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# An exploration of the status of emerging multinational enterprises in Mexico

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**Abstract**. The entry to global markets, expansion and proliferation of the "new" multinational enterprises (MNs) originating in emerging economies, such as the case of Brazil, China, India and México, during the last two decades, have surprised policymakers and analysts. The Boston Consulting Group (2006) identified 6 Mexican MNEs out of top 100 emerging multinationals. The 2009 Boston Consulting Group (BCG) 100 new global challengers are based on 14 rapidly development economies (RDEs), including Mexico. This paper is aimed to analyze the rise of New Mexican emerging multinational enterprises (MexEMNEs) into the global market.



**Keywords:** Mexican emerging multinational enterprises, performance, strategies.

## 1 Introduction

The emergence of rapidly developing economies is characterized by a wave of economic growth and the rise of local enterprises to become "global challengers" (BCG, 2009) that are globalizing their business and challenging the traditional American model of modern multinational enterprise (MNE). The emergence of this "global challengers" is a trend, although this new emerging multinationals are hardly world leaders in their industry or market niches.

Mexico had been host economy for multinationals from developed countries. Foreign policy entered México when this country changed trade policy from an economic model of import substitution to an export oriented strategy model. Trade liberalization policy has changed the behavior of large Mexican firms providing incentives to internationalize their activities. The Mexican emerging multinational enterprises (MexEMNEs) are involved in broader processes of economic globalization of Mexico post-NAFTA (North American Free Trade Agreement). After 15 years of the implementation of NAFTA, Mexico has become the 12th largest economy of the world and one of the leading world exporters in manufacturing goods.

There is a growing interest in the study of these emerging multinationals among scholars. Several theoretical perspectives are reviewed which can give an explanation of the emergence of Mexican multinationals and support their expansion in overseas markets. Then, it is analyzed the strategies these multinationals implement and their performance and in doing so, several profiles of MexEMNEs are described and examined. Finally, it is concluded that the survivor Mexican firms of this process of "creative destruction" have transformed into capable and innovative MNEs in order to look and move ahead and take advantage of the challenging new opportunities.

## 2 Theoretical perspectives

Various social sciences have contributed to study multinational enterprises in emerging economies. Conventional theories of economics and modern theories of multinational enterprises have not predicted the emergence of large new multinationals from emerging economies (Wells, 2007). Research on new emerging multinational enterprises began in the eighties when they still represented a minor threat to the traditional multinationals, which simply ignore the rise of these new global business corporations.

The multinationals enterprises (MNEs) originating from emerging economies have been referred as "Third-world multinationals by Wells (1983), "latecomer firms" by Mathews (2002), "unconventional multinationals" by Li (2003), "Challengers" by BCG (2008), "emerging multinationals" by Accenture (2008), "new multinationals" by Guillén and García-Canal (2009) and "emerging market multinational enterprises" (EM MNEs) by Luo and Rui (2009). However, the semantic of these terms are confusing the debate although may be other that may describe better the phenomena.

## 3 Expansion of New Mexican emerging multinationals enterprises

New multinationals from emerging countries have either given opportunities or posed a threat to conventional multinationals from advanced economies. The entries and expansion of these "new" Mexican emerging multinational enterprises (MexEMNs) to the international markets have followed different patterns from that of the American Model of the multinational enterprise (Guillén and García Canal, 2009: 23) which dominated the international economy during the Post World War II period, characterized by "…foreign direct investment (FDI) aimed at exploiting firm-specific capabilities developed at home and a gradual country-by-country approach of internationalization…".



The "new" multinationals from the emerging economies have followed different pattern of global expansion. New multinationals from emerging economies invested overseas in wholly owned subsidiaries, joint ventures or branches (Wells, 1983). In order to invest abroad, emerging multinationals must have some firm-specific advantages over competitors such as low-cost, economies of scale, product differentiation, technological know-how and others. However, a recent trend of Latin American multinationals is described by Goldstein (2007:7) stating that they "have lost leadership that was theirs for most of the 20th Century".

## 4 Characterization of New Mexican multinational enterprises (MexMNEs)

New Mexican emerging multinationals (MexMNEs) operates within a range of economic sectors although they are more concentrated in construction, telecommunications, food and beverages and some others. Large economic groups and foreign multinationals control industries in México and there are evidences that these groups will remain playing an important role, although there is evidence also that the stock market is growing slowly. According to the analysis of Grosse (2007b), Mexican large economic groups are 100 percent family control, although the structure of most emerging Mexican MNEs is one of the open societies publicly listed and no longer directly or indirectly controlled by the state.

The industrial sector has changed in México during the last 30 years in Mexico. A close analysis to changes in the structure of industry from 1970 to 1992, measured by the structural change index, shows that engineering intensive industries has grown from 12.0 to 15.6 during this period and automobiles from 8.4 to 18.6, while natural resource intensive industries and resources processing industries has dropped from 43.2 down to 40.8 and labor intensive industries from 36.4 to 25 (Katz, 2007). The automobile industry in Mexico has expanded strongly.

According to the KOF (2010) Index of Globalization, Mexico is neither one of the World's 15 most globalized countries nor one of the World's least globalized countries. Despite the structural reform and major economic liberalization efforts introduced in the last three decades, Mexico is consistently lagging behind in the globalization process. 2010 KOF Index of Globalization ranks Mexico in 71, and 81 in economic globalization, among 208 countries based on data from the year 2007.

However, Mexican new MNES are taking advantage of global reach and scale resulting from economic globalization processes, technological changes and increasing market competitiveness, by strategizing to succeed in a complex and uncertain international environment. The Mexican emerging MNEs are taking up the strategy of globalization further beyond the export phase of economic development. Mexican New MNEs are taking advantage of free trade agreements to search for partners to make strategic alliances with international businesses to get into foreign markets. Table 1 shows destinations of Mexican foreign direct investment in Latin America in 2005.

## 5 Strategies implemented by Mexican emerging multinational enterprises

The pragmatic neoliberal economic, fiscal and monetary policies implemented in México in the last 25 years have pervaded the corporate governance and managerial practices. Also, the pragmatism of entrepreneurs has provided the moorings for corporate strategies of the emerging Mexican MNEs (Santiso, 2006; Feenstra and Hamilton, 2006).



A pattern of expansion of Mexican MNEs is that one centered on firms producing goods based on in raw materials industries and the availability of natural resources, such as cement.

The key advantages in overseas competition for Mexican firms is the low-cost production based on small-scale manufacturing or low wages (Wells, 1983; Thomas and Grosse, ; Peres, 1998) and offshore production for industrial-country clients (Wells, 1983), ties to existing clients such as suppliers to MNS and ethnic connections (Lall, 1984), technology (Lall, 1984; Grosse and Thomas, 2007 ). Grosse (2007a) found the strengths that enable MNEs to compete in domestic and foreign markets are high-quality products and services, low-cost production, control over distribution channels and good relationships with government and other institutions.

Grosse (2007b) also report the key competitive strengths of Mexican economic groups, production of high quality products and /or services in the industries of auto parts, publishing, construction, TV and telephone; production of low costs products in auto parts, beverages, books and retail stores; relationships with existing clients, in industries of auto parts and beverages; superior distribution network in airline, beverages, conglomerate, publishing, retail stores, telephone; superior service in airline, retail stores and telephone and diversification in TV and conglomerate.

In fact, the results of the survey conducted by United Nations Economic Commission for Latin America and the Caribbean (ECLAC, 2006) shows that risk diversification is one of the major benefits of outward foreign direct investment (OFDI) more than to be a major motivation for internationalization (Tavares, 2007), although the largest Mexican MNE CEMEX was not considered by the survey. However, because Mexican MNEs are averse to risk investments overseas, they look for safer portfolio allocation of opportunities in the US market than in Chinese market for example. CEMEX has had risk management as a major motivation for internationalization of its operations.

## 6 Performance of Mexican emerging multinational enterprises' competitiveness

It is quite difficult to measure the performance and gauge the real impact of Mexican emerging multinationals. Lack of opportunities and incentives for large Mexican companies in the domestic market have pushed them going abroad to widen their business and benefit from global markets. Deregulation of the market in Mexico occurred since the last years of the 80s but the turning point was the entry to the North American Free Trade Agreement (NAFTA) in January 1st, 1994, which had an impact on the more-diversified Mexican firms.

Between 1994 and 2000, the information technology (IT) manufacturing boomed, the electronics sector and the value of exports grew by 500 percent (Zarsky and Gallagher, 2007). However, the flagship MNEs shut down most operations during the industry shakeout of 2001-03. The researchers found two factors as being the main cause of the failure: A shift in global strategy towards outsourcing, and the lack of an active policy to support foreign investments.

According to the analysis of Grosse and Thomas (2007:262) the "more-international firms had superior performance than the more domestic group…", which is leading to the conclusion that greater internationalization correlates with higher performance.

Mexican MNEs have emerged as successful global companies in areas with intermediate levels of technological innovation, after overcame the internal conditions and difficulties of two financial crises. However, according to Grosse and Thomas (2007:257) the internationalization of Mexican companies "appears to be moderately positive in defusing the impact of the tequila crisis in México". Mexican companies that were doing business abroad were more successful in surviving the tequila crisis because exports were more internationally competitive.



There is a rising group of large Mexican companies that have been increasing global competitiveness pursued through diverse proactive business strategies to build up a position in the global market and becoming multinationals (Garrido, 2006), although the statistical analysis of Grosse and Thomas (2007:257) "give a limited amount of insight into the strategies of large Mexican groups in the turbulent 1990s". A puzzling phenomenon is the fact that there were more Mexican emerging multinational enterprises (MexEMEs) in the first years of the 1990s, then diminished the last years and rose again in the early years of 2000s.

From 1999 to 2002, CEMEX was the only one Latin American nonfinancial MNEs ranked by foreign assets that made it to the UNCTAD's list of the top 100. However, Goldstein (2007) has reported among the top 50 emerging multinationals ranked by 2003 foreign assets, CEMEX in 5th place, America Movil in 6th and Bimbo in 47 while measured by 2002 foreign assets, Gruma in 40th place, Savia 43th, Grupo Imsa 44th, and Cintra 49th. Among the top emerging multinationals Mexico had 3 listed in 1993, 7 in 2002 but only 3 in 2003 (Goldstein, 2007 elaborated in UNCTAD data). Sklair and Robbins (2002) identified a downward trend in multinationals of three Latin American emerging economies, Argentina, Brazil and México, listed in Fortune top 500: Multinationals from these three countries represented 33 percent in 1965 and only 16 percent in 2001.

## 7 Analytical description of the New Mexican emerging MNEs

CEMEX is a global competitor well knows world-wide MNN, the third largest cement company in the World, just after Lafarge (French) and Holcim (Swiss), and the largest of Latin America (UNCTAD, 2005). Among the top 50 multinationals based in emerging economies, measuring foreign assets

CEMEX was ranked first in 1993, second in 2000, third in 2001, fourth in 2002 and fifth in 2003 (Goldstein, 2007 with data CEMEX produces several products of cement which have achieved the second and third largest producer depending on a specific product. After a prominent rise from local-base company in Monterrey to the second largest cement company in the world, CEMEX became one of the most prominent companies in a capital-intensive business, operating in more than 50 countries.

In mid-1970s, CEMEX started to export to the Southern United States, Central American and the Caribbean region. Because the antidumping regulations were rife, CEMEX oriented its strategy towards foreign direct investment. The internationalization strategy of CEMEX had as a major motivation the risk management. As a consequence of the 1982 crisis, the aggressive strategy of CEMEX was to consolidate its position in the national market through acquisitions of cement plants, finding innovative ways of paying using domestic capital markets.

After CEMEX took over Southdown, its main America competitor became the largest US cement producer Economist, 2004). With the acquisition of RMC by CEMEX, Europe became its largest market amounting around 40 percent of total sales. CEMEX has also offered a bid to the Australian building materials group Rinker.

Between 1990 and 2006, CEMEX completed more than 40 operations of overseas acquisitions. Financial policies and expertise used by CEMEX had been accounted by Sarathy and Wesley (2003). At the same time, CEMEX entered to international markets through co-ownership and exports. This strategy was modified because of the antidumping lawsuit against the Mexican cement. Also CEMEX invest in Greenfield specifically in natural resources exploration and production. CEMEX challenges the incorporation of local and isolated operations into a global production and distribution system by taking advantage of the best practices (CEMEX, 2001) based on a system of just in time delivery.

CEMEX has around half of its cash flow in Unites States and Europe and the remaining half in countries as diverse as Egypt, Indonesia, Philippines and of course, México (Expansión, 2004). CEMEX is considering a strategy to enter to China and Russia and Turkey' markets, where its products would compete with low-quality local cement, and where the acquisition of cement assets owned by the state and individual investors may be smoother (Reforma, 2004b).



The strategy of CEMEX is to concentrate investments in developing countries where the profits are higher because the small levels of purchase of bags for self-construction and small-scale building. Also, the strategy of CEMEX relies heavily on a just in time delivery system of distributing concrete. CEMEX is implementing the franchise Construrama, a strategy of low prices for low quantities to cater and provide access to the lower economic segments by selling inexpensive bags of cement for the self-construction market. In association with GE Capital launched a Constructcard project. The design and development of a strategy based on a business model to create value for the emerging consumers, requires alignment of other parties involved such as suppliers, wholesalers and retailers.

Cydsa, a group of 18 companies specialized in textiles, chemicals and plastics which were very successful during the eighties due to its strategies of diversification and strategic alliances. The group went into financial difficulties during the 1994-95 Mexican crises, just to the point of selling two thirds of its assets to be able to pay debts.

DESC is a supplier to auto companies on a competitiveness based on its high-quality auto parts and low-cost capabilities for production.

Femsa owns the largest Coca-Cola bottling group in the world, a brewing company and a convenience-store chain. The alliance FEMSA – Coca Cola enables it to build the distribution channels and manage the network in the Latin American market. Femsa is expanding towards new markets of beer and beverages in Canada, United States and Latin American countries.

Gruma (Grupo Maseca) is the largest producer of tortillas, dominates the market of several American countries and through the implementation of a strategy of international expansion, it exports to more than 50 countries around the world. The tortilla and corn flour market in the U.S. reports 60% of its total income and have plans to duplicate capacity. Gruma ranked 40th among the top 50 multinationals based on emerging economies measured by 2002 foreign assets, according to the estimations of Godstein (2007). Gruma is investing in creating new plants located in places where there is demand of the product, such as China, Russia, Australia, Africa, etc. Gruma is heavily investing in the markets of Asia and Oceania to concentrate in India, Indonesia, Malaysia, etc.

Grupo Bimbo is the second only to Yamazaki (Japan) producer of baked food products in the world (Expansion, 2005). It is a packaged bread and baking company evolving to a diversified operation of more than 5, 000 products, including sliced bread, sweets, chocolates and salted snacks. Bimbo is among the largest in its respective market niche that relies heavily on acquisitions to growth abroad. Bimbo started business operations in United States in 1984 and in Guatemala in 1991, followed by other acquisitions in Chile and Colombia. Now, it has factories in most of Latin-American, Asian and European countries and has been very successful in the Hispanic market. Bimbo set up manufacturing plants in strategic alliance with McDonalds and has bought Park Lane Confectionary of Germany and invested in Eastern Europe. The successful strategy followed is to manage and have control over the whole logistics, physical distribution and supply chain.

Grupo Bimbo operates in a multilevel environment having rivals at both domestic market and in global markets. Bimbo has benefitted from the competitive advantages offered by the agro-industry sector. The internal resources, competitive advantage, competition in the bread business, the institutional environment, elements of corporate governance, competitive conditions in foreign markets, etc., are some of the factors leading to the competitiveness of Bimbo in home and foreign market.

Bimbo takes advantage of its strengths in the distribution networks and hiring managers and entrepreneurs from the lower economic segments. These competitive conditions of Bimbo in the domestic market are quite different to the competitive conditions of rivals in their home country, which gives Bimbo and advantage over its competence in the Latin American markets. Bimbo ranked 47th among the top 50 multinationals based on emerging economies measured by 2003 foreign assets, according to the estimations of Goldstein (2007).



Grupo Carson is a sister company of Carson Telecom and the largest Mexican conglomerate that has businesses en different manufacturing and retailing sectors operating in several countries of America, Asia and Europe. In 1996, the telephone holdings were spun off into separate firms. It has main six subsidiaries and more than 200 small subsidiaries. Group Carson owns industrial, consumer and retail holdings. Commercial enterprises report to the Carso Holding Company. Also in finances and banking, it holds Grupo Financiero Inbursa including a commercial bank, an insurance company, and a stockbroker.

Telmex, the Mexican telephone company, after privatization in 1990, it was acquired in a joint venture with Southwestern Bell and has become one of the biggest competitors in America. Modernization of Telmex occurred in 1995-96 after the new regulatory framework. Telmex controls more than 90% of all fixed phone lines in Mexico. In 2006 Telmex bought 3.5 percent stake at Portugal Telecom.

America Movil is a spinoff of the holding company Carso Global Telecom since 2000 and together with Telmex, they have multiply acquisitions. America Movil offers the operation of the cellular phone services and has control of more than 80% of the Mexican market (Financial Times, 2006). America Movil is the largest or second largest wireless communications business in most Latin-American countries and tenth of the world. From 2001 to 2005, America Movil invested in Latin American markets to build a strong presence through the strategy of replication of its own business model. America Movil was transformed in only two years to become the largest telecommunications company in the Latin America in 2005. America Movil ranked sixth among the top 50 multinationals based on emerging economies measured by 2003 foreign assets, according to the estimations of Goldstein (2007). Multinational expansion of America Movil has been based on the strategies to keep low-costs and to market prepaid telephone cards.

In 2005, America Movil in partnership with Bell Canada, Inc. and SBC International set up Telecom Americas. Some strategies that Telecom Americas implement are to develop economies of regional scale on technical and managerial services, to lower costs by pooling human resources, its ability to deal and negotiate with governments, and to diversify to get into new and more dynamic areas of telecommunications. Telecom Americas has subsidiaries and joint ventures in several Latin American countries, United States, Spain, etc.

Other Mexican emerging multinationals enterprises (MexEMNEs) doing operations overseas at small scale are: Condumex produces automobile cables. Grupo Industrial Saltillo (GIS) produces engines blocks and heads. San Luis is one of the World's biggest producers of light-vehicle suspension springs.

Other important Mexican retailers operating abroad are three chains of drugs and pharmaceutical products, Farmacias Similares, Farmacias Benavides y Farmacias Del Ahorro, all of them are already expanding to other Latin American countries. Grupo Elektra, a retailer in electronics and furniture, has more than 1,000 points of sail in Latin America, covers the whole chain from marketing to customer credit supported by other sisters: TV Azteca and Banco Azteca.

## 8 Conclusions

There is a trend showing and signaling the emergence of new economic phenomena under the economic process of globalization represented by the rise of Mexican emerging multinationals enterprises (MexMNEs). Among the forces driving this trend are the economic processes of globalization, macroeconomic structural reforms, the fast moving systems of transportation and low-cost information and communication technologies, lower costs of capital and more favorable global financial system.



This new global economic environment is becoming more competitive and pressing business around the world to continue growing, sustain competitiveness and create value beyond their national borders, as new competitors appear in the markets. Mexican MNEs' strategy of grow abroad at overseas markets is mainly through organic growth and in less proportion through mergers and acquisitions

The overseas operations of Mexican emerging MNEs are entering into a new phase of international expansion in global markets, looking for direct presence related to the increasing sales. Mexican emerging MNEs are entering into a more globalized scale of activities through outward investments in new ventures, acquisition of assets, forming partnerships, strategic alliances and joint ventures. Emerging Mexican multinationals had invested overseas based on their ability to manage uncertain, complex and competitive environments as the result of severe economic crises, economic liberalization, structural reforms and steady economic globalization processes. This condition shows that Mexican firms present one of the highest rates of trade-openness among the emerging economies.

Mexican emerging MNEs attempt to enter and expand to emerging and mature markets equipped with business models combining low-cost, high-quality products and services and efficient systems of logistics and distribution channels to reach the overseas target markets.

All the Mexican emerging MNEs have very similar elements in common: They have the origins from very large domestic firms, low-cost resources including labor, a week institutional legal system and economic and financial environment leading to a critical and cyclical periods of crises (1982, 1987, 1994-95, 2008-2010) followed by negative or low economic growth. The survivor Mexican firms of this process of "creative destruction" have transformed into capable and innovative MNEs in order to look and move ahead and take advantage of the challenging new opportunities.

Mexican Emerging MNEs are averse to implement the strategy of risk diversification to create a portfolio of outward investments allocation in assets and natural resources. Also risk diversification through a portfolio allocation prevents exchange rate and commodity prices fluctuations.

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