

## The Expansion of Spanish Multinationals: Innovation in strategy and organisational change

ESADE's Deputy Director General and professor of Business Policy, Xavier Mendoza has extensive international experience in various academic institutions and professional associations in Europe, and the Americas. As part of his research Mendoza played a key role in the elaboration of the first annual report of the Observatory of Spanish Multinational Companies along with Academic Director, Pere Puig, professor of Economics at ESADE and the President of the Catalan Economics Society. In the first report, Mendoza and Puig discuss the objectives of the Observatory and how the initiative came about.

**Xavier Mendoza**  
Deputy Director General

**Why has the Observatory of Spanish Multinational Companies (OSMC) been set up?**

Spanish businesses have undergone an intensive process of internationalisation over the last fifteen years. At the beginning of 2007, Spain had around 40,000 companies that regularly exported goods and services and approximately 2,000 that had at least one subsidiary abroad. However, the multinationalisation of Spanish corporations is, largely a very recent phenomenon and very little research has been undertaken on the process. The OSMC was set up with a view to creating a leading centre for the study of the strategic and organizational challenges and opportunities faced by both up-and-coming Spanish multinational companies and those at a more advanced stage of internationalisation.

**What makes the OSMC different from other initiatives?**

The internationalisation of Spanish companies has been mainly studied from a *macro* perspective, by analysing Foreign Direct Investment (FDI) flows, focusing particularly on the first great wave of Spanish FDI made in Latin America in the 1990's. The OSMC, in contrast, adopts a *micro* perspective, focusing on the details of managing multinational companies and those at an advanced stage of internationalisation, and emphasising the challenges that globalisation poses for such organisations today. Close partnerships with the multinational companies themselves is also a key characteristic of the OSMC, these assist in the generation of the research and the dissemination of the results. The OSMC also aims to become an open platform for the sharing of experience and knowledge between the corporate participants living internationalisation and the academics studying it.

**What key issues do Spanish companies face when internationalising?**

The main issues can be divided into three main areas: (1) a lack of knowledge and understanding of target countries and markets, becoming more pronounced the greater the differences in culture, economic development, legal framework and governmental relations; (2) the scarcity of qualified technical and managerial personnel able to support the internationalisation process, both in target countries and in Spain; and (3) lack of financial resources, connected with the small business size in the case of SMEs and the fact that internationalisation is a medium- or long-term business strategy. In short, when Spanish companies decide to take their first international steps, they are faced with the major *paradox* of balancing their *need for resources* with that to *review their management model* in order to adapt to the increased complexity of carrying out operations abroad.

**According to your findings in the first OSMC report, what benefits to Spanish companies reap from internationalisation?**

Companies that decide to become international do so in search of new markets (growth) and as a way of making the most of a competitive advantage developed in the country of origin (profitability). On other occasions companies may find themselves forced to internationalise: For example, where a key client wants the company to continue to supply them as the client starts operations abroad (failure to do so increases the risk of losing the customer); or where the domestic market ceases to be attractive, perhaps due to an economic downturn or shrinking market possibilities. In this case initiating operations abroad is all about the companies' medium-term survival.

Whatever the reasons are, it should be stressed that internationalisation entails extending a company's operations beyond the borders of its country of origin,

enabling it to harness customers, resources and production advantages that it would not otherwise have been able to access. Moreover, it is through the experience of operating in different contexts and settings, through having to make the most of different competitive conditions, that companies can cultivate new skills and competitive advantages. The critical test of whether a company has successfully become international is whether it has increased its competitive strength.

### **What are the advantages of being multinational?**

An international presence does not automatically bring with it additional competitive advantage. Companies that have a presence in a significant number of countries *can* make the most of this to create new competitive advantage by coordinating activities between their activities in different countries but not all *do*. So it is not just a case of being multinational, but rather knowing how to make the most of the potential competitive advantages.

Some such competitive advantages may be based on; a) greater efficiency due to economies of scale and scope (derived from the integration of subsidiary activities and/or different lines of business); b) optimisation of value chain activities (by relocating to better placed locations); c) a greater ability to innovate and generate new skills (based on access to a wider variety of clients, skills and resources from different locations); d) the potential to meet the needs of global customer; and e) the transfer of learning from one subsidiary to another.

To make the most of these advantages, companies must learn how to balance the risk of excessive standardisation and increased costs, with the advantages derived from integrating activities between operations in different countries, while also adapting business models, products and services to local markets. The key to managing this global-local dichotomy relies on the company's ability to adapt to the specific needs of the country, sector and product/service concerned.

### **Is the OSMC working on publishing anything else over the next few months?**

As part of the research for the 2<sup>nd</sup> Report we plan to run three workshops led by ESADE professors and senior managers from a number of Spanish multinationals. In these workshops we will primarily be sharing experiences and evaluating management practice in specific areas of internationalisation, as well as considering the main issues Spanish multinationals are facing. The workshops programmed for this academic year are "Risk analysis of Spanish companies' decisions to invest in emerging markets" (Prof. Jaime Sabal), "Human Resource Management and policies for filling management positions in international companies" (Prof. Simon Dolan) and "Organisational change strategies for new multinationals" (Prof. Xavier Mendoza and Prof. Luis Vives). A fourth workshop is also scheduled to look at the Spanish Institute of External Trade (ICEX) programmes that support the internationalisation of Spanish businesses (Prof. Francisco Longo). A working document, including the various contributions of participants and the main conclusions drawn, will be published for each workshop. The OSMC's second report will be published in December 2009.