Multilatinas and their risk navigation journey
Willis Towers Watson Multilatinas Study 2017/2018
May 2018
The Willis Towers Watson Multilatinas Study 2017/2018 is the third study by Willis Towers Watson that focuses on Latin American multinationals and is part of our emerging markets Multinational Corporations (MNCs) research initiative, which also includes two studies on Asia Pacific MNCs. Our first two Multilatinas studies focused on these companies’ globalization and how it affected their human capital strategies. Among other conclusions, these studies found that Multilatinas accelerated their growth through agile and opportunistic M&A and through leadership that was versatile and resilient during macroeconomic crises. We also found that Multilatinas’ Achilles’ heel was their lack of global governance structures, and that better governance and access to key talent were critical to sustain Multilatinas’ growth. This year’s Multilatinas study shifts the focus from human capital to risk and highlights Multilatinas’ journey to navigate various types of risks in the context of an increasingly volatile business environment.

What is a Multilatina?

There are very different views about what constitutes a Multilatina and whether most of these companies are global enough to be included in an index or ranking that accounts for the world’s largest MNCs. While the Fortune 500 only listed 10 Latin American companies in 2017 – down from 13 in 2015 – and the Fortune 2000 only lists 55, other indices like the S&P Global 1200 have a larger proportion (3.4%) of the list devoted to MNCs headquartered in the Latin America region. Still, none of these rankings have more than 4% of Latin American MNCs. On average, Multilatinas have a market cap that is 39% smaller than their peers from other regions, and the composition of the Multilatinas subsample included in these three global indices has remained fairly stable in the past decade, given that they only focus on the top 20% of the Multilatinas universe.

For the purpose of the Willis Towers Watson Multilatinas Studies, we have always defined a Multilatina as a company that is headquartered in Latin America and that manages production and/or provides services in various countries. Initially, we further required these companies to conduct business in at least two continents or larger regions. Yet for the current Willis Towers Watson Multilatinas Study 2017/2018, we decided to also include what we called “vocational” Multilatinas in the analysis (i.e., companies that do not currently fulfill this last condition, but that are in the process of expanding their businesses into other regions and may fulfill it in the near future). If we look at this broader universe of Multilatinas, the list of Latin American multinational companies that fulfill sufficient internationalization criteria grows to around 180 companies.

This larger Multilatinas universe has had a volatile composition over time. Indeed, in Multilatinas rankings by America Economia or the Boston Consulting Group – which usually list around 100 companies – only about half of the companies included 10 years ago are still part of the ranking.

As is to be expected given their size, Brazil and Mexico are the two economies that historically have generated the most Multilatinas – 32% and 24%, respectively – while Chile, which is the continent’s fifth largest economy as measured by GDP, is home to 15% of Multilatinas.

1Asian Trailblazers: The accelerating globalization of Asian companies (2012); Asian Trailblazers Study: Masters of multitasking and transformation (2016)
Over the past five years, Multilatinas have become more strategic and less opportunistic in how they choose international business opportunities. Fifty-five percent of respondents cited the acquisition of strategic assets as a top expansion driver, almost quintuple what was previously recorded. New markets and an increased global footprint remain important drivers of expansion—93% of Multilatinas place them among the top three—while a new breed of Multilatinas (7%) doesn’t include these as drivers at all. Another top globalization driver cited by 43% of respondents is supply and value chain integration.

Our Multilatinas studies found that the most significant driver to understand how Multilatinas governance structures differ in terms of governance, talent management, expansion strategies, and development of leadership is by their degree of internationalization. Indeed, as an explanatory variable, the degree of globalization of Multilatinas outperforms other firm attributes like size (proxied by either the number of employees or total revenue), country of origin, and even ownership structure. This is also true for the way in which Multilatinas assess, monitor, and manage risk.

Argentina and Colombia follow with 13 Multilatinas, each with 7%. Peruvian companies have been growing in the past decade and have become an important part of the Multilatinas universe as well. Finally, in the past three years many new Multilatinas from Central America have consolidated their positions as regional players.

These Multilatinas also come from a diversified industry portfolio, with only two sectors (food and beverages, 18%, and financial services, 14%) with a concentration of greater than 10% of total companies. While a decade ago most Multilatinas were in infrastructure-related sectors like chemicals, energy, or construction, in the past five years there has been a shift toward consumer products and services with 47% of companies dedicated to serve individual consumers. This is consistent with the consolidation of a rising Latin American middle class as the key engine of endogenous growth in the region.

How are Multilatinas changing?

Multilatinas’ degree of internationalization has also advanced: 48% of these companies started their international operations after 2000, and roughly 70% of Multilatinas are now a truly multinational or global company (Figure 1). In addition, many of the new Multilatinas were started during the global and/or local financial crises, as well as in a consumer-led growth period that required both lean and efficient operations and technology-enabled customer centrivity. The past three years of political uncertainty in the region have further strengthened the need for versatile and resilient companies. Nevertheless, Multilatinas, unlike their Asia Pacific counterparts, do not leapfrog into multiple and culturally distant regions. Multilatinas follow a clear Uppsala model (i.e., they first expand into regions that are geographically or culturally close).

Although the percentage of companies seeking a strong global footprint has remained the same since 2012 at almost 40%, in the past five years the percentage of Multilatinas that prefer a quick entrance to access new markets (for example, through M&A), has dropped from 58% to 51%. There was also a significant increase in the amount (from 36% to 48%) of Multilatinas that see themselves as market makers and look for specific market niches when expanding abroad, often engaging with local cultures as opposed to exporting more standardized products and solutions. This is also witnessed by the decline of globally consistent governance principles and policies reported by 7% fewer companies than in 2013.

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### Multilatinas’ evolution according to Willis Towers Watson studies

<table>
<thead>
<tr>
<th>Degree of Internationalization</th>
<th>2012</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic: No subsidiaries or operations abroad; no access to foreign markets.</td>
<td>NA</td>
<td>8%</td>
</tr>
<tr>
<td>Exporting: Has no subsidiaries abroad; accesses foreign markets through exports only.</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Initial expansion: Few foreign subsidiaries; few employees abroad.</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>Multi-domestic: Significant international presence; subsidiaries not interconnected and managed mainly locally.</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Multinational: Global corporate structures, information systems and programs, consistency of programs, at least for senior levels.</td>
<td>70%</td>
<td>58%</td>
</tr>
<tr>
<td>Global: Holistic global governance framework; functions and communicates as one firm across the globe.</td>
<td>6%</td>
<td>12%</td>
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**Internationalization can amplify risk**

International expansion generates several additional layers of risk. Most MNCs perceive these risks only when they physically open a subsidiary abroad, although they may also be affected by them when they are only exporters. Regulatory and compliance risks are good examples. Although most MNCs have processes in place to understand and comply with local regulation (e.g., around labor or contracting), when they fully operate in another country and only export, they may not look at regulatory and compliance risks. However, risks such as those related to product liability, reputational or environmental risk may still affect them as mere exporters. Other typical risks associated with internationalization are macroeconomic and political, business environment and corruption, as well as human capital management risks, due to operating in culturally and legally different countries. The presence or lack of local regulation can affect the way work practices and business architecture need to be structured, could increase professional liability or even industrial espionage risks, and could increase the likelihood and impact of unionization or wage inflation risks.

Most importantly, though, is the fact that an amplified international exposure connects risk, and interconnects with increased risk correlation and quicker risk contagion. The faster transmission between global and local risks means that certain risks can no longer be locally contained and may spread throughout an MNC and its geographic risk portfolio. A failure to look at these risks holistically and separate them from an MNC’s overall risk portfolio, not only ignores these interconnections but can also become very expensive.

The 2017/2018 Willis Towers Watson Multilatinas Study examines four key areas:

- Global governance
- Risk culture
- Risk management drivers
- Risk management tools and processes

This makes it possible to determine a) who is in the best position to define, assess, monitor and oversee the risk portfolio and risk management strategy; b) how risks are defined and perceived internally; c) what the key drivers are behind a firm’s risk management strategy; and d) the tools and processes used to implement and deploy it.

Furthermore, to better understand how Multilatinas manage risk, we separated them into two groups that reflected their degree of internationalization. The first group includes vocational Multilatinas (i.e., companies that are exporting or in initial expansion stages, as well as multi-domestic companies, which manage their subsidiaries mainly through local processes despite a strong international presence). We will refer to the first group as Multilatinas with a lesser degree of internationalization. The second group are multinational and global corporations headquartered in Latin America, which not only have a significant international presence in more than two continents or regions, but also have some global governance structure. We will refer to these companies as Multilatinas with a higher degree of internationalization. In the 2017/2018 study, 70% of our sample is classified in this latter group, as detailed in Figure 1, page 3.

**How developed is Multilatinas’ global risk governance?**

The study offers some interesting findings about which Multilatinas have a formal risk management framework. Independent of size and type of ownership, almost 10% of all Multilatinas in our sample do not have a formal governance structure for risk management. Whereas there is a significant difference between the number of less internationalized Multilatinas that report not having any formal risk management framework (17%), even among the more internationalized multinationals with a strong global foothold, 6% declare not having a formal system or unit to deal with risk.

Our study also examines who makes risk management decisions, finding that 19% of the more internationalized Multilatinas did not have a risk-specific unit in place; for less internationalized Multilatinas, this figure jumps up to 33%.

Overall, the study concludes that a large proportion of Multilatinas lack adequate risk management structures when compared to their peers of other regions, they manage most risks in an ad hoc and transactional way, and they centralize most of these decisions at the HQ level.

However, there seems to be a disconnection between Multilatinas’ risk management frameworks and implementation in areas such as corporate insurance.
Half of the survey respondents said corporate insurance policies originated at their global HQ, although this is only true for a third of less internationalized companies. And 20% have no system in place to mitigate residual risk exposures not covered by insurance solutions, although the response is much higher for less internationalized (50%) than for multinational or global (9%) Multilatinas.

It is standard for MNCs from developed regions to have a global insurance program, although a very large number of Multilatinas do not have a global program in place and do not manage their multiple insurance solutions as a portfolio. Overall, 19% of the surveyed Multilatinas do not manage insurance solutions as a portfolio, and another 19% do so at a local level only. Among less internationalized Multilatinas, these figures increase to 25% and 33%, respectively. Less than half of the most internationalized companies in our survey stated that they manage insurance solutions through some sort of portfolio approach (e.g., global programs) at the global HQ level.

**How strong is Multilatinas’ risk culture?**

An organization's prevalent risk culture directly impacts its ability to manage risks. Indeed, in certain regulatory environments, boards are required to measure and address risk culture in their companies as an additional way to manage risks. A company's risk culture encompasses the organization's beliefs, knowledge, attitudes and understanding of risk as shared and communicated among both leadership and employees. Having a risk culture is inherent to any organization, but the key point is whether that risk culture enables or hampers the company's growth, sustainability and, ultimately, its long-term success. Strong risk cultures avoid unnecessary, high-impact risks while fostering adequate risk appetite and also enable employees to seek the right type of risks associated with the firm's growth, transformation and innovation.

The study finds that Multilatinas choose a more proactive than reactive risk management attitude. Two-thirds of respondents see their organization's risk management as a way to create value, seek profitability and be forward thinking. In addition, when asked about general drivers of a positive and strong risk culture, an overwhelming 85% of the Multilatinas surveyed in our study say they have a positive or very positive risk culture.

However, when confronted with indirect risk culture factors and specific behaviors that define an MNC’s risk culture, a different picture emerged. While over 90% of the surveyed Multilatinas believe the values and norms within their organizations support the effective management of risk, only 70% believe there are effective reporting and documentation mechanisms, or that appropriate risk controls and processes are in place. The same is true for clear accountability and ownership of risks. And less than 60% of Multilatinas believe appropriate risk behavior is rewarded and encouraged in their organizations, while roughly two-thirds say they believe their companies encourage a review and challenge the status quo.
What drives Multilatinas' risk management?

Multilatinas' top three risk management drivers focus on survival and sustainability. Half of respondents said their top three drivers are sustainability, protecting value and/or shareholders' interests. The second batch of drivers, with a prevalence of 30% to 40%, on average, are connected to endogenous factors like seeking growth, improving profitability and stabilizing revenue. Finally, in third place, around 20% of Multilatinas cite drivers that relate to exogenous factors in their top three, like regulatory risks or surviving crises or extreme events.

Another interesting finding is that most Multilatinas perceive HR risks as a risk management area. However, among less internationalized companies, 22% of respondents do not perceive this as an area of risk at all, neither in the company’s home country, nor in its international operations. Among more internationalized Multilatinas, less than 10% believe that to be true. Still, around a fourth of the respondents stated that they did not know or did not have risk management programs in place for talent-related risks like talent attraction and retention risks, and lack of competitive compensation and reward programs. Surprisingly, almost half of respondents stated that they had global programs in place to address the risks related to employee disengagement.

What processes do Multilatinas follow to manage risks?

There is a consistent, linear upward trend of formal enterprise risk management (ERM) adoption since the financial crisis, according to surveys of ERM prevalence among MNCs in developed regions. Developed country MNC adoption of ERM frameworks increased from roughly a third of companies to over 75% over the past 10 years. In comparison, it seems that Multilatinas are only at the beginning of their ERM journey. Only 40% of Multilatinas reported having a formal ERM framework in place with people reporting primarily to a chief risk officer. Almost a third of Multilatinas reported neither having nor planning to adopt a formal ERM framework in the next five years. While these numbers stay the same for Multilatinas with a higher degree of internationalization, among less internationalized Multilatinas, over 40% do not have nor are planning to implement ERM formally in the next five years.

For those Multilatinas with an ERM framework in place, both the size of the ERM team and its visibility and direct access to the MNC’s CEO also lag behind their developed countries’ peers. On average, existing ERM teams have a team size of between six and 20 full-time equivalents (FTEs), although a fifth of the sample reports teams larger than 50 FTEs. Among less internationalized firms, two-thirds report having teams of three to five FTEs.

Another important finding of the study shows that most companies (almost 70%) take an ad hoc approach to identifying and managing short-term risks, and over a third of Multilatinas have no predefined frequency or process to identify, monitor and manage long-term risks. This is consistent with the lack of formal risk management systems in most of these companies and becomes more prevalent for less internationalized firms, regardless of size or type of ownership.

Do Multilatinas feel well prepared to manage risks?

Given our a priori perception that most Multilatinas would lack formal ERM frameworks, instead of going into specific tools and types of ERM solutions, we decided to survey how capable Multilatinas thought they were to face various types of risks with the structures and tools they currently have in place, no matter how formal. Most surveyed Multilatinas reported feeling well prepared or very well prepared to handle risks in general, although a fifth of Multilatinas stated they were very poorly or poorly prepared to identify risks, measure their likelihood and severity, assess risk interdependence and to deploy a risk management strategy across the organization.
On average, 75% of Multilatinas reported feeling well prepared to deal with key macro-risks, as identified by Willis Towers Watson’s Risk Index. Still, results also show that there are a significant number of Multilatinas – ranging from 12% to 25% across those key macro-risks in the Index – that do not feel well prepared to handle them, as well as some (2%) that do not feel at all prepared to deal with digitalization and new technology risks.

When asked about their ability to determine their organizations’ risk appetites, 18% of Multilatinas reported poor or very poor performance in quantifying risk appetite. This result stands unmodified despite differences in size and ownership type, but increases to 30% among less internationalized Multilatinas.

The growth and international expansion of Multilatinas, despite the volatility of the macroeconomic and political environment in the past five years, shows that these resilient companies are one of Latin America’s most powerful growth engines. Multilatinas that developed global governance frameworks aligned with the needs of multinational and global enterprises were able to professionalize their risk management functions and are now better prepared to navigate a riskier environment.

Still, more Multilatinas remain in a multi-domestic models and lack adequate risk management systems. This is also true for vocational Multilatinas and the newer tier of Latin American companies starting to expand internationally, which will need support to professionalize their risk navigation systems.
About the survey

This is the first in-depth study looking at how Multilatinas perceive and manage risk. This Willis Towers Watson study is based on the responses of 52 Multilatinas, headquartered in eight major Latin American countries. More than 60% of the sample have 5,000 employees or more, and only 27% have less than $250 million in annual revenue. Half the sample are publicly traded companies, 4% are state-owned enterprises, and of the 47% that are privately owned, roughly half are family businesses. In addition, the study combines the insights of these surveys with proprietary Willis Towers Watson data from many of our 2017/2018 global surveys. Besides reporting the analysis of the information gathered through the methods above, the study also provides some examples and case studies about successful Multilatinas and the navigation tools they have developed to successfully journey across riskier waters.

About Willis Towers Watson

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