Setting Out to Conquer The World

Business Model Challenges and Lessons Learned in the Internationalization of Latin American Companies
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Imagine a business traveler in Latin America taking a Marcopolo bus to an Embraer jet powered by Petrobras fuel. During the flight, InBev beverages, Citrovita orange juice, and Arcor candies are served. To get comfortable, our traveler can slip into some Havaianas sandals and smooth out the rough spots with Natura Cosméticos skin cream. This is not an idle daydream: After two decades of battling multinational companies (MNCs) and the U.S. and European brands that invaded their local markets, Latin American companies have acquired sufficient muscle to compete at home and, increasingly, internationally.

In just the past few years, Latin America has developed its international presence dramatically. The region’s share of world exports has risen from 4.1 percent in 2002 to 5.2 percent in 2006, and since 2002 its year-over-year growth in share of world total foreign direct investment (FDI) outflows has been 30 percent, compared with a worldwide average of 10 percent.

MNCs based outside the region have recently stumbled in Latin American markets. Many of these MNCs established their presence in Latin America in the 1990s, seizing opportunities stemming from the privatization and liberalization of Latin economies. More recently, however, some have been hampered by political and economic instability, poor performance (vis-à-vis premiums paid), and the relative attractiveness of investing in other emerging markets, such as China and India.

The Latin-owned companies that have prevailed against MNCs—and some have achieved remarkable success of late—have done so by consolidating their positions in home markets and leveraging their strengths. For example, they were able to monetize positional assets (orange groves for Citrovita, forests for Masisa, iron ore reserves for CVRD) or differentiated expertise (Petrobras’s deepwater exploration and production know-how). In addition, they made the most of low-cost resources—labor, machinery, and raw materials—while overcoming the challenges posed by underdeveloped infrastructure. Finally, they proved capable of adapting their products and services to customer needs, buying behavior, and economic realities—such as a low-income mass market—while remaining flexible enough to adapt their business plans to an unstable environment, whether due to macroeconomic forces or politics.

Having secured a foundation at home, many of these companies pursued an aggressive strategy of regional expansion, acquiring companies (including some put in play by MNC divestitures) and establishing cross-border joint ventures. The result? From 2002 to 2005, annual revenue for Latin-owned companies grew 20 percent compared with 12 percent for MNCs. By 2005, 59 percent of the 500 largest companies in Latin America were Latin owned; in 2006, 82 percent of M&A deals in the region originated with Latin companies.

In evaluating the international expansion of companies based in emerging countries, there are three elements to consider:

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1. **Unctad World Investment Report; 2006 estimated**
2. **Unctad World Investment Report, Unctad Statistic Database; does not include offshore financial centers (Cayman and Virgin Islands)**
3-4 **America Economia; number of companies per type of ownership**
5. **ISI—M&A Deals in Brazil, Argentina, Chile, Peru, Venezuela, Colombia; does not include IPO and minority stake purchase**
Motivators—the factors that drive companies to become international

Strategies—the paths they choose to pursue internationalization

Business models—how best to deploy their capabilities in foreign markets.

Based on the conclusions of Booz Allen Hamilton’s 2002 study “Internationalization of Brazilian Companies: Barriers and Drivers,” motivators are frequently similar across companies, including access to new profit pools and raw materials; reductions in capital costs, production costs, and exchange rate risks; and a defensive desire to avoid being acquired.

Strategies, too, tend to be similar. Most companies going global pursue one of several paths. One is simply to replicate the successful home-country business model and competencies in other geographies: Cemex, the cement producer, developed a “Cemex Way” of integrating acquisitions that seeks to combine the scale benefits of global standardization with local customization. Another strategy is to leverage a raw materials advantage in the home country. Citrovita is one of the world’s largest producers of orange juice concentrate, in part due to the extraordinary climate and soil conditions of Brazil, which have sustained the company’s growth internationally. The opposite approach—fueling growth through access to raw materials in another country—is also common. For example, CVRD is embarking on an aggressive international acquisition campaign in order to access new iron ore reserves and diversify its asset base.

Successful strategies all have one thing in common: They build on competitive advantages and help create value. Companies from emerging countries with international presence saw their values increase 50 percent more than did companies with local focus.6

In this report, we look at the third evaluation element: the business model challenges faced and lessons learned by multilatinas (i.e., Latin-owned companies operating in multiple countries). To further our understanding of the path to internationalization, we recently interviewed dozens of executives at 14 companies in Argentina, Brazil, Chile, and Mexico. These companies represent various sectors, sizes (with annual revenues of up to US$70 billion), and degrees of internationalization (see Exhibit 1).

Based on these interviews, we found that multilatinas going international face several common challenges, just as long-standing multinationals experienced similar difficulties when they started their global expansion in decades past. Such challenges include: integrating acquired operations, guaranteeing adequate levels of control, replicating formulas of success beyond national borders, guaranteeing speed to market and market intimacy, taking the home-market brand global, breaking down barriers, and dealing with resistance to change in values and culture, as well as a shortage of professionals with international experience and recruiting and retaining people abroad.

In meeting these challenges, there are five critical business model dimensions for multilatinas to consider, regardless of their industry segment or home country. These dimensions are governance, organizational model, business management processes and systems, values and culture, and human resources (HR).

1. Governance

In most emerging markets, we observe four stages of corporate governance, which occur in three waves (see Exhibit 2, page 3). Several of the companies we studied have evolved from the initial stage and have undergone the first or even second wave of change.

We expected internationalization to trigger companies’ progression to the fourth level of corporate governance due to, at a minimum, the need for information disclosure and transparency to meet international requirements. However, what we found was that few adaptations are being implemented, because governance of international operations is seen as an appendix to governance of headquarters. Latin American regulators and institutions are relatively weak.

Exhibit 1

Stages of Internationalization

- Strong domestic positioning, with focus on exports
- Productive assets in home country
- <10% of revenues from international operations
- Regional internationalization (e.g., Latin America)
- Regional productive assets
- 10%–40% of revenues from international operations
- Global internationalization
- Productive assets in most relevant markets in their sector
- >40% of revenues from international operations

Source: Booz Allen Hamilton

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6 Bloomberg, Datastream, Economática; based on the evolution of stock option prices of local versus internationalized companies between 1993 and 2002 of the largest listed companies in eight countries: Argentina, Brazil, Chile, China, Mexico, South Korea, India, and Spain
(e.g., disclosure requirements are below international level), and capital markets’ pressure for improvement has increased only recently. Local governance itself represents a challenge, as many multilatinas were originally family owned, with high concentrations of ownership. As a result, participation of international heads in their companies’ governance forums is still an exception, and, in general, governance evolution lags the internationalization business stage (see Exhibit 3).

This lag can have a negative impact. For example, the absence of board members with relevant international experience may lead to a lack of attention to international operations in strategic discussions. Often, multilatinas include too few international executives in decision-making forums. One result is misalignment between strategy and execution, marked by inadequate or slow decisions based on insufficient analytical support.

Additionally, many companies are not appropriately leveraging their internationalization to reduce costs of funding. That’s not to say, however, that it can’t be done, as several examples illustrate. Cemex, for instance, achieved a reduction of roughly 300 basis points in the spread over the London Interbank Offered Rate (LIBOR) and reached investment grade in 2002, after creating an operational holding in Spain and an investment holding in Asia and becoming publicly traded on the NYSE during the late 1990s. Bunge transferred its headquarters to the United States in 1999 and achieved investment grade in 2002. In general, these companies started their internationalization paths by acquiring and consolidating assets abroad and/or exporting in strong currency. Then, they issued an initial public offering in markets that follow best practices regarding corporate governance. Finally, they created a holding company and transferred headquarters to a more developed economy.

### Exhibit 2
**Corporate Governance Stages**

<table>
<thead>
<tr>
<th>Wave</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Wave</td>
<td>Professionals in management positions</td>
</tr>
<tr>
<td>2nd Wave</td>
<td>Creation of more formal processes</td>
</tr>
<tr>
<td>3rd Wave</td>
<td>Information disclosure/transparency, in response to international compliance standards</td>
</tr>
</tbody>
</table>

### Exhibit 3
**Lag of Governance vis-à-vis Internationalization**

<table>
<thead>
<tr>
<th>Internationalization Stage</th>
<th>Percentage of Companies Interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Wave</td>
<td>25%</td>
</tr>
<tr>
<td>2nd Wave</td>
<td>60%</td>
</tr>
<tr>
<td>3rd Wave</td>
<td>15%</td>
</tr>
</tbody>
</table>
Adapting a company’s governance approach to accommodate internationalization requires changes in the four main governance pillars: composition, structure, roles and responsibilities, and policies and processes.

- **Composition.** Strategic forums should include adequate representation from international operations. As the international business grows in importance, it may become necessary to include members with relevant international experience on the board at headquarters.

- **Structure.** Companies should consider the creation of specific forums or committees for the international business. For example, one consumer goods company has established country-specific advisory boards to provide counsel to international executives.

- **Roles and responsibilities.** The role and scope of each forum involving international operations, as well as roles and responsibilities of the board and management, need to be reviewed.

- **Policies and processes.** As internationalization advances, business complexity grows and decision rights must be clarified. For example, one consumer goods company has given local managers a mandate for day-to-day decisions in areas that need local customization and faster market response.

Another key aspect of governance raised by interviewees is the relative lack of autonomy of international operations from headquarters. Most multinationals, including 85 percent of companies that participated in the study, provide their international operations with little independence and allow minimal influence over strategic decisions, investments, or financial and operational concerns.

Interestingly, many interviewees stated a desire to empower international operations. However, they also made their ambivalence clear. “Our main challenge is to speed up the international expansion, and we will be able to achieve this only by delegating more to the field,” said one CEO. “But I am not sure I want to give [country managers] more authority.” Even in companies in which country managers possess sufficient autonomy, their authority can be abruptly curtailed. “When we miss some of our KPIs,” one executive said, “headquarters pulls back.”

We found four main causes of this gap between stated desires and actual decisions. First, many of the companies in our study have enjoyed success with the centralized management style of an owner or CEO. This leader is often reluctant to delegate or may simply enjoy playing a direct role in day-to-day operations. Second, a disinclination to delegate is often exacerbated by the company’s limited experience with new businesses or geographies, or by unique business dynamics within these geographies. Third, there is a shortage of managers with the necessary skills and consistent track records to lead international businesses. Fourth, and an especially common reason among multinationals, is a lack of minimum control mechanisms due to immature processes and systems, which have yet to be standardized.

These factors lead to inconsistent relations between headquarters and the field. Periods of real delegation are followed by periods of strong central control, especially when results fail to meet expectations. Addressing these challenges takes time, but a good first step is to clarify decision rights between headquarters and international operations. Irrespective of the level of delegation, this clarification allows faster decision making and a more satisfying role for international managers.

**2. Organizational Model**

Companies in the study confirmed that although there is no one-size-fits-all organizational model, most multinationals conform to one of three main organizational models: focused international business units (BUs), geographic BUs, and business lines. Each model has its place, and it is important to recognize the benefits and proactively address the trade-offs of each model, depending on the company’s stage of internationalization and unique circumstances.

In the focused international BU model, an international area or department is responsible for assessing opportunities, then developing and managing the international business. In general, companies adopt this model in the early stages of internationalization, either during a phase of assessment and initial investment abroad or when international operations are still relatively small. The model’s most important benefit is to allow focus on international expansion while senior executives at headquarters continue to dedicate time and effort to the home country. The appointment of an empowered head of the international area speeds up decision making and conflict resolution.
One of the main challenges of this model is the short-term pressure for results over the international area (see Exhibit 4). To blunt this pressure, one large sourcing company manages expectations by clearly defining goals, milestones, and key performance indicators (KPIs) for each internationalization stage in the business case.

As a company’s level of internationalization advances, and the international share of total revenue grows, attention to the international business naturally increases. Inevitably, this leads to a resources dispute with the domestic business. Additionally, knowledge and expertise transfer, and the benefits of scale become both more significant and more necessary. One way to smooth the path for a shift in the organizational model and accommodate these changes is to initiate discussions about dismantling the international area and distributing its assets and activities among business units. It is critical, as early in the process as possible, to appoint an impartial senior team to decide when, what, and how to migrate to one of the other models. Additionally, the migration must be well planned to avoid business disruptions during the transition.

When international operations are spread over a large geographic area, covering unique market dynamics that require customization and speedy market responses, companies tend to adopt a geographic BU model. In this model, the country or region is the dominant authority, whereas headquarters is responsible for ensuring alignment with overall corporate goals. The main benefits of this model are increased focus on regional needs and the ability to leverage regional economies of scale.

Among the key challenges of this model are unclear accountability and reporting relationships (see Exhibit 5). In general, geographic P&L is clear and a country head is accountable for bottom-line results. However, in many cases, business lines’ P&Ls are not clear at the country/regional level, and therefore inefficiencies are hidden and cross-subsidies among business lines are common. Another challenge is the resource allocation and service level to multiple geographies. A service company addressed this challenge by clearly defining which types of support its services headquarters would provide and which would be implemented locally or outsourced.

Finally, in the business lines model, each business line is accountable for domestic and international operations. This model, applicable when there are limited synergies among business lines and significant advantages to operating globally by business line, is prevalent in many successful MNCs.

In this model, tension between country management and business lines is very common, but only a few companies have managed to orchestrate good solutions. To minimize tensions and avoid “country ambassadors” with very limited empowerment, an oil and gas multinational named as country manager the head of the main local business line. Exhibit 6 depicts other important challenges in this model.
Regardless of the organizational model, achieving the best mix of expatriates from headquarters and key local executives in various geographies is a tough balancing act. Again, there is no one-size-fits-all solution. If the company has little familiarity with local market dynamics (including channels, competitors, and customer behavior), it is common to place local talent in key positions. On the other hand, if there are weak control mechanisms in place, sending reliable executives from headquarters can fulfill the need for appropriate control and information exchange. Consequently, expatriates are sent when standardization of processes and systems is limited. Finally, a mixed model works when there is a need for strong customer intimacy in unfamiliar markets (e.g., for branded goods companies) combined with a desire to keep close control of the operation. In cases like this, some positions, such as country heads, are filled by locals, while others, such as finance and IT directors, by expatriates.

3. Business Management Processes and Systems

Most multilatinas are in the initial stages of standardizing management processes and systems (see Exhibit 7). Understandably, companies that are just beginning to branch out internationally are focused more on accelerating growth than on standardizing processes and systems. The experiences of more advanced international companies, however, demonstrate the benefits of standardizing and replicating processes and systems in the field.

Internationalization can make processes and systems inefficiencies explicit, and it poses additional complexity when growth is based on mergers and acquisitions (M&As). We found the multilatinas that best manage processes and systems are those that have acquired other companies, domestically or otherwise, and have accumulated experience in post-merger integration (PMI) over the years.

Some multilatinas share little or no knowledge or best practices between headquarters and the field or among international operations. Yet the drawbacks of a lack of standardization become more evident as internationalization advances. When processes are not documented and systems are inadequate, effective control is challenging. In addition, a lack of process owners and clear decision rights leads to slower decision making.

Exhibit 6
Challenges of the Business Lines BU Model

- Balance role of country managers vs. BL heads
- Focus on internationalization in BLs with strong domestic component
- Leverage communication and synergies with other BLs in the same geography
- Rationalize resources among BLs

Sources: 2007 Internationalization study interviews; Booz Allen Hamilton analysis

Exhibit 7
Stages of Management Processes and Systems Excellence

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonstandardized Processes in HQ and International Operations</td>
<td>Redesigned and Standardized Processes in Headquarters</td>
<td>Processes and Systems Replicated in International Operations</td>
<td>Global Continuous Improvement</td>
</tr>
<tr>
<td>- Taxonomy of processes not defined</td>
<td>- Taxonomy and owner of processes defined</td>
<td>- Standardized processes and systems in headquarters and in international operations</td>
<td>- Best practices transfer from/to headquarters and among international operations</td>
</tr>
<tr>
<td>- Key processes not documented</td>
<td>- Processes documented and periodically reviewed—best practices/benchmarks captured</td>
<td>- &quot;Company Way&quot; creation</td>
<td></td>
</tr>
<tr>
<td>- Inadequate systems</td>
<td>- Integrated support systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Poor monitoring/auditing of processes compliance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percentage of Companies Interviewed

1st Wave 50% → 2nd Wave 50% → 3rd Wave 0%

Source: Booz Allen Hamilton
To overcome poor knowledge transfer, some multilatinas are implementing knowledge repositories, job rotation among similar positions, and regular forums for exchanging best practices. To increase control, they are expatriating reliable executives from headquarters to senior executive positions in the field. The challenge lies in balancing global standardization with the demands of local customization, avoiding the pendulum effect of swinging from one to another.

Cemex, the Mexican cement producer, is a good example of a company that achieved this balance over time. The company started its internationalization in 1992, focusing on growth in four markets in Latin America: Venezuela, Panama, Dominican Republic, and Colombia. Beginning in 1997, the company pursued acquisitions in other markets as well, including Egypt, the Philippines, Puerto Rico, and Thailand.

In 2000, after eight years of internationalization, the company launched a three-year global process standardization program, the Cemex Way. With this program, Cemex answered the need to accelerate integration through standardized processes and information exchange and aimed to create a best-practices repository that could be shared globally. The company formed a team composed of senior executives, processes experts, and IT and HR staff to standardize eight key processes. The program achieved savings of US$120 million per year and reduced the time needed for post-merger integration (PMI) from 24 to four months.

Despite the program’s obvious benefits, Cemex executives realized that, over time, standardization was beginning to suppress idea generation and entrepreneurship at the local level. In response, in 2004 the company launched a business process evolution (BPE) program to stimulate local innovation and reinforce the company’s entrepreneurial culture and proactive attitude. BPE leaders from four divisions (Commercial and Logistics, Ready Mix, Operations, and Back Office) managed the program.

For multilatinas attempting to standardize processes and systems, we recommend a few guidelines:

- Enlist senior sponsorship by involving senior executives early in the process. A Brazilian company’s attempt to implement a corporate business model at its U.S. operation succeeded only after a new CEO was appointed to sponsor the program, overcoming local resistance.
- Differentiate your company’s processes: Those that are critical to business and/or control should be standardized and centralized; those that need local customization can be decentralized among geographies; other lower-priority processes can be outsourced.
- Manage standardization as a coherent, continuous program, avoiding ad hoc initiatives and establishing periodic revision cycles, for instance, every two to three years.
- Establish clear accountability by appointing dedicated teams or committees, identifying process owners, and defining accountability and decision rights.
- Align incentives with standardization goals.
- Maintain a degree of flexibility, allowing certain processes and systems to be customized to meet local needs. At Cemex, for example, any employee can submit ideas for evaluation by the evolution committee. If approved, the idea is implemented throughout the organization.

In terms of business processes, IT is cited by study participants as a key enabler for internationalization, particularly when expansion abroad is based on mergers and acquisitions. Lack of attention to IT can have several negative consequences: absence of or, conversely, excessive parallel control mechanisms; poor definition of decision rights; and slow integration of acquired companies. Multilatinas interviewed highlighted some common challenges. First is how to ensure a smooth integration of distinct IT platforms and technological infrastructure while at the same time promoting the required customizations for local needs (e.g., to accommodate fiscal and labor differences among countries). As an additional challenge, changes and adaptations are not exclusively in the IT architecture but also in current practices and processes. Finally, given the complexity of this integration, it is necessary to integrate in a reasonable time frame to avoid disruptions in businesses.

One solution to the challenge of adapting business processes during internationalization is the adoption of a shared services center (SSC). Among companies that participated in our survey, 50 percent are still debating centralization of support functions at their headquarters. Judging from the experiences
of more advanced multilatinas, the early stages of internationalization should focus on accelerating international growth. Consequently, SSC is not a key issue at that time. But after some years spent developing a broader international presence and higher revenues abroad, headquarters should start addressing support services, including potential implementation of a domestic SSC. After that, the expansion of shared services to international operations should begin.

4. Values and Culture

National values and culture are the social rules and norms, grounded in history and tradition, that shape and inform the way people think, behave, and relate. Similarly, corporate values and culture are inherited from company founders, owners, and managers. They inform a company’s modes of discussion, decision making, relationships, and business practices.

Values and culture are critical issues for any company expanding internationally. A Brazilian company entered a neighboring market expecting to prosper using the same door-to-door sales model and incentives it had successfully employed in Brazil. But the company’s lack of familiarity with local habits proved costly. It struggled to attract salespeople not only because its value proposition was not appealing in a country where unemployment was very low, but also because door-to-door sales were not as common there as in Brazil. Later, when this same company prepared to enter a Western European market, it used focus groups, research, and country visits to understand consumption habits and other cultural indicators.

Most companies in the early stages of internationalization feature an ethnocentric culture at headquarters, which results in a lack of organizational readiness for internationalization. A Brazilian consumer goods company offers a classic example. The head of the company’s international area wanted to shut down an underperforming subsidiary in the United States. The subsidiary was small, with few professionals; its closure should not have been problematic. However, the CFO, still operating in a headquarters-centered culture, insisted that one of his subordinates accompany personnel from the international area on a visit to the subsidiary. After much delay, and protracted arguments back and forth, it was discovered that the CFO’s subordinate did not speak English and had no passport, let alone a U.S. visa.

Based on our interviews, we’ve identified four key steps to support and strengthen corporate values and culture abroad (see Exhibit 8, page 9). First, understand which national and corporate values, attitudes, and behaviors are most important to the business and differentiate the company; based on this analysis, decide which ones should be exported to the field and which local values are essential and should be kept. Second, adapt and combine the company values and culture to reflect all corporate and local differentiation. Third, disseminate values and culture to all levels of the organization in a uniform manner (e.g., through a values and culture manual, local opinion leaders, informal chats and formal presentations with expats, and local HR). Fourth, frequently reinforce values and culture to all employees.

Few companies properly disseminate and reinforce values and culture. Often, it is done remotely, from headquarters, without buy-in from local opinion leaders. In general, companies lack appropriate communications material, relying instead on one-off tasks that are not reinforced over time. Without frequent monitoring of compliance, there is little to no enforcement of values and culture in day-to-day activities. In addition, headquarters tend to underestimate resistance to change and, similarly, fail to provide appropriate incentives to stimulate behavioral changes.

Yet overall, multilatinas are successfully adapting company values and culture. Examples of proactive efforts include cross-cultural training of executives and strong commitments by headquarters to accommodate geographic and cultural differences. One commodity company adapted its headquarters to working hours at its Nordic offices, accommodating the region’s stark seasonal change from summer to winter. An oil and gas company operating in Bolivia organizes corporate events at barbecues, which are a strong tradition in Bolivia. An industrial company enlisted employees from all levels and geographies in its values and culture review process, then revised its messages to target employees by position and location.

In order to acquire an understanding of the company’s values and culture, future country heads of one cosmetics company spend three to four months at headquarters, a year prior to launch of the
international operation. During the immersion at the headquarters, executives follow an “exchange program” to understand and adapt to a new culture and adjust business plans, marketing strategy, product specifications, labels, and more to the target country’s habits and requirements, before starting businesses there. The company also contacts relevant stakeholders, such as government, syndicates, media, relevant NGOs, and market analysts, more than a year prior to startup to create goodwill and deepen its understanding of local and corporate culture. In another example, an oil and gas company, in an effort to learn about target countries prior to entering those markets, temporarily transfers two to three executives to new countries to map the business and environment and understand the local culture.

5. Human Resources
All study participants cited HR as a major challenge to internationalization; some considered it the most important one. A shortage of international talent—or simply having the wrong people—creates significant risks, threatening a company’s ability to adapt its capabilities to international operations; to transfer knowledge and skills; to replicate competitive advantages in international geographies; to maximize competitiveness; and to react to market developments in a timely and effective manner.

Some multilatinas assume that corporate HR does not need to be strengthened to handle the complexities of international practices, but experience suggests otherwise. Consider the case of a Brazilian consumer goods company launching a subsidiary, its first abroad. Because intimacy with the local market was essential, the company initiated a local hiring process, with corporate HR helping to screen candidates and negotiate with selected executives. HR’s lack of organizational readiness was clear, however, when it tried to apply processes and procedures from headquarters in a foreign labor market with very different norms. For instance, the company tried to apply a compensation plan, common in Brazil, called 13,3, in which employees are entitled to one salary for each of the 12 months of the year, one monthly salary that is called the “thirteenth salary,” and one-third of a monthly salary for vacation. The company’s Brazil-centric culture kept HR from recognizing that this structure was unfamiliar and would not be automatically accepted in other markets.

Key challenges in HR include:

Recruiting. We observed several approaches to international recruiting, including the establishment of a standard international profile for hiring to be used even at headquarters. To overcome the challenge

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**Exhibit 8**
Approach to Values and Culture Integration

- Teach new employees
- Reinforce values and culture for longtime employees
- Train managers and opinion leaders to be the ones to cascade the information down
- Communicate to all levels of the organization
- Understand local culture and traditions that must be kept
- Identify corporate nonnegotiable values that must be replicated in all international operations
- Refine company’s values and culture based on differentiating values and culture in each country
- Understand
- Adapt
- Disseminate
- Reinforce

Source: Booz Allen Hamilton
of attracting international talent despite low brand recognition abroad, some multilatinas are establishing partnerships with local universities.

**Development.** The main challenge is to properly identify international talent and provide people with the appropriate job rotation opportunities to develop their potential. Some companies use a high-talent pool from which top performers and high potentials are selected to fill international leadership ranks.

**Expatriation and repatriation.** Expatriation is already a common practice among multilatinas, although not adequately structured. Repatriation can become a problem because companies are not thinking ahead about how to leverage experience accumulated in the field and deal with a potential compensation decrease upon return to headquarters as the incentives offered for expatriation are ceased.

**Performance Management.** It is a challenge to design a system that accommodates all three realities: corporate, local market, and international operations. A consumer goods multilatina in the initial stage of internationalization was facing resistance from the corporate back office to serving international operations. Response times and service levels from headquarters were badly misaligned and failed to provide adequate support to the field. To promote the required change in behavior, the company designated performance of the international business as one of the KPIs for the back office, thus affecting variable compensation.

Expatriation, one of the most common challenges in HR, deserves a closer look. Several companies in the survey fill the head of international operations position with expatriates in order to maintain control and disseminate corporate best practices while also providing greater autonomy to international operations. Alternatively, if the country head is local, headquarters tends to expatriate at least one professional as finance or IT director, guaranteeing some degree of direct control. Nearly all companies temporarily expatriate technical professionals, in addition to top management, in order to transfer operational best practices.

However, excessive or poorly organized expatriation can have a negative impact. For instance, several heads of international areas we surveyed mentioned that heads of BUs had suggested international job vacancies be filled by low-potential employees, in lieu of harvesting from an international talent pool. Yet even when expatriation does attract talent, it can create stress at headquarters. Several executives pointed out that, with headquarters understaffed, expatriation can lead to diminished attention to critical areas at headquarters.

Turnover is another problem. Expatriates are frequently lured away by advantageous conditions offered by competitors. Or upon repatriation, some professionals conclude that their experience abroad is unlikely to be leveraged, and they leave the company. After making hefty investments in these employees, many companies are losing them to competitors. A manufacturing company has mitigated this risk by paying premiums in more competitive markets and creating temporary positions to accommodate repatriates for a certain period.

In order to reap the full benefits of expatriation, multilatinas should clearly establish the professional profiles and capabilities they need to succeed abroad, based on their international strategies, and select expatriate personnel on the basis of a competitive process. Indeed, expatriation should be considered a prize awarded to top performers, and talent pools should be established for both management and technical positions. In addition, every effort should be made to extend opportunities to employees from international operations, rather than extending them solely to employees at headquarters. Compensation and benefits should be differentiated according to type and duration of expatriation.

Currently, multilatinas are in the early stages of internationalization, including the early stages of international career development. As they become more global, they will need to evolve beyond expatriation, designing and implementing international careers (see Exhibit 9, page 11).

**Lessons from Successful Multilatinas**

Challenges exist at every stage of internationalization. However, several lessons provide guidance along the way.

A company in the initial stage of internationalization must focus on accelerating international growth and dedicating an empowered team, with adequate
resources, to maintain that focus. In addition, the company must carefully fill key positions in international operations, balancing trusted expatriates with local hires who understand local market dynamics. To instill values and promote company culture abroad, the company must engage professionals from the field to incorporate local culture and traditions into corporate values and culture. Finally, the company must start leveraging internationalization to promote further evolution of its governance system.

A company in the intermediate stage of internationalization, with regional productive assets and 10 to 40 percent of revenues generated by those external assets, has different priorities. The balancing act is now between control by headquarters and autonomy in the field. As a result, it is imperative to define clear decision rights and reduce friction created by headquarters asserting control and geographies demanding empowerment.

In addition, the company should initiate discussions about changes in organizational model and carefully plan to avoid disruption of business during that transition. The discussion among corporate headquarters, BUs/BLs, and international operations should revolve around when (size of international revenues, profits, and/or assets as percentage of total), what (assets, functions, activities, geographies to be transferred), and how to migrate to the new model.

In order to accelerate integration with international operations, successfully transfer best practices, and improve control and productivity, the company should standardize processes and systems so that operations are easily replicated. The company must also reinforce values and culture at all levels in international operations. Finally, expatriation and repatriation policies and processes must be structured and supported.

A company in the advanced stage of internationalization, with productive assets yielding significant revenues in most relevant markets, the company must consolidate its governance system to ensure contributions from international operations. Global standardization, to replicate competitive advantages, must be balanced by local customization. Broad international careers should be designed in accord with global HR practices to strengthen leadership ranks both at home and internationally.
Conclusion
The internationalization path for multilatinas is demanding. However, a robust and sustainable position at home can lay a strong foundation for internationalization. Among the multilatinas in our survey that triumphed over MNCs in their home countries, several developed distinctive capabilities that are now being leveraged to expand internationally. For these companies, the question is no longer whether to go international, but how.

Yet internationalization poses significant challenges to multilatinas, forcing them to fight in unfamiliar environments. Consequently, they need to understand the issues and challenges posed by each business model dimension and the range of viable responses (see Exhibit 10).

Once a multilatina has acquired distinctive capabilities, a global standard of competitiveness, and the financial strength required for a globalization effort, a world of opportunity awaits.

Exhibit 10
“Dos” and “Don’ts” by Business Model Dimension

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<thead>
<tr>
<th>Governance</th>
<th>DO’s</th>
<th>DON'Ts</th>
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<tbody>
<tr>
<td></td>
<td>• Look beyond local practices, define a midterm desired governance system, and put in place an evolutionary step-plan</td>
<td>• Consider governance of international operations as an appendix to headquarters’ governance, with few adaptations</td>
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<td></td>
<td>• Get senior sponsorship to adapt governance for international expansion</td>
<td>• Limit governance initiatives to legal and compliance requirements only</td>
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<td>• Proactively deal with disadvantages of the chosen organizational model</td>
<td>• Keep international operations executives away from strategic discussions regarding their businesses</td>
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<td>• Define accountabilities clearly (e.g., geography, BU, etc.)</td>
<td>• Leave decision rights blurred (e.g., unclear decision processes, delegation of authority, and accountability)</td>
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<td></td>
<td>• Reassess organizational model as internationalization advances</td>
<td>• Minimize importance and complexity of international operations</td>
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<tr>
<td>Organizational Model</td>
<td>• Develop a program with clear business case to standardize key processes and replicate globally</td>
<td>• Underestimate the level of disruption of business during migration of organization model</td>
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<tr>
<td></td>
<td>• Enlist senior sponsorship for the program</td>
<td>• Duplicate/replicate functions without clear rationale and clarity on economics and risk</td>
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<td>• Align incentives with information sharing, best-practice transfer, and continuous improvement</td>
<td>• Limit to ad hoc initiatives without reaping the benefits of standardization at some point</td>
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<tr>
<td>Management Processes</td>
<td>• Blend nonnegotiable corporate values with differentiating local core values</td>
<td>• Underestimate need to customize processes to leverage differentiated capabilities</td>
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<td></td>
<td>• Involve international staff in culture integration</td>
<td>• Focus on global standardization, losing local idea generation</td>
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<td></td>
<td>• Send HQ representative and involve local opinion leaders to reinforce dissemination</td>
<td>• Skip any steps when implementing shared services (e.g., go from decentralization to international shared services)</td>
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<tr>
<td>Values and Culture</td>
<td>• Understand international labor markets and adapt corporate value proposition to be competitive and attract talents abroad</td>
<td>• Underestimate cultural differences, even in neighboring countries</td>
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<td></td>
<td>• Design a performance management system taking into account three realities: corporate, local market, and other international operations</td>
<td>• Leave more distant and smaller offices/plants misaligned</td>
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<td></td>
<td>• Assume that corporate HR does not need to be strengthened to deal with specifics of international operations</td>
<td>• Rely on one-off dissemination, without frequent reinforcement initiatives</td>
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<tr>
<td>Human Resources</td>
<td>• Overexpatriate (i.e., use expatriates from HQ as a solution for all your troubles)</td>
<td>• Expatriate without conducting a screening of top performers/high potentials</td>
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Source: Booz Allen Hamilton

Also contributing to this article was Ronald Haddock, a Booz & Company vice president based in Hong Kong, China.
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