Latin American Multinational Companies Growth

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Abstract

This paper seeks to analyze the international expansion of multinational corporations primarily in Latin America and which has been the strategy they have used them. It is proposed as theoretical assumption that the best strategy is to have made acquisitions and to check an investigation is conducted through a qualitative method analyzing success stories like Cemex and JBS and thus can check that the acquisition entry strategy is most multinationals have used even above the method of strategic alliances, and these same multinationals have taken such great importance that can serve as an example to others who want to internationalize.

Keywords: Acquisition, Internationalization, Latin American multinationals.

JEL: F23, G34, O540

Introduction

From time to date the multinational corporations from the emerging economies are stealing worldwide attention, gaining field to Asian firms. Companies like Embraer, Cemex, Telmex, Gerdau and JBS have grown exponentially and this growth has been such that it has become fashionable the multilatinas term, or global Latinas, referring to multinational companies belonging to the area of Latin America, an area once very few sometimes the first world economies turned to stare at. And the main countries raise their hands where they belong. These said companies are from Mexico, Brazil and Chile, and behind them are Argentina and Colombia.

Thanks to these firms there has been a phenomenon of investment flows. These investment flows were years ago from North to South and now the trend is from South to North and South to South (Fig. 1). This may be due to freer trade, partly globalization or trade reforms that have allowed the opening of shops, but whatever the reason this phenomenon of Latin American multinationals expanding has taken international importance and has become worth investigating. So already knowing the significance of the matter in order to investigate in this paper are Latin American multinationals and the strategies they have used to internationalize.

As is shown in Fig. 1, the main destiny of the multilatinas sales have been diversified the last years. Brasil and Mexico have received important flows from companies of other Latin America countries; this fact has transformed the business landscape in Latin America due to the less relevance of United States as receiver of money flows from Latin America. Finally, it’s probably that this trends remains for many years, due to the increasing demand of goods and services in the big economies form Latin America (e.g. Mexico, Brasil, Chile and Colombia).
Background

Latin America has always been one of the most challenging areas to do business. Large firms are aware of this situation that they have come to seek benefits of these markets. Some Latin America companies that are now listed internationally were created in the early twentieth century and have been in existence for over 100 years fighting crises of all kinds. It can be said that the analysis of multinational starts around the 60s and 70s, and were mainly companies that dared to settle outside their home country mainly Americans and Western Europeans, but it was not so easy to introduce into other markets, Hymer [2] lists as the main problems the differences such as the institutional and market among the participating countries. It was not until 1970 with the tour of Japanese companies in the market of the multinational when theories began to change. However, it was until 1980 when analysts began to speak well of international expansion by a significant number of companies from emerging economies. The causes for these multinational firms to arise may be several, and below are listed some potential causes.

First, the corporate greed of firms is the cause for wanting to increase their production to reduce costs, which is known as economies of scale. Second, technology has allowed industries expand more easily and cheaper through their borders.

Third, certain operating companies of raw materials that is naturally multinational in origin. Fourth, looking for affiliates in other countries for the differentiation of costs in some countries where labor is much cheaper than others. Fifth, with subsidiaries in other markets, firms avoid trade barriers.

In a world where economic globalization prevails, it seems to be governed by companies from developed countries, but it was not until the last couple of decades that a lot of companies located on the South side of the American continent began to highlight and make an important bearing on the world economy. These Latin American companies have favored emerging economies to export capital and technology, which should not be sound because normally such economies are associated by lack of capital and technology.

Regarding multilatinas, three phases of internationalization can be distinguished:

- First phase (1970-1990). It is regarded as the emergence of multinationals and their expansion in their natural market defined as those countries with the same language, history similar or geographically closes also. In conclusion, firms expanded to neighboring countries. This phase has a high in the 80s, also known as the lost decade.

- Second phase (1990-2002). It is characterized by major privatizations that begin in areas of finance, telecommunications, energy, water and natural resources. An impressive amount of press sees this as "The Reconquest" noting the large number of Spanish companies established in the area. The entry of foreign firms helped the originator companies located in their place to start thinking about internationalization processes; otherwise they would end up being absorbed by outsiders. In the most notorious cases was the giant in the cement industry in Mexico, Cemex, when purchased in the country of United States to Southdown in 2000.

- Third Phase (2002 - to date). The stage begins where are created global multinationals. In 2002 came the rise in prices of raw materials and commodities such as oil, gold, silver, copper as well as agricultural products and that coupled with the demand from China and Asian countries, benefiting to Latin American countries. The trend has continued for the Latin American area for 2010 that received half of the 50,000 million dollars the Chinese country invested abroad.

Problem Delimitation

The object of study, as mentioned above, is to analyze the growth that have Latin American multinationals. Because in recent years they have had an exponential growth, it can be stated as research question, What has been the most used strategy Latin American MNCs to internationalize?.

Justification

The Latin American region has always been an area rich in natural resources, from mines to oil areas, but despite these privileges have not been able to transcend in a globalized world. In fact it is said that the area is backward 150 years to access to computers so says the BID [3]. This is because there is a deficit in infrastructure, human capital and organizational effectiveness. Compared to OECD countries [4] in the only topic where Latin America seems to be not so backward is in mobile telephony, with only 9 years late. But that's not all. In terms of economic reforms that simplify the ways to conduct business in the area
of Latin America and the Caribbean is the most backward in the world, which therefore generates that several countries belonging to this geographical area have lost large opportunities for economic transactions.

In addition, the continent has been featured for a big instability during the last 30 years [5]. For example, Argentina during the 80’s with the hiper-inflation and putsch, Chile with the fall of Pinochet’s regime during the 80’s, the Mexican economical crisis during the 90’s and so on. The quoted above are important examples of the additional factors that have had against the multilatinas in their internationalization process.

This situation could be compared to the region on various topics of interest and the results would be the same. But despite all disadvantages there are names like Embraer, Femsa, Cemex, Petrobras, America Movil, which are Latin American companies that have excelled and put the tone for other companies in the area who want to excel.

This work is based on the premise of putting the best growth strategy for Latin American companies citing the cases to follow successful multinationals currently participating in global markets for the same act as examples for those companies who come after.

**Theoretical Assumption**

Economic globalization has allowed freer trade with the release of economic policies in Latin America, leading to increase competition from global players. National markets were once over regulated. So, it has been allowed the companies to enter other markets multilatinas through mechanisms such as acquisitions. Therefore, there is the assumption that the acquisition is the optimal strategy for the internationalization of Latin American multinationals.

**Theoretical Framework**

First of all, before proceeding, it is necessary to make clear the concept of multinational company, which the OECD [4] defines it as a company that has just foreign direct investment to own or control value-adding activities in more than one country. This concept is to be taken as referring by multinational basis.

Also on the other hand, there are some indicators that help to indicate the degree to which a company is considered multinational. The most used indicator by UNCTAD [6] is foreign sales as a percentage of the total. But before jumping to other theories of internationalization, it must be analyzed certain strategies that companies use, and how because it is very rare that a company is born being great, it has to be mentioned what are the possible strategies that companies can use in different occasions.

Peng [7] mentions five major business strategies of firms. These are:

- **Growth**
- **Innovation**
- **Networks**
- **Financing / Government**
- **Harvest / output**

The first is growth. This is what attracts most employers to see how it grows their firm. In the beginning, small businesses introduce its production into a very competitive market. Its first strategy for small business entering to a very competitive market is to go for the crumbs through short and subtle attacks that rivals may not recognize them as competitive challenges. This is because large companies conserve their resources for crucial battles with companies of the same or similar size.

To have any chance small businesses can use the strategy to move first, obtaining any substantial advantage. Firms with a growth strategy put more attention on the action and less on analysis. It may sound strange but companies that act more to think are more likely to grow and survive only because they have moved first. The best entrepreneurs combine both as an action plan to reduce uncertainty and risk cover.

The second point is innovation, being the heart of the company. Innovation is not only in products or technologies but also in strategies. An innovation strategy can offer three advantages.

- **Allows a consistent basis to create a competitive advantage.** Firms that first move and introduce goods or services to market almost always obtained profits and monopoly until competitors appear.
- **Innovation must be considered extensively.** Not only are novel technologies, new ways of doing business are too.
- **The firms are different and not equally ready for innovation.** Small and medium businesses tend to be more innovative and take risks as large firms. Much to gain little to lose.

Networks are the third business strategy. This strategy refers to the construction and use of
international relationships and bonds that come to have people.

Three attributes of networks: urgency, intensity and impact. This means that firms have the urgency to develop networks for growth because initially they are faced with the burden of novice. This is the inherent disadvantage experienced by firms as new on the market. The second characteristic is the intensity of the network, whether strong or weak links. The former are more durable and reliable relationships cultured for a period, while the latter are characterized by infrequent interaction. And finally there is the impact, for example in small firms have a greater impact with personal networks.

All businesses need to start large sum of capital to increase the chance of survival during the first crucial years and this amount of capital is significantly related to the size of the firm. The faster startups that reach a certain size are more likely to survive the fledgling load. Often are discussed business plans and these requiring a strong management team and financial research to examine and analyze them. In the West, only a handful of minority groups may have much financial support from family and friends, while in Asia this source of support is much higher.

Harvest and exit is the fifth and final business strategy. There are multiple business paths:
- Sell some parts of the business
- B. Sell the business
- Merge with another firm
- Consider an initial public offering (IPO)
- Bankruptcy

The IPO is the first round of shares of a company in the stock market.

After analyzing the above it can proceed to the study of multinationals based on the theories of internationalization. While doing this, it can be highlighted four reasons that drive companies to internationalize.

- Resource search
- Seek markets
- Seek efficiency
- Seek strategic assets and search skills

Companies in their attempt to seek resources can be broken down into 3 categories. These categories can be to find physical goods, such as low-cost manufacturing. In the second category, companies are searching for cheap labor in large quantities and the third term; companies are requiring technological capacity resources. Firms that seek new markets seek further alignment of the goods they produce, or they start producing in the destination country to reduce transportation costs and the costs involved in exporting a product.

When a company internationalizes its operations it seeks efficiency and its main objective is to rationalize the structure of provision of resources and markets, and at the time also helps diversify risk reduction. And last of four reasons is to seek strategic assets or skills, which has as main goal to acquire skills and assets of foreign companies to implement the company origin.

Another theory that helps to support the study that some countries stand out more than others is the competitive advantage. Michael Porter [8] called "The Competitive Advantage of Nations", which proposes the factors that allow a country to stand worldwide. Porter [8] divided the factors of production in two ways: Basic and advanced. The basics are the ones that are given by the natural conditions of the nation and easy to acquire. And the advanced are those that require a significant and ongoing investment, and also the skilled labor. And as in all countries of factors characteristics are different from each other, some want more of one factor that in the country of origin is scarce which motivate companies to internationalize going in search of these resources.

But nevertheless, not always the internationalization of multinationals is successful. On several occasions this should fail and the company has to withdraw from the market and in order to help explain these phenomena, there is the theory of neo-institutionalism whose main exponent is the economist Douglas North. North [9] points out that the institutions of the countries have a dependence on the past, and although these come to evolve always retained certain features of the past. For example it can be compared the United States against Latin America. These two geographical areas are part of the same continent, but the United States is considered the greatest economic power while Latin America is a very lagging area of the World.

This phenomenon of differences explains North [9] is due to the fact that while the United States was colonized by Britain and adopted the model of formal and informal institutions, Latin American countries were colonized by various cultures of the
Iberian Peninsula which always have been very attached to two large institutions referring to the state and the church.

This generated therefore different types of institutions, which North [9] defined as man-made constraints forming political, social and economic interactions, and are divided into formal such as constitutions, laws, property rights and in informal such as customs, traditions, codes of conduct. And it is these institutions along with the technologies that provide transaction costs when changing property rights and institutions that facilitate trade, reduce costs and ensure property rights create a better climate for attracting better investment and economic development. So if a company wants to appear in new markets must adapt to the destination country's institutions, such as mentioned by Dash [10] in the case McDonalds that for cultural issues does not sell beef in India, as this is a sacred animal for the population. Lastly retaking the theories of internationalization, Hill [11] marks different input modes that companies can use when wanting to internationalize.

These modes are:

- **Exports**: a company that is dedicated to only export is not considered multinational. However, this mode is considered as the first step in the internationalization of several companies, but does not involve the export alone what is foreign direct investment and not generate added value.

- **Licensing**: This allows granting the brand to a third party which may be abroad, provided it generates revenue from an easier way.

- **Franchising** refers allowing exploitation of technology and patents to the franchisee and delivers the operations instructions. This is usually a longer relationship than licensing.

- **Management contracts**: Usually the main mode of entry for hotel chains, and refers to an agreement of the operational control of a company that lies in an independent firm. The operational control may be of different roles as marketing, personnel management, accounting etc. And unlike franchising and licensing, in this way not only sells how to do things but also how to make them.

- **Joint ventures**: This is a long-term partnership, except to the merger.

- **Turnkey contract**: This mode of entry relates when a company hires another to design, construct and equip an entire production facility.

- **Wholly-owned subsidiary**: The installation of a subsidiary in which the firm makes by itself all the necessary FDI.

- **Acquisition**: The advantage of this entry form is speed to acquire a company. The company that acquires other firm skips the whole process of creation of infrastructure

- **Strategic alliances**: In this there is no exchange of any property or the creation of a joint venture, and as its name implies it is to establish partnerships with other company outside the country of origin.

**Contextual Framework**

As the name multilatinas suggests the analysis is based on Latin American multinationals that have been highlighted in recent years and to see what strategies have been made to achieve this. The multilatinas have been of great importance to the economic development of emerging economies and are an important indicator of how these companies have evolved in terms of the outward FDI, as shown below this has been increasing in recent years (see Fig. 2).

![Fig. 2: Evolution of the flows of foreign direct investment from Latin America and the Caribbean, 1970-2005](image)

Source: Cuervo-Cazurra [12].
Table 2: The 15 largest multilatinas involved in global operations (2012)

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<td>BR</td>
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<td>MINAS</td>
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<td>-</td>
<td>40</td>
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</tbody>
</table>

Source: Prepared with data based on American Economia Intelligence (2013a, 2013b) [1,13].

And as it can be seen from table 2, it was only until 2005 and can be said that for this time Latin America still looked like a low priority, but after 2010 have a unique potential for growth via inorganic, i.e. by mergers and acquisitions. Multilatinas companies have an advantage of adaptability over normal MNE. This is because they come from areas to be emerging. Large multinational companies outside Latin America are limited by their contexts of origin, unlike multilatinas, says Becerra [14]. Out of these 15 multilatinas there are 10 companies with the greatest potential for further growth internationally as it is shown in fig. 3.

Study Method

To answer the initial hypothesis in this research, it is based on modes of entries from companies through internationalization theories supported by case studies such as Ghemawat [15] for Cemex, Casanova and Fraser [16] for Embraer and Petrobras, Alfa’s annual report [17] for Alfa, for Tenaris are used the data on its page Techint [18] and finally a study by Bell and Ross [19] for the company JBS.

In the present study all analyzes were performed by collecting literature and case studies of successful company’s multilatinas. So the method applied is qualitative. Mainly, we select these companies for their high levels of internationalization (see Table 3), as mentioned above the exports as percentage of foreign sales as percentage of total is the common way of measure the degree of multinationality. In addition, we select Petrobras because holds a high levels of total sales and Embraer because compete in a highly globalized sector (as Aerospace), besides both companies are important in their respective industries. Also, we select Tenaris due to the importance of this company around the world, as supplier of the oil and automotive sector [18].

Table 3: Multilatinas Average Sales as Percentage of Total Sales (2004-2011)

<table>
<thead>
<tr>
<th>Company</th>
<th>Average of Foreign Sales as Percentage of Total Sales (2004-2011)</th>
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<tbody>
<tr>
<td>Petrobras</td>
<td>14.7</td>
</tr>
<tr>
<td>JBS Friboi</td>
<td>15.16</td>
</tr>
<tr>
<td>Cemex</td>
<td>80.74</td>
</tr>
<tr>
<td>Grupo Alfa</td>
<td>47.25</td>
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<tr>
<td>Embraer</td>
<td>82.13</td>
</tr>
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</table>

Source: Prepared with data based on American Economia Intelligence (various years).

Results

To analyze the results are taken success stories and see the implemented strategy used to enter and open up to other markets.

JBS

Company from Brazil
Business: Processing of animal protein.
Internationalization (Countries): Brazil, Argentina, USA, Australia and Italy
Entry method: Acquisition of Swift facilitating entries to the U.S., Argentina and Australia markets. Also acquired Incalca and manages to enter Italy.
Tenaris
Company from Argentina
Business: Manufacture of steel tubes, primarily for the oil industry
Internationalization (Countries): Main locations in Latin America, Asia, Europe, USA, Canada, Mexico.
Entry methods: Acquire Tamsa (Mexico) acquires Tavsa (Venezuela), joint venture with NKK tubes (Japan) acquires Confab (Brazil), acquires Algoma (Canada) acquires Hylsamex (Mexico) acquires TuboCaribe (Colombia), among other acquisitions.

Cemex
Mexican company
Business: Cement production
Internationalization (Countries): Operates in over 50 countries.
Entry method: Acquires Southdown (USA), acquires Ready Mix (presence in several countries), acquires Rinker (Australia), acquires Valencia (Spain), acquires Concem (Cayman Islands), and acquires Cemento Bayano (Panama), among other great number of acquisitions.

Alpha Group
Mexican company
Business: Different range of activities
Internationalization (Countries): Operates in various countries
Entry method: Acquires Sigma (Dominican Republic), acquires Alpek (Argentina, Peru, USA) [17].

Embraer
Brazilian company
Business: Aerospace
Internationalization (Countries): Austria, China, Singapur, United States and France.
Entry method: Acquires OGMA (Portugal).

Petrobras
Brazilian company.
Business: Oil
Internationalization (Countries): 25 countries.

Continuing with the analysis of more company’s multilatinas it is found with the same direction and similarity in the key strategy for the expansion of these companies to other foreign markets is the acquisitions. Thus, this brief analysis is confirming the assumption rose above and has responded to the research question.

Conclusion
Through this research it has been touched the importance that have shown the multilatinas in recent years and the growth they achieve, drawing attention internationally. It is worth noting that despite the differences that have businesses in features such as business sector, they follow a pattern for internationalization. The most common entry form to other international markets is the acquisition of smaller companies of already established businesses in the destination country that can be followed as an example for companies coming behind them., Also, it should be noted that there is not one best way and the only one form to get involved in internationalization of operations but as mentioned, the acquisition is the most used, although there are other forms such as alliances.

But if it is compared corporate acquisitions vs. strategic alliances, multilatinas can be tilted more to the acquisition. This should because the level of uncertainty is high in strategic alliances while in acquisitions is low. In the alliance can enter a problem making decisions when the two companies seek different things or have different objectives while acquiring only one company, it remains the same ownership and control. As these, other items are offered for purchase on partnerships in the preferences.

In addition, it’s important to study MNC’s from small economies (as Central America), mainly: 1) due to the lack of literature about MNC’s from small economies in Latin America and 2) in the literature is accepted than MNC’s from small economies tend to show high levels of internationalization [20].

Following multilatinas, finally it is necessary to highlight that they have achieved an impressive growth that they have became known by another name, These Latin American multinationals have moved from being Multilatinas to be Global Latinas. As the IDB has called, this is “The decade of multinationals”.

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