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The role of the State in the internationalization of Latin American firms

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A B S T R A C T

I examine how different State actions shape the internationalization process of large firms in Argentina, Brazil and Chile. I argue that direct actions produce a more diversified internationalization by sector and a faster internationalization pace. The expansion of large firms abroad occurs through a narrower set of activities when indirect actions prevail. Indirect State actions encourage limited geographical extension and a gradual internationalization pace, producing fewer global leaders. Through an inter-country comparison, I examine direct and indirect policies in two crucial areas for internationalization: the support of national champions and the creation of capital availability. The State-induced internationalization pace influences the global scope of firms, central for understanding the phenomena of multilatinas.

1. Introduction

Internationalized firms from developing countries have started gaining relevance and studies highlighting the importance of these *emerging giants* have recently appeared (Cuervo-Cazurra & Ramamurti, 2014; Fleury & Fleury, 2011; Guillén & Garcia-Canal, 2009; Luo & Tung 2007; Williamson, Ramamurti, Fleury, & Fleury, 2013). This article contributes to this literature connecting different internationalization paths that have evolved in three Latin American countries -Argentina, Brazil and Chile- with the type of public policies implemented by the State. Thus, the question of this research is: how have different public policies and institutional settings shaped the internationalization process of large firms? The distinctive contribution of this research is that it focuses on direct and indirect ways in which State actions have influenced the internationalization of large firms from Argentina, Brazil and Chile. It shows that under direct actions, the State actively intervenes and executes public policies that deviate from market rules. Conversely, indirect actions are characterized by State policies that strengthen market conditions and have an effect on firms through the market.

In the area of international business, a few studies already address the importance of institutions in this process (Chittoor, Ray, Aulakh, & Sarkar, 2008; Garg & Delios, 2007; Kumar, Mudambi, & Gray, 2013; Yeung, 2002). Yet, analyses of the specific mechanisms by which the State can decisively influence the internationalization of local firms are still underdeveloped. There have been some recent improvements in understanding the State's influence on the internationalization of firms (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Musacchio & Lazzarini, 2014; Musacchio, Lazzarini, & Aguilera, 2015). Yet, the distinction between the effects of direct and indirect State actions still needs more development and this paper seeks to contribute to the topic.

This article also contributes to the multilatinas literature (Cuervo-Cazurra, 2007; Cuervo-Cazurra & Ramamurti, 2014; ECLAC, 2006; Fleury & Fleury, 2011; Goldstein, 2007; Guillén & Garcia-Canal, 2009; Santiso, 2013), as the State-induced pace of internationalization is crucial to determine the global scope of the firm. It complements studies that emphasize local culture and values (Hofstede, 2001, 2004) to explain firms' behavior by showing how State actions can also shape the strategies of firms. Finally, it goes beyond entrepreneurial initiative by actually assessing why specific sectors have large internationalized firms. This State-centered explanation connects direct and indirect actions to the level of sectorial diversification found within the group of large internationalized firms.

Methodologically, this research is a qualitatively based comparative analysis that relies on critical realism. While the level of generalization that can be obtained from the findings is limited by its contextualization (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mantymaki, 2011), it contributes to further theory building (Tsang, 2013). Comparative studies are largely used in Political Science (Culpepper, 2010; Gourevitch & Shinn, 2005; Hall & Soskice, 2001; Schneider, 2013). They have a central role within this discipline, which has vastly examined the connection between institutions and a diverse set of complex political phenomena. I build upon this theoretical and methodological background to analyze the complex relation between State actions and the internationalization process of companies.

From the many different policies that the State has to influence the internationalization process, I will focus on capital availability im-

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provements and policies encouraging the creation of large domestic firms, namely, national champions.[1] Assessing how each of the three selected countries has behaved in the first area is critical, given that national champions are among the leaders within the group of internationalized firms (Finchelstein, 2010; Goldstein, 2002; Musacchio & Lazarini, 2014). Funding is among the most important challenges that firms have in their internationalization process. In Latin America, capital constraints have been one of the central obstacles for both firms and country development. Thus, studying State actions towards the creation of capital availability becomes crucial.

The State gets involved in the internationalization process of firms in different ways. A useful analytical approach to study State involvement is to explore the particularities of direct and indirect actions. Both direct and indirect State intervention can produce a positive effect in the internationalization of large firms. Still, I argue that they have a different effect in the type of internationalization found. Direct actions produce a wider sectorial diversification, which implies a greater number of activities where large internationalized firms can be observed. These types of actions usually have a broader target, influencing the number of sectors within the group of internationalized firms. Direct policies can provide long-term credit promoting sectors that require more time to mature (i.e. heavy industries) and also increase the sectorial diversification in large firms' internationalization.

Indirect actions confine the expansion of large firms overseas to a smaller scale of activities in which a country already has a competitive advantage. Commodities are such an advantage for countries in Latin America. These actions rely on market incentives, which reduce internationalization to those industries with competitive advantages. Additionally, indirect actions mainly show their effect through market improvements. Thus, the allocation of funds is limited to those firms that fulfill market expectations, encouraging a more gradual growth. Therefore, large internationalized firms in countries where indirect policies prevail, have a slower growth pace. Their assets are initially concentrated within their region. Hence, their geographical extension is more limited.

I argue that the more indirect Chilean State policies have promoted a great number of large internationalized firms that have become relevant regional players. Chilean firms are concentrated in a few sectors in which the country already has competitive advantages, mainly commodities and retail. Argentina has fewer large internationalized firms, due essentially to an inconsistent set of public policies that involved constant changes in the types of State actions. Brazil has used direct actions and a very active national development bank to encourage the expansion of firms abroad. As a result, it has several large internationalized firms, many of which are among the leaders in their respective global markets, in a diverse set of activities. All of these findings emphasize the relevancy in distinguishing direct from indirect policies and are also consistent with the theory developed in the following section.

The article has seven sections. After this introduction, I display the theoretical framework in Section 2. Section 3 contains the methods and how the concept of large internationalized firms is measured. Section 4 describes the performance of Argentina, Brazil and Chile in terms of large firms' internationalization. Section 5 analyzes policies to promote national champions and those related to the creation of capital availability in the three countries. Section 6 provides a few examples illustrating the general mechanisms in actual cases. Section 7 presents a brief final discussion of the results and the expected contributions of this research.

2. Theoretical framework

To answer how public policies shape the process of large firms' internationalization, which is the central question of this research, I use a State-centered approach (O'Donnell, 1973; Schneider, 2009, 2010). Most of the studies in the sub-field of political economy -where State-centered approaches have more vigorously proliferated- (Amsden, 2001; Evans, 1995; Skocpol, 1985) do not focus on firms' internationalization. This study contributes to this line of research by assessing how direct and indirect State actions have an effect on the type of firms' internationalization found in a country.

The growing importance of internationalized firms from developing economies has increased the scholarly interest in this phenomenon (Casanova, 2009; Cuervo-Cazurra, 2007; Gammeltoft, Barnard, & Madhok 2010; Guillén, 2005; Hennart, 2011; Mathews, 2006; Pananond, 2007; Santiso 2013). Several analyses assess firms' expansion abroad from an *agency perspective*[2] (Dunning, 1980, 1988; Ghemawat, 2007; Johanson & Vahlne, 1977; Narula, 2006), placing the focus on the individual characteristics and skills that allow firms to succeed. Entrepreneurship and managerial capabilities are usually the key motivation to explain internationalization. For instance, Luo and Tung (2007) provide evidence confirming that the goal to acquire new capabilities is one of the main drivers behind the expansion of developing countries' multinational companies (MNCs). To survive, these firms need to expand and build capabilities that they did not have in their own markets. Similarly, Guillén and Garcia-Canal (2009) assess developing countries' MNCs expansion abroad, highlighting differences in internationalization speed, existing capabilities and entry modes with respect to developed countries' MNCs. This *agency based* perspective is not concerned in explaining how the State shapes firms' motivations. I argue that State policies are also crucial to understand the process of internationalization. The State centered approach of this research can actually complement very well with *agency based* studies.

Yamakawa, Peng, and Deeds (2008) combine elements from industry, resource and institution-based theories to explain the logic of developing countries firms' ventures in developed countries. This paper builds upon Yamakawa et al. (2008) but distinguishes itself by exploring beyond direct and specific government policies towards internationalization. It analyzes direct and indirect ways by which these policies have an effect on large firms' internationalization.

More recently, some scholars have analyzed how different levels of State involvement in a firm impact the mode of international expansion (Cuervo-Cazurra et al., 2014; Inoue, Lazzarini, & Musacchio, 2013; Musacchio & Lazzarini, 2014; Musacchio et al., 2015; Sennes & Mendes, 2009). These recent studies represent great progress towards a better understanding of how States shape the internationalization of firms. Still, they mainly focus on either full or partial State ownership or on direct State involvement. They do not fully consider how indirect State actions influence this process too. Thus, Musacchio et al. (2015) may be able to explain the case of Brazil but they could not give us a full picture of Chile -where indirect State actions are crucial for the internationalization of firms- or Argentina -where State actions have frequently changed-. I fill this gap by developing a State-centered theory of firms' internationalization that distinguishes between direct and indirect State actions through the identification of certain patterns in the Argentine, Brazilian and Chilean cases.

My definition of direct and indirect actions relies on the Varieties of Capitalism (Hall & Soskice, 2001) characterization of a liberal market economy (LME) and a coordinated market economy (CME). It is the position with respect to market rules what distinguishes direct from indirect State actions. While market interactions and rules drive the

[1] By national champion, I refer to large specialized firms that are the most important players in their industry and have the potentiality and capabilities to both compete with MNCs and expand internationally.

[2] By agency I refer to the individual actions of the *unit of analysis* (firms). Non-agency factors are the ones related to the environment in which firms interact. Namely, institutions, cultural and societal values, State actions, etc.