

## Introduction

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Experts are fascinated by Latin American multinationals, or multilatinas, many of which have proved to be particularly resilient in times of economic crisis. In fact, their steady rise has made some observers wonder if established views about international business are applicable to this particular type of multinational enterprise. While the flow of foreign direct investment (FDI) from emerging multinationals has been dominated by Asian companies,<sup>1</sup> multilatinas have gradually obtained a considerable share and attracted increasing attention. The rise of these companies is not a recent phenomenon; by 2011 these firms already represented around 27% of total investments from emerging multinationals.<sup>2</sup> Yet despite their growing participation in global FDI flows, there have not been many comprehensive studies on the internationalisation of multilatinas. The most ambitious works are those of Casanova,<sup>3</sup> Cuervo-Cazurra,<sup>4</sup> Fleury and Fleury<sup>5</sup> and Santiso.<sup>6</sup> However, there is not much systematic evidence of the strategies multinationals follow and the strategic decisions they make when undertaking FDI. The theoretical debate is served, but the answer to the question whether scholars and managers are well equipped to

<sup>1</sup> Sauvart, K., Maschek, W. & McAllister, G. (2010). *Foreign direct investments from emerging markets: The challenges ahead*. Palgrave Macmillan.

<sup>2</sup> UNCTAD (2012). [www.unctad.org](http://www.unctad.org).

<sup>3</sup> Casanova, L. (2009). *From multilatinas to Global Latinas: The new Latin American multinationals (Compilation case studies)*. Interamerican Development Bank; Casanova, L. (2009). *Global Latinas: Latin America's emerging multinationals*. Palgrave Macmillan.

<sup>4</sup> Cuervo-Cazurra, A. (2008). The multinationalisation of developing country MNEs: The case of multilatinas. *Journal of International Management*, 14, 138–54.

<sup>5</sup> Fleury, A. & Fleury, M. T. (2011). *Brazilian multinationals: Competences for internationalisation*. Cambridge University Press.

<sup>6</sup> Santiso, J. (2014). *The decade of the multilatinas*. Cambridge University Press.

explain the growing role of multilatinas inevitably hinges on firm-level empirical evidence, which for the time being is scarce and almost entirely anecdotal.

In the following chapters we bring the story of the internationalisation of some of the largest multinationals in Latin America up to date, focusing on businesses from Argentina, Brazil, Chile, Colombia, Mexico and Peru, and describe the circumstances under which strategic business decisions were taken. The central theme of this book is the strategic behaviour of Latin American multinationals. This behaviour emerges as a consequence of specific and systematic choices made about the place, timing and entry mode of internationalisation, triggered by the degree of institutional uncertainty in the environment and the unique organisational resources and competences of the businesses, including available non-market resources. We present a pattern of behavioural characteristic of multilatinas that offers food for thought to a broader audience interested in understanding the phenomenon of emerging countries' multinationals.

To set the stage for the important questions raised in the last part of this book, we begin by presenting a succinct analysis of the macro environment from which the multilatinas studied here emerge and pay special attention to the environmental context at the time our firm-level data were collected. Next, we present a framework to examine the strategic behaviour behind the internationalisation of contemporary multilatinas. To devise this framework, we undertook an extensive survey of representatives of the executive teams of sixty-two very large multilatinas. Our respondents described the processes and decision-making phases related to their latest international investments. This was a rich source of data collected between August 2012 and April 2013, during the challenging post-crisis period. These data enabled us to construct a model of the behaviour of multilatinas and present a holistic picture of the decision to internationalise, combining internal organisational drivers and environmental forces. This aspect of our research is particularly valuable, given the patchy nature of existing data on multilatinas and the anecdotal and over-theoretical style of much of the existing literature. The data also allowed us to inspect more closely previously discussed ideas about decision-making around internationalisation and to propose some new ideas, advancing empirical testing and suggesting directions for theory improvement.

Our empirical strategy is to focus on Argentina, Brazil, Chile and Mexico, countries that have traditionally produced a large number of successful international businesses; and two newcomers to the multilatinas group, Colombia and Peru, which have shown strong growth but traditionally appear in the footnotes of studies of international business (if they appear at all). We discuss the business strategies followed in the latest international project undertaken by our sample, analysing in detail the organisational resources and institutional realities of the context. Explanations are founded on a deep understanding of the relationship between formal and informal institutions in Latin American countries and the sources of competitive advantage that firms in this region have developed, which together affect the internationalisation strategies of multilatinas.

This book is also a celebration of the rise of multilatinas, which has been seriously oversimplified in the existing literature, as so many current researchers seem fixated on Mexican and Brazilian firms. We hope to show that other equally impressive multilatinas from Argentina, Chile, Colombia and Peru are worth the attention of scholars, and that the phenomenon of multilatinas is far richer and more persistent than it might at first appear. Our book both complements existing research and takes a step forward in advancing the understanding of multilatinas and to some extent the broader case of emerging countries' multinationals in the second decade of the twenty-first century.

The transformation of emerging countries' multinationals, including multilatinas, into global players in various industries around the world has engaged scholars in a lively debate. Can existing approaches and theories of business internationalisation be used to explain the emergence and growth of these companies, or do we need new models to explain their strategies and guide business decision-making in today's international context? Some authors suggest that new frameworks and theories are needed because existing insights on internationalisation grew out of studies of developed countries' multinationals, a very different context; others suggest that the behaviour of emerging multinationals can be understood using existing theoretical paradigms, despite the differences between the two types of multinationals.<sup>7</sup> The middle

<sup>7</sup> Dunning, J. H., Kim C. & Park D. 2008. Old wine in new bottles: A comparison of emerging-market TNCs today and developed-country TNCs thirty years ago. In *The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity?* Sauvant K. (ed). Edward Elgar.

ground in these debates is occupied by a stream of international business research in which authors suggest that emerging multinationals provide rich ground for analysis and that their study can help to extend existing theories and models of internationalisation.<sup>8</sup> This is the argument behind this book. We hope to enrich the debate with detailed empirical data that reveal the distinctive features of multilatinas, their patterns of behaviour, resources and the environment of their countries of origin.

We see institutional context as a major determinant of the internationalisation strategies of multilatinas. Much theoretical and empirical work shows a persistent relationship between the quality of the domestic institutional environment and the strategic behaviour of emerging multinationals.<sup>9</sup> In the chapters that follow we analyse the interplay between the home-country institutional environment and firms' resources to explain the internationalisation strategies and strategic decisions of emerging multinationals. We explore a set of predictions that link the institutional environment (of home and host countries), firm resources and the strategic actions undertaken during the process of internationalisation.

Our approach is to combine the resource-based view of the firm<sup>10</sup> with the institutional perspective, following a growing trend in studies of emerging multinationals.<sup>11</sup> While the resource-based view allows us to identify the key characteristics of resources, institutional theory provides a framework for explaining what, why and when market

<sup>8</sup> Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal*, 2, 41–47.

<sup>9</sup> Luo, Y. & Wang, S. (2012). Foreign direct investment strategies by Developing country multinationals: A diagnostic model for home Country effects. *Global Strategy Journal* 2(3), 244–61; Dau, L. (2012). Pro-market reforms and developing country multinational corporations. *Global Strategy Journal*, 2(3), 262–76; Tan, D. & Meyer, K. (2010). Business groups' outward FDI: A managerial resources perspective. *Journal of International Management*, 16, 154–64; Cuervo-Cazurra, A. (2012) Extending theory by analyzing developing country multinational companies: Solving the Goldilocks debate. *Global Strategy Journal*, 2(3), 153–67.

<sup>10</sup> Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17, 99–120.

<sup>11</sup> Peng, M. W., Wang, D. Y. L. & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39, 920–36; Meyer, K. E., Estrin, S., Bhaumik, S. K. & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30, 61–80.

and non-market resources are involved in the internationalisation of multilatinas.

A departure point for the ideas explored here is that the relationship between the institutional environment of emerging countries and multilatinas' internationalisation depends on the characteristics of the resources on which multilatinas base their advantages at home. The existing evidence suggests that emerging multinationals have developed a wide range of resources which they use to create advantages at home and to expand their operations abroad. Some of these resources are highly redeployable and fungible, that is, they are usable across a variety of markets (countries) without the need for major modifications and adaptations. For example, some emerging multinationals exploit their technological resources across various markets because the value of the technology is not eroded when used in a different context from the one where it was created. In other cases emerging multinationals have created market advantages at home based on context-specific resources, such as strong brands, distribution networks or deep managerial knowledge of the market. Unlike technological resources, these kinds of resources are not fungible or transferable across markets, and the possibilities of creating value abroad by exploiting them are limited.

We follow previous classifications of market resources and distinguish between technological and context-specific resources. Technological resources allow firms to create superior products or gain efficiency in the production process irrespective of context. Context-specific resources, on the other hand, allow firms to gain efficiency by fitting better into their environment (e.g. business networks).

Technological and context-specific resources differ in a number of ways. First, while technological resources might be standardised on the basis of explicit knowledge, standardisation is difficult or even impossible in the case of context-specific resources, which are frequently intangible. Second, while legal mechanisms may be appropriate to protect technological resources (e.g. via patents), applying these mechanisms to protect context-specific resources is difficult.<sup>12</sup> Third,

<sup>12</sup> Bloodgood, J. M., Sapienza, H. J. & Almeida, J.G. (1996). The internationalisation of new high-potential U.S. ventures: Antecedents and outcomes. *Entrepreneurship Theory and Practice*, 20(4), 61–76; Vega-Jurado, J., Gutiérrez-Gracia, A., Fernández-de-Lucio, I., Manjarrés-Henriquez (2008).

while technological resources are generally fungible across markets at a low cost,<sup>13</sup> context-specific resources have low fungibility because they are developed for specific contexts.<sup>14</sup>

These differences expose resources to a different set of challenges in the context of institutional uncertainty and arguably determine the internationalisation strategy of companies whose competitive advantage is built predominantly on one or other type of resource. For example, if managers perceive that their company could lose its technological advantages due to an infringement of property rights, they are under strong pressure to defend their technological resources. Holding resources that are vulnerable to the loss of their value when exposed to institutional uncertainty might influence the internationalisation decisions of emerging multinationals.

A complementary element of the link between institutional context and internationalisation strategies is captured by the relationship between the institutional environment and the use of non-market resources. Anecdotal evidence suggests that doing business in contexts with weak institutions is positively correlated to the use of non-market resources, especially favours, bargaining skills and bribes. In institutional environments with high uncertainty, non-market resources are expected (and found) to be a valuable source of international advantage because they provide an immediate fit with the context. By questioning managers about their perceptions of the role of non-market resources in the markets on which they compete we can assess directly the importance of these resources for multilatinas.

We follow the recommendation made by several authors to use larger samples and move away from case studies in order to provide a richer picture of the relationship between institutional context,

The effect of external and internal factors on firms' product innovation. *Research Policy*, 37, 616–32.

- <sup>13</sup> Anand, J. & Delios, D. (1997b). Location specificity and the transferability of downstream assets to foreign subsidiaries. *Journal of International Business Studies*, 28(3) 579–603; Sapienza, H., Autio, E., George, G. & Zahra, Sh. (2006). A capabilities perspective on the effects of early internationalisation on firm survival and growth. *Academy of Management Review*, 31(4), 914–33; Zahra, S., Matherne, B. & Carleton, J. (2003). Technological resources leveraging and the internationalisation of new ventures. *Journal of International Entrepreneurship*, 163–86.
- <sup>14</sup> Rugman, A. & Verbeke, A. (2001) Subsidiary-specific advantages in multinational enterprises. *Strategic Management Journal*, 22(3), 237–50.

organisational resources and the behaviour of emerging multinationals. Our findings are drawn from a sample size that allows testable and replicable results. Cross-regional validation of the framework and the empirical results enable us to resolve the limited and often contradictory results of previous studies on emerging multinationals.<sup>15</sup>

This is the first book that goes purposefully beyond anecdotes and case studies to look at the successful internationalisation of Latin American multinationals from a numbers perspective, using primary data about their internationalisation strategy. It presents an integrative and comprehensive approach to explain the internationalisation process of global players that manoeuvred relatively successfully through the most recent global economic crisis. More specifically, it contains exhaustive evidence that informs a discussion about how the combination of available firm resources and contextual realities drives the distinctive strategies adopted by Latin American multinationals. This book contributes to the knowledge of practitioners and researchers alike in analysing the behaviour of Latin American multinationals. While it focuses on Latin American multinationals, it makes a legitimate contribution to the broader literature on emerging market multinationals. The questions answered in this book, and the new questions it raises, are relevant to the international business and strategic management fields in the region and beyond, as they relate to two central theories in this field, the resource-based view and institutional theory.

The book is organised in four parts. The six chapters in Part I give a historical account of the process of recent economic development and internationalisation of six Latin American countries, analysing economic progress, institutional and regulatory specificities and natural resources in Argentina, Brazil, Chile, Colombia, Mexico and Peru. An infographic summary presents important data in an intuitive and comprehensive manner. Part II, which looks at the theoretical framework and key constructs, describes the contextual and organisational drivers of internationalisation, namely the institutional uncertainty of the environment, organisational resources and competences, the availability of non-market resources and reliance on business groups. Part III contains the empirical exploration and discussion of the conceptual behavioural model of multilatinas, our empirical approach

<sup>15</sup> Dau, L. (2012). Pro-market reforms and developing country multinational corporations. *Global Strategy Journal*, 2(3), 262–76, 262.

and the ways in which multilatinas have recently tackled the where, when and how of internationalisation. In Part IV, leading researchers expand current knowledge of multilatinas by outlining their role in human capital development, innovation, shared social value creation and political processes. This part of the book is an invitation to extend the research canvas on multilatinas further, to understand and better appreciate their current and future role in labour markets and skills building, socially responsible and technology-driven ventures and the all-important interaction with the political sphere.