

1. Latin American multinationals facing the ‘new reality’

Lourdes Casanova*

Since 2002, Latin American companies have expanded all over the world becoming *Global Latinas*. Although the biggest ones are natural resources based, we also find them in information technology, steel production, electricity, wine and cosmetics. In times of crisis, their dynamism is a valuable example for European and American multinationals to follow.

1.1 FROM EMERGING COUNTRIES TO ECONOMIC POWERS

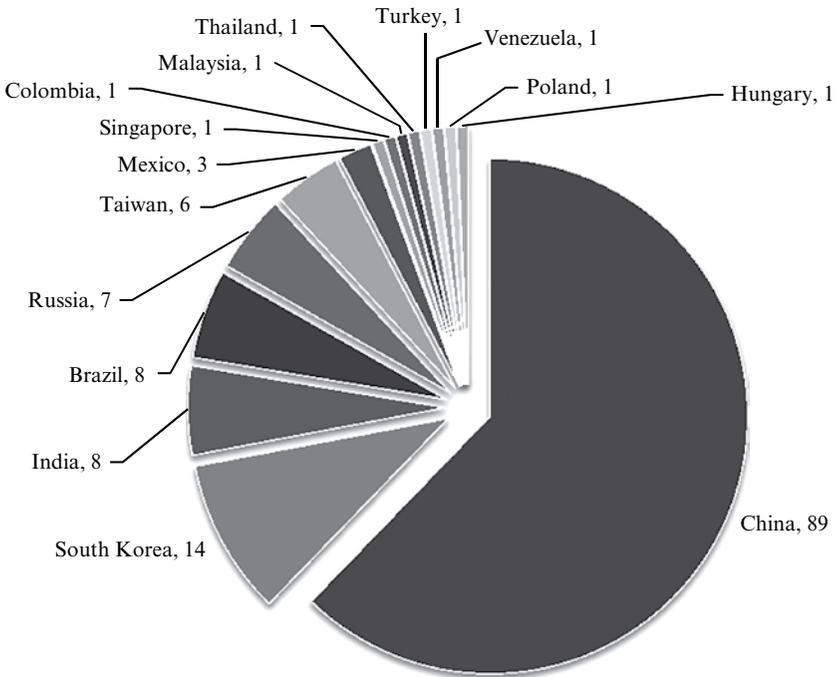
The 1990s were marked by the transformation of Latin American economies through market liberalization, privatization of the public sector and tax reforms. Foreign direct investment grew from US\$18 billion at the beginning of the 1990s to US\$108 billion in 1999. In 2011, the region attracted US\$153 billion, which represents 10 per cent of total global direct foreign investment (ECLAC, 2012). In 1998, Europe became for the first time the biggest investor in Latin America and maintains its leadership today. Nevertheless, if we consider each country individually, the United States continues to hold top position with 18 per cent of the total investments in the region.

Increasingly, China’s economic power is being felt in the region. China has become the most important trading partner of Brazil,¹ Chile² and Peru³ and trade between the Middle Kingdom and Latin America and the Caribbean reached US\$180 billion in 2010 (ECLAC, 2011). Asia receives 16 per cent of Latin American exports.

The Inter-American Development Bank (IADB, 2010) estimates that approximately 90 per cent of Latin American exports to Asia originate in the southern region of the continent: 41 per cent come from Brazil, 23.1 per cent from Chile, 15.9 per cent from Argentina and 9.3 per cent from Peru. China wants access to the raw materials and natural resources of the region, which are abundant but unevenly distributed. While Brazil

dominates in iron ore, Chile does so in copper. According to the IADB (2010), the three main products that the region exports to China are raw materials (soya, copper and iron ore) and represent almost 50 per cent of total exports. In contrast, Chinese exports to the region are more diverse and include intermediate and capital goods. China has become the third largest investor in the region and represents 8 per cent of total investments, primarily in natural resources. For this reason, the Asian mergers and acquisitions are in the petroleum and gas sector, such as the purchase of 40 per cent of the Brazilian subsidiary of the Argentinian YPF by Sinopec for US\$7.1 billion and the acquisition of 50 per cent of Bridas Corp. in Argentina by the Chinese CNOOC for almost US\$4.8 billion.

The presence of multinationals from emerging countries in the ranking of the *Fortune* 'Global 500' (Figure 1.1) has increased fivefold since 1995. In 2013 there were 143, one out of every four, thirteen of them from Latin America (see list in Table 1.1), eight from Brazil (Petrobras, Banco



Source: Author's elaboration based on data from *Fortune* Global 500 (July 2013).

Figure 1.1 Emerging multinationals by country of origin in *Fortune* Global 500 (2013)

Table 1.1 Latin American companies in Fortune Global 500 (2013)

Ranking 2013	Business	Sales 2012 (US\$ million)	Country	2012 profits (US\$ million)
23	Petrobras	145.915	Brazil	20 121
34	Pemex	125.344	Mexico	-7358
36	PDVSA	124.754	Venezuela	2.640
88	Banco do Brasil	81.887	Brazil	7577
136	Banco Bradesco	65.137	Brazil	6547
159	Vale	58.990	Brazil	22 885
176	América Móvil	53.510	Mexico	6664
286	JBS/Friboi	36.921	Brazil	Not available
303	Ecopetrol	35.520	Colombia	8348
311	Itaúsa-Investimentos	34.710	Brazil	2890
380	Ultrapar Holdings	29.083	Brazil	507
399	CBD	27.839	Brazil	Not available
483	CFE	20.143	Mexico	-1381

Source: Author's elaboration based on data from *Fortune* Global 500 (2013).

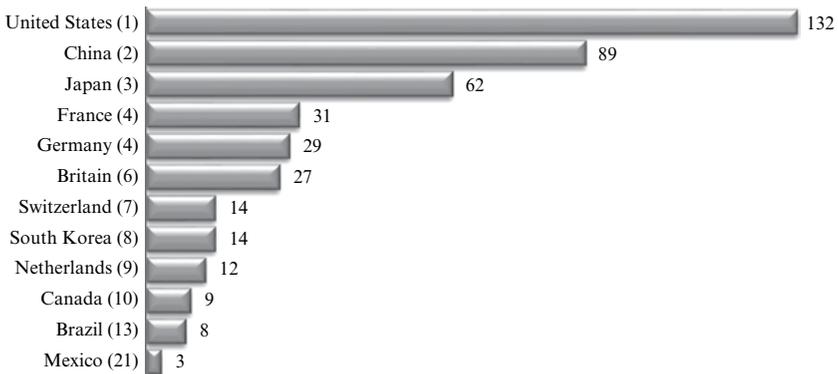
do Brasil, Banco Bradesco, Vale, JBS/Friboi, Itaúsa, Ultrapar, CBD), three from Mexico (Pemex, América Móvil and CFE), one Venezuelan (PDVSA) and one Colombian (Ecopetrol). And among the ten largest companies in the world by revenues, three are Chinese, two American, four European and one from Saudi Arabia.

It should be noted that although the growth in number and revenues of emerging companies from China continues, the number from Latin America is not growing at the same pace. By number of companies, China occupies second place in *Fortune's* ranking, South Korea with 14 is the eighth, Brazil with 8 is thirteenth and Mexico with 3 is twenty-first (Figure 1.2).

Figure 1.3 shows the Chinese dominance in these rankings with respect to other emerging economies such as Brazil, India, South Korea and Mexico.

If we consider the stock markets, Shanghai, Hong Kong and São Paulo are among the ten largest stock markets in the world. And innovation is no longer exclusive to the West. The Indian companies Reliance and Tata, the Brazilian Petrobras and the Chinese Huawei, Haier and China Mobile are among the most innovative of the world according to the ranking by Boston Consulting Group published in the American journal *Business Week*.

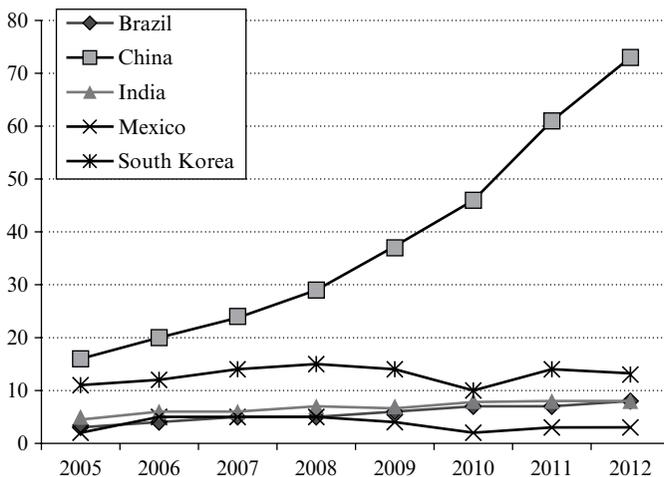
In light of this revolution, we can see that each industrial sector has



Note: Country (position occupied in the ranking according to the total number of companies) and in the bar number of companies in the ranking from that country.

Source: Author's elaboration based on data from *Fortune Global 500* (2013), <http://money.cnn.com/magazines/fortune/global500/> (accessed 1 November 2013).

Figure 1.2 Fortune Global 500 (2013) ranking of countries with greatest number of companies compared with Brazil and Mexico



Source: Author's elaboration based on data from *Fortune Global 500* (2013), <http://money.cnn.com/magazines/fortune/global500/> (accessed 1 November 2013).

Figure 1.3 2005–12 yearly evolution of number of companies in Fortune Global 500: China, South Korea, India, Brazil and Mexico

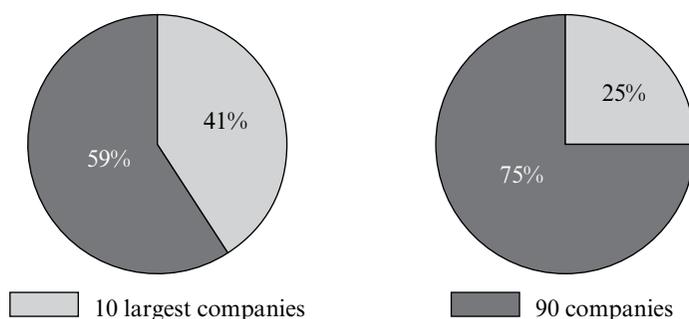
competing businesses coming from countries with different competitive advantages and diverse economic, political and social contexts. In telecommunications infrastructure projects, Alcatel-Lucent competes with the Chinese Huawei, Spanish Telefónica battles with the Mexican América Móvil and the Brazilian construction company Odebrecht vies with the French Bechtel, to name just a few examples.

1.2 THE LARGEST LATIN AMERICAN BUSINESSES

According to the magazine *América Economía*, in the ranking of 500 largest Latin American businesses,⁴ Brazil leads with Petrobras (US\$167.8 billion⁵) and also by total number of companies, with 211. It is followed by Mexico with 120, then Chile with 71, Peru with 32, Colombia with 30 and Argentina with 23.

Among the top ten companies in Latin America, Brazil has five: the mining company Vale, the oil companies Petrobras and Petrobras Distribuidora and two family businesses, the construction company Odebrecht and the meat company JBS/Friboi. Mexico has three: Pemex, América Móvil and the American Wal-Mart of Mexico. The last two making the top ten are state-owned companies: the Venezuelan PDVSA and the Colombian Ecopetrol. Oil and gas dominate the results of the ranking by sector.

The ten largest companies in Latin America have greater economic power than the global average. As can be seen in Figure 1.4, and taking



Source: Author's elaboration based on data from *América Economía* and *Fortune Global 500* (2013 edition).

Figure 1.4 Percentage of concentration of sales of the ten largest companies with respect to the 100 largest in Latin America and the world

into account the data from *América Economía* (2013), the ten largest Latin American businesses account for 41 per cent of total sales of the 100 largest companies, while according to data from *Fortune Global 500* (2013), the ten largest globally only make up 25 per cent of sales. That is to say, the influence of the ten largest businesses is much greater in Latin America than in the rest of the world.

The importance of family businesses in the region, which we shall look at in the next section, is reflected in the fact that the founder of América Móvil (now with his sons Carlos and Patrick Slim Domit as co-presidents) is the second richest man in the world, with a fortune of US\$65 billion.⁶ Latin America has seven billionaires in Forbes' ranking of 100 billionaires in the world: two in Brazil, two in Mexico, two in Colombia and one in Chile.

1.3 THE INFLUENCE OF FAMILY BUSINESSES IN LATIN AMERICA

According to the consulting company Exaudi,⁷ 85 per cent of private Latin American businesses are family businesses, they were founded in the last decades, with an average of between 11 and 50 employees and annual revenues of about US\$3 million. Only 12 per cent of them generate more than US\$23 million in annual sales. Of these businesses 47 per cent are managed by the founders, 29 per cent by the second generation and 14 per cent by both generations and only 10 per cent of these businesses are managed by the third or fourth generation.

If we look at the list of the ten largest companies in *América Economía*, four are family businesses, three are local, the Mexican América Móvil and the Brazilian Odebrecht and JBS/Friboi, and one American, Wal-Mart of Mexico. In volatile economies like those in Latin America, family ownership with a long-term focus survive better than a 'traditional' public company that is at the mercy of investors asking for short-term results.

1.4 THE RISE OF EMERGING MULTINATIONALS AND *GLOBAL LATINAS*⁸

The rise of emerging multinationals in the last years has been very noticeable. In 2010 (Ramamurti, 2012), they represented 25 per cent of the global flow of direct investment and their disruptive effect alerted academics. Research in business schools has focused mainly on the differences between traditional multinationals (European, American or Japanese) and

these new multinationals (Guillén and García-Canal, 2010), the motivations, the factors that determine their international expansion (Yeoh, 2011) and the factors determining where and how they invest. Some researchers believe that these emerging companies have flourished within protected economic environments and have benefited from subsidized loans and are not part of the technological vanguard (Cuervo-Cazurra, 2012; Guillén and García-Canal, 2010).

In a recent article (Casanova and Losada, 2012), and based on previous empirical work on *Global Latinas* (Casanova, 2009), we argue that these emerging businesses have survived in a competitive environment with leading multinationals thanks to their competitive advantages and their own resources. For example, the Argentinian company Tenaris and the Brazilian firm Petrobras developed technological know-how internally and have used it to provide products and services to clients all over the world. América Móvil managed to defend and increase its market share in the region using its own marketing resources.

Some of the Latin American businesses were created at the beginning of the twentieth century and have managed to survive for more than 100 years despite numerous economic crises. We can distinguish three phases in the internationalization process. The first phase (1970–90) is the beginning of the *multilatinas*, when they expanded in their natural market, the neighbouring countries. Following my own definition in an article in *Foreign Affairs Latinoamérica* (Casanova, 2002), natural markets are those that share the same language or history or are geographically close. The term *multilatinas* was coined at that time and defines the Latin American companies that began their expansion in the region. This phase of international expansion stopped in the 1980s, the so-called 'lost decade', when the governments of the region defaulted on their government debts.

The second phase (1990–2002) corresponds to the Washington Consensus years. It is the big wave of privatizations of telecommunications, energy, water, the financial sector and natural resources. The Latin American press was talking about 'La Reconquista', alluding to the arrival en masse of Spanish companies that knowing the region, saw an opportunity where others saw risk. Twenty years later, the Spanish banks BBVA and Santander are the main players in the financial sector in the region. Spanish Telefónica is one of the leaders in the telecommunications sector. This influx of foreign companies was a catalyst for the *latinas*, who began their own process of internationalization. Some followed the path of the free trade agreements. Argentina, Brazil, Paraguay and Uruguay signed an agreement for a Common Market of the South, and Mexico signed its own accord with the United States and Canada in 1994. Mexican businesses expanded towards the United States: Cemex bought

Southdown there in 2000. Brazilian companies expanded southwards. Petrobras increased its presence in Argentina with investments in the production of gas in UTE Aguaraquíe (Salta), the perforation of the exploratory well San Julián (Santa Cruz) and exploratory drilling in Cuenca Neuquina. América Móvil took advantage of the technology sector crisis of 2000 to buy shares in Bell Canada and Bell South, MCI WorldCom, at bargain prices, and overnight became leader of the regional sector.

The third phase (2002–08) is that of the emerging markets in which global Latin American businesses were created. The rise in price of raw materials (oil, copper, silver, gold or iron ore) and agricultural products linked to the increased demand from China and Asia was beneficial to Latin America. According to the Economic Commission for Latin America and the Caribbean (ECLAC), the region achieved, for the first time in 30 years, an average GDP growth of 5 per cent, except in 2009 when, as a consequence of the global crisis, the economy shrank by 1.9 per cent. In 2006, the Brazilian mining company Vale, the largest global exporter of iron ore, bought the Canadian company Inco, specialist in nickel for US\$18.9 billion. *Global Latinas* successfully entered Europe, Canada and the United States.

In 2010, the fourth and present phase began, in which the emerging markets reassert themselves while the West struggles to get out of the crisis. Brazil and Mexico are the main players in six of the world's ten largest fusions and acquisitions. According to data from September 2010 published in the British paper, the *Financial Times*, the greatest acquisition was in Mexico, of América Móvil by Carso Global Telecom for a total value of US\$24 billion.

1.5 THE COMING OF AGE OF *GLOBAL LATINAS*

In 2006 I began a qualitative study⁹ of global Latin American¹⁰ firms in collaboration with the IADB. The sample sought to cover different countries, industrial sectors and sizes in order to find common behaviour among them. The study used case methodology and included interviews with the managers from the companies. We wanted to discover the reasons for internationalization, the strategies they had followed and what their differentiating characteristics were. The results of the research are given in detail below.

1.5.1 Internationalization as a Learning Experience

The macroeconomic context is important in the daily performance of emerging companies. The continent has been characterized by an

enormous volatility in the last 30 years: the debt crisis in the 1980s, the Mexican crisis in 1994, the devaluation of the Brazilian real in 1999 and of the Argentinian peso in January 2002 all caused disruption to business in the region. A company's ambition is to enter stable economies that will compensate any domestic instability. The capital cost for Latin American firms has been, and still is, very high, which puts them at a disadvantage when competing with Western businesses, who have cheaper credit facilities. Cemex's acquisitions in Spain in 1992 helped the company to organize its funding at cheaper rates from its Spanish subsidiary. Most countries in the region now have investment grade but it should be remembered that until 2007, the only countries that did have it were Mexico and Chile. When the Spanish firm Repsol bought the Argentinian YPF in December 1999 (which was later nationalized by the Argentine government), some experts pointed out that Repsol was able to do so only because it had access to cheaper credit facilities by being in Europe.

According to the classic work by John Dunning (1993), internationalization of businesses is motivated by three reasons: to seek efficiency, to secure natural resources at reasonable prices or to enter new markets. Latin American businesses are looking, mainly, to enter new markets in order to increase in size. Emerging businesses do not always begin their expansion with a clear competitive advantage, but rather it is something they acquire during the process of internationalization. Thus, a virtuous circle is formed, in which internationalization is seen as a learning process to acquire knowledge, this knowledge is brought home and is then used to gradually build up a competitive advantage. For example, the Guatemalan fast-food restaurant chain Pollo Campero made its first international excursion in 1986 to Miami. Although it was forced to leave the city the following year, Pollo Campero learned to understand the differences in the catering sector between the United States and Central America. After this first failure, it realized that it had to improve its organizational processes, gain the loyalty of its staff and so build a business model that could be transferred to other countries.

1.5.2 First, the Natural Market

The expansion of Latin American multinationals begins in its natural market. Within the natural markets there is more information and thus the competitive panorama is better known, to both clients and suppliers, and it is easier to attract talent. The networks and links between countries in a natural market are tighter than outside it.

The Ibero-American world is a huge natural market that shares a similar culture and has two predominant (and quite similar) languages,

Spanish and Portuguese. The flow of immigrants in both directions across the Atlantic has created constant exchanges of people, information and culture. Since 1991, Ibero-American summits have been held, in which the 22 presidents of the member countries meet. One initiative promoted by these summits has been the Ibero-American Forum of Higher Education. Similar to the Erasmus programme of European university student exchange, there now exists an exchange programme for Ibero-American students within the network of a thousand universities in 11 Ibero-American countries.¹¹ Between 2005 and 2015, Banco Santander is funding, with 600 million euros, a programme that promotes the movement of 15 000 students and researchers within the university network.

Just as the United Kingdom has been the European door for US companies, Spain has opened up Europe for Spanish-speaking firms. Astrid y Gastón, the Peruvian restaurant chain, inaugurated its first European premises in Madrid. Portugal is the bridge for Brazilian companies. Banco Itaú opened its European headquarters in Lisbon in 1994 and Embraer entered Europe via Portugal when it led the consortium that acquired OGMA in 2004.

1.5.3 Are Latin American Multinationals Different?

In Casanova (2009), we found some common characteristics such as strong leadership with a long-term vision. Leaders such as Daniel Servitje from Grupo Bimbo manage the day-to-day affairs of their businesses while at the same time keeping their eye on the long term. These are not firms that copy a strict business plan devised on home ground; rather, they are flexible and capable of adapting with agility to different realities.

State ownership still holds sway in Latin American firms and in the emerging world in general. Five out of the ten largest Latin American companies are partially or totally state-owned and are found in the oil or gas sector: Petrobras and Petrobras distribuidora, PDVSA, Pemex and Ecopetrol.

Family businesses are common and often are organized as a conglomerate. Grupo Carso, for example, comprises hotels, mines, railways and shopping malls. The different sectors of a conglomerate are useful in times of crisis, as losses in one sector can be compensated by the profits in other sectors. The strength of family businesses in the region is described in other chapters of this book.

Other characteristics particular to Latin American businesses are that they know, and adapt their products and services to, the clients at the so-called base of the pyramid. The upper-class market is small in Latin America and if you want to succeed you must attract the general

population and adjust to their limited spending power. The Hawaiiana flip flops, part of the Brazilian conglomerate Camargo Correa, is a global product that was initially aimed as cheap footwear for the Latin American poor. Through a series of innovations in marketing and in the design of the flip flops, the product became global with a brand image that alludes to the relaxed and outdoor lifestyle in Brazil.

1.5.4 Reverse Innovation

Traditionally, it was the developed world that exported new products, and innovation in general, to the developing world. Now reverse innovation goes from the emerging countries towards the West. Microcredit, the pre-paid card for cell phones, and sugar cane-based ethanol are some of the innovations that have revolutionized the financial sector, telecommunications or biofuels in emerging countries and from there have been imported to Europe and the United States. The Brazilian aeronautics company Embraer, for example, has a business model that some specialists call reverse outsourcing. At the plant in São José dos Campos, aircrafts are designed and assembled, the parts having been manufactured in Europe or the United States. Brazilian aeronautical engineers coming from the Instituto Tecnológico de Aeronáutica (ITA), one of the best aeronautical schools in the world and closely linked to Embraer, are excellent professionals and comparatively cheaper. Thus, Embraer can get quality at a low price.

At a time when alternative energy is in high demand, Brazil offers the world its hybrid engines, which it began to produce in 2003. These engines can work with petrol/gas, ethanol or any combination of the two. The German multinational Volkswagen was the first to commercialize vehicles with these engines. Last year the technology extended to motorcycles and Honda was first to launch a bike with these characteristics. Ethanol is available in all the gas stations of the country and all manufacturers produce these types of flexible engines. Ethanol is the result of the Brazilian government's goal, after the oil crisis of 1973, to be self-sufficient in energy, and of agricultural research done in Embrapa, the governmental research institute that was founded that same year. Embrapa is also responsible for Brazil's status as an agricultural power, achieving a 150 per cent increase in productivity in the sector in the last 30 years. According to Pedro Antonio Pereira, Director of Embrapa, there was only a 30 per cent increase in agricultural land use in that period of time.

The so-called creative industries range from fashion to industrial design, cinematography, audiovisual products and cultural tourism. It is worth pointing out the success of Latin American music: the Colombian

Shakira is one of Latin America's most renowned artists and famous worldwide; the Argentinian tango was declared part of the world's cultural heritage by the United Nations. Apart from music, the region exports television soaps produced by the Brazilian television company Globo or the Mexican Televisa. In Argentina, television programmes are produced and adapted in small and medium-sized companies such as Pol Ka. Argentina exports more than US\$500 million in this sector. This is the result of a combination of factors: a highly qualified workforce, a very creative culture of design, plus the commitment of the Government of Buenos Aires, which established the Metropolitan Institute of Design and Innovation (IMDI).

1.5.5 The 'New Reality'

Under these new circumstances, risk is everywhere, not only in emerging countries, and the most volatile currencies have in recent years been those that in the past provided a safe haven in a crisis.

As commented above, Latin American multinationals went to Europe and the United States to learn. At a time when growth and innovation is no longer exclusive to the developed world, are they going to know how to shift their gaze in order to take advantage of opportunities for growth and learning in other emerging countries such as China?

Will the models of business, management and leadership that have for the last 50 years been taught in business schools still be valid for the new emerging multinationals?

The internationalization of Latin American businesses has only just begun. What skills will the Brazilian and Latin American executives need in order to make their business succeed?

The definition of economic success has changed; social and environmental elements have been incorporated. Latin America has the lowest carbon dioxide emissions in the world. The last five years have also seen noticeable social improvements. Will the region and its businesses take advantage of this leadership at a global level?

NOTES

- * I am grateful to Paloma Fernández Pérez and Andrea Lluch for their encouragement and support.
- 1. Please refer to Chapter 5 for more information about Brazilian family businesses by Armando Dalla Costa, Carlos Eduardo Drumond and José María Las Heras.
- 2. Please refer to Chapter 12 for more information about Chilean family businesses by Jon Martínez Echezárraga.

3. Please refer to Chapter 11 for more information about Peruvian family businesses by Martín Monsalve Zanatti.
4. <http://rankings.americaeconomia.com/2012/las-500-empresas-mas-grandes-de-america-latina/> (accessed October 2012).
5. The turnover data of largest businesses in the rankings of *América Economía* and *Fortune* 500 show notable differences. For example, Petrobras in *Fortune* 500 has a turnover of US\$145915 million and in *América Economía* US\$167888.3. It is possible that the results were collected at different times and also that the fluctuations in value of the Brazilian real with respect to the US dollar have a role to play.
6. <http://www.forbes.com>, December 2013 (accessed 15 December 2013). In 2012, Carlos Slim was the wealthiest man in the world for that year; Bill Gates has returned to first position (at the time of writing).
7. <http://www.exaudionline.com> (accessed 3 December 2013).
8. *Global Latinas* as defined by Casanova (2009) refers to the Latin American multinationals that have expanded into developed markets such as Europe, the United States and Japan.
9. Casanova, L. and M. Fraser (2009). Casanova, L. (2009).
10. The companies studied were: from Mexico América Móvil, Bimbo, Cemex, Grupo Carso, Grupo Modelo, Televisa, TV Azteca; from Brazil Vale, Embraer, Petrobras, Banco Itaú, CSN, Pão de Açúcar, Sadia; Grupo Luksic from Chile and Techint/tenaris from Argentina; and medium and small firms Concha y Toro (Chile), Natura & Politec (Brazil), Pollo Campero (Guatemala) and Astrid y Gastón (Peru).
11. The 11 countries comprising this network are Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, Portugal, Puerto Rico, Uruguay and Venezuela.

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