1 MultiMexicans
An Introduction

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INTRODUCTION

When one asks students to name a few Mexican multinationals, which in this book we call MultiMexicans, many struggle. Some may have read the case studies of the cement producer Cemex or the bakery giant Bimbo. However, the vast majority tend to mention brands of tequila and beer, which in most cases are foreign owned, or talk about the exports by contract manufacturers, i.e., *maquilas*, but without being able to name the firms. This lack of awareness is not limited to students, however. Many academics and a fair number of managers only know about a few MultiMexicans. This is partly a result of lack of knowledge or misperceptions about the competitiveness of local Mexican firms, and partly a result of lack of exposure to the brands of MultiMexicans, because many of these multinationals operate in industrial sectors or acquire foreign brands in their international expansion.

However, there is an increasing number of Mexican firms that are not only exporting but also establishing operations abroad, and some of them have already achieved regional and global leadership. For example, of the 122 Latin American multinationals, i.e., MultiLatinas, that the magazine *AmericaEconomía* identified among the 500 largest firms in Latin American in 2016, 45 were from Mexico. This placed the number of MultiMexican firms well ahead of other Latin American countries such as Brazil with 31, Chile with 24, Colombia with nine, or Argentina with six (AmericaEconomia, 2016). Some MultiMexicans have become leaders in their industries, like the baked goods firm Bimbo (1st in the world), the tortilla maker Gruma (1st in the world), the construction materials producer Cemex (5th largest in the world), the telecommunications firm América Móvil (1st in Latin America), and the chemical firm Mexichem (1st plastic tube producer in Latin America). However, not all MultiMexicans are large firms. Some are *mini-multinationals*: successful multinationals with a limited global presence, such as the car components firm Nemak or the cinema chain Cinépolis.

Surprisingly, given their growing importance in global markets, we have a limited number of studies of MultiMexicans, with no books providing a systematic analysis. Instead, we have a few articles and book chapters that explain the internationalization of a few large MultiMexicans. These include, for example, the study of the cement producer Cemex by Lessard & Lucea (2009), the analysis of the competitiveness of Mexican business groups in Grosse & Mesquita (2007), the description of some Mexican firms in the study of MultiLatinas by Santiso (2013), or the description of the conglomerate Grupo Carso, the cement producer Cemex, the baked goods firm Bimbo, and the brewer Grupo Modelo in Casanova (2009). This is surprising, as Mexico by 2016 had become the 11th largest economy in the world, with US$2.3 trillion in PPP terms, ahead of Italy, Korea, and Spain (World Bank, 2017). Its GDP per capita in PPP terms was 18 thousand, ahead of China and Brazil, with 15 thousand each, and India, with 6 thousand, although below the 25 thousand of Russia, to establish a comparison with the so-called BRIC countries. Thus, it appears that the time is ripe to analyze MultiMexicans comprehensively, covering a multitude of industries and a variety of sizes; that is what this book offers.

Hence, this book differs from others by being the first to provide a systematic analysis of MultiMexicans. What also differentiates the book is the approach we take, providing a contextual analysis of their global expansion, in which the internationalization of firms is placed within the particular conditions of the industry and especially of the home country. This contextual analysis provides both a deep understanding of the historical situation that enabled Mexican firms to upgrade their competitiveness to international levels, and a sophisticated understanding of the strategies they used to conquer foreign markets. With this dual approach, we aim to generate insights that are useful for managers, not only of other Mexican firms but also of firms in other emerging markets, who are considering how to transform their firms into global competitors.

Now, the question is, is there something special about these firms for our understanding of multinationals? Can current models and analyses of multinationals be used to explain their expansion? The answer is yes and no. Yes, in the sense that good models are applicable and previous insights and approaches can be used to understand their internationalization, and no, in the sense that the context of operation of MultiMexicans plays a large role in their transformation into international competitors and subsequent internationalization, and existing models do not accommodate this role well. Thus, to better understand the insights that we derive from the analysis of MultiMexicans, in the following paragraphs I briefly review the core models of the multinational. I then discuss the phenomenon of multinationals from emerging markets, and how their analysis highlights the importance of studying the impact of the home country on internationalization. I conclude with an overview of the themes that we cover in the book and the insights that are identified in the conclusions.

TRADITIONAL MODELS OF THE MULTINATIONAL

The international business literature has offered several explanations for the existence of the multinational and the process of internationalization. These models were developed in the 1970s and 1980s by analyzing multinationals from advanced economies (mostly European and American companies and later Japanese firms) as these firms set up wholly owned operations around the world. Their behavior did not fit well with economic explanations of foreign investment that assumed it was a financial flow (for a good historical overview of the literature see Dunning, 2009, and Hennart, 2009a). The result of these theoretical advances was the development of two types of

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multinational model. One type sought to explain the existence of multinationals, firms that controlled assets abroad and managed cross-border transactions. Another type of model sought to explain the process by which firms expanded across countries.

Why Multinationals Exist

The first type of model explains why multinationals exist. Among the models we have the OLI framework, the internalization theory of the multinational, and the knowledge-based explanation of the multinational, which I briefly explain now.

The OLI framework, introduced by Dunning (1977), describes the existence of a multinational, i.e., a firm with foreign direct investments (FDI), as the result of the combination of three advantages: Ownership, Location, and Internalization. Ownership advantages refer to the situation in which the company has particular resources or capabilities that enable it to do things better than competitors, that is, that provide it with a competitive advantage. These same resources and capabilities that the firm owns can then be used in other countries to achieve a competitive advantage there. Location advantages refer to the situation in which the company invests abroad to benefit from the better conditions of inputs or factors of production, i.e., the comparative advantage of a location, or to serve new markets. Finally, internalization advantages refer to the situation in which managers decide to internalize cross-border transactions, i.e., manage transactions within the company rather than using contracts with third parties, because doing so is more efficient or effective. This paradigm, which was initially developed from the study of British and later US firms, has been refined and extended over the years to adapt it to new realities of international business and theoretical advances. These highlight different subtypes of ownership advantage, which include asset-based advantages from the ownership of particular resources, transactional advantages from the capability to coordinate operations, and institutional advantages from the capability to manage institutions and norms (Eden & Dai, 2010).

A modification of the OLI paradigm is the FSA/CSA model of the multinational (Rugman & Verbeke, 1992). This model discusses the existence of a multinational as the result of the combination of two types of advantage: (1) firm-specific advantages (FSAs), which only the company can access and which include the ownership and internalization advantages of the OLI framework; and (2) country-specific advantages (CSAs), which not only the company but also other companies in the same location can access and that include the location advantages of the OLI framework. One contribution of this model is highlighting that some of these advantages are tied to a place and are not transferable across countries, i.e., they are location bound, hence limiting the ability of a company to engage in international operations. In contrast, other advantages are not location bound and support the ability of a company to become a multinational by transferring them across borders. Similar to the OLI framework, the FSA/CSA model is a general framework that focuses attention on those resources and capabilities that provide the multinational with an advantage. However, both tend to assume that the advantages exist and do not get into an analysis of how resources and associated advantages emerge.

The internalization model of the multinational (Buckley & Casson, 1976) and the related transaction cost analysis of the multinational (Hennart, 1982; Teece, 1986) explain the conditions under which a multinational will use different governance modes when engaging in cross-border transactions. This theory focuses on the 'I' of the 'OLI' paradigm, and provides detailed descriptions of the governance modes and the reasons for using contracts, alliances, or the firm as the mechanism to manage cross-border transactions based on the characteristics of the assets and ability to contract effectively (Anderson & Gatignon, 1986). In this model, it is better to use the market when engaging in cross-border transactions because markets tend to be more efficient transaction systems; the price mechanism provides appropriate signals and competition among providers ensures better quality. However, it may be better to internalize cross-border relationships when the multinational: (a) has assets that have low secondary uses, i.e., are specific to a relationship; (b) cannot find appropriate contract partners; and (c) cannot specify a clear contract that governs the use of those assets because of problems of information asymmetry and uncertainty, and ineffective contract protection and contract dispute settling mechanisms. This approach has been extended to incorporate the notion that there are several contracting parties with alternative objectives and that complementary assets and their access play a role in determining the appropriate transaction mode (Hennart, 2009b). This model provides a deep understanding of the scope of the multinational and the conditions under which it internalizes cross-border transactions or uses alliances or contracts to manage them. However, at the same time, this model tends to assume that the company has resources and capabilities that provide it with a competitive advantage in the first place.

In contrast to these, the knowledge-based view of the multinational (Kogut & Zander, 1992), which builds on the broader resource-based view (Barney, 1991), argues that knowledge is the key asset of a company. It studies how the development, transfer, use, and protection of knowledge across borders enable domestic companies to become multinationals. In the resource-based view, a firm is a collection of resources and capabilities (Penrose, 1959). Among those, some provide the firm with an advantage when they are (Barney, 1991): (a) valuable because they can be used to create value for customers; (b) rare because only the company or few companies have them; (c) difficult to imitate by competitors because other firms cannot replicate them easily; and (d) difficult to substitute by competitors because other firms cannot find alternative ways to achieve the same function. Among the resources that a firm can control, knowledge is the key one because it enables the firm to obtain and manage all the other resources and capabilities (Kogut & Zander, 1992). However, at the same time, knowledge is a difficult resource to manage (Nonaka, 1994). Its tacit nature – i.e., much knowledge is not codified in manuals and websites that can easily be retrieved and shared, but rather is embedded in the minds of employees – makes it a resource that is more difficult to imitate as competitors cannot easily observe the knowledge. It also makes it a resource that is more difficult for the firm to transfer and use across borders. As a result, firms become multinationals to effectively manage the transfer and use of knowledge across borders, as well as to benefit from the knowledge that is created from the management of these cross-border relationships. This knowledge-based view, and the underlying resource-based view, focuses attention on how firms develop resources and the associated competitive advantage, thus complementing previous models.

How Multinationals Expand Across Borders

The second set of models focuses on explaining the process by which domestic companies become multinationals (see a review in Cuervo-Cazurra, 2011; Melin, 1992). These include the product lifecycle model, the incremental internationalization model, and the innovation-related model.

An early process model is the product lifecycle model (Vernon, 1966). This takes the concept of the product lifecycle from the marketing literature – in which a product is introduced in the market and then its sales grow, reach maturity, and eventually decline – and applies this idea to explaining how sales and production move across countries from the most to the least advanced economies. Thus, the internationalization process starts with the company in an advanced country introducing a new product to satisfy the needs of sophisticated consumers in advanced economies. As demand in other advanced economies grows, the firm first exports and then produces in the other countries to be more responsive to differing consumer preferences and to counter local competitors. As the product matures, new competitors imitate the innovation and the product becomes standardized, so the company moves production to low-cost countries to reduce production costs and starts selling there. With declining demand, the company stops producing in advanced economies because it is too costly to manufacture there, and serves both advanced and developing countries with imports from low-cost countries. This model, which was developed by abstracting from the experiences of US firms in the 1950s, seems to be a good explanation of the diffusion of innovations across countries, but not necessarily of the expansion of a particular firm across countries (Melin, 1992). Moreover, instead of following this life cycle, nowadays innovations are commonly introduced across multiple countries at the same time, and production is outsourced directly to countries with lower production costs. This is the result of factors such as the disaggregation of value chains across countries, with innovators easily finding manufacturers in lower-cost countries; the creation of innovations in emerging countries that are marketed in emerging and advanced economies; and fast competitive imitation across countries facilitated by information and communication technologies. Hence, although the model generated significant research aiming to validate its arguments, nowadays it is rarely used as an explanation of the internationalization of a particular firm.

The incremental internationalization model (Johanson & Vahlne, 1977), also known as the Uppsala model because it was developed at Uppsala University, has become one of the leading explanations of the internationalization process. Building on behavioral economics (Cyert & March, 1963), it explains the process by which a domestic company expands abroad in search of new markets and becomes a multinational as being driven by managerial knowledge and risk aversion. Managers of a firm consider expanding to other countries to increase sales, using resources and capabilities developed in the home country. Managers have to make two main decisions that shape this expansion. One is the decision on which country to enter. The firm expands sequentially from the home country, first to countries that are similar to the home country, and later to countries that are dissimilar. As managers are risk-averse and know little about foreign markets, they tend to choose countries that are similar to the home country in terms of psychic distance (i.e., differences between countries that limit the flow of information) to reduce the uncertainty and risk of operation and to increase their ability to use existing knowledge and capabilities abroad. Once managers gain direct experience from operating in these countries and expand their knowledge set, they then take the company to countries that are farther away from the home country in psychic distance. The second decision is to select the mode of operation in a particular country, with companies internationalizing gradually within a country by first exporting, then using sales representatives, later using their own sales subsidiaries, and finally establishing production facilities. This sequential process helps managers gain direct knowledge and experience of how to operate in the business and institutional conditions of the host country and also reduces the risk of exposure in the host country by limiting the firm's commitment to a country they do not know well. Once managers gain experience and knowledge from operating in the country, they can take more risks and increase the firm's commitment to the host country.

The incremental internationalization model, which was initially developed using the experience of Scandinavian firms, has been very influential in explaining the expansion of firms and has been subject to extensions as well as critiques. The model was extended to include a network view of the multinational (Johanson & Vahlne, 2003). This proposes that internationalization knowledge can be gained in advance of the firm's foreign expansion from interacting with partners and employees that already have international knowledge, thus providing a broader understanding of knowledge in the model (Forsgren, 2002). Thus, a firm with such a network of sources of knowledge at home may be able to internationalize faster and broader than the original model proposed.

The main criticisms of the incremental internationalization models are directed to the idea that firms follow a sequence of expansion across countries, first entering countries that are closer to home in psychic distance and later those that are farther away, as well as a sequence within a country, entering first via exports and later via foreign direct investment. Thus, for example, the born-global model

(Oviatt & McDougall, 1994), which was developed in international entrepreneurship, was introduced as a challenge to the incremental internationalization model by arguing that small firms in high-tech industries do not expand incrementally. Instead, some of them export to a multitude of countries either at or close to their creation. Changes in the global economy in the form of advances in information and communication technologies and transportation technologies, as well as market liberalization, have enabled newly created firms to start exporting widely (Knight & Cavusgil, 1996). This is especially the case for firms that operate in digital industries whose products can be distributed via the Internet at almost no cost.

A third process model of the multinational is the so-called innovation-related model (Cavusgil, 1980; Czinkota, 1982), referring to the idea of serving foreign markets as akin to an innovation. This model, which was developed in international marketing, explains how a company changes from being exclusively focused on the domestic market to becoming an active exporter as a result of changes in managerial attention and knowledge. Most companies are created to serve the domestic market, as managers tend to have a deeper knowledge of the needs of domestic customers, thus leading their firms to create products and services that serve those needs. However, for some firms their products may become known abroad through exposure at business fairs or word of mouth. Thus, the firm may start receiving requests from customers abroad. In response, the firm may fulfill these sporadic requests without paying much attention to them. However, if the foreign requests increase, managers may start shifting their attention towards fulfilling them, gaining knowledge of how to serve foreign markets in the process. Once managers gain enough experience in serving foreign markets, they alter their attention and the focus of the company towards foreign markets, transforming the firm from a passive to an active exporter and seeking sales in a variety of countries. Although useful for explaining the beginning of the internationalization process via sales, the model seems to be limited regarding its explanatory power as it does not take into