Chapter 18

Learning and Innovation in Multinational Companies from Emerging Economies: The Case of CEMEX

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ABSTRACT

This chapter aims to illustrate the importance that learning trajectories and the building of technological capabilities have had in the internationalization and competitiveness process of the nowadays Multinational Companies from an Emerging Economy (MCEE), based on the case of CEMEX, a Mexican multinational and one of the largest cement companies of the world. The case study shows that the emergence of this company into the global markets is the result of a mix of assets and capabilities (Penrose, 1995; Bell & Pavitt, 1995; Bell, 2007) developed over a period of nearly eight decades, at whose base are productive, technological and organizational capabilities. Findings substantiate that multinationalization through mergers and acquisitions has strengthened the technological capabilities of CEMEX, as a result of the learning and knowledge sharing processes driven by the actual integration of CEMEX with the acquired companies. By establishing learning routines, CEMEX feeds an innovation process within the group.

INTRODUCTION

Although outward direct investment from peripheral countries is not new\(^1\); it is in the 1990s when an explosive growth of multinational companies\(^2\) from emerging economies\(^3\) (MCEE) began by expanding their productive activities to both, advanced and emerging markets.

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Following the opening of the economy, large firms from emerging countries have expanded their operations to international markets via direct overseas investment and alliances with foreign firms.

According to the OECD in 2013 foreign direct investment (FDI) by transnational multinational corporations from developing countries (DC) reached a record of $454 billion. In 2006 that figure was $215 billion. Together with transition economies, DC accounted for 39 per cent of global FDI outflows in 2013, compared with only 12 per cent at the beginning of the 2000s. FDI outflow from Latin America was an impressive $114.6 billion, 25% of the FDI outflows from developing countries. Six developing and transition economies ranked among the 20 largest investors in the world in 2013 (OECD, 2007, 2014).

Cross border mergers and acquisitions (M&A) has become an important implementation instrument for the firm’s multinationalization. Increasingly, developing-country big corporations are acquiring foreign affiliates of developed-country Multinational Corporations (MNC) in the developing world. In 2013 cross-border M&A from developing and transition economies accounted for 53% of global cross-border M&A. Among the top 20 cross-border M&A investors, 12 were from developing and transition economies; more than two thirds of M&A by Southern MNC were directed to developing and transition economies. Leading acquires in south-south deals were China, Thailand, Hong Kong and Mexico (OECD, 2014).

Mergers and acquisitions also have been utilized to a grand extent by Mexican firms, particularly by the large indigenous business corporations, known as business groups. This mechanism of growth has become a very significant element for the multinationalization of those business groups.

In theoretical and empirical tradition, the explanation of the multinationalization of companies settles on benefits such as the presence of scale economies, technological skills, marketing, management or human capital, which make more likely the fact that companies can develop themselves efficiently in other countries and get successful and sustainable results (Hymer, 1960; Johanson & Vahlne, 1977; Vernon, 1966; Vernon, 1971; Buckley, Wang & Clegg, 2007; Markusen, 2002).

In the case of MNC from emerging economies, these don’t always have the benefits mentioned above, and they don’t have the same technology bases as the companies from developed countries have, which would make necessary to find fuller explanations about their departure outside via foreign direct investment (Heenan & Keegan, 1979; Wells, 1983; Yeung, 1994). Many of the nowadays known as emergent economies, particularly those from Asia and Latin America, historically have been characterized by late industrialization.

Latecomer firms by definition are learners. They do not have proprietary technologies in order to grow by generating radically new products or processes (Amsden & Hikino, 1994; Amsden, 2001). That makes a difference with the business growth process of firms from developed countries.

However, the role of learning processes and building of capabilities in the multinationalization of companies from developing countries has been scarcely studied. This chapter aims to illustrate the importance that the learning trajectories and the building of technological and organizational capabilities have had in the internationalization process of the nowadays MCEE, based on the case of CEMEX, a Mexican multinational enterprise and one of the largest cement companies of the world.

A framework based on the evolutionary perspective of the growth of the firm is used to show that the emergence of this company into the global markets is the result of a mix of assets and capabilities (Penrose, 1959; Amsden & Hikino, 1994; Bell & Pavitt, 1995, Bell 2007) that were developed over a period of nearly eight decades, at whose base are productive and technological capabilities but also organizational and integration capabilities. The latter pair of capabilities were built mainly during its