



Modern Management thought and theories: evidence from the evolution of a Colombian Corporation (*)

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ABSTRACT

This paper presents an analysis between management theory and practice as it relates to a Colombian firm becoming a corporation. The purpose of this study is to describe the managerial evolution of a Colombian company with a theoretical foundation support. Propositions are developed to explain three contemporary concepts (corporation development, professional management and globalization) that are present in Almacenes Exito corporation's managerial evolution. The sources used were published literature and my personal observations during 1980 to 1999. An overview of how a Colombian corporate example provides support to the applicability of the management theory in different environments.

INTRODUCTION

The objective of this study is to link the following theories to the evolution of one of the most successful Colombian companies, Almacenes Exito.

1. There is a strong relationship among the evolution of technology, market demand and corporation development (Jones, 1996).
2. When a company grows entrepreneurial leadership is transformed into professional management (Granovetter, 1994).
3. In today's globalization world, it is impossible for companies that are characterized for growing processes to remain in their traditional national markets (Reich, 1991).

This study is important because the international academic environment has not focused on the study of Latin American enterprises although Mexican firms have received some attention. In this case, a Colombian firm is analyzed. Also, the example of a Colombian firm applying these management theories in its managerial evolution provides evidence of the adaptability of said theories. Almacenes Exito embodies general outstanding characteristics that are not present in other firms. Families with some

social, political, or economic status own typical Colombian enterprises. These enterprises are located in cities where there are other important industries, and they are locally financed. On the other hand, a Toro Quintero family member, who in the beginning did not have social, political, or economic family connections, owns Almacenes Exito. It began in a city (Medellin) that at that point in time was not an industrial center (Mejia, 1999). Finally, Almacenes Exito's ability to attract investors was so remarkable that it attracted Colombian economic groups and French investors (Sindicato, 1999).

HISTORICAL BACKGROUND

Almacenes Éxito is a large Colombian retailer, which began activities in 1949

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(Mejía, 1999). It is important to review some Colombian political events that occurred at that time. For example, this period is characterized in Colombian history by the violence that began with armed confrontation between Liberal and Conservative parties (Pearce, 1990). Even though the political life was very confused, the economy was stable (Mejía, 1999). Almacenes Exito began its operation in spite of these difficulties. In this era, Colombia started to be a country with strong urbanization processes due to the difficult situation in the rural areas, which were unsafe and unprotected. These difficulties were the basis for Colombian public officials' implementation of legislation, which promoted and protected national industries. The private sector aided the internal growth of manufactured goods. Together, the two sectors led the improvement of urban life conditions (Rueda, 1989). Without economic perspectives, without higher educational centers, and without labor opportunities, the families started to migrate to the cities. For this reason, the Toro Quintero family gave up Titiribí, Antioquia, their native town, in order to locate in Itagui and later in Medellín, Departamento de Antioquia. The Toro Quintero family had 11 children; one was Gustavo.

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When he was 21 years old, Gustavo, his brother Mario and a friend founded Almacenes Exito (Mejía, 1999). From the literature reviewed, I divided the evolution of the corporation between 1949 and 1999 into three important periods. These are the beginning, the expansion where the corporation development occurs and the management became professional, and the economic opening where the company integrates to the globalization process. The Almacenes Exito beginning period runs from the year 1949 to the late 60s; the expansion period comprises the years from 70s to the late 80s, and the economic opening period comprises the 90s to the present.

THE BEGINNING OF ALMACENES EXITO

Almacenes Exito opened its doors on March 26, 1949 and its first sales were registered two days later. The initial investment was \$15,000 Colombian pesos. The first local size was 4 x 4 meters² and Almacenes Exito's name was David Restrepo's idea, who was a co-founder. In the beginning, Almacenes Exito sold remnant cloths, popular manufactured articles, and in general products related with manufacturing and textile. The first suppliers were from Medellín and other Colombian cities, such as Barranquilla. The first founders' decision was to buy a Sacred Heart picture to put in the president's office and it symbolizes their religious values. They also decided that things like donations for poor houses and paying of taxes, public services, suppliers and workers had to be sacred (Mejía, 1999). This period was characterized by running the business in proprietorship form where the business's operation, the decision making processes, and in general the business management were centralized in the owner figure. However, in the 50s Gustavo Toro's brothers and sisters also became Almacenes Exito's owners. Almacenes Exito being a family business characterized this period.

CORPORATION DEVELOPMENT: THEORETICAL BACKGROUND

The modern business enterprise is an economic institution that owns and operates a multiunit system and that relies on a multilevel managerial hierarchy to administer it. In order to create big business, entrepreneurs in different countries practice different forms of institutional arrangements. For example, in the United States the business practices are more uniformed in legal, financial, and administrative aspects. Corporations are centralized operating from the main office. In Germany, businessmen practice the cartel. These are often international companies who agree to fix prices to limit competition so that they can increase their profits. In Britain, the practice is holding company while in France the practice of financial holding is common. In the 1970s, these European practices have become more uniformed in that they are a centrally controlled operating enterprise (Chandler, Jr., 1981). From these four countries, France is the only European country that has some similarities with Latin American countries. For example, large French enterprises were apt to be managed by groups of families with some ties. The members of these families often participated in a group of elite government-sponsored technological institutes

(grandes écoles) and had relationships with the government and financial people (Chandler, Jr., 1981).

The most popular arguments about firm size are what Granovetter calls "contingency arguments" in which he includes any assertions that there is an optimal size for a firm given specified features of its environment including its technology, its market demand, and its transactions with other economic actors (Granovetter, 1994). In order to explain the transition from personally managed enterprises to modern corporation, Chandler identifies two important variables. These are changes in technology and markets (Jones, 1996). The most significant advantages of the regular corporation are the ability to attract additional investors when capital is needed, as also the ability to obtain financing by selling different types of securities such as stocks or bonds (Fay, 1998). Today, in the constantly changing environments, the creation of economic value is tied to information, brainpower and ideas (Weathersby, 1999). The rediscovery of entrepreneurship and its potential importance for growth is one of the most important developments of the second half of the 20th century (Zahra, 1999).

PROPOSITION 1: THE WORLD TRENDS ABOUT CORPORATION DEVELOPMENT HAVE CONTRIBUTED TO TRANSFORM ALMACENES EXITO'S MANAGEMENT PRACTICES

The Expansion Period of Almacenes Exito and its Corporate Development

In the 70s, Almacenes Exito was an international phenomena and people from

Central America and the Caribbean came to Medellin in order to buy in Almacenes Exito. In 1971, Sears, a U.S. company closed its store in Medellin, Colombia and Almacenes Exito bought the local left by Sears and opened there its second store, starting the expansion era. This store had different characteristics from the first one. For example, Almacenes Exito developed a new Colombian store concept, self-service, and also it combined the selling of food, with clothes and home appliances (Mejia, 1999). From this moment Almacenes Exito started to develop a multiunit system because it grew from one to two stores and they needed to have coordination from the main office in order to rationalize the operational and managerial processes. The third store was opened later in 1974 in an elegant Medellin neighborhood.

In 1972, the Toro family decided to incorporate new stockholders. The first condition was that they needed to be non-family members; the objective of this decision was to avoid family conflicts in the long term. The new stockholders were carefully selected and they were honest people with values who had a lot of knowledge and experience about business (Mejia, 1999). This period coincides with the first time that Almacenes Exito is identified more as a corporation than as a family's business. In fact in 1975, Almacenes Exito changes from a limited company to a stock company that offered its stocks to the general public. From this era, the company started to have a board of directors, which was responsible for the company strategy direction and also, Almacenes Exito started to use computers in order to organize the accounting information in the computer systems. In

1977, Almacenes Exito founder Gustavo Toro knew that the family business had become a corporation and his paternal and informal managerial style was not appropriate for the corporation. In his own words, Gustavo Toro recognized that:

Almacenes Exito is growing and I used to make decisions such as to hire people because they needed the job and when the person had two or three months in his or her job then the personnel office had noticed the event. Also, when a person had some family emergency I used to solve the problem. After that I gave the information to the appropriate office. In other words Almacenes Exito's people knew that I was ready to solve all their problems, for me they are first but also I know that Almacenes Exito has become a corporation and then it needs to managed as such. (Mejia, 1999).

After 30 years at the company's direction, he decided to gave up the position as president and he continued as a member of the board of directors. In 1977, Almacenes Exito is clearly defined as a corporation and then it started its multiunit system, multilevel managerial system in order to manage the corporation from a centralized system.

PROFESSIONAL MANAGEMENT: THEORETICAL BACKGROUND

The comparative advantage of families in economic life rested on strong trust; this did not guarantee technical or managerial expertise. Alfred Chandler suggested that when a business fails one cause is having family members in key managerial

positions because companies need professional management in order to coordinate economies of scale and scope (Granovetter, 1994). Mexico's family-controlled firms have not contributed to the development of the ownership and professional management (Camp, 1989). Also, the author cited an explanation that a multifirm owner gave to him about this phenomenon:

I believe the tendency of families to run their own enterprises is very definitely changing in Mexico, and this has come about as these firm[s] need more competent people than the families can provide. I have people working for me at the management level in all of my firms who are not family members. As a family, we do still retain close relationships. For example, since August, my family enterprises have purchased a bank, the Latino Bank, where my uncle is president. The institution serves to finance our collective industries". (p. 207).

In the 21st century, a criterion in defining and evaluating companies' performance is going to be human development. Leadership is the key to competitiveness; in today's world, there are a lot of opportunities and challenges. For this reason, it is important that companies have leaders that know how they can transform and develop an organization (Zahra, 1999). Chandler has explained the development of large corporations administered by a hierarchy of salaried professional managers, and he supports his explanation in the two variables of technology and markets (Jones, 1996). The success of any firm, large or small, depends on its management and the techniques that they introduce (Watson, 1995). The company founder develops the company to a certain point, after which growth can stall. The founder, typically a visionary entrepreneur, might step aside so that a professional manager can reorganize and redirect the company for future market positioning (Whittemore, 1994).

PROPOSITION 2: THE WORLD TRENDS ABOUT PROFESSIONAL MANAGEMENT HAVE CONTRIBUTED TO TRANSFORM ALMACENES EXITO'S MANAGEMENT PRACTICES.

The Expansion Period of Almacenes Exito and its Professional Management

The new executive that was going to be Almacenes Exito's president needed to have the following characteristics:

leadership, knowledge about internal Almacenes Exito's processes and to know the principles and values that have supported the company since its foundation. Even though members of the entrepreneurial family were trained as professional managers, they rarely became active in top management; this has been a world trend in professional management (Chandler, 1978). In the Almacenes' Exito case, the founder brothers and children were trained as professional management, but the family decided that a non-family member is the best person in order to perform the corporation presidency. In 1978, Jose Restrepo, a prestigious accounting assessor and non-member of the founder family, became Almacenes Exito's new president. He had experience as a president in a native Antioqueña manufacturing firm. For the new president two things were important to start his new position: First, to consolidate Almacenes Exito and secondly to grow with firmness and prudence. In this era, all of Almacenes Exito's vice-presidents were executives with degrees in industrial engineering or business administration who introduced modern managerial techniques.

As a consequence of the professionalization of management, new management practices were used. The development strategic planning was noticeable. The regional expansion in Antioquia region was the Almacenes Exito first tangible result of such planning process. The other technique that the Almacenes Exito executives introduced was organizational development. With this methodology, Almacenes Exito started to develop the capacity to deal with change up front. In other words, it started to be proactive (Edward, 1993). This methodology allowed that all the company's employees would adopt the change from a family owned company to a corporation. In 1978, the first formal organizational structure was defined. This organizational structure was defined as functional whose main characteristic was to group activities according to a logic of similarities in work functions produced by interdependent tasks and common goals (Hatch, 1997). From this structure the main functional areas were administrative, marketing, finance and accounting. Also, in 1978 the first job analysis was made. The job analysis procedure determined the duties and skills requirements of a position and it served for identifying the kind of person who should be hired for it (Dessler, 1999).

In 1981, Almacenes Exito opened the fourth store in Envigado, a town that is part of the Medellín metropolitan area. In 1984, the board of directors decided to build a store in Santa Fe de Bogotá,

the Colombian capital. It was opened in 1989. Almacenes Exito's expansion continued and it opened stores in other Colombian cities. In 1989, the company had 37 stockholders, of which only two had 10% of the total company stocks (Mejia, 1999). This period is really characterized by changes that the salaried professional managers that administered the Almacenes Exito introduced. The main changes introduced by the professional executives were the development of the first strategic planning whose main strategy was the expansion of the company. Finally, they defined a functional formal organizational structure in order to coordinate administrative, marketing, finance and accounting activities.

GLOBALIZATION: THEORETICAL BACKGROUND

Today, globalization or opened economy, means trade liberalization, free capital mobility in financial flows, and spread of technology (Mehmet, 1998-1999). When information, capital, technology, and goods and services themselves, flow freely few firms will remain in national markets (Reich, 1991). Firms need to adopt their practices developed through both home-country influence and global best practices in order to go to other places (Yang, Farley, and Hoenig, 1999). Global markets are more accessible due to improvements in transportation, telecommunication and lower production costs (Adler 1983). Internationalization is the transfer of a firm's physical and organizational technologies from one country to another; for many companies this is clear - internationalization or decline (Tsang, 1999). The corporate world is becoming more and more interrelated and international (Adler, 1983). In the 90s new global

entrepreneurs took the lead in international business; they know that the global economy has a lot of opportunities and they need to take them (Zahra, 1999). The growth of multinational enterprises (MNEs) is stimulated by periods of fast economic growth, and it is not stimulated when market conditions are depressed or static (Jones, 1996).

Foreign direct investment (FDI) has grown at a phenomenal rate since the early 1980s, and the world market for it has become more competitive (Mallampally and Sauvart, 1999). By the year 2000, the joint venture will dominate MNC holding in South America (Wolf, 1978). Domestic companies admit alliances, when the future partner offers a substantial contribution of capital or technology (Newman, 1991). Developing countries are becoming increasingly attractive investment destinations, in part because they can offer investors a range of "created" assets (Mallampally and Sauvart, 1999). The key to attract foreign investment is the free-market and the privatization processes so firms choose location when these factors are present (Liu, Li, Gao, 1999). Developing countries have, during the past decade or so, begun liberalizing their national policies to establish a hospitable regulatory framework for FDI by relaxing rules regarding market entry and foreign ownership, improving the standards of treatment accorded to foreign firms, and improving the functioning of markets (Mallampally and Sauvart, 1999). In the earliest 90s, Colombia began an economic opening process. For that reason, the companies needed to make organizational changes, and they felt the necessity to look for foreign investment to expand the organizational structure (Misas, 1998).

PROPOSITIONS: THE WORLD TRENDS ABOUT GLOBALIZATION PROCESSES HAVE CONTRIBUTED TO TRANSFORM ALMACENES EXITO'S MANAGEMENT PRACTICES.

The Economic Opening: A Challenge

In 1990, Gonzalo Restrepo López, non-family member of the former president took the position as Almacenes Exito's president. He has a degree in business administration from a prestigious Colombian private university, and also he has an MBA from a U.S. University. Mr. Restrepo was hired with one specific goal; to internationalize the company. His concerns were led in two important goals. The first objective was to attract capital, be it domestic or foreign, and to invest in other domestic or foreign business.

Financing Sources

Four years later, the company achieved its first international goal under Mr. Restrepo's administration. In 1994, Almacenes Exito listed their stock on the Colombian stock market. From this transaction, 500 new stockholders have joined the company and a lot of them are international investment funds. In this transaction, the former Sindicato Paisa, now the Grupo Empresarial Antioqueño, a Colombian economic group, bought 10% of the out standing stocks. The Grupo Empresarial Antioqueño has contributed to Almacenes Exito's development with a design of a new international strategy. A condition of the stockholder the Grupo Empresarial Antioqueño was having a member on the board of directors of Almacenes Exito (Uribe, 1999). In 1999, a French family, the Casino, who are owners of a large French retailer, invested 200 million U.S. dollars. The Casino

family's investment became the first FDI in Almacenes Exito (Sindicato, 1999). The key to success in the future will be a company's ability to adjust to constantly changing conditions more readily than its competitors (A guide to corporate, 1986). The globalization process involves the integration of national economies (Wild, Wild, and Hand, 2000). The notion of globalization as a primary process reshaping the world approximately coincides with the collapse of communism in 1989 because it marked the beginning of political globalization (De Kluyver, 2000).

Investment Ventures

Actually, the notion of multinational enterprise has undergone an evolution with changing technologies and market opportunities (Wren, 1994). In 1995, Makro, a Holland retailer, started operations in Colombia. Almacenes Exito bought 10% of the Makro Colombian stocks from the 49% of the Colombian Makro capital as a result of the corporation international strategy. This Almacenes Exito investment is in a foreign business that operates in Colombia. The same year a pool of Colombian and Venezuelan companies bought 59 Venezuelan stores called CATIVEN to the Venezuelan Cisneros economic group. In that operation, Almacenes Exito obtained 10.5% stockholder participation. It is the first time that Almacenes Exito investments went to a foreign country. Now the corporation's strategy of globalization more than opening stores by itself is characterized by free capital mobility in financial flows and alliances with companies that have operations and expertise in their native countries. In the same year Almacenes Exito bought stocks in CADENALCO, the other Colombian retailer stores and the participation in that is 10.5% (Mejia, 1999). This was the first Almacenes Exito's domestic investment. Almacenes Exito developed an international strategy allowing the capital mobility investing in firms that have operation in their native countries and receiving financing from foreign companies.

CONCLUSIONS

This paper provides evidences that corroborate the three propositions whose main component is the Almacenes Exito's managerial change. It is relevant to mention the first period of Almacenes Exito. Even though the firm being family owned characterized this era, it was in that moment that the business particularities were defined. For example, the religious values of the owner in the moment that he decided to buy a Sacred Heart

picture and it was placed in the management office. Even though the management theories can be applied in corporations from different countries, the native companies remain with some particular traditions that contribute to differentiate them.

The first proposition is related to the Almacenes Exito corporation development. From this period, I identified that the founder decided to give up the position as a president and the corporation started to be a multiunit system, which was composed of several stores. Multilevels that manage the company from a centralized system characterized the managerial system. The second proposition is related to the Almacenes Exito professional management. From this period, I identified that the salaried professional executives formulated and developed the first strategic plan whose main strategy was the regional expansion. Also, they introduced some managerial practices such as organizational development. This practice contributed to prepare the employees in order to understand and to participate in the corporate changes. Finally, in this period a functional structure was defined in order to coordinate the administrative, marketing, finance and accounting activities. Finally, the third proposition is related to Almacenes Exito globalization process. From this period, I identified that the main manner in order to internationalize the business was by financing resources and investment ventures. In financing resources the company receives investment from a domestic Colombia economic group, the Grupo Empresarial Antioqueño, and from a foreign French economic group, the Casino family. In investment ventures the company bought international stocks in MAKRO, a Holland - Colombian retail store, and in CATIVEN a Venezuelan - Colombian retail stores. Finally, in the investment ventures, Almacenes Exito bought stocks in CADENALCO, a domestic Colombian store.

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