to delegate financial matters to subordinates. Furthermore,

"he is the one who invites you for dinner, takes you to the pub, drives you around, provides you with work, he is also the one who fixes wages and prices."\(^{492}\)

5.5.6 Business networking

5.5.6.1 Importance of personalismo in doing business

"Whoever wants to be successful in Venezuela or Latin America today, has to manage with the elements a local company also uses to be successful. It is not good enough to have good products and a handsome face, but when in Rome, do as the Romans do. It is important to build a social network. The social network is more important than in other Latin American countries, more important than in Chile, Brazil, or Argentina, where decisions in business are made with the head. In Venezuela a lot is still jabbered."\(^{493}\)

Personal contacts at all levels in Venezuela are vital to success in business.\(^{494}\) The conviction is widespread, that it is only through personal ties that benefits can be expected.\(^{495}\) When a supplier needs to be chosen, a contractor or a business partner needs to be found, personal ties and considerations of kinship or loyalty are valued more highly than cost or quality. Obviously certain standards need to be met, but if only one supplier has to be chosen, good connections will be decisive. Although this way of doing business is declining, as companies are forced to take cost efficiency more seriously due to the liberalisation of markets and the increasing influence of American management education, these connection-based decisions are still typical for Venezuelan business culture.

\(^{492}\) Interview with a German manager in the blanket printing business.

\(^{493}\) Interview with a Venezuelan expatriate manager in Germany.

\(^{494}\) As mentioned in the chapter on bureaucracy, good connections are called *palanca*, the lever of a machine to get things moving.

\(^{495}\) Stewart, 1986, p. 228; compare with the chapter on bureaucracy.
According to Cubitt (1995) this can be seen as a Latin American phenomenon, saying, that “despite the spread of values emphasising achievement and competition, personalism remains an essential feature of social relations in Latin America, probably because of the continuance of uncertainty and insecurity.” As even the fortunes of the affluent can vary a lot, due to political and economic instability, it is important to know people one can trust. Therefore much time is invested in keeping the informal network of business relationships functioning. Therefore, visiting friends, socialising in clubs, and showing up at private or official events can be seen as important ways to keep oneself connected to and embedded in the network. This obviously takes money as well, but some day personal relationships might be more useful than high savings!

According to Naím in 1989, the ownership of the great majority of industrial companies is concentrated in the hands of some 5,000 people. The concentration is said to be higher than in Brazil, but lower than in Colombia. Therefore, “este país es un pañuelo”, this country is a handkerchief, meaning, it is a small country. Thus, “si no conoces a alguien, seguro que conoces a alguien que lo conoce”: if you don’t know the person, you surely know someone, who knows this person.

German managers especially interviewed as part of the research were surprised by the high level of personalism and the existence of strong personal connections between business people.

It was also discovered that Venezuelans tend to think in groups, or to put it in the words of a Venezuelan manager, there is a Corporate Venezuela plc. They all meet. ... You are either part of the game or you are not.

It is always “us” (in-group) against “them” (out-group). This has an interesting consequence for doing business. If you belong to “the family”, your business partner will see you as part of the in-group and chances are pretty likely that he will not cheat on you and that you get to know people and insider information which you would not normally be able to obtain. If you are not part of the game, it will be difficult to establish or develop a fair partnership, especially when it comes to financial terms, because single- or family-egoism will prevail.

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497 Blutstein, 1977, p. 60.
It is small wonder that this characteristic was noticed by Germans, as their way of doing business can be described as impersonal and rational. The issue that arises is the fact that every important pressure group wants to have a representative of its companies on important boards to maintain influence. Severe overstaffing is the consequence.

5.5.6.2 A network to fall back on when running into difficulties

"Personal contacts are extremely important. And if you have problems anywhere, for any problem you need ... it is good, if you have someone whom you can call and say listen, I have a problem here, could you sort it out for me ? And that is the reason why you need to be a member of organisations. That means you have to be in the chambers, you have to be in clubs. You have to get to know influential people where-ever you can. ... And if you have problems with customs, you tell the Minister of the Interior, who is your colleague in a club, listen, they give me a hard time here. Any chance that you could solve it ? – No problem, I will. And the next day, everything will be sorted out. On the other hand, you help him as well. That is important."499

In Venezuela, issues might arise in daily life that are completely new to Europeans. It might happen, that a policeman stops your car telling you that you crossed a red light, although there has not been a single traffic light for miles. Still he insists on it and threatens to confiscate your car. If the amount of payment is too cheeky, it is helpful to know someone higher up in the police.

5.5.6.3 Family ties and compadrazgo

According to Berlin (1996) great importance is attached to family affiliations in Venezuelan business environment to protect oneself from a poor system of justice and unstable circumstances in general. A manager on his way up spends time cultivating old ties and developing new ones. They are thought to play an integral part in being financially successful and are sometimes an incentive for leaving a company.500 The tight network of family ties and contacts through all industrial sectors sometimes causes problems, because conflicting interests are likely to occur.501 As it was shown in

499 Interview with a German expatriate who works as a marketing manager, area management South America.
the chapter about contemporary economics, large industrial groups exist, that originally were family businesses. Some of them still have a board of directors that is made up of relatives and close friends who can be trusted.

Cubitt perceives the Latin American family as a “property-owning unit, whether the property is a business, estates, land or houses, so that these resources are controlled and acquired by succeeding generations through the family.” Even on a smaller scale the importance of family can be found.

“If you employ someone, then after a short while, ... he will come up with the documents of his brothers and sisters, or cousins and tells you that they want to work as well.”

Despite the continuing influence of American media and educational values, Cubitt states that the family remains patriarchal and a key institution in society. This view cannot be fully supported, because many interviewees felt that due to rising poverty and worsening economic conditions, family ties are destroyed especially among lower classes: Most women simply have to work in order to contribute to family income.

It is legitimate to strengthen family ties by compadrazgo, the ritual sponsorship of children by godparents, instituting a set of permanent, personal ties between parents, children and godparents.

A compadre is the kin of a child. He is considered to be very important and is as powerful as a direct member of the family, although he does not necessarily belong to the family in a conventional-biological sense. Theoretically his duty is to observe the child’s religious development, but in practice he also supports the child’s general development as well.

According to Cubitt (1997), this “establishes a set of permanent relationships between parents, godparents, and child or godchild in which the most important relationship excludes the child, for it is between parents and godparents. ... (It) is strongest and requires respect, warmth, and the obligation to help at all times.”

Compadrazgo in an expression to describe the network that can be built up through these links:

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503 Interview with the head of division finance and accounting of a German MNC who was responsible for setting up an operation in Venezuela.
"By making you a kin of my child, because you have a high position somewhere, and as soon as you are a compadre you belong to the family, and so you are obliged to give 'your family' a good deal."\textsuperscript{505}

Cubitt considers \textit{compadrazgo} to be an attempt to combine the best of friendship with the advantages of kinship by defining the two key words as follows. "Friendship has the advantage of choice – friends are chosen by the individual concerned – but it is also flexible and not necessarily lasting. Kinship is binding and permanent but permits no choice of personnel; the individual must accept the relatives he has."\textsuperscript{506}

5.5.6.4 \textit{How to maintain influence}

"A salesman, on a high level ... was in all clubs, where you had to be a member of: Tennis, Golf, I don't know what else, swimming, anything. He did business only in the evenings at the bar. He went to the office at half past eleven in the morning, checked his mail, then he went home again, and sat together with the people who had influence and who decided on contracts at the bar until 10 or 12 o'clock at night."\textsuperscript{507}

This anecdote was narrated by a German manager who used to work at a construction company that dealt mainly with the public authorities in the 1970s and 1980s, the flourishing time of state capitalism. It would not be fair to generalise this testimony to all private and public sectors in business, but it gives the flavour of how influence is maintained. Clubs are a place where people meet and talk, not necessarily about business, but all information that might be of interest is exchanged in order to make life and business easier and probably more successful as well.

There is also a practical side to it as well. It is hardly possible to let your children play on the streets, because it is far too dangerous. Life therefore takes place in clubs.

A Venezuelan expatriate working in investment banking in Germany said a foreigner should try to see this phenomenon from a certain angle. He should not consider it to be life in a golden cage or prison, but rather compare it to Berlin before the wall came down. People who had lived in West Germany in those days felt sorry for those who had to live in West Berlin, because they seemed like living in a cage as well. But if one

\textsuperscript{505} Interview with a Venezuelan expatriate working for a German MNC.
\textsuperscript{506} Cubitt, 1995, p. 104.
actually asked inhabitants of West Berlin they might have enjoyed their way of live a great deal.

5.5.6.5 Payroll relationship - How private companies maintain influence in government policy and politics

"In Venezuela the basic relation between party leaders and the rank and file is that of patron and client. In return for votes and support within the local community the patron uses his influence to see that the client benefits at least enough to keep him from changing patrons."508

It is a common phenomenon that members of the industrial groups, grupos económicos, do not participate in political parties directly, but in order to maintain influence in shaping government policies to their advantage, they make substantial efforts and have developed highly effective mechanisms to influence government officials and the politicians who appoint them, often by having politicians on company payrolls.509 Party involvement is still very high in Venezuela, because, following Coppegde (1994) "30 to 40 percent of the voting-age population are card-carrying party members."510

As Latin American countries are characterised by high volatility, political instability, and large economic disparities, the cultivation of ties with influential people within the government is useful in that it helps business leaders to anticipate future events and threats, and to plan their businesses.511 These connections are sometimes also abused to get special projects and contracts approved or awarded.

5.5.7 Overview: What it means for social interactions

The following chart shows the implication of some core values for dealings with the authorities, for family and friendship, and for social interaction generally.

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507 Interview with a German manager who used to work at a construction company that dealt mainly with public institutions in the 1970s and 1980s.
510 Coppegde, 1994, p. 53.
Cultural values' consequences in social interactions

Core values
- Mistrust of all institutions
- Avoidance of unknown, untested persons
- Heavy reliance on personal contacts

Dealing with authorities
- Authority viewed with automatic suspicion
- Emphasis on getting around the system
- An obstacle to be circumvented
  - as the system is run by dunces
  - being incompetent, stupid
  - having authority
- Being clever and witty is appreciated:
  - to be able to flaunt authority
  - get away with breaking the rules
  - profit from the dullness of the dunce

Family & Friendship
- Family is keystone of society
- Help is what friends are for
- People always have time for each other
- Caring exclusively for friends & family
- Requests are not bad manners
- Hint of a problem brings offers of assistance
- Power & access are to be shared
- It is always "us" against "them"
- Emphasis of thoughtfulness & sincerity

Social Interactions
- Take time to great or acknowledge all individuals
- Titles are used but informality prevails
- Physical space close; touching common
- Overdressing is never a problem
- Send gifts in advance
- Venezuelans are not snobby about Spanish
  but appreciate efforts

Figure 12: Cultural values' consequences in social interactions.
(source: Drake, 1997, ot. 10-21.)

5.5.8 Change Management

Our research suggests that a change in management is needed in order to move from doing business in a closed, subsidised domestic market to managing companies in a global, competitive environment.

A strategy of management change will therefore include issues such as patterns of ownership, organisational structures, and recruitment procedures. The ideal is, properly salaried managers running companies, leading to transparent cost structures, and achieving some separation of corporate governance and politics.

One the other hand, there are some companies which are successful although their management is based upon traditional ways of doing business.\textsuperscript{512}

The following figure compares dominant characteristics and the management traits that are needed.

\textsuperscript{512} Naim, 1989, p. 500.
As the economy will gradually open up, trading blocks will exert more and more influence, and multinational capital will expand on the national economy, widely diversified Venezuelan companies need to think about reassessing and restructuring their businesses to focus on core competence, value drivers, strategic business units, and centres of excellence in order to operate efficiently and competitively in an international business environment. The captive consumer, who in the past had no options in product selection, does not exist anymore, and formerly protected sectors, such as the food industry need to seek new players to reactivate the market and consumption, offering new products with a variety of prices.\footnote{513} Outsourcing relevant units to service companies could hereby form an effective measure to strengthen the core business.\footnote{514}

\footnote{513} Maracara, 1997, p. 6.  
\footnote{514} This could also prepare ground for consulting activities in the fields of total business reengineering, workflow management, and core strategy.
Large business groups should also start thinking about investing capital in other Latin American countries in order to internationalise their business. Indeed according to Maracara (1997), sectors such as food, some mass consumption goods, cement, mining, metal engineering, banking, insurance, and telecommunications are seeking the effect of foreign investment.515

The professionalisation of management has already started in some fields of business, where the dictum "We want the best person for the job" is now heard. But still it is often the case that the best educated are the ones who can afford to study at highly rated business schools in the USA. Many expatriates believe that due to an increasing educational influence from the United States, professional management values begin to be implemented. Networking and relationships are still important but stress is increasingly put on cost reduction, and efficiency. Deals tend not to be exclusively done in clubs or during dinner in a restaurant anymore.

The question might be formulated as "Will modern management be able to manage successfully in a traditional environment?" One answer was given by a Spanish manager who met with his colleagues in Cuba to discuss their operations in Latin America:

"We all made the same observation: many companies have difficulties, because they want to set up structures in marketing and sales that are totally Americanised not taking this Latin American component into account. This can be devastating."516

Although Allen (1977) stated that "the social and cultural structure continues to reflect the Hispanic tradition, but with increasing Anglo-Saxon influence,"517 it will be shown in the second section of the thesis, that Anglo Saxon management techniques are not as widely spread as one might expect. A level of professional management is reached by only a few companies and branches of industry at the present.

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516 Interview with a Spanish sales manager of a German multinational company producing hospital equipment.
5.6 Bureaucrats

5.6.1 Bureaucracy: Dealing with Authorities

When Silva Michelena (1967) investigated in Venezuelan bureaucracy, he found that the main charges levelled at government officials were that they did not provide a genuine service, that they were technically incompetent, and that they had no sense of mission or they lacked commitment. More than 30 years later, Infoamericas states, that "business does not trust government in Latin America." Furthermore, the public accused the authorities of not meeting goals on time, state-run enterprises of carrying an ever-increasing deficit, and social controls of being unable to halt violence and reduce insecurity. The 'good side' was that in some industries market prices were fixed by the government's protectionist policies in order to promote local industry.

This manifestation of 'the bureaucratic phenomenon' in Venezuela is supposed to be caused by "the intrusion of kinship, friendship, or political influence in the selection of personnel and the general absence of technical standards in management." The reason can be found in Kelly's survey in 1994. She states that:

"There is no corps of public servants imbued with civic values or system for recruiting and training the bureaucracy. ... The public administration has not developed institutionalised forms of rewarding efficiency or punishing corruption." (pp. 303-304)

In the following discussion we will use Perez Perdomo's definition (1990) of "corruption in present day Venezuela":

"The use of public funds for individual benefit; more specifically and frequently, a way of doing business characterized by collusion between politicians or public servants and private industry such that both parties obtain exaggerated profits" (p. 555)

Corruption is a widespread phenomenon in Venezuela and is related to the state's several attempts to industrialise the country. In order to understand the reason why it is so common a look at its evolution needs to be taken: during the period of sembrar el

518 Silva Michelena, 1967b, p. 86.
519 Infoamericas, 1998c, p. 2.
520 Naím and Francés, 1994, p. 177.
521 Silva Michelena, 1967b, p. 87.
**Preliminary view on business culture in Venezuela**

Petroleo, the state acted as a promoter, but also as a regulator of business initiatives, thus creating a legal framework with formal and complex procedures, over-regulation and rationing.\(^{522}\)

Therefore, official ways of obtaining licenses or privileges tend to be quite time consuming. The best way of getting the bureaucratic machinery moving is to use parallel or informal networks and distributive mechanisms. It is not always necessary to have personal contacts, it is good enough to approach the person with a powerful recommendation.\(^{523}\) If there is no chance to pay for the favour in immaterial terms, cash payment is used as the means of compensation.

In order not to get involved, each party often uses an intermediary or agent, called a gestor, to handle the cash transaction. Gestores also co-ordinate things like import procedures at the customs. They sit outside the office on crates with a typewriter on their laps. In this situation in particular bureaucrats send out signals that are often not understood by foreigners.

Two examples may be given: If one is importing aluminium cans, where one normally has to pay a 35 percent import tax, people at customs tell you that it is in fact 'a special metal' and hence more taxes need to be charged. Or, electronic parts for example are pseudo-confiscated and have to be examined. Of course there is nothing wrong with the parts, it is just a way of telling the importer that a kind of compensation needs to be paid. Thus it is common use to pick a gestor, tell him the "issue", pay a couple of dollars, and the "problem" will be sorted out quickly.

These dispatchers are also used to make sure that bureaucrats of public institutions treat a company's request in a smooth and efficient way:

> "Over there you fill out a form, you hand it in and then it lays somewhere, then you pay a muchacho, so that he pulls out the paper from the bottom of the pile and puts it on top again, and he takes care that it gets done."\(^{524}\)

Using a gestor is considered to be legitimate. According to other interviewees as well, gestores earn a living by dealing professionally with bureaucrats. This also involves doing irksome tasks like queuing up for hours in the sun, or handling all the necessary paperwork.

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\(^{522}\) Perez Perdomo, 1990, pp. 558-560, and in the following; Brewer-Carias, 1995, pp. 164, 179.

\(^{523}\) called palanca or padrino. Palanca is the lever of a machine, that gets things moving.
It can be seen that it is a small step from favouritism to corruption, because if one does not have a friend or a godfather, one needs to buy the favours. Some people, authors and businessmen likewise, distinguish between different levels of corruption. Small and everyday payments are not considered as an act of corruption, but as "a kind of compensation, regulated by habit, for the civil servant’s low wage level"\textsuperscript{525}, as a way to distribute public revenues.\textsuperscript{526}

It goes down to the communal level. The following story was told by a manager who used to drive cargo through the country:

"It starts with every mayor; if you want to drive through his village with a 100 ton truck and he owns a bridge that goes over a river, he says, \textit{not over my bridge. It will break, because it is only designed for lorries under 50 tons}. Well, of course it is not true, and if you pay him appropriately, then the bridge will carry 100 tons without any problem."

Pérez Perdomo (1994) calls it "one of the most serious threats to the functioning of the Venezuelan state, ... a deeply rooted trait in Venezuela and other Latin American countries, dating from the colonial period."\textsuperscript{527} He also mentions, that the words corrupt and politician are actually used synonymously today. Another clue is given by Carias (1980) who states that "\textit{el político no muere pobre."}\textsuperscript{528}

Due to the lack of an efficient internal control system in the public authorities, the issue of corruption cannot be solved at the present time. Sectors where the state continues to have influence are especially prone to corruption. Another issue that harms the welfare of the state is the strong relationship between politics, economy, and personal interest.

It happens that employees working as civil servants for the largest public company in Venezuela tend to have jobs at several private companies in addition. Thus the chance that the person does his official job properly are fairly small.

\textsuperscript{524} Interview with a German expatriate manager.
\textsuperscript{525} Pérez Perdomo, 1990, p. 559.
\textsuperscript{526} Brewer-Carias, 1995, p. 177.
\textsuperscript{527} Pérez Perdomo, 1994, p. 311.
\textsuperscript{528} Carias, 1980, p. 262, the translation of the saying is: "A politician will never die in poverty."
5.6.2 The effects of bureaucracy on doing business

Naím and Francés (1994) state that the influence public officials may exert on the fortunes of private firms is enormous:

“In addition to the special permits required to conduct a wide variety of normal business activities, such as opening a new plant, acquiring a foreign partner, or advertising promotional discounts, the government also controlled both the prices at which many goods and services were sold and the costs of most of the inputs companies needed. ... Similar companies in the same sector ended up paying different prices for the same imports, or having different import quotas of the same product assigned to them.” (p. 177)

Especially during the times of RÉCADI (the Régimen de Cambios Diferenciales was founded in 1983 to establish a three-tiered exchange system) almost the entire private sector was dependent on certain public servants when purchasing foreign currency and applying for financial assistance.529 It was vital to know the public official who took these decisions, in order to make him decide to your benefit, to make him give you a large loan at very low interest rates or to make him share information on competitors.530 If the other side, i.e. the competitor, had better connections than oneself, business life was extremely difficult and sometimes ended up in giving up the entire business or in bankruptcy.531

Sometimes prices were set for social and political reasons, i.e. to benefit urban consumers or domestic manufacturers. It is still in line with the view expressed by Allen (1977) more than 20 years ago, saying “politics is inextricably bound up with economics. ... Nothing happens unless it has the support of a key political figure.”532

Thus it was important to staff the management boards of companies with appropriate people, not necessarily the most able but those having the best connections to politicians and political decision making. If a minister sits on the supervisory board of a company, he is able to provide the firm with government contracts, often benefiting privately as well.

In addition, as business conditions may change quickly, for instance discontinuities in government contracts, relations, and policies, and not only whenever there is a change

530 See also Berlin, 1996, pp. 849-850; Naím, 1989, p. 503, according to him, “en el sector público las relaciones personales juegan un rol fundamental.”
531 Interview with Venezuelan manager.
532 Allen, 1977, p. 258.
in government but also whenever the official responsible changed his mind, firms tend to concentrate on and favour short-term business strategies.

The following figure gives some hints on how to act when dealing with bureaucrats.

![Dealing with bureaucrats](source: Drake, 1997, ot. 11, 22-25.)

Generally in developing countries, government services tend to hinder managerial decision taking, in that they are inefficient, costly, and slow.\(^{533}\)

Therefore having a large network of contacts is inevitable. Depending on the magnitude of the problem it is useful either to contact a *gestor* or to turn to someone who has power. One has to keep in mind, that the higher the level of the person one tries to contact, the more expensive it might get.

Returning to the issue of winning government contracts it may also be the case that:

"a politician approaches the company and says, *you are dealing with issues here where you need an intercessor*. You have to convince him. Either you know him well or you say, *ok, we are willing to pay for this*.\(^{534}\)"

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533 Austin, 1990, p. 60.

534 Interview with a German expatriate manager.
Before concluding Part I of this thesis it may be helpful to restate that we have tried to do two things. First we have exploited public data sources and several relevant literatures to give a multi-dimensional introduction to the topic of business and management in Venezuela, putting it into a social, historical, economic and political context. Second we have also used some of these sources strongly supported by a series of interviews mostly with expatriate managers with experience in Venezuela, to develop a preliminary characterisation of Venezuelan management and business life.

In Part II we will ‘continue the story’ by drawing on our field work in Venezuela, especially company visits and interviews with practising managers, and with others (consultants, officials, management educators) able to offer an informed testimony.
SECTION TWO

Introductory Note

As noted in the chapter “Sources of information”, Section One was based on wide reading, data gathering, and the interviewing of some 45 managers and other relevant interlocutors in Germany. Part Two is based on different testimonies and sources, principally fieldwork in Venezuela, that is company visits and interviews. Interviews were conducted with multinational managers: with Venezuelan domestic managers in the fields of personnel, sales, production, investor relations, industrial relations, and purchasing, as well as with chief executive officers, presidents, industry participants, ex-government officials, university professors, executives of chambers of trade and industry, industry experts, economic observers, analysts, and business consultants, and this interviewing was variously done in the principal centers of Caracas, Maracaibo, Valencia, and Puerto Ordaz. Some seventy interviews were conducted with a variety of respondents as indicated in this paragraph.

During his stay in Venezuela the researcher had the opportunity to stay with a German company doing business in the mineral extraction industry. Thus it was possible to spend periods as an observer in this firm to get an insight into challenging issues such as day to day problems in Venezuelan management or how to motivate employees to participate in the work processes, how Venezuelan employees react when confronted with both Venezuelan and German managers.

Additionally, international survey data will be used to enable us to compare Venezuelan management with management in other countries, to support some of the hypotheses that are put forward. To be able to do these comparisons between Venezuela and other countries an existing questionnaire had to be used. That chosen was the questionnaire that had been used in the Loughborough study, cited by my supervisor in two of his later books (Lawrence, 1998; Lawrence and Edwards, 2000).
This Loughborough study is the same form as the Nene study (also in part the work of my supervisor and cited in the same works) and offers managers a variety of propositions regarding various aspects of management. The managers are invited to respond on a five-point scale from "strongly agree" to "strongly disagree" with regard to 87 propositions about management. As the original Loughborough survey was conducted in many different countries, the Venezuelan results will be compared to those of the UK, USA, Spain, and Germany, using statistical significance tests (i.e. T-tests and Bravais-Pearson correlation tests). The findings will be used to illustrate some of the arguments.

It may be the case that some outcomes of Section One overlap with some findings presented in Section Two. This may show that the perception German managers have of Venezuelan management is true to at least some extent.

535 The questionnaire is divided into the following fields: structure; networking; nature of management work; management qualities; work and leisure; hierarchy; decision making; management change; learning; short term/long term; creativity; ethics; and communications.

536 Lawrence and Edwards, 2000, p. 79.
Overview of Section Two

The following section deals with an analysis of Venezuelan management. At first reasons will be put forward that strengthen the assumption that Venezuelan management should differ from management styles of other countries. The sectors of history, society, economy, and geography will be examined in such a way as to see how they have impacted on the way of doing business. In the chapter about consequences it will be shown how these features peculiar to Venezuela affect the business landscape of the private sector, the composition of the managerial class, and the tasks of a manager. A further consequence can be found in the absence of an industrial infrastructure. The section on industrial culture will explain how such factors influence the mentality of Venezuelan employees, leading to derecho adquirido, the desire to claim things, a high level of conflict avoidance, and to low commitment.

Venezuelan management will be characterised in the last part referring to the theoretical framework established in previous sections. First of all different areas of management will be examined to give evidence of the existence of deficient professionalism. Then, introduced by the question of "What is left?", it will be shown what really matters in the Venezuelan way of doing business, and how a manager deals with different groups of people - managers and colleagues, workers, the public, and with bureaucrats and the state. Finally the unique character of power distance in the Venezuelan context will be discussed.

The section ends with a discussion of the question whether Venezuelan management will change, converge towards an Anglo-Saxon version, or return to the old ways of doing business and being successful.
6 Business Culture

6.1 Is business culture in Venezuela different?

This question might sound basic, but is it really easy to find an answer quickly? We might say “yes, of course it is different,” because thanks to the cross-cultural studies of Theodore Weinschall (1977), Geert Hofstede (1980; 1991), André Laurent (1983), and Peter Lawrence (1980; 1986), to name only a few, we have reason to believe that management in fact is different all over the world.\textsuperscript{537}

But to what extent does Venezuelan business culture differ from that of other countries? And by whom has it been influenced most?

Taking into consideration the fact, that since the 1920s, when oil was discovered in Venezuela, many North-American oil companies have come to Venezuela, it could be possible that Venezuelan management is heavily influenced by the USA.

If we take a further step back in history, the question might arise of “how strong is the Spanish influence at present originating from the colonial days?” Has Venezuela managed to grow up or is it still a colonial offspring of the Spanish empire of the 15\textsuperscript{th} century?

Or again what about the waves of immigration caused by European wars in the 20\textsuperscript{th} century, World War One (1914-1918) and World War Two (1939-1945), or the bloody civil war in Spain (1936-1939)?

In the following chapters different reasons will be presented as to why Venezuela has a unique business culture. The following key factors can be identified:

- historical reasons, i.e. the way in which colonisation occurred, the lack of Enlightenment of the broad population, and the waves of immigration;
- societal reasons, i.e. the absence of the rule of law, the lack of education;
- economic reasons, i.e. the impact of oil, state participation, and the high level of protectionism.
- geographic reasons, i.e. climatic conditions and physical characteristics.

\textsuperscript{537} Further reading on the evolution from homogeneity to diversity of management styles see Lawrence, 1998, pp. 119-130; ibid., 1995, pp. 50-75.
Having identified the reasons why Venezuela's business culture is different, the next part will show the effects these factors have had on various aspects of "Venezuela as a business entity": the structure of the business landscape, the composition of the managerial class, the tasks of a manager, and the absence of an industrial infrastructure. Then a closer look will be taken on the effects all this exerts on Venezuela's industrial culture.

Hopefully having established a solid basis of understanding of Venezuelan business culture, we will try to give some insight into Venezuelan management. The question "is it different" will not be answered for a second time. The emphasis will rather be on HOW Venezuelan management differs from that of other countries, WHAT are its deficiencies, and HOW do managers in Venezuela contrive to be successful. Special attention will be devoted to the importance of human interaction in order to make up for the deficient professionalism. Finally, the question will be discussed whether there are any changes likely to occur in Venezuelan management in the future.

Before we take a look at the reasons cited above, it may be helpful to explain the phenomenon of "a country's business culture". Critics might say that one single country can never have one single business culture, because far too many different sets or people live in that particular country. This perception might finally boil down to the fact that every single person has their own business culture.

So how can one identify the business culture of a nation with 23 million different human beings, as in the case of Venezuela?

In fact each country has something that Hofstede (1980) calls a "collective mental programming of people in an environment." This programming is difficult to change and exerts a major influence on the human way of thinking. Factors that are important for doing business and management, like trust or the ability to take risks, are on the one hand dependent on individual experiences but on the other also dependent on values, traditional thinking, and collective dispositions that are deeply rooted in a country's culture. According to Henecka human beings absorb the rules of their culture automatically via social conditioning and socialisation processes. These cultural rules can be called a cultural map or mental map and form a collective cultural

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539 Hofstede, 1980, p. 25.
subconscience. Mental maps are mental models that are influenced by family, education, society, and history. There are many things that have a strong impact on the mental model in Venezuela. They are visible when looking at managers running a company, or of fathers 'leading a family'.

The next sections deal with this mental map that underlies Venezuelan business culture and management.

6.1.1 Historical Reasons

6.1.1.1 Style of Colonisation

Undoubtedly the colonising country gives the colony the social structure that applied during the time of discovery. The coloniser establishes a first societal base that can be considered as the concrete basement of a new house that will build itself bit by bit. But it will always be difficult, yet impossible to rearrange the construction of the cellar once it had been built.

So who went to Venezuela in the early days?

Venezuela was discovered by a Southern European feudal country in the 15th century, that was pre-industrialised: Spain. Hence, during the 15th and 16th century Venezuela was colonised by the Spanish of that time. Both, the discovery and the exploitation "was driven by the internal demands of an inward looking mentality, and thus not to the development of trade, but to extraction and exploitation." As Spain was not industrialised in these days, they could not construct a proper economic system in the new world. In fact, Spain was arguably the most traditional country in the whole of Europe. Supporters of the modernisation theory state, that in Latin America, the imported hacienda system was one of the major obstacles to industrial development, a "feudal institution blocking the spread of modern capitalism from the town to the countryside."

And it can still be felt in Venezuela that there has never been real, comprehensive industrialisation to this day.

In later chapters the deficiencies in professionalism will be discussed in more detail.

541 Henecka, 1985, p. 60.
542 Adler, 1991, p. 68.
544 see Boisot, 1993.
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So perhaps one might say Venezuela was just unlucky to be discovered by the Spanish of the 15th century! This is also the common perception of Venezuelan managers. Generally speaking, they do not sympathise with the Spanish, unless their ancestors originated from Spain. They tend to call the Spanish “conquerors”. The vice president of a Venezuelan bank for example stated:

“We were not colonised by the Spanish, we were conquered.”

The tone gets more hostile, when some of the interviewees even speak of the Spanish disease. For example, the director of a Venezuelan economic journal puts it this way when talking about the reason for Venezuela’s miserable economic situation:

“That was the fault of the Spanish empire. It should not be called Dutch disease, it should be called Spanish disease. ... The reason why Latin America is underdeveloped, is because we have a tradition of Spanish institutions. ... They discovered gold in Latin America and they remained rent seeking types of institutions.

And the argument goes like this: The Spanish that came to the new world were looking for the quick buck, El Dorado, gold. They struck gold and silver in Mexico, they struck silver in Peru. They destroyed both cultures, they spread diseases coming from Europe. Even though some communities were established, they were set up as military fortresses rather than commercial communities. Cities were built in order to defend the routes of the gold from buccaneers and pirates. They were not interested in leaving the wealth in the country. The surplus from economic activity went abroad, i.e. it was shipped to Spain, thus depriving the local community of an opportunity to build up its own capital to achieve self-sustaining economic growth.

Critics say it is still like this: The established Spanish families still ship out the money from Venezuela.

The argument that the coloniser is more or less responsible for the development of the discovered country can be reinforced by two other examples:

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545 Cubitt, 1995, p. 33.
546 Interview with the vice president of a Venezuelan bank.
547 Interview with the director of a Venezuelan economic journal.
548 This paragraph is based on several statements made by different Venezuelan managers and does not necessarily express the author’s opinion; see also Cubitt, 1995, pp. 39-40.
Firstly, Canada was colonised during the 18\textsuperscript{th} and 19\textsuperscript{th} century primarily by the Scottish of that time. Secondly, the colonisation of the USA began with European immigrants with puritan values in the 17\textsuperscript{th} and 18\textsuperscript{th} centuries seeking religious and political freedom.\textsuperscript{549} The United States were fortunate enough to be colonised by people that were ‘developed’ by the standards of the time in terms of industry and technology. The people that went to the United States were largely educated, fleeing from religious persecution, and therefore settled in America and developed themselves as a community with puritan traditions; i.e. \textit{work is good, the harder the work the better. If I work hard, I will have a lot of achievement. It is good to share the profits.}

Ever since, strong emphasis has been placed on achievement in the United States. And it can still be felt. Human resource management in North America still follows the ‘hire and fire’ mentality adhering to the policies of ‘grow or go’, and ‘up or out’. The ‘American dream’ to develop ‘from rags to riches’ and the ‘pursuit of happiness’ became deeply embedded in the people’s psyche and were enshrined in the 1776 Declaration of Independence. “Individuals will naturally strive for success and will not be happy until the success has been achieved.”\textsuperscript{550} North American institutions were therefore more advanced, more efficient, more developed due to ethical puritanism.

The figure provided below compares two different concepts of basic motivations that prevail in the United States of America and Northern Europe on the one hand, and in Latin America on the other. It can be seen that the prevailing philosophy in Venezuela is a slightly different one. Its origin can be found in the feudal times:

The fundamental problem was, that the Spanish replicated in Latin America the same fundamental institutions that were permeated by rent-seeking behaviour. The feudalistic structure was more or less imported via Columbus in 1496. Since then decision taking has been highly centralised.

\textsuperscript{549} see for example Lawrence, 1996, p. 49.
\textsuperscript{550} ibid., 1996, p. 46.
What happened was that Columbus collected gold and silver and delivered it to the Spanish Throne. As a reward he received some rights and since that time there has been this virus embedded in the people’s mind called *derecho adquirido*, acquired right. So the mentality, that was imported from Spain was, “if I get along with the government, I will benefit.” Thus the first motivation was not to achieve something by oneself, but to find a way to access governmental power to enjoy preferential treatment. The second motivation were connections, because they are needed to get in contact with the sources of funds. This was how the big landowners came into existence. It has been common practise that political leaders donated thousands of hectares of land to fellow countrymen and friends. Respectively, whole industries and concessions to produce certain products were distributed in the same way. Venezuela, like other Latin American states, still demonstrates a clear tendency towards patron-client relationships in which political leaders are linked to the masses in a system that distributes employment, favours, and protection in an exchange for labour, support,
and loyalty. The power of elites has been secured through the use of political patronage.

The roots of this phenomenon can be discovered in the 18th century, where the patron was the landowner; later on it was employers, government agents, and political party leaders, providing jobs and opportunities for the loyal. According to Stewart (1986) the immediate circle around the leader is the *rosca*, the personal group that has grown about the leader, often going back to university days. Forming a stable and identifiable entity, it moves into the bureaucracy with the leader and shares his fortunes. Hence Chávez' decision to insert more than 100 army officers into responsible posts in state-owned companies can be seen as a proof that patron-client relationships are still fairly common.

This business practice was widespread in Spain as well. Until entering the European Union in 1986, Spain had monopolies in the sector of communications, matches, and tobacco among other things, that were given to families. Likewise for Venezuela. This means it was much more economical to come to terms with the ministers than to increase productivity.

"For example I assemble cars in Venezuela. There are two or three companies that produce cars in the country. We go to the government and say, 'hey, we have done so much for the country. Can you please stop the import of automobiles?'"

Therefore the motivation of achievement comes only a poor third in Venezuela. Personal achievement has never been a virtue in Venezuela. Compared to the puritan values mentioned above, the following mindset has been common in Venezuela: *The less I work the better, the more time I have to rest, the more time I have to enjoy life, the harder I work the more slaves I need. I am a count, I am a duke, and I don't share my wealth. My wealth is mine and your share is yours, and we don't build a community around these shares of wealth.*

So what are the consequences of the strong affinity towards power?

One important one is the fact, that the loyalty people have is not directed towards an organisation, but towards the leader, the chief of the organisation, the person who

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554 Interview with a Venezuelan management consultant.
exercises power, the person who decides, even if he is obnoxious and disagreeable. How this impacts on the industrial culture in contemporary Venezuela will be shown in a later chapter.

6.1.1.2 The Enlightenment has never happened

Different countries' management styles are influenced by reform processes in their different countries. After colonisation Latin America never experienced the European Enlightenment. To some extent the family groups and companies that established themselves during the times of the Compañía Guipuzcoana still exist. The feudal structures of the middle ages can still be felt. Two examples may be given. The question of inheritance is often solved the old way: The oldest son gets everything and receives all the power, the sisters get paid out. Some servants for example still live in the houses of their masters as in the time of feudal society: They are accommodated in tiny rooms without light, bed, or window. Venezuela is a highly stratified society, in the sense that the people at the lower end of the scale have not discovered yet that they are equal human beings. They accept the patron-client relationship and with it the “exchange of dissimilar things.” The patron is the one who decides everything: food, marriage, work, and even life. The lower ones are used to the fact that they are inferior. They serve their masters or patrons, and receive a place to sleep and basic foodstuffs in return. This is the essence of what can be called clientelism.

Furthermore, the common perception especially in lower classes is

“I am poor, so I stay poor. ... You have to accept reality.”

The idea of Immanuel Kant of sapere aude, the essence of the European Enlightenment, to have the virtue to use your own mind and to take responsibility for your own doings and actions, has never been implanted in Venezuela. Venezuelans tend to forget the fact, that a country that wants to continue to develop needs to have people with development and growth aspirations. It is only the people that can propel changes in political development, social stability, and economic growth.

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555 see figure above.
557 Interview with a Venezuelan personnel manager employed in the oil extraction business.
Venezuelans have the philosophy that success is something that is based on luck and external factors that cannot be influenced or manipulated by the person himself, i.e. through work. Two examples of this underlying mental map are given by the following expressions. The first quote originates from a Venezuelan personnel manager:

"Become rich without working, via legal or illegal lottery. Just buy a ticket and become rich."

or another quote from a management consultant who also owns a textile business:

"Venezuelans think in this category: Luck. Success is not the result of constant work, deferred gratification, and savings, success is the result of luck. I win the lottery, I go to horse-racing. ... That is the mentality. Go to a horse-race and try to observe the visitors. They play every week. ... The simple population gambles the whole time, hoping to win the jackpot one day."

Closely related to this phenomenon is the fact that Venezuelans don’t see themselves as responsible for failures. The Enlightenment works both ways: be responsible for your life - success and failure. In Venezuela it works the other way round: When going to school pupils learn that they are the sons of Simon Bolivar, the libertador, and all the oil belongs to them. When watching telenovelas, daily soaps, on TV, they only see people becoming rich while taking advantage of others. When reading the newspapers, they learn that multinational companies and globalisation are responsible for the economic downturn of the country. They are conditioned to always try to seek the fault outside themselves.

"If everyone of us would accept a bit more of responsibility for his own actions, Venezuela would transform itself into a completely different country. ... On each level a little bit more responsibility. For example: People complain about the rubbish in the streets. On the other hand you see them throw garbage out of a moving car."

The same is true for the French philosopher Montesquieu ("De l'esprit des lois", 1748). His thoughts on the division of power into legislative, executive, and jurisdiction have not been implemented effectively in the Venezuelan system yet.

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558 Interview with a Venezuelan personnel manager employed in the oil extraction business.  
559 Interview with a management consultant who also owns a textile business.  
560 Interview with a female consultant, who used to work for one of the biggest Venezuelan foodstuff companies.
6.1.1.3 Waves of immigration

Venezuela is a country that has been marked by significant immigration. Especially in the 20th century there was a huge increase in population. While only 7.5 million people used to live in Venezuela around 1960, only twenty years later this figure rose to 15 million inhabitants. Venezuela's population growth outperformed that of all other Latin American countries. 561

 Especially in the first half of the 20th century there was a strong European migration into the Latin American countries. This was mainly caused by the different political crises, culminating in the two World Wars from 1914 to 1918, and 1939 to 1945, and the civil war in Spain lasting from 1936 to 1939.

So what could have made people move to Venezuela in particular?

One important reason can be found in the fact that Venezuela has always been a relatively free country. During the 1950s Marcos Jiménez Pérez started a political programme, an open-door policy for white immigrants to modernise the economy of the country. So he opened the frontiers to people that had an occupation and certain skills and were able to contribute something to the country's growth - doctors, engineers, mechanics, electricians, and small manufacturers.

It is important to keep in mind that many Europeans entered the country, who were willing to start from scratch, as many of them had lost everything during the wars: Germans, Italians, Spanish, Hungarians, and Chechs.

Another reason was the fact that until the end of the 1970s Venezuela was a country that was well off. The windfall gains in petroleum made almost any business start up a success, because the state had money and many sectors of industry had to be established. So people who were willing to get some work done found great opportunities and were rewarded most of the time.

Interestingly enough the process of industrialisation started to happen in Venezuela in the 1950s, when many Europeans immigrated, mainly many small and medium sized business proprietors from Italy, Spain, and Germany.

Another reason why many Europeans came to Venezuela may be the fact that it is the Latin American country that is closest to Europe in terms of geographical distance.

In the last twenty years immigration has become more of an issue than it used to be. Only very few Europeans penetrate the country each year. The migration pattern has

completely changed. More and more immigrants from other Latin American countries enter the country: Colombians, Peruvians, Ecuadorians, and Cubans. Some analysts estimate that more than 2 Million Colombians live in Venezuela illegally.

6.1.2 Societal reasons

6.1.2.1 Lack of the rule of law

“We don’t have a referee. We don’t have a functioning juridical system. We have a so called democracy on paper, but we don’t have the rule of law.”

A “Rechtsstaat”, rule of law, has never been established in Venezuela. The basic institutions of a normal modern state simply do not work.

The related deficiencies are widely felt:

- Venezuela has a massive problem with contraband. The government is too inefficient to take measures against the import of smuggled goods. As importers pay no taxes and duties for these products they are much cheaper than comparable domestic goods. “It is like an additional income for the family,” as the manager of an electronic products warehouse put it. Therefore people prefer to buy these grey imports at private households rather than spending much more money for the same products in proper stores.

- The existence of a huge informal economy. Official estimates put this above sixty percent. For example 50 percent of the retail is organised through the black market. More than 60 percent of all beer-sales are done via illegal distribution channels in Venezuela, i.e. households.

- Bank fraud does not get punished. Many bankers became millionaires through this practice, especially during the years of the financial crisis in 1994 and 1995 (detailed in Part One), but nobody has been sent to jail yet.

562 Interview with a Venezuelan management consultant.
563 N.N., 1999f, p. 4.
The population is accustomed not to pay taxes because they were never prosecuted for tax evasion. They pay them only if they are made to.

People, especially the ones who live in barrios, usually do not pay for electricity or water, as they access these illegally.

The behaviour of customs and tax officers tends to be very unstable. Example: If you import buckets made up of plastic they cost a certain amount of import tax. As aluminium buckets are more expensive the customs officer tries to tell you that your buckets are made of aluminium and he therefore has to charge you more money. You either pay some compensation or you take him to court. The chances of winning the court case can be judged by reading the following point.

Jurisdiction does not work. Laws contain many grey areas, and can therefore get interpreted in two ways. Therefore many managers say it is best not to get in contact with the law, because one has to expect a time and money consuming process that does not necessarily end successfully. Not all judges are untouchable in Venezuela. It is often a question of money that wins the trial. The juridical system has been destroyed during the last 40 years. It does not make any difference if you are right or wrong, or the law is on your side or you are against the law. It is a matter of knowing the right person, the right judge, in order to get away with it.

"Our liberator Simon Bolivar ... said ... 'poor country, if the judges are corrupt.' And that is true in Venezuela. ... Know your rights and know your duties. And if you exercise your duties within your rights you won't have any problems. But in Venezuela that is not true."\(^{564}\)

Since the last forty years corruption has not been prosecuted. People never had to think twice before doing something illegal, because they knew they would not be prosecuted.

"The Venezuelan government is a ... monster, a bureaucratic ten eyed monster. It steals, it is based on corruption. ... When the Japanese are caught in corruption, they just make harakiri or jump out of the window: when Venezuelans are caught in corruption, they flee to Miami."\(^{565}\)

\(^{564}\) Interview with the socio director of an international consulting company.

\(^{565}\) Interview with the vice president of a Venezuelan bank.
The police system does not work properly. If a policemen stops you because of speeding, you negotiate a price with him, instead of receiving an official pre-printed speeding ticket. On the other hand, the policemen cannot protect the citizens effectively. The Economist reports for example that since mid-July 1999, Caracas has been racked by a “spree of vigilante killings as crime-weary residents take the law into their own hands. ... Most of the victims have been accused of rape, robbery, or murder. These lynchings seem to enjoy popular support, ... because most people regard the country’s legal system as a sick joke. Corruption is rife. Criminals who can pull strings with judges or police often walk free.”

People don’t obey rules, laws, and norms and get away with it.

“Red lights mean you have to stop, but that depends on a lot of factors.”

“Traffic lights are there, but they don’t work. And if they do, they don’t get respected.”

What is worse, no law seems to be strong enough to stop kidnapping in the border states. Cattle ranchers with a lot of money have been kidnapped for a high price.

“There is an industry of kidnapping as with the mafia. If you pay, they will protect you. And many people do it. Not the Venezuelan nor the Colombian states nor police can effectively control the narcos. They are winning the war.”

Due to the lack of law and order Venezuela is a highly dangerous country. Especially in bigger cities hardly anyone walks or rides a bicycle. The following box shows a newspaper article taken from a local paper of Maracaibo. It shows a number of abandoned cars that have or have not been recovered in the last hours of a normal day. Abandoned cars in this case means cars that have been stolen and later found by the police.

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566 N.N., 1999d.
567 Interview with the director of an economic journal.
568 Interview with a manager an investment company.
569 Interview with the vice president of a Venezuelan bank.
Mentioned above was the fact that people simply don’t obey rules and norms in Venezuela. The question of why will be discussed in the following section on education.

6.1.2.2 Lack of education

There has never been proper investment in primary, secondary, or vocational education, and this has never been corrected by later immigration patterns. Therefore the existence of a general lack of education, knowledge, virtues, and values is widely felt.

It begins in the schools. Young Venezuelans learn that they are citizens of a rich country, that they have the world’s largest petroleum resources, that Venezuela holds 10 percent of the world’s gold reserves, that they have bauxite, aluminium, diamonds and precious stones being used for the production of highly sophisticated computer chips. Thus pupils believe that they are rich by nature and do not have to work for it, because it belongs to them and they have the right to benefit. This nourishes the mental map of acquired rights, derecho adquirido.
Compared with Japan, the educational strategy is very different. In Japan, pupils are taught that they live in a very poor country, because it has to import 97 percent of all its resources. The only thing that the Japanese can call their own is what they learn and the work they do.

Therefore the attitude towards work is a completely different one. The Japanese are considered to be eager and hard-working, while Venezuelans tend to be more relaxed and more opportunistic in their relationship towards their employers. Further consequences will be discussed later in the chapter on industrial culture.

Managers often complain about not finding an adequate workforce. Many of them consider the act of getting trained people as one of the biggest problems they have to face in their daily business. Especially highly trained operators of machinery and mechanical technicians are very high in demand. The reason can be found in the fact that there is no middle technical education in Venezuela. Yet, in Colombia, Ecuador, and other Latin American countries they do have this type of education. Hence some managers even have to look outside the country for skilled workers. Thus it might happen, that when visiting a Venezuelan manufacturing plant, the lathe operators, the mechanics, and the painters are all Colombians. When asked what he would advise his children to do if they want to start a career in business, the vice president of a Venezuelan bank even said,

"I would rather not have them in business. I would rather like my children to be successful clerks or mechanics than a lawyer or banker. I know it sounds strange. But we have too many doctors here in Venezuela, and we need skilful workers like your German mechanics. ... Here it is easier to find a good lawyer than a good plumber or technician."

A possible reason why people prefer to become academics rather than technicians might be the fact that Venezuelans have a strong desire to feel respected. The general manager of a company that sells photocopying and printing products argues the following way:

"... here a craftsman is not like in Germany, that has to go to the Berufsschule. In Germany, a craftsman is a respected person, they have maybe more studies than here. A craftsman is just a regular worker, a Turkish person."

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570 see also Herrera-Vaillant, 1997, p. 107.
571 Interview with the vice president of a Venezuelan bank.
572 Interview with the general manager of a company that sells printing and photocopying products.
According to a study released by the Industrial Education Foundation (Fundei) less than two percent of all Venezuelans have technical training. Venezuela’s 100 universities, technical schools, training institutes, and other higher learning institutions, with 300,000 graduates a year, are producing only 150 engineering graduates annually.\(^{573}\)

Local preparation and the educational level are very low, simple, primitive and basic. It is fairly common that blue collar workers can hardly read or write. A lot of people know how to repeat things, that they have seen done but if there is a problem, they do not have enough knowledge to know or to imagine what are the causes of the problem. This is when things get stuck and the reason why maintenance is so poor. The president of a business centre suggested the researcher to make a statistic on the elevators of the different buildings he was visiting during his interviews, because:

"You will find that it is very rare in any building that all elevators are working."\(^{574}\)

Even doing the most simple things are complicated, slow, and inefficient. It applies not only to workers, but also to low and medium level managers. There is a severe shortage of qualified middle managers, because a lot of young people who have been privileged to get a good education either here or abroad try to go abroad. This combined with the fact that the domestic education system has been in continual deterioration for many years has had a deep impact on the development of the society: The lack of skills will be even more severe in the years to come. A manager remembered Camillo Lauria, a former minister, saying about 15 years ago, that:

"the solution for this country (would be) to import 40,000 pregnant Swiss women. ... We don't have a serious base. ... Writing properly, you can meet people at university level who don't know how to write a letter."\(^{575}\)

The problem of education has also turned the country into a moral crisis. As young Venezuelans do not learn about right or wrong, individual values, personal principles, like honesty, responsibility, pride in your job, high self esteem, and norms, it is hard to convey company values to the workforce – Values that don't apply outside the firm, "in this whole storm of unethicalness. ... We try to make our employees feel that they have a good working atmosphere here and we support them. But the minute they leave our

\(^{573}\) Herrera-Vaillant, 1997, p. 144.
\(^{574}\) Interview with the president of a business centre.
\(^{575}\) Interview with the president of a business centre.
offices, they are subjected to humiliations, to pressures, because of the whole social and political decomposition."

Therefore it seems to be a complex task to educate and motivate people because the moment they leave the office they have to deal with corruption, difficulties in health, and education. They do not enjoy security, they lack their own apartment, and even the most simple things, like uncontaminated drinking water. It is a widespread habit to steal electricity. The moral and economic issues can be called dramatic:

"The upheaval in the personal lives of all our employees here is dramatic. Most of our employees can’t buy our products. ... People don’t know where they are going either. They have to take care of their basic needs right know. Even middle and higher level managers are dealing with these issues: Health care, education. They are trying to resolve ... the basic needs."

So the sociological issue that arises is that all the things people do in order to survive outside the firm cannot be done inside the company, except to its detriment. Therefore a lot of training and conversation happens in-house. It is not only professional, vocational, or technical training that has to be provided, but it also includes the delivery of basic human values. Venezuelan managers try to develop the people within the companies with the risk of rotation.

There are also some national institutions such as INCE, but they do not satisfy the national demand on training. Other Venezuelan firms have agreements with foreign multinational companies, for example Siemens, who offer training in the technology sector. Non-Siemens employees get the chance to learn how to operate the different telecommunication systems. Obviously Siemens hopes to sell more of its products via these training courses, because companies are more likely to buy goods they know how to work with than the ones they just know from advertising or catalogues.

All the issues discussed above, like the general lack of an educated workforce, the difficulties employees have to face in their daily lives, and the declining belief in basic values need to be kept in mind when talking about Venezuelan management style in a later chapter as all these facts exert a strong influence on how to run a business in Venezuela.

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576 Interview with the manager of a commercial chain that sells electronic products.
577 Interview with the manager of a commercial chain that sells electronic products.
6.1.3 Economic reasons

6.1.3.1 Attractiveness of Venezuela as a commercial market

Compared to other Latin American markets Venezuela is relatively unattractive. Brazil has more than 160 million inhabitants, Argentina represents more than 50 percent of the Latin American market in terms of buying power, and even Colombia has almost double the population size of Venezuela. So Venezuela is a relatively small market that has only little buying power. Due to the current economic and political situation, consumption is even decreasing at the moment. Some managers estimate that Venezuela has 80 percent of potential in consumption power.

Although Venezuela has a comparatively good infrastructure, foreign companies prefer to invest in other countries, because of the strong informal economy in Venezuela, smuggling, and the lack of justice and integrity with the system and the law. This makes it also hard for Venezuelans to set up businesses successfully. It is also a reason, why there is little competition in Venezuela.

Even Colombia is more attractive in terms of investment although guerilla warfare exists, because investors say that it is easier to anticipate the plans of the Colombian guerilla than the plans of the Venezuelan government.  

As a consequence of these insecurities, Morgan Stanley Dean Witter for example, an investment bank eliminated Venezuela from its investment portfolio in early 1999.  

6.1.3.2 The impact of oil business on Venezuela’s economic culture

“This is a total oil country.”  

“PDVSA is the engine of Venezuela.”  

“There is a definition that Venezuela is an oil company with 23 million employees.”

The economy and national values are distorted by oil wealth, and its collapse. The Venezuelan economy is still driven by the oil industry and also by the transformation of raw materials namely iron ore and bauxite. All the big producers are still in the hands of

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578 N.N., 1999h.
579 N.N., 1999g, p. 6.
580 Interview with a manager of an engineering company whose clients are oil firms.
581 Interview with the general manager of a subsidiary of a German multinational chemical company.
582 Interview with a manager of a business centre.
the state, who tie private suppliers to them, that are highly dependent on these traditional industries.

“Our decisions are led by the good or bad decisions of the government. They hit us directly. They are especially strong, because we are not an exporting country. 99 percent of our products are made for domestic consumption. We are very dependent on the government.”

The following figure shows one of these typical companies.

![Oil related private industry](source: Company publication from Cei C.A., 1999)

It can be seen that the main client is PDVSA, the state owned petroleum company. Venezuelan economy has been built around the rent that came from the oil industry. As a net importer of finished goods and services it can be considered to be more ‘rentist’ than productive.

Therefore economic development, welfare, and stability are closely linked to the oil price. Hence, the economy is dependent and therefore vulnerable. According to Cubitt (1995) natural resources are unreliable because forces outside society’s control can destroy the basis of the economy.

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583 Interview with the manager of a steel trading company.
584 Cubitt, 1995, p. 36.
The following quotation from the manager of a private transportation company serves as a good example of the above contention:

"Since we dedicate ourselves 100 percent to the oil industry, we had almost 200 employees. ... What happened? ... Right now with the current recession we have about 30 employees. Why? Because since we work totally for the oil industry and the same has been shrunk due to the oil budget that they are making, it has enormously reduced our work."\(^{585}\)

The phenomenon that whole economies are based on the export of raw materials to the USA and Europe and the import of manufactured goods from those states applies to a number of less developed countries. In the case of Venezuela this can be seen as a consequence of the hacienda system too.

What is worse Venezuela has never been properly industrialised due to the windfall gains of petroleum. Until the 1920s Venezuela was strong in the primary sector, exporting coffee and cocoa. The normal evolution of a society would then have generated a secondary sector with manufacturing and producing industries. Due to the oil revenues since the 1920s there had always been enough money to import anything that was needed. Since the economy was based on extractive industries for export, it could import the necessary capital and consumer goods, inhibiting the development of manufacturing industry in Venezuela itself.

Thus Venezuela has no industrial tradition. It directly moved to the service sector. Former landowners became bankers, who never had to found or develop manufacturing industries.

"We are not made for the industrial revolution."\(^{586}\)

Other Latin American countries somehow managed to establish a certain industrial basis. This has been true for countries like Chile, Mexico, Brazil, or Argentina. The process of industrialisation, e.g. railway system, started in Argentina around 1900.

Venezuela has also been perverted by oil wealth. The easy money spoilt the economic culture. A paternal-like state paid for everything: cheap food, cheap housing, water, electricity, transport, cheap telephone costs, free health, free education. Everything was

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\(^{585}\) Interview with the manager of a transportation company.

\(^{586}\) Interview with the director of an economic journal.
subsidised by petroleum. This phenomenon can be described as *paternalismo*, paternalism.

Thus Venezuelans have become accustomed to getting rich quickly without having to work for it. They prefer to earn a quick buck than having to work for it. The less they have to work, the better they feel. It is widely felt now, that the oil industry has become more a curse than a blessing. Everything came about too easy, so that nobody cared about getting a good education or preparing himself properly. For some managers the time has come to wake up:

"I think it is about time, that Venezuelans learn how to work, what it is to work. I think it is time once and for all that Venezuela tries to reconstruct the country as the Germans did in 1918 or 1945."

Unfortunately the will to work hard is not easy to develop, because the "rent seeking mentality is somehow internalised in the culture", as the country's former minister of development said in an interview with the researcher.

### 6.1.3.3 The politics of business

Most Latin American countries adopted a system of protectionism.

"Our country has always been introspective in that sense."

So the providers of goods and services manufactured in Venezuela did not have to compete hard in order to make their profits, because they were protected by the state back in the 1950s, 1960s, and 1970s, when the economic and productive infrastructure of the country was shaped. Since then there have not been major investments in the productive side of the country. Thus one is left with a productive infrastructure that was designed for the 1960s. It is hard for many Venezuelan producers to compete against foreign corporations or prices from the USA or even other Latin American countries. Domestic companies never had to be competitive internationally due to a high level of protectionism.

"We never had to train the muscle called competition."

"There is a fantastic lack of competitiveness in Venezuelan companies."

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587 Interview with the vice president of a Venezuelan bank.
588 Interview with a manager of a commercial chain that sells electronic products.
589 Interview with a management consultant.
590 Interview with a manager of a business centre.
The controls they have on imports also eliminated the need for companies to be more quality-, price-, and/or service-oriented. Consumers consider Venezuelan products to be "quite deficient in general." When asked what the Venezuelans think they are competitive in, a common reply was the failure to be competitive in any sector of industry apart from petroleum.

There is still a high involvement of the state in setting up the rules for the economy, that are constantly changing, as many managers critically affirm. The state is considered to be the fundamental block that is now impeding the development in Venezuela. The state was a result of the large windfall gains in petroleum and is very inefficient. For example, there are hospitals in Venezuela that have 1,300 drivers and only one ambulance. The Caracas University Hospital has more blue-collar workers on its payroll than the Caracas Electrical Utility Company. There are 1,700 different pension systems that currently exist for Venezuelan government workers. At the moment, many state workers such as college professors presently receive a pension equal to their full pay at the age of 45. Even compared to other Latin American countries the public sector is large and is not focussed. Venezuela has one of the most excessive public payrolls in South America. We have to keep in mind that the country went from having 360,000 state employees in 1968 to more than 1.5 million people in 1999. Policy making happens without continuity. As the petroleum revenues have constantly poured into the country since the 1920s, the state believed in seeding the oil and preferred to share the wealth rather than investing it properly, and never felt the urge to develop a long term economic vision for the country. And it would have been difficult because the governments were not allowed by law to stay in office longer than 5 years.

From the 1920s onwards there has been one government programme after the other to the point that the society became very dependent on government income. Rowan (1999) writes critically, "in a country based upon rents, and therefore filled with preferences, corruption, and depression of ... economic ... variety, all sectors of the society have been affected by rentier consequences. The Venezuelan 'private sector' has little experience

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591 Interview with the director of an economic journal.
592 N.N., 1999e, p. 1.
in wealth creation. Many of its ‘businesses’ are based upon the political rent distribution system which has caused the national problem.\textsuperscript{594}

As one can see in the figure below, the government is in the middle and everybody is depending on it for their share. Venezuela can be considered to be a hand-out nation. The first in the line gets more than the second and a million times more than the last. It is important to note that it is not a network. The members of the different groups don’t mingle, they do not talk to each other that much. This means that the thing that makes a business grow is the fact that the company has a government subsidy or protection.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{rent_distributing_economic_model.png}
\caption{Venezuela: Rent-distributing economic model (source: A. Hirschbold, 2000)}
\end{figure}

Regarding import licenses for example, Venezuela does not have a formal regime. However, hygiene certificates from the ministry of Health and Agriculture are required for most pharmaceutical and agricultural imports. The government has made use of these measures to restrict agricultural and food imports to protect domestic sorghum producers. Imports of used automobiles, used clothing and used tyres remain prohibited.\textsuperscript{595}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{594} Rowan, 1999, p. 120.
\item \textsuperscript{595} examples taken from Herrera-Vaillant, 1997, p. 158.
\end{itemize}
\end{footnotesize}
If the firm has a problem with its workers, it is usually the government that intervenes and deals with these issues. For many years this model produced tremendous, wonderful growth. But it is a model that does not renew itself. It is not dynamic. So about 1970 it ran out of energy. It was no longer capable of producing the improvements that were required.

The state’s influence on daily business is still very strong. Rowan puts it this way: “Like skin cancer, politics has clawed its way into the so-called private sector, silently and effectively doing its harm, while on the outside, the face of business has a fine, healthy-looking tan.”\textsuperscript{596} For many simple things one has to get a permission from the state. This generates corruption again. Success in business often depends on state favouritism in many cases. If a company gets in the right position politically, it can be very successful. “If it loses its patrons, it fails or goes away. Companies come and go, succeed or fail, based not upon products and services, price and strategy, but on one key factor: Are their patrons in power or not?”\textsuperscript{597}

6.1.4 Geographic reasons

Venezuela is located 5 to 10 degrees north of the equator. People therefore have to face extreme climatic conditions, e.g. heat, draught, and heavy rain during the wet season. Because Venezuela lies in the tropics, the four seasons do not exist. Therefore they don’t have to prepare themselves for the winter and don’t have to think nine months in advance. This might sound simplistic, but it serves as a reason for the lack of long term planning. The physical characteristics of the country, like the Lago di Maracaibo, the biggest lake in Latin America, high mountains (The Andes), and the Amazon Forest in the South contribute to the fact that distribution channels in Venezuela are deficient and not easy to establish. On the other hand, countries like Switzerland have unfavourable geographic settings as well, but have managed to develop an effective infrastructure.

\textsuperscript{596} Rowan, 1999, p. 120.
\textsuperscript{597} ibid., 1999, p. 120.
6.2 Consequences

6.2.1 The business landscape of the private sector

There only exist very few large and many, many small and medium sized companies in the private sector. The following chart shows the biggest private employers in Venezuela. The largest Venezuelan private company in terms of workforce is Polar, a domestic brewer with more than 17,000 employees. Second comes the privatised telephone company CANTV with 15,751 or 7,000 workers depending on the source of information. Banco Provincial employs roughly 10,000 people. Interestingly enough Polar is the one really big company that can be placed in the secondary sector that is rather underdeveloped in Venezuela.


There is some production of basic foodstuffs, but in terms of manufacturing and producing goods like machinery or consumer products Venezuela has been traditionally weak. The main reason certainly is due to the fact that there has not, as already

indicated, been a proper industrialisation yet. Hence, export except for oil has never been a strength.

Seven out of the ten biggest firms belong to the service sector: a telephone company, 5 banks, and one company of the electricity sector. The two remaining companies belong to the traditional steel manufacturing sector: SIVENSA, Siderúrgica Venezolana, and SIDOR, Siderúrgica del Orinoco. According to the data tables only around 30 companies employ more than 2,000 employees in Venezuela.

Following the statistics from OCEI, the Central Office for Statistics and Information Science, it can be seen, that 75 percent (or 9,431 units) of all registered businesses in Venezuela in 1996 employed between 5 and 20 people. Only 6 percent of all businesses, which amounts to 782 companies employ 100 or more workers. These firms are called “big companies” in Venezuela.

The figure also shows the development of the number of companies in Venezuela since 1984. It shows that there is no significant growth in companies that employ more than 20 people. The only variable is “small companies” (5 to 20 employees) contracting or expanding according to the economic situation of the country. The number of
companies was especially low in 1993, 1994, and 1995. This being caused by the banking crisis and a relatively low oil price.\footnote{see also chapter on banks in section one.}

Another fact that is significant for the Venezuelan business landscape is the high level of informal economy. It accounts for more than 60 percent of the GDP.\footnote{N.N., 1999f, p. 4.} It is believed that only 2.6 million people are employed formally. 1.4 million of them work in the public sector, the rest works equally in industry or in the service sector. This also means that only 2.6 million people pay taxes – quite an insignificant number.

Who owns the companies?
Between 80 to 90 percent of the companies are private and family owned. Family conglomerates are still commonplace, especially in the state of Zulia with Maracaibo as its capital:

"We have a newspaper here, also an insurance company ... and a metallurgy plant. ... I manage a real estate company, shopping centres, cement business also, which I am not actively involved in, but occasionally. ... We
are busy in many different areas, sectors. You could call it a conglomerate or a financial group.\textsuperscript{601}

Only very few companies are publicly traded. They are managed professionally by people who do not belong to the family, yet these firms are still family owned.

There is only very little foreign ownership and only in certain sectors; for example, telecommunication, automotive, cement, and food.\textsuperscript{602} After the collapse of the banking sector in 1994 and 1995 foreign participation was encouraged, with the result that by 1999 foreign banks had a 42 percent share of total Venezuelan banking.\textsuperscript{603}

Only domestic markets are served, and little cross-border investment occurs. Under the 33 leading transnational companies in Latin America the Organización Diego Cisneros (one of the biggest family-owned Venezuelan business conglomerates, having engagements in retailing, food and consumer products, broadcasting, information and communication) is the only Venezuelan company.\textsuperscript{604}

\textbf{6.2.2 Composition of the managerial class}

Most of the time these family conglomerates are run by members of the family.

"My father was president of the company, so I took over when he passed away about ten years ago."\textsuperscript{605}

"(The companies) ... are inherited from fathers to children."\textsuperscript{606}

If we take the famous shipping company H.L. Boulton & Co., for example, we can see that the president of the board of executives and president of the company is Roger Boulton. Dr. J. Howard Boulton is senior vice president. William H. Boulton is second vice president. Henry L Boulton is principal director. Alberto, Lukas C. and William A. Boulton are also directors.

It happens frequently that key positions are staffed with family members for various reasons. For security reasons the financial part is often managed by a member of the family. Many cases of kidnappings have occurred in Venezuela. Once it was discovered

\textsuperscript{601} Interview with the manager of an electronics company.
\textsuperscript{602} ECLAC, 1998c, pp. 63, 124.
\textsuperscript{603} Salomon Smith Barney, 1999, p. 3.
\textsuperscript{604} ECLAC, 1998c, p. 148.
\textsuperscript{605} Interview with the manager of an electronics company.
that an employee had passed on information to a group of kidnappers about the company's group finances so that the kidnappers knew exactly how much money there was.

Some managers are of the opinion that Venezuelan employees need to be constantly controlled and supervised and it is best to exert control via family members, because they are the only ones one can trust. For some this is the reason why many of these family businesses have developed so well.

"The father is the president, the son is responsible for the production, the daughter runs the laboratory, and the mother looks after the money." 607

Another reason lies in Venezuela's protectionist past. People are promoted not because of merit, having work experience, or proper education, but because they have strong family ties. The number for personnel rotation at the middle management tends to be high, because there exists only a small chance of entering the top management of the same organisation. The following quotation gives some idea of the different alternatives an ambitious outsider might have to face:

"From the beginning on it was made very clear that I was only allowed to become a manager of a department, the higher positions were reserved for the family. Either you marry a daughter of the family or you change your family name. Both things were not alternatives for me." 608

Promotion at high level is rare or it ends up being only for family members or for those people related to the top executives. As the top positions are reserved anyway, Venezuelan companies tend to invest too little in the professional development of their middle management. People end up having more years of experience, but not necessarily more years of knowledge and professional development.

For the executives of large family firms it is quite common to hold several international university degrees, most of them acquired at prestigious business schools in the USA. It is very popular to send the children to Wharton or Stanford. Managers who graduated from these schools tend to be very proud on their achievement and it is common practise to hang the diplomas and certificates up the office walls, certainly to show visitors that they are true professionals with strong academic credentials. This is to make others believe that Venezuela "no longer is a banana country. If somebody comes

606 Interview with the maintenance manager of a transportation company.
607 Interview with the general director of a chemicals trading company.
608 Interview with the manager of a company related to the steel industry.
up and tells us how to bake bread, we can do it now. We have been to the universities, for instance myself. I am an engineer and I have two masters degrees. One in engineering and one in business administration and finance." This statement reveals two other things: Venezuelans in general are very proud and want to be treated as coming from a Western country. Secondly the state's expenditures on tertiary education are quite high, while basic education is neglected.

The importance attached to a sound higher education especially in Latin countries can be reinforced by looking at the Loughborough survey. The different countries' responses to the proposition

Higher education and intelligence are important in enabling managers to see things clearly and to make rational decisions

says it all:

Venezuela and Spain representing Latin cultures had the highest mean scores (agreeing strongly), 4.09 and 4.02. At the other end of the scale was the British sample with 2.99. The UK as well as the USA and the German sample show a statistically significant difference when compared with the Venezuelan sample.

Generally speaking there are two types of managers in Venezuela. One group are the professional managers, people who have been trained either in Venezuela or outside the country, working for big enterprises in the private sector. A second group is made up of the owner managers, who run all these many, many small companies. Most of them have not been trained professionally and lack academic education.

What is the origin of the managers?

This question might sound basic, but its answer is quite astonishing:

Not Venezuelan. There are few real Venezuelan managers. They are mainly foreigners.

"You will hardly find a Venezuelan who doesn't have European roots: Spanish, Italian, German or Hungarian or whatever. ... The biggest firms here are in the hands of immigrants."

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609 Interview with the director of a Venezuelan bank.
610 Statistical evidence can be found in Enright, Francés, and Saveedra, 1996, p. 207.
611 see also Appendix X.
612 Interview with a management consultant.
"The typical Venezuelan entrepreneur is not Venezuelan. There are very few purely Venezuelan companies. If you have a closer look, they are Spanish, Portuguese, Italian, East European, North European." \[613\]

So how come there are only few Venezuelan managers?

This is the consequence of the reasons discussed in the previous chapters: state protectionism, windfall gains of oil, rentist mentality, lack of education and enlightenment, impressive population growth. All these facts are hindering the development of an entrepreneurial spirit in Venezuela. Some managers feel that the government has not really supported private industry for the last 30 years. Private entrepreneurialism tended to be controlled along socialist lines (for example the telephone company was not allowed to increase the prices, pharmaceutical products and clothes had to be sold cheap) than fostered or stimulated. Thus very few management positions have been created in industry over the last decades. \[614\] If demand is small, supply is small as well. Thus compared to countries like Colombia, Peru, or Mexico the number of able Venezuelan managers is low.

Immigrants on the other hand came with empty hands to the country. Many of them lost everything during the various wars in Europe and learned that the only thing no one can take away from them is their knowledge and their brains. Obviously all these people have a Venezuelan passport and speak Spanish at home, but they still have a strong European roots.

"My logistics manager is a German. She has been here for more than 20 years and has got a Venezuelan passport, but she is German. The assistant is a German-Venezuelan, born here, ... the second assistant from this department is Portuguese. She was born here, is 35 years old, Venezuelan, but Portuguese blood. My finance manager is a funny mixture between Lebanese and Cuban-Spanish origin. My marketing manager is a pure Spaniard. My personnel manager is of Czech origin. My medical director is Sicilian. I repeat: all Venezuelans." \[615\]

Given this cultural mixture, business people tend to be friendly and open towards foreigners. "We are not xenophobic." \[616\]

Another reason why Venezuelan management is dominated by foreigners is the fact that many Venezuelan families send their children to schools in the United States or Europe.

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\[613\] Interview with the general director of a chemicals trading company.
\[614\] This can also be concluded when looking at the development of medium sized and big companies; see figure 29 "Size of companies in Venezuela, 1984-1996."
\[615\] Interview with the president of the Venezuelan subsidiary of a German multinational pharmaceutical company.
\[616\] Interview with the vice president of a Venezuelan bank.
Many of these students do not return to Venezuela, because they prefer to start a career in the USA—a more competitive environment but with higher salaries, better infrastructure, and more professionalism. This phenomenon is widely known as *exportación de cerebros*, the export of brains, or *la fuga de talento*.617

The ones who return may have studied in the USA, but are European at heart.

It could have been shown that top management posts are mostly taken by European immigrants of the 20th century or their children. Estimates say that around 70 percent of all middle and high managers are of European origin. According to a study from FEDECAMARAS 68 percent of the registered managers were not born in Venezuela.618

This phenomenon can be found neither in Mexico or Peru nor Spain.619

But there are also managers who originate from families that have a tradition of almost 500 years in Venezuela. As the Enlightenment never occurred in Venezuela or any comparable movement, these strong families originating from colonial times are still influential. They are called “Amos del Valle” and are landowners whose properties were then transformed into manufacturing companies, i.e. steel works, or banks.

Moving down the companies’ hierarchies, one discovers that starting at middle management level people become increasingly more Venezuelan: darker skin or foreign traces go back more than 100 or 150 years.

6.2.3 Tasks of a manager

Normal rules of business success do not seem to apply in Venezuela.

According to general business practise in Europe, companies normally gain their income through two sources: revenues resulting from innovation, and from market penetration.

The first group includes innovation processes, product innovation, process innovation, and organisational innovation. Secondly, market penetration means new markets or a larger share of existing markets.

Furthermore, income can be generated by means of an increase in productivity or through investment.

618 This study is 10 to 15 years old, thus dated, but it still serves the argument.
The rule that profits should come from innovation and more sales does not work for Venezuela. Furthermore companies do not enjoy income from financial deposits because the firm's capital and profits get transferred immediately to Zürich, New York, or to off-shore banks.

"The entrepreneurs are rich, the companies are poor in Venezuela."\textsuperscript{620}

In Venezuela, income results from various other sources:

- Monopolies
- Protectionism
- Subvention from government
- Tax evasion
- Corruption
- Natural resources
- Low wages

First of all many sectors of the economy, especially before foreign investors started to enter the country, were monopolised via commerce, trade, and distribution channels. The distribution of medical products for example is in the hands of a single family, which owns two distribution companies. Thus they can make a profit due to their monopoly.

Secondly, income has been achieved via a high level of protectionism. Domestic production was supported via high import taxes and tariff barriers. Venezuelan companies oriented their prices close to the prices of foreign products. This of course leads to inefficiencies in the production process, higher prices, and bad quality.

Thirdly, as the government adopted the scheme of sowing the petroleum, the sectors of agriculture and industry were highly subsidised.

Fourthly, companies try make an indirect profit by avoiding taxes.

A lot of business success is not the result of competition, best pricing, good quality, or the punctuality and reliability of delivery, but are the result of corrupt practices. This not only harms the efficiency of any given company, but it undermines the productivity of

\textsuperscript{619} According to a partner of a Venezuelan consultancy.
\textsuperscript{620} Interview with the director of an institute for social studies.
the whole nation, because it destroys all the efficiency gains that are made through market processes and competition.

The money that is gained through the exploitation of natural resources cannot be considered as a real income. The revenues resulting from petroleum extraction have more of a rent character.

Finally income is realised through comparatively low wages. According to a study of the United Bank of Switzerland, the lowest salaries are paid in Nairobi, Moscow, Prague, some Asiatic countries, Mexico, and Caracas.\footnote{UBS, 1997, p. 27.}

This has an impact on the tasks of a Venezuelan manager. He does not search for innovation processes or ways to enlarge regional markets, but rather he tries to optimise and maximise these other sources of income. So he thinks about how to evade taxes, how to strengthen his monopolistic situation, or how to receive subsidies from the state. Thus he is not close to the market but close to the ministries where the subventions are distributed. The former minister of development put it in the following words:

"Here it is very important to have good connections to be able to retain the rent. That is an ability that has to be developed to be more opportunistic than to be productive and competitive in the market. That is the fundamental trend and also an explanation for the Venezuelan crisis."\footnote{Interview with the former minister of development.}

Thus, the most cyclical but effective business strategy is to appear uninvolved in politics "while corporate tentacles secretly reach into the bedrooms and bank accounts of judges and politicians. Play the game while pretending the opposite. ... The appeal of rent is simple. Unearned income is preferable to earned income."\footnote{Rowan, 1999, p. 120.}

Venezuelan managers do not seem to be concerned with efficiencies in the way that European managers are. The tasks of a modern manager, for example, strategic thinking, the implementation of modern communication styles, teamwork, new production processes and models do not seem to arouse their interest. These things are not important to Venezuelan managers because traditionally they do not earn their living from these things.

According to a management consultant, what a manager does to be successful in Venezuela is different from general practice. The different way also dictates different
tasks. The underlying mental map was discussed in a previous chapter. The following figure conveys his opinion:

![Mapa mental - Ways to success](image)

Figure 22: Mapa mental - Ways to success.
(source: Interview with A. Szilagyi, 2SP Consulting, 1999)

Due to the cultural conditioning of the feudal times and the época Saudi, i.e. "if I come to terms with the Spanish crown, in contemporary Venezuela the government, I will benefit," or "let's try to get a hold of these funds, so we receive some rent;" the values of hard work, decency, and achievement are not highly thought of in general. Venezuelan managers discovered that it is far easier to be successful if one works with attributes like connections, corruption, networking, favouritism, and abuse of governmental power. So very frequently managers in Venezuela choose the easier way in order to achieve success in business. Hence, when Lawrence and Edwards (2000) write about American management that it "is imbued with a bias for action," the same applies for the Venezuelan way, but in a completely different form.

In combination with the first three sources of income, viz monopoly, protectionism, and government subvention, it means the following in practise: Help the potential next government in its election campaign, i.e. invite the designated president to use your

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624 Lawrence and Edwards, 2000, p. 23.
private plane. They come to power. You are the producer of some mechanical pumps. Via your good connections to the new government, a law gets established that bans the import of those pumps via high import duties. So overnight you become the monopolist for pumps.

"This is the way the whole economy works. Many entrepreneurs have lived out of the government's shadow." 625

Again, normal rules of business do not apply. Managers search for the power, because via this power they can achieve success without having to think about restructuring their internal processes, or implementing new marketing strategies. Rowan argues the same way by stating, "the lack of management skills is directly related to the irrelevance of knowledge in a culture based upon rents." 626

But there are some exceptions. It is not all doom and gloom. There are certainly some companies that are managed in a modern way, especially those that are foreign owned, for instance some of the banks. There, people start to think more about productivity, efficiency, innovation, and market orientation.

But even if domestic companies want to be innovative and sophisticated, continuous growth is made difficult because of a volatile government and a fluctuating economy. As the rules of the game are changing frequently it is difficult to grow a business continuously. It is more important to be highly flexible to respond quickly to unforeseen circumstances. It seems as if some Venezuelan managers are proud of having acquired this capability:

"Europeans are not prepared for unexpected situations. They tend to be very systematic. Here we are prepared for the unexpected all the time. Paradoxically, the expected disturbs us." 627

According to Venezuelan managers one has to atrincherarse to be successful. It means a manager needs to be able to adjust, to dig in the trenches and wait out the storm.

"You have to be flexible and understand the different cycles and be able to adjust to the changes and adapt to the different ups and downs of the

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625 Interview with a management consultant.
626 Rowan, 1999, p. 120.
627 Interview with the director of a publishing company.
Another manager called it the “capacity of adapting to change.” A third one called his firm “an accordion type of company. When there is a lot of work, it expands, and when there is little work, it contracts.”

Managers also have to be on top of creativity. An American-Venezuelan personnel manager of a petroleum company stated, that in Venezuela managers need to be more creative than in the USA, because they face more problems in a day.

It is widely felt that the government and public institutions exert a strong influence on doing business on a daily basis. Getting permits from all institutional levels tends to be quite time consuming and stressful.

Another task of a Venezuelan manager that is different from European management and very time consuming is apagar fuegos, extinguishing fires. These fires can be things like: a permit that does not emerge from some governmental office, people that did not come to work, a spare part that has not been able to come through customs.

This leads to the next paragraph that deals with issues of doing business. It also answers the question, what makes business hard in Venezuela.

### 6.2.4 Absence of an industrial infrastructure

It starts with simple things. Things that seem normal for Northern European and American managers do not work in Venezuela, like telephone billing or daily mail. The Venezuelan postal service, Ipostel, is considered quite inadequate. It often takes more than a week to deliver letters within Caracas. Sending packages and parcels via Ipostel is not advised, as they can disappear without a trace.

If people want to send letters from Venezuela to Brazil for example, it happens that they ask visiting relatives or friends from Europe to take the mail with them and post it in Europe to make sure that the letters will make it to Brazil, a neighbouring country!

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628 Interview with the manager of an electronics company.
629 Interview with the general director of a newspaper.
630 Interview with the general manager of a construction company.
Another possibility to avoid Ipostel is to rent postal boxes, run by companies operating out of Miami or apartados (post-office boxes). In addition many companies take advantage of private postal services. Private courier companies deliver the mail then to Venezuelan households. Many businessmen make use of this costly alternative, although there are problems involved in this procedure. It happens that the mail takes more than 6 weeks to arrive, because any incoming package is treated as an import and has to go through customs with all the associated forms and clearance procedures - even letters! So if the customs officer cannot be bothered to get on with your mail, you will not receive your mail. As for customs procedures, Venezuela does not rank high. Corruption and antiquated procedures, which commonly delay the clearance of incoming goods, are frequent.\(^{632}\)

There also exist some companies who employ courier services. Door-to-door delivery is offered by "employing" travellers who carry mail as part of their luggage allowance, thereby avoiding delays in customs.

The joke about German hell and Venezuelan hell says it all, as told by the director of a business journal:

"Two evil persons, one German and one Venezuelan are condemned to hell. Many hundred years later, they meet and the German says 'Well, I am suffering everything, fire, heat, and pain.' The Venezuelan from the Venezuelan hell says, 'Well, I am doing very well, because in my hell, when the fire extinguisher works, there is no gas, and when there is gas and the fire extinguisher does not work, the guy who is the devil who lights the gas does not come, so I have never been burnt in 500 years.' That is the difference. While the German hell was very efficient, the Venezuelan hell did not work. This is a joke, but it really illustrates the situation quite well."\(^{633}\)

Many managers blame the fluctuations of the economy, recession and inflation as hindering middle term planning. As the economic cycles are so insecure and unpredictable, it is difficult to seriously plan for expansion. Expansion is considered to be a very delicate issue.

\(^{632}\) Herrera-Vaillant, 1997, p. 158.
\(^{633}\) Interview with a director of an economic journal.
Although Venezuela’s road network is better than in most of the other Latin American countries, the country is not well connected to its neighbours. This hinders continental trade and expansion. 

But even just doing business on a domestic level is problematic. For safety reasons it is impossible to work later than 6 o’clock in the evening, because especially in businesses like textiles, the personnel is mainly female. Because public transport is not available in the evening and the streets are very insecure, manufacturing businesses close their production facilities at sunset.

This puts them at a big disadvantage compared to their American competitors because they can work three shifts, thus they can produce threefold with the same capital expenditures.

Secondly, the cost of capital is very high. Interest rates vary between 40 and 50 percent,\(^{634}\) making it almost impossible to develop a business in terms of growth:

“For a company to grow in this country, it’s a headache. ... There exist no possibilities for growth.”\(^{635}\)

Another big issue is the social structure of Venezuela. It is required by law that at the beginning of each school year mothers need to go to school personally to register their children. If they don’t do it, the kids are not allowed at school. It can take hours or even days, and during that time the women cannot go to work.

The service sector poses problems also. In case of illness, getting to see a doctor can take weeks, and if you get to see one, it is most likely that you have to take care of your own medication, or bring your own vaccine and syringe. Most of the employees cannot afford to buy medicine, therefore it is up to the boss to help his subordinates.

Some interviewees speak of a “collapse of the public services”. One manager said the consequence of this is that Venezuela is “developing a whole working class that is under-prepared, and under-trained to deal with anything resembling modern economy.”\(^{636}\)

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\(^{634}\) N.N., 1999f, p. 4.

\(^{635}\) Interview with the president of an engineering company.

\(^{636}\) Management with the director of an economic magazine.
6.3 Industrial culture

Another way of expressing the findings of the section about the reasons why Venezuelan business culture differs from others is the fact that Venezuela never developed a Western industrial culture, one that is based on science and rationality. It seems as if Venezuelan managers and especially Venezuelan employees are grown up kids. In many instances the researcher experienced a high level of immaturity and naivety and a severe lack of professionalism. This does not necessarily have to be bad. An Argentine manager working in the chemical and pharmaceutical industry prefers the Venezuelan way compared to the Argentine management style:

"I come from a country like Argentina where everybody foams over with intelligence. Here in Venezuela people are very nice and easy to live with. The naivety results from the fact, that the Venezuelan government subsidised everything in Venezuela. People had a very easy life and they did not have to be hyper-intelligent to survive." 637

A mind's play:
As mentioned in the chapter on education and the rule of law, we learned that Venezuelans generally do not like to follow rules. Now how can the naivety be used to influence peoples' public behaviour in a positive way?
Let us take the case of the metro of Caracas. People tend to behave there. They behave like gentlemen. People follow the instructions very clearly and they don't damage the installations. They keep everything clean and tidy. Why?
When the subway in Caracas was created, two paradigms were combined: The museum and the temple. In a museum and in a temple you behave yourself, even if the temple does not belong to your religion. There are works of art in the metro. The stations are designed by distinguished architects. Most of the people do not understand the works of art, but this is the important part: they do not have to understand it, because you respect more the things you do not understand than the things you do understand. That is the secret of religion, too. You do not comprehend the trinity: that is why you adore it. 638

The hypothesis of the existence of naivety will be strengthened and illustrated by a few examples that struck the author most during the field work stage in Venezuela.

637 Interview with an Argentine manager of the Venezuelan subsidiary of a German multinational pharmaceutical and chemical company.
638 The paragraph is based on a testimony provided by the director of an economic journal.
Although Unions do not play an important role in the Venezuelan private sector, bigger companies have to deal with Unions regularly. One manager of industrial relations revealed during an interview when asked whether he talks business over dinner or not, that he prefers to deal with the Unions at breakfast time.

"I do more breakfasts than dinners because my negotiations fundamentally have to deal with Unions. ... And sometimes important decisions have to be taken and if they are drinking then we do not make serious decisions. In the morning they are not drinking."\textsuperscript{639}

Another incidence that reflects childishness at national level is the following story. A manager imports TV sets. At the harbour he gets told by the customs, that they need to take a sample and if they are not allowed to do that, he will never see his freight again. When asked how many samples they need to take, the answer was two TVs. When the container was opened in Caracas by the manager, seventeen television sets were missing.

This 'missing numbers' is a perfect example of the lack of objective rationality and the dominance of emotions.

"If we take the model of reason and emotions, then we can see that here the heart is bigger and the head is smaller. In Central Europe most of the times the head is much bigger and the heart is much smaller. People even have a relatively negative attitude towards emotions. Many decisions are only taken on a rational basis."\textsuperscript{640}

Another example is the fact that business meetings always have to be reconfirmed. If you agree on a meeting date and you show up without reconfirming a day before, it happens that your partner has not got a clue that you are coming.

\subsection*{6.3.1 Derecho adquirido}

In this section it will be shown how the acquired rights argument, \textit{derecho adquirido},\textsuperscript{641} manifests itself in the industrial culture.

"If I have a good year in terms of business, and I give a bonus at the end of the year, I have to give this bonus again next year to my employees too, because they have received it before. This is one of these \textit{derechos adquiridos}, they already have a right for it."\textsuperscript{642}

\textsuperscript{639} Interview with the manager of industrial relations of a brewing company.
\textsuperscript{640} Interview with a management consultant.
\textsuperscript{641} See chapter on the "Way of colonisation".
\textsuperscript{642} Interview with a management consultant.
Therefore many companies watch for these types of bonuses, because it means, when these benefits are given to employees once, they can turn into part of their salary and have to be given the following years as well. This can have a snowball effect and in case the employees have to be laid off, it can get very expensive for the company.

The problem lies in the fact that the whole nomenclature is based on rights and not on duties. The Working Law tends to be very protective and it is common place that people who get fired try to sue their employer.

The president of an insurance company in Caracas answered the question whether loyalty was a problem or not with the following words:

"Always. You don’t know an employee until the day you fire him."643

6.3.2 Desire to claim things

As the rent-seeking mentality is deeply embedded in the Venezuelan psyche, one can find its traces in daily business as well.

If a company offers a 10 percent discount for fast payment, Venezuelans will claim the discount, i.e. take off the 10 percent, but pay weeks later.

Venezuelan customers and clients prefer to get served by the "presidente" or the "gerente". This has to deal with the fact that they want to be respected and they like to feel important. It is very important for Venezuelans to be socially accepted and appreciated as human beings.

The simple consequence is that even an employee who would be on the professional level of an analyst in Britain, is called "gerente" (manager) of something, even if he has not got a secretary or any subordinates that work for him. Thus the Venezuelan proverb of muchos caciques y pocos indios, too many chiefs and not enough Indians, fully applies; but then again only in the sense of enjoying the rights and not having to put up with the duties as well.

Venezuela can be described as a society marked by parent-child relations. On a national level, the people expect president Chávez to fix everything like a family father. It is the state’s task to make sure that everyone enjoys life. It is still widely believed in the

643 Interview with the director of an insurance company.
population that the state has enough money to take care of all Venezuelans. People just don’t see the point that it is not only the fault of corrupt politicians, but that they are also responsible for their own personal development. Instead they refuse to take responsibility and constantly blame somebody else for their misery.

At a much lower company level, Chávez’ position is assumed by the firm’s boss. Employees expect him to have precise answers to their problems, because they are too lazy to think or to work out an idea by themselves. They also feel that they are weak and cannot exert any influence on the environment that surrounds them. This phenomenon is called externalidad de control, the externality of control.

“Venezuelans tend to think more of a boss that says what you have to do, and not leave you on your own to decide what to do.”

This can be understood as a direct consequence of the lack of education and enlightenment.

Venezuelans tend to be very proud but not ambitious. Some interviewees call it a Latin arrogance.

This shows for example in the general lack of a service mentality. Shop assistants don’t offer their help. They are not well informed about the product either and receiving a Buenos Dias and a smile when entering a store is something a customer needs to wait for very patiently. The manager of a supermarket chain explains it with the following words:

“The employee believes he is doing the customer a favour.”

In fact it can be noticed that the Venezuelan per se does not sell a product, but he waits until people buy it from him.

The fact that people are not service-oriented manifests itself the in the way a telephone company reacts to complaints:

“I am a telephone company. I did you a favour, I gave you a telephone. So why are you here to complain about your bill?”

Another example for a certain kind of arrogance can be inferred from the following pattern of conduct that has been described by various interviewees. Once a Venezuelan employee gets promoted and grows a little in the organisation, he starts to abuse his

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644 Interview with a manager of an investment company.
645 Interview with the president of a supermarket chain.
646 Interview with the director of a company that publishes information on the economy.
newly gained power by treating the lower ones badly. For example he wants his subordinate to clean his shoes. Therefore upper management has to keep an eye on him to check whether he uses his authority correctly or not.

Generally, Latin people like the flavour of power. Managers also had the impression that their employees tend to confuse private life and business. They overuse power to obtain personal favours. This behaviour can also be observed in the public sector. It is common practise that political parties use their political power as a means to gain access to public sector jobs for their members and supporters.\(^{647}\)

6.3.3 Conflict avoidance

"Probably the avoidance of conflict is a character trait. You try to avoid a conflict, because if not, then let us really have a big one, and then let us have a personal one. Let us may be shoot each other. So if we really want to have a conflict, let us make it a nice, big, heavy one."\(^{648}\)

Conflicts at the workplace are generally seen as harmful, threatening, and something that should be avoided.

The Loughborough study leads to the same conclusion, i.e. the existence of a high level of conflict avoidance. The proposition:

A manager should constantly challenge how things are done rather than deferring to hierarchy and precedent

was not accepted by the Venezuelans (mean of 2.91) being statistically significantly different when compared to the British (4.16 !!) and the US-American sample (3.93).\(^{649}\)

As Venezuelans tend to personalise anything, criticism is something that always directly hits the person per se and not the work he or she has done. Therefore it is hard to find a Venezuelan who admits a mistake, because this would put him in the position of getting told off and taking the blame. Hence, it is never their fault. There is always somebody else to blame.

If there is no one else to blame, it happens that Venezuelans reinvent the truth. The expression *El vaso se partió*, the glass broke itself, serves as an example to show that it


\(^{648}\) Interview with the director of a company that publishes information on the economy.

\(^{649}\) see Appendix XI.
was somebody else's fault, i.e. a poor quality of the glass is responsible for its damage. The expression of *I broke the glass* exists, but gets hardly ever used.

Another nice example, that also shows a certain level of arrogance, was told by the purchasing manager of an oil company. When the agent of a shipping company was asked why one of the crates was soaked after being shipped over from Europe, he answered:

"Quien sabe, donde se mojó." (Who knows, where it wet itself)

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The good thing of this high level of conflict avoidance is the fact that strikes rarely occur. Workers can be described as *pacíficos* and strive for harmony at work. Whenever the researcher came up with the question "What do you do, if your employees go no strike ?" answers always pointed in the same direction. For example:

"Look, in the 39 years that we have been around, we have never had an employees' strike. ... It is a Venezuelan phenomenon. ... They are peaceful."650

On the other hand, a Venezuelan general director of a newspaper called it "the most important thing ... to avoid getting into" strikes. The maintenance manager of a logistics company even said, when asked how he resolves problems and conflicts in the company:

"Thank God I have not had conflicts or problems."651

So both sides, employees and employers, try to slide around problems, strikes, and conflicts proactively. It is believed by the managers that employees only go on strike, take this "drastic measure", because nobody has paid attention to them. Therefore it is up to the employers to make sure that their staff feel comfortable at work.

The motivation for employees to avoid conflicts is a different one. As described in the chapter discussing the colonisation experience, loyalty is not directed towards the organisation, but towards the company's leader, because through him people hope to acquire benefits and power. Therefore it is important to come to terms with the boss. Hence it happens in business meetings that people do not discuss their different views on an issue. They rather prefer to keep quiet and nod their heads, because any kind of confrontation is considered as irreverence against the hierarchy.

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650 Interview with president of a supermarket chain.
651 Interview with the maintenance manager of a transportation company.
In Germany there exists something that can be called "a culture of conflict", the \textit{Kultur des Konfliktes} or \textit{Streitkultur}. For German employees it is important to utter criticism once in a while to make a point, to stand up for the truth, and not to appear to be spineless. In Western cultures conflicts are often discussed publicly. They are considered to be a productive element of management.\footnote{see Berkel, 1984, pp. 1-30.} In Venezuela this kind of culture does not exist. Discussions at the workplace are much more personalised, the emotional component plays a much stronger part.

Additionally, evidence can be added by looking at the Loughborough survey. The proposition:

\begin{quote}
A manager who frequently challenges how things are done is less likely to be promoted
\end{quote}

was rejected by the German sample with a mean of 1.68. This reinforces our claim of the existence of a German \textit{Streitkultur}. Venezuelans' behaviour was significantly different in the statistical sense (mean of 2.91).

If you are right, you might lose a friend. People do not want to hurt anyone. They are very sensitive. The consequences of an improper way of criticism are explained by the general manager of a company that sells office equipment:

\begin{quote}
"Even if you are right, even if they are wrong, if they did the worst things possible, if you are really going to hurt them and bitch at them, then you have to fire them. ... They take it as an insult, if you yell out loud in an improper way, and from that day on, you will have lost the loyalty of that person, you are going to get sabotaged. If you get to this point, it is better to fire them."\footnote{Interview with general manager of a company that trades printing material and photocopiers.}
\end{quote}

So if there are things to criticise it is important to choose the right tone and the appropriate words. Disagreement should never be expressed in plain terms, nor in front of others. Subtlety is more valued than straight criticism. The downside is that it is easier to cause confusion than clarity.
The tendency always to blame someone else does not only occur on a company level, but at a national level as well. Papers blame the International Monetary Fund, the price of petroleum and the globalisation of business for Venezuela's woes.

6.3.4 Commitment

As the Venezuelan worker feels powerless and intellectually inferior, a low level of discipline, commitment, creativity, and imagination exists in general. This also harms motivation, eagerness, and the will to achieve things. Many managers complain about the general lack of a sense of duty, responsibility, and reliability.

"I don’t know if it is heritage, but Venezuelans and Latinos in general tend to be very problematic when it comes to work."\textsuperscript{654}

"You have to tell the people, \textit{do this, do that}. Workers are less creative."\textsuperscript{655}

One always has to control and constantly supervise. Managers feel that they always have to be on top of things at all levels, because Venezuelan workers do not have the urge to do things quickly. This makes delegating work difficult, too.

"If you tell your employee on Monday to do something, either you repeat it on Tuesday or he will have forgotten it."\textsuperscript{656}

Many interviewees consider it difficult in Venezuela to get a job done. One has to exert close supervision and a detailed follow-up of the actions that should be taken or to get middle management and workers do what they are supposed to do. But even then it is practically impossible to get people do their duties punctually. The Venezuelan worker is often described as somebody who can sit still for a whole day without getting any work done at all.

The will to work out a detailed solution to a problem is not very common in Venezuela. People enjoy fixing an emergency problem if it can be done quickly, but if it involves long term commitment, Venezuelans tend to lose interest and enthusiasm. This firefighting mentality helps to resolve immediate issues in a superficial way, but many times these solutions tend to be short term oriented and simply not good enough. They are very creative with things they haven’t got a clue about. This can be very dangerous sometimes.

\textsuperscript{654} Interview with the president of a construction company, mainly in the sector of petroleum.
\textsuperscript{655} Interview with the personnel manager of a petroleum company.
\textsuperscript{656} Interview with a management consultant.
The lack of commitment can be considered a serious problem:

"Middle management and professionals of the lower parts of the organisations ... just tend to forget that they have a responsibility and that they should be proud of their job."

Some managers also complained about the fact that they have to supervise operations that would normally be controlled by the middle management, such as monitoring the cash flow, checking cheque payment, control over the payment of goods and services.

When wondering why Venezuelans tend to be less committed to work than employees from other countries, e.g. Germany, Great Britain, or the USA, Hofstede's study (1980) on cultural dimensions is helpful. Venezuela scored extremely low on the dimension of individualism (12 points) compared to other countries: USA 91, Great Britain 89, Germany 67, Spain 51, Argentina 46, Chile 23.

Although the study is more than 20 years old, because Hofstede did the survey in 1968 and 1972, Venezuela can still be considered as a highly collectivist country. Cultures that show this trait put a strong emphasis on groups in general. The collectivist prefers a tightly knit social network that integrates him emotionally into a big family, clan or any other group. Societies that are extremely collectivist, like Venezuela, are especially loyal to one particular group: the family. Indeed, this phenomenon is called familism. Therefore it happens that Venezuelan employees are more loyal to the family than to the company. This can cause a high rate of absenteeism, especially if families do not appreciate the importance of a family member's work contribution.

"If the supplier does not deliver on time, I am sure that he has a good reason why he has not delivered, and one of the most common problems here ... is that people do not go to work Monday mornings. It is very, very common. Work absenteeism Monday mornings is terrible."

A brewing company made an in-house survey concerning the problems that caused absenteeism from work. A common reason put forward by the employees was the following:

657 Interview with the socio director of a consulting company.
658 see Appendix I.
660 Interview with the president of a construction company, mainly in the sector of petroleum.
"I miss work, because my wife, my partner tells me to go with her somewhere else and not go to work." \(^{661}\)

So the Venezuelan worker does not miss work because he is lazy, but because he values the concerns of his family more highly than the obligation to work for his employer. Family bonds are very strong in all of Latin America. For a manager this means that he has to make the employee feel at home. Only if he starts to believe that the company is part of his family, and his family thinks the same, can full commitment and loyalty be achieved. Therefore as a manager one cannot separate the worker from his family:

"I have to pay attention to both of them." \(^{662}\)

Another fact that shows that Venezuelans value the time they spend with their families more than working time can be seen in the employees' conduct 10 years ago. During that time banks started to pay high interest rates. What happened was that many people chose to get fired to invest the redundancy pay and the liquidaciones, a bonus an employee receives when he withdraws from his job, at high interest. Even people who had been working at the company for many years left the office, because they preferred being on the dole to having to work. Another anecdote was told by a former manager of a construction company. He discovered that construction workers only worked until they earned enough money. If they get paid a decent amount of money per day, it happens that after two weeks they leave for four days and spend all the money and then come back.

In other words people work to live and not the other way round.

This brings us down to the question of loyalty. Managers consider their workforce as loyal in general. But many of the interviewees mentioned that in contemporary Venezuela, loyalty has become an issue. Due to the country's poor economic situation, employees especially low grade and blue collar workers have started to develop a somewhat opportunistic view. They will leave the company, if there is somebody else who pays a little bit more. It should be kept in mind, that ordinary workers typically spend up to 25 percent of their salaries on transportation. Furthermore, the infrastructure of transport is poor. People have to get up at 4 or 5 o'clock in the morning to queue up

\(^{661}\) Interview with the industrial relations manager of a brewing company.

\(^{662}\) Interview with the industrial relations manager of a brewing company.
for a crummy bus, spend two hours in the bus and arrive at work at seven. The way back is the same thing and during the months of heavy rain and no proper canalisation system matters get worse. Having to undergo this whole process twice a day is a daunting task and harms motivation.

The underlying problem that is much more severe is the fact that companies get tired of training their workforce, because they are in danger of loosing the most educated and trained people to competing companies. On the other hand, because unemployment rates are very high at the moment, people tend to be more industrious and loyal than they used to be. It happens quite often that one will find a taxi driver who is a lawyer, or a shop assistant selling _arepas_, filled rolls made of maize, who is a medical doctor.

How to treat and motivate the workforce in Venezuela will be discussed in a later chapter of this thesis.
7 Venezuelan management

7.1 Deficient professionalism

"Productivity is a challenge. ... There is no time pressure in general."663

A lot of virtues that count in European or American management are not important in Venezuela, due to the things we have discussed earlier on. A mentality of finding funds and rent seeking does not promote virtues like efficiency, productivity, effectiveness, and achievement.

Lack of competition has allowed businesses to grow without the need for sophisticated management. Usually managers, especially of smaller and medium-sized companies are people with limited training in the management area. The director of an economic journal put it this way:

"I would like to have people like Bill Gates. He is greedy, but efficient. Of course he is a bandit, ... but that is capitalism. ... Here they have bandits, but they don't have efficiency."664

Characteristics of German management like Fachkompetenz, the emphasis on Technik, or Termintreue are hard to find in Venezuela.665

Even compared to other Latin American countries Venezuelan managers feel less professional.

"Here, in Venezuela important business chains exist, but the ones that exist in Brazil, Argentina, and Chile are light years ahead of us when it comes to professionalism."666

Although managers from the USA have been in the country since the 1920s Venezuelan management does not seem to be influenced by them too much. Whereas American companies are distinguished by their high degree of formalisation of systematic procedures, the Venezuelan counterpart has a less professional, less orderly approach.667

663 Answer of an American general manager who runs a Venezuelan-owned 5 star hotel in Maracaibo, when asked about the education of the workforce.
664 Interview with the president of an economic journal.
665 Further reading on management in Germany: Lawrence, 1980.
666 Interview with the president of a supermarket chain.
667 Lawrence, 1996, p. 72.
7.1.1 Business tools

Management is not as professional as in Western Europe or in the USA. Things like outsourcing, downsizing, or vertical integration are generally neither known nor practised, only by a few big companies, for instance Polar, as discussed previously. There are only a few activities that are out-sourced, e.g. maintenance or market research. If it is done at all, it happens spontaneously:

"We do market research occasionally. It is not as organised, not as common as we would like it to be. ... I think we are one of the few retailers that do it."

Modern tools of business in the areas of finance (venture capital, stock exchange listing), computing (SAP, internet, intranet), marketing (research, data) are practised or available very seldom. Due to the lack of competition Venezuelan companies were never forced to operate efficiently. The outcomes are widely seen in contemporary business. For instance, there is a generally low level of automation, often resulting in severe overstaffing. Due to the lack of formalised procedures and careful recording, cost control tends to be an issue.

![Traded volumes on Latin American stock exchanges](source: Salmerón, 1999)

Interview with the president of several retail stores.
Company funding is a problem due to underdeveloped capital markets. The chart given on the previous page puts the Venezuelan stock market into the Latin American context.

There are few financing options: share holders’ equity or commercial banks with unbearably high interest rates due to a high inflation rate. The first alternative is out of question most of the times, because the capital is still abroad.

7.1.2 Organisation

The organisation of a company in Venezuela no matter the size tends to be formal. Any company has an organisation chart, a mission statement, and company rules and manuals. Many companies, especially those related to the petroleum sector, had to introduce a flowchart, because of market demands, such as ISO 9000 quality control. It also happens that PDVSA inspects companies it does business with and forces them to restructure their processes. Therefore formalisation procedures come into existence because companies are forced to and not because companies feel the need to become more structured.

![Organisation chart of a private company](source: Company publication: Cei C.A., 1999)
The chart given on the previous page shows the typical organisation of a firm that is related to the petroleum industry. It can also be seen that it is family-run and all the important positions are staffed with family members, i.e. presidency, general management, purchasing department, and the department of finance and administration.

But there also exists another reason for the existence of internal flowcharts. Venezuelans are perceived to be in need of order, although its execution is totally superficial. People begin to realise that they have to bring more discipline to the organisation.

What Lawrence and Edwards (2000) wrote about Italy in this respect, seems to be applicable to Venezuela as well. Italian managers tend to the disorderly. "They are recognizing a tendency towards expressive disorder and acknowledging that it needs to be controlled by strong hierarchies and clear cut roles and rules." The tendency to formalise processes and the existence of informal rules that prescribe the rights and duties of employees and employers are characteristic for countries that score high on Hofstede's dimension of uncertainty avoidance. Both countries, Venezuela (76 points) and Italy (75) can be found on the upper half of the the uncertainty avoidance dimension.

Additional evidence can be provided by the Loughborough Study. The Venezuelan sample achieved their highest mean score on the following three propositions about hierarchy:

1. A clear cut hierarchy is essential to the proper functioning of any organisation.

2. The hierarchy rightly denotes rank and status.

and

3. The hierarchy is necessary to achieve coordination

showing statistically significant differences for all three propositions when compared to Germany, for the last two when compared to Britain, and for the second one when contrasted to the USA. The Spanish sample shows similar results to the Venezuelan

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669 Lawrence and Edwards, 2000, p. 64.
671 see Appendix I.
Venezuelan management

one, reinforcing the fact that managers of Latin cultures put a strong emphasis on formalistic structures and hierarchies, favouring centralism over egalitarianism.672

But norms and rules established by the organisation chart are there mainly to be bypassed. Formalised chains of communication exist, but managers follow an open door policy.

"There is an established chain of communication, ... but ... we are a company that is very informal when it comes to communicating and we do not shut the door to those that are below us."673

A flowchart is understood to be flexible, not so rigid that it cannot be moved around or changed. It is more of an environmental map that gives people an orientation than a dogma. A subordinate can bypass it any time, if boycotted by his boss.

The Loughborough Study also provides some statistical evidence that Venezuelan managers put emphasis on structure and authority, for whatever reason: To bypass it or to fall back on it whenever it provides support.

The following two propositions dealing with the item *structure* gave the Venezuelan sample the highest mean score out of all national groups in the survey:

Structure is important for fixing the authority relations between organisational members.

and

Structure is important in showing the relationship between the posts/functions/departments of the organisation.674

In the first case, the contrast with the British and also the American group is statistically significant. The Venezuelan response to the second proposition differs even more strongly: With a mean score of 4.39 out of 5.00, which means almost total agreement with the statement, the Venezuelan sample is statistically significantly different to ALL other countries at the 0.05 level, i.e. UK (mean: 3.60), USA (3.78), Germany (3.67), and even Spain (4.00).

Interestingly enough, the survey also gives evidence of the fact that although Venezuelans believe in the necessity of structure and order, they don’t understand a

672 see Appendices VIII and IX.
673 Interview with the president of a supermarket chain.
674 see Appendix VII.
company's structure as something inflexible. It is not seen as a dogma that cannot be changed. Regarding the following proposition, Venezuela scores the highest mean, a 4.39 again, while the other countries, especially Germany (3.76) stay significantly behind:

The structure of a company may well change as the strategy changes.\textsuperscript{675}

Another proposition fuels the fact that Venezuelan managers prefer informality and informal communication and make opportunistic and irregular use of formal systems. The following statement is agreed most strongly by the Venezuelans compared to countries like the UK, the USA, Germany, or Spain:

Senior management uses the formal communication system primarily as a control device.

7.1.3 The quick buck and planning

In Venezuela in general there is no long term perspective, only a short term focus. In most cases, planning has never been part of the decision-making process. Short termism and opportunistic behaviour is often valued more highly than long term business relationships, e.g. with banks, "... big corporations tend to be unfaithful wives. Once they see another bank and they offer more services they will leave you after a long relationship."\textsuperscript{676} This derives from the fact that Venezuela experiences a constant change in economic rules. Therefore the cycle of harvesting has to happen quicker, mark-ups have to be much higher, and amortisation times have to be shorter. Thus general management generally focuses more on short term profit maximisation than on long term growth.

This perception of time has severe consequences for planning and managing the workforce. The general manager of a 5 star hotel commented:

"Instead of doing a 6 month plan I do a one day plan. ... Basic level, this needs to be done before you leave on Friday. Do everything what you want to do, but this is the only thing I want."\textsuperscript{677}

\textsuperscript{675} see Appendix VIII.
\textsuperscript{676} Interview with the vice president of a Venezuelan bank.
\textsuperscript{677} Interview with an American general manager who runs a Venezuelan-owned 5 star hotel in Maracaibo.
It seems as if people plan on a day-to-day basis trying to get through the day rather than thinking about strategy.

The reason can be found in different definitions of time horizons. In Germany, short term means one year, mid term three to five years, and long term five to ten years. In Japan, three years are considered to be short term, five to seven are mid term, and fifteen years are called long term. In Venezuela the definition is a slightly different one:

"For us 6 months is not short term, not mid term and not even long term. It is science fiction."  

Long term planning and detailed strategic planning is considered to be a complete waste of time, because in an economy that is so volatile the only thing people know is that it will be different in the future. Once a manager received an invitation to join a workshop organised by a renowned company offering financial services. The title of the seminar was:

*Strategic planning for the next 45 days.*

Statistics, numbers, balance sheets and so on are hard to obtain from competitors, if there are any. The generation and availability of business related information is very limited. In general, statistical information is considered to be not trustworthy. What can be considered as very disturbing is the fact that even the information provided by the commercial register is often outdated. Very general information on the main macroeconomic and microeconomic trends can be gathered easily via the internet, i.e. the homepages of the banks (Banco Mercantil, Banco Central de Venezuela) or the statistical office (OCEI). But when data is needed about a specific branch of industry, there is only a very little statistic base that can be consulted by companies. Many times firms are forced to use statistical information gathered by themselves. This happens through unofficial channels via private contacts.

There is a general lack of transparency, not only when it comes to statistical data but in business in general. This makes benchmarking very difficult and hinders strategic planning.

Venezuelans know that information is important. Therefore they like to keep it to themselves and do not like to make it available to the public. Public servants for example tend to have acquired the habit of taking all the studies they have got in their

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678 Interview with a management consultant.
bureau with them when they leave office, no matter the source, i.e. own investigations, subcontracted studies, or surveys by affiliated departments. This leaves the institution blank. Successors have to start gathering information from scratch, many times evaluating the same issues again.

Another fact that can be considered quite striking is that companies invest very little on research and development. The following chart compares Venezuela with some Asian countries, i.e. Japan, Korea, Taiwan, and Singapore. Venezuela is the only country that spends less than 0.5 percent of GDP on R&D. Japan spends more than five times as much: All Asian countries show a positive trend in investing in research and development since 1980, while Venezuela’s figures lack this positive development.


This has to do with the people’s mentality. They do not have the attitude of “let us grow today so we have more in the future”. As in colonial times, money that has been earned in Venezuela does not necessarily stay in the country. People prefer to invest it abroad.
7.1.4 Business strategy

Most of the managers of medium-sized and small companies have to dedicate their energy to resolving immediate operational problems and emergencies, *apagar fuegos*, instead of working on strategic plans and trying to add and create value to the organisation. The president of a steel supplier company compared the job of a manager to the work of a juggler:

“...You have to make sure that all balls are kept moving, otherwise they will fall down. As soon as you stop keeping one plate in action, it will fall. You have to try to keep the plates in pace so they constantly turn.”

Obviously in the case of a manager, the balls have to be substituted by employers. It is difficult to keep the whole system running, because it involves several departments. Many times workers do not stick to deadlines or are incapable of resolving a minor problem that will then slow down the whole process.

The existence of a fire-fighting mentality when it comes to managing a company and the need to constantly supervise can be shown by looking at the results of the Loughborough survey as well. In response to the proposition:

Management is essentially about the operation of systems and standard operating procedures (SOPS) that are already in place

the Venezuelan had the highest mean score out of all the national groups. When asked if

Management is primarily about the setting of objectives and the monitoring of plans for their achievement

the Venezuelan mean score (3.79) was only topped by the Spanish sample (3.90) but showing no statistically significant difference.

As managers are highly involved in handling daily operations, it is no surprise that Venezuelans agreed strongest (mean of 3.91) on the following proposition compared to other countries:

Above all the manager needs specialist knowledge and relevant experience. 680

The UK sample even rejected this proposition by reaching a mean of 2.85. 681 This is due to the fact that British management is more based on generalism and preferably deals

679 Interview with the president of a company from the steel suppliers' industry.
680 see Appendix X.
681 Reminder: Five point scale with “1” = “strongly disagree” up to “5” = “strongly agree”. As “0” does not exist, “3” is the dividing line, not “2.5”.
with strategy or business development. Comparing the means of Spain, Germany, the USA, and the UK to the Venezuelan score, ALL differences are statistically significant at the 0.05 level.

Almost all companies in Venezuela only compete on a domestic level. Thus they do not feel the need to reach global excellence and high technical standards. Concepts of strategic planning such as business process re-engineering are not usually well known. It is seen as something far away even for big organisations and it is not applied in small companies due to lack of knowledge.

Venezuelans also tend to lack the powers of analysis and the ability to think systemically. It is not to be confused with the term “systematically”. Systemic thinking has to do with the capability of integrated thinking, mentally grasping a system completely. In order to understand and solve contemporary problems of a complex environment, it is important to understand the whole system. Issues will not always get solved on a short term basis without having resolved the problems of the whole system. People lack the ability of combining variables and putting them into an environmental context. Furthermore they do not understand their interdependencies. People tend to focus on their functions and tasks without realising how their acting might affect others.

7.1.5 Concluding thoughts
Venezuelan management of small and medium sized companies tends to be unprofessional, somewhat inefficient, and not competitive.

On the other hand it can be observed in a few big companies that Venezuelan management starts to become more professional; partly because family-owned companies begin to shift management responsibility from family members to professional managers. Professional management is very young in Venezuela and can be described as well educated, modern, and having traces of American influence because of attendance of American business schools.

However, Venezuelan management is not as strongly influenced by the American way of doing business as one might expect. It can rather be considered to be independent and unique. When compared to countries like the UK, the USA, Spain, and Germany by using the Loughborough Study containing 87 propositions to which managers were
invited to respond on the classic five-point scale from “strongly disagree” (“1”) to “strongly agree” (“5”), Venezuelan management style comes closest to the one of Spain. The results of this exercise are shown in the following:  

- 36 statistically significant differences as between the Venezuelan and the German managers.
- 37 statistically significant differences between the Venezuelans and the British.
- 39 statistically significant differences between the Venezuelans and the US-Americans.
- 27 statistically significant differences between the Venezuelans and the Spanish.

Survey-wise it is fair to say that Venezuelan management comes closest to that of Spain, but it would still be wrong to assert that it is similar to Spanish management, in part because one has to keep in mind that no less than 31 percent of all the propositions contained in the Loughborough Study showed statistically significant differences between these two Latin countries.

7.2 What is left?

People and relations between people – a traffic of influences. Contacts and a good network are considered to be the key to succeed in business in Venezuela.

“If you don’t know anyone, you are in trouble as a fact.”

Due to all the deficiencies and inefficiencies in Venezuelan business culture, people have to rely heavily on personal contacts, personalism, compadrazgo, matraca (very Venezuelan expression meaning “one has to pay an official”), and palanca (the lever of a machine to get things moving).

These patterns apply for almost any activity on any level in any business.

“If you like things done, you either need to pay for them, and/or you have to know somebody who can expedite the process, without paying, but it is another form of corruption.”

The managers who were interviewed all criticised this practise, i.e. ... you have to play the game. ... Who pees against the wind, wets his trousers... but also agreed that

682 for analysing the different samples the software SPSS 9.0 for Windows was used.
683 Interview with the socio-president of a consulting company.
684 Interview with the vice president of a Venezuelan bank.
685 Interview with a management consultant.
knowing the right people, not necessarily involving payments, is vital in order to succeed in business.

Knowing people works in both ways and it usually helps to get things faster and easier than normally. In fact, managers have to use these resources most of the times in order to get something accomplished.

Many expatriate managers noted that this kind of practise is equally important in all countries in the world, but it is handled in a more subtle way in Europe. The phenomenon of personal networks exists generally in Latin American countries, but is considered to be very pronounced in Venezuela.

Personal contacts are cultivated through networking. In many cases this happens via the membership in leisure clubs, children visiting the same good pre-schools, or private elementary schools, or old-boys networks since former university days.

Another phenomenon is the existence of unofficial clubs where informal contacts get institutionalised. These secret meetings came into existence 10 to 15 years ago. Their members are highly successful and influential businessmen, a microcosm of the economic reality of the country, who meet secretly in their private homes to discuss the further business development of the country every month. It works like an unofficial think tank on the highest level. There are unofficial instances where a lot of information gets exchanged and it is decided how to act in public, especially how to deal with the political world.

"Relations are very useful. ... They are the most important point, so everything works. In our monthly meetings one notices, that these connections are the ones which propel Venezuela's economic development."^687

These clubs also exist on a Latin American level, but their members meet less frequently. It is considered to be fairly difficult to become member of these establishments because there is a strong sense of unity and cohesion between their members. This peculiarity is called the 'in-group' phenomenon and occurs mainly in cultures that are collectivist. The behaviour towards outsiders of the group is marked by a high level of subtlety and a tendency to mistrust unknown people,

^686 Interview with one of its members.
^687 ibid.
"... outside of this circle, it is very difficult to establish trust." 688

The elite only talks to the elite. It is impermeable for the rest of the society, i.e. for the other 98 percent.

It seems as if two socio-economic systems operate within one nation’s borders. This phenomenon is called dualism, a term being frequently used by modernists to explain apparent contradictions in society and to describe the coexistence of the modern and traditional in the less developed countries of Africa, Asia, and Latin America. 689

Therefore Venezuela can be considered to be a society with a rigid social structure, allowing for almost no mobility. It is a very equal one for the lower classes, but very unequal in vertical terms.

The behaviour patterns mentioned above can be understood as a consequence of forty years of corruption and cronyism behind the facade of regular elections and stable government. 690 Politicians have taken advantage of the trust people gave them. This explains the fact, that Venezuelan managers like to tell the official version to strangers. At all levels management can be characterised by the words: informality and secrecy.

The importance of personal relations shows in the way of appointing managers as well.

"Because I became involved in personal negotiations with the newly appointed chairman of Banco X. He is a personal friend and wanted somebody whom ... (he could) ... trust." 691

Especially where politics are involved, people occupy positions because of connections, relations, or favouritism, and not because of merit.

This practise is widely accepted, even though people know that this has a negative impact on a company’s performance and efficiency. Intact personal relationships are valued more highly and sometimes are seen as more important than company objectives. 692

"You get very close and informal, networks are very important, and sometimes your results are sacrificed." 693

688 Interview with the president of an insurance company.
691 Interview with the vice president of a Venezuelan bank.
693 Interview with the president of a chain of stores selling electrical products.
This stands in direct contrast to management in the USA or Germany, where quite often personal relations are sacrificed only to gain ones' ends. The German expression über Leichen gehen, stick at nothing, but literally walk over dead corpses, serves as a good example. But in Venezuela, understanding people is the critical factor.

7.2.1 How a manager deals with people

It can be concluded from the above that it is important to relate to people in Venezuela. Managers believe that in order to be successful one has to have the ability to make relationships and having relations with people, the ability to attract people and to be able to communicate, to be liked, to get on with people, and to interpret ones' relations with people in the right way. The personal touch is considered to be decisive.

In this whole process conversation becomes a strategic tool. Successful managers believe a lot in dialogue and solving issues or conflicts through talking in a friendly manner. Hablando se entiende la gente, meaning, by talking, people understand each other.

As discussed in the chapter “What is left?” Venezuelans tend to distrust others. Thus the ability to create trust and confidence is of major significance.

Another important fact is to treat the people in a correct manner. It has something to do with charisma. Be easy with people on the one hand, but make them do what you want them to do on the other. As discussed before Venezuelans tend to be very proud and need to feel respected. To any violation of their personal feelings they react very sensitively and they sense hostility quickly. Things tend to be taken more on a personal than a professional level:

“In more developed societies, maybe human beings are not so oversensitive, they treat them well, they treat them bad; I am here to get something ... and if the person that is serving you has a bad face, it does not matter. In our country it is different. Here, there exists the serenity of a smile, of good service.”

It is very important in Latin American countries in general to have an integral approach to human manners and a certain degree of sensibility.

694 Interview with the industrial relations manager of a brewing company.
It is a vital element of management to have sufficient tact and to use the right words to convey one's ideas without offending the other side.

"You cannot be like the normal Anglo-Saxon WASP executive, giving orders. That does not work."\textsuperscript{695}

A consequence: Managers don't have to be specialists in certain fields as for example in Germany, where a high level of \textit{Fachkompetenz} is expected.\textsuperscript{696} Technical knowledge is not the decisive factor in Venezuela. Managers believe that any management job basically has the same principles: The principles for handling people are similar, if not the same.

The Venezuelan manager tries to come to terms with people, because through generations he has learned that this is the key to mastering difficulties in an imperfect society. One management consultant critically remarks in this context that he has observed the German society over the last couple of years. He noticed that there are societies that become so perfect, so that people don't need each other any longer. Conversation and dialogue start to play a decreasing part.

In Germany for example if the neighbour asks for help it is considered as an imposition. In Venezuela people are happy if they can do others a favour, because they know that the earth is small and round and turns and perhaps they might need help tomorrow as well.

On the one hand this behaviour might be viewed as opportunistic and calculating, but on the other it has become a habit to help others. In Venezuela there is something that can be called \textit{calor humano}, human warmth or human touch. One can feel it.

If the manager's secretary is ill, the clients call the office and ask about her condition and whether the bureau has called her at home to see how she is.

Venezuelan managers are proud of the dominance of soft skills and consider themselves to be more humane than their German or US-American counterparts.

In the following chapters we will try to show how a Venezuelan manager deals with different groups of people. The group of "workers" will be evaluated most fully as it can be considered as the core of management in Venezuela.

\textsuperscript{695} Interview with the president of an insurance company. WASP = White Anglo Saxon Protestant.
7.2.1.1 Managers and colleagues

Foreigners should be introduced by a third party or by someone who commands respect. It is possible to get in contact with almost any person, because Venezuela has a small population size, where only a few hundred thousand actively participate in economic life. So basically everybody knows, who everybody else is. In general people know with whom they are dealing. The chances of knowing someone, who knows somebody else, who then again knows the person one wants to talk to are very high. The fact that Venezuelans like to communicate in general makes it quite easy to get in contact with (business)people. Building relationships can be considered to be fairly easy. Although these bonds are more superficial and not as deep as in say Germany or Switzerland, they tend to be reliable.

When the foreigner has been accepted, people are helpful at all levels. In fact, managers spend quite a significant amount of their time on doing favours for other people.

Lawrence, 1980.
If both sides know each other, informality prevails. There is no formal way of doing business. Although especially in Caracas businesspeople tend to dress formally and to shake hands, they like to relax and to be personal. The way of doing business in general can be described as more relaxed with no signs of pressure or stress. In addition, there are many national holidays, and long weekends known as puentes, bridges. Even for a normal weekend, it is very difficult to contact decision makers in the afternoon on Friday, and before noon on Monday.\(^{697}\)

It seems as if Venezuelan managers are less ambitious and eager than their foreign counterparts. They tend to value their free time more highly than work. Statistical evidence is offered by the Loughborough Study. The only country rejecting the following proposition was Venezuela (mean 2.70).\(^{698}\)

For the senior manager work will inevitably invade leisure time.\(^{699}\)

The responses of the USA (4.08), Germany (3.94), the UK (3.79), and even Spain (3.61) are diametrically opposed and are significantly different in the statistic sense. The analysis of a second proposition points in the same direction:

The current demands made on managers' time lead to serious disruptions on their home lives was accepted by all five countries, but was accepted least strongly by the Venezuelans (3.30). Additionally the differences with Spain and Britain were statistically significant.

Colleagues are treated as equals. This shows in the decision taking process. At senior management level it is a consensus of experts with somebody taking the decision at the end of the day. Equals have to be convinced. Diametrically opposed to that is decision taking at lower levels. Here the style can be described as autocratic and commanding.

7.2.1.1.1 How managers treat business partners

This is not easy to answer, because different possibilities exist. There is good, but also evil, but there is also an appropriate means to avoid costly failures: business networking. As a newcomer to Venezuela, one has to be careful when selecting business

\(^{698}\) Reminder: Five point scale with “1” = “strongly disagree” up to “5” = “strongly agree”. As “0” does not exist, “3” is the dividing line, not “2.5”.  
\(^{699}\) see Appendix XI.
partners, because many Venezuelan companies look for the “quick buck.”\textsuperscript{700} They tend to prefer short term, big profit relationships in the associations they have with foreign corporations.

“Sometimes, when US franchisers come here, and they look for a financial group in order to make business relations, and while the American is thinking of developing a franchise system and a business plan over the years and growing in the country, the Venezuelan counterfeit is looking for a quick buck.”\textsuperscript{701}

There is a proverb in Venezuela for this, saying that \textit{every day a stupid person is born, who discovers him, can have him}. Often Venezuelans, who are \textit{vivo}, i.e. crafty or wily, try to take advantage of unsuspecting foreigners.

The typical Venezuelan trade is speculative. It does not follow the laws of supply and demand, but of opportunity.

According to Venezuelan managers, expensive experiences can only be avoided by seeking information, references, and checking all the details relevant to the people or potential partners that a firm might choose to do business with; i.e. does the group have a proven reputation, do the people have a certain upbringing and education? It is also recommended to get to know the people you do business with on a personal level first. Even Venezuelans take precautions and want to know more about their potential business partners or business acquaintance.\textsuperscript{702}

These measures that are necessary in order to set up a healthy business and show once more the importance of networks and personalism in Venezuelan business. According to Adler (1993) personalism is considered to be a necessary ingredient for good decision making in the whole of Latin America, whereas in the USA decision making tends to be impersonal.\textsuperscript{703}

If reliable business partners are found, people try to reach win-win situations when negotiating. The idea is that both sides trade, sacrifice, and win. A management professor put it this way: \textit{A deal has to yield profit for all parties involved, otherwise it is not a deal.}

\textsuperscript{700} see chapters on the “colonisation”, “the impact of oil on Venezuela’s economic culture”, and “planning”.
\textsuperscript{701} Interview with the Vice President of a Venezuelan bank.
\textsuperscript{702} Herrera-Vaillant, 1997, p. 106.
\textsuperscript{703} Adler, 1993, p. 504.
Using the results from the Loughborough survey, it can be seen that the Venezuelan sample agrees most strongly (mean score of 3.70) with the following proposition:

In practice decisions are usually a compromise between what one ought to do and what one can get away with.

In addition the difference to the USA is statistically significant (USA mean score: 2.95). Therefore, Venezuelan managers like business relationships with foreigners not to be one-sided. As discussed before, Venezuelans are proud and therefore like to be treated as equals by their foreign counterparts.

If one remembers that Venezuela is a country marked by dualism and heavily graded differences in status, and puts this finding into context with aspirations of equal treatment, then a paradox arises.

This perception is fuelled if Hofstede’s dimension of masculinity is taken into consideration. According to Hofstede’s study, Venezuela is the third most masculine society being only topped by Japan and Austria. But if one takes the consequences of this ‘masculinity’ on a country’s management style as defined by Hofstede (1980 and 1991), contemporary Venezuela seems to be more closely related to the features that are typical for feminine countries, e.g. resolution of conflicts by compromise and negotiation rather than fighting them out, desire to be treated ‘as equal’, solidarity, and quality of work life instead of an emphasis on equity, competition among colleagues, and performance.

Doing business is about negotiating. Venezuelans never close their minds to this task even if it involves several days of talking to come to an agreement. The following excerpt from one of the research interviews shows how an attorney treats his clients and then further down one can see his perception of time related to the importance of quick decision taking:

Attorney: “Many times I ... hold a decision until I have had a more calm conversation. I called the client and I tell him: ‘Alex, let's go have a cup of coffee, because we had some differences yesterday; let's talk it ... <over> ... again now that we are more calm and see

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704 Hofstede, 1993, p. 103; see Appendix I.
705 see Appendix V, or Hofstede, 1991, p. 96; ibid., 1980, p. 296.
if we come to an agreement.’ Our style is not to impose. ... No. 
‘Let’s talk:’"

**Questioner:** “And what do you do if you have to make a quick decision?”

**Attorney:** “I consult.”

**Questioner:** “If you don’t have time to ...”

**Attorney:** “I try always to consult, at least with some of the managers or partners, there is always time. Unless, it is something like: Let’s leave because the office is on fire.”

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Further evidence supporting the assertions about negotiation can be found in the Loughborough Study. The proposition:

Today decision making increasingly involves negotiation

is strongly agreed by the Venezuelans (mean score of 4.09), showing a statistically significant difference when compared to the German sample (3.55).

Usually, negotiating does not follow any agenda or written schedule. German expatriate managers especially observed that their Venezuelan counterparts often show up at business meetings without being prepared and without any supporting or back up material. Their style can be described as informal, spontaneous, and natural. By talking about things that do not relate to the actual negotiation they try to *romper el hielo*, break the ice, beforehand.

When asking Venezuelan managers how they would characterise management styles of other cultures, it was difficult to get an answer due to the fact that most of the companies do business solely on a domestic level. Hence they only have contact with either Venezuelan managers or occasionally expatriate managers who are not necessarily representative of a country’s management culture.

As Venezuelans can be considered to be very helpful, they attempt to answer all questions. In this context, it happens that Venezuelans see the countries of Europe as similar in business mentality:

“If you take Europe, ... you have ... the European Community, they are all more or less countries with the same characteristics. There could be
Nevertheless, a Venezuelan industrial relations manager working for the biggest Venezuelan petroleum company pointed out interesting findings about different negotiation styles: Americans get down to business directly, read the contractual terms and then draw the line. Germans are considered to be quite similar, additionally they try to explore the opposite side’s ground before. The Chinese treat their counterpart with a lot of respect. Many times they make the others believe that they do not understand what has been said. They just play with it as soon as they disagree. The Argentines are believed by the Venezuelans as to be very direct. After a short phase of small talk to break the ice, they get down to business.

The impression the manager had on Americans coincides with the view Lawrence and Edwards (2000) hold on American meetings. According to them, the meetings are “quite overpowering in their purposefulness. There is not much humour, problem dissection is perfunctory, but the purpose is always to move things forward.”

7.2.1.1.2 How managers treat suppliers

When Venezuelan managers were asked about the quality of their relationship with their suppliers, the answer was mainly positive. Generally the relation is considered to be good, very familiar, and very pleasant. When negotiating people usually agree on an intermediate price that both parties can be comfortable with.

Problems are there to be solved. Many times the suppliers are brought to the factories, so they can see what the issues are. On the other hand it shows that problems cannot simply be solved by describing them at the phone. It involves talking and convincing the partner. The problem has to be demonstrated and properly explained to them. Otherwise people will not buy into the issue. If this happens, it is rather unlikely that they will participate in working out a solution.

\[706\] Interview with the industrial relations manager of a brewing company.

\[707\] Lawrence and Edwards, 2000, p. 20.
On the other hand, it was said by managers that one has to be very careful when selecting a supplier or when deciding who gets the contract, because the suppliers network themselves as well, i.e. agree beforehand who gets the contract this time.

As was explained by the head of a purchasing department, it is important to be close to the market, to keep informed about what is going on in the suppliers’ firms. From time to time he shows up at the companies spontaneously without informing them about the visit beforehand. Through this he tries to get the flavour of the whole atmosphere and has a look around, i.e. what the company does at the moment, or who are the people who set the tone. Via chatting he tries to find out indirectly about their relationship to other suppliers, or whether the managers know each other.

Although many managers said that suppliers are chosen objectively, according to the principles of quality, price, and responsibility, persistently trying to keep the personal contact out of business, there were others who told a completely different story. Negotiations are basically made on friendship.

"Why do I contract Alex? Well, because Alex is a friend, or he is my cousin, or he is married to a niece of mine that works for the organisation."\(^{708}\)

As many Venezuelans tend to do business with their friends, newcomers can be put to at a disadvantage.\(^{709}\)

It should be added, however, that several interviewed managers assured the researcher that this practise of choosing suppliers is starting to change.

7.2.1.2 Workers

As suggested earlier, Venezuelan employees are considered problematic when it comes to work.\(^{710}\) Many times it is difficult to handle them in the correct way to get the most out of them.

So how do successful managers lead their workforce?

It was found out that managers need to possess a decisive character trait: El Don de Gentes.

\(^{708}\) Interview with the socio-president of a firm of solicitors. 
\(^{709}\) Herrera-Vaillant, 1997, p. 106.
7.2.1.2.1 Don de Gentes: What does it mean?

A clear definition of the expression "don de gentes" does not exist. Every manager that was asked to comment on it, defined it in his own way.

"I use a style of management that is known as management through friendship, human management, *la gerencia humana*, because I truly believe in that. ... With people, you have to worry and care about them, you have to understand them, and you have to know how to understand them. ... It is a management oriented towards people."\(^{711}\)

"El *don de gentes* means, have a knack for the people. ... How do I treat people in the daily conversation."\(^{712}\)

"I would translate it with ability to judge human nature, but actually it means more, ... how to lead people ... to have leadership qualities as well."\(^{713}\)

"To have the character trait *don de gentes* is very important. We expect this from our employees. *Don de gentes* means stability, kindness, fine treatment of clients and colleagues."\(^{714}\)

"I would say *don de gentes* is having sufficient tact and using the right words, that if something that has to be put right between two individuals, to choose your words and convey your ideas without offending the other side. That is an important element in Venezuela."\(^{715}\)

Human management means that employees who have a certain leadership level and influence over people understand that they work with people and through people. As persons, employees are perceived as very dynamic individuals, that are not the same every day. Human management tries to interpret the changes the individual undergoes so he can be understood.

\(^{710}\) see chapter on "lack of education" and "commitment."

\(^{711}\) Interview with the industrial relations manager of a brewing company.

\(^{712}\) Interview with the German manager of a Venezuelan subsidiary from a multinational pharmaceutical company.

\(^{713}\) Interview with the general manager of a management consultancy.

\(^{714}\) Interview with the executive president of a trading company representing international goods.

\(^{715}\) Interview with the primer vice president of a shipping company.
Don de gentes also deals with the questions of:

- Can you empathise with the workforce?
- How can you tell them...
  - ... that you give them the direction?
  - ... that you are intuitive and just?
  - ... that you think about their interests too?
  - ... that you don’t only try to make your name, but that you also protect the team?

7.2.1.2.2 Why is it important?

Due to their upbringing and the underlying cultural maps, Venezuelans tend to be sensitive, arrogant, and lack professional maturity. They explicitly dislike to be treated like machines. As they spend many hours a day in the office or at the workplace, they need to feel comfortable, they have to feel at home. If they don’t feel treated well, they are going to do everything to compromise the operation or to sabotage the job.

As it is typical for collectivist countries in the Hofstedean sense, people tend to think in groups. If a Venezuelan considers himself as an outsider, because he feels that he cannot participate in the process of decision taking (but most of the time is not willing to grasp the buck), he will show a lack of commitment. On the other hand, if he considers the company to be part of his family, he is willing to go through hell and high water for the firm.

Don de gentes also implies treating any person with respect no matter what the individual’s professional level. Employees like to feel that their opinion is taken into account. This has its cause in the fact that Venezuelans have the urge to feel accepted and respected due to their inferiority complex.

7.2.1.2.3 Where does it show?

7.2.1.2.3.1 In the way of leading of people

Don de Gentes means leading by example, knowledge, character and also being able to understand people. They have to be treated on a personal level. Understanding people includes trying to help them with their personal problems, not only professional, but
also private ones. The following story was told by a public relations manager of a brewing company. It shows the Venezuelan style of human resource management:

Venezuela's culture has some special considerations. Some of the workers are married, others are not married, some are married and have another woman. This type of thing brings inconveniences to the worker. A worker who has a woman and a wife might come up to the human resource manager and complain about the fact that his salary is not high enough to support two women. While in Europe you would never dare to bother the personnel department with those kinds of issues, and even if you were brave enough, they would probably turn you out of doors, the Venezuelan counterpart behaves differently. Human management means in this case: Let us sit down to talk and see what is going on. How can the worker be directed? What can be done, so he does not continue living like this. But if he likes to have two women, he has to work somewhere else, so he can make more money.

In this case management of employees does not only imply leading professionally, but it means guiding human beings through life, educating them, and conveying values. It implies daily training that has to take place in the company, also because the workers face a hostile environment outside the firm. Therefore, people have to be led by example.

Statistical evidence can be provided by the Loughborough Study. Venezuelan managers score higher than their colleagues in other countries when subscribing to the following propositions:

1. The development of their staff is prime responsibility of a manager

2. Managers should set an example by committing time and resources to the development of their staff

and

3. It is the role of senior management to determine the boundaries of ethical behaviour for their subordinate managers.

While the Venezuelan mean is 4.06 for the first item, it is a breathtaking 4.45 in the second case, resulting in a statistically significant difference when compared to the UK (4.15) and the German sample (3.53). Concerning the last proposition, Venezuela and
Germany are the only countries that agree with this statement by reaching a mean above 3, i.e. 3.27.\textsuperscript{716}

Conveying the right values and virtues is sometimes very difficult and time consuming.

"If we are a company that believes in people, then we have to treat people right. Treat them right means to rescue them when they have problems."\textsuperscript{717}

The downside of this can be found in the negative impact it has on the selection of personnel:

"Nobody makes me hire somebody that has six children. I simply would not consider somebody like that because then I would have 6 or 7 more problems."\textsuperscript{718}

It does not imply that workers can get away with everything. On the one hand, managers are helpful and let employees take time off to solve their personal problems. On the other it is made sure that workers know that they have to do their job otherwise they might lose it.

In order to overcome the problem of an uncommitted workforce, a manager has to make the employees feel that they do their duty, because they want to do it and not because they are forced to. This cannot be achieved by force, authority, or iron discipline, but by leading through example, participation, a lot of talking, interpersonal contacts, and gift of persuasion.

"One cannot say 'this has to be done.' One always has to say, why it has to be done."\textsuperscript{719}

Again evidence can be found in the Loughborough survey. When managers were asked about their opinion on the proposition whether

A refusal of a request should be accompanied by an explanation not an apology

the Venezuelan mean score was the second highest among the countries in the survey with 4.39, only surpassed by the Spanish sample (4.51). This also suggests that one has to speak the appropriate Latin language as mentioned above. As people have to buy into

\textsuperscript{716} Reminder: Five point scale with “1” = “strongly disagree” up to “5” = “strongly agree”. As “0” does not exist, “3” is the dividing line, not “2.5”.
\textsuperscript{717} Interview with the industrial relations manager of a brewing company.
\textsuperscript{718} Interview with the president of a construction company servicing the oil industry.
\textsuperscript{719} Interview with the president of a main franchising company.
a decision in order to follow a command or a refusal, the issue needs to be explained to
them. An excuse does not constitute an explanation.

Managers need to have el toque personal, the personal touch. While management in the
USA or Germany is much more oriented towards goals, specific objectives, and rather
neutral or merely professional relations between employees and colleagues, Venezuelan
management has to do much more with personal relationships. So the difference is the
following: While a German employee does his duties because he was told to do so, a
manager in Venezuela has to try to make the Venezuelan workers do their job, because
they consider him to be their friend.

"If you build a strong relationship with a person, you try to understand some
of his personal problems. You are a priest and they tell you all their
problems. Then you are going to get much more performance from your
people than if you just pay them."

With authority alone a manager will not achieve anything. It is the argument that
counts. If a decision has been made by a manager, people accept it, because they think it
is right and because it is approved by the group. If the group does not support the
decision, the manager will fail to succeed. It is the group that gives the manager the
power, not the title or the post that was assigned to him. Power becomes only a
secondary product of the manager’s personality:

"You may lay down the law ten times, and everyone says Yes, but they all
do No. ... Your processes won’t work anymore. Everything goes wrong,
people ignore you ... Here, it is not about hierarchy. Here, no one cares
about authority or hierarchy."

Once they are convinced and have bought into the problem they work satisfactorily. It
does not imply that one can give up supervising and controlling them.

7.2.1.2.3.2 In the selection of personnel

When recruiting employees informal contacts and personal recommendations play an
important role. When new labour and basic workforce are needed, employees from all
levels are asked to recommend people they know, i.e. friends or relatives, and
participate in the selection process. This is common practice in Venezuela and

720 Interview with the general manager of a printers trading company.
721 Interview with the general manager of a management consultancy.
considered legitimate. Hence, a first screening is done by the employees. Afterwards the personnel department checks whether the person is qualified in terms of knowledge, but often more important, they put a strong emphasis on the social and economic fit. The following statement shows once more the deficits of Venezuelan society.

"We hire people that have values: loyalty, honesty, and discipline."\(^{722}\)

In most cases, managers and supervisors are recruited in-house, hardly any outsiders are hired.

The way of selecting personnel reinforces the fact that it is very difficult to find job advertisements in newspapers or magazines. Employment offers are not in general made public.

What leads to problems is the fact that Venezuelans tend to confuse friendship with work. They think they can obtain things, for example a wage rise, much faster than others. No wonder people think this way, because in the last forty years the whole political system was based on favouritism, clientelism, and preferential treatment. This is generally known by the public and Venezuelans react sensitively to these matters. Therefore management has to make sure that everybody is treated equally. For this reason, some companies only have a single entrance door for workers, executives, and visitors, and parking areas without assigned lots.

7.2.1.2.3.3 In the way of criticising employees

People need to know where they stand in terms of their performance. It is important to assure them in their work when they did a good job. A pat on the back by the boss is valued like a little honour. Showing content and satisfaction happens in a direct way. Behaviour in case of discontent is somewhat different. No matter what the problem's severity the worker wants to be respected. Managers have to proceed very subtly, indirectly, and carefully.

The German president of a Venezuelan subsidiary from a multinational pharmaceutical company put it this way:

"With my German logistics manager I can talk in German, think German, and argue German. With the Spanish and the Italian I can speak in Spanish. And with the rest I need to talk Latin."\(^{723}\)

\(^{722}\) Interview with the industrial relations manager of a brewing company.\(^{723}\)
Venezuelan management

One can tell a Latin off as strongly as one can reprimand a German, but it has to happen in a completely different manner. A different tone and set of vocabulary is needed. This means that if there are things that have to be criticised, a manager would first of all have to encourage the worker in the positive things he has done and then say in a fatherly manner “Have you thought about improving it?” “I would suggest…”, or “I like what you did. Your presentation at the meeting was very good. It just contained a tiny imperfection. You used the word ‘OK’ a little too often, but apart from that I liked it a lot.” One has to make sure not to hurt their ego, no tocar la sensibilidad. Then the person won’t feel molested, understands the boss, and tries to perform better next time. This perception coincides with the opinion Adler (1993) has. To her mind face-saving seems to be crucial in decision making to preserve honour and dignity. 724

If somebody needs to be told off directly, it happens with a smile. The person accepts it if the facial expressions are friendly. They never utter blunt criticism. Scolding should be directed towards the task or process, i.e. a report that was composed unsatisfactorily, and never towards the individual person. Often managers use the excuse that there is a company decision they have to follow. Generally, managers find out that if they tell their employees directly what they dislike, it is not going to work.

“I won’t get anything, because I will get this resentment from the people and their performance will be lower and it will come to sabotage and loss of trust in me.” 725

Once they feel they lost face or their honour has been impuned, the relationship is likely to be destroyed. The employee will have lost the values of trust, loyalty, and discipline. Then, the only option the manager has, is to fire the employer.

7.2.1.2.3.4 In the way of motivating people

Many times, motivation works through providing additional benefits to the worker. It can be understood as a form of corporate paternalism. This coincides with the view Hofstede (1980) holds about collectivist countries, where employees expect

723 Interview with the German manager of a Venezuelan subsidiary from a multinational pharmaceutical company.
725 Interview with the general manager of a printers trading company.
organisations to look after them like a family. Benefits can include the following things: a company’s restaurant where employees can eat, so they don’t have to go home; the provision of certain products; retirement plans, something very unusual for Venezuela; also medical insurance; Christmas parties; small birthday presents. People are stimulated through competitive salaries and benefits, but also recognition of the individual and his family.

This brings us down to another important means of motivation. It works through family. Things are likely to be done for the family to get their support: capacitating centres for families offering training courses, cooking, baking, and dress making classes, summer camps, and sports activities. It is important for the company to have the worker’s family members on its side, because they exert a strong influence on the employee. It could happen that an industrious worker who stays longer in the company gets told off by his family members once he comes home from work.

Some companies use this fact to their advantage by arranging Christmas parties to which all family members are invited. In addition, the most successful employees win prizes for two people to honour their performance. Thus the partner, i.e. husband or wife, is included. These prizes are sometimes quite impressive, for example a two-weeks-trip to Europe for the best performing regional salesman of a pharmaceutical company and his partner. This ensures that the employee will get all the support from his family, because there is this jolly nice three-day-trip to Isla Margarita waiting for us to be won next year!

In many cases motivation is achieved via an open-door policy. Generally speaking, the workforce is given access to the managers. Of course there are some exceptions. In Venezuelan industry it is rather unusual to call in at the president’s office.

Motivation is also achieved through trust. The worker has to know that there is somebody whom he can trust.

Venezuelans are very sensitive to motivation, to being well treated, and to being respected. Having the appropriate tact, which does not mean that you let people walk

726 see Appendix III; Hofstede, 1980, pp. 238-239.
727 see chapter on “commitment.”
728 see also chapter on “commitment.”
over you or that you let people do as they wish is also a motivating factor. Once the employees feel respected and well motivated, they respond very well.

7.2.1.2.4 What happens if it is not practised?

A discontent workforce will sabotage colleagues, managers, and processes. Their non-cooperative attitude will lead to low efficiency. High absenteeism, high fluctuation, and theft are also likely consequences.

Loyalty will also be a problem, because wages are very low in Venezuela. If people do not feel very comfortable and "at home" at their workplace, they look for another job, where they can earn a little more.

7.2.1.3 Behaviour in public

How do Venezuelan managers behave in public? Are they arrogant show-offs?

The answer can be deducted from the following train of thought:

All Venezuelans have a strong desire to be respected. Social networks are very distinct and powerful in Venezuela. Many crimes happen especially in bigger cities, like Caracas or Maracaibo. According to new estimates 90 percent of all Venezuelans live below the poverty level. Venezuela is a small country, el país es un pañuelo. Now what does this all mean?

People from all classes need to be treated with respect, especially the concierge, the man standing at the corner selling newspapers, the man who sells coffee in the streets, or the one who sweeps the streets. Why?

These people are the ones who protect you. They know exactly who are the crooks and thieves and they will squeal on a person, if they dislike the character. "Listen, he has a TV, a car and so on." That is where the danger lies. The problem is not the fact that a person possesses valuables. The danger is, that if a person treats others disrespectfully, they will pay him back that way. Due to the power of social networks and communication, people in Venezuela know exactly who, where, when, and how somebody intends to do something. For example, the truck which brought all the liquor to an ostentatious private wedding in Caracas was high-jacked at the very moment when the lorry driver stopped in front of the house to ring the doorbell.
Questioner: “Is luck involved?”
Consultant: “No. They know exactly who is who. If they rob someone, they always know whom they assail.”

Concerning a manager’s security, it means that one can have 10,000 body guards, and it still happens. On the other hand, a manager can also walk in the streets unprotected and nothing will happen to him.

As it was shown in the chapter on the “lack of the rule of law” Venezuela can be considered as an insecure country. Especially in the Western parts of the country the danger of kidnapping is thought to be relatively high. Therefore managers do not show up in public too often. If they have to, they act low profile, discreto and avoid ostentation and demonstrations of wealth.

In public, people do not boast usually about their wealth or income.

“You don’t want many people to know how much you have for security reasons.”

If one keeps in mind the things mentioned in this chapter and remembers the figure “A note on public security” in the chapter “Lack of the rule of law”, the following code of behaviour is more or less prescribed. Whenever a person parks his car in public, no matter what time or place, someone will almost always show up asking for some hundred Bolivares to look after the car while the person goes shopping, dining at a restaurant, or visiting a pub or a club.

So how do you react?

If you tell the person to bugger off, it is the best way to get rid of your car. It is more suitable to hand over some money, like 200 Bolivares, equivalent to 20 British pence and say thank you, man. ... Protection money? ... In a way yes. ... No, because it is a tiny amount of money, but it means a lot in terms of respecting a person.

Relaxed so far? Now here comes the scary part: It might also happen, that next time you park your car in the same area, the guy who approaches you to guard your car once again, knows your name although you have never explicitly told him – what a manifestation of the power of social networks!

729 N.N., 1999f, p. 4.
730 Interview with the president of a construction company servicing the oil industry.
7.2.1.4 Bureaucrats and the state

The last group of people that will be discussed are bureaucrats. In this context the author means people who are employed in the public service sector and who work at public institutions and state-owned companies.

Indeed, business life in Venezuela is marked by high government involvement. It is highly formalised. Even simple processes in business, like the installation of telephones, require permissions made out by public institutions, thus involving a lot of paperwork. Therefore many companies consider the rules that are set up by the government as rough guidelines.

"Most companies surpass those guidelines of course, but the basic structure is set by the government." 731

Not sticking to the law is considered to be legitimate, not objectionable, and not something one should not do. Many times managers said it is better to do things outside the law than within the law, because this simplifies the whole process. Quite often people don't ask themselves the question of how they can achieve something through official channels, but they wonder whom they know, which contact is most useful and needs to be activated. For example, if a decree comes out, a German manager might start thinking how to restructure his company or accounting department to fulfill the new legal requirements. In Venezuela, managers almost automatically wonder how to subvert it.

Official procedures tend to be quite formal, complex, and time consuming. This has various reasons:

According to managers, Venezuelans in general believe in the saying of *the more I decide, the more important I am*. As a permit has to run through several offices, it can take years of trying to get a certain permit.

Secondly, Venezuela is still a highly centralised country around Caracas. It can be considered as a relict of feudal times. It is merely a presidential democracy and therefore the ways of doing business with the government tends to take a long time, because of centralised decision making.

731 Interview with the president of a chain of stores selling electronic equipment.
This outgrowth of centralism is confirmed by the Loughborough survey. Although the questionnaire was only answered by managers of non-public companies, the proposition

Decision making is the central managerial act

was enthusiastically approved by the Venezuelans (mean score of 4.00), showing statistically significant differences when compared to the British (3.45) and the German sample (3.23).

When dealing with the state, one has to ser vivo. In this context, the expression does not mean smart or witty, it is related to dishonesty and has a little negative touch. It means to be crafty or wily to get around the system or to get licenses quickly.

This can either happen through gestores, matraca, or visiting public authorities personally. The first two alternatives involve using unofficial channels, the last option tries to achieve something via treating civil servants in a chummy way. As some permits are complicated to obtain, CONAPRI, a local private council for investment promotion, even suggests trying to "get support from chambers, gestores, and/or develop your institutional relations department."\(^{732}\)

The vice president of a Venezuelan bank defines gestores in the following way:

"<They are> brokers of services for government officials. They are forbidden, but even though, they exist and they bribe and ... make a lot of money. They do the things for you that you should not do as a company."\(^{733}\)

The Venezuelan system of procedures is designed to be as quick as anywhere else in the world. In theory it takes a week to receive a passport, but practise is another matter. If one has the money, one can receive it overnight over the phone. All it takes to do, is to go there and take a photograph, if one has the right gestor. This is called matraca. Matraca is a very Venezuelan expression. It simply means one has to pay an official. It is common practise in Venezuela, and people know they should not be doing this in an ideal state,

"but in reality in order to succeed in any business that you do, you have to do it. ... If you like things done, you either need to pay for them, and/ or you have to know somebody who can expedite the process without paying. But it is another form of corruption."\(^{734}\)

\(^{732}\) CONAPRI, 1998, ot. 7.
\(^{733}\) Interview with the Vice President of a Venezuelan bank.
\(^{734}\) ibid.
In this context, the term *compadrazgo* comes up again, but with a slightly different meaning. It means knowing the right people with whom to do business. As the state is a big consumer, the whole country is dependent on the state. The big building sites belong to the state. To get a multi-million contract from the government, companies sometimes have to help (in financial terms) the state during the decision making process.

It might also happen that the minister of finance gives his car to a friend, and signs a document that says *please allow my friend to move freely and do whatever he likes.*

A less severe example of networking when dealing with public institutions is given by the manager of an engineering company,

> "You need to know people in key positions, whether in the water company, the electricity or the phone companies. In this way your services will be offered and taken care of faster. I would say 90 percent of the people depend on that. They have a friend who has a friend that works for that company. ... I have a friend in the electricity company, but maybe one of my employees knows somebody in the water company. At the end this is how the system works. If you are going to do something, consult your friends. I don’t know anybody, but so and so knows somebody and through that friend you will get to the person you are looking for. But it is basically done through friendship. In these things there is nothing else involved, just friendship.”

Treating officials including policemen in a sensitive, respectful way is absolutely vital in Venezuela. It becomes very important to have *don de gentes*, because “you might be very bright, but if you push ... they can screw you very rapidly if they wish.” It is felt that especially newly appointed officials are very likely to take advantage of being in the job, because they feel that they have been deprived of the opportunity to earn money this way (i.e. corruption) for many years. It also gives them the chance to take revenge on the people that come well dressed in a new car, because as officials they have the power to stop those people.

> "I should be able to come to an office and say ‘I have to get a driver’s license. How much is the tax? Here is my money, here are my documents. Answer me or give me a solution.’ ... (But it does not work this way.) ... If I don’t come with a friendly attitude, forget it.”

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735 See chapter 5.5.5.3 on “Family ties and compadrazgo”.
736 Interview with the president of an engineering company.
737 Interview with the primer vice president of a shipping company.
738 Interview with the socio-president of a management consultancy.
Hence, managers who need to visit a governmental agency due to an inquiry, approach officials in a very low profile way, very bajo perfil and talk like this "Oh, could you help me out with this? I don't know how to do this. Let us have a meal."

On the other hand, it also happens that instant contacts are made that can turn out to be very useful. A policeman stopped a car and asked the driver to show his license and documents. The driver did not have anything of these, because it was his uncle's car, but immediately realised that the policeman wanted money. So he gave him some money and the official said, "please do me a favour, I need to go to this and that place."

The driver took him there and the following happened: The policeman left his card with the man and said, "hey, I am normally located at that corner. If you have any problem in the city (Caracas), please don’t hesitate to come to me."

This also shows how Venezuelans tend to think. At this very moment, bribing, instant contact, friendship, and relationship are valued more highly than ethics, because ethics do not lead to success.  

7.2.2 Power distance

Remembering the chapters on "Commitment", "Organisation", and "Workers" two cultural dimensions of the Hofstede study were discussed in the Venezuelan context, uncertainty avoidance and individualism. A third dimension is called power distance. It is the extent to which members of a society accept an unequal distribution of power in institutions and organisations. Some Latin American states show an acceptance of high power distance (Guatemala, Panama, Mexico, Venezuela), while countries like the USA, Great Britain, or Germany are more egalitarian (40; 35; 35). It is quite remarkable that Venezuela scores 81 points, while Chile, Spain, and Argentina are to be found in the mid field (63; 57; 49).  

There are several reasons why Venezuela outscored these three countries. Most of them can be deduced from the previous sections, i.e. the absence of the Enlightenment, persistence of feudal structures of the Middle Ages, and lack of education. As was shown in the section on politics, Venezuelan history was marked by the leadership of caudillos until 1953. From then on the scheme of sembrar el petroleo made the people believe that there needs to be a leader who distributes the oil income nation-wide. Due  

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739 The story was told by a Venezuelan management consultant.
740 Hofstede, 1993, p. 42.
to the forty years of *partidocracy*, where two major parties are widely seen as responsible for having mismanaged the country’s vast oil wealth over the past decades, many Venezuelan managers believe that a strong man with a strong character with a disciplined political base is still needed in order to help the country. There is a preference for strong leaders, not laws. According to a representative opinion poll done in May 1999, 93 percent of all Venezuelans believe that the country needs authority and discipline. 76 percent believe that a few leaders are better than many laws. This was also the reason that made Hugo Chávez possible, because Venezuelans considered him to be some kind of Superman, who can resolve all the problems in the following sectors: education (89 percent of Venezuelans), corruption (80), health (88), children living on the street (87), delinquency (83), unemployment (83), salaries (82), cost of living (79), tax evasion (78), and external debt (64).

According to a representative survey done by Alfredo Keller y Asociados and C21 (Consultores 21), the following mental map applies for Venezuela.

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**Common perception of economic rationality**

![Diagram](https://example.com/diagram.png)

*(Reading example: 92 percent of all Venezuelans believe that Venezuela is a rich country.)*

Figure 27: Common perception of economic rationality.

(source: Keller, 1999)

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741 see Appendix I; Hofstede, 1993, p. 40.
742 see also N.N., 1999g, p. 6.
It shows that Venezuelans favour a strong leader to propel a change in politics whose major task it is to distribute the wealth equally, like a father ensuring that all his children have enough to eat. This also serves as an evidence for the existence of a rent-seeking behaviour that is deeply embedded in the Venezuelan mentality.\textsuperscript{744}

"People like to be led by leaders."\textsuperscript{745}

Especially in small to medium sized companies the same pattern applies. The \textit{patron}, the manager of the company is fully responsible for his subordinates.

Thus it can be seen that Venezuela is a country used to leaders in politics as well as in business. When interviewing managers it was quite astonishing how often \textit{liderazgo} (leadership) was mentioned as an answer to the question concerning what a manager needs to have in order to be successful in Venezuelan business. The following quotation serves as another example of the praise of leadership in business.

\begin{itemize}
  \item \textbf{Questioner:} "What kind of education is necessary to become a manager in Venezuela?"
  \item \textbf{Gerente:} "Leadership. A manager must have certain qualities that come with birth. Just like a musician has to have an ear in order to be a good musician. ... I define leadership as the capacity an individual has where people believe in him, so that he rises above the people."\textsuperscript{746}
\end{itemize}

Especially on the factory floor \textit{liderazgo}, is needed in its true sense. Low level and blue collar workers consider the shop floor manager to be like the leader of a platoon, where the soldiers trust him with their lives. They contribute their skills, but the decision lies on the leader.\textsuperscript{747}

The importance of leadership as a vital feature of management is confirmed by the Loughborough study as well. The Venezuelan sample has the highest mean score compared to the UK, USA, Germany, and Spain when responding to the following propositions:

Management and leadership are coterminous

\textsuperscript{744} see chapters on “The politics of business” and “Enlightening has never happened.”
\textsuperscript{745} Interview with the vice president of a Venezuelan bank.
\textsuperscript{746} Interview with the public relations manager of a brewing company.
\textsuperscript{747} This coincides with the consequences for organisations from Hofstede’s power distance index; see Appendix II.
Above all the manager needs powers of leadership and the contrast with the British sample is highly significant in the statistical sense.

The version of power distance in Venezuela carries an interesting feature: Venezuelans want somebody else to take the responsibility. They like to exercise power without taking responsibility. There is an unwritten law in Venezuela, that works the way of "the more I decide, the more important I am," and "everybody wants to put his stamp somewhere."

"The scent of power makes them happy. ... But responsibility is a completely different question. He does not necessarily have to take on responsibility, but showing others his power, yes."

What happens is that in Venezuela delegation happens from bottom to top and not the other way round. How does it work?

The employee would like to do something to show his unmatched abilities. "Boss, I do the job." As soon as he runs into difficulties, where he has the chance to make a mistake, thus falling out of favour with his superior, he returns to his boss and asks "Hey, boss, you are much more experienced than I am. What would you do if you were me?"

So what happens? At the first danger of doing something wrong, because it could ruin the employee's relationship with the superior, i.e. the power, a warning signal comes on. He walks to his boss, who feels important because of that. The boss decides and carries all the responsibility.

In the following paragraph a management consultant talks about a former assignment:

The consulting firm was asked to restructure a Venezuelan company because it was taken over by a German multinational company. When the consultants told the Venezuelan workforce that every employer will get more decision taking power but will

748 Interview with a management consultant.
749 Interview with the president of a German pharmaceutical company.
750 Interview with the director of a company representing foreign firms in Venezuela.
also need to accept total responsibility for his actions, some employees resigned their jobs on the spot. They were not willing to act on their own authority, not accepting the buck, because it would mean that they could not shift responsibility and possible blame to someone else.
8 Conclusions

In the following section a concluding discussion of Venezuelan business culture will be offered, followed by some discussion of the question whether it is going to change or not.

There exist diverging opinions on the development of Venezuelan business culture and management. They can be divided into two poles.

"I am torn two ways: On the one hand there is the economist who says 'this is b... s..., we have to integrate internationally', on the other there is the entrepreneur who says 'hey, if he ... (Chávez) ... closes down the frontiers again, then we will all be better off again.""

On the one hand there is the older generation that is resistant to change, on the other, there are the younger ones who see the need for change.

Rellicts of traditional Latin American management traits that are typical for the older generation include:

- Managers act more like terratenientes: Autocratismo, an authoritarian way of thinking and administrating. This can be seen in the prevalence of hierarchical structures, i.e. self-complacency, distance towards personnel and workforce, decision taking is highly centralised, managers are hard to convince.

- Negation of globalisation. Competition is viewed as something threatening. Businesses mainly focus on domestic, national markets.

- A high level of state involvement in the economy and protectionism tends to be appreciated.

In fact they do not want an open market. They like to preserve the status quo, because it is less challenging than international competition and it is far easier to bribe an official than to struggle with competitors.

This perception was widespread in many Latin American countries especially in the 1980s and was reinforced by a high concentration of the state and the government in business activities. But since the beginning of the 1980s, especially after the first debt crisis in Mexico in 1982, reform processes have been brought into action. These processes happened at different speeds in the different Latin American countries. Management styles have been influenced by the results of these reform processes a
great deal, i.e. the opening up of the economy vis à vis other countries, or the increasing competition. Thus companies were forced to alter their way of managing to adapt to the new situations. It can be seen that those countries that have been progressing furthest in their reforms, have undergone the greatest changes in management techniques and style. Compared to Venezuela where these changes are limited to a small elite at the moment, there are other countries where the changes have taken place on a much wider basis. There is for example Chile. Since 1981 a policy of opening up the economy has been pursued, exposing the economy to international competition. This could be the reason why Chilean management is considered to be the most advanced in Latin America.

Venezuela started much later with reforms compared to other countries and it stopped halfway through the process. It was in 1989 when Carlos Andrés Perez started the economic liberalisation. Due to social unrest in February of the same year and political destabilisation, the macroeconomic liberalisation came to nothing. What can be observed now is the fact, that there still exists a very strong traditional management caste, reactionaries, that wants to return to the old conditions because they had an easy living and made lots of money.

However, there is a small group of younger managers who are more open towards changes and see the need for it. This results from the fact that they enjoyed the benefits of an international education and possess the will to change something for the better of the country:

"Because as a market we are still way behind, but eventually we are looking towards that type of service-oriented economy, as in the States, where competition will guarantee the development of the economy. If that happens, we will all be better off."

Competition is considered to be healthy especially in the banking sector, because managers hope that eventually interest rates will go down and growing a business will become easier.

They also consider privatisation a good thing, because it attracts foreign investors. The oil exploitation for example drew many international companies and foreign technology into Venezuela. Managers feel that this has opened up a chance to become more professional in management. Government employees and businessmen that used to

751 Interview with a management consultant.
752 Interview with the president of a company selling consumer electronics.
ignore the qualities of good administration, management, and planning started to realise that they can learn from other business cultures.

Furthermore, they are starting to understand that the market is not Venezuela alone but the whole of Latin America and merging with the Colombian competitor could mean a bigger market share and more strength in competing on an international playing field. But the development of cross border trade takes place only slowly.

Despite the growth in intra-Latin American trade ties, commercial links remain problematic. Geography is a constraint, given inefficient transportation systems. Further hindering trade within the region are competing trade blocs and associations, such as the Andean Pact (member states are Venezuela, Colombia, Ecuador, and Bolivia), the Group of Three (G-3, with Venezuela, Colombia, and Mexico), Mercosur (Argentina, Chile, Uruguay, Paraguay, Brazil), and of course NAFTA (USA, Canada, and Mexico), and Aladi.753

Managers often expressed the wish to unify Latin America in economic terms, but considered it to be a very difficult task to convey the related benefits to the people.

753 Herrera-Vaillant, 1997, p. 159.
Is it going to change?

In general, management has not changed yet, only in the sectors that are influenced by FDI and MNCs.

The Venezuelan state still owns an incredibly large number of business sectors: the oil industry, the iron and aluminium industry, main hotels, TV and radio stations, limiting the development of the private sector. Additionally the state is still dominating the Venezuelan day to day business, i.e. procedures are still highly formalised. This again involves bribing and corruption to accelerate processes. Venezuelan government has not given up believing in the economic scheme of *sembrar el petroleo* and the mentality of *papa estado paga por todo* yet, promoting clientelism, networking, and heavy reliance on contacts. Hence the rent-seeking mentality continues to be deeply embedded in the Venezuelan psyche, hindering the development of an all Venezuelans embracing entrepreneurial spirit.

And it seems as if it is going to get worse. The first draft of the constitution froze a 100 percent state ownership of PDVSA and virtually closes the door for new associations, operating agreements or outsourcing of activities. Two articles constitutionally reversed the modernisation achieved by the oil industry in the last five years, article 338 and 339. Article 338 goes as follows: "The activities of exploration, exploitation, transport, manufacture and internal marketing of hydrocarbons, excepting the gaseous, are reserved to the state. Only in special cases, of national convenience and with previous authorisation of the National Assembly and as long as the state maintains control, may subscription of agreements with the private sector be held for the activities mentioned in this article." Article 339 states, that PDVSA won’t be privatised, its total shares will continue to be held by the state.

Although opinion polls reveal that president Chávez is still supported by 84 percent of the Venezuelan people, businessmen have an opinion that is diametrically opposed:

"1998 was the best year for everybody in the history of Venezuela. Oil coming on stream was at a good price, the economy was very strong, and then the appearance of Chávez messed up everything."754

It is also widely feared that PDVSA, the Venezuelan economic motor, becomes more and more politicised. Although it is a state owned company it has in the past been viewed as a meritocracy.
Additionally, the number of foreign companies actively manufacturing and producing in Venezuela continues to shrink, e.g. in the last four years fifteen pharmaceutical companies shut down their production facilities. Many multinational companies cut down the number of expatriate managers, engineers, and technicians in Venezuela due to declining revenues and underperforming subsidiaries in a volatile economy.

Declining FDI since the end of the 1970s, which can be seen in the figure provided below, is reducing the influence of international management styles. Domestic managers have less contact with international managers than before as there are fewer of them in the country.

The development and transfer of modern management know how, mainly taking place in business meetings, daily contacts, conversations, and exchanges of views comes to a significant slow down. Hence the influences coming from abroad are decreasing. Therefore, an impulse coming from abroad leading to a change of the contemporary Venezuelan management style is less likely to occur.

But what about this generation of younger managers mentioned above? What does the Loughborough Study indicate in this respect?

754 Interview with the president of a commercial stores' chain.
The following two figures serve as an evidence, that there is something developing in Venezuelan management that can be understood as a paradigm shift. Younger managers have different opinions about some propositions that were put forward in the questionnaire:

![Venezuela: Indicators of Management Change I](Diagram)

(Freres Pearson Correlation Coefficient: Netw: 0.366 (significance: 0.036), Netw5: 0.472 (significance: 0.006))

**Informal Business**  
**Focus on Operations**  
**Professionalism**  
**Focus on Strategy**

Figure 30: Venezuela: Indicators of Management Change I.

The older the managers in Venezuela, the more strongly they agreed with the statement that:

Informal contacts within the organisation are more often important than the formal relationships shown in the organisation chart in ensuring efficient work relations.

The degree to which the answers correlated with the variable age was significant at the level of 0.05. Therefore it seems that the younger generation of managers shift the importance from having informal contacts within an organisation to working on a formal, more professional level to reach efficiency in business processes. The second example provided in this chart deals with the statement whether:

Management is essentially about the operation of systems and standard operating procedures (SOPS) that are already in place.

Here the correlation between age and answers was even significant at the 0.01 level, meaning that the younger the managers the stronger they disagree with the proposition.
It seems as if younger managers do not want to put up with the fact any longer that due to all the fire-fighting in daily business, making sure that all the systems are operating, there is no time left for strategy and planning.

The second chart on indicators of management change in Venezuela conveys two paradigm shifts as well. Firstly, there is a trend for younger managers to not identify any longer with the task to determine the boundaries of ethical behaviour for their subordinates. Secondly they disagree more strongly with the proposition that a manager who frequently challenges how things are done is less likely to be promoted than their older counterparts.

These two findings point in the same direction: The younger generation of managers does not identify as strongly with the role of being a patron, a caring father who is looking after his subordinates like children, i.e. conveying the right values to them, and on the other hand accepting no criticism. The shift goes from paternalism and conformism to self-reliance and individuality.
What remains is the question of who is going to have his way? Old hands preferring paternalism and protectionism or the young ones driving international professionalism.
Appendices

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Appendix I: Cultural differences – Hofstede’s four dimensions.

Abbreviations:

ARG ........................................... Argentina.
CHL ........................................... Chile.
ESP ........................................... Spain.
GBR ........................................... Great Britain.
GER ........................................... Germany (West).
USA ........................................... United States of America.
VEN ........................................... Venezuela.
Appendix II: Consequences for Organisations of the Power Distance Index.

<table>
<thead>
<tr>
<th>Low PDI</th>
<th>High PDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less centralisation</td>
<td>Greater centralisation</td>
</tr>
<tr>
<td>Flatter organisation pyramids</td>
<td>Tall organisation pyramids</td>
</tr>
<tr>
<td>Smaller proportion of supervisory personnel</td>
<td>Large proportion of supervisory personnel</td>
</tr>
<tr>
<td>Small wage differentials</td>
<td>Large wage differentials</td>
</tr>
<tr>
<td>High qualification of lower strata</td>
<td>Low qualification of lower strata</td>
</tr>
<tr>
<td>Manual work same status as clerical work</td>
<td>White-collar jobs valued more than blue-</td>
</tr>
<tr>
<td></td>
<td>collar jobs</td>
</tr>
<tr>
<td>Subordinates expect to be consulted</td>
<td>Subordinates expect to be told what to do</td>
</tr>
<tr>
<td>The boss is a resourceful democrat</td>
<td>The ideal boss is a benevolent autocrat or</td>
</tr>
<tr>
<td></td>
<td>good father</td>
</tr>
<tr>
<td>Privileges and status symbols are frowned</td>
<td>Privileges and status symbols for managers</td>
</tr>
<tr>
<td>upon</td>
<td>are both expected and popular</td>
</tr>
<tr>
<td>Hierarchy in organisations means an</td>
<td>Hierarchy in organisations reflects the</td>
</tr>
<tr>
<td>inequality of roles, established for</td>
<td>existential inequality between higher-ups</td>
</tr>
<tr>
<td>convenience</td>
<td>and lower-downs</td>
</tr>
</tbody>
</table>

Figure A2: Consequences for organisations of the Power Distance Index.
Appendix III: Consequences of the Individualism-Collectivism Dimension for the Organisation.

<table>
<thead>
<tr>
<th><strong>Consequences of the Individualism-Collectivism Dimension</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low IDV Countries</strong></td>
<td><strong>High IDV Countries</strong></td>
</tr>
<tr>
<td>Involvement of individuals with organisations primarily moral</td>
<td>Involvement of individuals with organisations primarily calculative</td>
</tr>
<tr>
<td>Employees expect organisations to look after them like a family - and can become very alienated if organisation fails them</td>
<td>Organisations are not expected to look after employees from the cradle to the grave</td>
</tr>
<tr>
<td>Organisation has great influence on members' well-being</td>
<td>Organisation has moderate influence on members' well-being</td>
</tr>
<tr>
<td>Employees expect organisation to defend their interests</td>
<td>Employees are expected to defend their own interests</td>
</tr>
<tr>
<td>Policies and practices based on loyalty and sense of duty</td>
<td>Policies and practices should allow for individual initiative</td>
</tr>
<tr>
<td>Promotion from inside (localism)</td>
<td>Promotion from inside and outside (cosmopolitanism)</td>
</tr>
<tr>
<td>Promotion on seniority</td>
<td>Managers try to be up-to-date and endorse modern management ideas</td>
</tr>
<tr>
<td>Less concern with fashion in management ideas</td>
<td>Policies and practices apply to all (universalism)</td>
</tr>
<tr>
<td>Policies and practices vary according to relations (particularism)</td>
<td></td>
</tr>
</tbody>
</table>

Figure A3: Consequences of the Individualism-Collectivism Dimension for the Organisation. (source: Hofstede, 1980, pp. 238-239)
Appendix IV: Consequences of Uncertainty Avoidance for Organisations.

### Consequences of Uncertainty Avoidance for Organisations

<table>
<thead>
<tr>
<th></th>
<th>Low UAI</th>
<th>High UAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less structuring of</td>
<td>More structuring of activities</td>
<td></td>
</tr>
<tr>
<td>activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fewer written rules</td>
<td>More written rules</td>
<td></td>
</tr>
<tr>
<td>More generalists or</td>
<td>Large number of specialists</td>
<td>Organisations should be as uniform as possible (standardisation)</td>
</tr>
<tr>
<td>amateurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisation can be</td>
<td></td>
<td></td>
</tr>
<tr>
<td>pluiriform</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers more involved in strategy</td>
<td>Managers more involved in details</td>
<td></td>
</tr>
<tr>
<td>Managers more</td>
<td>Managers more task-oriented and</td>
<td></td>
</tr>
<tr>
<td>interpersonally</td>
<td>consistent in their style</td>
<td></td>
</tr>
<tr>
<td>oriented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers more willing to make individual and risky decisions</td>
<td>Managers less willing to make individual and risky decisions</td>
<td></td>
</tr>
<tr>
<td>High labour turnover</td>
<td>Lower labour turnover</td>
<td></td>
</tr>
<tr>
<td>More ambitious</td>
<td>Less ambitious employees</td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower satisfaction</td>
<td>Higher satisfaction scores</td>
<td></td>
</tr>
<tr>
<td>scores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less power through</td>
<td>More power through control of</td>
<td></td>
</tr>
<tr>
<td>control of</td>
<td>uncertainty</td>
<td></td>
</tr>
<tr>
<td>uncertainty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less ritual behaviour</td>
<td>More ritual behaviour</td>
<td></td>
</tr>
</tbody>
</table>

Figure A4: Consequences of Uncertainty Avoidance for Organisations.

(source: Hofstede, 1980, p. 187)
Appendix V: Consequences of National Masculinity Index Differences.

<table>
<thead>
<tr>
<th>Low MAS Countries</th>
<th>High MAS Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some young men and women want careers, others do not</td>
<td>Young men expect to make a career; those who don’t see themselves as failures</td>
</tr>
<tr>
<td>Organizations should not interfere with people’s private lives</td>
<td>Organizational interests are a legitimate reason for interfering with people’s private lives</td>
</tr>
<tr>
<td>More women in more qualified and better-paid jobs</td>
<td>Fewer women in more qualified and better-paid jobs</td>
</tr>
<tr>
<td>Managers use intuition and strive for consensus</td>
<td>Managers expected to be decisive and assertive</td>
</tr>
<tr>
<td>Lower job stress</td>
<td>Higher job stress</td>
</tr>
<tr>
<td>Resolution of conflicts by compromise and negotiation</td>
<td>Resolution of conflicts by fighting them out</td>
</tr>
<tr>
<td>Appeal of job restructuring permitting group integration</td>
<td>Appeal of job restructuring permitting individual achievement</td>
</tr>
<tr>
<td>Stress on equality, solidarity, and quality of work life</td>
<td>Stress on equity, competition among colleagues, and performance</td>
</tr>
</tbody>
</table>

Figure A5: Consequences of National Masculinity Index Differences.
(source: Hofstede, 1980, p. 296; Hofstede, 1991, p. 96)
Appendices

Appendix VI: Entry Mode Choices.

![Diagram of Entry Mode Choices](image)

Figure A6: Entry Mode Choices.
(derived from: Austin, 1990, p. 314-324)

[COUNTRY/COMPANY ANALYSIS: 0 = VERY VOLATILE; 10 = STABLE AND PROMISING

The country analysis takes into consideration economic factors (market size, labour cost and skill, local managerial capacity, and development of infrastructure), political (risk, government reception to FDI, import controls, foreign exchange controls, and price controls), cultural (compatibility) and factors concerning the competitive situation of the company (industry concentration, relative competitive strength, local barriers to entry, and cannibalisation risk).

The company analysis focuses on the following issues: product (maturity, brand differentiation, line diversity, and service intensity), technology (maturity, stability, complexity, and patentability), resources (capital, management, and LDC experience), and globalisation (international strategy).]
Appendix VII: The Loughborough Study: cross-country analysis - Structure I

**The Loughborough Study: cross-country analysis - Structure I**

Structure 1

"Structure is important for fixing the authority relations between organisational members."

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>4.18</td>
</tr>
<tr>
<td>Spain</td>
<td>3.62</td>
</tr>
<tr>
<td>Germany</td>
<td>3.67</td>
</tr>
<tr>
<td>USA</td>
<td>3.78</td>
</tr>
<tr>
<td>UK</td>
<td>3.41</td>
</tr>
</tbody>
</table>

Structure 2

"Structure is important in showing the relationship between the posts/functions/departments of the organisation."

<table>
<thead>
<tr>
<th>Country</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>4.39</td>
</tr>
<tr>
<td>Spain</td>
<td>4.00</td>
</tr>
<tr>
<td>Germany</td>
<td>3.67</td>
</tr>
<tr>
<td>USA</td>
<td>3.78</td>
</tr>
<tr>
<td>UK</td>
<td>3.30</td>
</tr>
</tbody>
</table>

---

- = overall mean

= mean is statistically significantly different from Venezuela at the 0.05 level.

Figure A7: The Loughborough Study: cross-country analysis - Structure I
Appendix VIII: The Loughborough Study: cross-country analysis: Structure II

The Loughborough Study: cross-country analysis - Structure II

Structure 4
"The structure of a company may well change as the strategy changes."

Hierarchy 1
"A clear cut hierarchy is essential to the proper functioning of any organisation."

Figure A8: The Loughborough Study: cross-country analysis - Structure II
Appendix IX: The Loughborough Study: cross-country analysis - Hierarchy

The Loughborough Study: cross-country analysis - Hierarchy

Hierarchy 2
"The hierarchy rightly denotes rank and status."

Hierarchy 3
"The hierarchy is necessary to achieve coordination."

- = overall mean
- = mean is statistically significantly different from Venezuela at the 0.05 level.

Figure A9: The Loughborough Study: cross-country analysis - Hierarchy
Appendix X: The Loughborough Study: cross-country analysis - Management qualities

The Loughborough Study: cross-country analysis
- Management qualities

Management Qualities 1
"Above all the manager needs specialist knowledge and relevant experience."

Management Qualities 5
"Higher education and intelligence are important in enabling managers to see things clearly and to make rational decisions."

- overall mean

mean is statistically significantly different from Venezuela at the 0.05 level.

Figure A10: The Loughborough Study: cross-country analysis - Management qualities
Appendix XI: The Loughborough Study: cross-country analysis - Work & Leisure and Creativity

The Loughborough Study: cross-country analysis
- Work & Leisure and Creativity

**Work and Leisure 2**

“For the senior manager work will inevitably invade leisure time.”

**Creativity 2**

“A manager should constantly challenge how things are done rather than deferring to hierarchy and precedent.”

---

Figure A11: The Loughborough Study: cross-country analysis - Work & Leisure and Creativity
Appendix XII: English version of management attitudes questionnaire

Management Attitudes Questionnaire

Please answer all the questions. The questionnaire should take 10 minutes to complete. All the answers are confidential.

Indicate your opinion where 1 is "strongly disagree" and 5 is "strongly agree".
Management Attitudes Questionnaire

Nationality:

Age:

Sex:

Current management position:

Industrial/commercial sector of your organisation:

Number of years in present organisation:

Number of years managerial experience:

Function area of present work:

- sales/marketing
- production/operations
- finance
- Design, R&D
- Human resource management
- General management
- Other, please specify
### Structure

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure is important for fixing the authority relations between organisational members.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Structure is important in showing the relationship between the posts/functions/departments of the organisation.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Side by side with the formal structure shown in the organisation chart there is often an informal organisation, equally important for understanding how the company works and for getting things done.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The structure of a company may well change as the strategy changes.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Problems may be solved or objectives accomplished by changes in the organisational structure.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Too much importance should not be attached to the notion or organisational structure: at the end of the day companies are made up of people who have to work with each other.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
## Networking

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal contacts within the organisation are often more important than the formal relationships shown in the organisational chart in ensuring efficient work relationships.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Promotions within a company are often influenced by informal contacts.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Things often get done in companies by means of networking, when groups of managers form unofficial coalitions to move things forward.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The main benefit of company training sessions is the opportunity they offer for getting to know people in other parts of the organisation.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Most new business is the result of some informal contact rather than of cold-calling.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Managers deprived of their networks as a result of company transfers are significantly disadvantaged.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
Nature of Management Work

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

- Management work is essentially about 'fire-fighting' and removing 'road blocks'.

- Strategy is the first concern of the senior manager.

- Management and leadership are coterminous.

- In today's climate management means above all the management of change.

- Management is essentially about the operation of systems and standard operating procedures (SOPS) that are already in place.

- Management is primarily about the setting of objectives and the monitoring of plans for their achievement.
Management Qualities

- Above all the manager needs specialist knowledge and relevant experience.

- Above all the manager needs powers of leadership.

- To be effective in any given company the manager needs knowledge and experience of that company's branch of industry.

- Above all the manager needs powers of persuasion.

- Higher education and intelligence are important in enabling managers to see things clearly and to make rational decisions.

- In management work common sense is a greater virtue than impressive qualifications.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
**Work and Leisure**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nobody ever climbed the corporate ladder without putting work first.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>For the senior manager work will inevitably invade leisure time.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Senior managers value their work time more highly than their leisure time.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Managers owe it to themselves and their families to strike a sensible balance between the demands of work and home.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Over-involvement in work may well signify personal limitations.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Management work is fun! Discussions of the work/leisure distinction are not really meaningful.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The current demands made on managers' time lead to serious disruptions on their home lives.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
Hierarchy

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

- A clear cut hierarchy is essential to the proper functioning of any organisation.

- The hierarchy rightly denotes rank and status.

- The hierarchy is necessary to achieve co-ordination.

- Hierarchy is best seen as a set of lines of vertical communication.

- Hierarchies are being increasingly modified by matrix structures and lateral communications.

- Hierarchies will become increasingly less relevant as a result of increasing empowerment.

- Hierarchy is the formalised expression of merit.
## Decision Making

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision making is the central managerial act.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The manager must aim at rational decisions, based on relevant information.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>In practice decisions are usually a compromise between what one ought to do and one can get away with.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>In practice the work of the manager is more about managing situations than taking decisions.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>When you come down to it most decision making is intuitive.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>When it comes to decision making the viability of implementation is the key consideration.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Today decision making increasingly involves negotiation.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
Management Change

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delayering has resulted in an increased competence for middle management.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Downsizing and delayering have put increasing pressure on middle management.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The key change in the last 10 years is the greater emphasis on results, performance and accountability.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>The greater emphasis on results and performance have made management work more satisfying.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Today performance rather than hierarchy is the key determinant of management rewards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Promotion and career paths have been clarified as a result of greater emphasis on measured performance.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Management jobs today involve less judgement and discretion than formally.</td>
<td>1 2 3 4 5</td>
<td></td>
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</tbody>
</table>
Learning

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The development of their staff is prime responsibility of manager.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Status and financial reward are of secondary importance to the potential learning opportunities, particularly regarding a new management post.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• In appointing managers, their potential to learn is of more importance than their existing knowledge and experience.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Views of a manager’s peer group and/or subordinates should not form part of the appraisal system of a manager.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• A manager’s ability to work in a team is the most highly valued part of his/her individual performance.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Managers should set an example by committing time and resources to the development of their staff.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Staff development is primarily the responsibility of a firm’s human resource specialists.</td>
<td>1 2 3 4 5</td>
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Short Term/Long Term

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
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</thead>
<tbody>
<tr>
<td>Reward systems are based on a manager’s ability to meet annual targets rather than on their accumulated experience, skills and knowledge.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Negotiations with third parties should focus on getting the ‘best deal’ for one’s company not on building long term relationships.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Meeting short term financial targets is the main criterion for promotion.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Focussing on the achievement of annual targets stifles innovation.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Line managers do not have time to engage in strategic planning.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Managers’ decisions are primarily motivated by the desire to achieve short term results.</td>
<td>1 2 3 4 5</td>
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## Creativity

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<tr>
<th>Strongly Disagree</th>
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</table>

- Managers avoid introducing innovations unless the financial reward systems formally recognise them.
- A manager should constantly challenge how things are done rather than deferring to hierarchy and precedent.
- A manager who frequently challenges how things are done is less likely to be promoted.
- Line managers are not encouraged to innovate and take risks.
- Innovation by managers is stifled because mistakes are punished, rather than being viewed as part of an individual's learning experience.
- Innovation and risk taking is the preserve of senior management.
- Ideas generated by informal groupings of managers may be ignored because such groupings are not considered legitimate.
- Managers should not introduce innovatory working practices unless formally approved by senior management.
Ethics

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Loyalty to one's company should always take precedence over personal integrity.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>• Undisclosed gifts to third parties are acceptable if they are necessary to secure an important contract.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Questioning a decision made by senior management on ethical grounds is unacceptable practice.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>• It is the role of senior management to determine the boundaries of ethical behaviour for their subordinate managers.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• So long as managers operate within the law they should not concern themselves with ethical issues.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Unofficial private use of a company's resources by managers is basically acceptable.</td>
<td>1 2 3 4 5</td>
<td></td>
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</table>
Communications

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<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers should only action requests and ideas put forward by subordinates if they come through formal communication channels.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>A firm's formal communication systems are designed primarily to impart information downwards.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Senior management uses the formal communication system primarily as a control device.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Employees’ access to senior management should be restricted to their line manager.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Informal rather than formal communication systems provide more feedback on managers' performance.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Managers learn more about the strategic direction of their company from informal (rather than formal) communication channels.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Managers should instruct staff on their responsibilities without being called upon to justify them.</td>
<td>1 2 3 4 5</td>
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<tr>
<td>A refusal of a request should be accompanied by an explanation not an apology.</td>
<td>1 2 3 4 5</td>
<td></td>
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</table>
Cuestionario para los directivos
(gerente, jefe, subjefe)

Por favor conteste todas las preguntas. Completar el cuestionario debería tomar unos 10 minutos.

Indique su opinión donde 1 es "no estar de acuerdo en absoluto" y 5 es "estar totalmente de acuerdo".

Ejemplo:

- Los impuestos son demasiado altos.  
  1 2 3 [4] 5
Cuestionario para los directivos

Nacionalidad y lugar de origen:

Edad:

Sexo:

Actual cargo directivo:

Sector industrial/comercial de su organización:

Número de años en la organización actual:

Número de años de experiencia directiva:

Área funcional en la que trabaja actualmente (Marcar):

- Ventas/Marketing
- Producción
- Financiero
- Desarrollo e Investigación
- Recursos humanos
- Dirección general
- Otro, por favor especificar: 
Organigrama

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<td>1 2 3 4 5</td>
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</table>

- La estructura es importante para establecer las relaciones de autoridad entre miembros de la empresa.

- La estructura es importante para mostrar la relación entre los cargos / las funciones / las secciones de la organización.

- Además de la estructura formal mostrada en el organigrama hay a menudo una organización informal, igualmente importante para hacer las cosas y comprender cómo la empresa funciona.

- La estructura de una empresa puede cambiar si la estrategia cambia.

- Problemas pueden ser resueltos y objetivos ser realizados por cambios en la estructura organizativa.

- No se debe dar demasiado importancia al organigrama. Al final las empresas están formadas por personas que trabajan juntas.
Red de conecciones

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<th>No estar de acuerdo en absoluto</th>
<th>Estar totalmente de acuerdo</th>
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<tbody>
<tr>
<td>• Contactos informales dentro de la empresa, a menudo son más importantes que las relaciones formales mostradas en el organigrama, para asegurar relaciones de trabajo eficaz.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Promociones dentro de una compañía son habitualmente influidas por contactos informales.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• A menudo se logran cosas en organizaciones mediante la utilización de la red de conecciones profesionales, cuando grupos de las directivos forman uniones extraoficiales para progresar en el trabajo.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• El beneficio principal de cursos de formación de la empresa es la oportunidad que ofrecen para reunir directivos de otras partes de la organización.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Mucho de los nuevos negocios son el resultado de contactos informales por la red de conecciones en lugar de vía oficial.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Los directivos privados de sus relaciones informales como resultado de transferencia de puesto o empresa están en significativa desventaja.</td>
<td>1 2 3 4 5</td>
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Naturaleza de la actividad de los directivos

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<th>Punto</th>
<th>No estar de acuerdo en absoluto</th>
<th>Estar totalmente de acuerdo</th>
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<tbody>
<tr>
<td>El trabajo directivo trata esencialmente de resolver problemas de emergencia y eliminar obstáculos emergentes.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>Estrategia es la primera preocupación del gerente.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>La dirección de empresas y liderazgo son sinónimos.</td>
<td>1 2 3 4 5</td>
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<tr>
<td>En el actual clima empresarial, dirección significa ante todo realización del cambio.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>La dirección trata esencialmente del funcionamiento de sistemas y procedimientos de operación ya existentes.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>La dirección trata principalmente de la fijación de objetivos y la supervisión de proyectos para su realización.</td>
<td>1 2 3 4 5</td>
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### Cualidades de dirección

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<th>No estar de acuerdo</th>
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<tbody>
<tr>
<td><strong>El directivo requiere sobre todo sabiduría especialista y experiencia relevante.</strong></td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td><strong>El directivo requiere sobre todo los poderes de liderazgo.</strong></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>Para ser efectivo en cualquier empresa el directivo necesita sabiduría y experiencia en el sector industrial de su empresa.</strong></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>El directivo necesita sobre todo el poder de persuasión.</strong></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>Educación superior e inteligencia son importantes para capacitar a los directivos de una comprensión clara y una toma de decisiones racionales.</strong></td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td><strong>Para el trabajo de dirección de empresas el sentido común es una virtud mayor que los grandes títulos.</strong></td>
<td>1 2 3 4 5</td>
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## Trabajo y diversión

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<th>No estar de acuerdo en absoluto</th>
<th>Estar totalmente de acuerdo</th>
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<tbody>
<tr>
<td>• Nadie nunca subió el escalafón sin poner el trabajo en primer lugar.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Los gerentes estiman su tiempo de trabajo más que su tiempo de ocio.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Para los gerentes el trabajo debería indudablemente invadir su tiempo de ocio.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Los directivos se lo deben a ellos mismos y a sus familias el hacer un equilibrio razonable entre las demandas del trabajo y las de la casa.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• Envolverse demasiado en el trabajo significaría limitaciones personales.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• ¡Trabajo directivo es divertido! Discusiones sobre la distinción trabajo y diversión no son muy significantes.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>• La demanda de tiempo de los directivos crear serias rupturas en sus vidas familiares.</td>
<td>1 2 3 4 5</td>
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### Jerarquía

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</table>

- Una jerarquía fuerte es esencial en el buen funcionamiento de cualquier organización.

- La jerarquía propiamente denota rango y estatuto.

- La jerarquía es necesaria para obtener coordinación.

- La jerarquía es entendida mejor como una serie de canales de comunicación vertical.

- Las jerarquías son modificadas crecientemente por las estructuras matriciales y las comunicaciones laterales.

- Las jerarquías se harán cada vez menos relevantes como consecuencia de una creciente cesión de poderes a los trabajadores.

- La jerarquía es la expresión formalizada del mérito.
Toma de decisiones

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- La toma de decisiones es la función fundamental de la dirección.

- El directivo debe buscar decisiones racionales fundadas en información relevante.

- En la práctica las decisiones están normalmente en compromiso entre lo que un directivo debe hacer y de lo que se puede aceptar.

- En la práctica la función del directivo consiste más en manejar situaciones que tomar decisiones.

- Al final la mayoría de las decisiones están tomadas intuitivamente.

- Normalmente en la toma de decisiones la viabilidad de la implementación es la clave.

- Hoy en día la toma de decisiones incluye cada vez más negociaciones.
**Cambio en el manejo empresarial**

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<th>No estar de acuerdo en absoluto</th>
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<tbody>
<tr>
<td>- La reducción de niveles jerárquicos han conducido a un incremento de la competencia para la dirección media.</td>
<td>1 2 3 4 5</td>
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</tr>
<tr>
<td>- La reducción de niveles jerárquicos han Llevado a una presión creciente para la dirección media.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>- El cambio más significante dentro de los últimos diez años es: el mayor énfasis en resultados, desempeño y responsabilidad.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>- El énfasis creciente por los resultados y desempeño han hecho el trabajo directivo más satisfactorio.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>- Hoy en día desempeño en lugar de jerarquía es el factor determinante de las recompensas de la dirección.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>- Promoción y la carrera profesional han sido aclarados como consecuencia de un mayor énfasis en el desempeño medido.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>- El trabajo de los directivos hoy incluye menos discernimiento y prudencia que antes.</td>
<td>1 2 3 4 5</td>
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Enseñanza

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- El desarrollo de sus empleados es la responsabilidad principal del directivo.

- El estatus y recompensa financiera tienen importancia secundaria comparados con las oportunidades potenciales de aprendizaje a un puesto nuevo.

- Al emplear un directivo su potencial para aprender es más importante que su sabiduría y experiencia actual.

- Las opiniones del grupo equivalente a un directivo y de los subordinados no deben formar parte del sistema para evaluación de un directivo.

- La capacidad de un directivo para trabajar en equipo es la parte más estimada de su actuación individual.

- Los directivos deberían dedicar tiempo y esfuerzos para el desarrollo de sus empleados.

- El desarrollo de los empleados es sobre todo la responsabilidad de los especialistas en recursos humanos de la empresa.
Planeación a corto y a largo plazo

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- Las sistemas de recompensa se apoyan más en la capacidad del directivo en conseguir los objetivos anuales que en su experiencia acumulada, habilidades y sabiduría.

- Negociaciones con otras empresas deberían enfocarse en obtener el mejor éxito y no en construir relaciones a largo plazo.

- Realizar los objetivos financieros de corto plazo es el principal criterio para la promoción.

- Enfocarse exclusivamente en la realización de los objetivos anuales impide la innovación.

- Los Jefes de departamento no tienen tiempo para ocuparse de la planificación estratégica.

- Las decisiones de la dirección están motivadas principalmente por el deseo de conseguir los resultados a corto plazo.
Creatividad

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<tr>
<th>No estar de acuerdo en absoluto</th>
<th>Estar totalmente de acuerdo</th>
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<tbody>
<tr>
<td><strong>Los directivos evitan introducir innovaciones sin haber tenido reconocimiento formal de los sistemas de recompensa financieros.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>El directivo debería constantemente poner en duda los procedimientos actuales antes que someterse a la jerarquía y a lo establecido.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Un directivo que frecuentemente pone en duda cómo se hacen las cosas es menos probable que sea promocionado.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Los jefes de departamento no son alentados para innovar y tomar riesgos.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>La innovación hecha por directivos es frenada porque los errores son castigados en lugar de ser vistos como parte del aprendizaje de un directivo.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Innovación y capacidad para tomar riesgos esta reservado a la dirección superior.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Las ideas generadas por encuentros informales de los directivos son ignoradas porque no se consideran como encuentros legítimos.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Los directivos no debería introducir procedimientos de trabajo innovadores si no están formalmente aceptados por la dirección superior.</strong></td>
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Normas de ética

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<tr>
<th>No estar de acuerdo en absoluto</th>
<th>Estar totalmente de acuerdo</th>
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<td>1</td>
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<tr>
<td><strong>Siempre se debe estimar más la lealtad a la compañía que la integridad personal.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Regalos no revelados para terceras partes son aceptables si son necesarios para obtener un contrato importante.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Cuestionar una decisión tomada por la dirección superior por razones éticas es inaceptable.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Es la función de la dirección superior el determinar los límites de la conducta ética de sus managers subordinados.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>Si los directivos actúan dentro de los límites de la ley no deberían preocuparse por problemas éticos.</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>El uso privado extraoficial de los recursos de una empresa por managers es básicamente aceptable.</strong></td>
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Comunicación

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<th>Estar totalmente de acuerdo</th>
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<tbody>
<tr>
<td>Los directivos solamente deben tomar en cuenta peticiones e ideas presentadas por subordinados si vienen a través de vías de comunicación formales.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>Se diseñan los sistemas de comunicación formales de una empresa principalmente para que la información descienda por la jerarquía.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>La dirección superior emplea el sistema de comunicación formal principalmente como un mecanismo de control.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>El acceso de los empleados a los directivos se debe restringir a sus jefes de departamento.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>Sistemas informales en lugar de sistemas de comunicación formales proveen más informaciones respuestas ('feedback') sobre la actividad del directivo.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>Los directivos aprenden más sobre la proyección estratégica de su empresa por vías de comunicación informal.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>Los directivos deben informar a los empleados de sus obligaciones sin tener que justificarse.</td>
<td>1 2 3</td>
<td>4 5</td>
</tr>
<tr>
<td>Una negativa a una petición debe ser acompañada por una explicación y no una disculpa.</td>
<td>1 2 3</td>
<td>4 5</td>
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</tbody>
</table>
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Cei C.A.
Consultores 21
Glossary

adecos ............... Members of AD.

barrios ............... Squatter settlement, illegally based on private or public land, are formed in response to a critically inadequate housing shortage.

bolivar ............... Currency unit, divided into 100 céntimos. Rate in effect since February 1973 was Bs 4.30 to US$ 1.

campesino ........... rural dweller, usually of modest economic means; a peasant.

caraqueño ........... Resident of the city of Caracas.

caudillo .............. South American dictator, normally a military man who assumes power by force and is noted for autocratic rule. More than 30 different caudillos governed Venezuela from 1830 to 1958. In no other country in Latin America, caudillismo was more pronounced than in Venezuela.

compadrazgo ......... Ritual sponsorship of children by godparents, instituting a set of permanent, personal ties between parents, children and godparents.

compadres ............ Parent and godparents who have a special relationship.

conquistadores ....... conquerors, especially members of the Spanish soldiers and adventurers who conquered South American the 16th century.

criollo ............... Creole, a person of European (especially Spanish) ancestry but born in the Americas. Criollos were instrumental in overthrowing Spanish colonial rule.

favela ................. Brasilian shanty town.

favelado ............... Inhabitants of the favelas.

finceros ............... same as, see terrateniente.

hacienda .............. Large estate often producing for export, which represents a social as well as an economic system. The hacienda system symbolises a very unequal distribution of land, with a small number of people monopolising the bulk of cultivable land.

haciendados .......... The owner of an hacienda.
\textit{indocumentados} ...... Illegal and undocumented immigrants, mainly coming from Colombia or Peru.

\textit{latifundio} ................. Large estate.
\textit{latifundistas} .......... Owners of large estates or land, see also \textit{terrateniente}.
\textit{libertador} ............... Simón Bolívar is called this way, as he liberated the northern parts of Latin America (Colombia, Venezuela, Ecuador, Panama) from the Spanish colonial empire in early 1800.
\textit{llanero} .................. Inhabitant of the llanos, or plains regions.
\textit{machismo} ................. Cult of male dominance, derived from the word \textit{macho}, meaning male.
\textit{maquiladoras} ....... Assembly plants, which import component parts and make them up for export.
\textit{maracucho} .............. Resident of the second city of Maracaibo.
\textit{marianismo} .............. Cult of female subordination in general, but superiority in spiritual matters.
\textit{mestizaje} ............... Genetic mixing involving various combinations of Negro, white, and Indian.
\textit{mestizo} ................. Someone of mixed European and Indian stock.
\textit{minifundistas} .......... Peasants owning five-to ten-acre plots, supporting their family at subsistence or less than subsistence level, contributing nothing to agricultural and economic development.
\textit{mulato} ................. Someone of mixed negro and European stock.
\textit{padrino} ................. see \textit{palanca}.
\textit{palanca} ...... or padrino; Intermediary between patron and client (literally a lever).
\textit{panalinha} .............. Informal group made up of people linked by personal ties, but in different occupations.
\textit{patrón} ................. Literally patron, as involved in a master-servant relationship; patrones may be landlords, employers, political bosses.
\textit{peninsulares} .......... Settlers in Latin America, being born in Spain.
\textit{rancho} ................. An urban shelter below minimum housing requirements constructed of makeshift materials, such as discarded lumber, cartons, flattened tin cans, generally by the occupant.
sembrando el petróleo  Literally, sowing the petroleum; using oil revenues to provide for national development. A long time goal of the Venezuelan government; diversification of the economy away from dependence on oil. Also connoted improving economic and social position of the nation’s poor.

terrateniente ..........Big landowner