

# Economic Behaviour



# Economic Behaviour:

*Economy, Business and People*

Edited by

Alexandra Zbucnea, Constantin Brătianu  
and Florina Pînzaru

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Economic Behaviour: Economy, Business and People

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## PREFACE

Economics developed as a science based on the Newtonian logic, and the assumption that decision-making is a rational process. That means that linearity and rationality became the main pillars of the economic thinking. Many things and phenomena could have been explained this way, especially those focusing on tangible resources, linear phenomena, and explicit or rational knowledge. That was quite the norm for the industrial economy when labour and money represented the main constituents of capital, as well as the driving force of economic development and wealth generation. With the advent of the knowledge economy, the whole spectrum of our economic thinking began to change and transform into a different one.

Peter Drucker was one of the first to explain the new role played by knowledge and knowledge workers in the modern economy, underlining the fact that knowledge is the only meaningful resource today. Gylbert Ryle, Michael Polanyi and later on Ikujiro Nonaka demonstrated the importance of tacit knowledge as a pool of potential knowledge of our understanding. Paul Ekman and Antonio Damasio emphasized the importance of emotional knowledge in our decision-making, and Danah Zohar with Ian Marshall showed us the need for spiritual knowledge and intelligence in building up the vision of our business. Kenichi Ohmae, Peter Senge, and Malcolm Gladwell opened the perspective of the nonlinear phenomena in economics and management and showed the limitations of linear thinking. Daniel Kahneman and Dan Ariely came with new results from applied psychology to demonstrate that our thinking system is a dynamic mixture between the rational and irrational mind. Because of these changes and of cognitive sciences development, economic behaviour can be described and analysed from new angles and within new thinking frameworks.

The present book represents a selection of interesting studies dealing with the economic behaviour. Although each paper presents some well-defined aspects of this new perspective, all together they integrate into a new understanding of decision-making and economic development based on knowledge as a strategic resource, where organizational knowledge is conceived as a multifold dynamics of rational, emotional, and spiritual knowledge. Emergent business fields, visionary leadership, corporate

social responsibility, and consumer behaviour are just a few examples of the new perspective considered in this volume.

The present-day economy is extremely dynamic and complex. Global, as well as local factors, shape a very diverse framework in which organizations thrive to succeed and individuals aim to satisfy their needs and desires. The present volume investigates from a wide array of perspectives the economic behaviour in the contemporary world. The studies include both macro-level analyses and micro-level ones. Organizations are considered, as well as individuals coming from various geographical regions.

The countries reflected belong to a wide array of regions: Latin and Central America (Argentina, Mexico, and Brazil), North America (the US), Europe (Portugal, Romania, and Spain), the Arab countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and Africa (Nigeria). The studies included in this volume also refer to other societies and economies. Therefore, the tome presents comparative insights useful not only for a better understanding of the concepts and processes investigated but also for gaining a sense of the way they are differently approached across cultures and businesses around the world. Some differences are to be observed, for instance, between the developed and developing countries referring to the influencers in the purchasing decision, or the willingness to pay more for responsible products / services.

The authors themselves have a wide array of background experience and knowledge. From a geographical perspective, they come from Brazil, Mexico, Portugal, Romania, Spain and the United States. Some of them are Ph.D. students, already dynamically committed to excellence. Some others are Ph.D. coordinators, with a broad experience not only in the scientific research but also as consultants for successful businesses. All of them benefited from intercultural experiences and worked in multicultural research groups across the globe.

The themes investigated are also very diverse, but some common features are to be observed. First, the authors manifest a concern for the ethical behaviour, both when considering organizations and consumers. Secondly, an increasingly more influential human factor in shaping business and economic strategies is observed. Thirdly, the increased international competition and interdependencies are considered.

Compound and dynamic factors influence the complex behaviour of the economies. Among the most relevant factors to be considered are the relationships between the state and the business environment. In the first chapter of the volume, Marlon Vinicius Brisola, and Moisés Villamil



Balestro develop an investigation of these complex relationships in the case of Argentina. They show that interactions could be beneficial to all parties considered, as well as to the whole society, but the processes involved could be ambiguous and the cooperation is risky for the stakeholders. Frequent types of crises and the instability experienced by various Latin American countries, such as Argentina, influenced the characteristics and activities of various economic groups existing in these states. Collective business organizations positively influence the strategic development of the states, even of the authoritarian ones.

Lessons related to the ways to take advantage strategically of the limited but valuable resources a country has could be drawn from the investigation of the evolution of tourism strategies in the Gulf countries, as proved by Magdalena Karolak. Tourism is often seen as a means of development, of economic diversification and sustainable development for various countries and regions. The investigation of the strategies and developments related to the expansion of tourism in the Gulf countries is relevant from several perspectives. First, tourism proves to be a relevant way of development, even in the context of various crises. Secondly, tourism could be an important economic driver even in the case of modest natural resources but then requires significant investments. Thirdly, new and interesting spots (places, structures or events) could successfully compensate the lack of historical sites or natural resources. Fourth, globalization as well as specialization – generating *niche* products – are key features in ensuring (tourism's) success.

Increasingly more academics and practitioners are investigating the role of knowledge management in helping companies to thrive. Less attention is given to its contribution to the development of economies and states, which is a very complex matter, harder to grasp. Such an analysis is included in the present volume. In chapter three, Santos Lopez-Leyva, Miriam Liliana Castillo-Arce and Jesus Armando Rios-Flores encompass an extensive evaluation of Mexico. The research takes into account not only the various activities of knowledge that affect economic competitiveness, but also its spatial diffusion. Competitiveness is measured using a knowledge economy index, related to the production of incorporated and non-incorporated knowledge, the acquisition of external knowledge (via either transfer, purchase or learning through imitation), the application of knowledge in the production process, as well as the diffusion of knowledge within the economy. Competitiveness is also seen as depending on the externalities or the spatial effects. The above-mentioned investigation proves that knowledge is not randomly distributed, nor related only to its

production. Knowledge is also directly related to competitiveness, but various spatial characteristics should also be considered.

Ramona Leon, who investigates the way emotional intelligence could support sustainability, offers some ideas related to the new ways business should be approached. In the context of shifting business models, intangible assets are becoming crucial for success. Special attention should be given to emotions and emotional intelligence. Specialists in knowledge management highlight four fundamental elements for a successful adaptation to the environment and knowledge sharing: human resources adaptability, employee's satisfaction and level of education and workplace relationships. Among them, employee's satisfaction is an emotional state related to a positive job experience, mediated through the organizational culture, and related to the way employees cope with pressure, demands, and also achievements.

The internal environment of businesses is continuously evolving. In this context, the role of leadership changes also. Ligia Petan and Mihai Bocarnea analyse the way transformational leadership could positively influence team behaviour. Leadership also influences the perception of performance, as well as teamwork outcomes. Transformational leadership has a positive correlation with team performance and satisfaction, while trust partially mediates the relationship with team satisfaction. It is noteworthy that the younger the employee, the greater the level of perceived team performance.

The performance is also investigated in the following chapter. Cristina Mouta, Pedro Guimarães, and Raquel Meneses pay attention to the role of Top Management Teams with a focus on Portugal. CEOs' social networking with different companies, government and business associations is analysed for a better understanding of the way the CEOs effectively influence business performance. The case of Portugal is surprising, considering the insights referring to other economies: the outer relationships of the CEOs are not significantly related to company performance. Nevertheless, these relationships may have complex implications on the organizations involved.

In the following chapter, Maria Medina-Vicent investigates business ethical practices in the EU taking into account the digital context. The specific comparative approach between the situation in Spain and Brazil analysed through the supplementary lens of gender equality, allows for a glimpse into the future challenges of the companies and their possible ethical approaches. Although institutional and legal frameworks exist in all the investigated states, the actual respect of gender equality in the business environment is still problematic - as the author observes - and disputes the relevance of stakeholders and their impact on business operations.

Loredana Ivan also considers gender particularities, while investigating the financial behaviour and adaptive strategies within the entrepreneurial context. Women take lower risks compared to men, especially the younger, single ones, with lower levels of education. Significant differences exist among economies, geographic regions, and social layers. With the changing of the economic and social contexts, women are increasingly more financially literate and have higher incomes. Thus, they are increasingly more appealing to the financial institutions and more open to saving and investments plans. Global changes are happening around the world in this framework, and gender-oriented financial programs could become successful. Women entrepreneurship is also an increasingly more popular approach to solving financial problems and satisfying the new needs of this population segment.

The last chapter included in the present volume connects individual and organizational behaviour, in relation to responsibility. Based on many previous studies worldwide, Alexandra Zbucea, Steliana Moraru, and Camelia Crişan, show that the public reaction to the CSR actions varies according to many characteristics of the clients: age, gender, interests and values, income, education, and others. The consumers' reactions depend also on the respective markets. The various actions of the companies also influence the public's reactions, such as visibility and communication strategies, branding processes etc. The benefits for the companies following their CSR strategies are not always financial. The study also shows that various societies have their own peculiarities in terms of both the CSR practices and the response of the consumers to these actions. Moreover, the same region might present both negative and positive aspects influencing the CSR practices.

Overall, the present volume represents a meaningful contribution to the academic research of the economic behaviour and of the changes around the world triggered by the interactions of economies, organizations, and individuals. We hope the readers will find it insightful and that it will open their research to new pathways.

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Florina Pinzaru

## ACKNOWLEDGEMENTS

The interesting discussions generated by the papers presented at the “Strategica” International Academic Conference, organized by the Faculty of Management at the National University of Political Studies and Public Administration in Bucharest, and the National Bank of Romania, are at the origin of this book. Most of the research issues presented during the conference investigated in various forms the changes in the economic behaviour of economies, organizations, and individuals around the world. Following the conference, we invited some of the participants to contribute with extended chapters to the present volume. This was the origin of four of the chapters included in the present volume: “*The Impact of Transformational Leadership on Team Performance and Satisfaction: The Mediating Role of Trust*”, “*The Importance of Top Management Teams in Global Dynamic Networks*”, “*Beyond National Borders: Business Ethics and Gender Equality in a Globalized Economy. Comparing the EU, Spain, and Brazil*” and “*Gender differences in investing and savings behaviour*”.

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## CHAPTER ONE

# THE CONUNDRUMS OF STATE AND ORGANIZED BUSINESS COORDINATION IN INDUSTRIAL DEVELOPMENT IN ARGENTINA

MARLON VINICIUS BRISOLA  
AND MOISES VILLAMIL BALESTRO

### Introduction

With the second biggest GDP in South America and the third biggest in Latin America, Argentina is among the countries with the highest degree of industrialization in the region. Although a pioneering country industrialization-wise when compared to Mexico and Brazil, Argentina has begun to lag behind these two countries since the 1950s. Since then, the growth rates of Argentina's GDP have been *ca.* one-third of Brazil's and Mexico's (Ferrer, 2006). Despite having had recent governments with a rhetorical priority for the industrial development since 2003, the country has not managed to overcome structural problems concerning its manufacturing sector. According to the national survey of the 500 largest companies in Argentina in 2009<sup>1</sup>, 40% of the production value was related to the food, beverage and tobacco industries and 13% related to machinery, equipment, and vehicles. It might be said that there was no major change in the country's industrial structure.

The argument of this chapter is that the relationship pattern between the state and the organized business featured by instability, fragmentation and the absence of an agenda for technological development and industrial transformation is the key to explaining the lack of dynamism in the industrial transformation of Argentina. The long and intense periods of

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<sup>1</sup> INDEC. Encuesta Nacional a Grandes Empresas (ENGE) in 2009.

economic crises that the Latin American nations went through since the beginning of the last century, contributed to this pattern. Several “business associations” in Latin America, as highlighted by Schneider (2004), had the primary goals of bargaining privileges in the form of resources, favouring policies or participation in government programs.

The conundrums of the relationship between the state and the organized business are better grasped from a historical perspective. History matters when it comes to understanding the patterns of interaction between state and business in the sense that they are as path-dependent as any long-term processes. Gerschenkron’s (1962) historical review of industrialization revealed that the more backward a country’s economy, the greater the part played by the special institutional factors designed to increase the supply of capital to the nascent industries.

Throughout its history, Argentina was characterized by an ambivalent attitude in what the state and the organized business relationship was concerned. While for some authors, the country had very little autonomy from private groups, for others, the state was very autonomous and the regime was very statist<sup>2</sup>.

The paper presents a trajectory analysis of the relationship between Unión Industrial Argentina and the Argentine state between 1956 and 1978. The archival data was analysed considering three dimensions: the state capacities of the Argentine state, the ideas from the Argentine organized business towards the industrial development, and the coordination between the state and the organized business. Taking into account the experiences of the latecomers, the argument was that the state capacity together with the collective action of the business contributed to understanding the variation of the industrial upgrading.

The degree of coordination in the relationship between the state and the organized business is one of the determinants for the industrial development. Another important element is that the rationality of the business depends on the institutional context, as well as on the action of the state largely. The formation of business preferences has to consider both the context and the state action.

The chapter is divided into four sections. The first section is a review of the literature on the relationship between the state and the organized business. The second section presents the method of analysis. The third

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<sup>2</sup> This is considered here as the existence of a technical-administrative bureaucratic organization devoted to meeting the goals of industrial production and stability in the sources of financing and in the rules of industrial policies and regulation.

section explores the conundrums of the relations between the state and the organized business in Argentina between 1956 and 1978. It may be assumed that these relationship patterns still occur today and that they help explaining the obstacles to the emergence of an industrial development strategy. Finally, the conclusion summarizes the historical lessons of the Argentine experience, from the perspective of other countries, especially from Latin America.

### **State and organized business relations: the theoretical background**

Beyond the strict corporatist and neocorporatist approaches, there has been a growing literature more concerned with the organization of business interests, business collective action and more specifically, the relationship between state and business (Schmitter and Streeck, 1999; Schneider, 2004; Martin and Swank, 2008; Leftwich, 2009; Martin and Swank, 2012; Mizruchi, 2013; Paster, 2012, 2015). This literature draws on both established theories such as Olson's collective action, and contributions that are more recent relating to historical institutionalism, power resource theory, and ideational theory.

In their study of associative action in the organized business, Schmitter and Streeck (1999) present a dichotomy in business interests' representation, between the short- and long-term interests. The dichotomy implies that the actors' pursuing of short-term interests affect the long-term interests. At the same time, long-term interests can only be met by continuously redefining the short-term interests. In the case of the Latin American organized business interests, short-term benefits are mainly associated with tax reduction or fiscal incentives, and diminishing labour cost. As for the enlightened long-term interests, two major issues are vocational training and the technological development.

The authors also identify two logics of action featuring business interests associations: the logic of membership and the logic of influence. The logic of membership has to do with organizational variables related to the business association structure such as the number of members, the equality of resources among members and the level of exchange among them. On the other hand, the logic of influence is related to the interaction with the state. As of Schmitter and Streeck (1999), the logic of influence rests on an interaction with the state where the organized businesses make use of the organizational resources in order to influence state authority to achieve their goals. They also claim that in a dispersed and less organized state, the activities of the interest associations are determined by the logic

of exchange with the members' particular interests that are rather short-termed. In turn, the more resourceful, autonomous and centrally coordinated state, the larger its capacity to shape interaction with the business in tune with the economy-wide goals, as well as with the business long-term interests.

Martin and Swank (2008) explore the influence of party systems and state structures on the variation in the national patterns of business associations. Majoritarian party systems tend to be less conducive towards the organized business collective action and strength. In contrast, organized business collective action is facilitated by a higher degree of proportionality and multiparty representation. In terms of state structure, the level of governmental centralization matters once the federal bureaucrats in a less centralized government with shared power have more modest goals than their counterparts in the centralized systems with concentrated power. In less centralized states, there is a more regional diversity and, although policymaking may be at a national level, its implementation is swayed by the local actors.

In a more systematic way, Leftwich (2009) puts forward some additional variables to better grasp the relationship between the business and the state. The variables fit well into the context of the developing countries. These are:

- Which are the departments/ ministries primarily responsible for the interaction with the organized business? Is the president or the Prime Minister directly committed?
- What is the character and capacity of the bureaucracy? Is there a stable and well-trained bureaucracy?
- Are there peak organizations, representing all businesses or are there distinct sectoral organizations? If separate, are there any formal or informal arrangements for them to meet, discuss, interact and cooperate? Are there any informal linkages?
- Have formally institutionalized linkages between states and businesses shaped these relations? Who calls the meetings? Who sets the agendas?

The collective action of the organized business towards the state is generally positively associated with industrial performance, even under less organized conditions. Such claim stems from Schneider's (2013) studies about the Latin American experiences in the state and business relations over the last two decades. He observed positive results at the business collective action in the policymaking of industrial policies. In



addition, he claims that the state tends to be more proactive whenever there is political participation from the organized business in the decision-making on the industrial and business-related policies, in general. The collective action of the organized business may also minimize rent seeking towards the state. As Schneider (2010) reminds us, the way business organizes and longer institutionalization of business associations are essential to explain the patterns of business participation in policy-making.

Boschi (2011) suggests that Latin America has always managed to obtain a strong presence of the state in the strategic relations of the organizations, especially the large economic groups. Among the various reasons for the economic groups approaching the state is the reduction of the access cost to capital and political bargaining in the formulation of laws and rules that meet their interests. This way, being close to state power, gives such groups greater privileges and control over the entry of rival groups. Therefore, the direct participation in the financing of electoral campaigns, community councils and state actions involving private interests becomes crucial to guarantee the allocative authority over certain property rights.

To a certain extent, the very representatives of the organized business were created or encouraged by the state. Coen, Grant and Wilson (2010) remind us that such associations are sometimes organized and formed out of policies and laws created by the state itself.

Tilly (1977) argues in the same vein. To him, the state boosts business collective action. Collective action requires four basic components: interest, organization, mobilization, and the opportunity structure to the collective action itself. The state is virtually part of all such components but contributes substantially in offering the rationale to arouse the interest of the class, either business or workers, to organize themselves. Albeit, Diniz, and Boschi (2004) argue that the relationships between the organized business and the state are relatively unstable. It is possible to see reconfiguration processes presenting continuity. To these authors, the shift from an activist to a more regulatory state does not dwindle the participation of the organized business, it only changes the way it carries out its relationship with the state.

Diniz and Boschi (2004) argue that the observable transitions range from a corporatist state-controlled to a regulation pattern based on the competition of interests and on the creation of regulatory agencies presenting barriers to capture movement. With the democratic transitions in Latin America, there has also been a move from the corporatist structures more related to the executive power, to the interest groups lobbying for legislative power.

Corporatism understood as a political system encouraging collaboration and collective bargaining between classes, and with the State, plays a relevant role in industrial capitalism. Schmitter (1974, p.93-94) was the one who first conceptualized corporatism within the structuralist perspective. For him, corporatism was defined as:

"... a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports." (1974, p. 93-94).

However, it was Schmitter (2010) himself who recognized inconsistencies in this concept, admitting state exemption, willingness and flexibility as the attributes of the constitution of the structuralist corporatism. Corporatism is no longer authoritarian and statist, but voluntary and societal. To Schmitter and Streeck (1999), the political interests of the capitalists in protecting markets allowed for advances in the business corporatism through formally established organizations. To these authors, the "production" associations became means to overcome the constraints imposed by the regulatory state, as seen in the trajectory of the organized business in Argentina. For them, one of the key conditions for the success of business interests rests on its non-political mobilization and "economically rational" collective action towards the state.

This means that the individual interests are not affected by the collective political interest in closer ties with the state; "the collective political actions and economic actions in the markets are guided by different principles and strategies" (Schmitter and Streeck, 1999). However, under crisis, either political or economic, blocking participation in governmental decision-making tends to be higher in order to prevent corporatist arrangements to take position against the interests of the regime.

From 1960 on, in Latin America, the identification of corporatism has become established and accepted as an outcome of the resulting political concerns towards economic instability and ideological influences of the post-war period, accompanied by increasing urbanization and import substitution industrialization. The first traits of the Latin American corporatism were found in the Cardenas (Mexico), Vargas (Brazil) and Peron (Argentina) governments. The corporatist state combined inclusive and exclusionary policies, being able to meet demands arising from the working classes as well as from the organized business.

For Schneider (2004), the pattern of the business and organizational relationships in Latin America varied strongly in the twentieth century. Some of the reasons for this variation were the strength of the interest groups from the various sectors, working and actively influencing sectorial policies, together with local governments and representative bodies in order to achieve privileges. The long and intense periods of economic crises of the Latin American nations since the beginning of the twentieth century have favoured the permanence of this type of relationship. Several "business associations", as highlighted by Schneider (2004), were created to allow an alignment with the state and help with the bargaining privileges in the form of resource extraction, cronyism or participation in the government programs.

The presence of the large economic groups was outstanding even before the neoliberal period. In what Argentina was concerned, Azpiazu, Basualdo and Schorr (2000) claimed that the presence of such groups did not necessarily mean something new. They were already there in the 1990s. Economic consolidation forming business conglomerates has been a feature of the Argentine economy since the 1970s. However, the entry of the foreign MNCs is more recent, going back to the 1990s. Concerning the latter, Fausto and Devoto (2004) suggested that a weakening of the Argentine groups had happened, and consequently they have been replaced in the last two decades of the twentieth century by multinational corporations. This change in the profile of the economic groups in Argentina lies at the heart of the discussion on the institutional diversity of capitalism in Latin America and has implications for the organized business collective action.

In Latin America, there are different modes of coordination within the relationship between the state and the private sector. A special emphasis must be laid upon the informal nature of this relationship, alongside the collective action of the organized business. The mutual non-liberal interaction between the business and the state has been around since the early decades of the industrialization. Similarly, in other late-industrializing countries, the state plays a more central role in the accumulation regime in comparison to the developed capitalist countries.

Still, in relation to Argentina, Lopez (1984) argues that, from the 1960s on, there have been numerous studies concerning the ability of the business to influence strongly the state apparatus in order to pursue its goals. He also stresses the nature of these goals, usually associated with extraction, rents, and speculation rather than industrial development and innovation. Such collective business preferences can be actually the "enemies of development". The origins of such business preferences can

be associated with the rent stemming from the land use in the agricultural export model (in the late nineteenth century and early twentieth century), with the protectionism during the import substitution industrialization (in the mid-twentieth century) and the state's procurement power in the state's role as either business or capitalist (1940s and 1960s).

Following this line of reason, and revisiting other intellectual stances, Lopez (1984) admits that Argentina has had an ambivalent situation for the relationship between the state and the business throughout its history. For some, the country valued very little the autonomy of the state in relation to the business. For others, the state has been strongly autonomous and deleterious towards the private sector whenever there were interventionism and statism, and it acted as a rent-seeker.

Particularly in Argentina, Rey (2011) describes that only from the 1990s on, the concept of "institutional capacity of the State" became a relevant variable for the quality of public policies. He identifies difficulties in creating a consistent capacity in the Argentine state over the years, due to the political instability and the lack of smoothness in the relations between the state and the society. For this author, the problems of the collective action within the state can be understood as "failures in coordinating the search for solutions among the different components of the state apparatus", both at horizontal and vertical levels.

The variations in the political and economic context of Argentina throughout history resulted in a greater change in the institutional configuration of the private organizations. In the 1970s, the firms revealed a more intensive use of production functions with a greater use of labour, greater investment in technology and diversification; the state's position regarding the lower tariffs was essential in this process.

The changes in the state structure due to the neoliberal reforms were related to the subcontracting in the domain of the public services and, to a certain extent, to the reduction of the building capacity and of the investments in innovation programs. Kosacoff (1998, p.22) describes this situation as typical for the "introduction of soft innovations" as supportive of the presence of foreign capital in Argentina throughout the first decade of this century.

The neoliberalism is also deleterious to the organized business in advanced capitalist countries. It is true the USA does not have a tradition of the organized business as seen in the coordinated market economies. However, the collective action capability has declined and business is much fragmented and much more particularistic in its action. As Mizruchi (2013) points out, it is astonishing to notice the inability of the business collective action to build an agenda in response to the great crisis

unleashed in 2007. Business unveiled itself incapable of acting collectively to address not only the concerns of the larger society— as its predecessors had done— but even the concerns of its own members. A shift in the ideology of the American business and a power shift towards financial actors such as the institutional investors with their correspondent short-termism can be ascribed to this lack of collective organization.

## Method

The sources of the data are essentially documentary. They include the annual reports of the Unión Industrial Argentina between 1957 and 1975, the annual reports of the Banco Industrial de la República Argentina, the annual reports of the Banco Nacional de Desarrollo, the bulletins of the Ministry of Treasury and other government bodies as well as newspaper and secondary sources from Argentinean scholars.

The interaction between the business and the state trajectory is analysed over a longer time span (1956-1978) divided into smaller periods related to the different governments of the highly turbulent and unstable recent political history of Argentina. The main constructs for the analysis were: (1) the organization of the state apparatus; (2) the nature of the industrial corporatism; (3) the coordination between the state and the organized business. For the state capacity, the technical and administrative organization of the state and its political and relational autonomy to society is considered (Alonso, 2007). In addition, Riain (1999, 2004) argues that state capacity is related to the creation of tax revenue and the adoption of the principles of the bureaucratic organization.

The coordination between the organized business and the state implies mechanisms of interaction between the business associations and the state in the formulation and implementation of the policies and industrial development strategies. For Lange and Reuschmeyer (2005), state coordination, as an encouragement of the collective action, is essential to the establishment of the Developmental State. Also in this context, Tilly (1977) claims the state has the power to boost and mobilize collective action to sustain coordination beneficial to the interests of the state and business.

Mahoney, Kimball, and Kiuvu (2009) remind us that many researchers, especially in the field of sociology, have difficulty in explaining the meanings and causes of certain events in a historical perspective. Therefore, these authors suggest a historical explanation model that assumes that the explanation of the events can only take place through an interpretative sequence analysis of the interconnected causing factors.

## **The conundrums of state and organized business relation in Argentina: swinging between confrontation and cooperation (1956 to 1978)**

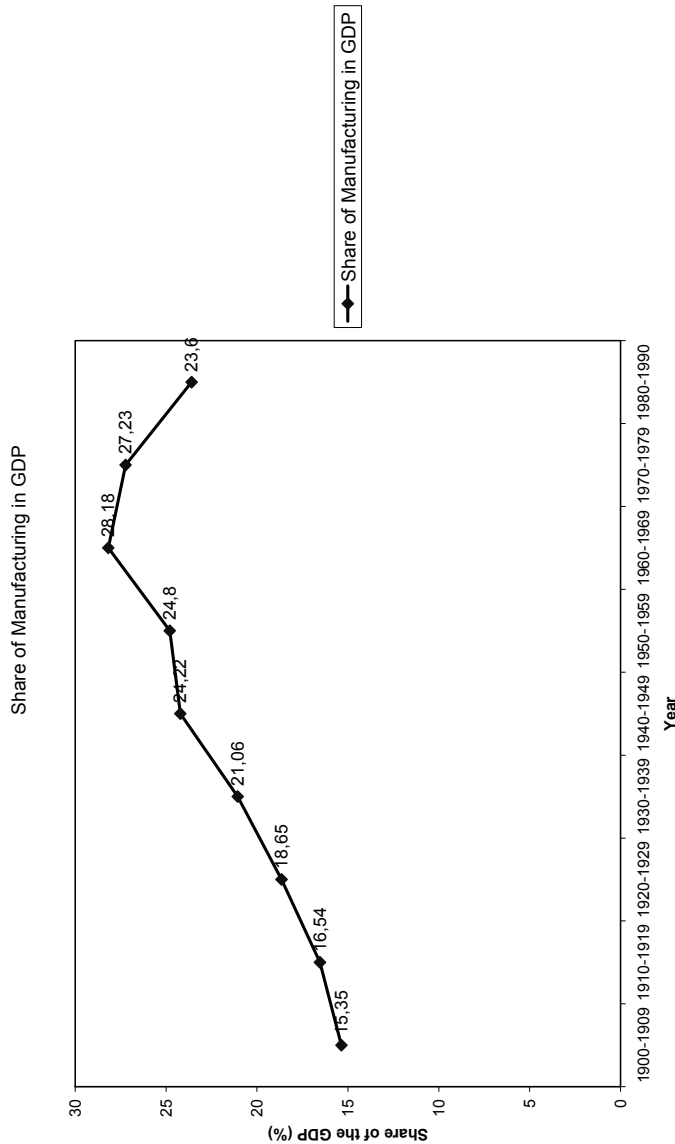
Between 1930 and 1946, the Argentine economy went through intense changes leading to the consolidation of the import substitution process. Although fiscal policy had been relatively tight in the early years of the 1930s, the growth of the Argentine economy proved to be very steady in the following years, with a higher growth rate in comparison to the industrialized countries. Throughout the 1940s, a need for changes in state behaviour implying state action in the areas of infrastructure, basic social services (education, health, and social security), and the promotion of technical and scientific research took place (Ferrer, 2006).

The state action for the modernization of the management system, enhancing its administrative capacity and incorporating technologies and capital to assure the country's position in the international division of labour was quintessential. During this period, there was a need to consolidate state intervention as a crucial factor for the tuning into the complex portrait of the needs of the new times related to industrialization (Ferrer, 2006).

The business representatives had been fragmented since the UIA (Argentine Industrial Union) suffered state intervention in 1946 and had been replaced by two other representative organizations: the Business Confederation of Argentina (CEA) and the Argentine Confederation of Production, Industry, and Commerce (CAPIC). In 1951, the merger of the two entities gave rise to the General Economic Confederation (CGE), run by two industrialists of the UIA metal industry: Achilles Merlini and Francisco Pratti. In 1953, the president of the CGE was Joseph Ger Belgard, a Polish immigrant close to the government of Peron. This situation aroused discontent, as part of the business community saw this process as a loss of power when comparing the new organization to the former UIA. Buenos Aires' large business had lost its political strength vis-à-vis the smaller business from the less important provinces. New voices arose within the Argentine economy: productivity and cooperatives (Jáuregui, 2005, p.147).

As Figure 1 shows, the share of the manufacturing reflected in the Argentine GDP had been on a steady rise during the first half of the twentieth century and started to decline in the 1960s. It went from 28.18% in 1960-1969 to 23.6% in 1980-1989. One must be aware that this was also coincident with the famous 1980s debt crisis in Latin America.

Fig.1-1 - Evolution of manufacturing GDP share in Argentina



Source: Kosacoff (1993)

### **Before Frondizi (1956 to 1957)**

The implementation of a new development plan entitled the Plan Prebisch, named after the famous structuralist economist Raúl Prebisch, provided a new direction to the economic policy with short-term measures such as the change in the agricultural prices in favour of the agro-exporters. Besides, encouraging measures were taken in order to enhance the technological development in agriculture and to open room for certain strategic industries (steel, mechanical engineering, pulp, and paper industry, basic petrochemical and chemical). Moreover, there were investment projects in the oil exploration, an expansion of the railways and electricity plants (Fiszbein, 2010; Gerchunoff and Llach, 1998).

After ten years of inactivity, the UIA's rebirth took place at a new level, establishing guidelines and sharing obligations between members, as well as expanding its regional representative capacity. In this context, the organization became vibrant and active especially in 1957. UIA's main agenda was related more to the industrial relations and the need to shield itself from an interventionist state and the price controls, rather than being a proper agenda for the technological development of the industrial production. For the UIA, the preservation of the domestic markets was more alluring and concrete than standing for state support or collective action related to technological upgrading that would have allowed Argentina to achieve a better position in the international division of labour.

Catching up with the more industrialized nations and the skill development needed to improve workforce had no place in the discourse of the organized business. Notwithstanding the existence of an agenda for collective action, the organized business was not identified with a developmental agenda.

During the Frondizi Government, there were tighter relations between the State and the Argentine organized business as the state strengthened its dialogue with the business through the restructuring of the UIA. There was also greater access from the part of the business representatives to the bureaucracy. The numerous contacts of the representatives of the business associations and the representatives of their committees with both the president and his ministers reveal a positive atmosphere with open communication to negotiation.

However, the slowness in the decision making, as well as the lack of support in relation to the credit policies, brought to light puzzling barriers to a further cooperation between the business and the state. Even so, the restructuring of the state and the return of the UIA triggered enthusiasm and significant progress in the coordination between the organized business



and the state. The period before Frondizi's government ended up with a tightening of the relations between state and business. There was greater communication, and more accessibility from the part of the business representatives to the state bureaucracy.

### **The Frondizi Government (1958 to 1961)**

In 1958, Arturo Frondizi was elected president by the Unión Cívica Radical Intransigente (UCRI) maintaining a policy of structural reforms and industrialization. Even before taking office, a study on the economic situation in Argentina was carried out. The study was entitled "*El Desarrollo Económico Argentino*" and was developed by the technical staff of the ECLAC (Fiszbein, 2010). The economic development proposal of the Frondizi Government was grounded in maintaining the industrialization process with favourable responsiveness from the foreign capital and inflation control through protectionist tariffs for the domestic production and price controls. The expansion of agricultural exports and the concern with labour demands lost importance in the agenda.

Early during Frondizi's term, Argentina had achieved self-sufficiency in oil exploration but was facing up problems regarding inflation control, as well as a surge in foreign debt. The International Monetary Fund's (IMF) help was needed to avoid the eroding foreign reserves of Argentina's Central Bank and the deficits in the current accounts from 1957 and 1958. The declining purchasing power of the wages and the inflation on the rise unleashed the revolt of the working classes with a wave of strikes.

Meeting the industrially organized business interests, the creation of the National Council of Industrial Promotion (CNPI) was an important step from the part of the Frondizi Government. The 14780 Act on December 9, 1958, dealt with a wide array of issues relevant to the manufacturing sectors such as industrial decentralization, expansion and diversification of the industrial production, technological development and executive power mandate to impose customs duties, suspend and limit imports. These measures unveiled the nationalist and decentralizing trend of the Frondizi Government. It was then possible to verify the elements of a Developmental State in Argentina.

Paradoxically, with the effective implementation of the Stabilization and Development Plan in 1959, the cost of the industrial production, as well as the cost of living, soared. This meant a drop of 11.2% in the industrial production during 1959. These economic imbalances and their consequences to the social arena prevented any advances in the income

and well-being of the population. The loss of inflation control went against one of the macroeconomic assumptions of a Developmental State (Bagchi, 2004).

Frondizi's wage policy towards immediate salary adjustments aroused discontent both in the public and private productive sectors leading even more to inflation and starting a crisis of confidence in the government. The communication and accessibility of the business representatives to the bureaucracy has also worsened. The state showed an inability to control inflation and had difficulties in maintaining its development policies. The exchange rate artifices and the containment of strikes through decrees triggered more uneasiness from the part of the productive sectors for both business and labour unions. The Frondizi Government had a limited bureaucratic organization devoted to the industrial development and there was little stability in the sources of financing, as well as in the rules of industrial policies and regulation.

There was no interruption in the functioning of the UIA. This permitted the consolidation of a business agenda of collective actions with greater effectiveness. The qualitative and quantitative expansion of the UIA, with an increase in the number of members from other provinces beyond Buenos Aires, showed higher unity and cohesion in the organized business. However, the major concern of the agenda was not related to the structural problems concerning the industrial development such as the technological development and the enhancement of vocational training system. The main claims and efforts from the part of the organized business were targeted at tariff policies related to the foreign trade, the expansion of the industrial plants and decreasing labour costs.

Issues such as entrepreneurship and productive transformations towards competitiveness supported by innovation, differentiation and vocational training, in general, had very little presence in the discourses and official communications of the UIA. The absence of these issues in the organized business collective action agenda partially explains the low industrial upgrading. An existing coordination between the organized industrial business and the state departments was less apparent and effective during the Frondizi period when compared to the previous one. The ambivalent attitude of the state and its difficulty in controlling the inflation and promoting the economic growth began to be more frequent in the speeches and official announcements of the UIA. In addition, there was less cooperation between the committees formed by the UIA and the state, especially in what concerned the policies related to the technological development.

The short-termism of the organized business became clear, with less emphasis on vocational training and technological innovation in the face of the growing economic crisis. This situation showed less cooperation between the state and business and again, a lack of efficient communication, with little access from the part of the business representatives to the bureaucracy.

### **The Guido Provisional Government (1962 to 1963)**

The Guido Government lasted nineteen months following the rules and decisions of a military staff in a period of high economic and political turmoil. During this period, the parliament stopped working on May 1962 and was dissolved by a presidential decree on October 22, 1962. Through these acts, Guido took control of the legislative and executive powers, which fell then under the supervision of the armed forces.

An exchange rate liberalization followed, with a strong devaluation of the Argentinean peso leading to a subsequent systematic change in the treasure ministers. It was a delicate political and economic situation worsened by the constraints stemming from the IMF. Workers and unions reacted strongly against the government, accompanied by businesspersons and large landowners who were forced to impose higher prices on their products in order to avoid bankruptcy.

The organization of the state apparatus by the Guido Government made certain steps forward when compared to Frondizi's. There was some effort to develop the institutions contributing to the enhancement of industrial technology, vocational training, and greater state autonomy. The presence of an authoritarian state, although under civilian protection, also contributed to these achievements. However, the difficulties in achieving greater economic stability amounted to shortcomings in the policy development capabilities in relation to business.

As for the agenda of the collective actions of the organized business, there was a certain continuity with the previous period. Between 1962 and 1963, several actions in the form of seminars, committees and meetings accounted for an effective participation of the UIA and its members. However, this participation was not favourable to a development project, as the emphasis lay on expanding bilateral foreign trade and reducing labour costs.

Although there was a tightening of relations between the industrial business and the state, with the participation of the business community in commissions and councils, the state control of the public companies

generated dissatisfaction and contributed to less cooperative relations between the state and the organized business.

### **From De Illia to the 1966 Coup (1964 to 1966)**

The prospects of the Illia Government were positive for the economy in terms of equilibrium in the balance of payments, better control of public spending, expansion of credit to the productive sector and a sharp increase of the investments in agriculture. The latter was facilitated by additional contribution akin to higher international prices and the good harvest of grains and cereals in 1963. Generally, there was an increase in the volume of industrial production, which resulted in a drop in the unemployment rate and a better performance of the manufacturing domain.

The major achievements observed in the manufacturing industry in 1964 were related to steel, textiles, machinery and electrical appliances, clothing and leather industry. In 1964, the National Council for Economic Development (CONADE) expanded its importance with a new administrative structure in which the Minister of Treasure took over its presidency together with four other directors (representatives of the Ministry of Treasure, the Ministry of the Public Utilities, the Central Bank and the Federal Council of Investments). The participation of the UIA in this change was crucial for a more effective rapprochement between the UIA and the State (Stigliani, 2010).

The business corporatism represented by the UIA was later undermined by the political crisis. This situation corroborates Bagchi's (2004) understanding of the industrial and developmental failure in South America. According to him, political and ideological reasons prevented the process of industrialization and development, along with authoritarianism and sectarianism. In addition, Cassiolato and Lastres (1999) observed an absence of real development policies in Latin America.

To these authors, the participation of various interest groups threatened the stability of state's capacity and its bureaucratic autonomy at a moment when the logic of influence was much more associated to the rural elites of the nineteenth century. Such elites were prone to trade productive activities for personal privileges and unproductive rent-seeking (Evans, 1995).

Again, the Government measures resulted in a negative reaction from the organized business. With the support of the Armed Forces, the president was ousted, this action having been seen as the best solution to the economic crisis. Through a military coup in June 1966, De Illia was removed from office through an act called the "Argentine Revolution".

In a summarized analysis of the Illia Government, two distinct periods can be identified: an initial one with moves towards a developmental reaction consisting of some optimism of the business class, and a second one when the Government was unable to avoid an inflationary scenario. Such impotence led to popular dissatisfaction against the president, leading to the coup of 1966.

The Illia Government was unable to consolidate the autonomy of the state in order to continue a development agenda involving both the public and the private sectors. The relations between the state and the UIA were more cooperative at the beginning but later they became politically conflictive and fragile. The end of the Illia Government revealed no continuity in the institutions and in the previous industrial policies. Therefore, the coordination of the relations between the state and the organized business was deficient in the Illia Government.

### **The Argentine Revolution (1967 to 1973)**

The Argentine Revolution unleashed a period of strong repression and clashes between the forces for and against Peronism, trade unionists, university students and armed left-wing groups. During this period, the government firmly stood for the "fight against endemic inflation, the restoration of economic freedom under overall guidance provided by the state and the modernization of production structures in all its spheres" (Unión Industrial Argentina, 1967, p.31).

The state and organized business's concern with the vocational training seemed to be the sole commonality between the manufacturing and the industrial upgrading in the realm of the economic development in those years. This fact reinforced a previous path where greater uncertainty in the economic stability and greater political instability were associated, with less importance given to investments in technology and to development strategy. The existence of an authoritarian regime without a political legitimacy amounted to this instability.

Contrary to the East Asian experience and, to a lesser extent, to the Brazilian experience, authoritarianism in Argentina was detrimental to a Developmental State (Amsden, 1994). It is worth considering that the Argentine Revolution period was established as the first major military regime in Argentina after the first Peronist government. Bureaucratic insulations may have been more effective in the decision-making, meritocratic recruitment, avoiding "fiscal irresponsibility" and "populist behaviour" of the rulers. However, authoritarianism, once established, is a

fertile ground to capture actions of state agencies, resulting in a weakening and loss of confidence in institutions (Diniz, 1997).

For Diniz (1997), the bureaucratic insulation causes un-governability because it creates a democratic deficit with impropriety in the management of public finances and social progress. It cannot be denied the fact that one of the biggest risks of an undemocratic government is the lack of collective action movements. In this sense, the relationship between the business associations and the authoritarian state tends to be restricted, selective and temporary.

The period identified as the Argentine Revolution was a new phase in the industrial development. There were some institutional changes within the industrial sectors such as the incorporation of the BIRA and the BND, the implementation of the technology transfer policy and even some concerns about the environmental risks of the industrial production. The authoritarian repertoire used by the military was not enough to fend off the great evil affecting the national economy: inflation. Actions to control public spending and set the balance of payments in equilibrium proved to be insufficient to reverse the chaotic legacy.

The attempts of the military to restructure the state in favour of an alternative model of industrial development showed discontinuity with the previous government in terms of technical and administrative bureaucratic organization related to the industrial production. The state support targeted the low value-added products with the aim of searching for equilibrium in the balance of payments.

The UIA furthered growing integration among its members where the committee's activities helped to strengthen the image of a unified organization. The activities with the ALALC in the organization of national and regional conferences allowed for a greater geographic coverage from the UIA and closer ties with the boards of the various organizations and the state. However, the prospect of an industrial growth was only partially met and the collective action agenda was again restricted to tax-reduction and government price control.

The difficulties faced by the governments of the Argentine Revolution when trying to contain public spending and curb the inflationary process produced the mistrust of the industrial elites. This mistrust is visible in the UIA reports when reading between the lines.

### **Return to Peronism and Military Dictatorship (1974 to 1978)**

Peronism returned to the Casa Rosada with Héctor Cámpora José. He was elected in 1973 and soon after changes in the electoral law, Juan