

T&E SIG's STRONGER TOGETHER Mini IB-case 2022-01

How to move from a Multilatina internationalization path to a Global Leader Multinational?

(Dr. Dinorá Floriani, and Dr. Mohamed Amal, University of Vale do Itajaí – UNIVALI, Brazil)

In this Teaching Case we explore the strategy of internationalization of an emerging MNE from Brazil, called WEG. More specifically, we explore the implications of its strategy of growth in more mature markets, like the USA, China, and Europe on its own internationalization path.

The company competes with the main players in the electric motor sector. It has more than 36,900 employees, managing sales subsidiaries in 36 countries, and controlling production subsidiaries in 12 countries

WEG's internationalization trajectory shows different cycles. The export cycle (B 1990) was a period with relatively low international insertion. However, this process evolved gradually and gained greater relevance in the company's total revenues, especially, with the installation of sales branches in Europe and the United States.

In early 2000, it acquired companies in the regional context (Argentina and Mexico), but also in geographically and culturally distant regions of the world, like in China and India. During this period, its foreign sales revenues still represented a lower share, about 4% of the total revenues.

The third cycle started relatively late (after 2010) compared to the major trends in FDI. Its internationalization has reached a new path after a growing process of commitment in more developed and mature markets outside the regional context, by acquiring different companies and positioning itself in new market niches, like the alternative energy market, and turning foreign markets as the major source of its revenues (about 55%).



Such involvement represents a change in its internationalization pattern, where the search for strategic assets and the development of new technological solutions will transform the company's own dynamics, turning it gradually less a traditional Multilatina, and moving toward developing the special features of a global Multinational player.

<https://www.weg.net/institutional/BR/en/>

Photo Source: https://www.weg.net/catalog/weg/ES/es/Motores-El%C3%A9ctricos/c/EU_MT

Keywords: Emerging Multinational, Mature Markets, Multinationality, Regional Context

T&E SIG's STRONGER TOGETHER
Teaching Notes 2022-01**Discussions from AIB members around the world**

Four experts based in Brazil (2), Canada, and Japan provide questions for discussion and insightful perspectives for the Mini IB-case: How to move from a Multilatinas internationalization path to a Global Leader Multinational?

Dr. Dinorá Floriani, and Dr. Mohamed Amal, University of Vale do Itajaí – UNIVALI, Brazil



How do the classic theories of internationalization contribute to the understanding of an EMNC successful case? How WEG's strategy in mature markets has led to increase its multinationality turning it into a global competing firm? Does the Covid-19 represent a real threat to its international expansion, as for Multinationals from emerging economies?

The term Multilatinas was coined to define firms from Latin America that started to expand their businesses in their natural markets, that is their neighboring countries. Therefore, the home country perspective represents a powerful framework to understand the Multilatinas' s pattern of internationalization, suggesting two mechanisms to capture its dynamic. First, home country can be a source of learning to be used in foreign countries (learning driver). On the other side, home country can represent a liability, and in this case, managers are likely to adopt an escape approach to the challenging conditions of the home country (the escape driver). In the case of WEG, the evidences show that the decision making to go abroad (particularly acquiring operations in the up-markets) is based on the need to exploit existing resources and capabilities available in the host country. In the same line, firms would be seeking to explore new sources of capabilities that can help them to improve their competitiveness. However, we believe that this case presents also the limitations of the Multilatinas' s internationalization. While a higher level of multinationality may imply enlarging ownership advantages (transactional), the internationalization of WEG seems to contribute to the improvement of existing operations in the home country, suggesting that the focus is on the upgrading these operations by exploring for new sources of advantage through a more innovative capabilities in advanced economies, and less to sustain a global market positioning. Therefore, we believe that the high dependency on the home market may imply in critical limitations to speed the process of transition of the Multilatinas to Innovative Global Leader Multinational.

Dr. Wenlong Yuan, University of Manitoba, Canada



What are the characteristics of WEG's global expansion? What are the benefits and advantages of its internationalization approach? Any drawbacks of this approach? Should companies take this as a preferred way to management their international growth? If not, what will be the boundary conditions (e.g., existing resources, strategic motivations)?

WEG's global expansion trajectory matches the stage model of internationalization (i.e., Uppsala model), with gradual commitment and learning in international markets. The trajectory helps MNEs to learn how to operate in international markets, but the slow expansion and limited commitment in the beginning may be viewed as lacking sufficient investment by local partners.

The concept of proximate markets should be assessed carefully, especially with the combination of “cultural, administrative, geographical, and economic” distances. In this case, WEG’s expansion in the regional markets may represent the insights of WEG’s executives that the regional markets, due to the overall proximity, are the better options.

The model doesn’t explain the born-global firms. Quite a few firms, especially some internet firms, quickly expanded into international markets within the first a few years of their establishment. Slow and stage-wise expansion may result in lost opportunities for such firms.

The WEG model also misses the importance of strategic motivations. If WEG intends to seek for strategic assets in foreign locations (e.g., crucial knowledge and technology), it may have to invest in the right locations without much concern for proximity. Cases of such investments include Samsung’s earlier investment in the Silicon Valley to access advanced technologies in the semi-conductor industry.

Dr. Maria V. ILIEVA, Osaka City University, Japan



Having in mind how the company evolved through the years, which factors from the regional context and the company’s strategy contributed to WEG to become a multinational player?

The case presents an emerging MNE, based in Brazil, which competes with the main players in the electric motor sector. Its strategy of internationalization and growth to more mature markets, like the USA, China, and Europe, was conducted gradually over a few decades.

The first cycle of their internationalization is naturally to be export because it is the cheapest way of conducting international trade. Export provides an opportunity to the company to gather more information about the local market and the preferences of their customers in different locations. In this way the company can understand whether to invest more resources in a foreign country or to avoid particular locations without risking too high losses. On a later stage WEG asserted their presence on the foreign markets by establishing their own sales branches in Europe and the USA.

During the second cycle they used acquisitions in Argentina and Mexico, also in India and China, which provided them with already established distribution channels on host markets. The corporate culture in India and China requires local connections because establishing trustworthy business relations takes many years. It’s very difficult to penetrate these markets without local support.

The third cycle included acquisitions in more mature markets, where the competition is more severe and innovations in the electric motor sector are common. The company diversified their products to find a niche and attract new customers. They can also invest more in research and development of new products or materials, to compete effectively with their rivals.

WEG adapted their strategy for finding the optimal way of conducting business in diverse locations around the world and this helped them to establish themselves as a multinational player.