

Building **global champions** in Latin America

The region's companies will fulfill their potential abroad only if they pursue clear global aspirations and find systematic ways to develop their talent and integrate cultures and organizations.

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Few Latin American companies have achieved global leadership.¹ True, many of them do extensive business in the region beyond their home markets and may even be well known in it, but that kind of recognition remains elusive at the global level. Why do Latin American companies still lag behind in their attempts to create world-scale businesses?

The fact that these companies operated for many years in protected domestic markets gave managers little incentive to develop a global orientation and a vision for expansion abroad. Neither did the region's underdeveloped capital markets. But the gradual opening of product markets and improved access to capital are creating opportunities for global expansion—and not a moment too soon. Relatively small home markets mean that Latin America's companies are running out of headroom for growth, while the region's volatile economic conditions have held back consumer and business demand.

¹ Only a small number of global leaders originated in the emerging world. Of the 2,000 largest global companies by market capitalization, only 15 percent come from emerging markets, and of those just a small fraction are Latin American.

Article at a glance

Few Latin American companies can be considered global leaders, in part because they have long operated in protected domestic markets that gave managers little incentive to develop a global orientation and a vision for expanding in foreign countries.

However, the region's companies are losing the luxury of remaining homebound. They must aspire to expand abroad by building the necessary strategic vision and organizational skills, particularly talent development.

A company that truly understands its distinctive strengths and how they could be transferred to other markets should have a much better chance of succeeding abroad.

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Yet a handful of Latin American companies have overcome the inertia to establish global leadership positions in their respective industries. These international competitors include, among others, Embraer, the Brazilian aircraft manufacturer; Companhia Vale do Rio Doce, the Brazilian minerals giant; and Tenaris, the Argentine maker of specialty steel pipes. Their growing global prowess is exemplified by CVRD's acquisition of Canada's Inco, the world's leading nickel producer. Such companies are showing by example that Latin Americans can indeed compete globally.

One school of thought holds that emerging markets, such as those in Latin America, can provide an excellent springboard for global

business.² Its proponents, including ourselves, argue that factors such as demanding but price-sensitive customers, a challenging distribution infrastructure, and volatile political and economic environments compel companies to develop distinctive capabilities that can serve them well abroad. Dealing with such conditions on a daily basis sharpens these capabilities.

But companies must also be able to transfer them abroad, and that requires excellent organizational skills that range from developing talent to finding and retaining leaders who can thrive in a variety of cultural settings. Such companies must also learn to replicate in other markets the operating systems they have successfully created at home (see sidebar "Putting operating systems in place"). An inability to leverage these skills effectively abroad can sink even the best overseas strategy—be it through organic growth, mergers, or acquisitions.

As the years pass, Latin America's companies are losing the luxury of remaining homebound. As a first step, they must develop a strategic vision to expand beyond their national boundaries while carefully matching their strategies and capabilities.

²Jayant Sinha, "Global champions from emerging markets," *The McKinsey Quarterly*, 2005 Number 2, pp. 26–35.

A company's chances of succeeding in global markets should therefore improve greatly if it develops a better understanding of its distinctive capabilities—and of how it could export them.

Getting to global

Creating a global company takes time, often decades. A necessary condition is the development of a strong local-market position. A business that has one not only can spin off the cash required to finance growth but also enjoys a nurturing environment for distinctive capabilities that could then be applied abroad.

For many decades governments in Latin America tried to promote industrialization by closing markets to foreign competitors, providing privileged access to assets or concessions, and offering tax incentives. On the one hand, closed markets gave Latin American executives little reason to pursue global opportunities. On the other, favorable treatment helped local companies, in industries ranging from steel to oil and gas, to develop the solid home market position that is a prerequisite for international expansion. Some companies have successfully built on that support to develop capabilities and technologies as a platform for future growth. The Brazilian energy company *Petróleo Brasileiro* (Petrobras), for example, has used the significant profits generated from local oil and gas fields to acquire other companies in the region. Petrobras also built unique exploration skills by using its own R&D and contracting partnerships with other companies. Because its expertise in deep-water wells is recognized around the world, it has become an industry leader, especially in other parts of Latin America and in Africa.

Likewise, Siderca started by producing seamless steel tubes for Argentina's oil and gas market but, over the years, invested heavily in the development of high-end products and services that enable oil and gas companies to drill in difficult conditions. During the past 15 years, Siderca has executed many mergers and acquisitions around the world, thus giving birth to Tenaris, the world's largest producer of seamless steel tubes. In the 1990s a number of Latin American governments began to privatize public-sector companies and to open markets to foreign players. These moves obliged local companies, wittingly or not, to raise their game and helped prepare them for global expansion. In the case of basic materials, globalization was also a matter of survival given the worldwide consolidation of the sector. A few companies in it—for example, the Mexican cement maker Cemex and Tenaris—pitched their global ambitions high from the start. These aspirations were often defined by the business owners, who diffused them throughout the organization. Target markets

were chosen to match capabilities that were then strengthened and expanded to allow further growth into new markets. Meanwhile, other companies initially confined themselves to regional or hemispheric ambitions and are only now aiming at a global presence. The Brazilian steelmaker Gerdau, for instance, focused first on the United States and Canada and is currently considering expansion beyond the Americas.

In contrast to basic materials, other sectors in Latin America had neither the aspiration to expand globally nor the favorable conditions that would have allowed them to develop strong cash flows and distinctive capabilities. As a result, they are less prepared for globalization. Slow economic growth and high levels of informality have crimped global opportunities.

Developing and transferring capabilities

South Korea's Samsung Electronics, often cited as one of the most successful companies that originated in an emerging market, illustrates how an enterprise can transfer world-class capabilities abroad. The company initially developed deep expertise in product development and operations. One of the most efficient electronics companies in the world, it used its large-scale manufacturing capabilities and expertise in innovation to enter new markets in Europe and the United States. The company then invested heavily in R&D and global branding, allowing it to raise its global market share even more.

Transferring distinctive capabilities also requires a group of executives who know how to apply standard practices in different countries, contexts, and cultures. Samsung, for its part, has created an "engine" to develop global talent. It recruits people from different nationalities at leading universities across the world and has institutionalized training and development by setting up an in-house training center and implementing a systematic approach to performance management.

This integration of markets, capabilities, and talent—one of the essential elements for global growth—is still far from being fulfilled by most Latin American companies, even those that already do business around the world.

The search for talent

In our view, and that of many executives in the region, one of the main factors restricting the overseas growth of many Latin American businesses is a shortage of managers who can work effectively abroad. In a recent McKinsey study, executives of large Latin American companies seeking growth abroad admitted that leadership development was an important area for improvement. In the words of a high-ranking local executive, "Talent is the single most critical issue in our company today."

Yet Latin America, with a strong history of developing world-class engineers and managers, does have an adequate pool of talented people for the international market. Once hired, young managers typically go

One of the challenges of globalization is the increasing pressure on multinational companies to become “local.” For an analysis of successful approaches to localization, read “How global organizations develop local talent,” on [mckinseyquarterly.com](https://www.mckinseyquarterly.com).

through a long process of in-house development before occupying important positions. But as companies become more international and the need for experienced executives grows, this development routine breaks down, stymied by the indifference of many Latin American executives to overseas assignments.

In countries such as Chile, and to a lesser extent Brazil, these executives tend to put family and friends ahead of successful global careers.

Many Latin American companies are—or started out as—family-owned businesses, which have trouble attracting mid- and high-level executives. These enterprises have a number of advantages, such as the ability to take a longer-term view of investments than their publicly held counterparts often will. But there are also limitations. Our experience working in the region shows that some family businesses have evolved corporate cultures where informal networks are more valued than formal processes, direct hires from other companies tend not to be successful, and top managers are often appointed based on a long history with the owning family. There’s another issue that crops up even if a company can find people willing to work abroad: some potential managers are put off by the fact that many of the bigger Latin American companies with global aspirations are in basic materials—a sector that is considered, rightly or wrongly, not to be very glamorous and that has few well-known brands.

If the supply of executives is insufficient, what can be done to increase it? Companies with global ambitions have no choice but to take matters into their own hands. If, as many senior executives believe, a group of global managers is more important to a company than all its tangible assets, it will have to build what some call a “leadership factory” to develop one. CEOs and executive committees will need to invest much time in this effort.

A few Latin American companies, taking their cue from Europe and the United States, are setting up their own leadership factories, adapting the best practices of current global leaders:

1. *Systematically identifying global talent sources.* Latin American companies have started pursuing talent at foreign universities. Gerdau,

for example, participates in recruiting events in the United States and routinely invites groups of students to visit its overseas operations in order to build its name in the labor market. In the future, Latin American companies may need to imitate their global peers by tapping into talent farther from the corporate center, perhaps in China or India—countries with many science and engineering graduates.

2. *Developing global training programs and managing careers carefully.*

The recently created Tenaris University trains the company's employees around the world and introduces new hires to Tenaris. Corporate universities are excellent places for employees not only to develop new managerial and technical capabilities but also to build informal networks and absorb a common culture and values. Career management involves much more than just carefully designing an academic curriculum: it is mostly about matching opportunities with available talent and takes many years to develop. Since talent is the scarcest resource, top-notch companies link their strategic-planning process (opportunities) with their talent evaluation process (talent supply) to design career-development plans and identify recruiting needs in advance. These practices are not widespread in Latin America, though some companies are designing programs that incorporate many of them.

3. *Implementing appropriate compensation and mobility policies.* To compensate and otherwise reward people who choose overseas careers, Latin American companies are experimenting with various formulas, such as distinguishing between local managers and global ones. There is no one-size-fits-all model, and a company's culture will in the end determine the proper approach. In a clear break with the past, however, more and more of the region's business executives understand that the main benefit of global mobility is a successful career. Compensation is therefore becoming less of an issue.

An approach to unifying culture

Having the right managers in the right projects is hardly enough: people must be able to interact and work together in a way that makes the most of their potential. That means having a common set of values and a unified culture—something that is more easily said than done.

M&A has become a popular and effective way to expand internationally. In addition to rapid growth, it can provide access to local talent. But unless the postacquisition integration process is managed well, companies may end up with an identity crisis that can drive the most talented people to other businesses, possibly jeopardizing the acquired one's operational and commercial continuity (see sidebar "Building an M&A machine").

Putting operating systems in place

Large companies use operating systems to create and sustain competitive advantage. Six Sigma (popularized by GE) and Toyota Motor's lean-production system both aim to improve systematically the way companies work by reducing waste and variability in their processes. Standardization helps companies to disseminate knowledge around the world—an important element of any sustainable globalization strategy. We think of operating systems broadly as having three important elements: a technical system, a management system, and an approach to changing mind-sets and behavior.

A technical system—a set of operating procedures, problem-solving techniques, and tools to develop and disseminate knowledge—allows a company to improve and standardize its operations constantly. Many people describe these procedures, techniques, and tools as a common language that facilitates the way executives exchange information, help one another to streamline operations, and share best practices. Six Sigma programs typically focus on technical systems.

A management system provides a rigorous set of tools—not only financial and operational indicators but also incentives for individuals—to manage a company's performance.

Finally, the mind-set and behavioral element of an operating system aims to develop a common culture and values through four levers: role modeling, capability building, formal processes, and communication. It also includes knowledge-sharing systems.

Many Latin American companies are moving in this direction. Some have developed strong performance-management systems, others have standardized procedures and implemented continuous-improvement efforts, and a few have started cultural-transformation programs. But no Latin American company has mastered all three, and in our experience it is the interaction of these three elements that makes operating systems so powerful. Acting on every front will help make the globalization journey of the region's companies more sustainable.

More and more Latin American companies now recognize that proactively managing the integration of corporate cultures is a fundamental component of successful M&A. This understanding came late, however, so it isn't uncommon to find companies where different corporate cultures coexist under one umbrella, making day-to-day interactions problematic. In Latin American companies, particularly family-owned ones, informal channels are often used to solve conflicts and make things happen. Building these personal networks can prove particularly challenging for executives from another region—sometimes so much so that frustration drives them to leave.

Businesses in Latin America (and elsewhere) use a variety of approaches to diagnose the most important cultural differences and to define the desired culture and values. Cultural integration can be achieved through different paths, but successful companies normally use a combination of four drivers.

The first is role modeling, which Latin American executives are taking more and more seriously. It can be accomplished by flying people overseas to work at subsidiaries a few days a month, for example—a hands-on

Building an M&A machine

Only in the past few years have Latin America's companies aggressively started to acquire businesses abroad. Except for the more experienced deal makers, such as the Mexican cement company Cemex and the Argentinean tube company Tenaris, companies lack knowledge about postmerger management.

Successful postmerger management depends not only on cultural integration but also on a willingness to take a systematic approach—something foreign to the tradition of many Latin American companies, where M&A tends to be managed by ad hoc teams that start from square one each time. As a result these companies cannot integrate acquisitions quickly (unlike Asian ones that do tend to take a systematic approach).

The steps involved in successful integration efforts are used frequently throughout the world. The first is identifying a company's overall aspiration as well as the merger's potential sources of value—and communicating them effectively. Many deals don't achieve the desired results because the objectives are ambiguous.

Second, companies need to take a well-defined approach to integration both before and after assuming control of acquisitions. This effort should cover all aspects of the process, from the communication strategy to the membership of the teams that decide what must be done to promote integration, capture value, and manage cultural differences.

Third, companies must execute rigorously, usually by measuring progress toward the planned outcome and by managing the transition to business as usual. One of the main sources of value destruction in recent mergers occurs when the operations of the original business are disrupted. Careful planning and execution help companies to avoid any loss of market position and talent and to capture the original goals of deals fully.

Finally, many Latin American companies will need to build postmerger-management teams, usually at the corporate center, that develop the skills necessary for managing integration successfully and serve as the repository of the lessons learned from experience. At each acquisition, this team, together with executives from line operations, runs the postmerger-management process.

way of showing them how things are done. Companies are also creating multifunctional, multinational teams to address the top operational and strategic challenges and, in this way, to build relationships and spread corporate values.

Capability building, formal or on the job, is another way of promoting integration, elaborating values, and spreading the corporate culture. Latin American companies are starting to recognize the value of training; some, like Tenaris, are establishing programs for their global workforce.

Formal processes are also an important part of efforts to address cultural issues. Some businesses have set up mobility programs for acquired companies, so that their executives spend some time in Latin America to

understand the parent's culture and values. Formal executive assessments have grown in importance, since such tools make it possible to compare executives across different countries and to develop global career plans. In such processes, a global committee evaluates top managers and discusses promotions, bonuses, and career paths, thus helping to generate a sense of corporate citizenship.

Finally, communication is another key element in creating a unified corporate culture. Improving internal communication might seem an obvious priority, but until recently only a handful of Latin American companies organized global events to convey the company strategy, discuss technical or managerial issues, or just promote socializing among executives. Technology, such as videoconferencing and intranets, also encourages internal communication and facilitates corporate integration even at remote locations. In that sense, language can be a barrier or an integration device. An increasing number of companies, however, are adopting English as their primary language, making the integration possible.

In general, the factors that help Latin American companies succeed in their home markets—relationships, local knowledge, privileged assets, tariff barriers—do not apply to international expansion. At first glance, many of these companies therefore do not seem particularly well equipped to embark on a globalization effort.

Yet just the opposite may be true. Emerging markets are a vast and tough training ground. The combination of complex operational environments, rapidly changing economic and political contexts, and shallow financial markets has forced companies to shape up, preparing them for competition on the international stage. Latin America already has world-scale companies, and others are large enough to qualify for the role. To fulfill their potential abroad they will need to find systematic ways of developing talent and integrating cultures and organizations. Even with the initial advantages these companies possess, this task won't be easy. Yet given today's global market and the instability of Latin America's economies, international growth is a matter of survival. **Q**

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