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Local enablers of business models: The experience of Brazilian multinationals acquiring in North America ☆

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ABSTRACT

Despite the rapid growth of South–North investments, the literature is still incipient to look into the broad range of issues associated with them. This article focuses on reverse takeovers and discusses the reasons why emerging-country firms, Brazilian multinationals in particular, are able to profitably acquire firms in developed countries, chiefly in the United States. The research addresses two specific subjects in international business literature: country-choice and entry-mode. The analytical approach assumes that reverse takeovers are part of the dynamic reconfiguration of global production systems which, in turn, are influenced by shifting conditions in countries' business environments. Changes in business environments impact local firms' business models and their positioning in global production networks and international markets as well. Reverse takeovers are facilitated when both the simultaneous evolution of the developed country multinational and the emerging country multinational business models establish a common ground for the transaction. Through the analysis of Brazilian multinationals' acquisitions in North America, relevant insights pertaining to the realms of firm-specific advantages, country-choice and entry mode in reverse takeovers are unveiled.

1. Introduction

In the international business literature, an open debate concerns the necessity, or lack thereof, of new theoretical approaches explaining the phenomenon of emerging country multinationals. Ramamurti (2009), Ramamurti and Singh (2009), and Zeng and Williamson (2007) are among those urging the development of new approaches, whereas Rugman and Li (2007); Narula (2006) and others resist this trend.

This paper addresses an issue that highlights differences between emerging multinationals from emerging countries (EMECs) and developed country multinationals (DMNEs) that is EMECs acquiring in developed countries, or 'reverse takeovers'. This phenomenon reveals the increasing level of investment of emerging country firms in developed countries (UNCTAD, 2010) as per important acquisitions by Chinese firms (SAIC acquiring Rover; Geely acquiring Volvo), Indian firms (Tata Group acquiring Corus Steel and Jaguar Land Rover), Russian firms (Severstall acquiring Penfold in Canada) and Brazilian firms (Gerdau acquiring Ameristeel and Chaparral, Braskem acquiring Dow's operations), the latter being the focus of this study.

This subject is in the domain of two specific themes in international business strategy: country-choice and entry-mode. With regard to country-choice, researchers using traditional approaches to internationalization hypothesize that because EMECs do not possess FSAs — firm-specific advantages (Rugman & Li, 2007), they have short-lived undertakings in more competitive environments, which would lead them to prioritize less developed countries, where they would have clear competitive advantages (Wells, 1982). Other authors admit that EMECs invest primarily in countries that are culturally and geographically closer to control for difficulties arising from psychic distance (Cuervo-Cazurra, 2007). With regard to entry-mode, the extant literature suggests that joint-ventures and partnerships represent the most appropriate route to strengthen international competitiveness (Mathews, 2006), but the trend toward acquisitions appears to prevail among EMECs (UNCTAD, 2010). Therefore, none of these classic approaches may be appropriate to address the issue of EMECs acquiring in developed countries.

The majority of studies arguing that the phenomenon of EMECs requires an extension of international business theories assume that emerging country multinational acquisitions in developed countries are predominantly an asset-seeking type of internationalization (Child & Rodrigues, 2005; Mathews, 2006). According to Luo and Tung (2007:482), that leads to a sort of springboard strategy in which EMECs "use outward investments as a springboard to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home". However, as Williamson (2010) notes, "pure resource-seeking explanations

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of these types of takeovers leave unanswered the question of why acquirers from emerging economies can out-bid their rivals in the market for corporate control in the developed world and still make such acquisitions profitable".

The backdrop of this study showcases the reconfiguration of global production systems and the roles that both DMNEs and EMECs play. Under certain conditions, the strategic repositioning of DMNEs moving up their value chain leads to the discontinuation of certain productive activities, which EMECs are eager to acquire. In these cases, the decision-making process associated with country-choice and entry-mode follows a logic that is distinct from those implicit in the above mentioned internationalization theories. The distinct business models adopted by both sellers and acquirers justify the transaction and the capacity of EMECs to make such acquisitions profitable.

The differences in business models are partially due to the embeddedness of the negotiating firms (i.e., DMNEs and EMECs) in distinct institutional and cultural environments, which provide different stimuli for the identification and implementation of their value propositions. Thus the country of origin becomes an important factor influencing reverse takeovers. This study examines, multinational firms based in Brazil and North America.

This paper addresses the following questions. Are reverse takeovers related to the simultaneous (re)positioning of both developed country and emerging country multinationals? Are the acquisitions of developed country firms by Brazilian firms justified by differences in the business models adopted by each of them?

The analytical framework relies on the following assumptions. Even though EMECs may develop competitive advantages in certain industries, direct competition in developed country markets favors the DMNEs (Rugman & Li, 2007). When EMECs acquire DMNEs in developed countries, external factors, the institutional environments in particular, play an important role in the explanation of that transaction. The institutional environment influences the formulation of business models at the firm level in two ways: by setting the competitive regime and by influencing the firm's management style and organizational competences. Distinct business models lead to different strategic positioning within the same industry or value chain, what may justify sales by DMNEs and acquisitions by EMECs.

The framework develops following Whetten (1989), for whom the development of theoretical frameworks must consider four blocks related to the what (variables, constructs, concepts to be used); the how (how do they interrelate); the why (which are the reasons that justify the relationships among constructs, variables and concepts) and the who, where and when (that represent the specificity of the approach that is being built to address the phenomenon and its boundaries).

Brazilian multinationals acquiring in North America is the focus of the empirical work. Only nine cases are available for study, but the outcomes provide insights and clues for further research. The movements of Brazilian multinationals toward NA is analyzed first as a group, and then three cases are examined in greater detail, adding information about the sellers in order to disclose the reasons leading them to engage in such transactions.

The main contribution of the article is the framework, which helps to explain the logic of reverse takeovers. In regard to the empirical findings, although they bring important insights, there is no attempt to generalize due to the limiting conditions of the sample under scrutiny. Further advances using the framework may result in robust theory for the phenomenon.

2. Building the analytical framework

2.1. Frameworks

Warr (1980) notes that models, theories, conceptual frameworks and paradigms are all terms that help to organize thinking and action: they give differential priority as well as structure to ideas and practices. Models are built using lenses, sieves and molds. Lenses reflect the epistemological break that the researcher assumes in the study of a phenomenon that is complex and multifaceted. In this study, the lenses focus on the firm as the unit of analysis and consider a firm's business model to be the main driver of its strategic positioning. Sieves allow certain elements to pass but disallow others; a mold selects some items over others. Organizational competences and management style are assumed as factors internal to the firm and the institutional environment as a factor external to the firm influencing the formulation and implementation of the business model. Finally, conceptual molds give shape to thinking, establishing systems of meaning and creating familiar patterns that enable manipulation and work. As the adopted approach for this study, the mold will seek to reveal the dynamic interplay between firms from the developed world and emerging economies running on distinct business models in global production systems.

2.2. Business models

"Despite lineage going back to when societies began to engage in barter exchange, business models have only been explicitly catapulted into public consciousness during the last decade or so" (Teece, 2010:174). In fact, the major driver of the increasing importance of the concept appears to be the Internet, within which firms have to discover new ways to survive and prosper doing business under radically new rules when compared to the traditional goods and services industries.

Teece (2010) adds that "the concept of a business model lacks theoretical grounding in economics or in business studies". Nonetheless, "a good business model yields value propositions that are compelling to customers, achieves advantageous cost and risk structures, and enables significant value capture by the business that generates and delivers products and services" (ibid:174).

Santos, Spector, and der Heyden (2009) offer the following explanation of the difference between a business model and a business strategy: "A business strategy is specified by the answers to three questions: what is the offer, who are the customers, and how is the offer produced and delivered to the customers? It is the how question that subsumes the firm's choice of business model. Organizations can have essentially the same product or service offer (the what), aim for the same market segment (the who), and do so with different business models (the how)". This approach is in line with Morris, Schindehutte, and Allen's (2005) proposition that "[a business model] is not a strategy but includes a number of strategy elements".

"In the formulation of the Business Model, management must consider the firm's value proposition, choose the activities it will undertake within the firm, select the appropriate technologies and determine how the firm fits into the value creation network" (Teece, 2009). Business models "must morph over time as changing markets, technologies and legal structures dictate and/or allow for" (Teece, 2010:177). Therefore, business models are dynamic, and subject to external influences, not only those influences arising from the marketplace, but also those deriving from the institutional and technological environments. In other words, a business model may have a lifecycle time.

Little is known about how firms formulate and reformulate business models. Taking the former definitions into account, the what and the who of the business strategy (the product or service offerings and the market analysis) adopt an outside–inside perspective, industry analysis (Porter, 1986, for example), whereas the how (the business model) takes an inside–outside perspective by examining the firm's competences and resources: "Business Models implicitly or explicitly address the internal competences that underlie a firm's competitive advantage" (Morris et al., 2005).

2.3. Competences and capabilities

The notion of a firm as an architecture of organizational competences comes about in the classic paper "The core competence of the