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## International Value Creation: An Alternative Model for Latin American Multinationals

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*Creación de valor internacional: Un modelo alternativo para multinacionales latinoamericanas*  
*Criação de valor internacional: Um modelo alternativo para as multinacionais latino-americanas*

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*Recently, there has been considerable research on the great rise of Emerging Market Multinationals (EMNEs). Yet very few EMNEs are generating a significant portion of their profits abroad, and there is a growing list of failures associated with these firms' internationalization efforts. This paper summarizes traditional thought on international strategy, explains the historical trajectory of EMNCs, and highlights how EMNCs have adapted to mainstream IB strategy theories. The paper develops a new model of international value creation based on primary and secondary data from the largest firms in Latin America. Specific examples of how to operationalize the model are offered.*

*Muchos han sido los estudios recientes centrados en el auge de las multinacionales de mercados emergentes (Emerging Market Multinationals - EMNEs). Aun así, muy pocas EMNEs están generando una parte significativa de sus beneficios más allá de sus fronteras y la lista de fallos asociados a los esfuerzos de internacionalización de estas firmas no deja de crecer. Este artículo resume conceptos tradicionales sobre la estrategia internacional, explica la trayectoria histórica de las EMNCs y destaca cómo las EMNCs se han adaptado a las teorías de transacciones internacionales más convencionales. El artículo desarrolla un nuevo modelo de creación de valor internacional basado en datos principales y secundarios de las firmas más importantes de Latinoamérica. Se incluyen ejemplos específicos sobre cómo aportar operabilidad al modelo.*

*Recentemente, houve considerável investigação sobre a grande ascensão das Empresas Multinacionais Emergentes (EMNEs). No entanto, poucas EMNEs estão a gerar uma parte significativa dos seus lucros no estrangeiro e há uma lista crescente de fracassos associados aos esforços de internacionalização destas firmas. A presente comunicação sintetiza o pensamento tradicional sobre estratégia internacional, explica a trajetória histórica das EMNCs e ilustra o modo como as EMNCs se adaptaram às principais teorias de estratégia de transações internacionais. O artigo desenvolve um novo modelo de criação de valor internacional com base nos dados primários e secundários das maiores firmas da América Latina. São apresentados exemplos específicos sobre o modo de operacionalizar o modelo.*

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## 1. Introduction

Over the past number of years, there has been considerable work on the rise of Emerging Market Multinationals (EMNEs), and stories about how these firms are going to reshape the world are almost an assumption within business circles (Agtmael, 2007; Guillén & García-Canal, 2009; Mathews, 2006). Unfortunately, reality is a bit more sobering. Very few EMNEs are generating a significant portion of their profits abroad, and there is a growing list of failures associated with these firms' internationalization efforts (Burt, Mellahi, Jackson, & Sparks, 2002; Pauwels & Matthyssens, 1999; Peltier, 2004). Yet it appears that internationalization is here to stay. Following the recovery of the global financial crisis, emerging market firms are now attempting to adopt a number of golden rules in order to create value through internationalization. However, are traditional International Business (IB) theories adequate for this purpose?

This paper reviews the available literature on global strategy and international organization as a foundation of a five-step model, which attempts to utilize available theory in order to create value through international expansion. Specifically, the focus is on the main issues to be considered by Latin American MNEs' during their internationalization process. Latin America was selected as the focus of analysis not only because there has been a relative lack of studies on the region (Cuervo-Cazurra, 2008) and hosts many world-class EMNEs (Agtmael, 2007), but also because it has a unique historical context which has contributed to their international strategy (Cuervo-Cazurra, 2010).

Recent advances in global strategy can be very insightful for Latin American MNEs. The metanational organization proposed by Doz, Santos and Williamson (2001), as well as Ghemawat's (2007a, b) aggregation, adaptation, and arbitrage (AAA) strategies, discussed in the next section, highlight that the traditional projecting strategies of incumbent multinationals are no longer adequate for the current stage of globalization. On the other hand, they bring to light that emerging multinationals have to deal with a rather complex scenario, one that presents new opportunities but also demands a deeper understanding of the world. Bearing this in mind, we analyze how the ownership, location, and internalization (OLI) advantages (Dunning, 2001) of EMNEs in general, and of Latin American firms specifically, condition their possibilities of creating value through internationalization. We take into consideration the most recent developments of the OLI paradigm which account for the importance of institutions both in the home and host markets, as well as, its extended view that embraces asset-augmenting strategies (Dunning, 2001, 2006a, 2006b).

The theoretical approach of the paper is complemented with primary and secondary data from Latin American and Brazilian MNEs and provides the basis for the development of our model on international value creation. The model is grounded on the assumption that differences across countries and regions should not be seen as a constraint, but rather as a source for creating value through knowledge creation opportunities (Doz *et al.*, 2001; Ghemawat, 2007a). Hence, we argue that Latin American MNEs can take advantage of such differences by deconstructing the reasons for their success at home and building new approaches abroad. We suggest that the leaders and researchers of these firms should focus their decisions on five interconnected dimensions: value proposition, bu-

**KEY WORDS**  
Developing countries, multinational firms, performance, internationalization, Latin America

**PALABRAS CLAVE**  
países en desarrollo, firmas multinacionales, rendimiento, internacionalización, Latinoamérica

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siness model, organizational model, talent and leadership, and stakeholder management. Although not exhaustive, the proposed model is an attempt to codify a process and develop a practical tool that Latin American MNEs can use on strategic, organizational, and institutional issues related to the internationalization process. Finally, the last section draws the argument together and presents suggestions for future research based on the propositions and limitations of the paper.

## 2. Literature Review

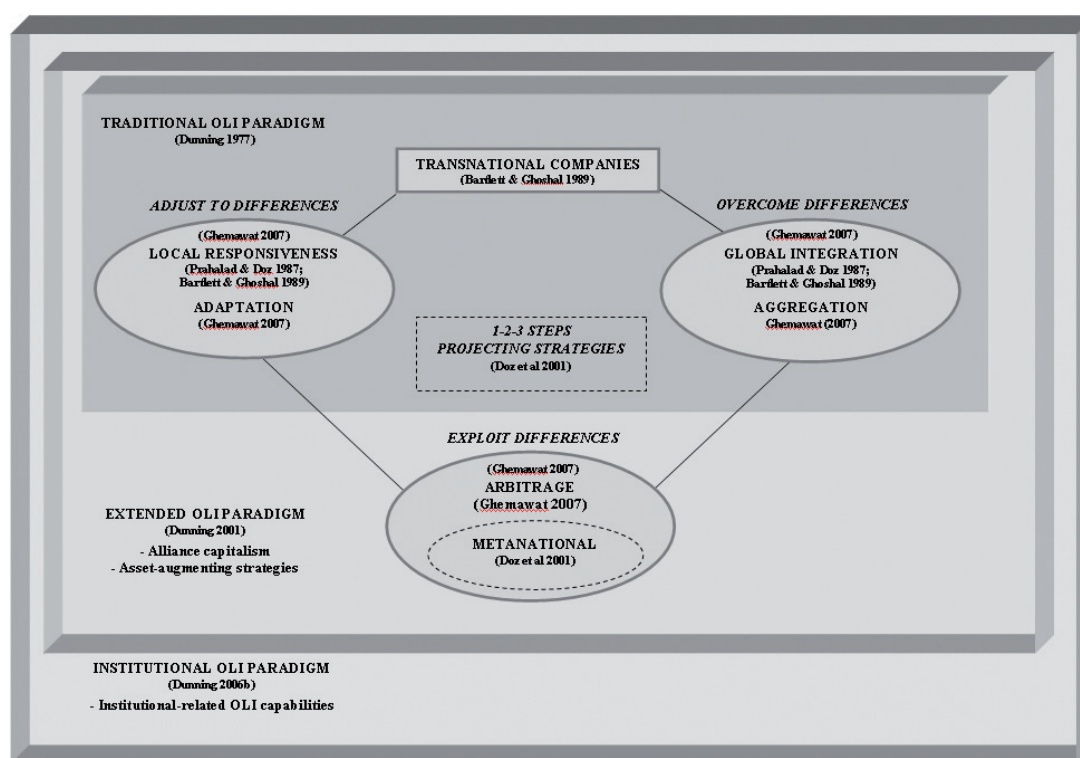
The International Business (IB) literature has offered different explanations for why and how firms become multinationals, yet the Eclectic Paradigm proposed by Dunning (1977) is considered one of the most encompassing frameworks for research in the field (Dunning, 2000). Dunning (1977) asserts that the international production of companies is determined by the configuration of: firm-specific competitive advantages (ownership), comparative advantages existing at the host country level (location), and the advantages attained by generating assets internally rather than obtaining them from the markets (internalization). The OLI paradigm has been criticized by several scholars, either because it is too optimistic, tautological, static, or with limited explanatory power for emerging market firms (Dunning, 2001). Although it is not within the scope of this paper to review these criticisms, we suggest that the extended OLI paradigm presented by Dunning in his more recent writings (Dunning, 2001, 2006a, 2006b) does provide a relevant basis for framing key aspects related to global strategy, international organization, and institutional influences, which are all key aspects for addressing the research question of this paper, namely: How can Latin-American MNEs create value through internationalization? Taking the OLI paradigm as a framework for reviewing the available literature, the literature review section is thus divided into three main topics: 1) global strategy from a traditional MNE perspective, 2) the internationalization of EMNEs, and 3) the internationalization of Latin American MNEs.

### 2.1. Global Strategy from a Traditional MNE Perspective

From a firm-level strategy point of view, scholars such as Doz *et al.* (2001) have highlighted that most mainstream IB theories are based on the experiences of traditional MNEs, firms based in developed countries which became international in the 70s, 80s and 90s. The authors point out that the early history of these MNEs have a number of marked similarities which have been termed the “1-2-3 steps”: 1) “build on the core strengths from homeland to gain international advantage”; 2) “project these strengths into the global arena along the product life cycle”; and 3) “balance local responsiveness with global integration” (Doz *et al.*, 2001: 37-39) (see the inner frame of Figure 1). These steps can be regarded as a summary of the theoretical evolution of IB, as it combines the traditional ownership advantages of Dunning’s OLI paradigm (step 1) with other theories such as Vernon’s (1966) product life cycle (step 2), and Prahalad and Doz’s (1987) trade-off between local responsiveness and

global integration, further discussed in Barlett and Ghoshal's (2001) transnational design (step 3). While not all developed country firms have precisely followed this multinationalization pattern (especially if one compares the Anglo-Saxon MNEs with those from Scandinavia and Japan), the core of their strategies is similar. Traditional MNEs have all tried to find ways of building ownership advantages at home (or in their most important subsidiaries) so as to transfer them abroad according to the location advantages offered by countries and the internalization advantages encountered by firms.

Figure 1. Global Strategy Literature Review



These traditional strategies of MNEs led to the configuration of global companies seeking economies of scale, multidomestic companies targeting local adaptation, and transnational companies attempting to overcome the trade-off between scale and adaptation. Although each type of firm gives different strategic prescriptions and thus follow distinct internationalization patterns, they have the same orientation of seeing difference as a problem. So they try to find solutions to this problem either in the headquarters or in the subsidiaries. The key point is that despite the persistence of several successful MNEs that have primarily adopted projecting strategies, the validity of this approach in the current globalized scenario has been questioned by a number of scholars. For example, Doz *et al.* (2001) argue that in order to create value in the global knowledge economy firms need to become metanationals and learn from the world. The metanational ideal is an organization “finely tuned to sense, mobilize, and leverage pockets of specialist knowledge dispersed around the world” (Doz *et*

*al.*, 2001:74). Contrary to multidomestic or transnational firms, metanationals access unique local knowledge in order to exploit this very uniqueness, without seeing it only as a solution to local adaptation, or as a deviation from blueprint. For instance, Nokia challenged the world leader Motorola by adopting highly innovative approaches from all corners of the world, such as shifting to digital mobile telephony and integrating email and other internet capabilities into its phones (Doz *et al.*, 2001).

Ghemawat's (2007b, 2008) propositions on global strategy, the Cultural-Administrative-Geographic-Economic (CAGE) framework as well as his aggregation, adaptation and arbitrage (AAA) strategies also focus on being able to take advantage of differences between countries to create value. All of the aforementioned frameworks shed light on the current discussion. First of all, Ghemawat (2007a, 2007b) argues that we live in a semi-globalized world, where differences across countries should be taken into account just as much as the similarities. Ghemawat's (2007a) CAGE framework allows practitioners to measure the distance among countries in terms of cultural (e.g., language, interests, and traditions), administrative (e.g., laws, regulations, and policies), geographic (e.g., climate and temperature), and economic (e.g., cost of labor, local income level, and tax compositions) differences. How multinationals deal with these differences informs their global strategies, which are the components of Ghemawat's (2007b, 2008) AAA. While adaptation (or local responsiveness) means adjusting to differences, aggregation (or global integration) means overcoming differences so as to achieve scale and scope economies. The distinguishing point is that Ghemawat goes beyond the traditional responsiveness-integration dualism not by suggesting ways of achieving them both, but rather by adding a third vertical strategy, arbitrage, which is grounded on exploiting differences (see [Figure 1](#)). Choosing a strategy based on arbitrage means pursuing "absolute economies through international specialization" (Ghemawat, 2008:200). Although IBM, for example, has chosen an adaptation strategy throughout most of its history, it has recently exploited an arbitrage opportunity found in wage differentials, especially in India, as a way to reduce costs (Ghemawat, 2007a). Consequently, IBM tripled its employees in emerging markets over a three year period.

For the purposes of this paper, the similarities of the studies of Doz *et al.* (2001) and Ghemawat (2007b, 2008) are fundamental. Ghemawat (2008) argues that his model goes beyond Doz *et al.*'s (2001) because he is not focused only on international knowledge transfer for value creation. He suggests that the metanational strategy is one kind of arbitrage (see [Figure 1](#)). However, a pivotal point here is that both of the constructs highlight how multinational firms are facing new challenges as a consequence of their traditional projecting strategies, which do not seem to adequately fit the current stage of globalization. These authors and their paradigms also demonstrate that emerging multinationals are now dealing with a much more complex business environment. One that presents new opportunities for emerging players yet demands a deeper understanding of the world to harness them. These two points are essential when taking into consideration how EMNEs can create value through internationalization.

Subsequently, Dunning (2006a, b) has recently proposed that the Eclectic Paradigm should be extended in light of the new global economy. Instead of owning assets which are transferred through internationalization and thus provide multinationals competitive advantages, firms should be viewed as organizers of a collection of created assets, some of which are generated internally and others which are accessed from other firms through some kind of



influence or control (Dunning, 2001). Therefore, firms can create value through internationalization with strategies focused not only on asset-exploiting objectives, but also with an asset-augmenting goal. In other words, Doz *et al.*'s (2001) pockets of scattered knowledge and Ghemawat's (2008) CAGE differences harnessed by arbitrage can be seen as different configurations of an updated OLI framework, as summarized in [Figure 1](#).

These and other renowned scholars have thus drawn our attention to the need of incumbent MNEs to adjust their global strategies to the current globalized business environment (Doz & Kosonen, 2008; Sirkin, Hemerling, & Bhattacharya, 2008). But the current global economy has also witnessed the emergence of new multinationals from emerging countries, some of which are now leaders of their industries (Agtmael, 2007). This rise of EMNEs leaves with the following questions to be addressed: 1) To what extent do mainstream theories explain the rise of EMNEs? 2) Are EMNEs different from traditional MNEs? 3) Are the existent theoretical frameworks suitable to inform EMNEs on strategies for value creation through internationalization? The next section addresses these questions.

## 2.2. The Internationalization of Emerging Markets Firms

During the 1990s, Yeung (1994) called attention to the fact that theories of MNEs need to be more dynamic. By doing so, they could incorporate the processes in which these firms are articulated within places and societies, as MNEs are embedded in social, historical and institutional contexts. Aulakh (2007) highlighted that eight different studies found similar motivations and paths of EMNEs' internationalization, but they also revealed considerable diversity related to national context and industry conditions. Dunning (2006a) also realized that there was a need to include institutional content to the theories of MNE activity, especially in the case of Third World MNEs. He has extended his OLI paradigm to address the influence of institutions in all three of its components (the basis of the outer frame of [Figure 1](#)) (Dunning, 2006b). Thus, it is important to have a brief historical overview of the internationalization process of MNEs from emerging countries and also bring to light their distinctive OLI characteristics. This will reveal the dynamic interplay of the OLI components, which ultimately condition EMNEs' potential to create value through internationalization.

- *Historical overview of the emerging market phenomenon.* The study of the emergence of multinational firms from developing countries dates back to the 1970s, when the debate was focused on the key role that they could play in the development of their home countries (Aulakh, 2007; Heenan & Keegan, 1979). It was only in the following decade that scholars paid greater attention to the firm-specific characteristics of these multinationals. Yet many studies were based on casual empiricism (Lall, 1983) and anecdotal evidence (Aulakh, 2007), resulting in misleading stereotypes of EMNEs (Yeung, 1994), which may only be appropriate to explain the first wave of MNEs from developing countries. In the 1980s and especially after the 1990s, developing country MNEs were no longer the same as in the 1970s, as they went through two more waves which must be acknowledged in order to better understand their current drivers of internationalization.

The second wave of EMNEs was propelled by the liberalization of markets in the 1980s, which facilitated the globalization of production and changed the international business landscape. Firms in developing countries were confronted with foreign competition but also had the chance to participate in the global economy by being part of the outsourcing and offshoring strategies of established MNEs (Agtmael, 2007; Aulakh, 2007). As Agtmael (2007)

points out, this was a fundamental step towards the development of their firm-specific advantages, and some firms went from producers of cheap low-tech parts to suppliers of entire designs. In other words, changes in the institutional environment of their home countries impinged on their location as well as on their ownership advantages. This kind of upgrade is thus believed to be the cornerstone of the third wave of EMNEs. After the second wave, many developing country MNEs, especially from Asia, aimed at becoming leaders of their industries, and since the 1980s they have been further developing their skills to catch-up or even overtake their traditional competitors from advanced countries (Agtmael, 2007; Aulakh, 2007; Guillén & García-Canal, 2009). These new global competitors have become widespread around the globe, entering into more developed markets and pursuing higher value added activities (Aulakh, 2007). The key factors for the success of world-class EMNEs in the third wave are primarily man-made, such as unconventional thinking, the ability to adapt to crises, a global mindset, and a disciplined ambition (Agtmael, 2007). Thus, these EMNEs are survivors that have thrived in adverse conditions through a process of learning and creative adaptation, and have been moving beyond infant-industry protection to understanding the need for quality, technology, and brand. The institutional instability that could have been interpreted as location-disadvantages of developing countries in fact triggered advances in the ownership-advantages of EMNEs.

• *Firm-specific characteristics of EMNEs and value creation opportunities.* If one compares current EMNEs with those of the 1970s, it is clear that firms in the third wave have developed remarkable firm-specific skills which have allowed them to engage in the world economy as high-level players. Such observations have led scholars to ask if the ownership advantages of EMNEs are similar to those of established MNEs and also whether these advantages precede or follow EMNEs' internationalization. Mathews (2006) believes that EMNEs have a new way of becoming multinational because they do not depend on prior possession of resources for their international expansion, as was the case of most traditional MNEs from advanced countries. The internationalization of new multinationals is believed to have allowed them to access resources that would otherwise not be available (Mathews, 2006). Hence, EMNEs are considered more adapted to the "interlinked" new global economy because they use "linkage" and "leverage" strategies (such as alliances and acquisitions) to tap into resources around the world, and the subsequent learning process facilitates an accelerated international expansion when compared to traditional MNEs (Mathews, 2006:22). This LLL framework (linkage, leverage, and learning) is thus presented by Mathews (2006) as an alternative to the OLI paradigm, although Dunning (2006a) responds that it is in fact complementary. Dunning (2006a) acknowledges that some ownership advantages of firms indeed follow rather than lead their internationalization, and that the competitive advantages of EMNEs are very likely to be different from traditional MNEs. However, he stresses that all MNEs have to possess "some unique and sustainable resources, capabilities or favoured access to markets", which are protected or augmented through FDI (Dunning, 2006a).

Therefore, we argue that the opportunities for EMNEs to create value through internationalization seem to be in line with the most recent discussions on international strategy presented in the previous section. As Agtmael (2007), Aulakh (2007), Guillén, García-Canal (2009), and several other scholars have noted, in the current global scenario EMNEs have used their existing resources or capabilities to internationalize and have also sought the acquisition of new ones. Indeed, many successful EMNEs have adopted traces of a metanational strategy to learn from different pockets of knowledge around the world, as suggested by Doz *et al.* (2001), and have leveraged arbitrage opportunities based on differences among coun-



tries, as envisioned by Ghemawat (2007a, 2008). The Brazilian aircraft producer Embraer, for example, chose to outsource operating activities to its international partners and assemble the jets in Brazil because of the lower cost of labor found in its home country (Ghemawat, 2007a).

One important issue raised at the industry-level is that traditional MNEs usually lead knowledge and brand intensive sectors in emerging markets, while EMNEs prevail in businesses where production and logistics are more relevant, as Ghemawat and Hout (2008) indicate using evidence mainly from China. This is believed to happen because established MNEs are better fit to succeed in advertising and R&D-intensive sectors due to their aggregation strategies, while EMNEs that thrive overseas normally rely on arbitrage (or less frequently on adaptation) to environments which are somewhat similar to their home market (Ghemawat, 2008). In other words, these findings underline that EMNEs typically have less brand power and access to capital to invest in R&D, but benefit from being more adaptable for emerging markets. However, Ghemawat and Hout (2008) also call our attention to the fact that although industry has been a destiny thus far, it is unlikely that it will remain so, as there are several examples of both traditional and emerging MNEs which have adopted appropriate strategies to prosper in industries that would not be expected. All the remarks made above on the third wave of leading EMNEs support this assertion, pointing towards paths that new EMNEs can follow in their quest for international value creation.

Since the organizational structure of EMNEs is considered less path-dependant than traditional MNEs (Guillén & García-Canal, 2009), we assert that they are more *flexible*. Incumbents tend to have “ingrained values, culture, and organizational structure”, which makes adaption to the conditions of the current globalized world more difficult (Guillén & García-Canal, 2009:28). Conversely, it is easier for EMNEs to challenge “legacy thinking” and thus be more open to “unconventional thinking”, creativity, and innovation (Agtamel, 2007:50). This flexibility of EMNEs contributes to the task of becoming a metanational, since it makes it easier for companies to sense, mobilize, and leverage pockets of knowledge around the world (Doz *et al.*, 2001), and also to manage vertical coordination arrangements necessary to manage arbitrage strategies (Ghemawat, 2007a, 2008). Based on these arguments, the following proposition is formulated:

*Proposition 1: The flexibility of EMNEs is a competitive advantage that increases value creation opportunities throughout the internationalization process.*

Another differentiating point between traditional MNEs and EMNEs is the “institutionally-related competitive advantages” of EMNEs transpiring from the fact that all three OLI components are influenced by institutions (Dunning, 2006b:201). The emergence of a new paradigm of development and globalization has compelled MNEs to re-examine their relationship with their stakeholders in home and host countries (Dunning, 2006b). Yet firms from emerging nations have been dealing with institutions and other stakeholders since their inception. And while it is the totality of ownership advantages of firms that define their internationalization pattern, the metanational strategy of many EMNCs may be a way to accumulate and assimilate further institutionally-related capabilities. Therefore, we suggest that along with the flexibility of EMNEs, the *adaptation* ability that resulted from their experience in turbulent institutional contexts can also be seen as a facilitator for international value creation (Agtmael, 2007; Aulakh, 2007; Guillén & García-Canal, 2009). Therefore it is suggested that:

*Proposition 2: The institutionally-related adaptability of EMNEs is a competitive advantage that increases value creation opportunities throughout the internationalization process.*

In summary, new theories of IB do provide a reasonable assessment of EMNEs and their road forward for international value creation. It is interesting to note that EMNEs seem to hold unconventional capabilities which are gradually being considered advantageous to the new globalized world (Guillén & García-Canal, 2009; Mathews, 2006). Capabilities such as flexibility, knowledge of emerging market consumers, political ability, and capacity to manage stakeholders (Agtmael, 2007; Doz *et al.*, 2001; Ghemawat & Hout, 2008; Guillén & García-Canal, 2009), are all very salient, especially after the financial crisis of 2008-2009. However, traditional MNEs also typically outperform EMNEs in other key issues which are important for internationalization, such as brand power, access to capital, ability to attract and maintain talent, and knowledge of consumers of advanced countries. These conclusions are the foundation of our proposed model of international value creation for Latin American MNEs, but before presenting the model we will pinpoint key facts about the historical context of Latin America and highlight specificities of EMNEs from the region in order to further contextualize the process.

### 2.3. Latin American Multinationals

Among the 25 world-class EMNEs studied by Agtmael (2007), 10 are based in Latin America. The region also hosts 18 out of the 100 Boston Consulting Group's (2009) global challengers and 12 of UNCTAD's (2009) top 100 emerging transnationals. Brazil, for instance is expected to become the world's fifth-largest economy in the next decade, overtaking Britain and France (The Economist, 2009). Nevertheless, Cuervo-Cazurra (2008) and Casanova (2009) note that the accumulated knowledge on emerging multinationals from Latin America is considerably scarcer than from other regions, notably Asia. Despite the acknowledgement of the greater presence and importance of EMNEs in recent years, little attention has been given to issues like how Latin American MNEs establish their FDI, or the drivers and challenges of their international paths (Cuervo-Cazurra, 2008). Hence, we believe it is crucial to further investigate the internationalization process of these companies, shedding new light on how Latin American firms can create value through internationalization and keep pace with its Asian peers, which are still leading the trends.

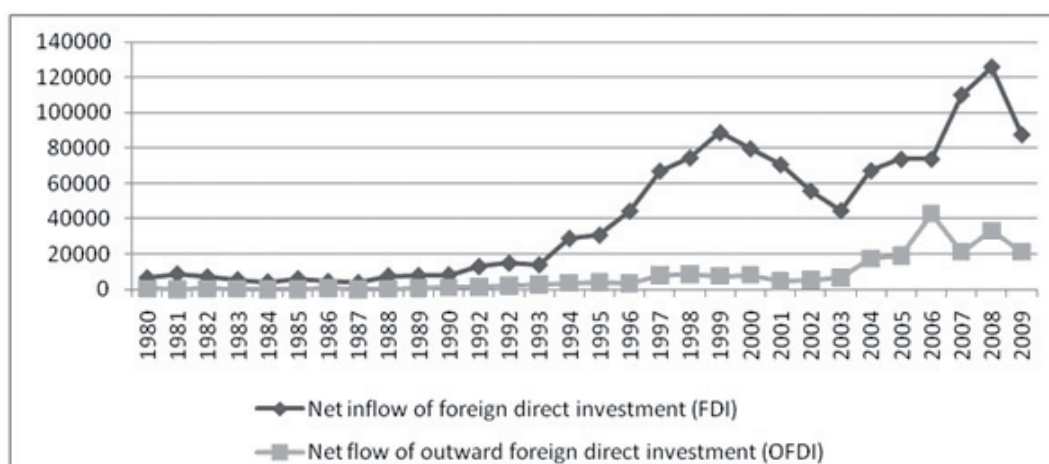
- *Historical overview of Latin American Multinationals.* The vast majority of Latin American firms followed patterns of international expansion similar to most EMNEs. However, a few marked differences should be highlighted. A review of the literature indicates that Latin American multinationals - henceforth called Multilatinas - went through four instead of three phases of international expansion (Alvim, 2010; Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999; ECLAC, 2009; Fleury, Fleury, & Reis, 2010; Khanna & Palepu, 2002; Kosacoff & Ramos, 2010) (Alvim, 2010; Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999; ECLAC, 2009; Fleury, Fleury, & Reis, 2010; Khanna & Palepu, 2002; Kosacoff & Ramos, 2010). The first phase concerns the period between 1970 and 1982 and is characterized by the establishment of the first movement of OFDI from Latin American emerging economies, mainly to their neighbors in the region. Many Latin American firms were already exporters at this time, so this move in becoming multinationals is considered a consequence of the need to adapt and develop sophisticated ownership advantages in order to be able to establish operations abroad (Cuervo-Cazurra, 2008).

The second phase is more specific to Latin America, as it concerns the period when the region went through what has been called the "lost decade", from 1982 to 1990. After the two

oil shocks and throughout the credit recession, Latin American countries witnessed a great shrinking of their national production, leading to a series of reforms towards the liberalization and deregulation of national markets in the late 1980s (Casanova, 2009; Dominguez & Brenes, 1997). These structural adjustments were condensed in the Washington Consensus agenda and were consecrated in phase three, from 1990 until 2002. As a result, Latin America attracted a great amount of inward FDI in the 1990s, especially during the privatization of state owned companies. This resulting in local firms being exposed to a new competitive ecosystem to which they believed they would not survive (Grosse, 2001). Traditional MNEs had well-known advantages such as access to capital markets, worldwide consolidated brands, advanced technology, scale, talented people, and the best managerial practices worldwide (Khanna & Palepu, 2002). Conversely, local groups were still finding their way after a long period of import substitution policies, characterized by strategies based on diversification (Casanova, 2009; Fleury *et al.*, 2010; Kosacoff & Ramos, 2010).

Against the odds, one of the outcomes of this new scenario was that local firms restructured themselves in order to improve their competitiveness and underwent a great learning experience (Cuervo-Cazurra, 2010; del Sol, 2010). Many local competitors survived by defending their local brands, importing managerial practices, and winning the talent war against foreign competitors. In fact, successful Latin American firms experienced a sharp international expansion in this period, when large groups from the region became true multinational corporations, some of them leaders in their sectors (Casanova, 2009; Cuervo-Cazurra, 2008; Dawar & Frost, 1999). As in the case of other emerging markets, these changes triggered in 2002 the beginning of a new phase of Latin American international expansion. This fourth phase is characterized by a greater presence of Multilatinas worldwide, some distinguished mergers and acquisitions, and the rise of OFDI from the region, which reached a peak of US\$43 billion in 2006 (ECLAC, 2009). Figure 2 illustrates the evolution of inward and outward FDI flows in the region from 1992 to 2009.

Figure 2. Latin America and the Caribbean Inward and Outward Foreign Direct Investment from 1980 to 2009 (Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean - ECLAC (2010)

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• *Ownership-specific and location characteristics of Multilatinas.* The historical overview presented above brings to light that the institutions of Latin America have had a considerable influence on the internationalization process of its firms (Cuervo-Cazurra, 2008). This is especially the case with regards to government policies towards protectionism up to the 1970s and liberalization after 1980s. Dunning (2001, 2006b) has already highlighted that the OLI components dynamically affect each other, and in the case of Latin America the location characteristics of the region are a key factor to explain much of the ownership-advantages of Multilatinas.

First of all, some of the same regional characteristics that held back Multilatinas from international expansion later became sources of competitive advantages (Casanova, 2009; Haberler & Kohan, 2007). The ability to navigate through turbulent waters turned out to be a major institutionally related ownership advantage of Latin American firms (Casanova, 2009). The presence of “demanding but price-sensitive consumers, a challenging distribution infrastructure, and volatile political and economic environments” forced Multilatinas to build up special capabilities that could be used when going abroad (Haberler & Kohan, 2007:2). Furthermore, Latin American firms found that international expansion was a way to balance risk in their turbulent domestic market (Casanova, 2009).

Furthermore, throughout their growth process, Multilatinas have developed a strong survival instinct which has been very important to their success. Multilatinas have learnt that the best defense is offense (Casanova, 2009), so they have often adopted a contender behavior in which the firm “focuses on upgrading capabilities and resources to match multinationals globally, often by keeping to niche markets” (Dawar & Frost, 199:122). The competition with traditional MNEs after the liberalization of markets in the 1980s was an incentive for Multilatinas to reorganize and go abroad. In other words, successful Multilatinas invested in their ownership advantages and also sought arbitrage opportunities to engage in the world economy as global players.

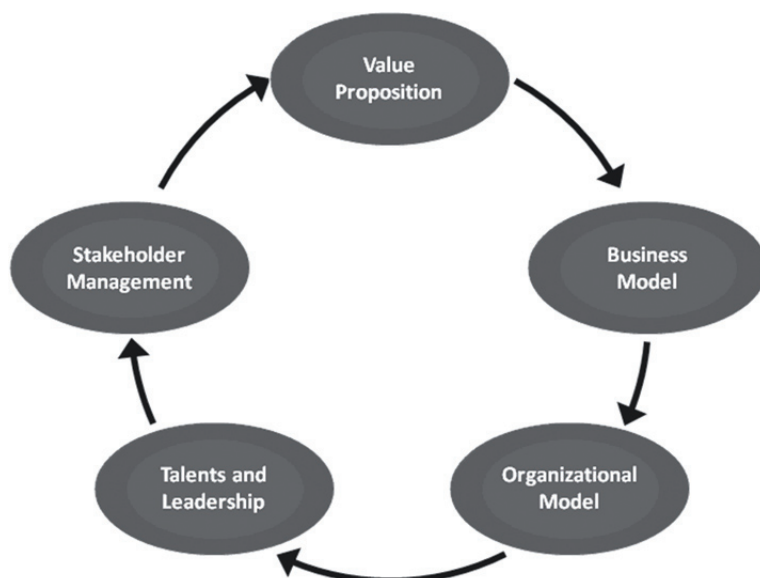
Finally, it is important to emphasize that although these factors are all competitive advantages identified as key explanations for the success of some Multilatinas, not all Latin American firms have been able to harness them. Several companies face challenges specific to Latin America. For instance, the institutional constraints of the region are not easily transformed into advantages, as highlighted by studies on Brazil (Fleury *et al.*, 2010), Argentina (Kosacoff & Ramos, 2010), and Latin American in general (Cuervo-Cazurra, 2010). On the other hand, underscoring the successful paths taken by Multilatinas that have become leaders in their industries helps to identify how Latin American firms can use the location characteristics of the region to improve their ownership advantages. The model presented in the next section draws these issues together and aims to provide an empirically testable model, as well as help practitioners add value to their internationalization process.

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### 3. International Value Creation Model

How can Multilatinas effectively create value through internationalization in the current business environment? Even though we acknowledge that the answer to this question is highly context-specific, we propose a five-step model to guide Multilatinas in the identification of the principal issues to be considered during their internationalization process. The international value creation model (IVCM) draws together the main discussions presented in the literature review and is grounded on Ghemawat (2007a, b) and Doz *et al.*'s (2001) assertions that differences across countries and regions should not be seen as a constraint, but rather as a source of value creation. It is exactly such diversity that allows for new knowledge to be created. We suggest that value can be maximized when knowledge creation takes place through five inter-connected dimensions, which can be seen in Figure 3: value proposition, business model, organizational model, talent and leadership, and stakeholder management.

Figure 3. The International Value Creation Model

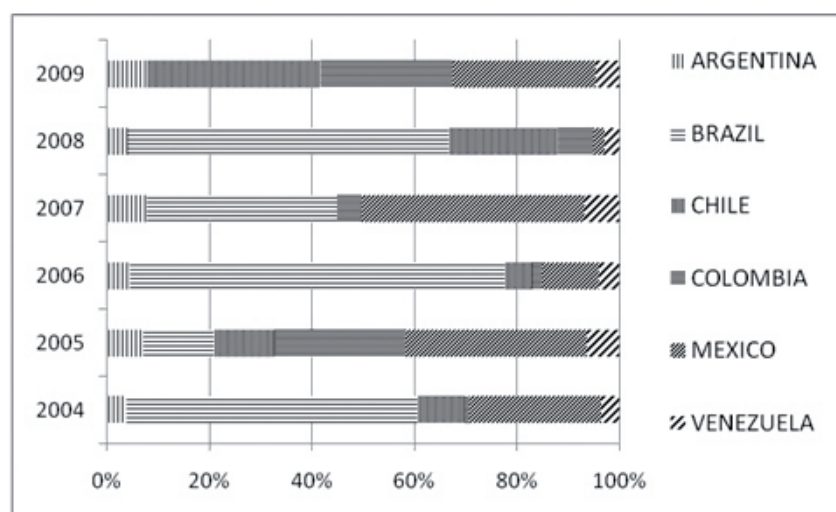


Successful domestic companies in general have already figured out the best way to manage these five dimensions in their home markets. The IVCM is thus a tool for Multilatinas to deconstruct the source of their success at home so that they can better analyze the extent to which their international operations require adaptation while also harnessing arbitrage opportunities abroad. The flexibility of Multilatinas is the underlying mechanism through which adaptation and arbitrage are made possible. As the previous section highlights, the historically turbulent context that these firms underwent has made the concept of being flexible a potential competitive advantage. And thus, the IVCM presented here attempts to capitalize on this rare and inimitable resource, as defined by Barney, Wright & Ketchen Jr., (2001), in order to add value to the firms.

### 3.1. Methodology

Before going through each of the five dimensions mentioned above, we note that the model was built based on primary and secondary data on Multilatinas, mainly from Brazil. We have given a primary focus to Brazil for two main reasons. First, the authors had the unique opportunity to hold conversations with a group of 12 CEOs of top Brazilian MNEs. This provided access to primary data on their internationalization process and thus contributed to in-depth understanding of relevant specificities. In line with Jones (2005), this is especially relevant for a study focused on Latin America, where analyses require sensitivity to cultural differences, often only identifiable by face-to-face conversations with the top decision makers. Second, a focus on Brazil was considered especially relevant given the fact that Brazil is the leading Latin American foreign investor. As can be seen in Figure 4, the country had US\$20 billion of OFDI flows in 2008, representing 61% of the total amount invested by the region (ECLAC, 2009).

Figure 4. Latin America and the Caribbean Main Investors (in % of OFDI by country)



Source: Economic Commission for Latin America and the Caribbean - ECLAC (2010)

### 3.2. The Five Dimensions of the IVC

- **Value Proposition.** The value proposition dimension is fundamentally linked to the company's strategic decisions on which products/services it offers, to whom, and where (Toulan, 2002). The first question a firm needs to ask when going to a different country or region is whether its domestic value proposition is adequate for the new locality. As noted before, Multilatinas face several challenges in this regard, such as tough competition with incumbent MNEs that have more brand power, and/or limited access to capital necessary to invest in R&D. They



can also end up falling into strategic traps if their products/services are not good enough for wealthy consumers or irrelevant for other emerging consumers. Furthermore, the strong need for tailoring or adaptation may destroy its original competitive advantage. Therefore, in order to create value, Multilatinas have to deeply understand why its products/services are doing well in their domestic market (e.g., price, quality, reputation) so as to investigate if they are of value in the target foreign market (Collis & Rukstad, 2008; Porter, 1996). It requires thus a deeper examination of the firms' ownership advantages along with market research to analyze the location advantages of the destination. Most likely, Multilatinas will have to adapt their products/services to increase the perceived value in the target country, or create new solutions which require related expertise so as to exploit arbitrage opportunities in neglected niches. If they adopt a metanational strategy, Multilatinas become ready to sense, mobilize, and operate new knowledge, which can be discovered by analyzing the CAGE differences.

The experience of Embraer is an emblematic example of the creation of international value when leveraging unique local knowledge via arbitrage strategies (Travesso, 2007). The value proposition of the Brazilian aircraft manufacturer in the international market is the outcome of market research, which allowed the company to achieve a distinguished position in a sector of high value-added products. Embraer was created by the Brazilian government in 1969 to promote the national aeronautics industry, and its main products were small commercial and military aircraft for national use. After its privatization in 1994 the company adopted a new market strategy by identifying the continuous growth of regional aviation in Europe and in the United States. With this new demand in mind, Embraer developed a new breed of aircraft in order to respond to two distinct demands: regional companies that needed jets with more seats (medium sized aircrafts) and network carriers that wanted to update the old fleet for new models with greater capacity, reach, and possibility of more frequent flights. The company also innovated in the positioning of the E-Jets family, by prioritizing the comfort of passengers, something unusual in the segment so far. The preceding discussion and example of how a firm adapted its domestic value proposition to worldwide demand leads to the following proposition:

*Proposition 3: Latin American firms that adjust their domestic value proposition to the demands of the foreign market will outperform those that project their domestic value proposition.*

- **Business Model.** After defining the value proposition, firms need to evaluate the most adequate way of establishing its international operation (Amit & Zott, 2001). The business model dimension is organized around two pivotal questions: who is responsible for each value-adding activity, and where are the activities located (Zott & Amit, 2008)? Some firms choose a business model that maintains all functions internal to the company, which is the cornerstone of the projecting strategy traditionally used by developed country multinationals (Cappelli, 2009). However, Multilatinas have been more successful when choosing business models based on local partnerships, outsourcing some of their production steps, and relying less on internalization. These business model decisions are crucial for the creation of value through the internationalization process of Multilatinas, as they can enhance the likelihood of upgrading the position of the firm in the global value chain. The first step in defining the international business model of a firm is thus to deconstruct its domestic model. Then, the location-advantages of the target markets should be analyzed, taking into account issues as factor conditions and regulation restrictions. These steps can lead to a redesign of the business model depending on the characteristics of the foreign market in which a firm decides

to establish itself. This analysis will bring to light which production stages should be internal and which should be provided by an outsourcer.

Marcopolo's experience illustrates the advantages of having learning mechanisms that support the company's international expansion. The Brazilian bus manufacturer has factories in countries such as China, India, Russia, South Africa, Egypt, Argentina, Mexico, and Portugal. As the company's CEO stated, at first Marcopolo's business model for internationalization was similar to its domestic model, based primarily on a projector strategy of operating alone in foreign markets. The firm used to export the components and parts and assemble them abroad, but the high costs of freight and taxes made this model unsustainable. The executives decided to alter their internationalization strategy by implementing a new business model based on the export of knowledge and know-how only. The company realized that finding a local partner (e.g., Tata Motors in India) to participate in its operations would reduce the investment of time, energy, and financial resources. In line with what has been noted by Dunning (2001), Marcopolo had previous ownership advantages and found a way to increase them by taking part in joint-venture agreements, which have increased the institutionally-related ownership advantages of the company. Furthermore, Marcopolo has been able to exploit new business opportunities as a consequence of administrative arbitrage. For example, Tata Motors helped the company become the supplier of buses to be used in the public transport system in India. Based on these discussions, following two propositions are formulated:

*Proposition 4a: Latin American firms that adjust their domestic business model to the demands of the foreign market will outperform those that project their domestic business model.*

*Proposition 4b: Latin American firms that choose foreign business models based on local partnerships outperform those that rely more on internalization.*

- **Organizational Model.** The organizational model is also relevant to the value creation strategy, since the way the company organizes itself may inhibit or enhance knowledge creation (Boudreau, Loch, Robey, & Straud, 1998). For instance, does the company create mechanisms for transforming tacit knowledge based on experience into explicit knowledge that can be shared throughout the organization? Moreover, does the organization promote some sort of interaction between individuals based in different countries, which would allow the creation of new knowledge from the previous shared explicit knowledge? The organizational model is defined considering three critical dimensions: leadership and management, logistics and production, and relationships with clients (Guillén & García-Canal, 2009). To generate good results abroad, firms should first deconstruct their domestic organizational model focusing on these three dimensions. Then, it is crucial to identify the local conditions of external markets that can influence business decisions, given that the OLI dimensions constantly influence each other (Malhotra & Hinings, 2010). Only after a thorough understanding of the local environment can firms redesign their organizational models so as to maximize its ownership advantages via knowledge creation. This is a considerable organizational challenge faced by Multilatinas in their internationalization processes (Fleury *et al.*, 2010).

Gerdau has developed a sophisticated organizational model called the "Gerdau Business System" (GBS), which is considered one of the key success factors of the international expansion of the Brazilian steel company (Miranda, 2009). For Gerdau executives, the organizational model of the company has a great strategic value and it gives the company traces of a metanational firm. The knowledge that Gerdau accumulated through its several interna-

tional mergers and acquisitions helped the company to identify best practices in 16 macro processes such as marketing, transport, logistics, and corporate social responsibility. The macro processes are incorporated into the GBS and used in all global operations with one worldwide manager for each. These managers stay alert for the possibility of creating and sharing new knowledge, contributing thus to a structure which favors corporate learning. This process of sharing best practices is a key element of the aggregation tactic (Ghemawat, 2008). The foregoing arguments lead to the following proposition:

*Proposition 5: Latin American firms that adjust their domestic organizational model to the demands of the foreign market will outperform those that project their domestic organizational model.*

- **Talent and Leadership.** Successful international expansion demands a stock of talented executives and a staff able to deal with cultural differences worldwide (Mäkelä, Björkman, & Ehrnrooth, 2010). A company seeking to expand internationally also needs to constantly evaluate the best balance between the number of expatriates and local employees (Toh & DeNisi, 2003). Hence, one important point that should be taken into consideration is whether the firm can attract talented people at home and abroad (Ready, Hill, & Conger, 2008). The creation of international value takes place when both the original corporate culture of the firm and the culture of the target countries are taken into account and assimilated in a way to create a new culture that provides unity within the corporation. The main purpose of this approach is to increase the competitiveness of Multilatinas in the international talent market, as they tend to have less advantage when compared to traditional MNEs or local companies. Haberer and Kohan (2007:4) noted that “one of the main factors restricting the overseas growth of many Latin American businesses is a shortage of managers who can work effectively abroad”. Concordantly, several Brazilian executives affirmed that leadership and people management are amongst the greatest challenges in the internationalization process of their firms.

The internationalization of WEG, a Brazilian worldwide producer of electric motors, illustrates the challenges of managing people across different cultures. The CEO of the company commented that the entrance of WEG into China in 2004 was a very difficult experience. The company decided to buy a small state-owned firm to improve its operational and commercial logistics and thus enhance its presence in the Asian market. At first, WEG leaders adopted a strategy of making the fewest changes possible in the Chinese subsidiary. All the former Chinese managers were maintained, and a Brazilian was sent to be the CFO. No Chinese employees were fluent in English though, and ultimately this strategy did not work as well as expected. In a second phase, the firm decided to hire a local general manager fluent in English with multinational experience. This considerably improved communication, but the subsidiary continued to experience problems. In a next step, WEG hired a local with years of experience working in a Brazilian MNE, a strategy that is still currently in place. Thus WEG is attempting to be a metanational by learning from its foreign management. This local adaptation is not considered a deviation from plan, but rather an integral part of its talent management strategy. A strategy based on flexibility, the cornerstone of successful Multilatinas. These discussions on talent and leadership suggest the following proposition:

*Proposition 6: Latin American firms that adjust their domestic policies of leadership and people management to the demands of the foreign market will outperform those that project their domestic policies of leadership and people management.*

• *Stakeholder Management.* As Dunning (2006b) has highlighted in his recent writings, the private sector also performs a fundamental role for the development of society, either through job creation, adoption of sustainable practices, or investment in local communities. Global-reach companies may have a different set of stakeholders, defined as any group or individual who has a vested interest in the project and may exert influence over that project (Antonioni, 2009), in every location in which they operate. It is thus important to assess if the relationship between the multinational and the stakeholders that it interacts with is positive and constructive. Socially responsible corporations have realized that by serving the common good, they may also serve themselves (Porter & Kramer, 2006). Previous studies highlight that Multilatinas have built important competitive advantages in this regard (Casanova & Dumas, 2010). In other words, investing in stakeholders at the beginning of an international expansion effort will increase the institution-related capabilities of the company and create value for it in the future (Harrison, Bosse, & Phillips, 2010). This process begins with an examination of the firm's domestic stakeholders, and then analyzing what differences exist abroad.

The case of Vale's operation in Mozambique is a clear example of how stakeholder-related capabilities are important for value creation. Since its privatization, Vale has focused on its mining core business with the aim of becoming a one-stop-shop for the steel industry. As stated by Vale's CFO, the company goes where the mines are, thus the decision of where to establish its international operations is directly related to the availability of natural resources worldwide. This has taken Vale to politically unstable and infrastructure-lacking countries, where the management of political and institutional risks is a crucial dimension of the internationalization process (Yongqiang, 2009). The establishment of a Greenfield project for coal exploration in Mozambique is considered by the company a benchmark regarding the management of stakeholders. Given the extractive nature of Vale's operation, one of its key stakeholders in Brazil is the national government. While the national government is also important in Mozambique, the local community plays a central role because of local traditions and the need to engage the inhabitants. Thus, Vale has invested in the development of human capital, infrastructure, and a sustainable livelihood for its employees. These measures have been well received in the country so far. This can be seen as a result of institutionally-related capabilities developed by Vale throughout its history, based on flexibility, as well as a consequence of an assertive position of using adaptation and arbitrage strategies given the limitations of a natural-resource based industry. Based on these arguments, the final proposition is:

*Proposition 7: Latin American firms that adjust their domestic policies of stakeholder management to the demands of the foreign market will outperform those that project their domestic policies of stakeholder management.*

### 3.3. Final Remarks

The five elements of the IVCM presented here all work together with the aim of providing sustainable performance to Multilatinas in the context of international expansion. A pivotal element of this model is that it is dynamic. As the diagram (Figure 3) illustrates, the model is a process and thus not static. For instance, adjustments to the firm's business model affect its organizational model, and how it attracts talent in the foreign markets. And this process of adjustment continues to circulate until the firm establishes a plan of entry.

Yet, as the OLI, AAA, and LLL paradigms illustrated in the literature review section, managing the knowledge gained by going through this process is critical to the long-term success of the firm. For instance, if a Multilatina codifies the elements of the IVCM during an expansion into a foreign market, it will have established a rare form of tacit knowledge (Barney *et al.*, 2001). This knowledge should be built upon when the firm considers going into a second (and so forth) market. The firm that is able to accumulate this tacit knowledge will have a greater competitive advantage in the global marketplace, as Dunning (2006b) and Doz *et al.* (2001) emphasize.

Finally, while Multilatinas have been able to use their competitive advantages which they built in their domestic markets to find niches in the international marketplace, these advantages may not be enough to survive as competition abroad intensifies. For example, the institutional history of Brazil has forced firms to learn to be flexible. This flexibility has helped firms to adapt to some of the most difficult business environments around the world. Yet the Chinese, Indians, and Russians also share elements of this capability, and are also competing in the same growing markets (e.g., Africa). By building on their ability to be flexible by learning through the IVCM, Multilatinas will continue to profit abroad.

#### 4. Conclusion

This paper has developed a model that attempts to guide Multilatinas towards value creation in the internationalization process. The review of the IB literature on global strategy revealed that the current global scenario requires that MNEs move beyond traditional strategies of projection and adaptation to harness sources of value creation offered by differences among countries. This is especially relevant for Multilatinas, since they face considerable challenges competing against traditional MNEs that typically have more brand power, access to capital, and attractiveness in the talent market. On the other hand, the literature review has also shown that EMNEs hold ownership-advantages that can play important roles in their internationalization process, such as ability to manage stakeholders, and better knowledge of emerging market consumers. Furthermore, recent studies on leading EMNEs show that their “unconventional” thinking has led to further improvements of their ownership-advantages which sometimes place them at the same level of incumbent MNEs.

This study extends traditional global strategy theories by underscoring how Multilatinas can take advantage of the opportunities offered by the current global economy, combining recent findings of Dunning (2001; 2006b), Ghemawat (2007b), Doz *et al.* (2001), and other scholars. The theoretical approach of the paper has combined a brief contextual overview of Multilatinas with primary and secondary data, providing the basis for the development of the IVCM. The model highlights that companies from Latin America that decide to operate internationally must overcome a set of challenges that are intrinsically different from what they face in their home markets. Once Multilatinas deconstruct the reasons for their success at home, the model can guide firms towards the identification of the main issues to be considered during their internationalization process. Flexibility is a key comparative advantage

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of Multilatinas, and the five dimensions discussed here are especially relevant to the design of successful international strategies. The Brazilian cases presented in the paper illustrate that the challenges faced in the internationalization process are not easy to overcome, yet value creation is possible.

In conclusion, although the model has been presented here through the lens of a Latin American viewpoint, it might also be customized for MNEs from other regions, especially from other emerging markets. A limitation of this paper is that the model has not been empirically tested and its boundaries still need further development. Exposing the model to other Latin American firms could provide additional insight into these limitations. Future research could also derive empirically testable variables from the frameworks and propositions presented here so as to improve and extend the explanatory power of the model. Nevertheless, the model provides practitioners as well as academics with an important process to enhance international value creation.

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