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Openness, international champions, and the internationalization of Multilatinas

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A B S T R A C T

In the 1990s Latin American countries abandoned their policies of import-substituting industrialization carried out through fully-owned state enterprises (SOEs). They opened their economies to international competition and privatized their SOEs. We argue that this pragmatic adaptation did not necessarily constitute a fundamental change in policies, long followed by some Latin American countries, of state intervention in the pursuit of nationalistic objectives, but is instead a continuation of these policies by other means. Specifically, to safeguard their autonomy, some Latin American states have selected and nurtured domestic firms to become multinational enterprises (MNEs). They have kept – and obtained – equity stakes in these national MNEs to influence them and to keep them out of the hands of foreigners. These policies explain the timing of the rise of Multilatinas and their, usually partial, state ownership.

1. Introduction

The rise of multinational enterprises from emerging countries (EMNEs) has generated considerable interest among international business scholars (e.g. Cuervo-Cazurra & Ramamurti, 2014; Hennart, 2012; Ramamurti & Singh, 2009; Williamson, Ramamurti, Fleury, & Fleury, 2013; Zeng & Williamson, 2007). Much of the literature has focused on Chinese and Indian EMNEs with less attention devoted to Latin American EMNEs, the Multilatinas.

Cuervo-Cazurra (2008) notes that the international expansion of many Multilatinas did not start in earnest until the late 1980s. He argues that it can be traced to major changes in the institutional context of their home countries, specifically the opening up of their economies and the privatization of their state-owned enterprises (SOEs). Until the late 1980s, Latin American countries pursued policies of industrialization through import substitution (ISI). Under ISI, imports were discouraged in order to stimulate domestic production. The inability or unwillingness of domestic producers to respond to these incentives led many Latin American governments to fill the gap with fully-owned SOEs, which came to dominate many Latin American economies (Musacchio & Lazzarini, 2014b). In this highly protected and regulated environment, both private firms and SOEs had few incentives to sell or invest abroad. High entry barriers provided juicy opportunities for local entrepreneurs with good government connections, so it made more sense for them to diversify into new industries than to target foreign customers. Governments saw the mission of SOEs as meeting domestic demand, so SOEs had few incentives to sell abroad. Latin American governments were generally opposed to foreign investments by both private firms and SOEs because they saw such investments as using up funds that could be invested at home (Wells, 1971). Consequently both private firms and SOEs had low levels of internationalization.

In the 1990s these policies became economically unsustainable. They were abandoned and governments opened their economies to foreign competition, opting for lower barriers to trade and incoming foreign direct investment. Latin American governments also started to engage in the privatization of their SOEs. They ended up with less than full stakes in a large number of private and publicly listed firms, resulting in a "new variety of state capitalism" (Musacchio, Lazzarini, & Aguilera, 2015): state control is now generally exercised indirectly through national development banks and the pension funds of SOEs and newly privatized SOEs (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014).

While some authors have attributed the sudden rise of the Multilatinas in the late 1980s to the opening up of their economies

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(Cuervo-Cazurra, 2008; Del Sol & Kogan, 2007), less attention has been paid to the impact of the change in the level and modalities of state ownership. Yet, at least in the case of Brazil, there seems to be a clear link between internationalization and state ownership. Indeed, the list of the 20 largest Brazilian MNEs by size of foreign assets shows that two-thirds of them have some degree of government ownership (Sheng & Carrera, 2016). Is this fortuitous, or is there a solid relationship between government ownership and a firm's degree of internationalization? And if so, what causes this relationship? As Cuervo-Cazurra et al. (2014) note, our theoretical understanding of the impact of the new forms of state ownership on internationalization is still limited.

A few studies have focused on this relationship, but almost all of them have focused on China (e.g. Li, Cui, & Lu, 2015; Liang, Ren, & Sun, 2015; Wang, Hong, Kafouros, & Wright, 2012). China is, however, very different from Latin America. The Chinese government has set clear "go global" policies for Chinese firms and has unparalleled power to implement them. Most Chinese firms are fully or overwhelmingly owned by the state. Their managers are first and foremost public servants whose career prospects depend on their obedience to central government directives: they are "cadres first and company men second" (Economist, 2012). The Chinese Communist Party actively intervenes in the management of all Chinese firms through a parallel structure implanted in all firms, public and private, and makes sure that management follows governmental guidelines (Economist, 2012).

In contrast, Latin American government policies of support to the internationalization of domestic firms are more ambiguous, and the state leverage on domestic firms more tenuous. In the case of Brazil, the government stake is only partial, and the government must often contend with majority owners, often families. A further complicating factor is that the Brazilian government's stakes are generally indirectly held by the state development bank and the pension funds of SOEs or ex-SOEs. Hence the relationship between government ownership and internationalization is, in the Brazilian case, much less obvious, and the mechanisms by which the government influences firms more difficult to assess (Caseiro & Maseiro, 2014).

In this paper we contribute to the literatures on the impact of home-country institutions on a firm's level of internationalization. Specifically, we study the impact of the "new varieties of state capitalism" (Musacchio, Lazzarini, & Aguilera, 2015) on the level of internationalization of Multilatinas. By level of internationalization we mean the share of foreign sales in total sales, with foreign sales including both exports and local subsidiary sales.

We provide a novel explanation for the existence of a relationship between state ownership and the internationalization of domestic firms. We argue that such a relationship arises in countries where a nationalistic and neo-developmentalist ideology sees the development of internationally competitive domestic firms as the best way to safeguard state power. In such countries the state keeps strategic stakes in the privatized SOEs with international potential and expands the realm of state control by taking stakes in private firms with strong international prospects. Both groups of firms are encouraged to gain bulk by merging with other domestic firms so as to increase their bargaining power, and then receive strong government support in their internationalization. As a result, the state ends up owning significant equity stakes in those domestic firms which are highly internationalized.

After explaining the link between the level of state ownership in a firm and its degree of internationalization, we go on to explore whether with whom the state partners has an impact on internationalization. We hypothesize that having the state as a minority owner is likely to push family-managed firms, and firms where families, foreigners, and the state share control, to have a higher ratio of foreign sales to total sales than when the state partners with firms with dispersed ownership. On the other hand, we expect partially state-owned firms in which foreigners have majority stakes to be less internationalized than firms in which the government shares control with families.

We test our hypotheses on a sample of Brazilian listed companies over the 2002–2011 period. Brazil is an interesting context because, as we will see, it provides the best Latin American example of liberal neo-developmentalist policies that harness market forces to support state power. Specifically, the Brazilian state has carried out direct policies of support to internationalizing domestic firms by keeping ownership stakes in privatized SOEs and by taking new ones in private Brazilian firms with international potential. These policies of support to national champions go a long way towards explaining the internationalization of Brazilian Multilatinas, and explain the link between internationalization and government ownership.

Controlling for possible endogeneity, we find that the higher the total government stake in a firm, the higher its degree of internationalization, measured by its ratio of foreign to total sales. We find also that family firms with state ownership and firms where the state shares control with families and foreigners have a higher share of foreign to total sales than firms in which the state partners with dispersed owners, but that state ownership has a weaker impact on internationalization in firms where foreigners are dominant shareholders.

In the next section, we outline a theory of state support for the internationalization of domestic firms and explain why state ownership is associated with high foreign sales intensity before applying the theory to the case of Brazil. We then describe our sample, our methodology and our results. We conclude with implications for research on emerging market multinationals and on the new varieties of state capitalism.

2. Theoretical background and hypotheses

The dawn of capitalism witnessed a debate between the tenants of economic liberalism (e.g. John Stuart Mill, 1848) and the defenders of the nation state, such as List (1841). While List (1841) is better known for his 'infant industry' argument for protectionism, his criticism of economic liberalism was more fundamental. Along with the mercantilists, he argued that "economic liberals evaluated economic policies from the standpoint of individuals and the welfare of humanity as a whole" (Helleiner, 2002: 311), but bypassed the nation state, the unit of analysis in-between. For him, economic policies should not aim at increasing an individual's welfare, but at augmenting a country's wealth, power, and national identity.

Liberals, on the other hand, have argued that nation states should not interfere with international trade and investment flows, because free trade and investment yield a more efficient use of scarce resources, thus maximizing welfare at both the global and individual levels. They see economic relations as positive-sum games and the goal of economic activity as the maximization of global welfare. In contrast, mercantilists and economic nationalists take a more pessimistic view of economic relations and see them as essentially conflictual and zero-sum games which aim at redistributing wealth and power between nations (Gilpin, 1976).

In the post-WW2 era, economic nationalism led most developing countries to adopt ISI policies. These policies advanced the national interest by protecting domestic firms from foreign competition – through high trade barriers and restrictions on the entry of foreign firms – until they could stand on their own two feet. ISI policies also protected domestic markets from being colonized by foreign MNEs, which were seen as instruments by which powerful nation states projected their power and compromised the sovereignty of weaker ones (Gilpin, 1976).