

## The State as Originator of Opportunities for the Configuration of Businesses Case Analysis in the Colombian Context

<sup>1</sup>Juan Manuel Andrade Navia, <sup>2</sup>Alexander Quintero Bonilla and <sup>2</sup>Elias Ramirez Plazas  
<sup>1</sup>Corporacion Universitaria Minuto de Dios, Bogota, Colombia  
<sup>2</sup>Universidad Surcolombiana, Huila, Colombia

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**Abstract:** This study aims to show the role that the state acquires in some economies of the world as a generator of conditions for the emergence of business initiatives. The study is exploratory-descriptive in nature. A bibliographic analysis was carried out in order to identify the theoretical sustenance and to collect relevant information on mining and fish farming economic activities in a Colombian Region. It was evident that the Colombian State was a relevant genesis of the economic activities studied as it became an instrument for entrepreneurs to create adequate economic, legal and social conditions.

**Key words:** Businessmen, state, institutionalism, Colombia, social conditions, economic

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### INTRODUCTION

Companies and entrepreneurs are vital elements in the processes of economic development that occur in regions, therefore, the explanation of the state of development in which they are inevitably forces to inquire about the performance of those (Andrade and Quintero, 2012).

The study of companies and its individuals began in Colombia in the 60's and had a remarkable progress until the 90's when the area was very considerably productive. However, its methodology has been somewhat disorganized and of highly questionable rigor (De Guevara, 2003).

In the country, the studies were initially developed by foreigners, mainly North Americans and later by local intellectuals, concentrating on regions such as Antioquia and Cundinamarca, since, these experienced early industrialization and aroused interest in the matter (De Guevara, 2003).

Peripheral regions such as the Department of Huila were widely relegated in this type of studies, compared to those reported from other regions. In contrast, the historical accounts of municipal developments and the history of illustrious figures stand out. Only as of 2007 the first investigations were carried out to try to determine the origin and the practices of the entrepreneurs of the 19th century in the geographical space that the Department of Huila occupies today (Quintero and Centeno, 2007).

The study of the regional entrepreneur enters the field of research as a topic of interest and understanding that this character is largely a social construct it becomes

necessary to study it within the framework of its actions. The incipient business development in Huila throughout the twentieth century shifts in the 90's, generating structural changes that merit study.

Largely because the environment in which the local entrepreneur developed changed with the new conception of the state due to the legal and political changes that took place at the end of the last century it is mandatory to analyze the Huilan businessman within the framework of state policy development and its actions through public institutions.

The discussion is supported in the neo-institutionalist thoughts that raise the role of the state as a promoter of the private initiative, a manager of opportunities for business investment and a creator of economic and social development. While the study of entrepreneurs and their actions is very incipient in the department, the analyses focused specifically on the state's role as a strategically of those in its management is almost non-existent, both locally and regionally.

This reflective research is one of the first forms of discussion in this regard, running from the concept of entrepreneur as an exceptional individual capable of generating changes in the environment as someone able of detecting opportunities.

**Theoretical framework:** Addressing the issue of state institutions as generators of opportunities for the consolidation of business initiatives requires a review of three fundamental aspects. It is necessary to investigate the conception of business people and their relevant characteristics as well as the notion of a company as an

organization that produces economic profitability. Likewise, asking about the scope of institutionality is mandatory in this case the state and its mechanisms of action.

**The concept of a business man:** The birth of the entrepreneur is directly linked to the emergence of economic capitalism, given they are the main actors within the capitalist rational logic. Their origins are linked to the pre-capitalist era, especially, related to commercial activities, thus, developing a series of special skills (Sombart, 1978).

Weber considers the religious role, especially, the Protestant doctrine as a fundamental factor for the consolidation of entrepreneurs in some capitalist countries. Aspects such as the rational calculation of returns on capital in a moderate way are due to a capitalist behavior rooted in a strongly religious tendency which rejects practices of usury (Sombart, 1978).

Focusing the analysis on the characteristics of the entrepreneur, it should be noted that the issue has not been a center of discussion for economic science, deserving rather a residual role within economic phenomena (Quintero and Centeno, 2007).

In the 19th century, a French economist by the surname of Say defined entrepreneurs as people who found a company and take risks to achieve high productivity levels. He failed to specify further details, allowing anyone who organizes a company to be classified as such.

One of the most adopted but equally controversial conceptions is the one proposed by the Austrian Schumpeter (1978) of the dynamic imbalance caused by the innovative entrepreneur. These individuals with their actions, generate ruptures that unleash the opportunity they later take advantage of in their favor. Business management is measured in terms of innovation processes (Quintero and Centeno, 2007).

According to Schumpeter (1978), the processes of innovation on the part of the entrepreneur can be given by the realization of new products, opening of new markets, conquest of new sources of supply, new methods of production or even new methods of management and organization.

The economist Knight (1921) considered that the entrepreneur is one capable of taking calculated risks in convulsive environments. Knight distinguishes "risk" as situations of randomness with known probabilities and "uncertainty" as environments of randomness with unknown probabilities. Therefore, the entrepreneur assumes a risk and the benefit is represented in the reward obtained by doing so.

Kirzner (1997 and 1999), somehow influenced by Schumpeter (1978)'s approach, proposes the entrepreneur as someone who through acuteness, detects errors and unconsciousness in the market and turns them into possibilities of greater benefits. According to the researcher, the entrepreneur is an individual with exceptional abilities to interpret their environment and locate potential opportunities where others hardly see any hint of possibilities.

**The notion of a company:** At first, the neoclassical theory established the company as a legal entity whose essential function is production, combining the factors adequately to maximize its long-term benefits. However, this conception was very limited for it only offered a vision of a company as a market agent, overlooking some organizational aspects such as growth and expansion processes in a dynamic environment.

Consequently, due to this series of gaps left by the neoclassical conception, the economic schools that emerged later tried to approach it from different perspectives. Williamson (1985) within his theory of transaction costs, considered the relevance of companies as operators of transactions in an imperfect market.

In general, this school considers that the company incurs costs other than those of production which depend on the institutional organization, production and exchange existing in society. Its main contributions are to highlight the company as an alternative way of allocating resources and not as a simple market agent (Valdaliso and Lopez, 2000).

It is about discovering when the "visible" hand of the entrepreneur as referred to by Chandler, through the company, generates more efficient transaction at lower costs than the "invisible" hand of the market. Or as Williamson (1985) states, the way to allocate jobs more efficiently and respond more flexibly to changes.

There are studies that highlighted the hierarchical levels and the internal management of the business organization. They analyze the main conflicts generated by the separation of company ownership and management, due to the contrast of interests between managers and owners.

Although, there are many meanings regarding the term "company", there is a trend that took hold at the end of the last century which could be summarized as an amalgam between the contingency theory, initially presented by Lawrence and Lorsch (1967).

The basic premise is that the company is an open system with a mixed nature between the social and the technical that is composed of a series of value relationships based on technology and human relations.

The effective organizational structure will require that its design be adjusted appropriately to the contingency factors of the environment.

Finally, within the framework of institutionalism, the company is considered as another organization within the available ones for the allocation of resources. A distinctive organization with a clear objective addressed by third parties, different from their owners.

The company is conceived as an institution in which the operation of resources, their future planning and programming are combined as well as the measurement and analysis of cash flows which allow the organization's continuity.

**The state and development:** The origin of the state goes back to the Middle Ages to the configuration processes suffered by European regions. Machiavelli refers to it for the first time in the Prince, although, he does not clearly define it. Subsequently, Hobbes addressed the issue of the state as a social pact made by men in order to avoid arbitrariness in coexistence. He did not distinguish between ruler and state.

Throughout the so-called Age of Enlightenment, many recognized research made their contributions to the legal-social structure that was being formed and to a large extent what is now known as the state is permeated by their contributions. To understand the state and its scope it is necessary to review it in the light of three theoretical currents, the pluralist-functional, the Marxist and the paradigm of the return to the state.

For the benefit of the analysis, the discussion will focus on the pluralist-functional conception, given that the present reflection is constructed based on it. The pluralist-functional paradigm combines pluralism, democracy and a new vision of the world. In it societies tend to seek equilibrium and therefore, adjustable structures of power arise.

The state is the axis of action with a liberal character which orders and governs the destinies of the people who constitute it. One of the most important premises refers to it as an instrument of the capitalist class to dominate the social order, execute distributive functions that curb the excesses of the individual, regulate conflicts and thus, maintain the reproduction of society. One of its fundamental functions is the regulation of the economic subsystem, carried out through legislation, evolving towards the concept of a welfare state.

The trend of the "welfare state" oriented states around the world, especially, in Latin America during the post-war period (1948) as it became imbricated in Latin American political spheres in the 60's and 70's, during a crisis that would eventually engulf it in the late 80's.

The "welfare state", promulgated by Keynes, fundamentally postulated that the state should actively intervene in the economy and society in order to complement the functioning of the market, guaranteeing a minimum of basic welfare to the whole society. Yet as a result of government's large debts, the international organisms of financing and promotion, created from Bretton Wood, like the International Monetary Fund (IMF) and the World Bank, conditioned their aid to the change of state model, aiming towards a less interventionist state.

With the neoliberal economic model where the power of the market is indisputable to the detriment of state actions an economic tendency called neo-institutionalism arose towards the end of the 20th century. This tendency seeks from the institutionalist postulates, a state participation in benefit of the market.

Institutionalism as an economic current with its own characteristics in development theory emerges as an alternative to the more orthodox neoclassical approaches. The most recalcitrant neoclassicals or neoliberals affirm excellent economic conditions by allowing markets to act freely, guaranteeing property rights and free transit of goods and capitals.

In contrast, institutionalists believe that the market alone does not generate development or welfare. It is necessary for the state, through its institutions to regulate some changes that aside from promoting the market, result in social and economic benefits.

Within the institutional approach, the state plays a crucial role. North and Thomas point out that governments assume the protection and enforcement of property rights because they can do so, at lower costs than private groups that could be organized voluntarily. However, governments, constrained by their fiscal needs can establish certain property rights that hinder growth instead of encouraging it, there are no guarantees that productive institutional arrangements will be those that are established.

**Neo-institutionalism and the state:** To delve into the subject of neo-institutionalism and the state, some conceptual precisions must first be made. The concept of "institutions" takes great relevance and is understood as the norms, rules and customs predominant in the system that includes the social, economic and political scope of a society.

Neo-institutionalism considers that institutions are relevant in system dynamics. Institution in aspects such as property rights, decision making and economic policy, influence the system positively or negatively to the extent that they generate incentives or disincentives.

North (1993), one of its greatest exponents, states that, although, there are other elements such as technology and knowledge that generate development it is the institutions that determine this.

North (1993) admits that available knowledge and technology establish the upper limits of well-being that human beings can achieve but assures that the structure of political and economic organization i.e., institutions is what actually determines not only economic performance but also the rate of growth of the flow of knowledge and technological progress.

Within the proposed by North (1993), there is a theory of the state in which the importance of it as the regulator of property rights and relationships in the system is affirmed.

The model has three essential characteristics. In the first place, the state exchanges basic services-protection and justice for rent. These services have a double objective; to specify the rules of the game that establish the ways of competing and cooperating in society and to reduce transaction costs. There are economies of scale in the provision of these specialized services. Second, the state acts as a monopolist that discriminates against taxpayers and designs different property rights for each group with the purpose of increasing their rents as much as possible. Finally, the state is restricted by the opportunity costs of the taxpayers, since, there are potential rivals to provide this type of services. The rivals are other states or potential rulers of the same state. The monopoly power of the ruler is a function of the supply of substitutes for the various groups of taxpayers.

From what North expressed it can be inferred that the state has a great responsibility in the success or failure of business management in the market, given the power it has in the allocation of resources and determination of obligations.

Hand in hand with the role of the state are formal rules: political and economic norms and contracts. The political rules establish the hierarchical structure of the form of government its basic structure of decision and the explicit characteristics of the government program's control. Economic rules define property rights or the set of rights derived from the sale of a good or service. Contracts contain the specific stipulations of a particular exchange agreement.

In general, the importance offered by institutionalism to the role of the state as generator of economic, political and social rules in society which effectively influence the different spheres of the system is appreciated.

The state is an economic organization but it also generates rules imposed on all. No citizen or organization can escape from belonging to it and therefore, from being

subjected to it. In the model proposed by the neo-institutionalists, the state is conceived as the institutional organization with the greatest capacity to generate and simultaneously set rules and norms in social, political and economic terms as a whole.

Decisions on saving and spending, the allocation of resources on investment, the commitment to a specific activity, financing, subsidies, public spending, the promotion of an event in general, the state has capacity on all aspects of social, economic, political, cultural life, etc.

## **MATERIALS AND METHODS**

**Design:** Based on the proposed objective and considering the degree of depth of the approach to the phenomenon, this research is considered exploratory-descriptive. It is of a bibliographic nature through the analysis of specific literature on the subject.

**Instruments:** The data record form applied to books, articles, bulletins, magazines and newspapers that were used as sources to collect data on the categories of interest was used as an instrument for collecting information. This instrument allowed the registration and identification of sources as well as the collection of data or evidence.

**Procedure:** First, the study problem was detected in order to define the objectives that would allow solving it. Theories regarding the study category were then selected to support the research.

## **RESULTS AND DISCUSSION**

**Huila's economy:** The Department of Huila has historically supported its economy in agricultural activities, except for some failed attempts at industrialization in the 1990's. Agricultural activities such as rice cultivation and in the last decade, fish farming stand out for their contribution to local economy.

Although, lacking the intensity in the application of technology, knowledge and capital resources, the mining of marble became an important resource, largely because it represents the livelihood in the Northwestern area of the department.

All these activities are supported in the Competitiveness Agenda of Huila as productive bets on which local and regional governments have focused their efforts.

**Marble mining:** Marble activity in Huila should be understood as a two-stage process, a first stage which involves the extraction of the rock and another that involves processing, either for obtaining limes and aggregates or for the preparation of remnants and veneers.

The extractive stage dates back to the 1930's when the extraction of rock started in some municipalities in the South and Northwest of the department. Processing is much more recent with records dating back to the 1980's (Andrade and Quintero, 2012).

During a large part of the 20th century, especially, from the 1940-1980's, a series of technical studies by the different state institutions related to mining matters abounded. The studies of the Ingeominas and the Ministry of Mines and Energies stand out. A large part of these studies sought to establish the levels of mineral reserves and carry out mining inventories (Andrade and Quintero, 2012).

Legislation for marble miners is not different from others, all governed by the same mining code. The last code, approved with Law 1382 in 2010 has among its main changes the elimination of small and large mining categories and recognizes only large-scale exploitation with the aggravating circumstance that with only one category, all miners, large and small are equal and consequently, must present the same conditions before the state (Andrade and Quintero, 2012).

Regarding the technological component, due to the nature of the activity, the use of specialized machinery is mandatory which implies a large investment in equipment. However, the fact is that much of the extraction is done with explosives and in an artisanal way.

On the one hand, this situation makes miners when requiring explosives have to resort to Indumil in order to acquire it and the requirements there are extremely rigorous which means that few are approved. On the other hand, the rock obtained has microfractures, rendering it useless for the transformation into retail and veneer (Andrade and Quintero, 2012).

The capital invested is usually taken from family resources after long periods of savings and sometimes, selling goods. In no case known does the money come from state programs of promotion and financing (Andrade and Quintero, 2012).

In relation to the transformation, a large part of the processing companies used out-of-use machinery from companies in other regions, therefore, they are not in optimal conditions. They were purchased with resources obtained from credits in commercial banks (Andrade and Quintero, 2012).

**The agro-industry fish farming:** Fish farming in Huila originated as an artisanal practice towards the 1940's, distinguishing itself as a self-sustaining activity. Only until the 1980's did it emerge according to a commercial logic and a decade later it became a national leader in the production of red tilapia.

The first pilot study at the Betania Dam, the largest water space in a reservoir dedicated to the production of tilapia was financed by the Ministry of Agriculture and Mining in 1993. At the same time they hired the University of Los Andes to carry out a complete feasibility study for the potential production of tilapia in Huila.

Huila is currently a leader in the production of red and silver tilapia and several companies are exporting fillet to the North American market. They also dominate the national market with fillets and whole presentations with a high use of by-products such as loin, burgers, sausages, heads, skin and fish oil. This is a consequence of a good level of technology, especially, in the stage of product processing as a result of the different agreements for tech development by the state through the National Service of Learning (Servicio Nacional de Aprendizaje-SENA) as executing resources.

With the state as financier, scientific studies were developed for the improvement of the management of the ponds on land as well as the implementation of the cold chain for a large part of the fishing companies (Andrade *et al.*, 2012).

Some tax incentives such as the Rural Capitalization Incentive (Incentivo a la Capitalizacion Rural-ICR) become excellent instruments used by fish farmers for the acquisition of equipment. The same happens with the trips sponsored by Proexport with which contacts with buyers were allowed in the United States (Andrade *et al.*, 2012).

Many of the companies are affiliated to Fedeaqua, a trade union organization that actively defends the interests of fish farmers. Likewise, an important number of them are part of Acuapez, denoting the high level of formality in mining activity.

Some fish farmers have held positions of public administration such as ministries of agriculture and mining, strengthening the activity from the management of state institutions.

Regarding legislation, there are no major restrictions or obligations, except for the environmental requirements that must be complied with a situation that indicates certain stability. Concerning capital, access to credit by companies with commercial banks stands out.

## CONCLUSION

The activities studied undoubtedly have a certain relationship despite the contrasts found, to the extent that there is business activity in both. It would be different if they did not fit the ideal type the one proposed by Schumpeter (1978). As it is appreciated, neither the entrepreneurs of the fish farming activity nor the marble miners innovate.

These entrepreneurs do not create new products, open new markets, conquer new sources of supply, new methods of production or new management and organization styles.

Even fish farmers who one might think developed from innovation do not conform to the requirements established by Schumpeter (1978) for everything they implement as novelties was applied previously in other latitudes and even within the country in regions such as Valle del Cauca which was the first region to venture into the activity.

A rigorous analysis might show that these entrepreneurs are closer to the approaches made by Kirzner in the understanding that the businessman from Huila, both fish farming and marble mining, perceived the opportunities in the market and detected an advantageous possibility for their benefit.

The two activities have their genesis in the information available in the market as a result of the technical and feasibility studies previously carried out by public institutions. Therefore, what should be highlighted is the ability shown by entrepreneurs to read the signals of the environment, set up a business and profit from the opportunity.

This implies recognizing the role of the state as the institution with the power to create opportunities in the market for the genesis of economic activities, based on the financing of studies that gather information to be put at the service of private initiative. As North states, the state has the possibility of allocating resources where it considers that they will be more beneficial for society, even, if it does not achieve it in all cases. The analysis on the state does not end there and as neo-institutionalism put it they have the ability to determine business development but can also hinder or simply restrict the growth of a sector.

This may explain the backwardness in which marble mining is found in regards to fish farming, even though the former is much older in the region and implies greater tradition. A highly restrictive legislation towards small and medium-scale miners could be attributed the successive obstacles that afflict the miners of Huila.

The state is able to reorient its rules to benefit a market agent specifically and with the Code of Mines, sanctioned by law 1382 of 2010, to openly choose to promote large-scale mining, to the detriment of small.

The situation of fish farming is totally different where state institutions put a large amount of resources at their disposal in order to achieve technological and knowledge improvements. This experience is far from the technological diagnosis in marble mining. As North states it is the institutions that define the current technology and knowledge and its policies benefit one while condemn the stalemate to the other. ICR incentives for technological modernization which do so much good to fish farming are not equaled for marble miners.

In short, the Colombian State is a generator of business processes as long as it directs its actions towards that end Market failures are not propitiated by the schumpeterian entrepreneur with their innovative processes but rather by the state and taken advantage of by skillful entrepreneurs who detect opportunities.

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