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The multinationalization of developing country MNEs: The case of multilatinas

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Abstract

I study the multinationalization — the decision to establish foreign direct investment (FDI) — of developing country firms, in particular Latin American ones or "Multilatinas". Despite a long exporting tradition, many firms in Latin America have only recently become multinational enterprises (MNEs). The analysis of case studies reveals three insights. First, Multilatinas take a long time to become MNEs, reflecting the additional challenges and need for sophisticated advantages for establishing FDI. Second, Multilatinas are induced to become MNEs after changes in the home country that follow structural reform induce them to upgrade their competitiveness to international levels. As a result, they can overcome the difficulties of establishing FDI and become MNEs. Third, Multilatinas follow four strategies in their selection of the country where to establish FDI first depending on the interplay between difficulties and advantages of operating abroad. These three arguments build on and link the notion of advantages of internationalization put forward by the eclectic paradigm of international production and the idea of difficulties in internationalization presented by the incremental internationalization model. The strategies are explained by the balancing of the ease of overcoming difficulties and the advantages derived from foreign operations.

Keywords: Multinational enterprises; Multilatinas; Developing country; Internationalization process; Incremental internationalization; Eclectic paradigm; Latin America

1. Introduction

The number of developing country multinational enterprises (MNEs) has increased significantly in recent times. According to data from the United Nations Conference on Trade and Development (UNCTAD), in 1992, only 8.47% of all transnational firms in the world were from developing countries; by 2005 this percentage had more than tripled to represent 28.10% (UNCTAD, various years). Developing country MNEs are not a new phenomenon, however. For example, the Argentinean firms Alpargatas, Bunge & Born, and S.I.A.M. di Tella had already established foreign operations by the first third of the 20th century. Nevertheless, the study of developing country MNEs is relatively

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recent. The literature of the 1970s and early 1980s started identifying them as an interesting development in international business and discussed their advantages and internationalization (e.g. Kumar and McLeod, 1981; Lall, 1983; Lecraw, 1977, 1993; Wells, 1983, see the review by Yeung, 1999). However, the behavior of developing country MNEs then is likely to differ from what we observe today. Most of the largest firms then operated in natural resources and many were state-owned (Heenan and Keegan, 1979); governments actively helped them internationalize (Aggarwal and Agmon, 1990); many of these firms based their exporting advantage on access to natural resources or low-cost labor, and their multinationalization advantage on managerial practices and technologies that were well-adapted to operating in other developing countries (Kumar and McLeod, 1981; Lall, 1983; Lecraw, 1977, 1993; Wells, 1983), and few of them were market leaders (Vernon-Wortzel and Wortzel, 1988). In contrast, in the 1980s some developing country MNEs had begun operating in developed countries on the basis of their skills (Ghymn, 1980; Ulgado et al., 1994) and developing country MNEs, like the Mexican cement producer Cemex or the Brazilian airplane manufacturer Embraer, had become leaders in their industries. This has resulted in a renewed interest in developing country MNEs (see the special issues edited by Aulakh, 2007, and by Luo and Tung, 2007).

Understanding their multinationalization, that is, the establishment of foreign direct investment (FDI), can yield new insights to the study of this increasingly important phenomenon. Two leading models that explain the multinationalization process are the incremental internationalization model and the eclectic paradigm of international production.[1] The incremental internationalization or Uppsala model introduced by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) argues that becoming a multinational is difficult because of the lack of knowledge about foreign markets. As a result, firms expand incrementally. They start in countries where they face lower difficulties because the countries are proximate in psychic distance to the home country and firms can use their existing knowledge to operate there. They later move into countries where they have higher difficulties because the firms are more psychically distant. A second leading model is the eclectic paradigm of international production proposed by Dunning (1977). The model focuses on the advantages of firms when they move abroad. The paradigm argues that the combination of ownership, location, and internalization advantages explains the decision to establish production subsidiaries abroad. Both models were developed based on the analysis of the internationalization in the 1950s and 1960s of developed country firms, Swedish for the incremental internalization model, British and US firms for the eclectic paradigm. The models have been refined over time to include new developments in international business (e.g. Dunning, 1995, 2000; Johanson and Vahlne, 1990, 2006). However, they need further extension to explain the multinationalization of developing country firms because the advantages and internationalization of developing country MNEs differ from those of developed country ones (Dunning, 2000; Dunning et al., 1998).

Therefore, in this paper I analyze the multinationalization of developing country MNEs. In particular, I study the multinationalization of Latin American MNEs, or “Multilatinas” to illuminate the process. I selected the largest twenty private firms in the region, which resulted in a set of Argentinean, Brazilian and Mexican firms, and studied their multinationalization. Analyzing firms in one region with similar development processes facilitates the comparison of experiences. At the same time, analyzing firms in multiple countries facilitates the generalization of insights. Moreover, this region has received comparatively little attention in international business research (Elahee and Vaidya, 2001) but it is nevertheless an important economic area and many of its firms have become leaders in their industries.

The analysis reveals three main ideas. First, Multilatinas take a long time to become MNEs, reflecting the additional difficulties and need for sophisticated advantages for establishing FDI. Second, Multilatinas appear to be induced to become MNEs by the transformation of the conditions of operation in the home country that undertakes structural reform. This induces firms to upgrade their competitiveness, enabling them to overcome the challenge of establishing FDI and become MNEs. Third, Multilatinas follow four alternative strategies for selecting countries in which to first establish FDI. The strategies are explained by the balancing of the ease of overcoming difficulties and the advantages derived from foreign operations.

As a result, the paper highlights how the study of developing country MNEs can generate new insights. The analysis of Multilatinas suggests that multinationalization can be better explained by building on and linking the advantages

[1] There are other dimensions of the cross-border expansion process that I do not analyze in this paper (see Cuervo-Cazurra and Ramos, 2004, for a recent review). First, I do not discuss internationalization, where a firm that only sells in its home country decides to start exporting (for a review see Andersen, 1993). Second, I do not discuss the sequence of FDI used to become an MNE, where a firm first exports, then establishes sales subsidiaries, and finally sets up production subsidiaries (this is another dimension of the incremental internationalization process model introduced by Johanson and Vahlne, 1977, and studied in Cuervo-Cazurra, 2007). Third, I do not discuss the selection of entry modes, where a firm chooses to acquire, establish an alliance, or set up a greenfield investment in its foreign expansion (for a recent review of entry modes see Datta et al., 2002).