

María Inés Barbero

Universidad de Buenos Aires (Argentina)

 <https://orcid.org/0000-0002-1581-1856>

Javier Vidal Olivares

Universidad de Alicante (España)

 <https://orcid.org/0000-0001-6661-7925>

Latin American Small and Medium-Sized Enterprises: A Historical Perspective

Abstract

This special issue seeks to appreciate the long-term study of SMEs as key players in the Latin American economies, with contributions on six countries: Mexico, Brazil, Argentina, Ecuador, Bolivia, and Chile. This is a representative sample of the Latin American subcontinent's diversity when it comes to economy size, population, and inequality index. The articles presented spot key topics in the study of Latin American SMEs. This introduction focus on three central issues that arise from those articles: the role of public policies in SME emergence and development, the strategies pursued by these firms to adapt to environment changes, and the links between informality and SME creation.

Keywords: Latin America, Small and Medium Enterprises

Corresponding author: e-mail: jvidal@ua.es

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Small and medium-sized enterprises (henceforth, SMEs) are key players in Latin American economies because of their share in the total number of companies in the region as well as their contribution to job creation. Including microenterprises, SMEs account for over 90% of all Latin America's businesses and provide jobs for nearly 67% of the region's working population (Dini and Stumpo 2018). In turn, their contribution to the GDP is relatively low, as, on average, their productivity levels lag far behind large companies', with differences much larger than those found in OECD countries. Their output largely caters to domestic markets, and, as a result, a significant share of the region's population and economy depends on their operations. At the same time, unlike their counterparts in more developed countries, Latin American SMEs account for a small share of exports, typically around 10%, because of their lackluster competitiveness (Ferraro and Stumpo 2010).

Despite these shared general traits, it should be noted that Latin America's micro, small, and medium-sized enterprises (MSMEs) make up a very diverse group that spans from self-employment, informal microenterprises to highly efficient innovative companies with exporting capabilities.

While these differences become apparent inside every one of its countries, it should be underscored that Latin America does not constitute a single unit: rather, it is a set of 20 countries with some shared features—like the Spanish colonization or an integration to world markets based on commodities' exports—and multiple specificities that they show in their track records and their performances, as well as in their economies, societies, and institutions.

Over the past thirty years, research studies and academic papers on Latin American SMEs have grown in number, alongside promotion policies rolled out by governments, with financial and

technical support from international economic agencies (Ferraro and Stumpo 2010). The increasing interest sparked by these businesses is not only due to their relevance in regional economies, but also to their role as job creators against a backdrop of rising unemployment caused by the pro-market reforms carried out by most Latin American countries since the mid-1980s.

While Latin American business history has consolidated as an academic discipline over the past three decades, studies on SMEs from a historical perspective have proven infrequent and significantly fewer than those focusing on large companies, largely due to the difficulties to access sources and the fact that the information is greatly scattered (Donato and Barbero 2009).

This special issue of *JESB* partly intends to fill a historiographical gap, but it mainly seeks to appreciate the long-term study of SMEs as key players in Latin American economies with contributions on six countries: Mexico, Brazil, Argentina, Ecuador, Bolivia, and Chile. This is a representative sample of the Latin American subcontinent's diversity when it comes to economy size, population, and inequality index, as shown in Table 1 below.

TABLE 1. Selected Latin American Countries' Indicators

Country	GDP at Current Market Prices, in USD Millions (2018)	Population, in Thousands of People (2019)	Per-Capita GDP at Current Market Prices, in USD (2018)	Gini Index (2019)
Argentina	519871.7	44780.7	11676.8	42.9
Brazil	1885469.4	211049.5	8859.7	53.4
Bolivia	40287.6	11513.1	3585.8	41.6
Ecuador	108398.1	17373.7	6428.0	45.7
Mexico	1220696.8	127575.5	9426.3	46.3*
Chile	298231.1	18952.0	16252.8	44.4**

Notes: *2016; **2017

Sources: CEPAL (2019) and World Bank (2021).

The articles presented in this issue focus on SMEs in these six different countries, looking at them from several viewpoints to spot key topics in the study of Latin American SMEs. This introduction will zero in on three central issues that arise from those articles: the role of public policies in SME emergence and development, the strategies pursued by these firms to adapt to environmental changes, and the links between informality and SME creation.

It should be noted first that these papers also offer valuable information about the share of SMEs in their respective economies and show different criteria used to determine firms' economic size. Several articles also refer to Micro, Small and Medium Enterprises (MSMEs), which, as mentioned earlier, not only include small and medium-sized businesses but also microenterprises. In some Latin American economies, the latter have a notable presence both in the informal and formal sectors.

The long-term scope in most of these contributions sheds a light on the scenarios where Latin American SMEs have operated and, on the impact borne on them by changes in institutional and macroeconomic settings (Bulmer Thomas 2014).

Latin America's countries experienced a first outward growth phase in the First Global Economy, with commodity exports as well as inflows of foreign capitals and immigrants playing a key role in the emergence of SMEs in industry and service sectors. The 1929 crisis and the end of the first globalization gave way to a new stage characterized by inward growth fueled by the advancement of import substitution industrialization and a very active engagement of the State to promote industries and economic activity. Many industrial SMEs emerged in this period, prompted by new opportunities brought about by more diversified economies and several government initiatives and measures, as revealed by the papers from

Armando Dalla Costa and Naijla Alves El Alam on Brazil; Wilson Araque Jaramillo, Roberto Hidalgo Flor, and Jairo Rivera on Ecuador; Antonio Alcón Vila on Bolivia, and Isabel E. Torres on Chile.

The boundaries of substitution industrialization, the international crises in the 1970s, and the Latin American debt crisis ushered in a new phase in the mid-1980s (in 1973 in Chile). This new stage was shaped by the subcontinent's integration to the Second Global Economy and by structural reforms that led to market openings and deregulation, state-owned companies' privatizations, an industrial setback, and deteriorated social conditions, with high rates of unemployment and informality. These conditions were partly reversed by progressive governments since the dawn of the new millennium.

A noteworthy issue that may be gleaned from these articles (as well as from the specialized literature) is that, notwithstanding the adverse circumstances created by structural reforms, at the same time governments took steps to promote MSMEs, partly to offset rising unemployment and social inequity—albeit not always with satisfactory outcomes (Zevallos 2003).

Starting in the late 1980s, Brazil began to build institutions, legal frameworks, and tax schemes specifically intended to foster SMEs and effectively propelling a strong growth in the number of companies between 1985 and 2020. Since then, these measures have been complemented with policies to drive innovation and technological development. In Chile, the Concertación administrations deployed since 1990 a wide range of promotion tools that favored SMEs' emergence and that were coupled with policies to foster innovation and competitiveness in order to promote research and investment in new priority areas.

In other countries, like Bolivia and Ecuador, opening and deregulation policies did not come alongside with support measures for SMEs until the new millennium started. In the former, this sparked a strong informality growth. In the latter, the effects of those reforms were partly offset by efforts from local administrations and private organizations, as well as, later, by some initiatives rolled out by Rafael Correa's government in 2009-2019, but these moves failed to sustain SMEs' share in Ecuador's GDP.

Regardless of major economic cycles and as illustrated by these studies, Latin American SMEs have had to get used to operating in settings characterized by macroeconomic instability and institutional uncertainty, amidst high volatility, recurrent crises, and sudden changes in the rules of the game. As noted by Armando Dalla Costa and Najla Alves El Alam, SMEs faced "macroeconomic adversities and political turbulences" throughout their existence, enduring frequent shifts in public policy orientation. Plenty of examples in the articles contained in this issue also reveal how this predicament has led to high failure rates and low competitiveness, but they also unveil successful experiences by enterprises that managed to formulate adequate strategies to adapt to changes.

Indeed, the articles written by Viviana Román on Argentina and Araceli Almaraz about Mexico point to two sectors where SMEs showed significant dynamism when facing structural reforms. In Argentina, small and medium-sized publishing companies managed to develop against a backdrop of industry concentration and arrival of foreign capital that had started in the 1990s, by pursuing innovative production and marketing strategies. This paper also describes the changes undergone by Argentina's publishing business since the second half of the 19th century and over the course of the major phases in Latin America's economic history.

The article on Mexico focuses on the case of artisanal beer brewing companies in Baja California that were able to successfully avert the threat of sector concentration thanks to entrepreneurs' innovation capabilities and creativity, as well as the support of cultural and territorial factors coupled with personal networks.

With examples of SMEs that have proven competitive in the biotechnology sector, the paper on Chile discusses public policies, value chain development, and business creativity as the drivers for their success. In turn, the study focusing on Brazil contains a section on the emergence of multiple technology-based startups in the 21st century.

Nonetheless, for a thorough understanding of the knowledge on SMEs' and MSMEs' historical evolution in Latin America, it is necessary to consider the structural problems brought about by high informality as a historical trait in this region. For instance, in the early 21st century, the informal sector accounted for 33% of Mexico's GDP (INEGI 2003). Increased informality has often been the cyclic response to regional market openings to foreign competition. While structural in emerging economies, informality has expanded differently from one country to the next. Attributable to several variables (low human capital training, difficulties to access formal loans, highly segmented labor markets, underdeveloped fiscal systems), informality has become a nearly automatic reaction from microenterprises to the arrival of foreign competitors and its repercussions in domestic markets. As shown by research studies carried out in 18 Latin American countries between 2004 and 2015, a high social acceptance of tax evasion reduces the moral costs of informal operations, rendering informal business ventures socially legitimate (Salinas, Muffato and Alvarado 2018).

Bolivia's case shows that an economy focused on extractive operations (gas, mining) and low entry barriers for foreign competitors hit manufacturing MSMEs hard in the 1970s. This caused not only increased informality, with booming microstores, but also thriving smuggling. Informality is not always a choice prompted by trade liberalization, the impact of fiscal policies, or credit scarcity. As some authors have suggested (Maloney 2004), informal urban microenterprises should be viewed as part of a sector consisting of small firms that, due to a relaxed enforcement of labor and other laws, can choose an optimal extent of engagement in formal institutions based on their interests. The traditional dual approach (formal or informal) may prove more relevant amidst a profound recession with significant labor distortions but acknowledging that microenterprises' choices include a voluntary component brings about significant political implications that differ greatly from the traditional variables mentioned. Ultimately, the goal of public policies across Latin America is to reduce the proliferation of businesses emerging out of need rather than choice, and, to that end, it is crucial to guide entrepreneurs towards institutionalizing their ventures (López, Cobas and Calderón 2014).

In the study of and knowledge on Latin America's SMEs and MSMEs, informality should thus be regarded as a trait stemming from their historical evolution. The reasons for its persistence are closely associated with public policy changes and the role played by institutions. Even SMEs clustered in specific sectors such as the metal or the textile industries owe their existence and continuity more to unfavorable macroeconomic conditions than to their business strength and development capabilities (Altemburg and Meyer-Stamer 1999). As noted in the article about Bolivia, the shift from artisanal endeavors to industrial operations was thwarted in the 1970s by a change in public policies' orientation. The country's wager on extractive industries (mining, gas) struck Bolivia's unsteady textile industry and its sectors associated with farming

products' transformation. Entrepreneurs turned to informality not so much as a viable economic solution for their business troubles, but rather as an institutional, environmental response based on deeply rooted artisanal traditions in Bolivia, Peru, and a large share of the other Latin American countries.

The research into the alternative that informality provides shows how typically informal institutions greatly influence the creation of entrepreneurial opportunities—at least, more so than formal ones. In Latin America, informal factors bear a greater impact on the creation of opportunities to start a business, which in turn contributes to higher growth rates. Informality (corruption practices, eluding regulations, bootstrapping or relying on one's own abilities as the only path to ensure a livelihood) not only provides a short-term solution for household maintenance and securing an income, but also becomes a source of opportunities to build business ventures. Thus, the question remains whether this may contribute to long-term economic growth and to overcoming the struggle to secure mechanisms to ensure a livelihood. Only formal institutions fuel sustained growth featuring virtuous components. The fact is that SMEs and MSMEs have historically had incentives to turn to informality as a mechanism to secure an income and to ensure business continuity, with greater incidence in periods of economic crisis, altered macroeconomic stability, or changes in public policies to support formal economic operations by providing funds to secure loans, supporting fiscal treatment, and simple rules or procedures to create businesses (Aparicio, Urbano and Audretsch 2016).

As noted earlier, in the historic research on Latin American companies, SMEs' and MSMEs' long-term evolution has barely been studied before the 1990s. Indeed, the set of papers gathered in this JESB special issue intends to carry out a first assessment of the historical behavior of this kind of business organizations in several countries in this region. Of course, researchers'

attention has focused more on recent decades, examining from several standpoints SMEs' virtues to foster economic growth and to create jobs to reduce poverty in Latin America's economies. It should also be noted that the statistical databases and assessments developed by public and private administrations have substantially improved the materials required to analyze and study SMEs and MSMEs. However, to follow up on the more recent studies conducted by regional organizations, such as Comisión Económica para América Latina (CEPAL), and multilateral financial agencies—like the International Monetary Fund (IMF), World Bank (WB), International Development Bank (IADB), and Banco de Desarrollo de América Latina (CAF Bank)—it is necessary to know the historical background of SMEs' and MSMEs' creation and performance. In this regard, the historical evolution of institutions' actions concerning this type of businesses, the public policies rolled out in every period and with different alternatives, the business strategies pursued by SMEs and MSMEs are all key topics that must be addressed to understand how these businesses emerged and evolved in the production environment surrounding them. Informality as a resource and a quasi-structural feature in most Latin American countries during the 20th century and its persistence in the 21st century should be explained from a historical approach and a path dependence rationale that must take into account the characteristics of the evolution of other business organizations in the region—from large national and transnational companies organized as business groups to the historical performance of foreign multinationals and the subcontinent's own multilatinas, which emerged in the late 20th century (Lluch, Monsalve and Bucheli 2021). The contributions in this special issue actually underscore the fact that the business history agenda in Latin America should incorporate the study of MSMEs and SMEs as a major cornerstone for the development of the types of companies that constitute an intrinsic part of this region, as well as the historical

economic growth and stagnation periods that have unfolded over time—and especially in recent decades.

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