Multilatinas: Financial performance and speed of international expansion

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ABSTRACT

The phenomenon of *Multilatinas* companies has aroused the interest of numerous investigations in recent years. In particular, it has been studied why and under what conditions these organizations expand. However, the implications of financial performance conditions on the speed of international expansion of these types of companies still require further clarification and explanation. The objective of this paper is to analyze the speed of internationalization of *multilatinas* companies and the financial performance factors that affect their international expansion. For this, econometric analysis is carried out, using as dependent variable the speed of international expansion, measured as a ratio of companies' foreign direct investment (FDI) and sales. As explanatory variables, the financial indicators of profitability, indebtedness and leverage are used. By this, it is possible to identify the relationship between financial performance and the rate at which companies grow in international markets. The size of the company, the economic sectors and the countries of origin of the companies are used as control variables. Results show that profitability and indebtedness have positive effects on the speed of internationalization; as well leverage with certain restrictions.

Keywords: Speed of international expansion; multilatinas; profit ratio; debt ratio; leverage.

JEL: F20, F23, F29

Multilatinas: Desempeño financiero y velocidad de expansión internacional

RESUMEN

El fenómeno de las empresas Multilatinas ha despertado el interés de numerosas investigaciones en los años recientes. En particular se ha estudiado porqué y en qué condiciones se expanden estas organizaciones. Sin embargo, las implicaciones de las condiciones de desempeño financiero en la velocidad de expansión internacional de este tipo de empresas aún requieren mayor clarificación y explicación. El objetivo de este trabajo es analizar la velocidad de internacionalización de las empresas multilatinas y los factores de desempeño financiero que inciden en su crecimiento internacional. Para esto, el trabajo aplica un modelo de análisis econométrico, usando como variable dependiente la velocidad de expansión internacional, definida como la ratio entre el promedio de la inversión extranjera directa (IED) de las empresas y su volumen de ventas. Como variables independientes se emplean las variables de rentabilidad, endeudamiento y apalancamiento. De esta manera, se busca identificar la relación entre los principales

indicadores de desempeño financiero y la tasa a la cual crecen las empresas en los mercados internacionales. Se utilizan como variables de control el tamaño de la empresa, los sectores económicos y los países de origen de las empresas. Los resultados evidencian que las variables rentabilidad y endeudamiento guardan relación con la dinámica de la velocidad de internacionalización de las empresas analizadas, asimismo la variable apalancamiento logra explicarla con ciertas restricciones.

Palabras clave: velocidad de internacionalización; multilatinas; rentabilidad; endeudamiento; apalancamiento.

1. INTRODUCTION

The recent phenomenon of Multilatinas has created an important research stream given the particularly constrained setting in which this type of companies have grown. Multilatinas refer to companies whose origin, being from developing Latin American countries, does not allow them to enjoy the same country-specific advantages or firm-specific advantages, which traditionally explain the success of internationalization (Cuervo-Cazurra, 2007). This is reflected, in the resources available for exploitation, as well as the experience in competing for a market or the access to working capital. For this reason, it is necessary to identify complementary approaches that shed light on the factors that influence the emergence and success of this type of companies (Gaffney et al., 2013).

In particular, the conditions for the growth process and speed of international expansion of Multilatinas remains to be explored, as well as the financial performance of these organizations that enables them to have a higher rate of international growth. Therefore, this work aims to analyze how the financial performance of Multilatinas is related to its speed of international expansion. Specifically, this work will try to identify, first, whether a higher profitability of Multilatinas allows them grow at higher rates in international markets; second, whether lowest debt ratios of Multilatinas permits a faster speed of expansion; and third, whether a greater leverage has an impact on their international growth.

The importance of understanding this phenomenon lies in capturing the key indicators of the financial health Multilatina organizations that signal their readiness to go international and to grow at higher speeds. Until now the focus of research in Multilatinas has been placed in why they internationalize and how they overcome the lack of internal and external advantages for international expansion; however less attention has been placed on when they are prepared to grow and what about their financial background indicates their preparedness for further growth. This study will contribute to such understanding and will shed light about the decision patterns of Multilatinas regarding internationalization speed.

2. Theoretical framework

Internationalization is often explained as a process in which companies gradually increase and deepen their relationship with external markets, as proposed by Johanson et al. (1985; 1990, 2009), along with a number of researchers who are known as the Uppsala school (Canabal and White, 2008). The model distinguishes between four stages in which a company can be observed, collectively called the chain of establishments: 1) non-export, 2) indirect export, 3) the installation of sales subsidiaries and 4) the installation of production or manufacturing plants at the destination. The mechanism for a company to move from one stage to another is the knowledge and learning that it achieves with the experience of serving the markets and that allows it to develop skills and competencies to advance to a more complex stage (Johanson and Vahlne, 1990, 2009).

In this way, the accumulated international experience allows companies to assume higher levels of resource commitment, which leads them to choose modes of access to markets with higher levels of ownership and control (Datta et al., 2002). Likewise, the process of attracting skills and competencies is what allows the company to reduce the psychological distance that separates it from foreign markets and assume the risk of the investment that implies a greater degree of complication in its operations. It is the knowledge and mastery of the market that allows them to make decisions to commit to activities to serve it. A key factor for this is proximity to the target market. Companies will have greater confidence to perform in locations to which they have less cultural and geographical distance; this, in turn, will encourage them to engage in an offer aimed at the nearest markets (Andersen, 1997; Buckley, 2016).

On the other hand, ownership advantages are based on the resource-based approach (Barney, 1991; Porter, 1991), and refer to the possession of a distinctive and sustainable competitive advantage over other players in the market, which means that firms possess a barrier to entry that is difficult to overcome. Its international exploitation occurs when the benefits of adding value in a foreign location are recognized and when the size of the advantage exceeds the opportunity costs of internationalization. According to Dunning (2000), ownership advantages are of three types: first, those related to the possession of a monopolistic privilege, where the company has the exclusivity of exploitation of the resource, asset or knowledge; second, possessing a peculiar, scarce, unique and sustainable combination of capabilities and resources that signify a technical superiority in the exploitation of these over competitors; and third, those related to managerial competencies to identify, evaluate and capture capabilities and resources distributed around the world, which when combined with the company's proprietary resources, manage to guarantee the fulfillment of organizational objectives in the long term.

In this sense, Barney (1991) suggests that companies should seek a superior position in the markets, which should have four characteristics: being unique, valuable, inimitable and irreplaceable. Conjugating these four conditions through the use of their resources allows companies a kind of monopolistic advantage, while the absence or fragility of any of these implies facing rivalry situations in which competitors could imitate, substitute or surpass their offer (Dunning and Mcqueen, 1981; Peteraf, 1993; Porter, 1991).

In addition, from a point of view of the conditions offered by globalization, current perspectives on international business such as the eclectic paradigm (Cantwell et al., 2010) can be complemented with three components proposed by Matthews (2006): Linkage, Leverage and Learning. This proposal is based on the premise that Multilatinas are late entrants into international markets, rather than innovators who disrupt the traditional business context. Thus, Latin America multinationals try to link up with established companies or buyers by offering products or services in markets that leaders have no interest in internalizing. Their performance in these markets gives them resources that allow them to then leverage their capabilities. So, the iterative process they carry out generates a learning that over time allows them to stop depending on the conditions of the leaders (Gaffney et al., 2013; Mathews, 2006).

Throughout history, Multilatinas companies have had to adapt to inefficient economic and political structures. During the 1980s and 1990s, economies opened up their markets, causing local companies to be pushed out and replaced by more efficient foreign competitors. The companies that survived due to their strategy and above all because of the protectionist policies that countries had on their industries. Thus, the journey that led them adapt to their domestic conditions in order to survive, ended in forms of internationalization (Aguilera et al., 2017).

The study on the internationalization of multilatinas is diverse. Aguilera et al (2017), review Multilatinas from different theoretical perspectives that provide answers to important questions about them. Key issues that determine the internationalization of Latin American companies, such as: the leadership style, which should be characterized by high cultural intelligence; the industry, which should be taken into account when we have to consider Foreign Market Focus (FMF) and Outward Looking Competences (OLC) to achieve a sustainable competitive presence aboard; the protectionist and free trade economics policies; the geographical and product diversification; political ideologies, particularly the effect they have on familly-controlled firms; the company's reputation; the firms' social responsibility; and the lending policies of each country. However, the relationship between financial performance and the internationalization of Multilatinas companies remains to be clarified (Aguilera et al., 2018).

3. Materials and Methods

a. Data Collection

We have selected the Multilatinas enterprises based on the 500-ranking published by America Economica. The goal was to measure how the financial performance of Multilatinas affect their speed of internationalization using firms' FDI for the period 2014-2018.

FDI data was obtained from Orbis. On the other hand, firms' sales were obtained from financial reports, as well as for other financial ratios: profitability ratio, leverage ratio, and debt ratio. For control variables, GDP and GDP per capita were obtained from World Bank data. Sectoral classification follows 500 Multilatinas' ranking.

The sample was selected from the America Economica ranking of the 500 biggest Multilatinas, by sales volume. Then we extract FDI data from Orbis database. We found reports of FDI from 51 firms out of 500. Relevant data such as country of origin, sector and whether firms are listed on the stock market for these 51 companies can be found in Table 1. For these companies we extracted the financial information of 2018 statements, including assets, liabilities, equity, sales, and net profits.

Table 1. Country, sector, and stock market for sample

Country	Freq	Freq %		Sector	Freq	Freq %
AR	3	5,88%		Manufacture	30	58,82%
BRA	15	29,41%		Primary	8	15,69%
CHI	10	19,61%		Services	13	25,49%
COL	6	11,76%		Total	51	100,00%
MEX	12	23,53%				
PAN	3	5,88%		Stock Market	Freq	Freq %
PE	2	3,92%		Yes	42	82,35%
Total	51	100,00%		No	9	17,65%
				Total	51	100,00%

Source: Own elaboration

b. Variables

The variables (dependent and independent) are described in Table 2.

Table 2. List of variables

Variable	Indicators	Source
Dependent		
Speed	FDI/Sales	Orbis Financial Statements
Independent		
Profit ratio	Net profits/Sales	Financial statements
Debt ratio	Liabilities/Assets	Financial statements
Leverage	Equity/Liabilities	Financial statements

Control		
Assets	Log (assets)	Financial statements
Leverage*profit ratio	Leverage*profit ratio	
Sector	Which sector the firm works; Primary, Manufacturing or services.	500 ranking of multilatinas by America Economica
Country	Which country is the firm located; Brazil, Mexico, Chile, Colombia, Peru or Panama.	500 ranking of multilatinas by America Economica
GDP	Which GDP has the firm's country	World Bank
GDP per Capita	Which GDP per Capita has the firm's country	World Bank

Source: Own elaboration

4. Results

Table 3 shows the descriptive statistics for each variable (mean, standard deviation, minimum and maximum). Table 4 shows the results of the correlation between the variables, including the control variables.

Table 3. Descriptive statistics of variables

Variable	Mean	Std. Dev.	Min	Max
Speed	0,5131815	1,383783	0,0025789	9,151922
Profit Ratio	0,0961457	0,1343906	-0,1293406	0,7821842
Debt ratio	0,5728536	0,2093572	0,0007697	0,9104474
Leverage	2,241295	2,345677	0,0007703	1,016662
Log (Assets)	22,57776	1,492494	1,707303	2,654181
[Log (Assets)] ^2	511,9391	6,628658	2,914884	7,044674
Leverage*Profit Ratio	0,1625795	0,3326333	-0,5984662	1,4915830
Log (PIB)	2,741943	0,9584242	2,489657	2,937181
Log (PIBPerCapita)	9,218172	0,2728822	8,814182	9,665992

Source: Own elaboration

Table 4. Correlation Matrix of variables

	Speed (1)	Profit Ratio (2)	Debt ratio (3)	Leverage (4)	Log (Assets) (6)	[Log (Assets)] ^2 (7)	Leverage* Profit Ratio (8)	Log (GDP) (9)	Log (GDPPer-Cápita) (10)
1	1								
2	0,6396	1							
3	-0,4265	-0,3656	1						
4	-0,2096	-0,1712	0,7758	1					
5	-0,5803	-0,3084	0,3981	0,3624	1				
6	-0,5367	-0,2649	0,3829	0,3703	0,9977	1			
7	-0,1111	0,3737	0,3491	0,5351	0,3774	0,3962	1		
8	0,1715	0,1677	-0,1027	-0,0545	-0,2568	-0,2367	-0,0494	1	
9	-0,0017	-0,1606	0,0739	0,0917	0,0636	0,0564	-0,0708	-0,3617	1

Source: Own elaboration

Table 5. Model Results

Variables	Base Model		Curvilinear Exploration Model		Interaction	
	Model 1	Model 1.1	Model 2	Model 2.1	Model 3	Model 3.1
Profits Ratio	4,632***			1,24		7,059***
	(-1,078)			(-1,13)		(-1324)
Debt Ratio	-1,837*			-0,112		-1.650
	(-1,062)			(-0,942)		(0,992)
Leverage	0,138			-0,035		0,243**
	(0,0898)			(-0,082)		(0,0918)
log (Assets)	-0,385***			-7,906***		-0,249**
	(0,0971)			(-1,561)		(0,103)
[log (Assets)] ^2				0,168***		
				(-0,0347)		
Leverage*Profit						-1,662***
						(0,591)
Constant	9,512***	2,00e-07	93,21***	-9,08E-07	6,119**	-4,48e-08
	(-2,185)	(0,128)	(17,44)	(0,105)	(-2,368)	(0,119)
Observations	51	51	51	51	51	51
R-squared	0,598	0,598	0,735	0,735	0,659	0,659

Standard errors in parentheses *** p<0,01, ** p<0,05, * p<0,1
Source: Own elaboration

The base model has the dependent variable "speed" as a function of Profits Ratio, Debt Ratio, Leverage and Log Assets. The latter as a control variable to reflect firms' size. The coefficients of the variables indicate the following with respect to speed; for a one-tenth increase in the Profit Ratio, the speed of internationalization increases by 4.6 tenths. Likewise, if the company's Debt Ratio increases by one tenth, then the speed will decrease by 1.8 tenths. Regard to Leverage, an increase in this one-by-one tenth can increase speed by approximately 0.14 tenths (Table 5).

Both Profit Ratio and the control variable were significant at a 1% significance level, on the other hand, Debt Ratio was significant at 10%, and finally leverage was significant with a p-value of 13%, three percentage points above the limit. The R^22 of the model is 60%. And with respect to multicollinearity the model has a VIF of 2.03.

In the second model, called Curvilinear Exploration Model, we include the assets variable into the estimation, in order to correct the counterintuitive sign that appeared in the first model. In general, all the effects of the independent variables on the dependent variable have decreased, specifically; Profit Ratio increases the speed by 1,2 tenths, Debt Ratio decreases it by 0,11 tenths and leverage by 0,3.

In terms of significance, all the independent variables, except the control variables, have lost their significance in the second model. It has an R^2 of 73% and has a

high multicollinearity due to the fact that the assets variable is highly related to Assets ^{2}.

In relation to the third model, which we call the Interaction Model, we consider the multiplication between Leverage and Profit Ratio, the reason for this is that a relation between these two variables was intuited. The result was that the speed is increased by 7 tenths when Profit Ratio increases by one tenth, likewise, it decreases by 1.6 tenths when Debt Ratio increases by one tenth and, finally, leverage causes a growth in speed by 0.24 tenths when it increases by one tenth. Regarding the control variable Assets, the magnitude has decreased, it means, an increase in Assets causes a smaller decrease in velocity with respect to the base model. Regarding the interaction variable, a coefficient of -1.76 was obtained, intuitively, in the case that a company has both variables at high levels, this implies that it does not expand or grow as fast.

The profit Ratio and interaction variables were significant at 1%, followed by the Leverage and Assets variables that were significant at 5%, and finally, the model expelled the Debt Ratio variable with a p-value of 10.3%. The model obtained an R^2 of 66%.

To analyze this counter-intuitive effect of the asset variable, the three previous models corresponding to models 1.1, 2.1 and 3.1 have been centralized. By performing this action, the coefficients of the variables remain the same, changing only the intercepts of the models, this is evidenced in the table of results. Models 4, 5 and 6 were made including control variables. In the case of model 4, it include dummy variables of countries in order to explain how much more or less the speed of internationalization of a company from a specific country respect to those of Brazil was. Model 5 included categorical dummies by sector that sought to analyze how much the speed of internationalization of firms in the primary and secondary sectors would increase or decrease with respect to manufacturing firms. Model 6 posed as control variables the GDP and GDP Per Capita of each country. Models 4.1, 5.1, and 6.1 correspond to the centralized control models. However, none of the control variables were significant.

Table 6. Control Variables Test

Variables	Control Test Country		Control Test Sector		Control Test PIB and PIBPerCapital	
	Model 4	Model 4.1	Model 5	Model 5.1	Model 6	Model 6.1
Profit Ratio	4,964***		4,482***		4,804***	
	(-1,253)		(-1,105)		(-1,103)	
Debt Ratio	-1,876		-1,719		-1,772	
	(-1,297)		(-1,077)		(-1,075)	
Leverage	0,165		0,113		0,129	
	(-0,117)		(-0,0949)		(-0,0913)	
log (Assets)	-0,395***		-0,357***		-0,383***	
	(-0,119)		(-0,1)		(-0,101)	

Mexico	0,286					
	(-0,397)					
Argentina	0,539					
	(-0,613)					
Chile	0,521					
	(-0,414)					
Colombia	0,0701					
	(-0,51)					
Perú	0,0745					
	(-0,741)					
Panama	0,0264					
	(-0,84)					
Primary				-0,161		
				-0,377		
Services				0,329		
				-0,334		
log (PIB)						0,0124
						(-0,152)
log (PIBPerCapita)						0,519
						(-0,521)
Constant	9,438***	-0,214	8,826***	-0,0587	4,306	1,79E-07
	(-2,709)	(-0,26)	(-2,268)	(-0,174)	(-8,143)	(-0,129)
Observations	51	51	51	51	51	51
R-squared	0,62	0,62	0,612	0,612	0,608	0,608

Standard errors in parentheses *** $p<0,01$, ** $p<0,05$, * $p<0,1$
Source: Own elaboration

Discussion and conclusions

The purpose of this paper is to analyze the speed of internationalization of Multilatinas companies by examining their financial performance. Preliminary results show the relationships between the variables analyzed, in a way that it is possible to identify that certain financial indicators are directly related to the speed of internationalization of each Multilatina.

In relation to the profit ratio, we found that this variable is positive and significant, therefore, the model shows that an increase in the profitability of internationalization coincides with an increase in the speed of internationalization, within the sample examined. This is because a company with high profitability ratios has high sales, in other words, there is market acceptance. In addition to this, sales revenues are being captured by the company's net profits. This suggests that the Multilatina may have this same acceptance in foreign markets, making it attractive to investors who want to venture into foreign direct investment.

Regarding Debt Ratio, the model shows that this variable is significant and negative, consequently, for the sample analyzed in this study a growing indebtedness coincides with a slower speed of internationalization. Considering

that the Debt Ratio coefficient (-1,876) is very close to 0, in comparison to the profitability coefficient, the marginal change in the speed of internationalization with respect to indebtedness is minimal. However, this could be due to the fact that when companies have a high proportion of liabilities, they tend to have less borrowing power for future projects. Not forgetting that debt will contribute to the company's speed of internationalization if the capital acquired is used for productive investments to serve international markets.

Finally, regarding leverage, the model shows a positive relationship between leverage and the speed of internationalization, however, the variable is not significant, which means that its interpretation lacks validity. Nevertheless, if we try to give an explanation of the behavior of the leverage variable, an increase in leverage will lead to further growth in internationalization if the companies continue to have the capacity to indebt, and if the debt obtained is used for productive investments.

In general, the data show that the multilatinas companies analyze in this study, by increasing their Profit Ratio, have had the opportunity to expand internationally at a faster rate; nevertheless, if this growth has been based on debt, then international expansion will slow down, as indicated by indebtedness. This reinforces the behavior of the Leverage variable, where only if there is a stable level of liabilities will international growth be faster. The interaction model reinforces the above, since there will only be a speed of internationalization if there are not high levels of profitability and leverage at the same time.

In conclusion, we observe in our sample that just two hypotheses are correct; high levels of profitability coincide with an increase in the speed of internationalization, while high levels of indebtedness decrease it.

The results of this paper have implications for business strategy. In particular, it contributes to the internationalization speed decisions of multilatinas companies, in relation to which financial variables signal that a company is ready for international growth.

Future research could focus on the effects of stock market prices of Multilatinas firms and how these are related to their international performance.

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