Latin America's Subtle Racism: Salient Managerial Implications For Non-Latin American Managers

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ABSTRACT

Since the mid nineteen nineties most Latin American nations have implemented free market policies. The ensuing economic stability has attracted investment from non-Latin corporations, thereby causing the transfer of non-Latin executives to Latin nations. For many of these executives, their Latin assignments include an unexpected challenge: Dealing with Latin America's subtle but pervasive racism. Such racism contributes to the mistreatment of labor and influences the promotion and hiring of executives. These behaviors, although unapologetically accepted in Latin America, hurt productivity. Non-Latin managers should, therefore, treat workers fairly and hire and promote executives based exclusively upon job related factors.

Keywords: racial appearance; racial discrimination; European appearance; nepotism; oligopolies and monopolies

INTRODUCTION

During the early and mid nineteen nineties most Latin American countries began implementing the so called Neoliberal economic model; a model that consists of economic policies and legal reforms that promote free markets. So far, the scope and enforcement of the free market policies implemented, as well as the success of the model, have been quite modest. Nonetheless, the openness, low inflation and economic stability caused by the Neoliberal model has attracted to this region unprecedented levels of investment from the European Union, Canada, the USA, Japan, Korea, and even China and India (Economic Commission for Latin America and the Caribbean, ECLAC, 2006; Haber 2009 and Kay 2003).

The investment from non-Latin corporations has been accompanied, and will continue to be accompanied, by the transfer of non-Latin American executives to Latin nations. For many of these executives, their Latin assignment will add to their normal jobs as executives the extra task of learning how to efficiently operate in a business environment characterized by high levels of government corruption, unquestioned nepotism in domestic firms, very paternalistic labor laws, high corporate taxes, inadequate infrastructures, and domestic consumer markets dominated by monopolies and oligopolies. Their exposure to the Latin American business culture will probably start with training courses and will intensify when the non-Latin executives start to interact with individuals and organizations in Latin countries. Through this interaction, many of these non-Latin American executives would run across a peculiarity of Latin societies that is very rarely, if ever, mentioned in training courses about Latin America, namely: a subtle but very pervasive racism.

One of the most obvious signs of this racism is the overt preference for the European physical features, especially white skin. This preference is openly displayed by the almost exclusive use of models of European appearance in TV commercials, printed ads and ads in the internet. Far less visible, but still an important part of this subtle racism, is the firmly held conviction by many whites and by many individuals of mixed racial ancestry, Mestizos and Mulattos who pass as whites, that the dark-skinned are indolent, unattractive and of limited intellectual capacity, *i.e.*, naturally inferior. This conviction is, of course, not expressed in public forums. Nonetheless, this is a conviction that non-Latin executives will hear, unapologetically expressed, in conversations about race with whites and with individuals who pass as whites (Dulitzky 2008, p.18; Monsivais 2005; and Wagley 1994).

Despite being subtle and non-violent, the racism of Latin societies deeply affects their cultures; therefore, it will affect the professional and social life of the non-Latin executives. In this essay, however, the discussion focuses exclusively on three behaviors in the area of human resource management that this racism helps to generate. These behaviors are: systematic mistreatment of the labor force, excessive influence of racial appearance in the hiring and promotion of executives, and open animosity towards dark-skinned American Hispanic executives who have been transferred to Latin America. The first two behaviors are common in the domestic economic sectors of the Latin nations. The third behavior is found mostly in Mexico, where many American, European and Japanese corporations have established assembling and manufacturing facilities as a result of implementation of the North American Free Trade Agreement, NAFTA, in 1994.

The wide acceptance of these behaviors in the domestic sectors of the Latin nations induces non-Latin American managers to also adopt these behaviors. By doing this, the non-Latin executives are following the old adage "when in Rome do as the Romans". However, in this essay it is argued that doing so hurts productivity and contributes to worsening the bad reputation that multinational corporations tend to have in Latin countries. Therefore, it is also argued that non-Latin managers will be more efficient in their assignments if they treat the labor force fairly, select and promote executives based exclusively upon job related factors, and are unusually careful when appointing an American Hispanic to a high ranking position in Latin America.

TRADITIONAL MISTREATMENT OF THE DARK-SKINNED LABOR FORCE

In their training courses or in their first weeks in their assignments, non-Latin executives will learn that the adoption of free market policies does not include the liberalization of labor laws. For in all the Latin nations, labor laws require employers to pay high social security taxes, making it very difficult to lay-off of workers, mandate high severance payments, require safe working environments, and impose expensive benefits as part of the salaries. A primary objective of these laws is to set adequate wages and protect the rights of the worker. However, as non-Latin executives will rapidly discover, wages are very low across the economy, in many Latin firms the working conditions are bad or even deplorable, and severance payments are often partially paid or not paid at all.

Also in their training courses or in their first weeks in their assignment, non-Latin executives will learn that owners and executives of large and middle size Latin American companies tend to have university degrees. Furthermore, the non-Latin executives will find out that in the large Latin countries like Colombia, Peru and Mexico, a good number of owners and executives of Latin companies have graduate business degrees from top American and European universities. This means that owners and managers of large and middle size Latin companies are well acquainted with modern management techniques. Nonetheless, as non-Latin executives will rapidly realize, the dominant management styles in Latin America are authoritarian: communication flows from top to bottom, workers have no decision-making authority, and they are treated as cheap parts of the production process (Elvira and Davila 2005, p.11).

The arguments expressed in the preceding two paragraphs indicate that, despite the presence of protective labor laws and of cadres of well educated managers, employers treat the labor force harshly. If the non-Latin executives inquire what causes this treatment, they will be told that low wages and violations of the labor laws are the result of the combination of perennially high unemployment with the firms' search for profits; while the authoritarian management style is, in Hofestede's terminology, the result of the high power distance that characterizes Latin American societies (Elvira and Davila 2005, p 4).

Given that the owners of large and middle-size Latin firms tend to be white or pass as white, while the vast majority of the workers are dark-skinned, and given the racist conviction and overt preference for the European appearance mentioned before, some non-Latin executives might inquire if racism has something to do with the observed harsh treatment of the labor force. The response to this inquire will be a categorical "no".

This response is, however, incongruent with the very noticeable direct correlation between European appearance and wealth. This correlation is present in all the Latin nations where the dark-skinned are the majority and it is visible in rural and urban areas, in the public and private sectors, and across occupations (Nevaer, 1995; Skidmore, 1990; Stavengahen, 1994 and Wagley 1994). If the non-Latin executives ask about this racial hierarchy, they will be told that it is nothing more than a residual of the colonial past. However, after almost 200 years of independence and many decades of having given the dark-skinned access to university education, it is naive to assert that the marked correlation between European appearance and income is nothing else than a residue of the colonial past.

Additional evidence supporting the proposition that race plays a role in the treatment of workers comes from Bolivia, Ecuador, Guatemala, Mexico and Peru. In these countries 30% to 70% of the population is Indian (Native American) and the Indian past is officially revered. Yet, in a study covering the decade of 1994 to 2004 it was found that Indians in these nations were consistently, economically and socially, discriminated against (Hall, G. & Patrinos, H. 2005). More recently, in 2007, in Mexico's export-of-manufactures sector it was found that, across jobs, Indians workers were systematically paid less than individuals of racially mixed ancestry. This finding is quite relevant because this sector generates close to 20% of Mexico's GDP (Banco de Mexico 2007, and Borraz and Lopez-Cordova 2007). Finally, in countries where the majority of the dark-skinned are of African ancestry, like Brazil and Venezuela, economic and social discrimination against these individuals is common, but as in the nations with large Indian populations, the existence of such discrimination is adamantly denied (Dulitzki 2008, pp. 1 - 4).

The evidence discussed in the previous two paragraphs indicates that, despite strong denials, racism contributes to the mistreatment of workers who are Indian, African, or of mixed racial ancestry but with dominant Indian or African features. Hence, if non-Latin executives decide to increase the profits of their operations by treating their workers harshly, they will just be doing what is economically justifiable and socially expected in Latin societies. This conclusion, although appealing, is wrong.

By treating the dark-skinned harshly, the non-Latin executives would obtain what many Latin employers say they obtain from their labor forces: low productivity, shoddy work, frequent absenteeism, and lack of interest in high quality work. These negative characteristics should not be surprising since attitudes towards work and the treatment that workers receive, including their pay, are directly correlated. This is a passive-aggressive behavior on the part of the workers who are quite aware that their economic and legal position is not strong enough to confront their employers (Elvira and Davila 2005, p.8).

Fair treatment of labor could start with the policy of paying a little more than what the market establishes, especially to the workers in the bottom rug who would doubtless be Indian or black or of mixed racial ancestry but with predominant Indian or African features. This sounds economically inefficient, but considering that labor markets in Latin countries set wages at low or very low levels, paying a little above market rates is not an expensive proposition. This can be illustrated by comparing the average wage in Mexico's manufacturing sector, the highest industrial wage in Latin America, with the average wage for non-skilled workers in the service sector of the USA, the lowest average wage in the USA. In 2008 in Mexico's manufacturing sector, the average wage was $2.65 per hour, while the non-skilled average wage in the USA was $8.50 per hour. (Instituto Nacional de Estadística, Geografía e Informática, INEGI 2009 and Department of Labor 2009). If the wage of $2.65 is increased to $3, a 13% increase, the highest wage paid in Latin America would still be less than 1/3 the wage paid to non-skilled service workers in the USA.

Despite being an inexpensive policy, paying wages that are a little above market level is a policy that, from a microeconomic perspective, unnecessarily increases the cost of labor. This increase, however, may be off-set by boosts in labor productivity. This boost would result from the better attitude that higher-paid workers have towards their work.

Using democratic forms of management is a second, but equally important, policy in the fair treatment of the labor force. This policy, for many Latin employers, would be unreasonable because, from their perspective, the attitudes and poor education of the labor force require that workers be very closely supervised (Elvira and Davila 2005, pp. 8-11). This view of the labor force has, however, a racial component. As mentioned before, the dark-skinned are seen by many whites as naturally inferior. This view clashes with the participative management styles which do not treat the workers, the dark-skinned, as inferior participants in the production process. Hence, by using democratic management styles, the non-Latin executives would be going against what tradition in Latin America demands.

Despite going against tradition, there is empirical evidence in favor of democratic management techniques. This evidence comes from Mexico's export-of-manufactures. Several non-Mexican firms in this sector have implemented the use of quality circles, empowerment of the workers, and two-way communication between workers and management. These companies obtained increases in productivity, reduced the turnover rate among workers and reduced the number of expatriates in managerial positions (Sargent and Mathews 1998).

Besides gains in productivity, treating the labor force fairly has the extra benefit of improving the image of multinational corporations. This improvement is not to be considered of little or no relevance, since there are at least three reasons that show the importance of this improvement. First, in the past, due to corporate behaviors that failed to consider the rights of workers and the environment, multinational corporations tend to have a bad reputation in many Latin American nations. Second, fair treatment of the labor force would attract workers with the best disposition to work, which in turn would result in the development of a more capable and dependable labor force. Third, most multinational corporations come from the USA, Japan, the EU and Canada, all countries where populations are barely growing, where the labor forces are rapidly aging and where consumer markets are reaching saturation. Latin American nations offer populations that will continue to grow, albeit slowly, in the foreseeable future; a young labor force eager to improve their economic lot, and growing consumer markets. In short, treating the labor forces of these countries fairly is likely to improve the image of multinational corporations, and hence, facilitate the access of the corporations to the growing labor forces and consumer markets of the Latin nations.

EXCESSIVE INFLUENCE OF RACIAL APPEARANCE IN THE SELECTION AND PROMOTION OF EXECUTIVES

Among Latin American decision-makers there is a positive or direct correlation between European appearance and rank. This racial hierarchy, although more pronounced in the larger Latin firms, it is also present in the Latin subsidiaries of multinational corporations and in the upper echelons of the main agencies of federal governments. One peculiarity of this racial hierarchy is that the decision-makers, in the public and private sectors, have university degrees. If non-Latin executives would ask about the causes of the racial hierarchy among university educated individuals, the most common answer will be that graduates of private universities, where the wealthy are educated, are better prepared for work than graduates of public universities, where the dark-skinned are educated; that is, the cause of the racial hierarchy among decision-makers is the better education offered by private universities.

Attributing the racial hierarchy among executives to the better academics of private universities is based upon a fact and upon a widely accepted assumption. The fact is that in the public universities most students are dark-skinned, while in the expensive and presumably best universities, the majority of the students are white or pass as white. The assumption is that the superiority of private over public education goes from the elementary to the university level. This assumption is, in general, valid at the elementary and intermediate levels. At the university level, however, this assumption is not valid. Four facts point in this direction. First, if private universities were unequivocally better than their pubic counterparts, there would be private Latin American universities ahead of Latin American public universities in the international rankings of universities. Yet, this does not happen. In international classifications, not a single private Latin university makes it to the top 200 universities, while in some classifications, Mexico's main state university, the UNAM, and the Universidade de Sao Paulo, one of Brazil's main state universities, are usually ranked between the 80^{th} and the 100^{th} place. Second, the faculties of the great majority of private universities, including the ones considered elite, are formed by adjunct professors who lack advanced degrees, work full time outside of academia, and teach one or two classes per semester to supplement their incomes. This contrasts with the science and engineering faculties of the main state universities, where full time professors with advanced degrees are common (THES 2006 and Social Capital 2008). Third, there are graduates of the state universities in the upper echelons of the executive ranks of Lain America. These graduates tend to be of European appearance or at least have some European features. On the other hand, dark-skinned graduates of private universities are very rarely seen in the upper echelons of the Latin executive ranks. Fourth, some of the most expensive private schools are classified as elite universities because their students come exclusively from the wealthy classes, not because their academics are particularly good (Instituto Panamericano de Alta Dirección de Empresa, IPADE, 2009). Thus, if the private universities are not really academically superior to the public universities, it is incorrect to state that the graduates of private universities are academically better prepared for work than the graduates of public universities.

Nepotism is likely to be the second most common answer that non-Latin executives would receive to their question concerning the racial hierarchy among Latin decision-makers. Nepotism is pervasive in the Latin business culture because the family firm is, by far, the most common type of business organization in the domestic private sectors of the Latin nations. From the 18 Latin conglomerates whose stock is traded in the New York Stock Exchange to small firms, and regardless of what their legal organization is on paper, Latin companies tend to be family firms (Latin Business Chronic 2006). However, the firms where nepotism could explain the racial hierarchy among their executives are middle to small firms owned by families who are either white or have several members who pass as white. In government agencies, the Latin subsidiaries of multinational corporations and in the large Latin firms, nepotism cannot explain the presence of the racial hierarchy in the executive ranks. In government agencies and in the Latin subsidiaries of multinational corporations, internal regulations tend to preclude nepotism; while in the large Latin firms, the families who own these firms may have enough family members to staff the board of directors and the most important executive positions in their companies, but these families do not have enough members to fill all the high ranking positions of their firms.

So, neither nepotism nor the presumed superiority of private education can explain the racial hierarchy among Latin decision-makers. On the other hand, the already mentioned overt preference for the European appearance and the conviction held by many whites that the dark-skinned are inferior fit well in this hierarchy. This preference and this conviction constitute a socially valid motive for favoring European appearance in the selection and promotion of decision-makers. For this motive to effectively contribute to the observed racial hierarchy among decision-makers, employers have to operate in a medium where they can exercise their preference for the European appearance without adverse economic results.

This medium is provided by the economic and political environments of the Latin nations. Despite the adoption of free market policies, monopolies and oligopolies still dominate consumer markets; labor surpluses continue to plague all the professions, and a true meritocracy has yet to develop in the executive ranks of the private sectors of the Latin nations. Also, despite the advances of democracy in most Latin nations, Latin citizens continue to accept corruption and ineptitude in government agencies (The Heritage Foundation 2007 and Transparency International 2006). In these economic and political environments, employers are at liberty to use non-job related factors, such as racial appearance, when they select and promote decision-makers. Furthermore, in the annex to this paper, microeconomic theory is used to argue that in the economic environments of the Latin nations, employers act rationally when they consider racial appearance in the promotion and selection of decision-makers.

Hence, if non-Latin executives favor individuals of European appearance in the formation of their executive staff, they will be doing what is expected and considered rational. The non-Latin executives will, however, find out that, congruent with the correlation between European appearance and economic position, the decision-makers who have a European appearance tend to command higher salaries than their dark-skinned counterparts. This salary differential, the non-Latin executives are likely to hear, is rooted in the university education received: the individuals with European appearance tend to have graduated from private universities, while the dark-skinned are graduates of public universities. But as discussed before, the superiority of the private universities is an invalid assumption, not a fact. Thus, by considering racial appearance in their staffing decisions, the non-Latin executives would be paying, like their Latin colleagues, for a factor that pleases the upper echelons of society but that cannot be listed as a required attribute or skill in any job description, because it does not enhance the technical skills, know-how or vision of a decision-maker. Racial appearance may, however, affect the decision-maker's attitude towards work.

As mentioned several times before, in Latin societies there is a direct correlation between European appearance and socioeconomic position. This suggests that to make it to the executive ranks, the dark-skinned have to make greater efforts, professional and educational, than whites and those who pass as whites. The greater efforts of the dark-skinned executives do not make their job-related skills better than those of their white counterparts, but these greater efforts reveal a greater willingness to work on the part of the dark-skinned. That is, if dark-skinned executives want to progress, they must have a better attitude towards work than executives who have the advantage of having European appearance. This superior attitude is something that the non-Latin executives must consider as an important factor, especially in situations where the executive to promote or to hire will be interacting with the dark-skinned labor force, which will be the case in executive positions in assembling or manufacturing plants. White Latin executives may not openly disdain this kind of work, but the racist convictions that many of them hold negatively affect their interactions with the dark-skinned workforce.

White Latin executives with racist convictions tend to have, on the other hand, good connections in government and business because they come from the upper classes. These executives have, therefore, an important edge over their dark-skinned counterparts who normally come from the working classes, since connections are indeed valuable in the business environments of the Latin countries. However, in every major Latin city there are prestigious law offices that the non-Latin executives can hire to do the networking that a well connected executive could do. That is, the presumed connections that an individual from the upper classes is supposed to have can be obtained by hiring, on a temporary basis, firms that have well developed networks in the private and public sectors. Therefore, there is no need to have an executive on the payroll whose main contribution is the connections that she/he has because of her/his privileged position.

Expected changes in economic conditions provide additional reasons for ignoring racial appearance in the formation of executive teams. As the Latin nations continue their slow but steady economic progress and implementation of free market policies, two major economic changes will, sooner or later, occur: competition will intensify in most consumer markets, and the economic power of the dark-skinned as consumers and workers will certainly increase. Hence, non-Latin executives who plan to form executive teams for the long-run, must give more importance to job-related skills and to the ability to relate to the dark-skinned, than to European appearance in the selection of individuals who will form part of these executive teams.

Appointing of Hispanic Executives to High Ranking Positions in Latin America

For European, Japanese, Indian and Chinese firms that already have subsidiaries operating in the USA and for American firms, selecting Hispanic executives for positions in their Latin American subsidiaries may appear to be advantageous. Hispanics executives, especially those whose parents came from Latin America tend to strongly identify with the Latin culture, are fluent in Spanish and tend to consider an assignment in Latin America as a very good professional opportunity. Hispanic executives should, however, be aware that if they are Mestizo, Mulatto or Indian, that is, dark-skinned, they are very likely to encounter unfriendly attitudes in Latin America.

As mentioned before, wealth is concentrated in the hands of whites in Latin America. Hence, white Latin Americans prevail in the professional and social environment where the Hispanic executives will operate. Given the racist convictions commonly held by Latin American whites, a Hispanic executive who is a Mestizo, Mulatto or Indian will be seen as an individual who owes his or her economic progress to the migration of his or her parents to the USA, but who is still racially inferior.

An example of how many Latin American whites see Hispanics is given by the way the Cuban community in the USA sees the rest of the Hispanic community. The great majority of Cubans and their descendants living in the USA are white. Members of this community have unapologetically and openly expressed that, although they have cultural and linguistic ties with the broader Hispanic segment of American society, they do not identify with this segment because they work harder, are more educated and are much better at learning English than the Hispanics. That is, Cubans despise the dark-skinned segment of the Hispanic population because Cubans are convinced that they are inherently superior to dark-skinned Hispanics (Davila, 2000).

Being seen as racially inferior is likely to affect the performance, at least initially, of the Hispanic executives. Firstly, because these executives, like most Latin Americans, tend to be convinced that racism does not exist in the Latin societies. Thus, the racism that they will encounter will come as a very unpleasant surprise. Secondly, because, professionally and socially, the Hispanic executives will be kept at a distance from the networks of entrepreneurs and high ranking executives who lead the private sector.

To overcome these obstacles, Hispanic executives need to have, first of all, solid professional expertise. This clearly transmits the message that they were sent to their assignments because they are professionally qualified, not because they speak Spanish and are supposed to know the Latin culture. Being emotionally resilient and proud of their Indian or African heritage will also help the Hispanic executives to overcome the barriers they will encounter because of their race. Finally, it may also help them to be willing to learn the causes of racism in Latin America and why its existence is adamantly denied by most Latin Americans.

CONCLUSIONS

The subtle racism of whites, and individuals who pass as white, surprises most non-Latin executives. However, these executives tend to be even more surprised by Latin Americans denial, often adamant, that racism exists in Latin societies. This denial, non-Latin executives will notice, is somewhat justified because the primary cause of the exploitation of labor is persistent high unemployment, not racism. Nonetheless, non-Latin executives will also notice that this racism encourages and makes it socially acceptable to exploit and mistreat the dark-skinned labor force. Thus, if non-Latin executives pay the very low wages that labor markets establish, treat workers harshly and consider European appearance an important executive attribute, the non-Latin executives will be treating their labor forces in the socially acceptable manner.

If non-Latin executives are, however, thinking about the long-run perspectives for their companies in Latin America, it will not be advisable for them to follow the socially accepted racist practices in the management of their labor forces. As the slow but steady economic and social progress of Latin nations continues, competition will intensify in consumer markets and the dark-skinned majorities will become more assertive. In this slowly forming new environment, the survival and progress of companies will require having labor forces that are efficient and have positive attitudes towards work. To recruit the workers and executives that can form this kind of labor force, non-Latin executives will have to implement human resource policies that treat the labor force with respect and dignity; which means, policies that ignore the conviction that the dark-skinned are naturally inferior.

By adopting policies that dismiss the racist convictions of the white segments of Latin societies, non-Latin executives will be showing appreciation for the labor force. By doing this, non-Latin executives will be solidly contributing to the economic development of Latin America because, even if the white segments of Lain societies do not accept it, the main resource that the Latin nations have is their labor.

ANNEX

Employers, it is realistic to assume, derive utility from their professional and social interactions with their executives. Thus, employers will promote and select the executives whose attributes generate the highest possible utility for them. In environments where competition in consumer markets is strong and where salaries are set by labor markets where unemployment is marginal, the professional skills of the executives is the only attribute that employers consider in deciding whom to hire and whom to promote. In terms of utility theory the arguments just expressed can be represented by:

$$U = f(S) \tag{1}$$

where U is the utility employers derive from interacting with an executive and S represent units of professional skills. From the perspective of microeconomic theory, in the kind of markets described in the previous paragraph, the professional skills of each executive are precisely the skills needed for each executive position. Hence, in this type of environment, the executive selected for each position is the one whose skills maximize the utility that the employer can obtain.

In Latin America, however, unemployment among executives is significant and competition in consumer markets is either non-existent or very weak. These economic conditions allow employers, in the selection and promotion of executives, to set salaries and to consider non-job related factors such as age, temperament, social position and racial appearance of the executives. By doing this, employers are trying to maximize the utility that they derive or expect to derive from their interaction with their executives.

In Latin America this rational behavior is one of the causes of the racial hierarchy among executives. This can be explained with the following utility function:

$$U = S^{\alpha} R^{\beta} W^{-1} \tag{2}$$

where, as before, U is the utility the employer derives from the interaction with a given executive, S and R are respectively, units of professional skills and of European appearance, and W is the salary for the job. There are other factors or attributes of the executives that could have been included in (2), but only three factors were included to keep the analysis as simple as possible.

The minimum value of S as well as the minimum value of R is assumed to be one. This happens when the executive has the professional skills the job requires and has no European features at all; that is, when the executive is an Indian or a black who is professionally qualified for the job. The exponent of W is minus one because the lower the salary, the more utility the employer obtains; whereas the values of α and β are determined by the importance that skills and racial appearance have for each employer. These values are assumed to be limited by the condition: $\alpha + \beta = 1$; so, the utility the employer derives, separately, from skills and European appearance increases at a decreasing rate.

Five hypothetical, but realistic, scenarios are discussed next. In the five scenarios it is assumed that an employer with preferences represented by (2) and with an executive position to fill, has a pool of executives whose racial appearances go from Indian and black to completely European. In these four scenarios it is also assumed that, as result of unemployment, the employer is in the position to set the salary, W, between W_{MAX}, which would be the salary in a labor market characterized by full employment, and W_{MIN}, which is the minimum salary that any executive would accept for a given executive position (at this level of salary, the labor supply curve becomes flat).

The employer, in the first scenario, faces the following conditions: all the executives in the pool have the same level of skills, that is, $S_i = S_j$. This level of skills is what the job requires and the employer sets the wage at W, which as assumed to be between W_{MIN} and W_{MAX}. In this scenario, selecting the executive who has the larger number of units of R, the most European looking applicant, is the option that maximizes the employer's utility. That is, when applicants are homogeneous in terms of skills, when all have the same number of units of S, and the salary is fixed, Indian and black executives will not be hired or promoted as long as they are competing for the job with executives whose appearance is fully or partially European, because the maximum value of (2) would be generated by the executive with the largest number of units of R, who would be the executive with the most European appearance.

In a second scenario, the level of skills varies among the executives and, as in the previous scenario, the employer sets the salary, W, between W_{MIN} and W_{MAX}. Under these circumstances, a dark-skinned executive can be selected if her/his combination of S and R maximizes (2) for the employer. This implies that the following condition prevails:

$$U_D = S_D^{\alpha} R_D^{\beta} W^{-1} \;>\; U_E = S_E^{\alpha} R_E^{\beta} W^{-1} \tag{3}$$

where U_D and U_E are the utilities that the selected dark-skinned and the top white executive would generate for the employer. For (3) to hold, the following inequality has to be present:

$$\left| -\frac{\partial U}{\partial R}\, dR \right| < \left| \frac{\partial U}{\partial S}\, dS \right| \tag{4}$$

$dR = (R_D - R_E) < 0$ $\qquad$ $dS = (S_D - S_E) > 0$

$\frac{\partial U}{\partial R}$: marginal utility of R $\qquad$ $\frac{\partial U}{\partial S}$: marginal utility of S

What (4) indicates is that, in the selection of the dark-skinned executive over the white executive, the employer experiences a decline in utility caused by the reduction in units of R; but this reduction is more than compensated by the increase in utility generated by the increase in units of S. Hence, when the level of skills is not homogeneous among the executives and the salary is fixed, a dark-skinned executive can be selected if he/she is more skilled than the most qualified white applicant.

In a third scenario all the executives in the pool have the same level of skills, that is, $S_i = S_j$, and this level of skills is what the job requires. However, due to persistent large unemployment, it is assumed that the salary, although within the range of W_{MAX} and W_{MIN}, is negotiated between the executive and the employer, with the employer having a significant advantage in this negotiation. Under these circumstances, a dark-skinned executive can be selected if the following inequality prevails:

$$U_D = S_D^{\propto} R_D^{\beta} W_D^{-1} > U_E = S_E^{\propto} R_E^{\beta} W_E^{-1} \tag{5}$$

where U_D and U_E are the utilities that the selected dark-skinned and the white executive with the highest level of R would generate for the employer. For (5) to hold, the following inequality has to be present:

$$\left|-\frac{\partial U}{\partial R}\ dR\right| < \left|\frac{\partial U}{\partial W}\ dW\right| \tag{6}$$

$dR = (R_D - R_E) < 0$ $dW = (W_D - W_E) < 0$

$\frac{\partial U}{\partial R}$: marginal utility of R $\frac{\partial U}{\partial W}$: marginal utility of W

What (6) indicates is that the decline in utility for the employer caused by the reduction in units of R, is more than offset by the increase in utility generated by the decline in W. Hence, when the level of skills is homogeneous among the executives and the employer decides to offer different levels of salary, a dark-skinned executive can be selected if she/he is willing to accept the condition $W_{MIN} \leq W_D < W_E \leq W_{MAX}$. By accepting this condition, the selected dark-skinned executive gives a financial reward to the employer and undervalues her/his skills.

The fourth scenario assumes a pool of executives with a varied level of skills and an employer who takes advantage of the unemployment conditions to offer different salaries to different candidates. Under these conditions a dark-skinned candidate would be selected if the following condition prevails:

$$U_D = S_D^{\propto} R_D^{\beta} W_D^{-1} > \quad U_E = S_E^{\propto} R_E^{\beta} W_E^{-1} \tag{7}$$

where U_D and U_E are the utilities that the selected dark-skinned and the white executive with the highest level of R and S would generate for the employer. For (7) to hold, the following inequality has to be present:

$$\left|-\frac{\partial U}{\partial R}\ dR\right| < \left|\frac{\partial U}{\partial S}\ dS\right| + \left|\frac{\partial U}{\partial W}\ dW\right| \tag{8}$$

$dR = (R_D - R_E) < 0$ $dS = (S_D - S_E) > 0$ $dW = (W_D - W_E) < 0$

$\frac{\partial U}{\partial R}$: marginal utility of R $\frac{\partial U}{\partial S}$: marginal utility of S $\frac{\partial U}{\partial W}$: marginal utility of W

What (8) states is that the decline in utility for the employer caused by the reduction in units of R, is more than offset by the increase in utility generated by an increase in S, a decline in W or the combination of an increase in S and a decline in W. So, in this case, the dark-skinned executive can be selected if she/he is more skilled, is willing to work for less, or is more skilled and willing to work for less than the most European looking executive.

The fifth, and last, scenario assumes a pool of executives who have the professional qualifications to fill the highest positions in the executive ranks. These are executives with advanced degrees from prestigious universities and with years of professional experience. The employer in this scenario set the salary very close to W_{MAX}, the highest salary that the market would pay. In this scenario it is, however, assumed that a dark-skinned executive would never be selected. This assumption is based upon the fact that, as any one familiar with Latin societies would know, dark-skinned executives are, in practical terms, absent from the highest echelons of the executive ranks. This happens because the higher the position, the greater the value of β and the lower the value of α in (2); that is, the higher the position, the higher the marginal utility the employer derives from the European appearance of the executive and the lower the marginal utility that the employer drives from the skills of the executive. Two facts of the Latin American business environments account for the increase in β and decline in α as the level of the position goes up. First, these environments are still very aristocratic; thus, connections, appearances and the prestige that accompanies the European appearance become more important as the executive position requires more interactions with the white oligarchy. Second, in the Latin environments financial markets are small and unsophisticated, competition is minimal or non-existent, and technological development is totally neglected, which means that the value of a sophisticated educations in finance, management, science and engineering that a dark-skinned executive may have is not enough to compensate her/his employer for her/his dominant Indian or African appearance.

These scenarios are, of course, theoretical. However, they show the outcomes that dark-skinned executives face when they compete for jobs with white executives in environments where unemployment is significant, where employers have an overt preference for the European appearance and where jobs requiring advanced degrees in science and engineering are few. These outcomes go from staying unemployed, which is what the first scenario describes, to accepting jobs for which the dark-skinned executives are overqualified and/or underpaid. In all of these scenarios employers are economically efficient because they maximize the utility that they derive from their interaction with their executives.

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