The Challenges of Globalization for Emerging Market Firms

Robert Grosse

ABSTRACT. Latin American firms are threatened at home by competition coming from industrial-country multinationals and challenged by the opportunities available in industrial-country markets. Globalization for these emerging market firms thus means responding successfully to these two challenges. This paper identifies competitive strengths of Latin American and other emerging market firms that have been found in previous research by this author and others. It then goes on to present and illustrate a framework of Transformational Management that can be used by these firms to assess their competitive capabilities, and to design

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RESUMEN. Las empresas latinoamericanas se sienten amenazadas en su propio territorio por la competencia proveniente de las multinacionales de los países industriales, así como por las oportunidades que existen en los mercados de dichos países. Por ende, para estas empresas que operan en los mercados emergentes, la globalización implica responder exitosamente a ambos retos. Este estudio identifica las fuerzas competitivas en América Latina y en otras empresas de mercados emergentes descubiertas en una investigación realizada anteriormente por este autor y otros. A continuación, presenta e ilustra el marco de la Gestión de Transformación que dichas empresas pueden usar para evaluar su capacidad competitiva, y para trazar las estrategias necesarias para lograr éxito en los mercados doméstico e internacional contra sus competidores de otros países.

RESUMO. As empresas latino-americanas têm sido ameaçadas, em casa, pela competição com multinacionais de países industrializados e desafiadas pelas oportunidades disponíveis nos mercados de países industrializados. A globalização para estas empresas de mercados emergentes significa, portanto, vencer estes dois desafios. Este trabalho identifica as forças competitivas da América Latina e de outras empresas de mercados emergentes, pesquisadas anteriormente por este autor e por outros. Continua apresentando e ilustrando a estrutura da Gerência Transformacional, que pode ser utilizada por estas empresas, para avaliar a sua aptidão em competir e planejar estratégias que proporcionem o seu sucesso nos mercados doméstico e internacional, em oposição aos concorrentes de outros países.

KEYWORDS. Emerging markets, globalization, Latin America domestic firms

CAN EMERGING MARKET FIRMS COMPETE?

How can firms from Chile or Venezuela hope to compete with the global giants of the Fortune 500 (or the Financial Times 500; or the Nikkei 500)? This question forms the basis for the following analysis of competitive strategies that can be used by firms from small countries
and firms from emerging markets in the globalized competition of the early years of the 21st century.

The response to this apparently simple question, as one would imagine upon initial reflection, is: it depends. It depends on the industry; it depends on the country; it depends on the target market; it depends on the particular company; it depends on the leaders and managers involved, etc. The analysis below takes each of these considerations in turn, building a response framework for emerging market firms.

A first step is to define globalization. This term has been given many meanings in different contexts. Globalization may be the homogenization of people's tastes and demand patterns around the world due to increased access to international communication of information about products and services, as well as increased access to transportation of products and people across borders. Just as well, globalization may be seen as the threat of loss of national identity in response to the homogenization of lifestyles around the world. Without entering the debate of good versus bad globalization, the present analysis focuses on the ways in which firms can deal with the opportunities and the threats of greater market access by international firms to markets literally around the world. Globalization of the firm in this context is defined simply as the development of competitive capabilities that enable firms to compete successfully against rivals from and in different countries.

**COMPETITIVE ADVANTAGES IN THE DOMESTIC MARKET**

Emerging market firms can usually compete more successfully in the domestic market than abroad because they have competitive strengths that are created or reinforced by that market. The simplest competitive strength to see in this context is government protection. If the home government places tariffs or other barriers to imports into an industry, then domestic producers have a clear advantage over importers. This advantage may be eroded if foreign firms set up local production, and thus get around the trade barriers. This is precisely what firms such as Nestlé and Levi’s did to deal with Latin American trade barriers, beginning in the 1950s. Emerging market firms have been much less able to find ways around US and EU restrictions on their market entry (for example, in clothing and some food products).

In competition against foreign, industrial-country firms, emerging market firms generally possess a lower cost of producing manufactured goods, since they face lower wage and salary costs than do the industrial
countries. This low-cost advantage may be difficult to defend if the foreign firms set up production in the emerging market, but it does, nevertheless, provide a competitive advantage against firms that import into these markets.¹

Emerging market firms also frequently gain a competitive advantage over foreign multinational firms by controlling access to local channels of distribution. This may mean owning fleets of trucks to distribute products such as foods, or literally controlling media such as newspapers and television stations, such that foreign firms can be precluded from getting their messages across to consumers. This latter situation is not common today in as many countries as it was a decade ago, but the problem of access to local distribution and promotion channels still gives a competitive advantage to firms that possess those channels or have historically used those channels relative to foreign firms.²

According to some recent authors (e.g., Khanna and Palepu 1997), emerging market firms may also develop competitive advantages over rival firms from at home and abroad based on their ability to create internal capital markets. That is, in most emerging markets the ability of firms to raise funds is severely limited by the lack or small size of the local capital market. One way around this problem is to raise funds in international capital markets, although this is generally difficult for local, internationally unknown firms. Another way is to create the firm’s own financing source by forming or acquiring a banking institution such as a commercial bank or savings and loan association. By operating a deposit-taking financial institution, the emerging market firm can utilize deposits as a source of funding, as channeled through the company-owned bank in the form of commercial loans. The limitations on this financing source are several, mainly in terms of the amount of funding available (still quite limited relative to funding in industrial country markets and euromarkets) and the fact that only debt is available through this source, not equity.³

Similar to the logic favoring the internalization of a financing source, the case has been made in favor of conglomerate business structures, which permit the firm an ability to diversify its risk in relatively volatile and uncertain business environments. If a firm operates in multiple business segments (along the lines of a Korean chaebol or a Latin American grupo economico), the risk-reduction benefits of this diversification make the firm more capable of competing against foreign and domestic competitors. This type of structure is very common among large firms in Asia (Van Hoesel 1999; Khanna and Palepu 2000) and
Latin America (Peres 1998; Leff 1974), and elsewhere in the world as well.\(^4\)

A summary of key competitive advantages that have been identified in the cases of emerging markets firms includes those listed in Table 1. The advantages are divided into the ones that provide the most benefit in the domestic market and the ones that provide emerging market firms a greater ability to compete in foreign markets (although there is definitely significant overlap).

### Table 1

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Description</th>
<th>Examples</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Advantages in Domestic Competition</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government protection</td>
<td>tariffs against imports; subsidies; &quot;buy local&quot; policies; local ownership rules</td>
<td>Electric power in Mexico;</td>
<td>Amsden;</td>
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<tr>
<td>Access to local distribution channels</td>
<td>Preferential access to local physical distribution or promotional vehicles</td>
<td>YPF</td>
<td>Dawar and Frost; Grosse</td>
</tr>
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<td>Membership in an economic group</td>
<td>Conglomerate spread of activities</td>
<td>Grupo Luksic; Grupo Carso; Perez Companq; Grupo Cisneros</td>
<td>Peres</td>
</tr>
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<td>Internal capital market</td>
<td>Internal financing availability</td>
<td></td>
<td>Khanna and Palepu</td>
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<tr>
<td><strong>Key Advantages in Overseas Competition</strong></td>
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<td>Low-cost production</td>
<td>Based on small-scale manufacturing or low wages</td>
<td>Mexican firms</td>
<td>Wells; Thomas and Grosse; Peres</td>
</tr>
<tr>
<td>Ties to existing clients</td>
<td>Suppliers to MNEs</td>
<td></td>
<td>Wells</td>
</tr>
<tr>
<td>Ethnic connections</td>
<td>Indian firms; Mexican firms</td>
<td></td>
<td>Lall</td>
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<td>Technology</td>
<td>Mexican firms</td>
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<td>Lall; Thomas and Grosse</td>
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<td>Membership in economic group</td>
<td>Ability to realize economies of scope</td>
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<td>Lall; Van Hoesel; Khanna and Palepu</td>
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<td>Experience</td>
<td>Hong Kong firms</td>
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<td>Lall</td>
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COMPETITIVE ADVANTAGES IN FOREIGN MARKETS

Emerging market firms have proven capable of competing in other emerging markets as well as in industrial countries, based on a handful of competitive strengths that seem to extend into this international context. First and probably foremost, the ability of emerging market firms to achieve low production costs tends to permit them a degree of competitiveness in foreign markets, especially those with higher wage costs (Wells 1983; Peres 1998).

Ties to existing clients provide both an incentive to go abroad and an advantage in serving these customers. The existence of a successful supplier-buyer relationship in one country is very logically extended to additional countries when either the supplier or the buyer operates in the second country. Emerging market firms often partner with foreign multinationals to provide local production or assembly of goods. This production sourcing can be extended to foreign markets through exports or through establishing production in the foreign country. In any case the emerging market firm serves an industrial (business-to-business) client, and the partner firm in turn serves the end market. Other provision of inputs or services may likewise lead an emerging market firm to follow its existing client from the home market to overseas additional target markets.

An interesting offshoot of the previous idea of following customers to additional markets is the existence of ethnic connections between emerging market firms and client bases of expatriates/emigrants in other countries. It is hugely successful for Mexican firms to serve Mexican expatriates in the southern United States with foods, news, and other products and services there. Likewise, ethnic Indians are served with Indian exports of foods, clothing, and many other goods and services in their foreign locations around the world. The larger the ethnic group in the overseas location, the larger the potential market, of course.

The ability of emerging market firms to deal successfully with emerging market governments appears to be somewhat transferable across national boundaries. For example, a number of firms from Chile in the electric power, airline, and banking industries have successfully expanded their operations to Argentina, Peru, Brazil, and other South American countries, building on their abilities to deal successfully with governments in privatizations, in regulatory policy negotiations, and in operating such services under continuing scrutiny as public services.

Given that very few emerging market firms have achieved recognized brand names at the international level, the possibility of selling
branded goods in foreign markets remains a challenge in most instances. Along with their relative lack of financial and technological resources, this challenge ranks at the top of the list of barriers to emerging market firms in global markets. The problem stems from both the huge cost involved in promoting products in international markets and also from the perception that emerging market products are (often) of low quality. Overcoming this barrier has been the bane of almost all emerging market firms trying to operate at the global level.

In sum, we have identified a number of strengths that have been demonstrated by emerging market firms in their overseas competition in recent years, as well as some of their most difficult challenges. Since our intent is to be forward looking, rather than just describing the past, the analysis takes off from this point to explore the ways in which emerging market firms can develop sustainable competitive positions in domestic and foreign markets in the future.

**TRANSFORMATIONAL MANAGEMENT**

The way that emerging market firms can develop sustainable strategies for competing against foreign firms at home and abroad is through the process of Transformational Management (Hamel & Prahalad 1994; Grosse 2000; *The Economist* 2002). This process requires the firm’s leaders to make an initial commitment to the type(s) of business that they want to be in and the geographical scope of their competitive turf, and then to develop a strategy based on their vision of the future within this context.

More specifically, Transformational Management requires the firm to carry out a 4-step process, as shown in Figure 1.

This process calls for the firm’s managers to clearly define the context in which they want to compete. For example, consider the Chilean airline, LanChile. This privately owned airline is based in a small coun-

**FIGURE 1. The Four Phases of Transformational Management**

1. Envisioning the future
2. Designing a strategy to meet that future
3. Selling that future
4. Implementing the plan!
try located far from the main airline routes of the world. What LanChile did have was a clear management focus in the mid-1990s, in which the leaders of the firm defined their competitive turf as being passenger and cargo transport within South America and between the Americas. They saw the impossibility of competing directly with the major US airlines (American, United, Delta, and Continental), but also the opportunity to link with one of them to provide a South American regional service to complement the service of the partner (which turned out to be American).

As a second example, Colombia’s Carvajal group was a leader in producing and publishing books and telephone directories in the 1980s and early 1990s. That is, Carvajal was a leader in the physical production of books, which were manufactured for the firm’s own editorial divisions as well as for outside publishers. The firm also produced telephone directories, typically in joint ventures with local telephone companies; for example, in Colombia, Brazil, Ecuador, and Chile. At the same time, Carvajal was a Latin American leader in publishing books through its own divisions (Editorial Norma, Paramon (in Spain), Capeluz (in Argentina), Voluntad, and other smaller ones), which were managed by separate teams and separated as well from the production management. This family-based firm identified its future as being in the publishing, printing and distributing of books and other paper articles throughout Latin America. The initial position in publishing and fabricating books and directories then needed to be leveraged into other paper products and into building a distribution network throughout the region.

A final example of Transformational Management can be seen in the strategy of the Organizacion Diego Cisneros, an economic group based in Venezuela. This family-based group has evolved strikingly over the years, since its origins in the 1940s. The Cisneros family (originally brothers Diego and Antonio) began with a small trucking business and a local bus service business in Caracas. When the government decided to nationalize public transport, the growing bus service was lost. At about the same time, Antonio negotiated an exclusive license with Pepsi-Cola to be its distributor in Venezuela. Over the years, this operation became Pepsi’s biggest success outside of the United States. In 1961 the Cisneros group bought the national TV station from the government and relaunched it as Venevision, which has become the most successful television station in Latin America to date. Other businesses included the franchises for Burger King and Pizza Hut in Venezuela, a major beer brand, and the Pueblo chain of supermarkets in Puerto Rico.
The Cisneros group was a fairly typical family-based large economic group in the 1980s and early 1990s. With their base in food and beverages, the leaders of this group identified television and other media—into which they had already diversified—as the core business to be developed into the new century. This meant reducing the importance of its traditional businesses, or even spinning them off. In any event, the Cisneros group clearly defined the future context in which they wanted to compete, and then began the process of building their presence within that context.

Once the future has been identified in this way, Phase 2 of Transformational Management requires a company to position itself in an advantageous location within the context. The company has to take advantage of its existing core competencies in its business(es), and obtain new ones that may be needed to be a leader. When the context was book and paper product manufacturing throughout Latin America, Carvajal saw its initial capabilities as being the ability to produce high-quality books and other paper products at very low cost, and the ability to successfully recruit authors, arrange distribution, and operate publishing businesses. In the 1980s with the enormous external debt and recession problems in Latin America, Carvajal’s management decided that the only way to keep growing was to diversify—especially into non-Latin American markets. At that time Carvajal had been selling only pop-up children’s books in the United States. Editorial Norma bought rights to English books and then translated them into Spanish for sales in Latin America.

Carvajal also set up an international headquarters in Miami to pursue new business development in the North American market. This step turned out to be ill timed, since the Latin American markets began to open up to competition in the early 1990s, and opportunities arose for Carvajal back in Latin America. The Miami initiative was reduced in emphasis, and the group’s core competencies were leveraged more extensively in South American countries. One venture that came out of the Miami expansion was a new line of printing and publishing trade magazines. This one business was begun in Miami in the early 1990s and continued into the new century; the other new businesses were dropped, and Carvajal switched to selling labels, cartons, and other packaging materials in other Latin American countries.

At that point the natural tendency might have been to focus on the low-cost, high-volume assembly of books. Carvajal did follow this strategy initially, but the leaders of the firm saw this segment of the market as being a very low-profit one. The logical move to build on this
base was to diversify into additional value added activities such as production of non-book print materials (such as telephone directories, labels, and other items), as well as to diversify into high-quality books such as the pop-up children’s books. Additional diversification into other paper-related lines such as packaging materials was also seen as key to the transformation of the group. This was indeed the direction followed in the Transformational Management process of Carvajal, as shown in Figure 2.

The second phase for LanChile was to position itself centrally in the airline route structure for serving South American markets and to offer superior service to clients. The firm identified the key needs as hub locations for passengers in multiple South American locations and a cargo hub in Miami. These key needs were met by building such a hub in Miami and seeking to buy or set up airlines in the key population centers of Buenos Aires and São Paulo, or Rio de Janeiro (not accomplished yet), and other South American capitals (accomplished in Lima and Quito). The provision of superior service has been recognized by outside agencies that evaluate airline passenger service, with LanChile receiving the highest rating of any airline serving Latin America in 2000 and 2001.

The second stage of the Transformational Management process at Grupo Diego Cisneros in the 1990s involved globalizing its activities and focusing centrally on media businesses. The group still operates the local Coca-Cola franchise (switching from Pepsi in 1990), along with franchises from Burger King and Pizza Hut, the Puerto Rican grocery store chain Pueblo, and a number of other businesses. However, the transformation was to move more heavily into television, telephone service, radio, and even the production of recordings—i.e., to become a media empire. Cisneros has accomplished this task, or at least has positioned itself centrally within the chosen competitive context, by expanding Venevision throughout Latin America, by joining AOL as a 50-50 partner in AOL Latin America, by joining several partners in building DirecTV and Galaxy throughout Latin America, and even by entering into film production.

The positioning effort in Stage 2 of Transformational Management requires first identifying the position that the firm wants to occupy; second, identifying the core competencies needed to gain and sustain that position and third, creating a plan to obtain the competencies that the firm may not already possess. Each firm in our set did identify the context within which it wanted to compete. But what were the relevant competencies that would allow success there?
1. ENVISION THE FUTURE
   - Publication, production, and distribution of books, telephone directories, and other publications through Latin America
     (1) Production of high-value books
     (2) Distribution and sale of phone books

2. DESIGN A STRATEGY TO MEET THAT FUTURE
   - Get out of low-profit activities
   - Focus on publishing and producing books and print matter
   - Build broader distribution
   - Build related products

3. SELL THAT FUTURE
   - Advertise Carvajal and Norma names through the Americas

4. IMPLEMENT THE PLAN
   - Build global distribution channels
   - Look for additional publishing and producing opportunities

FIGURE 2. Carvajal Transformational Management

INITIAL POSITION: Key Competitive Strengths
- Low-cost production
- Good quality control
- Distribution channels in Latin America
The core competencies identified by Carvajal were the ability to produce high-quality books, especially the pop-up books, at lower cost than local and multinational rivals, and the ability to produce other paper-based products such as telephone books and labels at lower cost with competitive quality compared to rivals. Parallel to this core area, Carvajal had built a Spanish-language publishing network that was a leader in Latin America. In addition, Carvajal was able to build a distribution competency, with the best distribution of books throughout Latin America. Finally, Carvajal defined a new core competency area as the application of the firm’s capabilities in dealing with authors in the publishing business, producing publications, and in dealing with retail customers served through print media. This area then remained to be filled through extension into new businesses.

The core competencies identified by the Cisneros group were the ability to produce and to distribute the most attractive package of television programming, videos, and other ancillary items throughout Latin America. The group is trying to develop a competency in telephone and Internet service as well, but this outcome has not yet been proven.

The core competencies identified by LanChile were the ability to serve Southern Cone destinations better than any rival, and the ability to provide cargo service with the most extensive distribution in the region. The competency that the firm is trying to build is to be the best passenger airline serving South America, competing with American, Continental, and the others. This last competency has not yet been proven, though customer surveys are consistently ranking LanChile at the top in the early 21st century.

Notice that a key positive attribute of this means of strategy development is that it does not call for the firm to already possess all of the requisite capabilities to compete in the unfolding environment, but rather the firm must be capable and flexible enough to identify the key competencies with which it can carve out sustainable positions, and then figure out how to obtain whatever competencies are not already in hand. The typical barriers to emerging market firms—technology and financial capital—can be obtained in many different ways, but if one or both are key to competing in the new environment, then the firm must figure out how to obtain them, e.g., through strategic alliances, or even merger with a firm that already possesses the financial or technological resources.

Phase 3 of the Transformational Management process calls for the firm to inform the market of the future that is coming and of their firm’s own position as a superior provider of the products and/or services
within that context. This is another huge hurdle for emerging market firms, since international brand awareness of products from emerging markets is almost always nonexistent or at least very limited.

LanChile was able to move in this direction through the firm’s own efforts and through its alliance with American in OneWorld. LanChile has undertaken a large-scale campaign in Latin America to attract passengers to use LanChile, LanPeru and Ecuatoriana flights within that region and to the United States. LanChile informs the global passenger market of its services through direct advertising (such as in magazines) and also indirectly through efforts of the One World alliance members and joint advertising. Unquestionably, the OneWorld alliance promotional effort gives LanChile the greatest international visibility, because it is undertaken by American Airlines and British Airways, and because it is done, literally, worldwide.

With respect to cargo shipments, informing the market about LanChile’s services is accomplished less by advertising and more by visits to potential clients, by referrals from satisfied clients, and through other business-to-business channels. The cargo hub that was established in Miami in 1999 has made LanChile the second largest cargo shipper in that location (after American Airlines) and has positioned LanChile to continue to build this business between Miami, Latin America and Caribbean destinations. The whole sequence of LanChile’s transformation is shown in Figure 3.

The Cisneros group has made less of an effort to promote its own brand name internationally, but rather has built a transnational network of highly visible affiliates under the brands of DirecTV and Galaxy, as well as AOL Latin America. Arguably, the Venevision name is known throughout the region, but the Cisneros strategy to gain visibility remains a one-off arrangement. This is a very interesting strategy, because it enables the group to avoid the pitfalls of being identified as a third-world organization, but at the same time it fails to make the Cisneros name more widely known.

Carvajal, perhaps similar to the Cisneros group, has made relatively little effort to promote its own name outside of Colombia, focusing instead on building the brand of Editorial Norma (and its other branded publishing companies). This strategy limits Carvajal to visibility in book publishing, unless the Norma name is extended to other products and promoted in those applications. Still, with its relatively narrow product line focus, Carvajal could build the Norma brand globally as the means through which the firm may become known as the leader in book production and distribution. Carvajal has built a regional name for its book and
INITIAL POSITION: Key Competitive Strengths

- Low-cost production
- Good quality control
- Distribution channels in Latin America

Regional airline for passengers and cargo in South America
(1) Passengers want domestic service and links to USA
(2) Cargo market is domestic, intra-regional, and with US
(3) Joint passenger/cargo service is key

FIGURE 3. Lan Chile Transformational Management

1. ENVISION THE FUTURE
   - Regional airline for passengers and cargo in South America
     (1) Passengers want domestic service and links to USA
     (2) Cargo market is domestic, intra-regional, and with US
     (3) Joint passenger/cargo service is key

2. DESIGN A STRATEGY TO MEET THAT FUTURE
   - Create South American route Web and hubs
   - Link with American Airlines to extend routes
   - Acquire additional airlines in Latin America

3. SELL THAT FUTURE
   - Advertise Lan and One World Alliance
   - Promote the fact of Lan’s top service in the region

4. IMPLEMENT THE PLAN
   - Develop cargo business through Latin America
   - Build intra-region passenger service
phone directory production company, with the name *Publicar*, so it should not be concluded that Carvajal focuses solely on the Norma name.

Finally, Phase 4 of the process requires the firm to implement its strategy, which has been defined in the previous three steps. Implementation will make or break the strategy, and each of the firms described here has made an enormous effort to follow through on its plan to implement the strategy’s details.

LanChile has implemented its transformational strategy with complete commitment, although still without the ability to establish a passenger hub in either Rio or São Paulo–locations that are halfway down South America, and ideal for intermediate points between Miami and Santiago. The firm is building alliances with partners in Argentina and Brazil to try to establish a local presence in both countries, but the outcome remains unclear at present. LanChile’s effort to create a high-quality image in passenger service has resulted in the firm being ranked as the best passenger airline within Latin America and between the US and Latin America in the past two years. What remains in addition to obtaining a mid-continent hub is to create a business model that depends less on American Airlines (in the One World alliance), since the current situation leaves LanChile greatly exposed to the risk of change in American’s alliance and strategy. The implementation of the cargo strategy has been much more complete, with very successful service connecting Brazil and Argentina, as well as the countries where Lan has passenger operations, to Miami, the rest of Latin America, and elsewhere.

The Cisneros group has moved increasingly into the media and telecom businesses, with full regional expansion and leading participation in the US Hispanic television service. Given the early 2000’s crisis in telecommunications companies, perhaps the Cisneros group will be able to build its ownership in this part of their chosen territory, buying some of the failed businesses of firms such as Global Crossing and Worldcom. At the same time, the risk of technology and regulation changes in telecoms keeps Cisneros in a volatile business, trying to provide the linking of final customers to the content that is provided by their own production companies and that of other content providers. The full process of Transformational Management at Grupo Cisneros is shown in Figure 4.

The Carvajal group has been slower to build its international presence and to expand in general. This conservative approach has been rewarded by perhaps fewer crises than would afflict a more rapidly-growing firm,
### FIGURE 4. Cisneros Group Transformational Management

<table>
<thead>
<tr>
<th>1. ENVISION THE FUTURE</th>
<th>2. DESIGN A STRATEGY TO MEET THAT FUTURE</th>
<th>3. SELL THAT FUTURE</th>
<th>4. IMPLEMENT THE PLAN</th>
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</thead>
<tbody>
<tr>
<td>Media and telecommunications</td>
<td>“Spin off” some of the food and beverage</td>
<td>Use Cisneros media outlets to promote the new image</td>
<td>Ally with international partners to provide TV and telecom service</td>
</tr>
<tr>
<td>Entertainment content production</td>
<td>Ally with international partners to provide TRV and telecom service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other businesses</td>
<td>Focus on new core areas of telecom and programming content</td>
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INITIAL POSITION Key Competitive Strengths
- Low-cost production
- Good quality control
- Distribution channels in Latin America
but also with fewer opportunities to establish a sustainable position in global markets. Carvajal’s transformation into a multinational has produced annual sales coming more than 1/3 from outside of Colombia, focused mainly on the Editorial Norma book publishing. Production of books, magazines, and telephone for third parties is also a key component of the globalization of Carvajal.

Some added diversification and overseas extension of business has also been undertaken in related industries. For example, Carvajal has entered the business of “digital printing,” i.e., digital production of books and manuals for Microsoft (in this case, the publisher) in Mexico and Colombia. Another interesting facet of this business is the distribution arrangement. A publisher normally does the distribution to bookstores and wholesalers, taking delivery of printed products at its own location. In the present case, Cargraphics (the Carvajal company) does the digital production and printing of manuals, and then it arranges distribution of the finished books and manuals to the customers, rather than to the publisher. This exception to the normal rule may be the basis for a broader Carvajal presence in digital printing in the future.

**PROBLEMS WITH TRANSFORMATIONAL MANAGEMENT PROCESSES**

Transformational Management should not be viewed as a simple recipe for success. Strategies that may be defined properly by today may fail to deliver the intended competitive position if technological, regulatory, or competitive conditions change markedly before the strategy can be completed. Perhaps the key lesson from this point is that the strategy must be flexible enough to handle this problem.

In fact, this kind of flexibility is one of the key attributes of successful emerging market firms. That is, they tend to diversify into portfolios of businesses, such that when conditions change and any one business comes under pressure, there are others that can be pursued to preserve the company’s viability. The debate is quite pointed today, as some analysts criticize the diversified company strategy as unwieldy in the 21st century, while others point out that it has been and continues to be a very successful business model in emerging markets.

In LanChile’s case the flexibility has been built more through expansion into other national airline markets, rather than through sectoral diversification (except for the move into cargo service, which really has been the base of LanChile’s leaders all along). In the case of Grupo
Cisneros, the flexibility of the group has been a hallmark of its success. The transformation into a media/telecom company is only the latest strategic direction in more than half a century of steps to leave weaker sectors (or legally-limited ones) and to enter sectors that allow the group to take advantage of its knowledge assets. In the case of Carvajal, the group’s flexibility has been primarily to take advantage of opportunities to build on the core book publishing and production businesses into other closely related businesses. Overall the three examples are quite diverse, but all of them demonstrate the element of flexibility and perhaps opportunism to take advantage of ventures that build on the core knowledge competencies of the group.

**ADDITIONAL CONCERNS**

The kinds of strategies that will serve emerging market firms in competition with typically larger and more experienced competitors from industrial countries are based first on the emerging market firm’s ability to clearly identify the context in which to compete (e.g., home market, foreign emerging market, foreign industrial country market–as well as specific market segments); then to judge which core competencies are needed to succeed in that context; third, to build or otherwise obtain the relevant competencies, and then to promote the firm’s products and services. The implementation of the strategy is the final and equally crucial stage.

What is not obvious from the broad picture that has been painted here is that the typical disadvantages of emerging market firms in competition with foreign multinationals are (1) financial capability, and (2) technological capability. A major challenge to emerging market firms that seek to globalize is to obtain these inputs without giving up the firm. In other words, rather than selling out ownership to a larger and better-financed rival, what alternatives do emerging market firms have? This is not a trivial question: as we look around at the major emerging market competitors in domestic and international markets, we often see the outcome of a successful foray into international competition as the acquisition of the emerging market firm by a larger, industrial-country rival. The examples of this acquisition outcome are numerous in Latin America: YPF purchased by Repsol; most telephone companies purchased by large, industrial-country phone companies such as Telefónica of Spain; many emerging market banks purchased by industrial-country banks such as Banco Santander and Citibank;
most electric power companies purchased by large, industrial-country firms such as Endesa of Spain, Duke Power, and AES from Houston.

The alternatives to selling out are not hard to identify in general terms. They include all kinds of strategic alliances, from joint marketing agreements to joint ventures, and everything in between. The choice of alliance that will give the emerging market partner the greatest benefit is much more difficult to define.

In the case of LanChile, clearly the move to join a global passenger transport alliance (the OneWorld alliance with American Airlines) is a vital link. At the same time, this alliance leaves LanChile significantly at the mercy of American Airlines in terms of access to non-Chilean passengers, choices of flight times, etc. So, the logical step is to form other alliances, and to expand its own service to other countries (as the firm has done by creating LanPeru, and buying Ecuatoriana). The point is that the optimal alliance structure is a moving target, but it must be pursued persistently so that the smaller and less financially endowed emerging market firm can defend itself against the larger rivals.

In the case of the Cisneros group, the alliances have been numerous in different media and communications ventures. They are allied with Hughes Communications of the US and local partners in sixteen Latin American countries to provide DirectTV through the Galaxy television network. To provide internet service and content, they are allied with America Online in AOL Latin America. To provide telephone service, they are allied with Sprint, Motorola, and others. In sum, the Cisneros group has extensively utilized alliances to position itself as a joint leader in multiple segments of the media and telecom sectors in Latin America.

In the case of Carvajal, alliances have been used far less. At one point, Carvajal was the exclusive dealer for General Motors in Colombia, but that alliance was long ago dissolved. In production of telephone directories, Carvajal is allied with the local telephone company in more than a dozen countries in Latin America, so this form of operation is not rejected by the group. And the Microsoft digital printing alliance is a major exception to Carvajal’s general emphasis on controlling positions in key ventures. With respect to its core book production and publishing business, Carvajal has been very cautious about the use of alliances.

**CONCLUSIONS**

The road ahead for emerging markets firms, or at least large Latin American firms, is not a very propitious one. In order to compete
against larger, better endowed foreign competitors at home and abroad, an emerging market firm must clearly define its “turf,” and then design and implement a strategy that builds on sustainable core competencies such as operation of superior distribution channels, superior service based on ongoing relationships with key clients, greater flexibility to change direction (sectors) quickly, or other kinds of strengths. These strengths in turn must originate from some bases such as low production costs, the ability to produce high-quality products, proprietary knowledge of customers and markets, etc. The challenges of globalization are clear. The strategies followed by firms such as those discussed in this article give some indication that continuing success is possible in the new environment.

NOTES

1. The lower production costs often found in emerging markets have to be compared with the also-lower productivity of labor (or capital) in such markets. If the lower wages (or rental costs) are offset by lower productivity, then no net gain is achieved. While low productivity is a problem in Latin America, in the early 2000s, it is still generally true that overall production costs are lower than in the US or the EU.

2. Of course, foreign firms in many cases have been operating in emerging markets for decades, and they are often just as able to gain preferential access to local channels of distribution as local firms. This reality implies that domination of distribution channels is not a sustainable competitive advantage in many cases today.

3. Another limit on the use of captive financial institutions is the banking law in many emerging markets that often disallows a bank from lending more than a small percentage of its capital to related or concentrated borrowers.

4. This corporate form is actually prevalent in most of the world outside of the US and the UK. Conglomerate business organizations, often family based, are a very frequent form of business worldwide, providing the firm an ability to diversify risk, take advantage of scale economies, and generally to internalize business opportunities in imperfect and inefficient markets.

REFERENCES


The Economist (2002). Transformational Management Article.


