

THE COMPLEXITY OF MANAGING HUMAN RESOURCES: THE CASE OF PERU

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Abstract

The long history of social, political, economic and labor aspects have influenced the human resource management in Peru; themes such as educational level, the type of economic model adopted or the state of the job market has inhibited or facilitated the establishment and development of modern human resource management practices. This article describes how the politics of human resources have changed in Peru. From the utilization of HR to serve the principal competencies of the business to the conceptualization of these practices businesses, this change played an important role in the reforms that occurred throughout the 90s. This article examines how the size and the type of organization influence the generation of human resource management. For example, some medium sized businesses have developed successful integration in the human resource management, with its central competencies experiencing positive economic and financial business results. Other companies choose to circumvent human resource management issues by outsourcing or using contract workers, relegating the role of human resources to peripheral or no importance to the company. Transnational organizations appear to bring with them many key aspects of methods and selection processes, promotions, evaluations, training, salary determination, which are prominent similar transnational companies. Finally, there is a comparative analysis between the formal and informal sector of the national economy with respect to the human resources practices.

Peru, known for its ancient relics and industrious culture, offers great opportunities in many areas of the modern world. Throughout the centuries, Peruvian business practices have included human resources management in various forms. The formal development of human

resources in business practices, however, has only become apparent within the last generation, often as transnational companies have interacted more dynamically with domestic businesses in Peru. The diversity of practices in human resources varies significantly depending on several factors, such as company, industry, and economy type (i.e. formal or informal).

In this article, we provide a brief overview of pertinent background of Peru to assist in understanding the historical, social, and economic milieu. We will discuss the concept of human resource management as it has been understood and implemented in organizations, covering such themes as labor market workforce and economy type, as well as selection, compensation, and retention. In the conclusion, we discuss implications of human resource management and suggest implications for Peru. The intent of this discussion is to underscore the evolution of, and challenges in, managing human resources in this diverse and multifaceted society.

Historical Background

The initial populace of the Andes reached the region around 8,000 BC and, through the following millennia, experienced the rise and fall of numerous complex civilizations (CountryWatch Review, 2004). In the fifteenth century, the Incan tribe of the southern Andes began an unprecedented expansion after several centuries of relatively stationary existence, eventually conquering a 380,000-square-mile area in and around what is now Peru. As various tribes and cultures were overpowered, the Incans assimilated and applied constructive customs and knowledge into their own culture to satisfy the collective needs of the expanded state. The emergence of the Incan Empire had a direct effect on the unique set of work values demonstrated by native Peruvians today. Their trade systems, routes, assimilation of other cultures' values, delivery of technology, and development of great feats of engineering and art influenced the whole continent, transmitted from generation to generation via oral and artifact history. The creation of a calculation device (*Quipus*)¹ allowed for communication and the development of complex accounting systems, large-scale planning, and irrigation systems.

Spaniard Francisco Pizarro began exploring the Incan Empire early in the sixteenth century and later overtook *Cuzco*, the political Inca capital, solidifying Spanish control of the Empire. For the next two centuries, Spanish control was largely unchallenged. The land tenure system put into practice by Spain gave the colonizers command of indigenous land and labor. This led to tremendous cultural and economic divisions between the minority elite and the indigenous people. On July 28, 1821, Peru declared independence from Spain. Toward the end of the nineteenth century, the country embarked on industrial and commercial development based on natural resources. The Lima-based oligarchy maintained control of the economic and political structure of the country during most of the nineteenth and twentieth centuries, and blocked the advancement of the entrepreneurial middle class for decades (CountryWatch Review, 2004). Throughout the twentieth century, Peru saw periodic shifts from civilian rule to military coups, the rise of social democratic movements focused on social and land reform, and often democratically elected yet authoritarian-styled presidents (Booth & Sorj, 1983; Chaplin, 1976).

¹ A *Quipu* is a device made of a main cord with smaller varicolored cords attached and knotted.

Social and Political Influences

Linked to human-resource management are the factors of social and political influence. The third largest South American country, Peru, had approximately 26.7 million people in 2002, with an estimated 37% under the age of 15. From 1998 to 2002, life expectancy increased from 66.1 to 67.2 years for males and from 71 to 72.3 years for females. Approximately 73% of the population lives in urban areas. A large portion of the nation's workers are young and willing to work for relatively low wages in order to make a living and help their family. Population growth in 1997–2002 averaged 1.6% yearly and is expected to remain steady for the next few years.

Approximately 45% of the Peruvian population is indigenous; part of the population is Incan descendents. Many Peruvians, approximately 37%, are *mestizo*, which refers to a mix of indigenous and European descent, mainly Spanish. Peruvians of European descent comprise about 15% of the population; there is also a small, approximately 3%, population of descendents from Africa, Japan, and China. Distinct geographical regions of Peru parallel the socioeconomic rift between the mestizo-Hispanic culture of the more prosperous coast and the more traditional Andean cultures of the highlands and mountains. This has led to Peru's dual economies (EIU 2003).

Primary education is free and compulsory, based on provisions in the revised constitution of 1993; 83% of school-aged students in Peru, at all levels, attend public school. Due to a concerted government effort, school enrollment has risen to 7.5 million in elementary and secondary schools. The literacy rate is estimated at 90.41% for men and 86.8% for women. The 74 universities in Peru, 58% private and 42% public, have a total enrollment of 415,000 students.²

Within South America, however, the standards for public education in Peru are amid the lowest. Within Peru, there is a huge disparity between public and private education, as well as urban and rural systems, especially for girls.

In 2001, after the corruption and authoritarianism of the previous decade, the new government of President Alejandro Toledo has revived confidence in the democratic system (Background Notes, 2003). Under Toledo's tutelage, the executive branch has become more accountable and transparent, and Congress has greatly improved investigative and oversight powers. Despite these advancements, the president has received low approval ratings—10% for first quarter 2004—although various political parties have provided some consensus for the sake of democracy (Amiel, 2004).

Economic Influences

Economic influences are also important in the assessment of human resource management (HRM). In 1990, the Peruvian economy began a dramatic change from the strong protectionist policies, excessive import duties, and government control of vital economic sectors of the previous 20 years. Under the auspices of former President Fujimori, the country saw reduced inflation and the eradication of two significant guerrilla organizations (Degregori, 1990; Palmer, 1992). Since 1990, the infrastructure has significantly improved through private investment in telecommunications, power equipment, and airport facilities

² With several excellent universities and professional graduate business programs countrywide, many have, or are in the process of seeking, accreditation in the U.S. and Europe.

(EIU, 2003). Transformation was achieved through market-oriented economic reforms and privatization, which has met many requirements of long-term growth.

Following several years of economic stagnation from 1998 to 2001, the then newly elected Toledo administration embarked on successful economic recovery by implementing conventional economic policies and enacting measures to attract investment (Background Notes, 2003). Peru has 4% of the population of the world, produces only 2% globally and exports only 1% of the world-wide total. The real Gross Domestic Product (GDP) grew 4.9% in 2002, 4% in 2003, and is estimated to grow at 4% in 2004 to \$2,126 per head USD. Although this is a moderate growth rate for an emerging economy, it is relatively robust compared to other Latin American economies (Amiel, 2004). Banking, retail services, agriculture, mining, and manufacturing are key area sectors. In 2002, Peruvian exports produced the country's first trade surplus in 11 years: \$7.65 billion in exports versus \$7.44 billion in imports. Major trading partners of Peru include the United States, the European Union, Japan, Colombia, Brazil, China, and Venezuela. Table 1 shows a comparison of Peru's GDP to that of other South American countries.

Insert Table 1 Here

Since the mid-1990s, the Peruvian apparel industry has had astonishing growth in the international market compared to other Latin American countries (Cortazar, 1997). In 2003, Peru saw a marked increase in exports of nontraditional products, such as textiles, notably through a program that gives Peruvian exports duty-free entry into the U.S. market in exchange for aggressive work to eradicate drug crops by the Peruvian government. Tourism is another area of growth. A top travel destination in South America, Peru's travel industry reported a significant increase in traffic for 2003 with strong growth anticipated for 2004 (Hunt, 2003). In 2001, the World Travel and Tourism Council projected that travel and tourism added 3.9% to the GDP, accounting for 747,181 jobs, or 8.6% of total employment (EIU, 2003). Other areas of growth were agriculture and fisheries.

Committed to monetary discipline, the Peruvian central government has continued fiscal restraint, which is imperative for controlling inflation. This sound monetary policy has resulted in stable prices. In 2003, inflation met the predicted estimates at 2.6%, with the core inflation index at 0.8% (Amiel, 2004). Consumer prices are expected to rise moderately over 2004 and 2005, at 2.4% and 2.1% respectively. The fiscal deficit has shown constraint, meeting the IMF target of 1.9% in 2002. Primary products, such as mining and fisheries production, provide the majority of export earnings; however, such dependence subjects the economy to the volatility of weather conditions and commodity prices (EIU, 2003).

Labor Market and Workforce

The state of the labor market and workforce is intricately interwoven with the state of human resources management. Historically, Peru has had a strong history of labor union movements (Collier & Collier, 1991; Parodi, 2000). These labor unions brought with them a basic appreciation for the worker and introduced, often implicitly, the notion of mutual benefits of employer-employee relations. Often, though, tension existed in these relations. By the late 1980s, numerous major work strikes were common place. In the early 1990s, however, the severe economic environment made it increasingly difficult for workers to respond to calls by unions for work stoppages (Political Risk Services, 2003). During the

economic restructuring implemented by the Fujimori administration, trade unions were dealt an unyielding blow (Parodi, 2000). With increased economic austerity and political gravity, a reluctance to participate in unions grew. Labor strikes came to be considered as opportunities for others to gain work. As a result, the union movement was weakened and reduced to a very low percentage of the total workforce. However, dissatisfaction with the current state of employment did find May Day 2004 marked by strikes.

The economy has been modestly expanding, but economic growth is not creating jobs. From December 2001 to December 2003, employment fell from 3.59 to 3.57 million, and the unemployment rate increased from 7.9% to 9.7% (Amiel, 2004). Surveys conducted in metropolitan Lima in 2002 reported unemployment averaged above 10% (CountryWatch Review, 2004), making the labor market the economy's main weak spot. Some estimates suggest that only one-third of the labor force is appropriately employed (Amiel, 2004).³ With considerable unemployment and underemployment, an abundance of job seekers and job changers is created. Employers view this surplus of workers as an opportunity to use temporary workers or outsourcing agencies for staffing. Commonly, temporary and outsourced employees have minimal if any benefits, and the responsibility for training is often put on the employee. Workers willingly relinquish benefits such as federally mandated 48-hour maximum workweek⁴ and paid annual vacation to secure employment.

Many human resource management departments are limited in their organizational functions, mostly filling positions and ensuring proper pay schedules.⁵ Since March 2000, the legal minimum wage for workers has been 410 *nuevos soles* (\$126 US) per month. In the formal sector, most workers receive more than minimum wage, and wages for professional staff are high (CountryWatch Review, 2004). A recent survey of HR managers, 40% from national and 60% from transnational companies (DBM Peru, 2004), reported that company wages of managers would increase (47%) or remain stable (44%). Half, or 52%, of the transnational companies predicted wage increases, with 39% of national companies reporting smaller increases. The greatest wages increases would be seen in mining and energy (67%), finances (60%) and massive consumption (54%). The hiring levels show variable tendencies. Although 49% of the managers predicted an increase in the hiring of personnel in the 2004, only 38%-- mainly in transnational companies--predicted that they would not hire this year.

These results provide poignant insight into some of the complexities of a deeper structural relationship between environment, firm and human resource practices. Here we will discuss two of the related challenges. Peru has historically had an economic pattern that dictates companies to have a variable workforce. When inflation is high, companies have adapted HRM strategies for sourcing service and production jobs to daily and weekly workers, often paying them as quick as the job is delivered to reduce economic risk. When inflation is low (as it has been recently) companies have adapted HRM strategies to quickly to hire workers on a contractual or nonpermanent based to fulfill production and service activities. This means that the large established organizations (e.g. government organizations, large financial companies, and large industries) have been faced with an HRM challenge of having to recruit for fulltime positions in a labor market that has a tradition of

³ Urban underemployment is classified according to hours worked and wages received.

⁴ 45-hour workweek for women

⁵ This varies by firms' which we consider later in the paper.

short-term or seasonal employment. This unique situation presents a complex situation between companies and this type of labor force. If the jobs that companies are filling are permanent, the company negotiates paying less. So HRM professionals have the task of selling the benefits of long-term permanent positions to a labor force accustomed to the variability of seasonal/contractual employment at slightly higher wages. The phenomena mentioned above create a situation in which workers may prefer working an extended amount of hours, working for several companies, rather than working for one company in a permanent position, because they would rather spread the risk. There have been many cases where stable companies reorganize, go out of business, or merge, resulting in the large loss of jobs. Thus, the workforce has become dubious about employment stability.

Additionally, since the economic environment of Peru depends considerably on natural resources, we believe it is important to note the challenges related to human resource management with these types of industries. When demand for natural resources is strong globally, the Peruvian economy and firms in this sector (e.g. mining and energy) benefit sizably. However, when demand for these products is weak, these businesses are far less profitable. As such, employment rises and falls with the demand for resources. Firms from this sector are infrastructure-intensive, requiring wide-ranging investment and development, with the plan for longer-term profits. The threat of the uncontrollable and unpredictable "El Nino" weather pattern, which has devastated both civil and business infrastructure in Peru, leaves these investments continually at risk. Therefore, return on investment is a constant concern given the tenuous dependence on external variables. Concomitantly, these firms increase and decrease their workforce as needed for projects. These jobs tend to be physically challenging, lower level positions, which do not necessitate ongoing training and development, as much as safety to the individual. Thus, the role of human resources in these firms tends to be less strategic and more pragmatic, given the hazards of the economic and physical environment.

The Growth of Human Resource Management

The first recorded labor laws in Peru were introduced in the twentieth century. These were the earliest attempts to address injustices toward workers in the society. During the mid-twentieth century, harsh treatment of employees was not uncommon, especially in industrial jobs (Parodi, 2000). In many companies, employees worked without breaks, even for meals, and were required to buy their own supplies, the price of which was often deducted from wages. The relations between the workers and the company were non-standardized and inconsistent, based on each person's individually signed contract, which was subject to renewal every few months.

Laws enacted in 1970 brought to an end many contemptible employment practices. These laws addressed the inequities in power relations and created an arena for the growth of labor unions. As unions emerged, a new relationship developed based on the premise that worker benefits were determined by collective bargaining (Parodi, 2000). The unions brought standardized job evaluation procedures as well as work and wage schedules. Workers could express dissatisfaction or take time off without the risk of losing their jobs. This basic beginning of appreciation for human-resource issues was crucial for the advancement of the human capital component of organizations. Labor unions negotiated with the companies for worker benefits, from wages and work hours to pensions and perks (Haworth, 1989; Collier & Collier, 1991). When present, the role of HRM was to protect the employee; employee growth and development may have been consequences, but they were not intentional goals.

Turbulent economic and political circumstances in the 1980s overwhelmed the country and disrupted the management of human resources (Crabtree, 1992; Graham, 1992). During periods of extreme societal distress, many common-place practices and procedures are suspended, with organizational and societal survival becoming paramount to individual needs. Indeed, this was the case for Peru. In the late 1980s, with soaring inflation and indiscriminant terrorism, defense-mode behaviors emerged in organizations. All actions turned inward. The function of Human Resources took a definitive turn away from preserving the employee to protecting the organization.

The 1990s inaugurated a movement of pragmatism. With the election of Fujimori as president, Peru began to embrace the forces of a market economy (Cameron & Mauceri, 1997). Neo-liberal reform of labor laws replaced older, less labor-efficient regulations, affecting both public and private sectors. To accomplish many of his reforms, Fujimori enacted an authoritarian style of government, implementing a new constitution in 1993 that bolstered centralism and enhanced the power of the chief executive, thus reducing the power of the legislature. The business environment flourished during this period as greater interest in HRM emerged.

From the middle of 1997, the HRM model of competencies began to adapt in some organizations to address globalization, continuous change, technological development, and high competitiveness. This helped to balance organizational results and human resources potential within the organizations. Nevertheless, this concept has traditionally been associated solely with labor issues.

Influences on Human Resource Management

Many larger companies are embracing progressive company-driven HRM practices, although small to medium companies lag behind. There are aspects of HRM that are strategically important to most companies, but the placement of human resources as a core competency is atypical and underappreciated. Although labor is abundant and trainable, organizational managers frequently complain of the shortage of highly skilled workers. This statement underscores the importance of treating HRM as a strategic competence.

Diversity in the organization is modestly influencing the managing of human resources in Peru. From 1970 to 2002 in metro-Lima, the number of working women dramatically increased from 34.2% to 51.8%. The number of working-age men remained relatively constant during the same time period, shifting only from 72.4% to 75.3% (MTPE, 2003). Diversification of the workforce brings with it many human resource concerns, from three month maternity leave and harassment issues to pay inequity and promotion bias toward males.

If the onus for representing individual interests shifted from labor unions back to the organizations, HRM concerns would seem more salient. However, many businesses have been using contract work to avoid implementing HRM systems. In some manufacturing companies, the use of contract workers has existed for over 15 years. Some organizations avoiding "*grupos sindicales*" or unions prefer to employ companies that give them the service of managing the workers. Contract employment exists in every business sector in Peru. Companies hire service providers who take care of salaries, compensation, holidays, and training. Rather than management positions, contract employment is mainly related to

labor positions, such as seasonal, labor, or administrative positions where service providers offer qualified personnel on an “as needed” basis.

Organization Size

Peru does not have many large organizations compared to other countries in the world. In 2002, metro-Lima listed 13% of their companies as medium to large with over 50 employees. Another 13% were listed as small or *pequeña* companies with 10 to 49 employees. An additional 19% were micro businesses with 2 to 9 employees, 35% were independent employees, and 10% were considered “other” businesses (MTPE, 2003). The increasing importance of “*pequeña y micro empresas*” (PYMEs) in the economic development of Peru has been the focus of much attention. These types of organizations are more flexible, highly entrepreneurial, and have great potential for strategic growth in HRM.

PROFUTURO, a medium-sized pension system enterprise in Peru, has successfully integrated human resource management as a core competency (Arbaiza, 2002). Their model of human resource management has been a major contributor to the successful evolution of the organization in the past five years, resulting in significant impact on their business performance. This was accomplished through traditional implementation of HRM practices, the commitment and involvement of the CEO, as well as the active participation of everyone in the firm. To ensure HRM as a core competency, collaboration between areas was essential; each area acted as a client or a provider of other areas depending on the issue to be resolved. To nurture a culture of participation, communication was fundamental.

When employers and employees shared the firm’s culture, results followed. In 2001, PROFUTURO AFP had recruited 23% of the subscribers from the overall Peruvian Pension Fund System. It manages a portfolio worth \$510 million USD out of a system total reaching \$3,400 million USD. Financial resources were dramatically improved by human resources. The company proved that for the HRM to become a major player it needed to radically change its mindset; the results were remarkable (Arbaiza, 2002).

In larger organizations, especially transnational types, a greater use of contemporary management theories is exhibited; many of these companies assert HRM as a strategic competency. This process is reflected in the organizational culture, knowledge acquisition, creation, and innovation of the organizational members (Chávez, 2002). It is not uncommon for these companies to practice risk management, career path training, Six Sigma, Capabilities Maturity Models (CMM), TQM, or MSF, usually driven by elite executive members, and compulsory for lower levels. Although far fewer in number than transnational organizations, some domestic Peruvian organizations have undertaken this strategic process. Investing approximately two years in the initial phase of creating the design and assimilation of the determined competencies, companies complement this later with developing and applying selection, training, development, evaluation, and compensation processes. Undertaking such organizational change efforts requires keen vision and commitment by organizational leadership, willing to realize such costs necessary for HRM change. However with the cyclical nature of the economy and industry mentioned above, this investment is often prohibitive.

There are examples of large domestic organizations that embrace the vision and commitment necessary to change the role of HRM to a strategic competency, producing impressive results. One such example is the security firm J&V Resguardo. According to the Great Place of Work Institute 2004 list of top 25 companies for which to work, this

company has topped the list both years the survey has been conducted. With over 2,000 employees, most of the people on the workforce are private security guards, working demanding days sometimes in precarious situations. The company manager credits the high ranking to the involvement of the employees in their organization. He nurtures this environment by reducing, if not eliminating, the barriers between him and his coworkers. Claiming to personally know over 90% of the employees, he gives his workers an open line of communication, allowing them to email or call him with work-related concerns.

The company manager's emphasis on performance is reinforced by a first-rate training program, requiring employees to complete 120-180 hours of education each year. Public recognition for high performance and promotion from within the company are successful motivational practices for the employees. Most importantly, the company manager points out is the company's commitment to the employee. A company crisis committee exists which has addressed such employee needs as obtaining medical equipment for the disabled son of an employee, to helping with the education of special needs children of employees. Computer skills' training for the workers and their family members is available, as well as provisions for assisting in obtaining low-cost loans. Together, this organizational culture promotes trust between the management and workers, as well as enhancing a sense of pride in these employees who make only modest wages by even Peruvian standards. Indeed, it is typical to find the company manager showing brochures of his company which tout the importance of employee in the organizational success.

Formal Economy Organizations

The Peruvian economy is based on the informal and the formal economy, including typical multinational as well as local organizations. The landscape of organizations in the formal economy sector is usually broken down into industrial, financial services, natural resource development, and service organizations. Traditionally, industrial, financial services, and natural resource development sectors have been led by transnational organizations and the Peruvian government, bringing HRM practices influenced by these organizational cultures. In contrast, the service industry has been mostly developed by domestic Peruvian companies and investment from other South American countries. In general, transnational companies tend have more focus and strategy in HRM than domestic companies, but there is evidence of slow change.

The traditional incentives of developed countries (e.g. health insurance, pensions) are for the most part not as highly sought after by Peruvian workers. There are notable exceptions for workers that are employed by large government workers or teachers, who have pensions; however this is not a significant percentage of the population. Thus, the figures that typify excellent HRM benefits in many developed countries may not be motivating to workers who are accustomed to providing sustenance to their families through multiple jobs.

General responsibilities of HRM departments include selecting employees by conducting interviews and background checks as well as training employees by developing and implementing programs. In large (and typically transnational) organizations, human resource managers coordinate HR activities with regional and corporate offices. The development of incentive programs has gained importance within HRM departments in formal organizations to address the ongoing problem of retention. Recruitment is predominately, or 70%, based on the requisite qualifications for the relevant position, whereas the remaining 30% is based upon background information including schooling, university experience, family, and friends.

Social contacts through family and academic connections are important. Additionally, companies advertise in newspapers, use head-hunters, or utilize their HR department.

The characteristics of HRM in organizations vary, but there are some general tendencies. Remuneration has been primarily based on seniority and title, especially in public organizations. Incentive programs and “pay for performance” are becoming more familiar, notably in sales positions. Management by objectives is a widespread practice. Upward movement in the organization hierarchy is based on connections, social structures, performance and customer focus. Deep hierarchies exist in many organizations, built on multiple checks and balances to avoid corruption. Hierarchies also provide clear definition of the chain of command and job descriptions. These dispositions are in line with the high power-distance cultural dimension characteristic of Peru (Hofstede, 1980).

Training was identified as another of the most important responsibilities for human resource managers in formal sector companies. The type of training (e.g. new employee orientation, career path training, employee development), the frequency of training (initial technical, annual, periodic/ongoing), and the level of training (executive level, management only, system-wide training) varied across organizations. From transnational pharmaceutical companies to family-owned retail petroleum companies, from textile plants to private pension organizations, training surfaced as imperative. In interviews with Peruvian managers, training was mentioned as important not only for developing the employee in the organization, but also for building a bridge of trust between the employee and management.

Training is particularly essential given that there is a shortage of skilled workers in the country. A textile manufacturing company took proactive steps to address the shortage by creating training schools, typically registering up to 140 workers in the program at a time (Cortazar, 1997). Larger and transnational companies typically pay for training, usually taking place on company time. Former Peruvian Minister Alfonso de los Heros (1999) recommended several measures for managing human resources in business growth over the next decade, especially the need to increase labor quality of employees through training and development. This would be accomplished with careful attention paid to the protection of weak labor sectors, women, young people, and unemployed men over 45 years of age.

Motivational issues are salient in HRM in formal organizations. Evaluation and incentives can be developed based on the employee's ability to communicate with all levels of the organization, understand the challenges of subordinates, include family and social considerations in the workplace, and be political enough to represent subordinates and protect them from other directors or departments within the same business. One transnational organization, Citigroup Peru, implemented the voices of employees' survey, intended to track the most ineffective benefit or incentive in the organization. Due to the competitive labor market, employees often show an eagerness to do more in order to prove their value and increase their stay in the organization.

Relationship-based negotiations, particularly the relationships involving long-standing customers, can create highly developed networks and political systems inside and outside of the organization. To attract new customers and encourage customer satisfaction and loyalty, some companies promote the unique and creative thinking of employees, who come up with ideas such as the creation of a customer response system. In team meetings, humor is often

used to promote clear objectives. This may include making fun of situations or other groups in order to generate results through peer pressure. This group-based activity is characteristic of the high in-group orientation reported in Peruvian culture (Hofstede, 1980). As such, individual and group-oriented recognition, in the form of department or company events, are important employee incentives. This involvement may even stretch beyond the employees, to include their families. The hotel Marriott Lima designates specific days that employees can invite their families to visit the hotel, showing them the various rooms and variety of services with which the employees are involved. These types of activities assist in addressing the reoccurring challenge identified for the human resource manager: the issue of retention.

Informal Economy Organizations

The development of business, based on the need to work for survival and scarcity of credit, through innovative, informal enterprise encourages individuals to develop their capacity and effort (de Soto, 1989). Many scholars believe that there is great entrepreneurial wealth in Peru that, in a few decades with improved financial credit lines and education, could serve as a model for third world countries to become part of the first world. From 1990 to 2002, employment in the formal economy in metro-Lima decreased from 43% to 38%, while employment in the informal economy grew from 57% to 62% (MTPE, 2003). Outside metro-Lima, in greater Peru, there are more workers in the informal economy (MTPE, 2003). As a result, the greatest change in the market of the past decade is the increase in the informal economy.⁶ Villarán, a researcher in the field of human resources, argues that it is common to equate informality with poverty and that often there is confusion between micro and even small firms and the informal sector. This obscures the distinctiveness of the informal sector and underestimates its role in the economy (Späth, 1993).

In a study conducted by Saavedra & Chong (1999) involving the formal and informal sectors in urban Peru, they stated that earnings differentials between formal and informal salaried workers persisted, although there were not significant differences between formal and informal self-employed workers. Put simply, the earnings generated by the formal and informal self-employed workers were similar. This research also reported that skilled workers were more frequently employed in the formal sector, with less skilled and younger workers in the informal sector. This has created somewhat of a bifurcation between the typically more educated formal sector worker and the less skilled worker. With this division of workers, there is often distrust and derision, which discourages interaction between the formal and informal sectors.

Informal employment is considered an activity such as employment in commercial, service or manufacturing enterprises with a typical workforce of ten or fewer people. The informal economy may be defined as a large network of small shops, stalls, street-sellers, and even factories located in homes. From 1970 to 1990, street vending in Lima dramatically increased from 2.5% of the economically active population to 13.1% (EIU, 2003). Informal organizations may be smaller organizations in which family provides the labor, working long hours at the expense of education. In some cases, family members work for no pay, live in the same household, and share the profit in terms of food, clothing, and the like. Since many of these informal organizations were adapted for business and not built specifically for

⁶ Several categories comprise the informal economy: independent workers that are not professional or technically skilled, employees in families who do not receive pay for their services, people working in their home and/or micro-company.

business activity, often the work environment does not fulfill the minimum measures of security and hygiene required by law. Coupled with lengthy workweeks, this work environment presents motivational challenges for HRM in the informal sector.

Merchandise for the informal economy is sometimes acquired on the black market from backstreet sweatshops or organized smugglers. With minimal overhead and taxes, the informal network provides stiff competition for formal outlets and has held back the development of a modern retail sector (EIU, 2003). Pay-per-performance strategies are often utilized; each informal employee is supervised by an informal manager of a specific area, and is literally paid on a daily basis. If they do not perform, they are no longer employed. This fosters an environment predominantly of temporary or contract employees. Employees in this system typically buy their life necessities on a daily or weekly basis. Given the short-term orientation of both the employer and the employee, employment benefits in the informal sector are scant.

Street vendors, as well as small shops, require little or no formal advertising. Word-of-mouth advertisement for smaller companies is similar to the development of a brand for medium-sized organizations. Necessity drives innovation on customer acquisition and product development. Incentive systems include development of referral systems by employees to move customers to specific stores. Strong competitions among referral systems and learn-as-you-go behaviors have led to the development of sophisticated tracking systems. Training or education is sometimes paid by the bosses or owners if they are certain that the experience or knowledge will be used in the business; loyalty is more precious here than in the formal economy. Largely, however, formal training is a luxury not often afforded many workers in informal organizations, since these businesses usually have neither the time nor money to invest in it.

Typically, development of social networks at work, use of barter systems, and relationships are used to aid other informal organizations in the development of profits. Employees of these small businesses have often developed relationships with the owners of informal businesses; they know each other and trust each other with their merchandise. This leads to the development of social networks that find and refer customers to informal organizations. Because informal companies tend to be small and relational, promotions are typically based on trust or family ties. Thus, succession management may be more based on relationships in the informal organization.

Some businesses in the informal economic sectors have marshaled their efforts to form informal clusters of trade districts. These cluster locations may include hundreds of shops of the same trade in the same area. An example of the small firms' efficiency is the *Complejo Gamarra*, which manufactures and markets clothing and fashion wear (Späth, 1993). Gamarra is a commercial area encompassing 25 blocks in Lima. With hundreds of storefront shops strategically located in a highly commercial area, Gamarra provides tens of thousands of jobs (Cortazar, 1997). The area is distinct due to the combination of economic activities present: production, trading, and services as well as a combination of different business sizes. The group has its own magazine and radio station. With this growth, HRM concerns become more prominent. An economic organization, PROMPEX, began providing guidance by contacting "apparel and quality experts to provide advice to companies and to offer

conference and assistance on quality control, personnel management, marketing, and export trade to manufacturers in the area" (Cortazar, 1997).⁷

Interestingly, it has been discovered that, within the informal economy, there is also the notion of informal credit. In an investigation conducted recently, informal credit, or credit on a daily or even hourly basis, can be negotiated at high interest rates. Following the economic downturn in the late 1900s, many formal banking institutions began providing microfinancing to businesses in the informal sector. This untapped sector of the economy was seen as having marginal risk since these businesses tend to low (or no) debt and were less susceptible to the cyclical nature of the formal sector, showing more stability throughout the year.

Emerging HR Influences

Reoccurring themes surface in the best practices espoused by human resource managers in many Peruvian companies. In recent interviews with HR executives in Lima, succession management was ranked as a top priority. Another theme considered important was evaluation. Assessment was noted as a crucial component to aligning the needs of the employees with the organization, and vice versa. Accountability translates into measurement. Communication was a multifaceted theme occurring throughout the organization considered essential to the best practices of the organization. This includes interpersonal communication, networking communication within and across organizations for better work performance, 360-degree feedback, and customer relations.

Succession management is a top concern for companies where talent is scarce. A survey of HR managers from 60% transnational and 40% national companies reported that focus on succession leadership was of great concern for the future (DBM Peru, 2004). Fifty-one percent of companies reported that would increase investment in succession management, with 61% national companies and 52% transnationals. The consumer goods sector committed the largest investment at 77%. With this increase, processes for developing the human capital will acquire greater importance.

Over the past decade, Peruvian organizations have undergone substantial change in many areas. Beginning in 1992, privatization in Peru has come to the forefront of development. Sales of state-owned energy generators and distributors, mining and refining interests, the telephone monopoly, and banks have led the privatization process. In some instances, Peruvian citizens and company employees were allowed to participate in the process. Bowen (1998) notes that in some of the larger and more politically sensitive companies, Peruvian company workers acquired up to 10% of the equity and packages of retained shares in selected companies were then offered to the public at discounted prices. The privatization of the pension system in Peru is another example of reform. Arce (2001) suggests that privatization involves two elements: participation and transparency. The careful consideration of these elements determines the success of the process.

Another organizational change that has been occurring in Peru is decentralization. Decentralization of governmental systems in Peru helps meet local concerns, designing policies in line with the human resources of regions. The process of decentralization also assists in balancing the dual economy that exists in Peru. Countering the marginalization of

⁷ p. 107

the rural economy, decentralized structures can address this problem (Buchenrieder & Heuft, 2003). This is especially true in agricultural promotion, where HRM issues have largely been ignored, but where enhancing human resources is vital for development. Fundamentally, decentralization can only be achieved if there is greater accountability within the system, and this can happen only if constant, transparent flow of information is guaranteed (Buchenrieder & Heuft, 2003). Realizing the strategic advantages of HRM as a core competency would facilitate this change process and instill the trust that is currently absent.

Conclusions

The concept of managing human resources has existed throughout Peruvian history. In the Incan culture, there is evidence that societal members were given specific duties to ensure the productivity of the communities and survival of the societies; their roles changed as they matured. Management of human resources is conceptualized quite differently today. The focus has shifted from utilizing the individual to developing the individual; from employing human resources to service core competencies to framing human resources as a core competency. For Peru, the progression toward realizing the full potential of the individual as a core competency is not yet a reality, though many inroads have been made.

The business landscape in Peru is undergoing transformations. There have been structural transformations in the public and private sectors, formal and informal transformations in the economy, and dynamic transformations in the labor arena. For HRM, these transformations are opportunities for strategic growth; however, this growth requires enlightenment for both labor and industry. Crucial items include participating in strategic planning as well as aligning the employees' view with the corporate view. Acknowledging employees' needs and encouraging employees to share the responsibility as active participants in the process are important.

Beyond these, there are many additional ways HRM professionals in Peru can provide answers to these challenges. In the formal organization, the role of human resource management may: spend time talking to employees about the stability of the company; increase availability to local training; reward employees for good performance; focus on relationship development and acknowledging family members on special occasions, trips to the beach for family members to show that company cares; have adapted techniques to quickly hire employees (keep list of current interested workers). In the informal organization, the role human resource management has huge potential. With more access to financial resources, it is hopeful that these business owners will receive training in business practices and with this it is possible that working conditions in general may begin improving. With this improvement in working conditions may come a longer-term vision for many informal businesses and with this a greater concern for human resource issues. HRM has been closely linked to product and service development of these companies. Entrepreneurs (as many of the informal sector owners qualify) are always on the look out for ways and methods to simplify business processes or reduce the amount of resources necessary to produce a product. With the realization of strategic potential of HRM, these business owners could tap into and reward for the right set of skills of their workforce to accomplish better performance with few resources.

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Table 1. Comparative Economic Indicators, 2002

	Perú	Ecuador	Chile	Colombia	Brazil
GDP (US \$ bn)	56.9	20.8	63.3	81.8	440.1
GDP <i>per capita</i> (US \$ bn)	2,127.2	1,679.4	4,208.1	1,866.4	2,500.1
GDP <i>per capita</i> (US \$ at PPP)	5,044.3	4,109.2	10,334.1	6,431.5	7,643.6
Consumer price inflation (av; %)	0.2	12.5	2.5	6.3	8.5
Current-account balance (US \$ bn)	-1.1	-1.5	-0.6	-2.0	-7.3
Current-account balance (% of GDP)	-2.0	-7.2	-0.9	-2.5	-1.7
Exports of goods fob (US \$ bn)	7.7	4.9	18.3	12.0	60.9
Imports of goods fob (US \$ bn)	-7.4	-6.0	-15.8	-12.1	-47.9
External debt (US \$ bn)	29.1	14.4	40.0	36.0	201.3
Debt-service ratio, paid (%)	48.9	20.1	22.1	42.0	78.2

Source: Economist Intelligence Unit, Country Data.