

## **Business in Costa Rica: Trends and Issues**

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*Costa Rica, a Central American country historically known for its coffee and banana exports, has a growing industry based on technology and ecotourism. While the country has enjoyed a steady increase in tourists largely from the United States, Nicaragua and Canada, U.S. companies have also discovered Costa Rica as a country with emerging opportunities. With United States businesses increasingly opening operations in Costa Rica, there are management concerns to plan for when conducting business in Costa Rica. This paper will explore practical issues for companies or individuals when opening a business or locating a branch operation in Costa Rica.*

### **INTRODUCTION**

The Republic of Costa Rica is a Central American country bordered by Nicaragua to the north and Panama to the south. It lies between the Caribbean Sea and Pacific Ocean. Costa Ricans, or *Ticos*, as they call themselves, have the highest standard of living in Central America with purchasing power per capita income of about \$11,500 U.S. (U.S. Department of State, 2012). Costa Ricans also have a life expectancy that is higher than the U.S. (Firestone, Miranda, & Soriano, 2010). There are several possible reasons for this. Costa Rica is a country without a military, primary education is free and compulsory, the health care system is universal and Ticos are said to lead a generally stress-free life (Firestone, Miranda, & Soriano, 2010).

Costa Rica was historically known for its coffee and bananas, but pineapples have surpassed coffee as the number two agricultural export (U.S. Department of State, 2012). The number one export is microchips and due largely to Intel's microprocessor facility near San Jose. This accounts for almost 20% of all exports and 4.9% of Costa Rica's gross national product (GlobeAware, 2010). With their high literacy rate of 95% (Central Intelligence Agency, 2012), political and social stability, high quality of life, and low levels of corruption (Rodriguez-Clare, 2001), businesses may find it attractive to locate here. Additionally, Costa Rica's nature and wildlife is extensive, so businesses related to ecotourism and the environment have a growing tourist market.

### **CULTURE AND DEMOGRAPHICS**

Costa Rica has a population of around 4.6 million people (Central Intelligence Agency, 2012) with about 1.4 million people living in the capital city of San Jose. Of this population, 98% classify themselves as white or mestizo, which is a mix of Spanish and African roots, and 2% as black or indigenous (GlobeAware, 2010). While Spanish is the official language, English is frequently spoken, particularly in the resort areas and larger cities.

Most Costa Ricans, 76%, are of the Roman Catholic Religion (Central Intelligence Agency, 2012) and conservative with traditional roles for men and women (GlobeAware, 2010). Women and blacks were given the right to vote in 1949, the same year the army was dismantled, giving Costa Rica the distinction of the only country that does not have an army (GlobeAware, 2010).

## **FOREIGN INVESTMENT**

Costa Rica's investment climate is considered favorable, leading to high foreign direct investment that is actively sought and led by two Costa Rican agencies, the Foreign Trade Promotion Corporation (PROCOMER) and the Costa Rican Investment and Development Board (CINDE; U.S. Department of State, 2011). In terms of ease of doing business, Costa Rica's economy is ranked 110 on an index from 1 to 185 (World Bank, 2012). A high ranking, with one being the highest, on the ease of doing business index, means the regulatory environment is more conducive to the starting and operation of a local firm.

During the last 20 years, a growing number of multinational companies have established manufacturing plants in the country, leading to the development of a technology and knowledge-driven industry (Rodriguez-Clare, 2001). In 1995, U.S. based company, Ameritage Carrying Case, established a second production facility offshore in Costa Rica rather than in Asia, based on the Central American nation's skilled workforce, English language knowledge, geographical proximity and time zone alignment with the North American market and stable political environment (Music Trades, 2011). Other manufacturing facilities include electronic sector companies such as Intel, Hewlett Packard, IBM, Remec, Conair, and Sensortronics, and medical devices sector companies Abbott and Baxter.

Much of the shift in the country's main exports from agriculture to microprocessors is the result of Intel's decision in 1996 to build a major manufacturing plant in Costa Rica. Intel's initial investment of \$300 million put Costa Rica on the map as an attractive location for other technology firms (Nelson, 2008). The attraction of Intel to Costa Rica was largely due to then Costa Rican President Jose Maria Figueres' concentrated efforts to incorporate Costa Rica into the global economy by attracting high-technology investment (Nelson, 2008). This investment has become a well-known example of a "best practice" to follow in attracting foreign direct investment (FDI) to promote national development. After Intel's initial investment, other investors from nontraditional sectors, such as medical devices, were also attracted to Costa Rica (Nelson, 2008).

Costa Rican exports continue to show positive growth. In November 2012, exports increased to \$10.4 billion from \$9.7 billion in 2011, representing an 8.2% increase (Arias, 2012). This increase exceeded the annual goal by over 7%. While the majority of exports go to the U.S. - 38.9% - exports to the European Free Trade Association (EFTA) and European Union (EU) are increasing. Exports to EFTA increased by 95.2% and exports to the EU increased by 8.7%. The increase of exports to EFTA is in agriculture and medical devices but exports to the EU are fueled by growth in products like integrated circuits (Arias, 2012).

Although the exports of products have increased, the Costa Rican economy is undergoing a profound and rapid transformation in which services are playing an increasing key role (Gonzalez, 2012). Exports of services such as finance, information technology development and support and customer service have more than doubled in the past decade representing 32% of total exports in 2011 (Gonzalez, 2012).

The FDI in the services sector, has grown each year on average 6.5%, and increased from 27.2% in 2000, to 54.4% in 2011 (Gonzalez, 2012). Some of this increase is attributed to multinational companies such as Amazon, IBM, and Proctor and Gamble (Gonzalez, 2012). Increasingly, India is locating service operations in Costa Rica in the information management and knowledge management areas.

Costa Rica has exceeded a record for the third year in a row in high technology FDI. Forty new high technology investment projects decided to establish operations in Costa Rica in services, life sciences, advanced manufacturing and clean technology sectors (Costa Rican Investment Promotion Agency, 2012). The 2012 figures show a new record for Costa Rica and represent over a 17% increase in FDI from 2011 (Costa Rican Investment Promotion Agency, 2012).

## ECOTOURISM

Ecotourism, defined as “tourism intended to promote ecological awareness and to limit damage to the environment” (Agnes, et.al., 2002), started in Costa Rica in the 1980’s and boomed in the 1990’s. During this time, Costa Rica gained a reputation as an ecotourism destination. In 1999, Costa Rica had 940,000 tourists annually and by 2011, that number rose and broke a record of 2.2 million visitors annually mostly from the U.S., Nicaragua and Canada (Costa Rica Tourism Board, 2011; Norman, 2011). While the ecotourism or sustainable tourism industry has provided needed jobs and income for many Costa Ricans, it also has some disadvantages, such as increasing the numbers of tourists, which leads to more building, and development of infrastructure. More building and development can lead to the destruction of important habitats for wildlife and fauna. Additionally, Costa Rica must fund more personnel to enforce laws that exist to protect the environment. As the reputation as an ecotourism destination grew, the country had a reason to preserve their forests and began instituting laws and regulations to protect wildlife.

Costa Rica is considered a leader among Latin American countries in the design and development of a system of payment for environmental services (Russo & Candela, 2006). Costa Rica provides financial compensation to landowners for the ecosystem services provided by their forested lands. The payment for environmental services (PES) program started in 1996, and has received credit for helping to reverse the country’s deforestation rate and for enhancing Costa Rica’s image as a green country (Johns, 2012). Since 1997, the PES program has been providing payments to more than 4,400 farmers and forest owners for reforestation, forest conservation, and sustainable forest management activities (Russo & Candela, 2006).

At one time, Costa Rica had one of the highest deforestation rates in the world (Johns, 2012). Land was cleared for agricultural and cattle ranching and other areas of development. This rampant development is the focus of the well-known novel, *La Loca de Gandoca*, or *The Madwoman of Gandoca* (Rossi, 1992/2006). In this fiction story, based on an actual case, the main character narrates the events that led to an environmental and legal case in which residents of a remote place in Limon the Caribbean province in Costa Rica, try to save a wildlife refuge from commercialization and eventual destruction.

The destruction of the refuge for tourist and residential development, was heavily criticized by some for uncontrolled development. Since that time, multinational companies in the tourism and hospitality industry have located in Costa Rica and have found it beneficial to publicize and promote efforts to be socially responsible (U.S. Department of State, 2011). Even companies outside of the tourism area such as U.S.-based multinational Intel, pursue efforts to be socially responsible. Intel was a finalist for the U.S. State Department’s Award for Corporate Excellence in 2009 and 2010 because of its outstanding corporate social responsibility program in Costa Rica (U.S. Department of State, 2011).

Marriot Corporation, a Fortune 1000 company, currently has six properties in Costa Rica. Marriott seeks to “take responsibility for the environmental impact of our business operations” (Marriott, 2012, “Environment”) by focusing on five key elements of environmental responsibility; (1) energy, water, waste and carbon, (2) supply chain, (3) green hotels, (4) engaging guests and associates, and (5) conservation. The location in Los Suenos, Costa Rica is known for its sustainable practices. Some environmental initiatives at the location include; bar soap that is discarded in the guest rooms is donated to a local tour company to wash horses, the golf course has trees that are designed to be environmentally friendly, and the hotel associates weekly participate in beach cleaning (Marriott, n.d.).

Boutique hotels and resort hotels also publicize and promote their socially responsible practices. Family-owned hotel, El Establo, located in the cloud forest of Monteverde, has a commitment to the environment and sustainable responsible practices. The property participates in certification for sustainable tourism (CST) that measures a property’s impact on one or more of the following; environment, community, cultural-heritage, or the local economy (Certification for Sustainable Tourism, 2012). At El Establo, when entering and exiting a guest room, electricity is turned on and off with the door key. In order to lock a guest room door, a key must be removed from a panel on the wall, which will automatically turn off all lights in the guest room.

The CST program was developed by the Sustainability Programs Department of the Costa Rica Tourist Board and the Costa Rica National Accreditation Commission and designed to differentiate businesses of the tourism sector. The program is regulated by the Costa Rican National Accreditation Commission (Certification for Sustainable Tourism, 2012).

## **MANAGEMENT ISSUES**

In a relatively short period of time, Costa Rica has established a reputation as a global provider of information and communication technology products and services (Mata, Matarrita, & Pinto, 2012). The growth in this industry has led to a growing demand and shortage of Costa Ricans that are qualified to work in the country's computer industries. Mata, Matarrita, & Pinto (2012) found that the growth for occupations in the industry is high and there are more positions available than employees to fill them.

With more U.S. multinational companies considering Costa Rica as an area to establish operations, issues for training U.S. employees to go abroad should be a priority. Today's business climate is one of fierce competition. Employees of large, global and multifunction organizations as well as small businesses are faced with increasing professional workloads and risks brought on in part by globalization (DeLong, Gabarro, & Lees, 2008).

When establishing an operation in another country, companies should consider preparing an employee for the transfer by first determining their existing global and cultural awareness, preparing them for the specific country assignment through language training, explaining practical information on the country such as expected living conditions, housing, mail, transportation, electricity, and technology issues, and perhaps one of the most significant job-related issues is to pair them with a global mentor, an individual already living in the country who can assist the employee with the informal and formal needs of the job in order to increase the chances of success for the expatriate.

Between 16 and 40% of U.S. international workers fail to complete their international assignments (Human Capital Institute, 2006). Of those who do complete the assignments, between 30 and 50% are considered ineffective or marginally effective. Current estimates show U.S. companies spend approximately \$2 billion per year related to failed or ineffective overseas workers (Human Capital Institute, 2006).

## **GLOBAL AWARENESS**

Corporations understand that to survive in today's competitive business environment, they must move in the global marketplace and prepare their managers for international assignments (Swain, 2007). In addition to managers having an understanding of the possible language differences; daily living conditions, such as transportation, technology and housing, managers must have global capabilities with a global mindset to be effective (Swain, 2007). Javidan, Teagarden, & Bowen (2010) found that global leaders need a global mindset to succeed overseas. This mindset comprises three areas of capital; intellectual, psychological and social. The intellectual capital comprises the general knowledge and capacity to learn, it is the global business savvy, cognitive complexity, and cosmopolitan outlook. The psychological capital is a manager's openness to differences and capacity for change, it includes a passion for diversity, thirst for adventure, and self-assurance. The social capital is the ability to build trusting relationships with and among people who are different from you. This is the intercultural empathy, interpersonal impact, and diplomacy of an individual (Javidan, Teagarden, & Bowen, 2010).

### **Global Mentoring**

Global mentoring programs are becoming more important as workers are asked to take international assignments (Human Capital Institute, 2006). Mentoring can be a very effective performance intervention to use with employees (Horvath, Wasko, & Bradley, 2008; Kahle-Piasecki, 2011; Kram, 1985; Murray, 2006; Nancherla, 2008). In a survey of Fortune 1000 firms, Kahle-Piasecki (2011) found that mentoring programs are increasingly offered in companies as a way to transfer knowledge and develop future

leaders. One new form of mentoring that could be useful for a business in today's climate of global competitiveness is electronic or e-mentoring. Although Kahle-Piasecki (2011) found that only a small number of Fortune 1000 companies are using e-mentoring, with the increasing importance of technology in the workplace including social networks, online collaboration and mobile applications, global e-mentoring could be very significant in developing a successful transition for a foreign assignment. Global e-mentoring can be defined as the virtual pairing of a more experienced individual with a less experienced individual in a relationship that crosses cultural and geographic boundaries and is formed and maintained initially through the use of digital tools. For this purpose, global e-mentoring can pair a potential expatriate, the mentee or less-experienced individual, with a more experienced individual who is an established resident of the future country – the mentor.

In order for this type of relationship to be effective, mentors need to possess a very good understanding of the local culture (Elkin & Elkin, 2008). Also, the key to success in a mentoring program is the monitoring and programming elements (Doles, 2008). Assigning a manager to facilitate, monitor and evaluate the program will help develop and maintain the relationship (Cole, 2004).

## CONCLUSION

Costa Rica is a country that has growing opportunities for FDI specifically in the areas of technology and ecotourism. During the last several decades, U.S. technology, electronic, and medical service companies as well as other countries and industries have begun establishing operations in Costa Rica. This has resulted in a shortage of Costa Rican workers with the necessary knowledge and skills to work in the technology industry (Mata, Matarrita, & Pinto, 2012). With the recent location of U.S. companies in the country, managers should consider training planned expatriates to work abroad by developing and encouraging a global awareness and pairing the employee with a mentor who is a resident in the future country assignment. The training of future expatriates to have a global awareness by pairing them with a global e-mentor, for example, will result in lower costs of sending employees abroad, higher performance productivity, and more effective business operations.

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